Cincinnati State Technical and Community College

Office of Management and Budget Circular A-133 Reports for the Year Ended June 30, 2002

STATE OF OHIO
OFFICE OF THE AUDITOR
JIM PETRO, AUDITOR OF STATE

88 East Broad Street
P. O. Box 1140
Columbus, Ohio 43216-1140
Telephone 614-466-4514
800-282-0370
Facsimile 614-466-4490
www.auditor.state.oh.us

Board of Trustees
Cincinnati State Technical and Community College
Cincinnati, OH 45223

We have reviewed the Independent Auditor's Report of the Cincinnati State Technical and Community College, Hamilton County, prepared by Deloitte & Touche, for the audit period July 1, 2001 through June 30, 2002. 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.

JIM PETRO
Auditor of State

November 7, 2002

This Page is Intentionally Left Blank.

CINCINNATI STATE TECHNICAL AND COMMUNITY COLLEGE

TABLE OF CONTENTS

	Page
MANAGEMENT'S DISCUSSION AND ANALYSIS	1
INDEPENDENT AUDITORS' REPORT	5
FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2002:	
Statement of Net Assets	7
Statement of Revenues, Expenses and Changes in Net Assets	8
Statement of Cash Flows	9
Notes to Financial Statements	11
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED JUNE 30, 2002	19
INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED UPON THE AUDIT PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*	20
INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND INTERNAL CONTROL OVER COMPLIANCE APPLICABLE TO EACH MAJOR FEDERAL AWARD PROGRAM	21
SCHEDULE OF FINDINGS AND QUESTIONED COSTS	23
SUMMARY OF SCHEDULE OF PRIOR AUDIT FINDINGS	26

This Page is Intentionally Left Blank.

MANAGEMENT'S DISCUSSION AND ANALYSIS

CINCINNATI STATE TECHNICAL AND COMMUNITY COLLEGE

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 fiscal year ended June 30, 2002. Please read it in conjunction with the College's financial statements, which begin on page 5.

NEW ACCOUNTING STANDARDS

In June 1999, the Governmental Accounting Standard's Board (GASB) released Statement No. 34, "Basic Financial Statements and Management's Discussion and Analysis for State and local Governments," which established a new reporting format for annual financial statements. In November 1999, GASB released Statement No. 35, "Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities," which applies the new reporting standards to public colleges and universities as amended by GASB Statements 37 and 38, and will apply these standards on a retroactive basis. The State of Ohio has elected to adopt these new standards in fiscal year 2002 and, as a component unit of the state government, Cincinnati State Technical and Community College has adopted the new standards as well. These statements establish standards for external financial reporting for public colleges and universities and require that financial statements be presented on a consolidated basis to focus on the College as a whole, with resources classified for accounting and reporting purposes into three net individual fund groups rather than on the College as a whole.

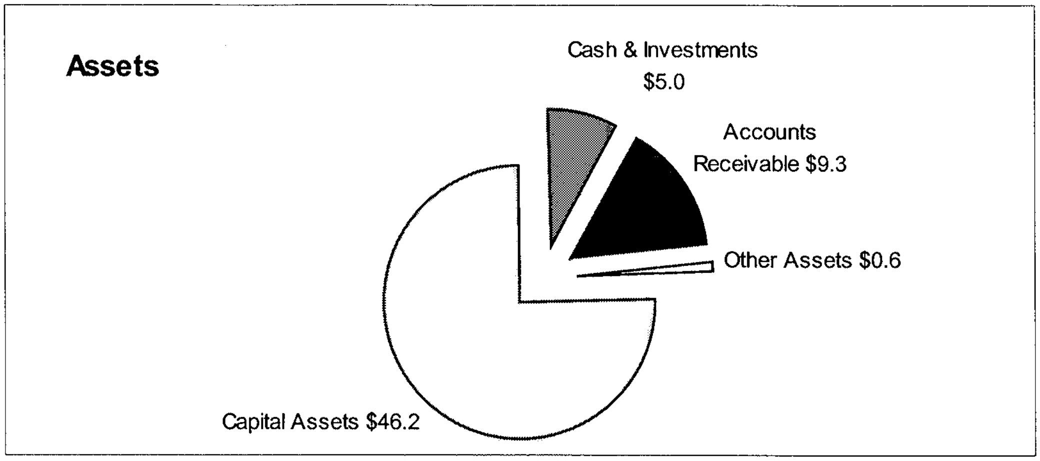
The following discussion and analysis provides an overview of the College's financial activities. Since this is a transition year for the new format, only one year of information is presented in the audited financial statements. In future years, when prior-year information is available, comparative information and analysis will be presented.

The new accounting standards resulted in a prior period adjustment of $29.6 million to the beginning fund balance. The components of this adjustment are included in the footnotes to the financial statements and primarily include net revenue for summer term classes and accumulated depreciation.

As required by newly adopted accounting principles, the annual report consists of three basic financial statements that provide information on the College as a whole: Statement of Net Assets; the Statement of Revenue, Expenses and Changes in Net Assets; and the Statement of Cash Flows. Current activity of each of the Statements will be discussed.

STATEMENT OF NET ASSETS (IN MILLIONS)

The Statement of Net Assets includes all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector institutions. Net assets – the difference between assets and liabilities – are one way to measure the financial health of the College.



Cash and cash equivalents make up 8% of total assets. Cash includes: bank deposits, overnight sweep investments and investments in Star Ohio.

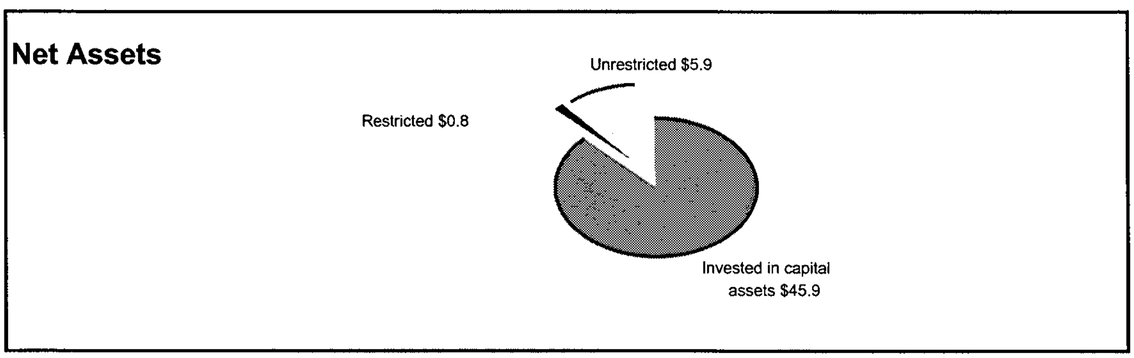
Accounts receivable make up 15% of the total assets. Accounts receivable include: grants ($3.6), state appropriations ($2.5), and student and various operating receivables ($3.2).

Net capital assets make up 76% of the total assets. See Note 3 of the financial statements for a breakout of asset types and current year activity for the period ending June 30, 2002.

Other assets make the final 1% of the total assets. These include: prepaid items, loan fund and cafeteria inventory.

LIABILITIES

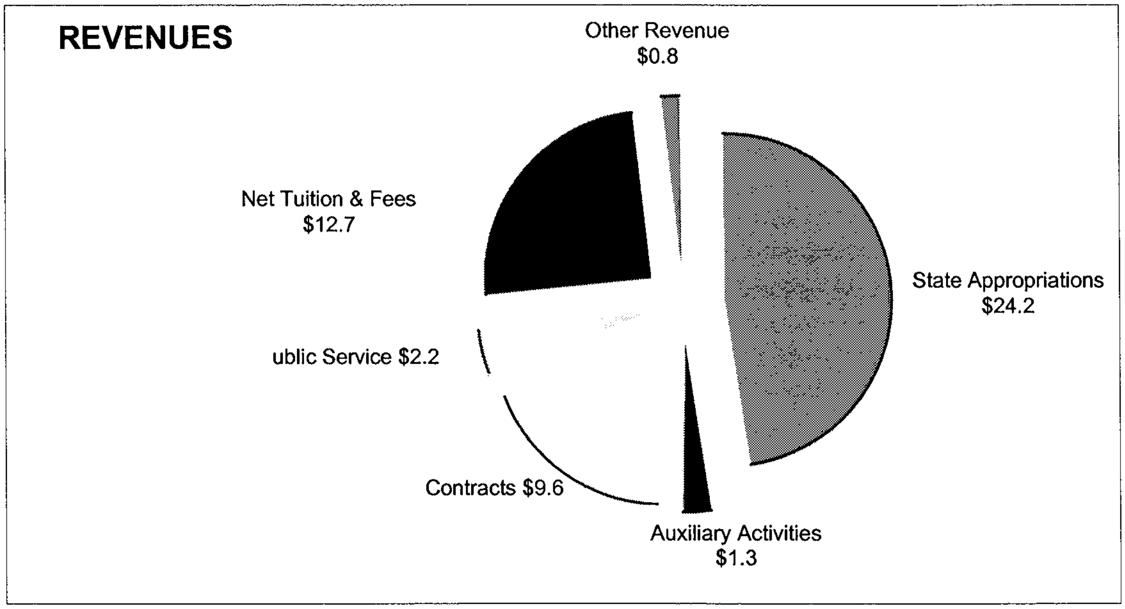
Liabilities consist of $6.4 million in accounts payable and accrued expenses related to suppliers, utilities, wages, benefits and compensated absences. Also included is $2.0 of deferred revenue primarily related to summer term classes.



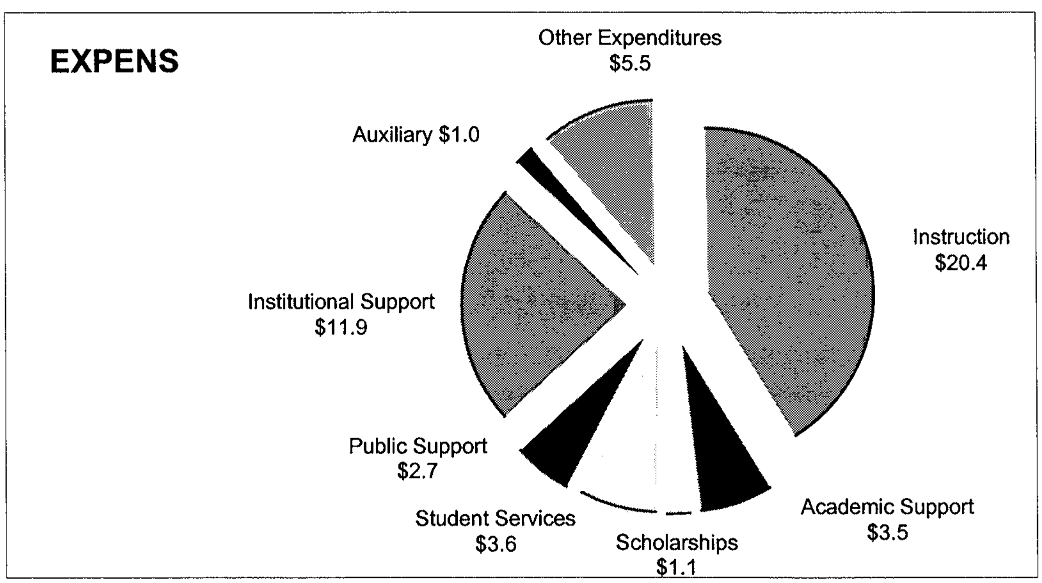
Under the new GASB Standards, unrestricted net assets consist of net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related liabilities and debt." Restricted net assets consist of net assets restricted by constraint (external or imposed by law) on the use of the assets. Invested in capital assets consists of capital assets net of accumulated depreciation and reduced by outstanding liabilities and debt attributable to the acquisition or construction of those assets.

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS (IN MILLIONS)

The Statement of Revenue, Expenses and Changes in Net Assets present the operating results of the College, as well as the non-operating revenues and expenses. Annual state appropriations, while budgeted for operations, are considered non-operating revenues according to accounting principles generally accepted in the United States of America.



Tuition and Fees, before the net effect of scholarships and student financial aid as required by GASB 35, increased in FY2002. This was due to two factors: enrollment increase of 9% (23,110 in credit hours) over prior year and tuition rate increase of $2.50 per credit hour. State Appropriations decreased by cuts in state funding of $1.2. Other revenues remained approximately the same.



Other expenditures include $3.9 of depreciation expense which is now recorded as a result of the new GASB adopted in 2002. Instruction expenses increased $1.5 from increases in wages and benefits.

STATEMENT OF CASH FLOWS

The Statement of Cash Flows provides information about cash receipts and cash payments during the year. This statement also helps users assess the College's ability to generate net cash flows, its ability to meet its obligations as they come due, and its need for external financing.

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

State appropriations are the primary source of non-capital financing. The new accounting standards require that we reflect this source of revenue as non-operating even though the College's budget depends on this to continue the current levels of operations. State Appropriations decreased by $1.2 million due to state cuts in funding.

ECONOMIC FACTORS THAT WILL AFFECT THE FUTURE

The economic position of the College is closely tied to that of the State of Ohio. The amount of appropriations for the upcoming fiscal year will remain the same as the previous year.

The College's economic position will also be affected with the construction of the new Advanced Technology and Learning Center Building and parking garage. Issuance of bonds in the late fall of 2002 will be the primary financing of this project. The impact of this financing will be over the next 25 years.

Deloitte & Touche LLP
250 East Fifth Street
P.O. Box 5340
Cincinnati, Ohio 45201-5340

Tel: (513) 784-7100
Fax: (513) 784-7204
www.deloitte.com

Deloitte & Touche

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying statement of net assets of Cincinnati State Technical and Community College (the "College"), a component unit of the State of Ohio, as of June 30, 2002, and the related statements of revenues, expenses and changes in net assets and of cash flows for the year then ended. These financial statements are the responsibility of the College's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, such financial statements present fairly, in all material respects, the financial position of Cincinnati State Technical and Community College at June 30, 2002, and the results of its operations and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1, the College has implemented a new financial reporting model as required by the provisions of the Governmental Accounting Standards Board ("GASB") Statement No. 35, Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities, as of and for the year ended June 30, 2002.

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

The Management's Discussion and Analysis presented on pages 1 through 4 is not a required part of the basic financial statements but is supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplemental information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 4, 2002 on our consideration of the College's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Governmental Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Deloitte & Touche LLP

October 4, 2002

CINCINNATI STATE TECHNICAL AND COMMUNITY COLLEGE

STATEMENT OF NET ASSETS
JUNE 30, 2002

ASSETS

CURRENT ASSETS:	
Cash and cash equivalents	$ 4,993,178
Accounts receivable, net	9,334,118
Inventories	14,269
Other assets	127,293
Total current assets	14,468,858
NONCURRENT ASSETS:	
Restricted cash and cash equivalents	3,467
Notes receivable, net	411,178
Capital assets, net	46,212,305
Total noncurrent assets	46,626,950
Total assets	61,095,808

LIABILITIES

CURRENT LIABILITIES:	
Accounts payable	2,474,567
Accrued liabilities:	
Wages	826,277
Compensated absences	2,714,178
Other	365,294
Deferred revenue	2,047,001
Total current liabilities	8,427,317

NET ASSETS

Invested in capital assets	46,212,305
Restricted	517,646
Unrestricted	5,938,540
Total net assets	$52,668,491

See notes to financial statements.

CINCINNATI STATE TECHNICAL AND COMMUNITY COLLEGE

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS FOR THE YEAR ENDED JUNE 30, 2002

REVENUES	
Operating revenues:	
Student tuition and fees, net of scholarships and student financial aid of $7,865,884	$ 12,700,574
Federal grants and contracts	5,728,414
State and local grants and contracts	3,590,679
Nongovernmental grants and contracts	337,781
Sales and services of educational departments	2,162,165
Auxiliary enterprises	1,273,825
Other operating revenues	675,608
Total operating revenues	26,469,046
EXPENSES	
Operating expenses:	
Instructional	20,433,540
Public support	2,709,713
Academic support	3,556,378
Student services	3,663,525
Institutional support	11,956,861
Plant operation and maintenance	1,705,150
Scholarships and student financial aid	1,072,620
Auxiliary enterprises	1,088,854
Depreciation	3,877,974
Total operating expenses	50,064,615
Operating loss	(23,595,569)
NONOPERATING REVENUES	
State appropriations	20,370,665
Investment income (net of investment expense)	190,388
Other nonoperating revenues	1,435
Net nonoperating revenues	20,562,488
LOSS BEFORE OTHER REVENUES, EXPENSES, GAINS, OR LOSSES	(3,033,081)
Capital appropriations from the state	3,816,732
Capital grants and gifts	8,510,267
INCREASE IN NET ASSETS	9,293,918
NET ASSETS:	
Net assets - beginning of year as restated (Note 1)	43,374,573
Net assets - end of year	$ 52,668,491

See notes to financial statements.

CINCINNATI STATE TECHNICAL AND COMMUNITY COLLEGE

STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2002

CASH FLOWS FROM OPERATING ACTIVITIES:	
Tuition and fees	$ 10,191,805
Federal grants and contracts	7,962,886
Payments to suppliers	(9,936,737)
Payments to utilities	(739,015)
Payments to employees	(25,809,826)
Payments for benefits	(7,572,582)
Payments for scholarships and student financial aid	(1,072,620)
Auxiliary enterprise revenues	1,273,825
Sales and services of educational activities	2,162,165
Other receipts	675,608
Net cash used in operating activities	(22,864,491)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:	
State appropriations	20,370,665
Other payments	(54,978)
Net cash flows provided by noncapital financing activities	20,315,687
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:	
State capital appropriations	3,816,732
Capital grants and gifts received	210,267
Purchases of capital assets	(4,921,855)
Payment on capital lease	(15,437)
Net cash used by capital and related financing activities	(910,293)
CASH FLOWS FROM INVESTING ACTIVITIES - Interest on investments	190,388
NET DECREASE IN CASH AND CASH EQUIVALENTS	(3,268,709)
CASH AND CASH EQUIVALENTS - Beginning of year	8,265,354
CASH AND CASH EQUIVALENTS - End of year	$ 4,996,645

See notes to financial statements.

CINCINNATI STATE TECHNICAL AND COMMUNITY COLLEGE

STATEMENT OF CASH FLOWS (Continued)
FOR THE YEAR ENDED JUNE 30, 2002

Reconciliation of Net Operating to Net Cash Used in Operating Activities	
Operating loss	$ (23,595,569)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Depreciation expense	3,877,974
Change in assets and liabilities:	
Receivables	(3,983,721)
Inventories	(111)
Other assets	140,987
Accounts payable and accrued expenses	915,044
Deferred revenue	(219,095)
Net cash used in operating activities	$ (22,864,491)

Noncash Financing and Investing Activities

In 2002, the College received contributions of capital assets totaling $8,300,000.

See notes to financial statements.

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 prepare 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).

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).

Effective July 1, 2001, the University adopted GASB Statement No 35, Basic Financial Statements – and Management's Discussion and Analysis-for Public Colleges and Universities, as amended by GASB Statement No. 37. GASB No. 35 establishes standards for external financial reporting for public colleges and universities and requires that resources be classified for accounting and reporting purposes into the following net assets categories:

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

- ***Restricted:***
  Nonexpendable - Net assets subject to externally imposed stipulations that they be maintained permanently by the University. Such assets include the principal of the University's permanent endowment funds.

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

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

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

The accompanying financial statements do not include the assets, liabilities, fund balances, and current revenues and expenditures relating to Cincinnati State Technical and Community College Foundation (the Foundation). The College is the primary beneficiary of the Foundation. The Foundation is a separate not-for-profit entity organized for the purpose of promoting the educational mission of the College. For the year ended June 30, 2002, the College recorded revenues from the Foundation of $316,950 and provided certain administrative services to the Foundation without a charge. At June 30, 2002, total assets of the Foundation were approximately $1,575,000.

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.

Investment in Plant - 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 straight-line method over the estimated useful life of the asset. Expenditures for construction in progress are capitalized as incurred.

Deferred Revenue - Assessed student tuition and fees as well as parking receipts received and related to the period after June 30, 2002 have been deferred. Grant money received but not yet expended for grant purposes are recognized as deferred revenue.

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

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

Grants and Scholarships - Student tuition and fees and Bookstore revenues are presented net of scholarships and student financial aid applied directly to student accounts. Scholarships and student financial aid consist primarily of awards to students from the Federal Pell Grant Program and Ohio Instructional Grant Program. Payments made directly to students from scholarships and student financial aid are presented as student aid.

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

Management Estimates - The preparations of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenditures during the reporting period. Disclosure of contingent assets and liabilities at the date of the financial statements may also be affected. Actual results could differ from those estimates.

Net Assets - GASB Statement No. 34 reports equity as "Net Assets" rather than "fund balance." Net assets are classified according to external donor restrictions or availability of assets for satisfaction of College's obligations.

Under the new GASB Standards, unrestricted net assets consist of net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related liabilities and debt." Restricted net assets consist of net assets restricted by constraint (external or imposed by law) on the use of the assets. Invested in capital assets consists of capital assets net of accumulated depreciation and reduced by outstanding liabilities and debt attributable to the acquisition or construction of those assets.

Restatement of Beginning Net Assets - In connection with the implementation of GASB Statements
No. 34 and No. 35, the following adjustments have been made to reflect the cumulative effect of this accounting change:

Recording of accumulated depreciation	$ (29,805,558)
Accrual of summer tuition revenue	246,928
Total Adjustments	(29,558,630)
Net assets reported at June 30, 2001	72,933,203
Net asset balance at July 1, 2001	$ 43,374,573

2. CASH AND CASH EQUIVALENTS

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

At June 30, 2002, the carrying amount of the College's deposits was $4,981,431 and the depository bank balance was $5,360,871. The difference between the carrying amount and the depository bank balance is principally due to outstanding checks and deposits-in-transit. The bank balance includes $3,232,743 in the State Treasury Asset Reserve of Ohio (STAROhio) for which the collateral requirements mentioned above do not apply. Of the remaining $2,128,128 bank balance, $100,000 was covered by federal depository insurance and $2,028,128 was collateralized by pledged, pooled securities not in the College's name.

STAROhio 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. STAROhio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in

STAROhio are valued at STAROhio's share price which is the price the investment could be sold for on June 30, 2002.

3. CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2002 was as follows:

	Beginning Balance (As Restated, See Note 1)	Additions	Disposals	Ending Balance
Land	$ 2,096,976	$ -	$ -	$ 2,096,976
Land Improvements	1,653,070	529,712		2,182,782
Building and Improvements	47,669,137	1,394,822		49,063,959
Equipment and Furniture	13,926,596	8,925,267	(1,406,192)	21,445,671
Library Books and Audio Visual	1,328,203	104,485	(62,896)	1,369,792
Construction-In-Progress		2,347,715		2,347,715
Total Fixed Assets	66,673,982	13,302,001	(1,469,088)	78,506,895
Accumulated Depreciation	29,805,558	3,877,974	(1,388,942)	32,294,590
Capital Assets - Net	$36,868,424	$ 9,424,027	$ (80,146)	$ 46,212,304

The following estimated useful lives that are used to compute depreciation:

	Years
Land improvements	20
Building and Improvements	15-50
Equipment and Furniture	3-20
Library Books and Audio Visual	20

4. EMPLOYEE BENEFIT PLANS

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

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

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

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

SERS plan members are required to contribute 9.0% of their annual salary, and STRS members contributed 9.3%. The College is currently required to contribute 14% of annual covered payroll for SERS and STRS. The contribution requirements of plan members and the College are established and may be amended by state statute. The College's contributions to SERS and STRS for the years ending June 30, 2002, 2001, and 2000 were as follows:

Year	Contribution	
	SERS	STRS
2002	$915,602	$2,441,207
2001	861,319	2,325,805
2000	784,824	2,154,314

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

Effective March 31, 1999, the Board of Trustees of the College approved the Chapter 3305 Alternative Retirement Plan in accordance with the provisions of the Chapter 3305 of the Ohio Revised Code which requires Ohio public universities and colleges to offer defined contribution plans to employees as an alternative to participation in the state-mandated defined benefit plans. Under the new plan, employees have participant-directed accounts with participant-selected companies designated by the state that have entered into provider agreements with the College to administer the plan in accordance with plan provisions as adopted by the College. At June 30, 2002, no contributions or rollovers from other benefit plans have been made to approved providers.

5. OTHER POSTEMPLOYMENT BENEFITS

In addition to the pension benefits described in Note 4, SERS and STRS provide postretirement health care coverage. The Ohio Revised Code provides the authority for public employers to fund postretirement health care through their contributions. Information presented herein about the financial activities and position of SERS and STRS has been extracted from information provided to the College by officials of SERS and STRS.

SERS - SERS coverage is made available to service retirees with ten or more years of qualifying service credit for disability and survivor benefit recipients. Members retiring on or after August 1, 1989 with less than 25 years of service credit must pay a portion of their premium for health care. Such portion is based on years of service up to a maximum of 75% of the premium.

Of the employer's 14% contribution rate discussed in Note 4, a portion (9.80% for the year ended June 30, 2001 - date of the most recent available information) is allocated to providing health care benefits. In addition, SERS levies a surcharge to fund health care benefits for employees earning less than a defined minimum pay ($12,400 for fiscal year 2001). Surcharge amounts billed to the College have not been significant.

For the year ended June 30, 2001, benefits are financed on a pay-as-you-go basis. The target level for the health care reserve is 150% of annual health care expenses. SERS's expenses for health care for the year ended June 30, 2001 were $161.4 million and the target level was $242.2 million. At June 30, 2001, the SERS's net assets available for payment of health care benefits was $315.7 million.

The number of retirees and covered dependents receiving benefits from SERS was approximately 50,000 at June 30, 2001.

STRS - STRS provides comprehensive health care benefits to retirees and their dependents. Coverage includes hospitalization, physician fees, prescription drugs and partial reimbursement of monthly Medicare premiums. All benefit recipients and sponsored dependents are eligible for health care coverage. The Ohio Revised Code grants authority to STRS to provide health care coverage to benefit recipients, spouses and dependents. Pursuant to the Ohio Revised Code, STRS has discretionary authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients are required to pay a portion of the health care costs in the form of a monthly premium. Of the employer's 14% contribution rate discussed in Note 3, a 4.5% portion for the year ended June 30, 2001 (date of the most recent information), is allocated to a health care reserve fund from which payments for health care benefits are made. The balance in STRS's health care reserve fund was $3.256 billion at June 30, 2001. For the year ended June 30, 2001, the net health care costs paid by STRS was approximately $300.8 million. For the year ended June 30, 2001, there were 102,132 eligible STRS's benefit recipients.

6. COMPENSATED ABSENCES

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

Leave days may be accumulated and are absorbed by time off due to illness or injury, or, within certain limitations, paid to the employee upon retirement or termination. The amount paid to an employee upon retirement or termination is limited to one-third of the accumulated leave days up to a maximum payout of 65 days. Full-time employees who are not in the College's American Association of University Professors bargaining unit and were hired on or after March 1, 1990 are entitled to a maximum payout of 30 days. The College has accrued a liability for all accumulated days earned by the employees up to the maximum payout upon retirement. At June 30, 2002, the liability for personal and/or sick leave was approximately $1,864,000.

Contract employees earn 20 days vacation leave each year. Non-contract employees earn 10 days vacation leave after one full year of service, 15 days after five years, and 20 days after 10 years. Upon retirement or termination, an employee is entitled to payment for all accrued vacation days up to a maximum of three times the annual vacation leave earned. The College has accrued a vacation liability for all employees equal to amounts earned but not taken up to the maximum. At June 30, 2002, the liability for vacation was approximately $850,000.

7. 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.

8. LEASES

The College leases various equipment and facilities under operating leases. Rental expenditures relating to operating lease agreements were approximately $430,000 for the year ended June 30, 2002. The future minimum payments under operating leases at June 30, 2002 are due as follows:

2003	$ 220,271
2004	220,271
2005	66,889
2006	51,108
2007	40,428
Thereafter	11,695
Total	$ 610,662

9. AUXILIARY ENTERPRISES

Changes in the net assets of the College's auxiliary enterprises for the year ended June 30, 2002 consist of the following:

	2002			
	Parking	Cafeteria	Airport	Total
Revenues	$ 614,089	$ 636,825	$ 22,911	$ 1,273,825
Expenses	240,195	777,452	71,208	1,088,855
Net increase (decrease) for year	373,894	(140,627)	(48,297)	184,970
Net assets, beginning of year	1,553,927	(183,060)		1,370,867
Net assets, end of year	$ 1,927,821	$ (323,687)	$ (48,297)	$ 1,555,837

Depreciation expense is not allocated to the individual auxiliary enterprise.

10. ACCOUNTS RECEIVABLE

Accounts receivable, net as of June 30, 2002 was as follows:

Grants	$3,587,611
State appropriations	2,486,969
Tuition and other	3,798,039
Allowance for doubtful accounts	(538,501)
	$9,334,118

11. RESTRICTED NET ASSETS

Restricted net assets are expendable for use in loans $(415,000) and public service $(103,000).

* * * * * *

CINCINNATI STATE TECHNICAL AND COMMUNITY COLLEGE

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2002

Federal Grant/Pass-Through Grant/Program Title	Federal CFDA Number	Pass-Through Grantor's Numbers	Federal Expenditures
U.S. DEPARTMENT OF EDUCATION:			
Student Financial Aid			
Federal Pell Grant Program	84.063		$ 4,933,672
Federal Perkins Loan Program	84.038		8,588
Federal Work Study Program	84.033		68,964
Federal Supplemental Educational Opportunity Grant Program	84.007		396,245
Federal Family Education Loan Program (Note 2)	84.032		
Total Student Financial Aid Cluster			5,407,469
Student Support Services	84.042A		234,266
Eisenhower Grant, Passed through the Ohio Department of Education	84.164	7-16, 8-12	75,572
Basic Grants to States, Passed through the Ohio Department of Education	84.048	20-A598	263,251
Tech Prep Expended Enrollment Grant, Automotive Technologies pass through the University of Cincinnati	84.048		77,000
Tech Prep expended Enrollment Grant, Information Technologies pass through the University of Cincinnati	84.049		77,200
Tech Prep Expended Enrollment Grant, Health Technologies pass through the University of Cincinnati	84.174		77,000
Information Technology Grant	84.323A		841
Gaining Early Awareness and Readiness for Undergraduate Programs (GEAR-UP), passed through the University of Cincinnati	84.334A		83,577
Total U.S. Department of Education			888,707
NATIONAL SCIENCE FOUNDATION - An Evolving Program to Prepare Information Technologists in Southwest Ohio for the 21st Century, passed through the University of Cincinnati	47.070		19,740
TOTAL			$ 6,315,916

Notes:

1. The schedule of expenditures of federal awards is prepared on the accrual basis. Amounts presented are total federal expenditures for each program. 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.
2. The College participates in the Federal Family Education Loan Program (including Stafford Loans and Supplemental Loans for Students). Loans processed by the College under this Loan Program totaled $10,021,934 for the year ended June 30, 2002.
3. The College administers the Federal Perkins Loan Program (CFDA 84.038). Disbursements, expenditures and transfers for this program totaled $141,166 ($132,578 of loans to students and $8,588 of administrative/collection expenditures) for the year ended June 30, 2002. Only the administrative/collection expenditures are included in the accompanying Schedule of Expenditures of Federal Awards. The outstanding loan balances totaled $897,622 at June 30, 2002.

Deloitte & Touche LLP
250 East Fifth Street
P.O. Box 5340
Cincinnati, Ohio 45201-5340

Tel: (513) 784-7100
Fax: (513) 784-7204
www.deloitte.com

Deloitte & Touche

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED UPON THE AUDIT PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

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

We have audited the financial statements of Cincinnati State Technical and Community College (the "College") as of and for the year ended June 30, 2002, and have issued our report thereon dated October 4, 2002, which includes an explanatory paragraph relating to the change in accounting principle described in Note 1 of the financial statements. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

COMPLIANCE

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 grants, noncompliance with which could have a direct and material effect on the determination of financial 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 that are required to be reported under *Government Auditing Standards*.

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

This report is intended for the information and use of the Board of Trustees and management of the College, officials of applicable federal, state and local agencies and the Auditor of the State of Ohio, and is not intended to be and should not be used by anyone other than these specified parties.

Deloitte & Touche LLP

October 4, 2002

Deloitte & Touche LLP
250 East Fifth Street
P.O. Box 5340
Cincinnati, Ohio 45201-5340

Tel: (513) 784-7100
Fax: (513) 784-7204
www.deloitte.com

Deloitte & Touche

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND INTERNAL CONTROL OVER COMPLIANCE APPLICABLE TO EACH MAJOR FEDERAL AWARD PROGRAM

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

COMPLIANCE

We have audited the compliance of Cincinnati State Technical and Community College (the "College") with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to its major federal program for the year ended June 30, 2002. The College's major federal program is identified in the Summary of Auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the College's management. Our responsibility is to express an opinion on the College's compliance based on our audit.

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

In our opinion, the College complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2002. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements that is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying Schedule of Findings and Questioned Costs as item 02-1.

INTERNAL CONTROL OVER COMPLIANCE

The management of the College is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the College's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

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

This report is intended solely for the information and use of the Board of Trustees and management of the College, officials of applicable federal, state and local agencies and the Auditor of the State of Ohio, and is not intended to be and should not be used by anyone other than these specified parties.

Deloitte & Touche LLP

October 4, 2002

CINCINNATI STATE TECHNICAL AND COMMUNITY COLLEGE

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2002

I. SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued:	Unqualified	
Internal control over financial reporting:		
Material weakness(es) identified?	____ yes	X no
Reportable condition(s) identified not considered to be material weaknesses?	____ yes	X N/A
Noncompliance material to financial statements noted?	____ yes	X no

Federal Awards

Internal Control over major programs:		
Material weakness(es) identified?	____ yes	X no
Reportable condition(s) identified not considered to be material weakness(es)?	____ yes	X N/A
Type of auditors' report issued on compliance for major programs:	Unqualified	
Any audit findings disclosed that are required to be reported in accordance with Circular A-133 (Section .510(a))?	X yes	____ no

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster Number
84.063	Federal Pell Grant Program
84.038	Federal Perkins Loan Program
84.033	Federal Work Study Program
84.007	Federal Supplemental Educational Opportunity Grant Program
84.032	Federal Family Education Loan Program

Dollar threshold used to distinguish between Type A and Type B programs	$300,000	
Auditee qualified as low-risk auditee?	____ yes	X no

II. FINDINGS RELATED TO THE FINANCIAL STATEMENTS WHICH ARE REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAS - No items are reportable

III. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS SECTION

Reference Number	Findings
02-1	***Federal Program Information:***

Federal Perkins Loan Program, CFDA #84.038

Condition:

The College did not maintain the cohort default rate required to receive the federal capital contribution under the Federal Perkins Loan Program. The College's cohort default rate for 2002 was 36.44%, as reported on the 2002 Fiscal Operations Report and Application filed with the U.S. Department of Education.

Criteria:

The Perkins Loan Program required a cohort default rate of no greater than 25% in order to receive the federal capital contribution.

Effect:

If the institution's cohort default rate equals or needs 25%, the institution's federal capital contributions reduced to zero. The College did not receive a federal capital contribution in the current year.

Cause:

The College implemented a default reduction plan which parallels the default reduction plan recommended by the U.S. Department of Education during fiscal year 1998. Additional staff members had been hired specifically for the purpose of servicing and collecting Perkins Loans. The College believes that the small number of borrowers entering repayment each year contributes to the high cohort default rate. One hundred and seven borrowers entered in repayment in 2002. Thirty-nine borrowers were in default.

Questioned Costs and Context:

The College disbursed $132,578 in loans to students during 2002 under this program and had $897,622 in total loans outstanding at June 30, 2002.

Recommendation:

The College should continue their current effort to reduce the default rate below 25%, the current rate required to receive the federal capital contribution.

Management Response:

The College continues in our efforts to reduce our cohort default rate below the rate necessary to receive the federal capital contribution. The College is still eligible to participate in the program since our

Reference Number	Findings
	cohort default rate is less than 50%.

CINCINNATI STATE TECHNICAL AND COMMUNITY COLLEGE

SUMMARY OF SCHEDULE OF PRIOR AUDIT FINDINGS
YEAR ENDED JUNE 30, 2002

Year Reported	Finding Number	
1997, 1998, 1999, 2000 and 2001	97-1 98-1 99-1 00-1 01-1	As reported in the prior years' audit reports, the College did not maintain the required cohort default rate of 25.0% for the Federal Perkins Loan Program for 2001, 2000, 1999, 1998 and 1997. In 2001 the requirements of the program were changed whereby the College is required to maintain a cohort default rate of no greater than 25% in order to receive the Federal Capital contribution and no greater than 50% to maintain eligibility in the program. The College's default rate was 36.44% in 2002 and this has been included as finding 02-1 in the current year's report.

STATE OF OHIO
OFFICE OF THE AUDITOR
JIM PETRO, AUDITOR OF STATE

88 East Broad Street
P.O. Box 1140
Columbus, Ohio 43216-1140
Telephone 614-466-4514
800-282-0370
Facsimile 614-466-4490

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 21, 2002