Cincinnati State Technical and Community College

Office of Management and Budget Circular A-133 Reports for the Year Ended June 30, 2003

Auditor of State
Betty Montgomery

Board of Trustees
Cincinnati State Technical and Community College
3520 Central Parkway
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 LLP, for the audit period July 1, 2002 through July 30, 2003. 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.

Betty Montgomery

BETTY MONTGOMERY
Auditor of State

November 4, 2003

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CINCINNATI STATE TECHNICAL AND COMMUNITY COLLEGE

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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, 2003 and 2002, and the related statements of revenues, expenses and changes in net assets and of cash flows for the years 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 audits.

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

In our opinion, such financial statements present fairly, in all material respects, the financial position of Cincinnati State Technical and Community College at June 30, 2003 and 2002, and the results of its operations and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Our audits were 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 3 through 13 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 September 26, 2003 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

September 26, 2003

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 years ended June 30, 2003 and 2002. Please read it in conjunction with the College's financial statements, which begin on page 13.

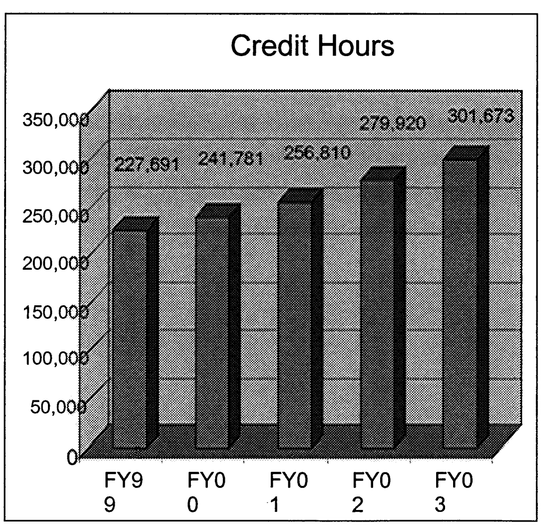
THE COLLEGE

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.

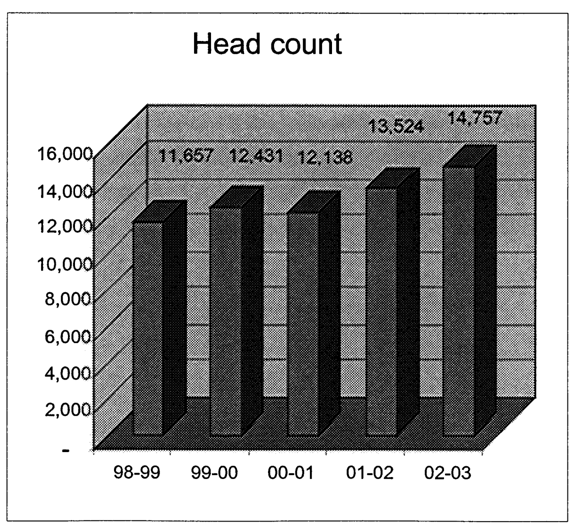
The College is currently participating in the Academic Quality Improvement Project (AQIP), a NCA program based on the Malcolm Baldrige National Award principles for organizational quality management. Many faculty and staff participate in the Continuous Quality Improvement Network (CQIN), a national organization 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, as well as counties in Northern Kentucky and Eastern Indiana. Educational programs and services are delivered at the main Clifton campus and two extension sites, (Harrison and Evendale), as well as several regional sites located in schools, non-profit agencies, and organizations. Distance Learning courses enroll students from outside as well as within the geographic region. At Cincinnati State, access means geographic convenience, affordability, and resources to allow students to matriculate successfully.

Student Credit Hour Chart – 5 years



Student Head Count Chart – 5 years



ACCOUNTING STANDARDS

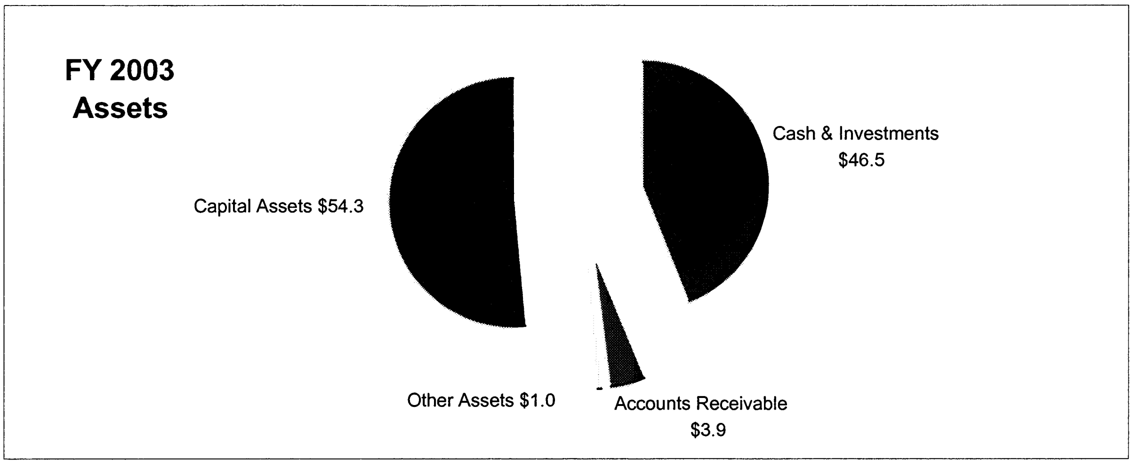
In June 1999 the Governmental Accounting Standard's Board (GASB) released Statement No. 34, "Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments" which establishes a new reporting format for annual financial statements. In November 1999, GASB released Statement No. 35, "Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities", which applies new reporting standards to public colleges and universities as amended by GASB Statements 37 and 38. These statements establish standards for external financial reporting for public colleges and universities and require that financial statements be presented on a consolidated basis. As required by the accounting principles adopted through GASB Statements 34 and 35, the annual report consists of three basic financial statements that provide financial information on the College as a whole: Statement of Net Assets; Statement of Revenue, Expenses and Changes in Net Assets; and Statement of Cash Flows. The following discussion and analysis provides an overview of the College's financial activities.

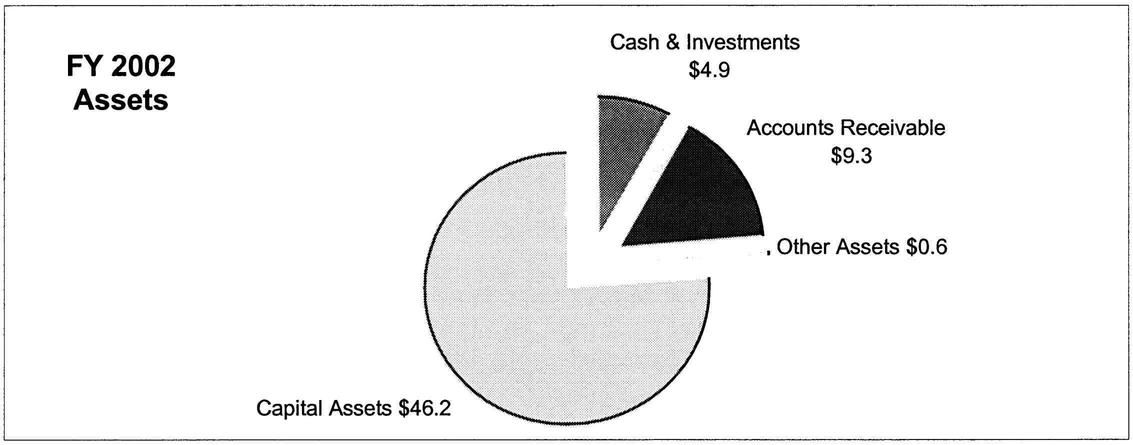
STATEMENT OF NET ASSETS

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.

CONDENSED STATEMENTS OF NET ASSETS
Comparative Statement for Fiscal Years 2003 and 2002
(in Thousands)

	June 30		$
ASSETS	**FY2003**	**FY2002**	**Variance**
CURRENT & NONCURRENT ASSETS			
Cash, Cash Equivalents and Investments	46,513	4,996	41,517
Accounts Receivable, net	3,867	9,334	(5,467)
Other Assets	1,081	552	529
Capital Assets, net	54,325	46,212	8,113
Total assets	105,786	61,094	44,692
LIABILITIES			
CURRENT & NONCURRENT LIABILITIES			
Accounts Payable and Accrued Liabilities	6,207	6,380	(173)
Deferred Revenue	2,312	2,047	265
Long-Term Debt	49,173	-	49,173
Total liabilities	57,692	8,427	49,265
NET ASSETS			
Invested in capital assets, net of related debt	44,848	46,212	(1,364)
Restricted	459	518	(59)
Unrestricted	2,787	5,938	(3,151)
Total Net Assets	48,094	52,668	(4,574)





ASSETS

Cash and investments make up 44% (2003) and 8% (2002) of total assets. The significant increase in 2003 is the result of $40.9 million of unexpended cash and investments obtained through borrowings to be used for expansion of the college facilities. Cash includes: bank deposits, overnight sweep investments and investments in Star Ohio and local bank Cd's

Accounts receivable make up 3.6% (2003) and 15.3% (2002) of the total assets. Accounts receivable include:

	2003	2002
Grants	$ 1.10	$ 3.60
State appropriations	$ 0.00	$ 2.50
Student and various operating receivables	$ 2.80	$ 3.20

Accounts receivable show a decrease of $5,467,000. This decrease is attributed to more timely collection from Federal and State agencies.

Net capital assets make up 51% (2003) and 76% (2002) of the total assets. See Note 4 of the financial statements for a breakout of asset types and year activity for the years ending June 30, 2003 and 2002. The College in 2003 incurred $9.6 million of an estimated $48.7 million total cost for expansion of its facilities which will include a new ATLC building (Advanced Technology and Learning Center) and a parking garage.

The project is expected to be completed in 2004. The expansion was financed by College facility bonds issued in fiscal year 2003 totaling $47,580,000

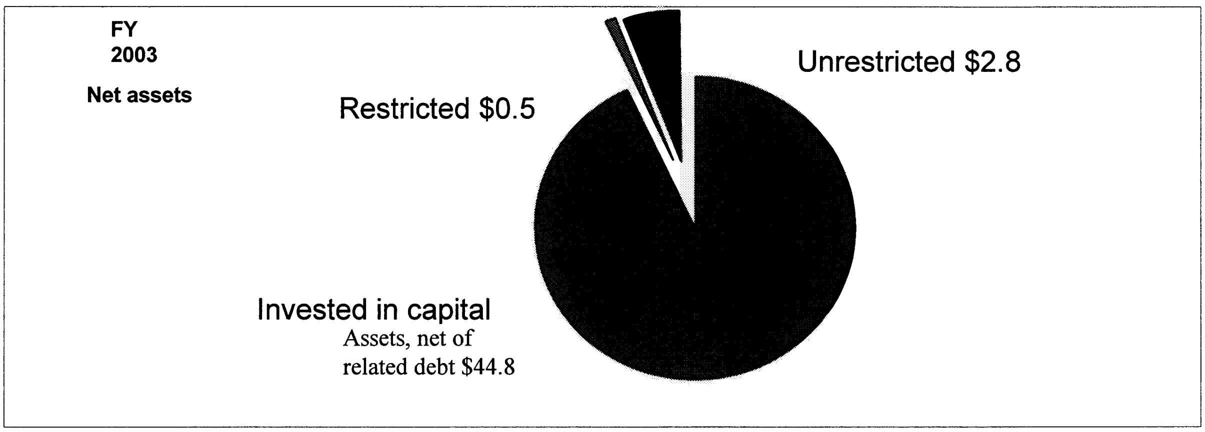
Other assets make the final 1% of the total assets in 2003 and 2002. These include: prepaid items, loan fund and cafeteria inventory.

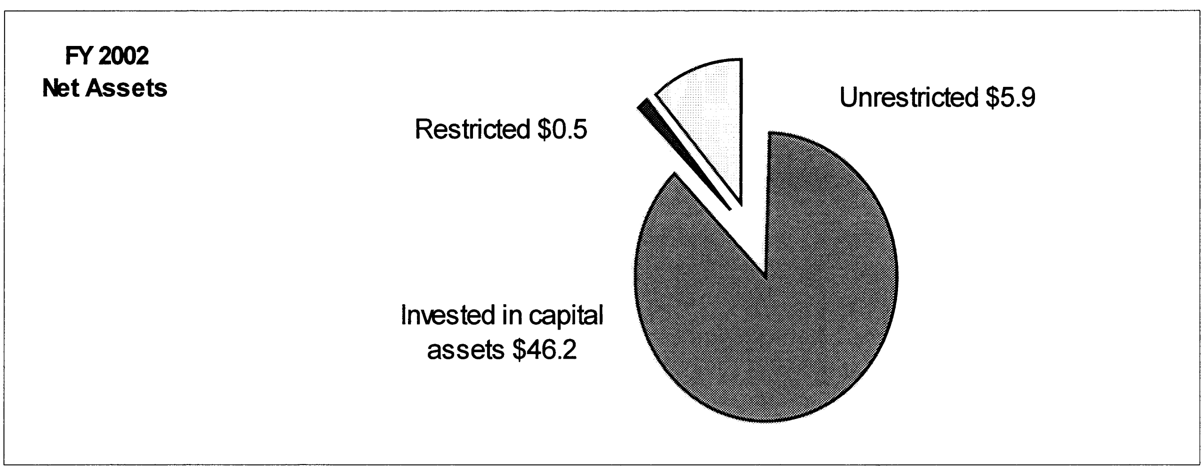
LIABILITIES

Liabilities of $8.5 million consist of accounts payable and accrued expenses to suppliers, utilities, wages, benefits and deferred revenue for summer term classes.

The College incurred long term debt in Fiscal Year 2003 with the construction of the new Advanced Technology and Learning Center Building and parking garage. Issuance of bonds in the amount of $47,580,000 in the late fall of 2002 are the primary financing for this project. The bonds are due to mature in the year 2029 and will impact each fiscal year until then.

NET ASSETS





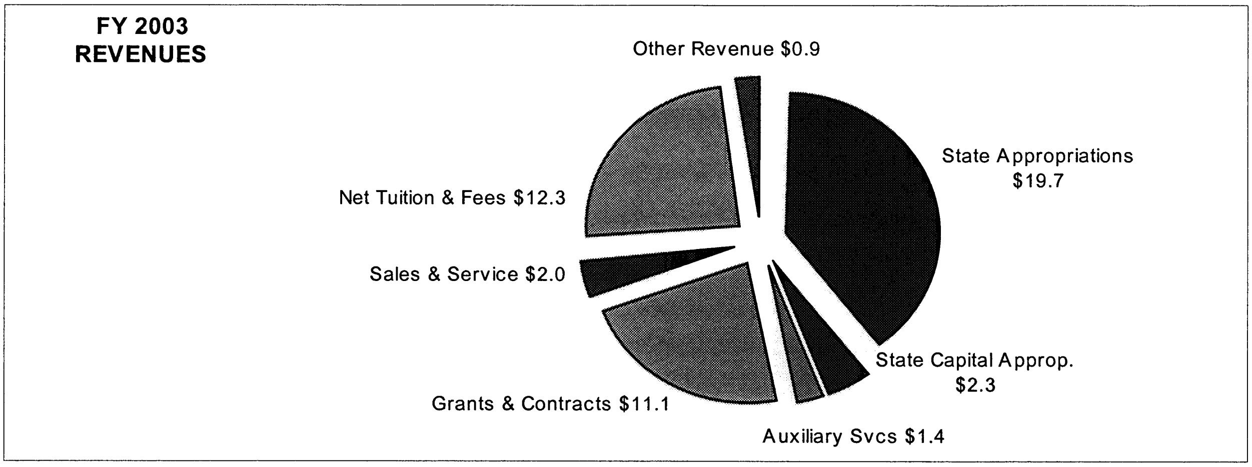
Under the new GASB Standards, unrestricted net assets consist of net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related liabilities and debt." Restricted net assets consist of net assets restricted by constraint (external or imposed by law) on the use of 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.

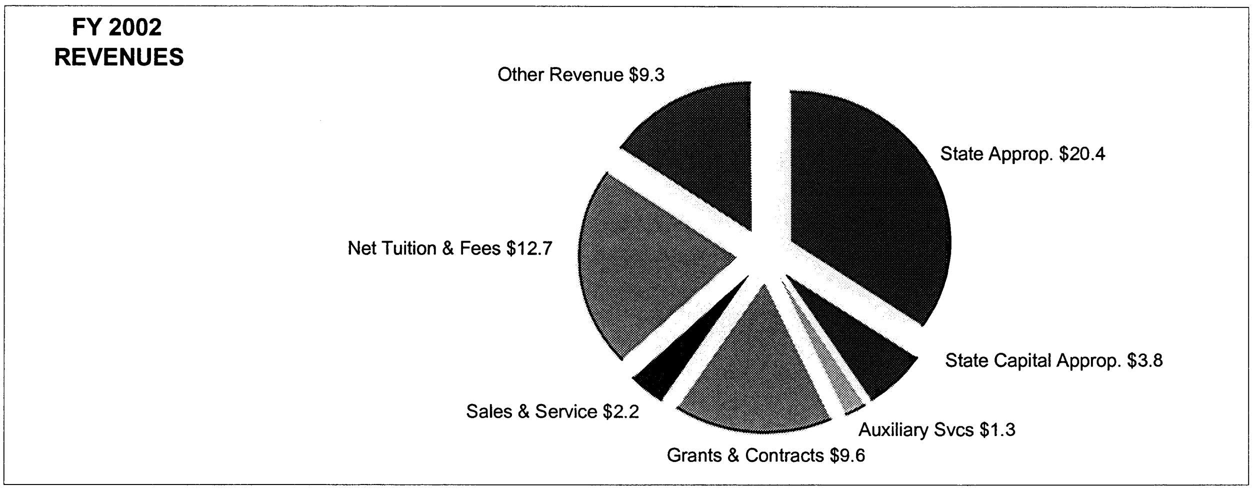
STATEMENTS OF REVENUES, EXPENSES, AND NET ASSETS

The Statements 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 generally accepted accounting principles

CONDENSED STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
Comparative Statements for Fiscal Years 2003 and 2002
(in Thousands)

	June 30 FY 2003	FY 2002	$ Variance	% Variance
REVENUES:				
Tuition & Fees (Net of scholarship allowances - $8,888)	12,291			
Tuition & Fees (Net of scholarship allowances - $ 7,866)		12,701	(410)	-3.2%
Grants and Contracts	11,082	9,657	1,425	14.8%
Sales and Services	2,018	2,162	(144)	-6.7%
Auxiliary Services	1,400	1,275	125	9.8%
Other Operating Revenue & Gifts	893	9,376	(8,483)	-90.5%
State Instructional Appropriations	19,659	20,371	(712)	-3.5%
State Capital Appropriations	2,309	3,817	(1,508)	-39.5%
Total Revenues	49,652	59,359	(9,707)	-16.4%
EXPENSES:				
Instructional	21,878	20,249	1,629	8.0%
Public Support	2,718	2,690	28	1.0%
Academic Support	3,549	3,407	142	4.2%
Student Services	4,312	3,656	656	17.9%
Institutional Support	11,547	10,334	1,213	11.7%
Operations & Maintenance - Plant	3,982	3,690	292	7.9%
Depreciation	3,781	3,878	(97)	-2.5%
Scholarships	1,123	1,073	50	4.7%
Auxiliary Services	1,337	1,089	248	22.8%
Total Expenses	54,227	50,066	4,161	8.3%
Increase/(Decrease) In Net Assets	(4,575)	9,293	(13,868)	-149.2%
Net Assets - Beginning of Year	52,668	43,375	9,293	21.4%
Net Assets - End of Year	48,093	52,668	(4,575)	-8.3%





FY 2003 Revenue and Expenditures – Explanation Variances

Revenues:

State Appropriations—Even though the College's Fiscal Year 2003 FTE count increased by 9.1%, State operating appropriations, which use FTE's as a component of the subsidy formula calculation are down 3.5% due to State budget cuts in both the instructional subsidy and access challenge funding. Fiscal Year 2002 State Appropriations decreased by cuts in state funding of 1.2 million.

State Capital Appropriations—State capital appropriations for fiscal year 2003 were $1,508,000 less than in fiscal year 2002. The amount of capital appropriations used varies from year to year depending on the number of projects undertaken and completion of the projects during each year.

Tuition and Fees—Student tuition and fees are reported net of scholarship allowance. Instructional revenues for Fiscal Year 2003 increased by $586,200 or 2.9% over Fiscal Year 2002. Scholarship Allowances for FY

2003 increased by $1,075,300 or 13.8% over Fiscal Year 2002. The effect of netting the scholarship allowances against the instructional revenues resulted in a net decrease of tuition and fees of $410,000.

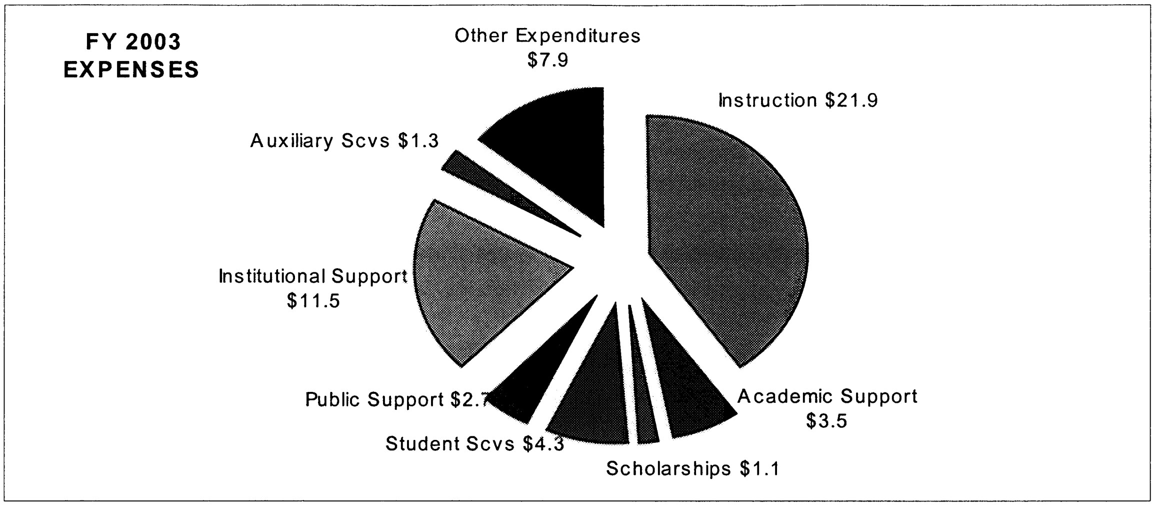
Credit hour enrollment of 301,673 for fiscal year 2003 exceeded fiscal year 2002 credit hour enrollment by 21,753 credit hours or 7.8%. Unduplicated headcount of 14,757 for fiscal year 2003 exceeded fiscal year 2002 unduplicated head count by 1,233 or 9.1%.

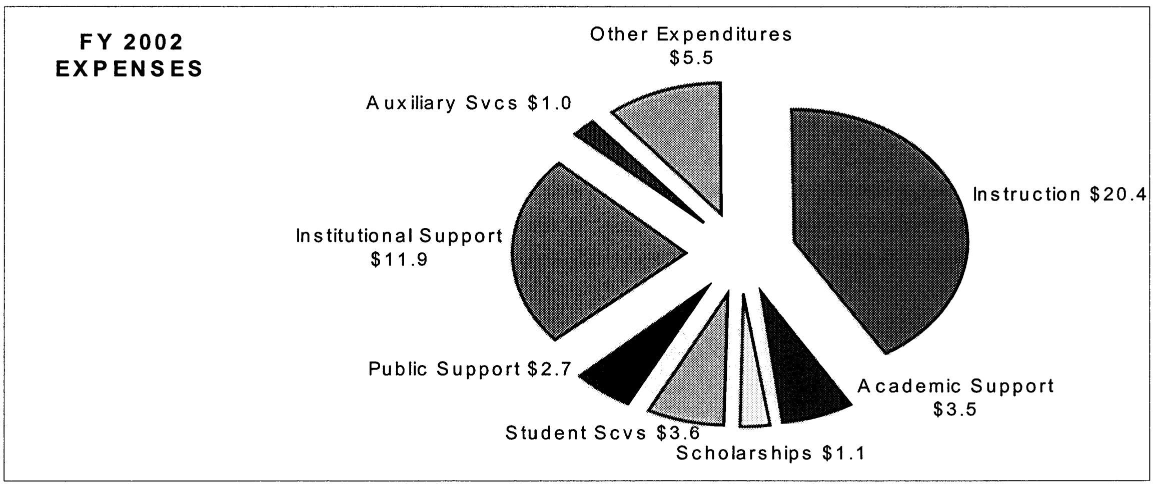
Tuition and Fees increased in FY2002. This was due to two factors: enrollment increase of 9% (23,110) in credit hours over prior year and tuition rate increase of $2.50 per credit hour.

Grants and Contracts—Grant and Contract revenues increased approximately $1,425,000 due to an increase in Federal (PELL) and State (OIG) financial aid assistance of $980,000 and new grants for Disability Services of $144,000 and a FAA grant for $295,000.

Sales & Service—Sales & Service revenue consists primarily of Corporate and Community job skills training and Workforce & Economic Development training. A decline of training activity in the areas of Environmental Health & Safety and CSX Railroad Conductor training and Business Management accounted for a decrease of $860,000. However, non-credit revenues through the College's Community Outreach programs generated and increase of approximately $500,000. Overall, Public Services revenues decreased $144,000 or 6.7%

Auxiliary Services—Auxiliary Service revenue consists of parking revenues, cafeteria sales, and airport rental fees and fuel sales. Parking revenues and cafeteria sales represent approximately 99.2% of the fiscal year 2003 Auxiliary Services revenue of $1,399,800 which is an increase of 9.9% over fiscal year 2002.





Expenses:

Expenses for Fiscal Year 2003 increased by $4,162,167 or 8% over Fiscal year 2002. The increase comes mainly from the five following functional areas:

Instructional—Instructional expenses increased in Fiscal Year 2003 from Fiscal Year 2002 by $1,629,334 or 8.0%. The continuation of spending in the areas of adjunct, overload and special units over projected expenditures primarily arise from the increase in enrollment and credit hours. Also, student wages exceeding the projected estimate costs.

Student Services—Student services expenses increased in Fiscal Year 2003 from Fiscal Year 2002 by $656,537 or 17.9%. The increase is mainly result with the addition of new approved grants for Fiscal Year 2003. The student wages exceeding the projected estimate costs. Additional expenses for the use of temporary employees added to the increase.

Institutional Support—Institutional support expenses increased in Fiscal Year 2003 from Fiscal Year 2002 by $1,213,903 or 11.7%. The primary item attributing to this increase an upgrade to the information technology infrastructure. This project increased expenses by $1,106,029 in Fiscal Year 2003. Another contributing item was the increase in insurance costs of $60,000.

Operations & Maintenance – Plant—Operations & Maintenance expenses increase in Fiscal Year 2003 from Fiscal Year 2002 by $292,039 or 7.9%. The main cause for the increase was the increase in utilities rates.

Auxiliary Services—Auxiliary Services expenses increased in Fiscal Year 2003 from Fiscal Year 2002 by $248,983 or 22.8%. The increase is mainly due to the operation of the airport for a full year in Fiscal Year 2003 as opposed to 2 months of operation in Fiscal Year 2002.

STATEMENT OF CASH FLOWS

Condensed Statement of Cash Flows
Comparative Statement For Fiscal Years 2003 and 2002
(In thousands)

	FY 2003	FY 2002
Net cash used in operating activities	$ (17,820)	$ (22,864)
Net cash flows provided by noncapital financing activities	19,659	20,316
Net cash provided (used) by capital and related financing activities	39,603	(910)
Net cash flows provided (used) by Investing Activities	(2,637)	190
Net Increase (Decrease) In Cash and Cash Equivalents	38,804	(3,268)
Cash and Cash Equivalents - Beginning of year	4,997	8,265
Cash and Cash Equivalents - End of year	$ 43,801	$ 4,997

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.

The major factor in the increase of cash and cash equivalents for Fiscal Year 2003 ending balance was from the selling of bonds for the ATLC construction project.

FINANCIAL HIGHLIGHTS

Outsourcing Services

In spring of 2003, the College chose Blackwell Consulting Services Inc. as the IT (Information Technology) Provider. Blackwell will provide the administrative role of the IT department as an alternative to college personnel.

Infrastructure Upgrade – BOT Resolution

Last fall, the campus network was upgraded from a 10 megabits per second (Mbps) shared network to a 100 Mbps switched network, making it many times faster. The College also connected to the Cincinnati Education and Research Fiber Loop (CERF) and increased its bandwidth to the Internet fourfold to 6 Mbps. The College has just purchased replacement equipment for approximately half of the servers in the Data Center.

Capital projects

At June 30, 2003, the College is committed to future capital expenditures of approximately $36,855,000 for the construction of an Advanced Technology and Learning Center and a parking garage. The total cost of the project is estimated at $48,700,000 of which approximately $11,845,000 has been incurred as of June 30, 2003. The project is being financed with College Facility Bonds, Series 2002 in the amount of $47,580,000.

The College has also signed contracts for the following projects to be completed during fiscal year 2004: (1) HVAC Retrofit - $998,000 and (2) roof replacement - $250,000.

ECONOMIC IMPACT ON FUTURE OPERATIONS

The economic position of the College is closely tied to that of the State of Ohio. The amount of instructional subsidy 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

Upon the completion of the ATLC project, Cincinnati State will embark on its Main Building Retrofit. The College engaged the services of a professional project firm to determine the best use of the spaces vacated by the programs and services that will transferred to the ATLC Building. The firm's collaboration with a college-wide Retrofit Quality Team produced valuable feedback on needs and recommendations for utilization of the vacated space from all stakeholders affected by the project.

In the spring, the Executive Team allocated over $270,000 of state capital funds to equip 10-15 classrooms with ceiling mounted projectors, sound systems, document projectors, computers, DVD players, VHS players, podiums, etc. This project was delayed due to the complexities of the state funding approval process. The request for proposal (RFP) is being publicly announced on Saturday, October 4, 2003 which means that the classroom upgrades will probably occur in the January-March 2004 timeframe. It should also be noted that the College has requested state capital funding in the 2005-10 time period to similarly equip 10-15 additional classrooms a year, for three years (up to 45 more rooms). This would give the College 50-60 electronic classrooms in the Main and Health buildings. (All the classrooms in the ATLC will be similarly equipped.)

Another capital project is an imaging system for Admissions, Financial Aid, the Registrar's office, and Accounts Payable. The system would allow these departments to scan documents, such as high school transcripts or vendor invoices, and link them to Colleague records, so users can see original documents as well as Colleague information.

CINCINNATI STATE TECHNICAL AND COMMUNITY COLLEGE

STATEMENTS OF NET ASSETS
JUNE 30, 2003 AND 2002

ASSETS	2003	2002
CURRENT ASSETS:		
Cash and cash equivalents	$ 5,569,337	$ 4,993,178
Accounts receivable, net	3,866,788	9,334,118
Inventories	15,795	14,269
Prepaid and other assets	207,691	127,293
Total current assets	9,659,611	14,468,858
NONCURRENT ASSETS:		
Cash and cash equivalents	38,231,354	3,467
Investments	2,712,342	
Notes receivable, net	316,807	411,178
Other assets	540,340	
Capital assets, net	54,325,482	46,212,305
Total noncurrent assets	96,126,325	46,626,950
Total assets	105,785,936	61,095,808
LIABILITIES		
CURRENT LIABILITIES:		
Accounts payable	1,594,955	2,474,567
Accrued liabilities:		
Wages	904,590	826,277
Compensated absences	2,827,013	2,714,178
Other	278,775	365,294
Accrued interest	601,223	
Deferred revenue	2,312,397	2,047,001
Total current liabilities	8,518,953	8,427,317
LONG TERM DEBT	49,173,132	
TOTAL LIABILITIES	57,692,085	8,427,317
NET ASSETS		
Invested in capital assets, net of related debt	44,848,144	46,212,305
Restricted	459,327	517,646
Unrestricted	2,786,380	5,938,540
Total net assets	$ 48,093,851	$ 52,668,491

See notes to financial statements.

CINCINNATI STATE TECHNICAL AND COMMUNITY COLLEGE

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS FOR THE YEARS ENDED JUNE 30, 2003 AND 2002

	2003	2002
REVENUES:		
Operating revenues:		
Student tuition and fees, net of scholarships and student financial aid of $8,888,491 and $7,865,884 in 2003 and 2002, respectively	$ 12,290,570	$ 12,700,574
Federal grants and contracts	7,451,566	5,728,414
State and local grants and contracts	3,336,042	3,590,679
Nongovernmental grants and contracts	294,623	337,781
Sales and services of educational departments	2,018,380	2,162,165
Auxiliary enterprises	1,399,863	1,273,825
Other operating revenues	738,201	675,608
Total operating revenues	27,529,245	26,469,046
EXPENSES		
Operating expenses:		
Instructional	21,878,017	20,248,683
Public support	2,717,875	2,690,306
Academic support	3,548,893	3,406,770
Student services	4,311,784	3,656,247
Institutional support	11,547,417	10,333,514
Plant operation and maintenance	3,981,669	3,689,647
Scholarships and student financial aid	1,122,996	1,072,620
Auxiliary enterprises	1,336,837	1,088,854
Depreciation	3,781,277	3,877,974
Total operating expenses	54,226,765	50,064,615
Operating loss	(26,697,520)	(23,595,569)
NONOPERATING REVENUES:		
State appropriations	19,658,509	20,370,665
Investment income (net of investment expense)	75,011	190,388
Other nonoperating revenues		1,435
Net nonoperating revenues	19,733,520	20,562,488
LOSS BEFORE OTHER REVENUES, EXPENSES, GAINS, OR LOSSES	(6,964,000)	(3,033,081)
CAPITAL APPROPRIATIONS FROM THE STATE	2,309,302	3,816,732
CAPITAL GRANTS AND GIFTS	80,058	8,510,267
INCREASE (DECREASE) IN NET ASSETS	(4,574,640)	9,293,918
NET ASSETS:		
Net assets—beginning of year	52,668,491	43,374,573
Net assets—end of year	$ 48,093,851	$ 52,668,491

See notes to financial statements.

CINCINNATI STATE TECHNICAL AND COMMUNITY COLLEGE

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2003 AND 2002

	2003	2002
CASH FLOWS FROM OPERATING ACTIVITIES:		
Tuition and fees	$ 12,980,790	$ 10,191,805
Federal, state and local grants and contracts	15,924,485	7,962,886
Payments to suppliers	(13,168,971)	(9,936,737)
Payments to utilities	(903,128)	(739,015)
Payments to employees	(26,759,120)	(25,809,826)
Payments for benefits	(7,885,647)	(7,572,582)
Payments for scholarships and student financial aid	(1,122,996)	(1,072,620)
Auxiliary enterprise revenues	63,026	1,273,825
Sales and services of educational activities	2,018,380	2,162,165
Other receipts	1,032,824	675,608
Net cash used in operating activities	(17,820,357)	(22,864,491)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
State appropriations	19,658,509	20,370,665
Other payments		(54,978)
Net cash flows provided by noncapital financing activities	19,658,509	20,315,687
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
State capital appropriations	2,309,768	3,816,732
Proceeds from issuance of bonds	49,233,548	
Capital grants and gifts received	80,058	210,267
Purchases of capital assets	(12,020,150)	(4,921,855)
Payment on capital lease		(15,437)
Net cash provided (used) by capital and related financing activities	39,603,224	(910,293)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest on investments	75,012	190,388
Purchase of Investments	(2,712,342)	
Net cash provided (used) by investing activities	(2,637,330)	190,388
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	38,804,046	(3,268,709)
CASH AND CASH EQUIVALENTS—Beginning of year	4,996,645	8,265,354
CASH AND CASH EQUIVALENTS—End of year	$ 43,800,691	$ 4,996,645

See notes to financial statements.

CINCINNATI STATE TECHNICAL AND COMMUNITY COLLEGE

STATEMENTS OF CASH FLOWS (Continued)
FOR THE YEARS ENDED JUNE 30, 2003 AND 2002

	2003	2002
RECONCILIATION OF NET OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES:		
Operating loss	$ (26,697,520)	$ (23,595,569)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation expense	3,781,277	3,877,947
Loss on disposal of capital assets	125,696	
Change in assets and liabilities:		
Receivables	5,561,701	(3,983,721)
Inventories	(1,526)	(111)
Other assets	(80,398)	140,987
Accounts payable and accrued expenses	(774,983)	915,044
Deferred revenue	265,396	(219,095)
NET CASH USED IN OPERATING ACTIVITIES	$ (17,820,357)	$ (22,864,518)

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, 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). The College is a component unit of the State of Ohio.

Basis of Presentation—The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board ("GASB"). The College has elected to apply only those Financial Accounting Standards Board (FASB) pronouncements issued on or before November 30, 1989, that do not conflict with or contradict GASB pronouncements.

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

- ***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 College'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 years ended June 30, 2003 and 2002, the College recorded revenues from the Foundation of $275,521 and $316,950, respectively and provided certain administrative services to the Foundation without a charge. At June 30, 2003 and 2002, total assets of the Foundation were approximately $1,716,000 and $1,892,000.

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.

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

Investments—Securities, which are invested in Federal Agencies' Securities, are carried at fair value as established by the major securities markets. Investment income is recorded on the accrual basis. Realized and unrealized gains and losses are reported as nonoperating revenues (expenses). GASB Statement 3 requires governmental entities to categorize investments by level of risk. The $2,712,342 of investment at June 30, 2003 are classified as uninsured and unregistered investments for which the securities are held by the broker or dealer, or by its trust department or agent, but not in the College's name (Category 3).

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 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 year end have been deferred. Grant money received but not yet expended for grant purposes is 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 expense.

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

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

Recent Accounting Pronouncements—In May 2002, the GASB issued Statement Number 39, "Determining Whether Certain Organizations are Component Units." This Statement amends Statement 14, "The Financial Reporting Entity," to provide additional guidance to determine whether certain organizations for which the primary government is not financially accountable should be reported as component units based on the nature and significance of their relationship with the primary government. Generally, it requires reporting, as a component unit, an organization that raises and holds economic resources for the direct benefit of a governmental unit. This statement is effective for financial statements for fiscal years beginning after June 15, 2003 and its effect on the College is not known at this time.

Reclassifications—Certain reclassifications were made to 2002 balances to be consistent with the classifications used in 2003.

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, 2003, the cash on hand was $15,003, the carrying amount of the College's deposits was $43,785,688 and the depository bank balance was $44,175,222. 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 $2,622,174 in the State Treasury Asset Reserve of Ohio ("STAROhio") for which the collateral requirements mentioned above do not apply. Of the remaining $41,553,048 bank balance, $200,000 was covered by federal depository insurance and $41,353,048 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 the measurement date.

3. LONG-TERM DEBT

Bonds payable at June 30, comprise the following:

	Balance July 1, 2002	Increase	Decrease	Balance June 30, 2003
General Receipts Bonds		$47,580,000		$ 47,580,000
Bond Premium		1,653,548	$ (60,416)	1,593,132
Total	$ -	$49,233,548	$ (60,416)	$ 49,173,132

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

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

Year Ending June 30	Principal	Interest	Total
2004		$ 2,404,893	$ 2,404,893
2005	$ 50,000	2,404,049	2,454,049
2006	50,000	2,402,830	2,452,830
2007	85,000	2,400,796	2,485,796
2008	110,000	2,397,748	2,507,748
2009-2013	5,015,000	11,512,746	16,527,746
2014-2018	9,795,000	9,533,200	19,328,200
2019-2023	12,965,000	6,513,816	19,478,816
2024-2028	16,650,000	2,671,256	19,321,256
2029	2,860,000	35,750	2,895,750
Total	$47,580,000	$42,277,084	$89,857,084

Interest totaling $1,114,340 (net of $368,834 interest earned on invested proceeds) on debt issued to finance construction-in-progress was capitalized in 2003.

4. CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2003 and 2002 was as follows:

	2003 Beginning Balance	Additions	Disposals	2003 Ending Balance
Land	$ 2,096,976	$ -	$ -	$ 2,096,976
Land Improvements	2,182,782	295,179		2,477,961
Building and Improvements	49,063,959	463,017	(182,576)	49,344,400
Equipment and Furniture	21,445,671	569,970	(438,576)	21,577,065
Library Books and Audio	1,369,792	80,604	(31,411)	1,418,985
Construction-In-Progress	2,347,715	10,611,380		12,959,095
Total Fixed Assets	78,506,895	12,020,150	(652,563)	89,874,482
Accumulated Depreciation	32,294,590	3,781,277	(526,867)	35,549,000
Capital Assets—Net	$46,212,305	$ 8,238,873	$(125,696)	$54,325,482

	2002 Beginning Balance	Additions	Disposals	2002 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	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)	$ 46,212,305

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

5. EMPLOYEE BENEFIT PLANS

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

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

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

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

SERS plan members are required to contribute 9% of their annual salary, 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, 2003, 2002, and 2001 were as follows:

Year	Contribution	
	SERS	STRS
2003	$ 956,190	$ 2,595,018
2002	915,602	2,441,207
2001	861,319	2,325,805

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, 2003 and 2002, no contributions or rollovers from other benefit plans have been made to approved providers.

6. OTHER POSTEMPLOYMENT BENEFITS

In addition to the pension benefits described in Note 5, 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 financial position of SERS and STRS has been extracted from information provided to the College by officials of SERS and STRS. The Other Postemployment Benefits expense is included in the College's annual contributions as described by Note 5.

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 5, a portion (8.54% for the year ended June 30, 2002 - 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 2002). Surcharge amounts billed to the College have not been significant.

For the year ended June 30, 2002, 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, 2002 were $182.9 million and the target level was $274.4 million. At June 30, 2002, the SERS's net assets available for payment of health care benefits was $335.2 million.

The number of retirees and covered dependents receiving benefits from SERS was approximately 50,000 at June 30, 2002.

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 5, a 4.5% portion for the year ended June 30, 2002 (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 $3.011 billion at June 30, 2002. For the year ended June 30, 2002, the net health care costs paid by STRS was approximately $354.7 million. For the year ended June 30, 2002, there were 105,300 eligible STRS's benefit recipients.

7. COMPENSATED ABSENCES

All full-time non-union and SEIU (Service Employees International Union) employees earn 15 days (or 120 hours) of personal and/or sick leave each year. All remaining full-time employees earn 13 days (or 104 hours) of personal and/or sick leave each year. Part-time SEIU employees have sick leave 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, 2003 and 2002, the liability for personal and/or sick leave was approximately $1,921,000 and $1,864,000, respectively.

Contract employees earn 20 days vacation leave each year. Non-contract employees earn 10 days vacation leave after one full year of service, 15 days after five years, and 20 days after 10 years. Upon retirement or termination, an employee is entitled to payment for all accrued vacation days up to a maximum of three times the annual vacation leave earned. The College has accrued a vacation liability for all employees equal to amounts earned but not taken up to the maximum. At June 30, 2003 and 2002, the liability for vacation was approximately $906,000 and $850,000, respectively.

8. 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.

9. LEASES

The College leases various equipment and facilities under operating leases. Rental expenditures relating to operating lease agreements were approximately $220,000 and $430,000 for the years ended June 30, 2003 and 2002, respectively. The future minimum payments under operating leases at June 30, 2003 are due as follows:

2004	$ 234,032
2005	81,901
2006	66,120
2007	55,440
2008	2,502
Thereafter	11,696
Total	$ 451,691

10. AUXILIARY ENTERPRISES

Changes in the net assets of the College's auxiliary enterprises for the year ended June 30, 2003 and 2002 consist of the following:

2003	Parking	Cafeteria	Airport	Total
Revenues	$ 613,678	$ 675,061	$ 111,124	$ 1,399,863
Expenses	336,417	833,913	166,507	1,336,837
Transfers	(650,000)			(650,000)
Net increase (decrease) for year	(372,739)	(158,852)	(55,383)	(586,974)
Net assets, beginning of year	1,927,821	(323,687)	(48,297)	1,555,837
Net assets, end of year	$ 1,555,082	$ (482,539)	$ (103,680)	$ 968,863

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.

11. ACCOUNTS RECEIVABLE

Accounts receivable, net as of June 30, 2003 was as follows:

	2003	2002
Grants	$ 1,078,308	$ 3,587,611
State appropriations	18,368	2,486,969
Tuition and other	3,419,241	3,798,039
Allowance for doubtful accounts	(649,129)	(538,501)
	$ 3,866,788	$ 9,334,118

12. RESTRICTED NET ASSETS

Restricted net assets are expendable for use in public service of $134,000 (2003) and $103,000 (2002) and in student loans of $325,000 (2003) and $415,000 (2002).

13. CAPITAL PROJECT COMMITMENTS

At June 30, 2003, the College is committed to future capital expenditures of approximately $36,855,000 for the construction of an Advanced Technology and Learning Center and a parking garage. The total cost of the project is estimated at $48,700,000 of which approximately $11,845,000 has been incurred as of June 30, 2003. The project is being financed with College Facility Bonds, Series 2002 in the amount of $47,580,000 (See Note 3).

The College has also signed contracts for the following projects to be completed during Fiscal Year 2004: (1) HVAC Retrofit - $998,000 and (2) roof replacement - $250,000.

14. RISK MANAGEMENT

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

* * * * * *

CINCINNATI STATE TECHNICAL AND COMMUNITY COLLEGE

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2003

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		$ 5,723,239
Federal Perkins Loan Program	84.038		29,850
Federal Work Study Program	84.033		188,264
Federal Supplemental Educational Opportunity Grant Program	84.007		478,674
Federal Family Education Loan Program (Note 2)	84.032		
Total Student Financial Aid Cluster			6,420,027
Student Support Services	84.042A		237,312
Eisenhower Grant, Passed through the Ohio Department of Education	84.164	7-16, 8-12	80,287
Basic Grants to States, Passed through the Ohio Department of Education	84.048	20-A598	248,738
Tech Prep Expended Enrollment Grant, Automotive Technologies pass through the University of Cincinnati	84.318		79,387
Tech Prep expended Enrollment Grant, Information Technologies pass through the University of Cincinnati	84.318		80,555
Tech Prep Expended Enrollment Grant, Health Technologies pass through the University of Cincinnati	84.318		68,800
Information Technology Grant	84.323A		24,159
Gaining Early Awareness and Readiness for Undergraduate Programs (GEAR-UP), passed through the University of Cincinnati	84.334A		225,199
EOC	84.066		98,881
Child Care Solutions	84.335A		23,370
Disability Grant	84.333A		144,324
Paraprofessional Grant	84.367A		2,736
Total U.S. Department of Education			7,733,775
HEALTH AND HUMAN SERVICES - Tutoring Grant	93.558		5,169
HEALTH RESOURCES AND SERVICES HCOP Grant ADMINISTRATION - HCOP Grant	93.822		45,527
FEDERAL AVIATION ADMINISTRATION, DEPARTMENT OF TRANSPORTATION - FAA Airport Grant	20.106		295,389
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		13,908
TOTAL			$ 8,093,768

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 $11,184,034 for the year ended June 30, 2003.
3. The College administers the Federal Perkins Loan Program (CFDA 84.038). Disbursements, expenditures and transfers for this program totaled $29,850 (No loans to students and $29,850 of administrative/collection expenditures) for the year ended June 30, 2003. Only the administrative/collection expenditures are included in the accompanying Schedule of Expenditures of Federal Awards. The outstanding loan balances totaled $594,807 at June 30, 2003.

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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, 2003, and have issued our report thereon dated September 26, 2003. 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

September 26, 2003

Deloitte
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Tohmatsu

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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, 2003. 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, 2003. 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 03-1.

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

September 26, 2003

CINCINNATI STATE TECHNICAL AND COMMUNITY COLLEGE

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2003

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
03-1	***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 2003 was 36.36%, as reported on the 2003 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. Eighty-eight borrowers entered in repayment in 2003. Thirty-two borrowers were in default.

Questioned Costs and Context:

The College disbursed no new loans to students during 2003 under this program and had $594,807 in total loans outstanding at June 30, 2003.

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:

On the Fiscal Year 2002 FISAP, the College notified the Federal Department of Education of its intent to liquidate the Federal Perkins Loan Fund. The College is currently in the process of assigning the remaining loans with outstanding balances to the Department of Education for collection per instructions found in Dear Colleague letters CB-98-13 and CB-98-14.

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, 2001 and 2002	97-1 98-1 99-1 00-1 01-1 02-1	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 2002, 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 36.36% in 2003 and this has been included as finding 03-1 in the current year's report.

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CINCINNATI STATE TECHNICAL AND COMMUNITY COLLEGE

HAMILTON COUNTY

CLERK'S CERTIFICATION

This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
NOVEMBER 25, 2003