CINCINNATI STATE TECHNICAL AND COMMUNITY COLLEGE

REPORT ON AUDIT OF INSTITUTION OF HIGHER EDUCATION IN ACCORDANCE WITH OMB CIRCULAR A-133

June 30, 2013 and 2012

Dave Yost • Auditor of State

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

We have reviewed the *Independent Auditor's Report* of the Cincinnati State Technical and Community College, Hamilton County, prepared by Crowe Horwath LLP, for the audit period July 1, 2012 through June 30, 2013. 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.

Dave Yost
Auditor of State

October 23, 2013

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

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 years ended June 30, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the College's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

(Continued)

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, 2013 and 2012, and the changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis (MD&A) on pages 3 to 16 be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the College's financial statements. The accompanying schedule of expenditures of federal awards as required by U.S. Office of Management and Budget Circular A-133*, Audits of States, Local Governments, and Non-Profit Organizations is* presented for purposes of additional analysis and are not a required part of the financial statements.

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

Report on Other Legal and Regulatory Requirements

In accordance with *Government Auditing Standards,* we have also issued our report dated the same date as this report on our consideration of the College's internal control over financial reporting and on 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the College's internal control over financial reporting and compliance.

Crowe Horwath LLP

Crowe Horwath LLP

Columbus, Ohio
October 15, 2013

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, 2013, with selected comparative information for the years ended June 30, 2013 and 2012. 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, Middletown 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 Position; the Statement of Revenues, Expenses and Changes in Net Position; and the Statement of Cash Flows. These statements are prepared in accordance with Governmental Accounting Standards Board ("GASB") principles. The College has adopted GASB Statement 35, *Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities,* as amended by additional GASB Statements. These statements establish standards for external financial reporting for public colleges and universities and require that financial statements focus on the College as a whole, with resources classified for accounting and reporting purposes into three net position categories.

During fiscal year 2013, the College implemented GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* (GASB 63), and certain other new GASB statements. Please see *Adoption of New Accounting Pronouncements* in Note 1 of the financial statements for further details.

(Continued)

STATEMENT OF NET POSITION

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

	2013	2012	2011
ASSETS			
Cash, cash equivalents	$ 3,012	$ 4,343	$ 2,455
Investments	21,599	21,517	25,252
Accounts receivable, net	13,472	10,620	11,351
Other assets	2,246	2,489	1,293
Capital assets, net	87,867	85,588	86,290
Total assets	128,196	124,557	126,641
LIABILITIES			
Accounts payable and accrued expenses	9,363	9,021	9,304
Unearned revenue	5,347	4,065	5,687
Debt	48,022	45,708	45,959
Total liabilities	62,732	58,794	60,950
NET POSITION			
Invested in capital assets	41,591	39,609	39,921
Restricted	3,363	3,971	3,103
Unrestricted	20,510	22,183	22,667
Total net position	$ 65,464	$ 65,763	$ 65,691

Assets

Cash and investments make up 19.2%, 20.8% and 21.9% of total assets at June 30, 2013, 2012, and 2011, respectively. Cash includes bank deposits, overnight sweep investments and other bank certificates of deposit. In 2013, the College investments in corporate and government securities are not considered cash equivalents.

Accounts receivable make up 10.5%, 8.5% and 9.0% of the total assets at June 30, 2013, 2012 and 2011, respectively. The increase in accounts receivable is attributable primarily to the addition of the Higher Education Partners (HEP) collaboration agreement and related leases. Accounts receivable include *(in thousands)*:

	2013	2012	2011
Grants	$ 2,295	$ 1,773	$ 842
State appropriations	12	-	641
Tuition and other	12,787	12,629	13,643
Collaboration agreement	609	-	-
Leases	1,708	-	-
Allowance for doubtful accounts	(3,939)	(3,782)	(3,775)
	$ 13,472	$ 10,620	$ 11,351

(Continued)

Capital assets, net of depreciation, make up 68.5%, 68.7% and 68.1% of the total assets at June 30, 2013, 2012 and 2011, respectively. The increase in the capital assets percentage is due primarily to the decrease in cash and investments and accounts receivable.

Other assets include prepaid expenses, bond escrow payments and cafeteria, restaurant and other College inventories.

Liabilities

Liabilities of $9.4 million consist of accounts payable and accrued expenses primarily for wages, benefits, supplies and utilities and $5.3 million of unearned revenue for summer-semester classes, which is recognized porportionally between fiscal years of the when the semester occurs.

As discussed in more detail in the Debt section, on February 23, 2012, the College issued $38,775,000 in General Receipts Refunding Bonds, Series 2012 with an average effective interest rate of 3.33% to advance refund $36,815,000 of the outstanding Series 2002 bonds. The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of $2.37 million. This difference, reported as a deduction from bonds payable, is being charged to operations through the year 2029 using the effective-interest method. The College completed the advance refunding to reduce its total debt service payments over the next 17 years by $6.07 million and to obtain an economic gain (difference between the present values of the old and new debt service payments) of $5.01 million.

During the year ending June 30, 2013, the College entered into capitalized leases in the amount of $4.8 million. These leases are for equipment and improvement to the College. A portion of these leases were for equipment and improvements leased as part of the Collaboration Agreement.

Net Position

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. This is the largest net position category totaling 63.5%, 60.2% and 60.8% of total net position at June 30, 2013, 2012 and 2011, respectively. Restricted net position is 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 position is expendable. Unrestricted net position is not subject to externally imposed stipulations and may be designated for specific purposes by action of management or the Board of Trustees. Substantially all unrestricted net position is allocated for academic and capital programs and initiatives.

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

The Statement of Revenues, Expenses and Changes in Net Position present both the operating results and the nonoperating revenues and expenses of the College. State appropriations, while budgeted for operations, are considered nonoperating revenues.

(Continued)

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

	2013	2012	2011
REVENUES			
Tuition and fees, net	$ 24,235	$ 28,827	$ 30,108
Grants and contracts	30,762	25,506	25,137
Sales and services	1,684	1,680	1,657
Auxiliary services	3,853	5,262	4,811
Other operating and nonoperating revenue and gifts	1,925	1,460	1,515
State instructional appropriations	30,169	30,284	31,705
State capital appropriations	1,879	1,179	1,021
Total revenues	94,507	94,198	95,954
EXPENSES			
Instruction	34,859	36,815	37,292
Public support	8,276	3,485	1,701
Academic support	5,726	5,684	5,756
Student services	8,449	8,340	8,914
Institutional support	19,700	20,666	20,000
Operations and maintenance of plant	7,541	7,931	8,025
Depreciation	3,633	3,374	3,290
Scholarships	632	519	688
Auxiliary services	4,311	5,348	4,898
Interest on capital asset related debt	1,679	1,964	2,262
Total expenses	94,806	94,126	92,826
Increase (decrease) in net position	(299)	72	3,128
Net position, beginning of year	65,763	65,691	62,563
Net position, end of year	$ 65,464	$ 65,763	$ 65,691

Revenues

Revenues for fiscal year 2013 increased by $309,000 or 0.3% over fiscal year 2012. The change derives primarily from the following three (3) functional categories of revenue:

1. Auxiliary revenues decreased by $1.4 million, or 26.8%, compared to fiscal year 2012. This was a result of decrease in operations of food services and discontinued auxiliary projects in the Midwest Culinary Institute (MCI).

2. Student tuition and fees are reported net of scholarship allowance. Gross instructional revenues for fiscal year 2013 decreased by $3.1 million or 6.8% from fiscal year 2012. Financial aid in the form of grants and scholarships increased by $1.5 million or 8.2%, in 2013. These changes are due primarily to a decrease in enrollment and change over to semesters. The effect of netting the scholarship allowances against the instructional revenues resulted in a net decrease in tuition and fees of $4.6 million or 15.9%.

3. Grants and contracts increased by $5.3 million, or 20.6% compared to fiscal year 2012. The majority of this increase is a result of a full year of operations of the USDOL Health Professions Pathway (H2P) grant of $20 million over three years.

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Expenses

Expenses for fiscal year 2013 increased by $680,000 or 0.7% over fiscal year 2012. The change derives primarily from the following five (5) functional categories of expense:

1. Instructional expenses decreased by $2.0 million or 5.4%. Decreased spending for adjunct instructors, instructional overload arises from decreased enrollment, unfilled vacancies and conversion to semesters.

2. Public support expenses increased by $4.8 million or 137.5%, primarily as a result of a new H2P grant of $20 million over three years.

3. Institutional support expenses decreased by $966,000 or 4.7%. Reasons for the decrease include declines in IT contractual services, legal fees and postage.

4. The major portion of the decrease in auxiliary services expenses of $1.0 million or 19.4% was a result of decrease in operations of food services and discontinued auxiliary projects in the Midwest Culinary Institute (MCI).

5. The interest on capital asset related to debt decreased by $285,000 or 14.5% due the refinancing of the College's outstanding bond debt.

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):*

	2013	2012	2011
Net cash from operating activities	$ (44,565)	$ (45,798)	$ (40,673)
Net cash flows provided by non-capital financing activities	48,122	46,772	48,691
Net cash flows from capital and related financing activities	(5,127)	(3,226)	(6,062)
Net cash flows provided by investing activities	239	4,141	(24,905)
Net increase (decrease) in cash and cash equivalents	(1,331)	1,889	(22,949)
Cash and cash equivalents, beginning of year	4,343	2,454	25,403
Cash and cash equivalents, end of year	$ 3,012	$ 4,343	$ 2,454

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 and certain grants are the primary sources of non-capital financing activities. GASB Statement No. 35 requires that we reflect these sources 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 provided by operating activities would have been a surplus of $3.6 million in 2013, $974,000 in 2012 and $8.0 million in 2011.

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CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

Capital assets, net of accumulated depreciation, totaled $87.9 and $85.6 million at June 30, 2013 and 2012, an increase of $2.3 million and a decrease of $0.7 million, respectively. Changes in capital assets during fiscal year 2013 and 2012, included (*in millions*):

	Balance, June 30, 2011	Net Additions/ Reductions	Balance, June 30, 2012	Net Additions/ Reductions	Balance, June 30, 2013
Land	$ 2.6	$ 0.0	$ 2.6	$ (0.4)	$ 2.2
Land improvements	2.3	0.0	2.3	0.0	2.3
Buildings and improvements	118.1	3.9	122.0	4.5	126.5
Equipment and furniture	7.3	(0.2)	7.1	(0.2)	6.9
Library books and audio visual	1.6	0.1	1.7	(0.4)	1.3
Construction in progress	1.8	(1.5)	0.3	1.8	2.1
Accumulated depreciation	(47.4)	(3.0)	(50.4)	(3.0)	(53.4)
Capital assets, net	$ 86.3	$ (0.7)	$ 85.6	$ 2.3	$ 87.9

Debt

On February 23, 2012, the College issued $38,775,000 in General Receipts Refunding Bonds, Series 2012 with an average effective interest rate of 3.33% to advance refund $36,815,000 of the outstanding Series 2002 bonds. The net proceeds of $40.47 million (after payment of $.44 million in underwriting fees, insurance, and other issuance costs) were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on these 2002 Series bonds. As a result, these 2002 Series bonds are considered to be defeased and the liability for those bonds has been removed from the statement of net assets. The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of $2.37 million. This difference, reported as a deduction from bonds payable, is being charged to operations through the year 2029 using the effective-interest method. The College completed the advance refunding to reduce its total debt service payments over the next 17 years by $6.07 million and to obtain an economic gain (difference between the present values of the old and new debt service payments) of $5.01 million.

During the year ending June 30, 2013, the College entered into capitalized leases in the amount of $4.8 million. These leases are for equipment and improvements to the College. A portion of these leases were for equipment and improvements leased as part of the Collaboration Agreement.

ECONOMIC IMPACT ON FUTURE OPERATIONS

To bolster the Ohio economy, the Governor has placed higher education at the top of Ohio's priorities, emphasizing affordability, graduation, completion and quality. On June 30, 2013, Ohio Governor Kasich signed HB 59 into law – the State's Biennium Budget Bill – which increased higher education funding by $75 million over the two year cycle. Community Colleges will receive $411.26 million in FY 14, a 1.9% increase over FY13 and another 1.9% increase for FY 15. Major changes were made to the Community College funding formula, or State Share of Instruction (SSI), over the two years of the biennium. For FY13, SSI was primarily enrollment based with 10% funding allocated to success point metrics. There was also a 96% stop loss in place. For FY14, SSI will be based 50% on enrollment; 25% on course completions and 25% on success point metrics, with a 97% stop loss in place.

For FY15, the enrollment component of SSI has been eliminated to be replaced with a combination of course completions, success points and completion metrics. At-risk or access category weights will be assigned to eligible students. There is no stop loss in place for FY15. A statewide funding consultation group comprised of representatives of each of the 23 Ohio community colleges has been established to develop the SSI funding components and weights for FY15 and they are expected to complete their work by December 31, 2013.

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

While the outlook for state support of higher education in Ohio is positive, the College exists in an increasingly competitive environment and faces challenging economic and demographic trends. In response to the competition, a number of proactive initiatives have been addressed in Strategic Planning, Academics, Workforce Development, Quality Improvement, Enrollment and Retention, Fund Raising, Energy Management and other services to minimize the economic impact of competition on the College's future operations.

Strategic Planning

The College concluded its *Transition 2012* strategic plan and rolled out *Surging Forward* in September 2012, a three year plan developed under the leadership and guidance of President Dr. O'dell M. Owens. His strategic vision challenges the College to develop new revenue streams, expand development efforts to lower out-of-pocket tuition costs, improve internal community and provide academic support and incentives to foster student success.

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

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Academics

In academics, proactive initiatives to advance the College have focused on student retention and graduation. The strategies used are based on process improvements and establishing partnerships that have significant impact on our ability to build educational and employment pathways for students. These initiatives also support the College in achieving important financial objectives.

The Semester Transition was the most significant change in the core operations of the College since it converted from a technical school to a community college twenty years ago. Semester transition work started in 2009, and in fall 2012 the College successfully changed from a quarter system to a semester school. The change was mandated by the Ohio Board of Regents in an effort to better align the state public institutions. The work involved redesign of every course and program curriculum, extensive outreach and advising of students, and system/process changes throughout most departments. Our first full year (2012-13) under the semester model was relatively smooth, with enrollment projections close to target and favorable student satisfaction ratings. We also graduated more students who accelerated their course work to avoid being caught between systems.

New initiatives focus on student retention and completion led by the Director of Student Success & Retention who reports jointly to the Vice Presidents of Academics and Student Enrollment & Development. These initiatives have been successful on a small scale and future work will scale up for a greater percentage of the student body to benefit. This has included pilot efforts with eBooks (IncludeEd) for Academic Foundations math courses, Starfish Early Alert System, and Supplemental Instruction. We have improved the probation process for students in academic trouble with more warnings and intervention activities.

Innovative partnerships have provided pathways for student success. Cincinnati State houses and leads the Southwest Ohio Tech Prep Consortium. With this work the College now has hundreds of high school articulation agreements in place to enable advance standing as students transition to college. The high school dual enrollment initiative was expanded and in fall 2013 over 700 students, double the number in 2012, will receive college credit while completing high school graduation requirements. Articulation and transfer of graduates to 4-year college programs was facilitated by the conversion to semesters. Agreements with the University of Cincinnati, Northern Kentucky University, Miami University, and many others are being updated and expanded. The College submitted and received approval for 184 State of Ohio transfer courses. Bachelor degree programs on campus through partnership with Tiffin University, Lindsey Wilson College, and Wilmington College have all grown.

Partnerships with community organizations such as Lower Price Hill Community School continue to provide more accessibility and preparation for special populations. This year the partnership involved a bridge program to facilitate college transition. Work with CityLink, a new integrated social service provider, is helping many prepare for college. Partnership agreements with Butler County Educational Service Center and Warren County Educational Service Center have been established to expand our reach into new areas.

Expansion of Distance Education and more off site course offerings are major strategies to grow enrollment and address space limitations. Several fully online associate degrees and certificates were introduced and have students registered from across the country. More online and blended course sections were offered in 2012-13 generating 41,200 credit hours. This year efforts to increase use of our Harrison campus, which primarily houses the airport and Aviation program, with a "start your degree here" promotion highlighting pre-college and general educations courses was successful.

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Lastly, the College opened its newest campus in downtown Middletown, Ohio in August 2012 (FY13). Originally projected at 200 students for the first full academic year, over 350 students enrolled for the Fall Semester alone. In its first year at Middletown, the College offered fourteen (14) associate degree programs, five (5) certificate programs and fourteen (14) workforce development training programs for academic credit. In preparation for FY14, the College completed Phase II of Middletown expansion with additional lab and lecture space. New degrees and courses were offered resulting in enrollment of 750 students for Fall Semester 2013.

Workforce Development

The College's Workforce Development Center Campus ("WDC") in Evendale, Ohio, continues to be a premier regional provider of world class credit and non-credit training and education services. Driven by its customer's needs and market analysis, WDC's programming and project development processes are based primarily on client requirements and evaluated by established metrics to measure return-on-investment (ROI). The Center's *modus operandi* is founded on the quality principles of the Malcolm Baldrige National Quality Award (MBNQA) and the College's accreditation criteria of the Academic Quality Improvement Program (AQIP) of performance excellence. Responding to the voice of the customer, the WDC is agile and precise in its commitment to employer and business needs. Each primary program area has employer Advisory Committee which provides continuous feedback and focus on their workforce needs and career pathways.

As an entrepreneurial, revenue generating division of the College, the WDC provides supplemental income to help support the College's operational expenses. Gross revenues for FY 2013 were $3.1 million with net revenue of $1.2 million. Over one hundred organizations chose the WDC to provide training and consulting services including private sector, public, not-for-profit and educational organizations. During FY 2013, 5,581 students attended more 632 classes taught at the Evendale campus or client sites. During the past year, WDC was selected by General Electric Company, and its suppliers, to design and execute a pilot manufacturing program for Veterans designated as *Get Skills to Work*. Launched in February, nearly 100 Vets have attended the program and nearly 80% have received job placements. Among many other initiatives, an electrical maintenance apprenticeship program was implemented at Ford's Sharonville plant, a stationary engineer steam boiler certification and licensing program at SunCoke, Middletown, and a managerial, supervisory development program for Cincinnati's Metro Transportation group.

Addressing the needs of chronically unemployed and dislocated workers, WDC continues to expend substantive effort on supporting them by providing promising career pathways and stackable certificates. These opportunities are the result of collaborations across the College which greatly benefits citizens seeking opportunities, new careers or enhancing skill sets for incumbent workers seeking promotion.

For example, a partnership has been formed with several advanced manufacturers to develop a European-based apprenticeship program which will be highly innovative, and designed to meet the workforce needs of these businesses in a way that current educational models are unable to do. In addition, a Technical Advisory Committee (TAC) of several regional manufacturers was formed to address the severe employment gap in finding skilled Machine Operators. The employers provided the key design elements of the curriculum so that their specific needs are addressed and this new program was launched in the second quarter of 2013. It includes a NIMS certification for the all successful program attendees. Lastly, a strong partnership has been formed with Pearson Learning Solutions to offer online programming in the areas of Certified Project Management, Lean Enterprise, Six Sigma Green Belt and Six Sigma Black Belt. Depending on the selected course, these students will earn formal certification through the American Society for Quality (ASQ) or the Project Management Institute (PMI).

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The WDC remains committed to the highest levels of customers service and ROI, innovative programming and consulting services, academic excellence, revenue generation and community service. These ambitious and measurable goals continue to be the primary contributor to the success of the clients and students it serves.

Quality Management

The College has made a commitment to fostering an environment of continuous improvement through its Quality Management Initiative (QMI), which began in 1997. In 2001, the College joined the Academic Quality Improvement Program (AQIP), an alternative process for maintaining accreditation through the Higher Learning Commission, a member of the North Central Association of Colleges and Schools. In addition to using AQIP for assessment and institutional improvement, the College engages in quality assessment benchmarking studies such as the National Community College Benchmark Project (NCCBP), the Community College Survey of Student Engagement (CCSSE), and the Personal Assessment of the College Environment (PACE) and has participated in the Continuous Quality Improvement Network (CQIN) since 1999. CQIN is a national organization that benchmarks best practices in higher education. These partnerships provide opportunities for benchmarking against national and regional standards in assessing institutional performance

Enrollment and Retention

For FY 2013, total credit hours and FTEs were down 8.67% but headcount remained relatively level from FY12. There were a number of factors contributing to the credit hour (FTE) decline, including transition to semesters, an improving regional employment picture and increasing competition from area public and proprietary colleges. For the fall 2012 Semester, the College was just one of four Ohio community colleges that did not lose headcount from the previous fall. This was due to the opening of the new Middletown campus, an extremely competitively priced tuition and fee structure and to the concentrated effort on the part of all College academic divisions/departments to restructure academic courses for semesters, provide the necessary student advising for the new course structures and to reach out to prospective students through the College's *Get There Sessions* run by the Admissions Department.

For fall 2013 semester credit hours (FTEs) have rebounded and were 4% above fall 2012. The College continues to take measures to improve enrollment and retention by improving academic and student supports to impact student persistence to graduation. Important goals of the College's strategic plan are to increase retention from its current 45% to 60% by the end of FY 2015 and to broaden its footprint into new sites, increase distance education offerings and grow enrollment of targeted populations.

Energy Management

The College has displayed strong leadership in controlling energy consumption while at the same time experiencing record growth. Multiple energy projects such as a HVAC DDC system replacement, lighting retrofits, window and door replacements, mechanical and equipment upgrades, sub-metering technology in the Main building for continuous commissioning, and block scheduling practices have accelerated the reduction of energy demand allowing the College to exceed HB 251 energy efficiency goals ahead of schedule. The College stopped purchasing electric power through the regulated market and began purchasing electric power through the deregulated market decreasing its costs by approximately 33% annually.

(Continued)

The electrical infrastructure replacement project for the Main building has been successfully completed, providing the College with quality sustainable power and business continuity through new control gear which was not possible from retired gear. The installation of laser and temperature sensors on all hoods in MCI labs to reduce energy by having hoods function on demand rather than continuous run. Smart metering project is almost complete for the entire Clifton campus which will allow live data on energy utilization 24/7 on a dashboard format which also enhances continuous commissioning efforts. Installation of a refrigeration temperature monitoring system is being done to regulate food storage areas. The Evendale chiller replacement, gymnasium LED lighting installation, and the replacement of the last set of aged switch gear continue to generate energy rebates to the College and utility consumption reduction.

The College recycling initiative supported by a federal grant is successfully yielding nearly 4,000 lbs. of corrugated product, 3,000 lbs. of office paper, 2,000 lbs. of aluminum, and 1,500 lbs. of plastic bottles annually. This reduces the amount of waste being transported to the landfill while also reducing disposal fees for the College. We are working with the College Surge Green recycling team to initiate foods waste recycling and composting to keep food waste out of landfill. The goal to process food waste will reduce several hundred tons to the landfill which reduces waste removal cost for the college.

State Capital Funding Investment

As part of the State of Ohio capital allocation process, the College received $3,555,000 in July 2012. These funds were invested in three previous identified projects.

The College renovated three laboratories, one prep room, and one classroom that support the high-demand chemistry and environmental science programs. These spaces were significantly aged with fume hood ventilation challenges, chemical storage challenges and inadequate heating and cooling for the instructional spaces. The project resulted in modernized and energy efficient instructional spaces. Additionally, the College continued to invest in the "smart classroom" upgrade moving ninety three classrooms forward with upgraded instructional technology. The third funded project provided support for the complete demolition/reconstruction of restrooms located adjacent to the College's public conference center. This project improved the ADA access to six restrooms and modernized the entrances and the finishes. The new finish to the restrooms substantially improves the ability to maintain the facilities.

Deferred Maintenance

The College has invested $5 million in the deferred maintenance program in 2011, 2012, and 2013 budget allocations. Those funds were used to begin to address the backlog of deferred maintenance projects. The investment is made following four principals: (1) protection of the physical assets; (2) improvement of the utility systems function; (3) enhancement of safety and security, and (4) support of instructional programs.

Information Technology

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

(Continued)

In 2012, ITS successfully completed a major initiative to become Payment Card Industry (PCI) compliant. This effort has evolved into a larger, more inclusive Information Security Program that includes the establishment of an Information Security Council, Information Security Awareness Program, Information security policies, and standards and change management processes and procedures. As part of the ITS Disaster Recovery/Business Continuity Plan, a second production server was built and implemented at the Middletown campus (production data is replicated there on a regular basis).

During FY13, a new integrated HR/Payroll system was implemented as well as a Web Time Entry system for managing employees' time and leave. The first wave of mobile applications was introduced with virtual desktop capabilities to support anytime/anywhere learning. The Altiris IT Management Helpdesk Suite was implemented, allowing the college to easily support new technology changes and quickly adapt to changing processes and business needs. All College classrooms have now been upgraded to audio-visual smart-rooms (approx. 212 rooms total), and the R25/Schedule 25 enterprise wide scheduling system to make more efficient use of classroom space is now in operation. The Information Technology Services goals for 2013-2014 will be to:

1. Develop an ecosystem to engage our students and support emerging technologies;
2. Support instructional models that reflect the competitive environment and learning realities of higher education, and the interconnected, global marketplace; and
3. Improve the student and faculty teaching, learning, and creative inquiry experience while supporting our staff's administrative needs.

The services the ITS department currently provides, plus the capacity to develop new student-centered instructional delivery systems, are critical to providing cost-effective high quality instruction and training. ITS's customers, including students, faculty, and staff expect to learn, work, and study whenever and wherever they want. By leveraging technology tools and analytics to connect curriculum to real-life issues, ITS can deliver and support administrative and active-learning instructional systems focused on student success.

Fund Raising

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

Development will focus on rebuilding Cincinnati State's Annual Fund operations, as well as cultivate greater major gift opportunities. As part of the College's new strategic plan, Dr. Owens has launched the 1000{4} One fundraising initiative to raise $3 million over three years. Student Scholarships are a key component of the College's strategic plan as data has shown the significant impact they have on retention and graduation.

(Continued)

College/Faculty Relations

The three-year collective bargaining agreement between the College and the Cincinnati State Chapter of the American Association of University Professors (AAUP) covers the period from September 2011 to August 2014. Negotiations resulting from concluding this agreement were especially challenging due to matters related to instructional workload as a result of the change from five 10-week academic terms to three 15-week semesters. However, once resolved, the faculty have demonstrated a strong commitment to students and the College overall. They have been responsive and flexible in meeting course re-design and scheduling demands due to conversions to semesters. Legislative changes in the State Teachers Retirement System has led to more faculty retirements than usual but most are now working part-time (post-retirement) and training the many new faculty that have joined the College. In spring 2014, negotiations for the next collective bargaining agreement are expected to commence.

Middletown Campus

In a first of its kind in Ohio and as a key component of its strategic growth plan, the College entered into public/private collaboration agreement with Higher Education Partners, LLC, (HEP) of New Bedford, Massachusetts to open up a new Community College location in downtown Middletown, Ohio for Fall Semester 2012. Initial term of agreement with HEP is twenty (20) years with four (4) five (5) year renewals. The Collaboration Agreement has been approved by Ohio Attorney General.

The Middletown campus opened on August 29, 2012. Originally projected at 200 students for the first full academic year, over 350 students enrolled for the Fall Semester alone. In its first year at Middletown, the College offered fourteen (14) associate degree programs, five (5) certificate programs and fourteen (14) workforce development training programs for academic credit. In preparation for FY14, the College completed Phase II of Middletown expansion with additional lab and lecture space. New degrees and courses were offered resulting in enrollment of 750 students for Fall Semester 2013

HEP purchased the 60,000 sq. ft. former CG&E building in downtown Middletown that is providing academic programming – on location, on-line and/or hybrid to up to a projected 5,000 students by the end of 5 years. HEP will invest up to $6 million in Middletown facility in acquisition, construction and equipment costs. The College will not be responsible for any of these costs but has approval over design, construction and equipment and the right to purchase the Middletown facility at end of initial term for HEP original acquisition cost.

The College has complete control over academic programs and educational approvals offered at Middletown. There are opportunities to share in royalties for jointly developed academic content. A joint marketing plan is being developed. HEP retains rights, duties and financial responsibilities relating to management, ownership and repair of facility but the College has complete control over use of facility.

The College will retain records and be financially accountable for direct academic costs, academic support costs and operating expenses at Middletown. HEP will pay the College 5% of these costs as indirect costs and will guarantee that revenues are never less than 105% of these expenses.

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

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Summary

Looking forward, the College remains positioned to maintain its strong financial position through enhanced academic programming, higher student retention and graduation, partnerships, continuous quality improvement, fundraising and by continuing to successfully control costs through firm sound fiscal and operational management.

CINCINNATI STATE TECHNICAL AND COMMUNITY COLLEGE
STATEMENTS OF NET POSITION
June 30, 2013 and 2012

	2013	2012
ASSETS		
Current assets		
Cash and cash equivalents	$ 3,012,059	$ 4,343,475
Investments	5,530,989	6,765,672
Accounts receivable, net	12,154,133	10,620,076
Inventories	193,810	144,606
Prepaid and other assets	1,662,121	1,908,594
Total current assets	22,553,112	23,782,423
Noncurrent assets		
Leases receivable, noncurrent	1,317,922	-
Investments	16,067,913	14,750,845
Other assets	390,269	435,648
Capital assets, net	87,867,624	85,588,192
Total noncurrent assets	105,643,728	100,774,685
Total assets	128,196,840	124,557,108
LIABILITIES		
Current liabilities		
Accounts payable	1,082,050	2,124,830
Accrued liabilities		
Wages	1,788,775	1,249,933
Compensated absences	3,470,901	3,712,602
Other	2,562,789	1,414,001
Interest	458,923	519,543
Unearned revenue	5,346,730	4,064,653
Current portion of long-term debt	2,789,532	1,890,092
Total current liabilities	17,499,700	14,975,654
Long-term debt	45,232,885	43,818,184
Total liabilities	62,732,585	58,793,838
NET POSITION		
Invested in capital assets	41,591,375	39,609,046
Restricted expendable	3,362,471	3,971,153
Unrestricted	20,510,409	22,183,071
Total net position	$ 65,464,255	$ 65,763,270

See accompanying notes to financial statements.

CINCINNATI STATE TECHNICAL AND COMMUNITY COLLEGE
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
Years ended June 30, 2013 and 2012

	2013	2012
REVENUES		
Operating revenues		
Student tuition and fees, net of scholarships and student financial aid of $19,035,627 and $17,586,572 in 2013 and 2012, respectively	$ 24,234,343	$ 28,827,192
Federal grants and contracts	10,485,620	6,222,947
State and local grants and contracts	1,357,836	1,220,877
Nongovernmental grants and contracts	953,611	1,574,903
Sales and services of educational departments	1,683,889	1,679,996
Auxiliary enterprises	3,853,086	5,261,699
Other operating revenues	1,301,746	1,043,525
Total operating revenues	43,870,131	42,831,139
EXPENSES		
Operating expenses		
Instructional	34,859,014	36,815,121
Public support	8,274,914	3,484,817
Academic support	5,726,017	5,684,332
Student services	8,449,416	8,340,299
Institutional support	19,699,850	20,665,845
Plant operation and maintenance	7,541,322	7,931,311
Scholarships and student financial aid	632,149	519,046
Auxiliary enterprises	4,310,854	5,348,039
Depreciation	3,632,801	3,374,071
Total operating expenses	93,126,337	92,162,881
Operating loss	(49,256,206)	(46,331,742)
NONOPERATING REVENUES (EXPENSES)		
State appropriations	30,169,433	30,284,352
Federal grants and contracts – non-exchange	17,964,440	16,487,284
Interest on capital asset related debt	(1,678,778)	(1,964,125)
Investment income, net of investment expense	330,882	405,957
Net nonoperating revenues	46,785,977	45,213,468
Increase (decrease) before other revenues, expenses, gains or losses	(2,470,229)	(1,118,274)
Capital appropriations from the state	1,879,008	1,179,346
Capital grants and gifts	292,206	11,259
Increase (decrease) in net position	(299,015)	72,331
Net position		
Net position, beginning of year	65,763,270	65,690,939
Net position, end of year	$ 65,464,255	$ 65,763,270

See accompanying notes to financial statements.

CINCINNATI STATE TECHNICAL AND COMMUNITY COLLEGE
STATEMENTS OF CASH FLOWS
Years ended June 30, 2013 and 2012

	2013	2012
Cash flows from operating activities		
Tuition and fees	$ 25,054,465	$ 28,588,487
Federal, state and local grants and contracts	11,791,717	6,150,600
Payments to suppliers	(22,504,546)	(22,268,368)
Payments to utilities	(1,413,805)	(1,633,844)
Payments to employees	(43,545,118)	(44,573,134)
Payments for benefits	(16,188,192)	(15,755,306)
Payments for scholarships and student financial aid	(632,149)	(519,046)
Auxiliary enterprises revenues	3,853,086	5,261,699
Auxiliary enterprises expenses	(4,310,854)	(5,348,039)
Sales and services of educational activities	1,683,889	1,679,996
Other receipts	1,646,118	2,618,428
Net cash from operating activities	(44,565,389)	(45,798,527)
Cash flows from noncapital financing activities		
State appropriations	30,157,867	30,284,352
Federal grants and contracts – non-exchange	17,964,440	16,487,284
Net cash from noncapital financing activities	48,122,307	46,771,636
Cash flows from capital and related financing activities		
Capital appropriations from the state	1,879,008	1,819,752
Principal payments and refinancings on bonds	(1,880,184)	(1,140,000)
Principal payments on capital lease obligations	(606,706)	-
Proceeds on capital leases receivable	311,142	-
New borrowings	-	888,818
Interest payments on bonds and capital lease obligations	(1,739,398)	(2,080,543)
Capital grants and gifts received	292,206	11,258
Purchases of capital assets	(3,676,888)	(2,724,671)
Proceeds from disposal of capital assets	293,160	-
Net cash from capital and related financing activities	(5,127,660)	(3,225,386)
Cash flows from investing activities		
Interest on investments	321,711	355,740
Purchases of investments	(15,863,339)	(10,284,034)
Proceeds from sales of investments	15,780,954	14,069,590
Net cash from investing activities	239,326	4,141,296
Net increase (decrease) in cash and cash equivalents	(1,331,416)	1,889,019
Cash and cash equivalents, beginning of year	4,343,475	2,454,456
Cash and cash equivalents, end of year	$ 3,012,059	$ 4,343,475
Supplemental disclosure of noncash financing activities		
Equipment and improvements capitalized under capital leases and related lease obligation	$ 4,810,939	$ -
Reconciliation of net operating loss to Cash from operating activities:		
Operating loss	(49,256,206)	(46,331,742)
Adjustments to reconcile operating loss to net cash from operating activities		
Depreciation expense	3,632,801	3,374,071
Provisions for doubtful accounts	1,073,844	953,536
Loss on disposal of capital assets	253,075	52,567
Change in assets and liabilities		
Receivables	(2,196,777)	(863,464)
Inventories	(49,204)	(61,597)
Other assets	291,852	(1,133,777)
Accounts payable and accrued expenses	403,149	(166,119)
Unearned revenue	1,282,077	(1,622,002)
Net cash from operating activities	$ (44,565,389)	$ (45,798,527)

See accompanying notes to financial statements.

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").

GASB Statement No. 14 – *The Financial Reporting Entity*, as amended by GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units* and GASB Statement No. 61, *The Financial Reporting Entity - Omnibus* provide 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.

In accordance with GASB Statement No 35, *Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities,* and subsequent standards issued by GASB, the College reports as an entity engaged in business-type activities. GASB 35 establishes standards for external financial reporting for public colleges and universities and requires that resources be classified for accounting and reporting purposes into the following net position categories:

Invested in Capital Assets: The College's investment in capital assets, net of outstanding debt obligations related to the acquisition, construction, or improvement of those assets.

Restricted – Expendable: Resources the College is legally or contractually obligated to spend in accordance with restrictions imposed by external third parties.

Restricted – Unexpendable: Resources the College is legally or contractually obligated to retain in perpetuity.

Unrestricted: The unrestricted component of net position represents assets, deferred outflows, liabilities and deferred inflows whose use by the College is not subject to externally imposed stipulations. Unrestricted net position may be designated for specific purposes by action of management or the Board.

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

Cash and Cash Equivalents: In accordance with the State of Ohio and College policy, the College is authorized to invest cash in United States government securities, Federal Agencies' securities, State of Ohio securities and certificates of deposit, all of which are stated at fair value.

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NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The College considers all highly liquid investments purchased with original maturity of three months or less to be a cash equivalent.

Investments: Investments are reported at fair value based on quoted market prices. Changes in unrealized gains (losses) on the carrying value of investments are reported as a component of investment income in the Statements of Revenues, Expenses, and Changes in Net Position.

Allowance for Doubtful Accounts: The allowance for doubtful accounts is established through a provision for doubtful accounts charged to expense. The allowance represents an amount which, in management's judgment, will be adequate to absorb probable losses on existing accounts that may become uncollectible.

Capital Assets: Land, land improvements, buildings, equipment and library books are stated at cost at date of acquisitions 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.

Unearned 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: Accumulated unpaid vacation and sick leave benefits have been accrued in accordance with GASB Statement No. 16, *Accounting for Compensated Absences*. The College uses the termination method to accrue sick leave compensated absences on the Statement of Net Position.

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

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

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

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

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)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

Adoption of New Accounting Pronouncements: In fiscal year 2013, the provisions of the following GASB Statements became effective:

- GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, issued November 2010. The provisions of this Statement are effective for periods beginning after December 15, 2011. This Statement addresses how to account for and report service concession arrangements (SCAs), a type of public-private or public-public partnership into which state and local governments are increasingly entering.

- GASB Statement No. 61, *The Financial Reporting Entity: Omnibus*, issued November 2010. The provisions of this Statement are effective for periods beginning after June 15, 2012. This Statement is designed to improve financial reporting for government entities by amending the requirements of Statement No. 14, *The Financial Reporting Entity* and Statement No. 34, *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments,* to better meet user needs and to address reporting entity issues that have arisen since those Statements were issued in 1991 and 1999, respectively.

- GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements* issued December 2010. The provisions of this Statement are effective for periods beginning after December 15, 2011. This Statement is intended to enhance the usefulness of its Codification by incorporating guidance the previously could only be found in certain Financial Accounting Standards Board and American Institute of Certified Public Accountants pronouncements

- GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, issued June 2011. The provisions of this Statement are effective for periods beginning after December 15, 2011. This Statement is intended to improve financial reporting by providing citizens and other users of state and local government financial reports with information about how past transactions will continue to impact a government's financial statements in the future. In addition, the pronouncement does change the name of the Statement of Net Assets to the Statement of Net Position. A corresponding change has been made to the Statement of Revenues, Expenses and Changes in Net Position.

The adoption of these GASB statements had no significant impact on the College's financial condition, operating results or financial statements. In addition, because the College had no deferred outflows or deferred inflows at June 30, 2013 and 2012, it has elected not to present these captions on the Statement of Net Position.

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Recent Accounting Pronouncements: As of June 30, 2013, the GASB has issued the following statements not yet implemented by the College.

- GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, issued March 2012. The provisions of this Statement are effective for periods beginning after December 15, 2012. This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities.
- GASB Statement No. 66, *Technical Corrections – 2012 – an amendment of GASB Statements No. 10 and No. 62*, issued March 2012. The provisions of this Statement are effective for periods beginning after December 15, 2012. This Statement is intended to improve accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements, *Statements No. 54, Fund Balance Reporting and Governmental Fund Type Definitions, and No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*.
- GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*, issued June 2012. The provisions of this Statement are effective for periods beginning after June 15, 2014. This Statement is intended to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities.
- GASB Statement No. 69, *Government Combinations and Disposals of Government Operations*, issued January 2013. The provisions of this Statement are effective for periods beginning after December 15, 2013. This Statement establishes accounting and financial reporting standards related to government combinations and disposals of government operations. As used in this Statement, the term government combinations include a variety of transactions referred to as mergers, acquisitions, and transfers of operations.
- GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, issued April 2013. The provisions of this Statement are effective for periods beginning after June 15, 2013. This Statement specifies the information required to be disclosed by the governments that extend nonexchange financial guarantees. In addition, this Statement requires new information to be disclosed by governments that receive nonexchange financial guarantees.

The College's management has not yet determined the effect these statements will have on the College's financial statements.

Reclassification: Certain reclassifications have been made to the fiscal year 2012 amounts to conform with the fiscal year 2013 presentation. These reclassifications had no effect on total net position or change in net position.

NOTE 2 – CASH, CASH EQUIVALENTS AND INVESTMENTS

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

(Continued)

NOTE 2 – CASH, CASH EQUIVALENTS AND INVESTMENTS (Continued)

At June 30, 2013 and 2012, the cash on hand was $15,745 and $14,920, the carrying amount of the College's deposits was $2,996,314 and $4,328,555 and the depository bank balance was $5,809,999 and $5,399,918, respectively. The difference between the carrying amount and the depository bank balance is due principally to outstanding checks and deposits-in-transit. Of the $5,809,999 bank balance at June 30, 2013, $250,000 was covered by federal depository insurance and $5,559,999 was collateralized by pledged, pooled securities not in the College's name. Of the $5,399,918 bank balance at June 30, 2012, $250,000 was covered by federal depository insurance and $5,149,918 was collateralized by pledged, pooled securities not in the College's name.

The investment balance in both years includes $177 in State Treasury Asset Reserve of Ohio ("STAR Ohio") funds for which collateral requirements mentioned above do not apply as of June 30, 2013 and 2012. 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. Custodial credit risk for deposits is the risk that, in the event of a bank failure, the College's deposits may not be returned to the College. The College follows the deposit policy for custodial risk in accordance with the Ohio Revised Code.

The College also has an investment management agreement with PNC Bank, as permitted by state stature. The agreement allows (within state limits) investment in both debt and equity instruments. Investments at June 30, 2013 and 2012 were as follows:

	2013	2012
Investment Type		
Bond Funds	$ 21,452,701	$ 20,779,609
Money Market Funds	146,024	736,731
Star Ohio Funds	177	177
Total	$ 21,598,902	$ 21,516,517

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

As of June 30, 2013, the College investment maturities were as follows:

		Investment Maturities (in years)	
Investment Type	Fair Value	Less than 1	1 to 5
U.S. Government Obligations	$ 14,071,055	$ 2,862,044	$ 11,209,011
U.S. Government Agency Bonds	7,381,646	2,522,744	4,858,902
Star Ohio Funds	177	177	-
Subtotal	21,452,878	5,384,695	16,067,913
Money Market Funds	146,024	146,024	-
Total	$ 21,598,902	$ 5,530,989	$ 16,067,913

(Continued)

NOTE 2 – CASH, CASH EQUIVALENTS AND INVESTMENTS (Continued)

As of June 30, 2012, the College investment maturities were as follows:

		Investment Maturities (in years)	
Investment Type	Fair Value	Less than 1	1 to 5
U.S. Government Obligations	$ 7,479,788	$ 1,152,772	$ 6,327,016
U.S. Government Agency Bonds	11,786,091	3,362,262	8,423,829
Corporate Bonds	1,513,730	1,513,730	-
Star Ohio Funds	177	177	-
Subtotal	20,779,786	6,028,941	14,750,845
Money Market Funds	736,731	736,731	-
Total	$ 21,516,517	$ 6,765,672	$ 14,750,845

Credit Risk: Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The College's investment policy contains provisions to manage credit risk.

As of June 30, 2013 and 2012, 17 percent ($3,622,428) and 30 percent ($6,455,940) of the College's portfolio is held in various Federal National Mortgage Association Notes, 16 percent ($3,558,510) and 16 percent ($3,502,380) is held in various Federal Home Loan Mortgage Corporation Notes, and 1 percent ($200,708) and 8 percent ($1,827,771) is held in various Federal Home Loan Bank Notes, respectively.

The credit ratings of the College's interest-bearing investments as of June 30, 2013, are as follows:

		Quality Ratings	
Investment Type	Fair Value	AAA (M)	AA+ (S&P)
Bond Funds	$ 21,452,701	$ 21,452,701	$ -
Money Market Funds	146,024	146,024	-
Star Ohio Funds	177	177	-
Total	$ 21,598,902	$ 21,598,902	$ -

The credit ratings of the College's interest-bearing investments as of June 30, 2012, are as follows:

		Quality Ratings	
Investment Type	Fair Value	AAA (M)	AA+ (S&P)
Bond Funds	$ 20,779,609	$ 20,779,609	$ -
Money Market Funds	736,731	736,731	-
Star Ohio Funds	177	177	-
Total	$ 21,516,517	$ 21,516,517	$ -

(Continued)

NOTE 3 - ACCOUNTS RECEIVABLE

Accounts receivable, net of allowance for doubtful accounts, as of June 30, 2013 and 2012, were as follows:

	2013	2012
Grants	$ 2,294,996	$ 1,772,635
State appropriations	11,566	-
Tuition and other	12,786,694	12,629,197
Collaboration agreement	609,241	-
Leases	1,708,307	-
Allowance for doubtful accounts	(3,938,749)	(3,781,756)
Total	13,472,055	10,620,076
Less: long-term leases receivable	1,317,922	-
Current accounts receivable, net	$ 12,154,133	$ 10,620,076

The College has entered into a public/private Collaboration Agreement (Agreement) with Higher Education Partners, LLC, (HEP) of New Bedford, Massachusetts to open up a new College location in downtown Middletown, Ohio for Fall Semester 2012 (opened on August 29, 2012). Initial term of agreement with HEP is twenty (20) years with four (4) five (5) year renewals. The Collaboration Agreement has been approved by Ohio Attorney General.

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

The Agreement provides for the College to receive Collaborative Agreement revenue equal to 105% of agreed upon expenses for participation in agreed upon revenue (as defined in the Agreement) by HEP and for excess net income to be received by the College. Therefore, the Collaboration Agreement is designed to protect the College from loss and provides for the possibility to receive excess income.

During fiscal 2013 certain amounts were advanced to HEP and certain amounts were paid to the College as part of the Agreement. The net advance to HEP at June 30, 2013 is $609,241.

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

2014	$ 390,385
2015	399,745
2016	409,340
2017	419,224
2018	89,613
Total	1,708,307
Less: current portion	390,385
Leases receivable, noncurrent portion	$ 1,317,922

(Continued)

NOTE 4 - CAPITAL ASSETS

Capital assets activity for the years ended June 30, 2013 and 2012 was as follows:

2013	Beginning Balance	Additions	Transfers and Disposals	Ending Balance
Nondepreciable assets:				
Land	$ 2,604,449	$ 58,200	$ (446,280)	$ 2,216,369
Construction in progress	345,118	3,170,456	(1,408,584)	2,106,990
Total nondepreciable assets:	2,949,567	3,228,656	(1,854,864)	4,323,359
Depreciable assets:				
Land improvements	2,256,078	-	-	2,256,078
Buildings and improvements	121,984,578	3,111,791	1,393,313	126,489,682
Equipment and furniture	7,112,765	57,385	(249,990)	6,920,160
Library books and audio visual	1,671,951	60,636	(444,350)	1,288,237
Total depreciable assets:	133,025,372	3,229,812	698,973	136,954,157
Total cost:	135,974,939	6,458,468	(1,155,891)	141,277,516
Accumulated depreciation:				
Buildings and improvements	44,048,809	3,127,285	(4,517)	47,171,577
Equipment and furniture	5,562,836	421,026	(241,794)	5,742,068
Library books and audio visual	775,102	84,490	(363,345)	496,247
Total accumulated depreciation	50,386,747	3,632,801	(609,656)	53,409,892
Capital assets, net	$ 85,588,192	$ 2,825,667	$ (546,235)	$ 87,867,624

2012	Beginning Balance	Additions	Transfers and Disposals	Ending Balance
Nondepreciable assets:				
Land	$ 2,583,449	$ 21,000	$ -	$ 2,604,449
Construction in progress	1,828,429	345,118	(1,828,429)	345,118
Total nondepreciable assets:	4,411,878	366,118	(1,828,429)	2,949,567
Depreciable assets:				
Land improvements	2,256,078	-	-	2,256,078
Buildings and improvements	118,132,268	2,023,881	1,828,429	121,984,578
Equipment and furniture	7,271,627	254,264	(413,126)	7,112,765
Library books and audio visual	1,619,244	80,408	(27,701)	1,671,951
Total depreciable assets:	129,279,217	2,358,553	1,387,602	133,025,372
Total cost:	133,691,095	2,724,671	(440,827)	135,974,939
Accumulated depreciation:				
Buildings and improvements	41,211,341	2,837,468	-	44,048,809
Equipment and furniture	5,470,933	453,630	(361,727)	5,562,836
Library books and audio visual	718,662	82,973	(26,533)	775,102
Total accumulated depreciation	47,400,936	3,374,071	(388,260)	50,386,747
Capital assets, net	$ 86,290,159	$ (649,400)	$ (52,567)	$ 85,588,192

Equipment and improvements recorded under capital leases amounted to $2,781,580 at June 30, 2013. Accumulated depreciation and amortization related to these assets amounted to $251,557 at June 30, 2013. There was no capitalized lease equipment or improvements as of June 30, 2012. Amortization of equipment under capital leases is included in depreciation expense.

(Continued)

NOTE 4 – CAPITAL ASSETS (Continued)

The following estimated useful lives are used to compute depreciation:

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

NOTE 5 - LONG-TERM DEBT

Long-term debt activity for the years ended June 30, 2013 and 2012 was as follows:

	Balance July 1, 2012	Additions	Reductions	Balance June 30, 2013	Current	Long-Term
General receipts bonds	$ 45,905,000	$ -	$ (1,900,000)	$ 44,005,000	$ 1,885,000	$ 42,120,000
Bond Premium	2,095,929	-	(212,523)	1,883,406	207,884	1,675,522
Deferred refunding	(2,292,653)	-	222,431	(2,070,222)	(220,552)	(1,849,670)
	45,708,276	-	(1,890,092)	43,818,184	1,872,332	41,945,852
Capital Lease Obligation	-	4,810,939	(606,706)	4,204,233	917,200	3,287,033
Total	$ 45,708,276	$ 4,810,939	$ (2,496,798)	$ 48,022,417	$ 2,789,532	$ 45,232,885

	Balance July 1, 2011	Additions	Reductions	Balance June 30, 2012	Current	Long-Term
General receipts bonds	$ 45,085,000	$ 38,775,000	$(37,955,000)	$ 45,905,000	$ 1,900,000	$ 44,005,000
Bond Premium	874,458	2,133,199	(911,728)	2,095,929	212,523	1,883,406
Deferred refunding	-	(2,367,121)	74,468	(2,292,653)	(222,431)	(2,070,222)
Total	$ 45,959,458	$ 38,541,078	$(38,792,260)	$ 45,708,276	$ 1,890,092	$ 43,818,184

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

On February 23, 2012, the College issued $38,775,000 in General Receipts Refunding Bonds, Series 2012 with an average effective interest rate of 3.33% and that matured in 2029 to advance refund $36,815,000 of the outstanding Series 2002 bonds. The net proceeds of $40.47 million (after payment of $.44 million in underwriting fees, insurance, and other issuance costs) were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on these 2002 Series bonds. As a result, these 2002 Series bonds are considered to be defeased and the liability for those bonds has been removed from the statement of net assets. The Series 2012 bond agreement also includes certain covenants and guidelines related to the College's indebtedness.

NOTE 5 - LONG-TERM DEBT (Continued)

The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of $2.37 million. This difference, reported as a deduction from bonds payable, is being charged to operations through the year 2029 using the effective-interest method. The College completed the advance refunding to reduce its total debt service payments over the next 17 years by $6.07 million and to obtain an economic gain (difference between the present values of the old and new debt service payments) of $5.01 million. The balance of the defeased debt in the escrow account at June 30, 2013 is approximately $37.8 million.

During the year ending June 30, 2013, the College entered into capitalized leases in the amount of $4.8 million. These leases are for equipment and improvement to the College. A portion of these leases were for equipment leased as part of the Collaboration Agreement.

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

Year Ending June 30	Principal	Interest	Total
2014	$ 1,885,000	$ 1,508,238	$ 3,393,238
2015	2,440,000	1,424,787	3,864,787
2016	2,230,000	1,313,738	3,543,738
2017	2,455,000	1,215,362	3,670,362
2018	2,510,000	1,170,663	3,680,663
2019-2023	13,660,000	4,708,787	18,368,787
2024-2028	16,235,000	2,071,713	18,306,713
2029	2,590,000	80,937	2,670,937
Total	$ 44,005,000	$ 13,494,225	$ 57,499,225

Future minimum lease payments under capital lease obligations are as follows:

Year Ending June 30	Principal	Interest	Total
2014	$ 917,200	$ 108,904	$ 1,026,104
2015	942,754	83,350	1,026,104
2016	969,082	57,022	1,026,104
2017	996,277	29,897	1,026,174
2018	378,920	5,706	384,626
Total	$ 4,204,233	$ 284,879	$ 4,489,112

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)

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 for the year ended June 30, 2011 are made available for public inspection. The reports may be obtained by writing or calling:

SERS
300 East Broad Street, Suite 100
Columbus, OH 43215-3746
(614) 222-5853

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

SERS and STRS plan members are required to contribute 10% of their annual salary. 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, 2013, 2012 and 2011, were as follows:

	Contribution	
Year	SERS	STRS
2013	$ 1,877,857	$ 3,647,697
2012	2,052,156	3,962,852
2011	1,978,920	4,210,630

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.

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 postemployment 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 25% for those who apply.

(Continued)

NOTE 7 - OTHER POSTEMPLOYMENT BENEFITS (Continued)

The Health Care Fund was established under, and is administered in accordance with Internal Revenue Code § 105(e). Each year after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer 14% contribution to the Health Care Fund. For the years ended June 30, 2013, 2012 and 2011, the health care allocation is .16%, 0.55% and 1.43%, respectively. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. State law provides that no employer shall pay a health care surcharge greater than 2% of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5% of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2013, the minimum compensation level was established at $20,525 The surcharge, added to the unallocated portion of the 14% employer contribution rate is the total amount assigned to the Health Care Fund. The College's contributions assigned to health care for the years ended June 30, 2013, 2012, and 2011 were $21,461, $80,620, and $202,133, respectively.

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

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

Under Ohio Law, funding for post-employment health care may be deducted from employer contributions. Of the 14% employer contribution rate, 1% of the covered payroll was allocated to post-employment health care for 2013, 2012 and 2011. The portion of the College's 2013, 2012 and 2011 contributions to STRS Ohio used to fund post-employment benefits was $260,550, $283,601 and $300,759, respectively.

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 sick leave for which payment is deemed probable. This liability is in accordance with GASB 16, Accounting for Compensated Absences.

At June 30, 2013 and 2012, the liability for personal and/or sick leave was approximately $1,852,000 and $2,259,000, respectively.

(Continued)

NOTE 8 - COMPENSATED ABSENCES (Continued)

Contract employees earn 20 days of vacation leave each year. Non-contract employees earn 10 days of vacation leave after one full year of service, 15 days after five years, and 20 days after 10 years. Upon retirement or termination, an employee is entitled to payment for all accrued vacation days up to a maximum of three times the annual vacation leave earned. The College has accrued a vacation liability for all employees equal to amounts earned but not taken up to the maximum. At June 30, 2013 and 2012, the liability for vacation was approximately $1,619,000 and $1,454,000, 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.

NOTE 10 - LEASES

The College leases various equipment and facilities under operating leases. Rental expenditures relating to operating lease agreements were approximately $1,633,000 and $1,825,000 for the years ended June 30, 2013 and 2012, respectively. The approximate future minimum payments under operating leases at June 30, 2013, are due as follows:

2014	$ 839,000
2015	193,000
2016	58,000
2017	-
2018	-
Total	$ 1,090,000

NOTE 11 - AUXILIARY ENTERPRISES

Revenues and expenses of the College's auxiliary enterprises for the years ended June 30, 2013 and 2012 consist of the following:

2013	Parking	Food Services	Airport	Childcare Center	MCI	CIT Studios	Total
Revenues	$1,202,299	$ 1,354,401	$ 268,436	$ 274,848	$ 723,537	$ 29,565	$ 3,853,086
Expenses	995,656	1,388,831	260,070	436,778	1,216,083	13,436	4,310,854
Excess (deficiency) of revenues over expenses	$ 206,643	$ (34,430)	$ 8,366	$(161,930)	$ (492,546)	$ 16,129	$ (457,768)

2012	Parking	Food Services	Airport	Childcare Center	MCI	CIT Studios	Total
Revenues	$1,471,325	$ 2,066,597	$ 262,343	$ 359,378	$1,078,338	$ 23,718	$ 5,261,699
Expenses	1,083,313	2,181,169	229,542	398,940	1,442,394	12,681	5,348,039
Excess (deficiency) of revenues over expenses	$ 388,012	$ (114,572)	$ 32,801	$ (39,562)	$ (364,056)	$ 11,037	$ (86,340)

(Continued)

NOTE 12 - RESTRICTED NET ASSETS

Restricted net assets are expendable for use in student loans of approximately $31,000 (2013) and $31,000 (2012) and in debt service facility fee of $3,331,000 (2013) and $3,940,000 (2012).

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.

SUPPLEMENTARY INFORMATION

Federal Grant/Program Title	Pass-Through Entity Identifying Number	Federal CFDA	Federal Expenditures
U.S. DEPARTMENT OF LABOR			
Program of Competitive Grants for Worker Training and Placement in High Growth and Emerging Industry Sectors		17.275 – ARRA	$ 1,596,000
Passed through Edison Biotechnology Center dba BioOhio			
Program of Competitive Grants for Worker Training and Placement in High Growth and Emerging Industry Sectors		17.275 - ARRA	178,013
			1,774,013
Trade Adjustment Assistance Community College and Career Training (TAACCCT) Grants		17.282	6,098,569
Total U.S. Department of Labor			7,872,581
U. S. DEPARTMENT OF TRANSPORTATION			
Airport Improvement Program		20.106	81,613
U. S. DEPARTMENT OF ENERGY			
Passed through the Greater Cincinnati Energy Alliance			
Energy Efficiency and Conservation Block Grant Program		81.128 - ARRA	251,956
U. S. DEPARTMENT OF EDUCATION			
Student Financial Aid Cluster			
Federal Supplemental Educational Opportunity Grants		84.007	668,970
Federal Direct Student Loans		84.268	45,794,025
Federal Work-Study Program		84.033	313,433
Federal Pell Grant Program		84.063	17,964,440
Total Student Financial Aid Cluster			64,740,868
Passed through Cincinnati Public Schools			
Title I Grants to Local Educational Agencies	424172	84.010	527

(Continued)

Federal Grant/Program Title	Pass-Through Entity Identifying Number	Federal CFDA	Federal Expenditures
TRIO Cluster			
TRIO Student Support Services		84.042A	$ 269,534
TRIO Upward Bound Traditional		84.047A	271,326
TRIO Upward Bound Veteran's		84.047V	215,597
TRIO Educational Opportunity Center		84.066	231,540
Total TRIO Cluster			987,997
Center and Technical Education - Basic Grants to States		84.048	312,375
Passed through University of Cincinnati			
Gaining Early Awareness and Readiness for Undergraduate Programs (GEAR-UP)	P000-030-J617	84.334A	171,863
Total U.S. Department of Education			66,213,630
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
Chafee Education and Training Vouchers Program (ETV)		93.599	9,610
Passed through Cuyahoga Community College			
Health Information Technology Professional in Heath Care		93.721 - ARRA	74,332
Total U.S. Department of Health and Human Services			83,942
CORPORATION FOR NATIONAL AND COMMUNITY SERVICE			
Passed through Greater Cincinnati Workforce Network			
Social Innovation Fund		94.019	50,524
Total Federal Awards			$ 74,554,246

See accompanying notes to schedule of expenditures of federal awards.

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 Direct Student Loans Program (CFDA 84.268) (including Direct Subsidized Loans, Direct Unsubsidized Loans and Direct PLUS Loans). Loans processed by the College under this Loan Program were the following for the year ended June 30, 2013:

Direct Unsubsidized Loans	$ 26,581,770
Direct Subsidized Loans	18,968,187
PLUS Loans	244,068
Total	$ 45,794,025

NOTE 3 – SUBRECIPIENTS

The College passes-through to not-for-profit providers (subrecipients) certain federal assistance received by the College directly from the federal awarding agency or from a pass-through entity. The subrecipient providers have certain compliance responsibilities related to administering these Federal programs. Under Federal Circular A-133 the College is responsible for monitoring subrecipients to help assure that Federal awards are expended for authorized purposes in compliance with law, regulations and the provisions of contracts or grant agreements, and that performance goals are achieved. Included within the Schedule of Expenditures of Federal Awards are the following awards passed through to subrecipients:

Federal Grant/Program Title	Federal CFDA	Federal Expenditures
Program of Competitive Grants for Worker Training and Placement in High Growth And Emerging Industry Sectors	17.275 ARRA	$ 1,054,163
Trade Adjustment Assistance Community College and Career Training (TAACCCT) Grants	17.282	3,819,761

Under the Trade Adjustment Community College and Career Training (TAACCCT) Grants the College has been identified as the lead institution in a consortium of co-grantees. The College has the overall fiscal and administrative responsibility for the grant and those funds identified have been passed through to co-grantees.

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities of Cincinnati State Technical and Community College (the "College") as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the College's basic financial statements, and have issued our report thereon dated the same date as this report.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

(Continued)

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.*

Purpose of this Report

The purpose of this report is solely 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 effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Crowe Horwath LLP

Crowe Horwath LLP

Columbus, Ohio
October 15, 2013

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM; REPORT ON INTERNAL CONTROL OVER COMPLIANCE

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

Report on Compliance for Each Major Federal Program

We have audited Cincinnati State Technical and Community College's (the "College") compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the College's major federal programs for the year ended June 30, 2013. 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.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the College's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and 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 on compliance for each major federal program. However, our audit does not provide a legal determination of the College's compliance.

Opinion on Each Major Federal Program

In our opinion, the College complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2013.

(Continued)

Report on Internal Control Over Compliance

Management of the College is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the College's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the College's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Crowe Horwath LLP

Crowe Horwath LLP

Columbus, Ohio
October 15, 2013

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued:	Unqualified	
Internal control over financial reporting:		
Material weakness(es) identified?	______ Yes	__X__ No
Significant deficiencies identified not considered to be material weaknesses?	______ Yes	__X__ None Reported
Noncompliance material to financial statements noted?	_______ Yes	__X__ No

Federal Awards

Internal Control over major programs:		
Material weakness(es) identified?	_____ Yes	__X__ No
Significant deficiencies identified not considered to be material weaknesses?	_____ Yes	__X__ None Reported
Type of auditor's report issued on compliance for major programs:	Unqualified	
Any audit findings disclosed that are required to be reported in accordance with Section .510(a) of OMB Circular A-133?	_____ Yes	__X__ No

(Continued)

Section I - Summary of Auditor's Results (Continued)

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
17.275 - ARRA	Program of Competitive Grants for Workers Training and Placement in High Growth and Emerging Industry
81.128 - ARRA	Energy Efficiency and Conservation Block Grant Program
	Student Financial Aid Cluster:
84.007	Federal Supplemental Educational Opportunity Grants
84.268	Federal Direct Student Loans
84.033	Federal Work-Study Program
84.063	Federal Pell Grant Program

Dollar threshold used to distinguish between Type A and Type B programs: $ 300,000

Auditee qualified as low-risk auditee? ______Yes ___X___ No

Section II - Financial Statement Findings

There were no findings for the year ended June 30, 2013.

Section III - Federal Award Findings

There were no findings for the year ended June 30, 2013.

Section IV - Prior Year Findings and Questioned Costs

Finding 2012-01

Federal Program Information: Federal Supplemental Educational Opportunity Grants, CFDA #84.007, Federal Direct Student Loans, CFDA #84.268, Federal Pell Grant Program, CFDA #84.063

Condition: Testing of return of fund calculations noted instances where the calculation was not performed

Status: Corrected – no instances encountered in current year testing.

Finding 2012-02

Federal Program Information: Federal Supplemental Educational Opportunity Grants (SEOG), CFDA #84.007, Federal Work-Study Program (FWS), CFDA #84.033, Federal Pell Grant Program (PELL), CFDA #84.063

Condition: During our testing of the reconciliation of G5 cash draw downs and the general ledger, an instance was noted where amounts were drawn from the incorrect financial aid programs.

Status: Corrected – no instances encountered in current year testing.

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
NOVEMBER 7, 2013