

Cuyahoga Community College

*Single Audit Report
for the Year Ended
June 30, 2003*



**Auditor of State
Betty Montgomery**

Board of Trustees
Cuyahoga Community College
700 Carnegie Avenue
Cleveland, Ohio 44107-2878

We have reviewed the Independent Auditor's Report of the Cuyahoga Community College, Cuyahoga County, prepared by Deloitte & Touche LLP, for the audit period July 1, 2002 through June 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 Cuyahoga Community College is responsible for compliance with these laws and regulations.

Betty Montgomery

BETTY MONTGOMERY
Auditor of State

December 23, 2003

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CUYAHOGA COMMUNITY COLLEGE

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INDEPENDENT AUDITORS' REPORT

Board of Trustees
Cuyahoga Community College

We have audited the accompanying basic financial statements of Cuyahoga Community College (the "College") as of and for the years ended June 30, 2003 and 2002 as listed in the table of contents. These financial statements are the responsibility of the College's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the College at June 30, 2003 and 2002, and the changes in financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis on pages 3 - 8 is not a required part of the basic financial statements but is supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

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 supplemental schedule of expenditures of federal awards for the year ended June 30, 2003 is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. This supplemental schedule is the responsibility of the management of the College. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements as of and for the year ended June 30, 2003 and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 5, 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 conducted in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Deloitte & Touche LLP

December 5, 2003

CUYAHOGA COMMUNITY COLLEGE

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEARS ENDED JUNE 30, 2003 AND 2002

The College

Cuyahoga Community College (the "College") is Ohio's first and largest community college. The College opened its doors in 1963 in temporary quarters to approximately 3,000 students. Today the College serves more than 55,000 credit and non-credit students each year at its four Cuyahoga County campuses.

The College offers credit and non-credit programs to its students. For the Fall 2003 semester, the College offered 72 two-year technical associate degree programs and 25 one-year certificate programs. The Continuing and Professional Education Division seeks to extend the resources of the College to the business, health and human, and social services communities. In addition, specialized support is provided through focused centers or institutions including: The FabriCare Technology Center, the Labor Management Relations Institute, the Quality Center, and the Small Business Environmental Assistance Center. The College also offers cultural enrichment programs as well as programs for K-12 students and teachers. A number of these programs have been recognized as award-winning national models.

The following discussion and analysis provides an overview of the College's financial activities and should be read in conjunction with the College's financial statements, which begin on page 9.

Overview of the Financial Statements

The financial statements are presented in accordance with accounting principles generally accepted in the United States of America, including GASB Statements No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, and No. 35, *Basic Financial Statements - and Management's Discussion and Analysis - for Public Colleges and Universities*. The College follows the "business-type activities" reporting requirements of GASB Statement No. 35 that provide a comprehensive College-wide look at the College's financial activities. The statements are:

- Statement of Net Assets
- Statement of Revenues, Expenses and Changes in Net Assets
- Statement of Cash Flows

The statements are prepared on the accrual basis of accounting and present all assets and liabilities of the College, both financial and capital, and short and long-term. They also present all revenues and expenses of the College during the year, regardless of when cash was received or paid. Collectively, the statements provide information regarding the College's financial condition as of June 30, 2003 and 2002, and the results of its operations and its cash flows for the years then ended.

Financial Highlights

As of June 30, 2003, the College's net assets increased to \$210 million from \$199 million as of June 30, 2002. Operating revenues increased \$16.5 million due mainly to increased enrollment and tuition rates (\$6.9 million) and federal, state and private grant activity (\$8.3 million). Operating expenses increased \$12.7 million principally from a \$7.8 million increase in scholarships provided to students due to enrollment increases; a \$3.9 million increase in institutional support expenses due to the increase in the number of computers and phone lines leased under operating leases; and salary and fringe increases. The remainder of the increase is due to normal inflationary increases and other factors.

Statement of Net Assets

The Statement of Net Assets includes all assets and liabilities of the College using the accrual basis of accounting, which is similar to the accounting used by most private-sector institutions. Condensed information from the College's statements of net assets follows:

	(in thousands)			
	June 30		Increase	Percent
	2003	2002	(Decrease)	Change
Current assets	\$ 142,779	\$ 121,798	\$ 20,981	17.2 %
Non current assets:				
Capital assets—net of depreciation	167,460	144,266	23,194	16.1 %
Other	<u>65,576</u>	<u>34,207</u>	<u>31,369</u>	91.7 %
Total assets	<u>375,815</u>	<u>300,271</u>	<u>75,544</u>	25.2 %
Current liabilities	99,344	80,655	18,689	23.2 %
Non-current liabilities	<u>66,523</u>	<u>20,665</u>	<u>45,858</u>	221.9 %
Total liabilities	<u>165,867</u>	<u>101,320</u>	<u>64,547</u>	63.7 %
Net assets:				
Invested in capital assets—net of related debt	132,483	135,201	(2,718)	(2.0)%
Restricted—expendable	6,977	3,154	3,823	121.2 %
Unrestricted	<u>70,488</u>	<u>60,596</u>	<u>9,892</u>	16.3 %
Total net assets	<u>\$ 209,948</u>	<u>\$ 198,951</u>	<u>\$ 10,997</u>	5.5 %

Assets

Total assets increased \$75.5 million from 2002 principally due to the following factors:

- Cash and cash equivalents increased approximately \$37 million primarily due to the increased level of operating activity and from the remaining proceeds from the 2003 bond issuance.

- Property taxes receivable increased approximately \$8.9 million over 2002. This is due to the anticipated receipt of an additional \$11 million in collections in 2004 from the passage of a 1.6 mill replacement levy in November 2001. In addition, \$2.4 million of monies, generally received each year in June, were remitted in July 2002 and were considered receivable at June 30, 2002. These monies were collected in June 2003.
- Accounts receivable increased \$5.1 million over 2002. The major changes include an increase in student receivables of \$3.5 million primarily due to enrollment and tuition increases offset by an increase of \$700,000 in bad debt expense. An additional \$3.9 million in receivables is related to increased grant activity. The remainder of the change was due to various other factors.
- Capital assets, net of accumulated depreciation, increased by \$23.2 million due mainly to the acquisition and refurbishing of the Corporate College Westlake facility and the refurbishing of the District Office building.

Liabilities

Total liabilities increased approximately \$64.5 million principally due to the following factors:

- Accounts payable and accrued liabilities increased approximately \$5.2 million due to an increase of \$4.9 million payable related to Pell grants, which was caused by an overpayment to the College. The remainder of the difference is due to the timing of payments.
- Deferred property tax revenues have increased approximately \$10.7 million over 2002. This is the offset to the increase in the amount receivable from the passage of a 1.6 mill replacement levy in November 2001. Half of the anticipated revenue increase was received in 2003 and the other half will be received in 2004.
- Deferred revenues, relating mainly to student revenues for the summer term and cash advances on certain grants with eligibility requirements, increased \$2.7 million. An increase in tuition rates and an increase in enrollment over 2002 accounts for the majority of this increase. Tuition rates increased approximately 8 percent and enrollment increased approximately 10 percent over the Fall 2002 semester.
- Other liabilities, which are mainly comprised of self-insurance reserves, decreased \$642,000 due to a decrease in incurred but not reported (IBNR) health-care claims as of June 30, 2003, as compared to June 30, 2002.
- Capital lease obligations decreased \$1.3 million due to the payment of principal in the ordinary course of business.
- Long-term debt increased approximately \$47.9 million over 2002 due to the issuance of Series A and B revenue bonds. The debt was issued to fund the Corporate College Project.

Statement of Revenues, Expenses and Changes in Net Assets

The Statement of Revenues, Expenses and Changes in Net Assets presents the operating results of the College, as well as the non-operating revenues and expenses. Annual state appropriations and local property taxes, while budgeted for operations, are considered non-operating revenues according to generally accepted accounting principles. Condensed information from the College's statements of revenues, expenses and changes in net assets follows:

	(in thousands)		Increase (Decrease)	Percent Change
	Year Ended June 30,			
	2003	2002		
Operating revenue:				
Net tuition and fees	\$ 32,225	\$ 25,604	\$ 6,621	25.9 %
Contracts and grants	43,873	35,592	8,281	23.3 %
Auxiliary enterprises	9,921	8,555	1,366	16.0 %
Other	<u>6,155</u>	<u>5,959</u>	<u>196</u>	3.3 %
Total operating revenue	<u>92,174</u>	<u>75,710</u>	<u>16,464</u>	21.7 %
Operating expenses:				
Education and general:				
Instruction and departmental research	51,098	50,640	458	0.9 %
Public service	17,226	18,000	(774)	(4.3)%
Academic support	17,178	16,369	809	4.9 %
Student services	15,983	15,251	732	4.8 %
Institutional support	31,977	28,040	3,937	14.0 %
Operation and maintenance of plant	14,823	16,015	(1,192)	(7.4)%
Scholarships and fellowships	25,348	17,522	7,826	44.7 %
Depreciation	11,416	10,952	464	4.2 %
Auxiliary enterprises	<u>9,055</u>	<u>8,575</u>	<u>480</u>	5.6 %
Operating expenses	<u>194,104</u>	<u>181,364</u>	<u>12,740</u>	7.0 %
Net operating loss	<u>(101,930)</u>	<u>(105,654)</u>	<u>3,724</u>	(3.5)%
Non-operating revenues:				
State appropriations	45,129	44,469	660	1.5 %
Property taxes	63,162	49,704	13,458	27.1 %
Investment income	1,663	2,667	(1,004)	(37.6)%
Other income and expense	<u>(1,984)</u>	<u>(747)</u>	<u>(1,237)</u>	165.6 %
Total non-operating revenue	<u>107,970</u>	<u>96,093</u>	<u>11,877</u>	12.4 %
Income (loss) before other revenues, expenses, gains or losses	6,040	(9,561)	15,601	(163.2)%
State capital appropriations	<u>4,957</u>	<u>10,958</u>	<u>(6,001)</u>	(54.8)%
Increase in net assets	10,997	1,397	9,600	687.2 %
Net assets—beginning of year	<u>198,951</u>	<u>197,554</u>	<u>1,397</u>	0.7 %
Net assets—end of year	<u>\$ 209,948</u>	<u>\$ 198,951</u>	<u>\$ 10,997</u>	5.5 %

Operating Revenues

The increase in net tuition and fees is due to two factors; increased enrollment and increased tuition rates. Enrollment increased approximately 10 percent over 2002, while a tuition rate increase of 5 percent was in effect for the entire year.

Contract and grant revenue increased due to several large new Federal, state and private grants in 2003 totaling approximately \$4 million. In addition, Federal scholarship revenues increased approximately \$4.5 million.

Auxiliary enterprises consist of book centers, food services, and parking facilities. Book center and parking facilities' revenues are directly related to enrollment in that both are dependent upon the number of students purchasing books and supplies and attending classes. It is consistent with increased enrollment that these revenues would increase as well.

Operating Expenses

Operating expenses increased in almost all categories due to two factors. First, approximately \$1.4 million more was spent on operating leases for computers and phone line charges in 2003. The College changed its practice from purchasing computers to leasing computers in 2001 with 2003 being the final year of the roll-out. Second, salaries and benefits increased approximately \$5.3 million due to the addition of employees to staff Corporate College and support increases in enrollment, and scheduled salary increases and increased general benefit costs.

In addition to the overall increases noted above, additional changes are described below:

- Public service costs decreased approximately 4.3 percent due mainly to the discontinuation of the Science, Engineering, Mathematics, and Aerospace Academy (“SEMAA”) program in 2002
- Institutional support increased \$3.9 million mainly due to the two factors noted above.
- Scholarships and fellowships expenses increased approximately \$7.8 million due to increased scholarship revenues, as noted above.
- Operations and maintenance of plant decreased approximately \$1.2 million due mainly to a decrease in projects from 2002.
- Cost of sales, which is a component of auxiliary enterprises expense, increased approximately \$480,000, and yielded a gross margin consistent with the prior year.
- Depreciation expense increased \$464,000 mainly to the completion of renovation work on the district office building.

The remainder of the increase in operating expenses was due to normal inflating factors.

Non-Operating Revenues

State operating appropriations increased approximately \$660,000 due entirely to increases in enrollment. Local appropriations consist entirely of property tax revenues. The \$13.5 million increase is due primarily to the combined 1.6 mill replacement levy that went into effect in January 2002.

The decrease in investment income is attributable primarily to interest rate reductions.

Included in other income and expense is interest expense on long-term debt and capital leases. The 2003 bond issuance accounts for the majority of the increase.

Capital appropriations from the State of Ohio decreased approximately \$6 million. The College receives capital dollars from the State of Ohio for joint state projects that are approved as a part of the State's biennial budget process. In 2003, the College had fewer capital projects running that included State appropriations.

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. Condensed information from the College's statement of cash flows follows:

	(in thousands)	
	Year Ended June 30, 2003	Year Ended June 30, 2002
Cash provided by (used in):		
Operating activities	\$ (90,535)	\$ (95,445)
Non-capital financing activities	110,003	91,862
Capital and related financing activities	15,600	(16,167)
Investing activities	<u>1,921</u>	<u>30,158</u>
Net increase in cash	36,989	10,408
Cash—beginning of year	<u>44,711</u>	<u>34,303</u>
Cash—end of year	<u><u>\$ 81,700</u></u>	<u><u>\$ 44,711</u></u>

The primary cash receipts from operating activities consist of tuition revenues, grants and contracts, sales and services, and auxiliary enterprises. Cash outlays include payment of wages, benefits, supplies, utilities and scholarships. The decrease in cash used in operating activities relates directly to the decrease in operating loss over 2002.

Property tax receipts and state appropriations are the primary source of non-capital financing. The new accounting standards require that we reflect these sources of revenue as non-operating even though the College's budget depends on these revenue sources to continue its current level of operations. Operating appropriations from the State of Ohio increased slightly and property tax receipts increased approximately \$16 million due to the factors discussed above.

The main sources of cash from capital and related financing activities relate to proceeds from capital leases, long-term debt, and capital appropriations received from the State of Ohio. The increase is due to the issuance of approximately \$47 million in bonds to fund the Corporate College project. Financing cash receipts are offset by \$34.7 million in capital expenditures and \$2.9 million in principal and interest repayment on capital leases and long term debt.

The decrease in cash provided by investing activities of \$28.2 million relates to the following three factors: In fiscal 2002, approximately \$9.6 million was used to cover the shortfall in operations, approximately \$16.2 million was used to cover the shortfall in cash used for capital financing purposes, and the remainder was due to a change in the investment strategy due to decrease in market yields. In fiscal 2003, there was an operating gain. In addition, bond proceeds covered the cost of capital outlays.

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CUYAHOGA COMMUNITY COLLEGE

STATEMENTS OF NET ASSETS JUNE 30, 2003 and 2002

ASSETS	2003	2002
CURRENT ASSETS:		
Cash and cash equivalents	\$ 48,333,650	\$ 41,341,623
Short-term investments	112,855	52,804
Property taxes receivable	73,537,847	64,664,714
Accounts receivable—net	17,886,035	12,749,506
Inventories	1,599,133	1,561,230
Prepaid expenses	1,309,810	1,427,856
Total current assets	<u>142,779,330</u>	<u>121,797,733</u>
NONCURRENT ASSETS:		
Restricted cash and cash equivalents	33,366,168	3,369,361
Restricted investments		651,100
Loans receivable, less allowance for doubtful loans of \$538,313 in 2003 and 2002	266,012	354,681
Other long-term investments	30,430,764	29,831,613
Capital assets—net	167,459,860	144,266,449
Other assets	1,512,611	
Total noncurrent assets	<u>233,035,415</u>	<u>178,473,204</u>
Total assets	<u>375,814,745</u>	<u>300,270,937</u>
LIABILITIES		
CURRENT LIABILITIES:		
Accounts payable and accrued liabilities	17,045,784	11,881,721
Deferred property tax revenue	68,767,008	58,075,566
Deferred revenue	11,257,075	8,574,137
Capital lease obligations—current portion	1,386,244	1,395,943
Long-term debt—current portion	280,000	
Compensated absences—current portion	608,000	727,884
Total current liabilities	<u>99,344,111</u>	<u>80,655,251</u>
NONCURRENT LIABILITIES:		
Long-term debt	47,570,466	
Capital lease obligations	9,858,519	11,168,616
Compensated absences	5,556,429	5,316,636
Other liabilities	3,537,543	4,179,142
Total noncurrent liabilities	<u>66,522,957</u>	<u>20,664,394</u>
Total liabilities	<u>165,867,068</u>	<u>101,319,645</u>
NET ASSETS		
Invested in capital assets, net of related debt	132,482,886	135,201,005
Restricted—expendable	6,977,443	3,153,832
Unrestricted	70,487,348	60,596,455
Total net assets	<u>\$209,947,677</u>	<u>\$198,951,292</u>

The accompanying notes are an integral part of the financial statements.

CUYAHOGA 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 scholarship allowances of \$2,898,240 in 2003 and \$3,458,834 in 2002	\$ 32,224,598	\$ 25,604,316
Federal grants and contracts	31,627,056	25,888,786
State grants and contracts	5,819,380	5,746,711
Local grants and contracts	46,555	
Private grants and contracts	6,379,532	3,956,615
Sales and services	5,813,060	5,771,352
Auxiliary enterprises	9,921,166	8,554,705
Other operating revenues	<u>342,604</u>	<u>187,411</u>
Total operating revenues	<u>92,173,951</u>	<u>75,709,896</u>
EXPENSES:		
Operating expenses:		
Educational and general:		
Instruction and departmental research	51,098,318	50,639,669
Public service	17,225,721	17,999,499
Academic support	17,178,541	16,369,408
Student services	15,982,911	15,251,072
Institutional support	31,976,834	28,040,135
Operation and maintenance of plant	14,823,591	16,014,937
Scholarships and fellowships	25,347,610	17,521,764
Depreciation	11,415,787	10,952,077
Auxiliary enterprises	<u>9,055,042</u>	<u>8,575,126</u>
Total operating expenses	<u>194,104,355</u>	<u>181,363,687</u>
Operating loss	<u>(101,930,404)</u>	<u>(105,653,791)</u>
NONOPERATING REVENUES (EXPENSES):		
State appropriations	45,129,281	44,469,248
Property taxes	63,161,495	49,703,454
Unrestricted investment income, net of investment expense of \$377,778 in 2003 and \$337,123 in 2002	1,232,400	2,591,534
Restricted investment income	430,991	75,565
Interest on capital asset-related debt	(1,681,843)	(66,581)
Other nonoperating expenses	<u>(302,018)</u>	<u>(680,650)</u>
Net nonoperating revenues	<u>107,970,306</u>	<u>96,092,570</u>
INCOME (LOSS) BEFORE OTHER REVENUES, EXPENSES, GAINS OR LOSSES	6,039,902	(9,561,221)
STATE CAPITAL APPROPRIATIONS	<u>4,956,483</u>	<u>10,958,444</u>
INCREASE IN NET ASSETS	10,996,385	1,397,223
NET ASSETS—Beginning of year	<u>198,951,292</u>	<u>197,554,069</u>
NET ASSETS—End of year	<u>\$ 209,947,677</u>	<u>\$ 198,951,292</u>

The accompanying notes are an integral part of the financial statements.

CUYAHOGA COMMUNITY COLLEGE

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

	2003	2002
CASH FLOWS FROM OPERATING ACTIVITIES:		
Student tuition and fees	\$ 31,794,553	\$ 25,101,286
Grants and contracts	38,799,691	35,052,291
Sales and services	6,155,664	5,958,763
Auxiliary enterprises	9,913,721	8,668,191
Employee and related payments	(106,366,724)	(101,636,565)
Supplier and vendor payments	(45,771,229)	(50,768,008)
Payments for scholarships	<u>(25,060,357)</u>	<u>(17,821,548)</u>
Net cash used in operating activities	<u>(90,534,681)</u>	<u>(95,445,590)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Property tax receipts	64,979,804	47,286,042
State appropriations	45,129,281	44,469,248
Other receipts/payments	<u>(106,598)</u>	<u>107,274</u>
Net cash provided by noncapital financing activities	<u>110,002,487</u>	<u>91,862,564</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
State capital appropriations	6,183,946	10,985,662
Proceeds from bond issuance	47,872,693	
Bond issuance costs	(817,858)	
Purchases of capital assets	(34,735,769)	(27,575,793)
Proceeds from capital leases		1,550,235
Principal paid on capital leases	(1,319,796)	(985,677)
Interest paid on capital leases	<u>(1,583,504)</u>	<u>(141,699)</u>
Net cash provided by (used in) capital and related financing activities	<u>15,599,712</u>	<u>(16,167,272)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sales and maturities of investments	16,945,866	82,409,917
Purchases of investments	(16,953,968)	(55,552,340)
Investment income	<u>1,929,418</u>	<u>3,300,675</u>
Net cash provided by investing activities	<u>1,921,316</u>	<u>30,158,252</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	36,988,834	10,407,954
CASH AND CASH EQUIVALENTS—Beginning of year	<u>44,710,984</u>	<u>34,303,030</u>
CASH AND CASH EQUIVALENTS—End of year	<u>\$ 81,699,818</u>	<u>\$ 44,710,984</u>

(Continued)

CUYAHOGA COMMUNITY COLLEGE

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

	2003	2002
RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES:		
Operating loss	\$ (101,930,404)	\$ (105,653,791)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation expense	11,415,787	10,952,077
Changes in assets and liabilities:		
Receivables, net	(7,414,800)	(710,912)
Inventories	(37,903)	(133,750)
Prepaid expenses	145,308	(341,648)
Accounts payable and accrued liabilities	5,126,083	(974,365)
Deferred revenues	2,682,938	719,840
Compensated absences	119,909	242,453
Other liabilities	<u>(641,599)</u>	<u>454,506</u>
Net cash used in operating activities	<u>\$ (90,534,681)</u>	<u>\$ (95,445,590)</u>

The accompanying notes are an integral part of the financial statements.

(Concluded)

CUYAHOGA COMMUNITY COLLEGE

NOTES TO FINANCIAL STATEMENTS FOR THE YEARS ENDED JUNE 30, 2003 AND 2002

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity—Cuyahoga Community College (the “College”) is an institution of higher education. In accordance with Governmental Accounting Standards Board (“GASB”) Statement No. 14, *The Financial Reporting Entity*, the College is a primary government with no component units. Accordingly, the Cuyahoga Community College Foundation (the “Foundation”), which is a legally separate, not-for-profit organization incorporated and operated exclusively for the benefit of the College (see Note 15), is not included in the accompanying financial statements.

Basis of Presentation—The financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) as prescribed by the GASB. Effective July 1, 2001, the College implemented GASB Statement No. 35, *Basic Financial Statements - and Management’s Discussion and Analysis - for Public Colleges and Universities*, issued in November 1999; Statement No. 37, *Basic Financial Statements - and Management’s Discussion and Analysis - for State and Local Governments: Omnibus, an amendment of GASB Statements No. 21 and 34*, issued in June 2001; and Statement No. 38, *Certain Financial Statement Note Disclosures*, issued in June 2001. The College follows the “business-type activities” reporting requirements of GASB Statement No. 35. In accordance with GASB Statement No. 35, the Statement of Net Assets, the Statement of Revenues, Expenses, and Changes in Net Assets, and the Statement of Cash Flows are reported on a College-wide basis.

Basis of Accounting—The financial statements of the College have been prepared on the accrual basis of accounting whereby all revenues are recorded when earned and all expenses are recorded when they represent a legal or contractual obligation to pay.

In accordance with GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the College is required to follow all applicable GASB pronouncements. In addition, the College should apply all applicable Financial Accounting Standards Board (the “FASB”) Statements and Interpretations, Accounting Principles Board (the “APB”) Opinions and Accounting Research Bulletins of the Committee on Accounting Procedures issued on or before November 30, 1989 unless those pronouncements conflict with or contradict GASB pronouncements. The College has elected to not apply FASB statements and interpretations issued after November 30, 1989.

Cash Equivalents—Cash equivalents are defined as highly liquid investments with a maturity of three months or less when purchased.

Investments—Investments are stated at fair value, based on published market quotations. The College does not invest in derivatives.

Inventories—Inventories are valued at the lower of cost (first-in, first-out) or market. Inventory costs are charged to operations when inventory is sold or consumed.

Capital Assets—Land, buildings and equipment are recorded at cost at the date of acquisition, or fair value at the date of donation in the case of gifts. When property is sold or otherwise disposed of, the carrying value of such assets is removed from the accounts. Depreciation on buildings and equipment is

calculated using the straight-line method over the estimated useful life of the asset and is not allocated to the functional expense categories. Expenditures for construction in progress are capitalized as incurred. Interest expense relating to construction is capitalized net of interest income earned on resources set aside for this purpose. In fiscal year 2002, the College increased its capitalization limit for moveable equipment from \$1,000 to \$5,000.

The following estimated useful lives are used to compute depreciation:

Buildings	40 years
Building improvements	15 years
Improvements other than buildings	20 years
Library books	5 years
Moveable equipment	4-10 years

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

Deferred Revenue—Revenues and expenditures related to academic terms conducted over two fiscal years, such as summer sessions, are recognized in the fiscal year in which the program is predominantly conducted. In addition, property taxes and certain grant proceeds that do not meet the revenue recognition criteria under GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, and No. 36, *Recipient Reporting for Certain Shared Nonexchange Revenues (an amendment of GASB Statement No. 33)*, are deferred.

Net Asset Classification—In accordance with GASB Statement No. 35 guidelines, the College’s resources are classified into the following three net asset categories:

Invested 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 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 that are not subject to externally imposed restrictions. Unrestricted net assets may be designated for specific purposes by the Board of Trustees.

Operating Revenues—All revenues from programmatic sources are considered to be operating revenues. Included in non-operating revenues are state appropriations, property tax revenues and investment income.

Use of Estimates—The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and disclosure in the notes to financial statements. Actual results could differ from those estimates.

Recently Issued Accounting Pronouncements— During May 2002 the GASB issued Statement No. 39, *Determining Whether Certain Organizations are Component Units (an amendment of GASB Statement No. 14)*. This statement amends Statement No. 14 to provide additional guidance to determine whether certain organizations, such as not-for-profit foundations, for which the primary institution is not financially accountable, should be reported as component units of the primary institution based on the nature and significance of their relationship with the primary institution. Generally, this statement requires reporting, as a component unit, an organization that raises and holds economic resources for the direct benefit of an institution. The provisions of this statement are effective for financial statements for periods beginning after June 15, 2003. The College has not determined the impact, if any, that this statement will have on its financial statements.

During March 2003, the GASB issued Statement No. 40, *Deposit and Investment Risk Disclosures (an amendment of GASB Statement No. 3)*. This statement amends Statement No. 3 and addresses additional cash and investment risks to which entities are exposed. Generally, this statement requires that entities communicate key information about such risks in four principle areas: investment credit risks, including credit quality information issued by rating agencies; interest rate disclosures that include investment maturity information; interest rate sensitivity for investments that are highly sensitive to changes in interest rates; and foreign exchange exposures that would indicate the foreign investment's denomination. The provisions of this statement are effective for the year ending June 30, 2006. The College has not determined the impact, if any, that this statement will have on its financial disclosure.

2. DEPOSITS AND INVESTMENTS

Ohio law requires that deposits be placed in eligible banks or building and loan associations located in Ohio. Any public depository in which the College places deposits must pledge as collateral eligible securities of aggregate market value equal to the amount of deposits not insured by the Federal Depository Insurance Corporation. Further, Ohio law allows for pledges of pooled collateral in amounts that exceed the secured deposits by at least five percent. Collateral that may be pledged is limited to obligations of the following entities: the United States and its agencies, the State of Ohio, the Ohio Student Loan Commission and any legally constituted taxing subdivision within the State of Ohio.

The College's investment policies are governed by state statutes that authorize the College to invest in obligations of the U.S. Treasury, agencies and instrumentalities; bonds and other State of Ohio obligations; certificates of deposit; and U.S. Government money market funds and repurchase agreements. Such repurchase agreements must be acquired from qualifying Ohio financial institutions, or from registered brokers/dealers.

Deposits—At June 30, 2003, the carrying amount of the College's deposits was \$8,774,903, as compared to actual bank balances of \$9,699,835. At June 30, 2002, the carrying amount of the College's deposits was an overdraft of \$266,385, as compared to actual bank balances of \$1,808,648. The difference for both years represents outstanding checks and normal reconciling items. Of the June 30, 2003 and 2002 bank balances, \$300,000 was covered by federal depository insurance and the remaining, \$9,399,835 and \$1,752,975 respectively, was uncollateralized, as defined by the GASB; however, it was secured by collateral pools of U.S. Government and municipal securities established by each respective financial institution for the purpose of pledging a pool of collateral against all public deposits held as permitted under Ohio law.

Investments—Investments are categorized to give an indication of the level of credit risk assumed by the College at year end. These categories of credit risk are summarized below:

Category 1—Insured or registered investments held by the College or its agent in the name of the College.

Category 2—Uninsured and unregistered investments, for which securities are held by the counterparty's trust department or agent in the name of the College.

Category 3—Uninsured and unregistered investments for which securities are held by the counterparty, or by its trust department or agent, but not in the College's name.

At June 30 the College's investments were as follows:

2003 Type of Investment	Category			Fair Value
	1	2	3	
Government securities	\$ -	\$ -	\$ 8,108,750	\$ 8,108,750
U.S. treasury bills		14,200,258	13,934,714	28,134,972
Mutual funds			59,177	59,177
Certificate of deposit	<u>53,678</u>			<u>53,678</u>
Totals	<u>\$ 53,678</u>	<u>\$ 14,200,258</u>	<u>\$ 22,102,641</u>	36,356,577
Unclassified investment—State Treasurer's Asset Reserve Fund (STAROhio)				<u>67,111,957</u>
				<u>\$ 103,468,534</u>

2002 Type of Investment	Category			Fair Value
	1	2	3	
Government securities	\$ -	\$ 13,689,281	\$ 21,626,458	\$ 35,315,739
U.S. treasury bills			<u>459,577</u>	<u>459,577</u>
Totals	<u>\$ -</u>	<u>\$ 13,689,281</u>	<u>\$ 22,086,035</u>	35,775,316
Unclassified investment—State Treasurer's Asset Reserve Fund (STAROhio)				<u>39,737,570</u>
				<u>\$ 75,512,886</u>

STAROhio is an investment pool created pursuant to Ohio statutes and managed by the Treasurer of the State of Ohio. STAROhio is not registered with the Securities and Exchange Commission 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 balance sheet date. The amount invested with STAROhio is not classified by risk category because it is not evidenced by securities that exist in physical or book entry form as defined by GASB Statement No. 3.

3. ACCOUNTS RECEIVABLE

Accounts receivable consists of the following as of June 30:

	2003	2002
Tuition and fees receivable	\$ 14,863,720	\$ 11,294,035
Grants receivable	6,054,938	1,958,830
State capital appropriations receivable	184,926	1,637,584
Interest receivable	94,274	400,357
Other receivables	270,753	301,150
Allowance for doubtful accounts	<u>(3,582,576)</u>	<u>(2,842,450)</u>
Total	<u>\$ 17,886,035</u>	<u>\$ 12,749,506</u>

4. CAPITAL ASSETS

Capital asset activity for the years ended June 30, 2003 and 2002 was as follows:

Description	Balance July 1, 2002	Additions	Disposals	Balance June 30, 2003
Cost:				
Land	\$ 5,437,138	\$ -	\$ -	\$ 5,437,138
Buildings	102,946,454			102,946,454
Building improvements	62,134,288	18,802,678		80,936,966
Improvements other than buildings	28,829,000	936,389		29,765,389
Library books	1,715,767	165,596		1,881,363
Moveable equipment	45,264,472	4,500,211	(1,494,601)	48,270,082
Construction in progress—net	<u>38,530,107</u>	<u>10,361,024</u>		<u>48,891,131</u>
Totals	<u>284,857,226</u>	<u>34,765,898</u>	<u>(1,494,601)</u>	<u>318,128,523</u>
Accumulated depreciation:				
Buildings	54,917,364	2,573,661		57,491,025
Building improvements	29,342,309	4,096,242		33,438,551
Improvements other than buildings	22,545,827	642,827		23,188,654
Library books	922,736	407,917		1,330,653
Moveable equipment	<u>32,862,541</u>	<u>3,695,141</u>	<u>(1,337,902)</u>	<u>35,219,780</u>
Totals	<u>140,590,777</u>	<u>11,415,788</u>	<u>(1,337,902)</u>	<u>150,668,663</u>
Capital assets—net	<u>\$ 144,266,449</u>	<u>\$ 23,350,110</u>	<u>\$ (156,699)</u>	<u>\$ 167,459,860</u>

Description	Balance July 1, 2001	Additions	Disposals	Balance June 30, 2002
Cost:				
Land	\$ 5,437,138	\$ -	\$ -	\$ 5,437,138
Buildings	102,946,454			102,946,454
Building improvements	53,616,791	8,517,497		62,134,288
Improvements other than buildings	27,572,884	1,256,116		28,829,000
Library books	1,536,911	178,856		1,715,767
Moveable equipment	47,713,973	1,184,076	(3,633,577)	45,264,472
Construction in progress—net	<u>22,182,229</u>	<u>16,347,878</u>		<u>38,530,107</u>
Totals	<u>261,006,380</u>	<u>27,484,423</u>	<u>(3,633,577)</u>	<u>284,857,226</u>
Accumulated depreciation:				
Buildings	52,343,703	2,573,661		54,917,364
Building improvements	26,001,558	3,340,751		29,342,309
Improvements other than buildings	21,887,420	658,407		22,545,827
Library books	642,657	280,079		922,736
Moveable equipment	<u>31,756,968</u>	<u>4,099,179</u>	<u>(2,993,606)</u>	<u>32,862,541</u>
Totals	<u>132,632,306</u>	<u>10,952,077</u>	<u>(2,993,606)</u>	<u>140,590,777</u>
Capital assets—net	<u>\$ 128,374,074</u>	<u>\$ 16,532,346</u>	<u>\$ (639,971)</u>	<u>\$ 144,266,449</u>

Included in construction in progress at June 30, 2003 are costs associated with the Metro Humanities Building, West Technical Learning Center, and Corporate College West. At June 30, 2003, \$3,083,076 was yet to be spent under contractual commitments pertaining to these improvements and other minor projects and will be funded through unspent proceeds from existing long-term debt, state capital appropriations, and general operations.

5. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities consist of the following at June 30:

	2003	2002
Accounts payable	\$ 4,151,385	\$ 2,649,506
Accrued liabilities	8,314,781	5,638,237
Payroll and fringe liabilities	<u>4,579,618</u>	<u>3,593,978</u>
Total	<u>\$17,045,784</u>	<u>\$11,881,721</u>

6. STATE APPROPRIATIONS

The College is a state-assisted institution of higher education that receives a student-based subsidy from the State of Ohio. This subsidy is determined annually based upon a formula determined by the State of Ohio.

In addition to the student subsidies, the State of Ohio provides funding for the construction of major academic plant facilities on the College’s campuses. Funding is obtained from the issuance of revenue bonds by the Ohio Public Facilities Commission (“OPFC”). Bond proceeds are used for the construction and subsequent transfer of the facility to the College.

College facilities are not pledged as collateral for the revenue bonds. Instead, the bonds are supported by a pledge of monies in the Higher Education Bond Service Fund established in the custody of the Treasurer of the State of Ohio. If sufficient monies are not available from this fund, the Ohio Board of Regents may assess a special fee uniformly applicable to students in state-assisted institutions of higher education throughout the state.

As a result of the above-described financial assistance provided by the State of Ohio to the College, outstanding debt issued by OPFC is not included on the College’s balance sheet. In addition, the appropriations by the General Assembly to the Ohio Board of Regents for payment of debt service and the related debt service payments are not recorded in the College’s accounts.

The College follows the practice of recording additions to fund balance and accounts receivable for appropriations approved by the State of Ohio to cover expenses that have been incurred for plant facilities and equipment.

7. PROPERTY TAXES

The College receives funds from property taxes levied on all real, public utility, and tangible personal property used in businesses located in Cuyahoga County. Two levies for .6 and 1.0 mills were renewed by voters in 1992 and combined as one levy which expired during the year ended June 30, 2003. During November 2001, Cuyahoga County voters approved an eight year, 1.6 mill replacement of the .6 and 1.0 mill levies, which commenced during the year ended June 30, 2003. An additional levy was renewed by voters in 1996 for 1.2 mills and expires in 2006.

8. PENSION AND RETIREMENT PLANS

Defined Benefit Plans—The College’s faculty is covered by the State Teachers Retirement System of Ohio (“STRS”). Substantially all other employees are covered by the Ohio Public Employees Retirement System of Ohio (“OPERS”). These retirement programs are statewide, cost-sharing, multiple-employer pension plans. OPERS offers a defined benefit plan, while STRS offers a defined benefit plan, a defined contribution plan, and a combined plan. STRS and OPERS 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 state statute. Both STRS and OPERS issue separate, publicly available financial reports that include financial statements and required supplementary information.

These reports may be obtained by contacting the two organizations at the following locations:

STRS	OPERS
275 East Broad Street	277 East Town Street
Columbus, OH 43215-3771	Columbus, OH 43215-4642
(614) 227-4090	(614) 226-6705 or (800) 222-PERS

In addition to the retirement benefits described above, STRS and OPERS provide postretirement healthcare benefits (see Note 9).

Defined Contribution Plan—An Alternative Retirement Plan (“ARP”) was established by the College’s Board of Trustees on February 5, 1999. The ARP is a defined contribution pension plan available to full-time administrative and professional staff in lieu of OPERS or STRS. For the employees who elected participation in ARP, prior employee contributions to STRS and OPERS were transferred from those plans and invested in individual accounts established with selected external investment managers.

The ARP does not provide disability benefits, annual cost-of-living adjustments, postretirement health care benefits or death benefits to plan members and beneficiaries. Benefits are entirely dependent on the sum of contributions and investment returns earned by each participant’s choice of investment options.

Funding—The ORC provides statutory authority for employee and employer contributions to STRS, OPERS and the ARP. Contributions equal to those required by STRS and OPERS are required to be made to the ARP; however, a portion (which may be revised pursuant to periodic actuarial studies) of the employer contribution must be contributed to STRS or OPERS to enhance the stability of those plans. The required contribution rates (as a percentage of covered payroll) for plan members and the College were as follows for the years ended June 30, 2003 and 2002:

	STRS	OPERS	ARP
Faculty:			
Plan member	9.30%		9.30%
College	14.00%		14.00% *
Staff:			
Plan member		8.50%	8.50%
College		13.55%	13.55%
Law enforcement staff:			
Plan member		9.00%	9.00%
College		16.70%	16.70%

* Employer contributions included 3.5% paid to STRS. The remaining amount is credited to the participant’s ARP account.

The College's contributions for the year ended June 30, 2003 and for each of the two preceding years, including the portion applicable to postretirement benefits (see Note 9), were as follows:

Year Ended June 30	STRS Contribution	OPERS Contribution	ARP Contribution
2003	\$ 5,259,000	\$ 5,772,000	\$ 458,000
2002	4,954,000	5,624,000	358,000
2001	5,329,000	4,226,000	346,000

The College's actual contributions to each of the plans equaled the required contributions for each year.

9. POSTRETIREMENT BENEFITS

OPERS—OPERS provides postretirement healthcare coverage to age and service retirees with ten or more years of qualifying Ohio service credit. Healthcare coverage for disability recipients and primary survivor recipients is also available. Healthcare coverage provided by the retirement system is considered an other post-employment benefit ("OPEB") as described in GASB Statement No. 12.

A portion of each employer's contribution to OPERS (5% of covered payroll in 2003 and 4.3% of covered payroll in 2002) is set aside for funding of postretirement healthcare. The ORC provides statutory authority requiring public employers to fund postretirement healthcare through their contributions to OPERS. The statutory healthcare contribution requirement from the College for the years ended June 30, 2003 and 2002 (which is included in the College's total OPERS contribution) were \$2,110,000 and \$1,785,000.

OPEB are advance-funded on an actuarially determined basis and are financed through employer contributions and investment earnings thereon. The contributions allocated to retiree healthcare, along with investment income on allocated assets and periodic adjustments in healthcare provisions are expected to be sufficient to sustain the program indefinitely.

At December 31, 2001 (latest information available), there were 402,041 active participants contributing to the plan. In addition, at December 31, 2001, the actuarial value of the plan's net assets available for OPEB approximated \$11.6 billion and the actuarial accrued liability and the unfunded actuarial accrued liability, based on the actuarial method used, were \$16.4 billion and \$4.8 billion, respectively.

STRS—STRS provides access to healthcare coverage to retired teachers who participated in the defined benefit or combined plans and their dependents. Coverage includes hospitalization, physician fees, prescription drugs, and partial reimbursement of monthly Medicare Part B premiums. All benefit recipients and sponsored dependents are eligible for healthcare coverage. Pursuant to the ORC, STRS has discretionary authority over how much, if any, of the healthcare costs will be absorbed by STRS. All benefit recipients pay a portion of the healthcare cost in the form of a monthly premium.

The ORC grants authority to STRS to provide healthcare coverage to eligible benefit recipients, spouses, and dependents. By Ohio law, the cost of the coverage paid from STRS funds shall be included in the employer contribution rate, currently 14% of covered payroll.

Postretirement healthcare under STRS is financed on a pay-as-you-go basis. For the fiscal year ended June 30, 2002, STRS allocated employer contributions equal to 4.5% of covered payroll to the Health Care Reserve Fund from which healthcare benefits are paid. For the fiscal year ended June 30, 2003, 1% of covered payroll was allocated to the Health Care Reserve Fund. The healthcare contribution requirement from the College for the year ended June 30, 2003 and 2002 (which is included in the

College's total STRS contribution) was \$374,000 and \$1,592,000, respectively. The balance in the Health Care Reserve Fund was \$3 billion on June 30, 2002 (latest information available). For the year ended June 30, 2002 (latest information available), net healthcare costs paid by STRS were \$355 million. There were 105,300 eligible benefit recipients on June 30, 2002.

10. SELF-INSURANCE LIABILITIES

The College is exposed to various risks of loss during the normal course of its operations including, but not limited to, loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and injuries to employees. The College is self-insured for the purpose of providing employee healthcare, workers' compensation, disability and retiree death benefits. Losses from asserted claims and from unasserted claims identified under the College's incident reporting systems are accrued based on estimates that incorporate the College's past experience, as well as other considerations including the nature of each claim or incident and relevant trend factors. The liabilities for estimated self-insured claims include estimates of the ultimate costs for both reported claims and claims incurred but not reported.

Changes in the reported liabilities (included in other liabilities on the statements of net assets) during the past two fiscal years resulted from the following:

	Healthcare		Workers' Compensation	
	2003	2002	2003	2002
Liability at the beginning of year	\$ 1,314,000	\$ 1,151,000	\$ 469,769	\$ 481,562
Current year claims, net of changes in estimates	3,039,470	4,883,306	138,735	242,054
Claim payments	(3,820,834)	(4,720,306)	(66,862)	(253,847)
Balance at end of year	\$ 532,636	\$ 1,314,000	\$ 541,642	\$ 469,769
	Disability		Retiree Death	
	2003	2002	2003	2002
Liability at the beginning of year	\$ 1,268,800	\$ 1,004,847	\$ 762,169	\$ 742,169
Current year claims, net of changes in estimates	109,020	516,747	31,000	40,000
Claim payments	(8,733)	(252,794)	(16,000)	(20,000)
Balance at end of year	\$ 1,369,087	\$ 1,268,800	\$ 777,169	\$ 762,169

The College purchases insurance policies in varying amounts for general liability, property damage and employee and Board of Trustee's liability, including errors and omissions of the College's safety forces. Settled claims have not exceeded the College's insurance coverage in any of the past three years.

11. LEASE COMMITMENTS

Capital Lease—The College has two capital leases as described below. The changes in the lease obligations during the years ended June 30, 2003 and 2002 are shown below:

2003	Beginning Balance	Additions	Reductions	Ending Balance
House Bill 7 Lease	\$ 11,610,650	\$ -	\$ 889,467	\$ 10,721,183
Phone System Lease	<u>953,909</u>	<u> </u>	<u>430,329</u>	<u>523,580</u>
Total	<u>\$ 12,564,559</u>	<u>\$ -</u>	<u>\$ 1,319,796</u>	<u>\$ 11,244,763</u>

2002	Beginning Balance	Additions	Reductions	Ending Balance
House Bill 7 Lease	\$ 12,000,000	\$ 250,235	\$ 639,585	\$ 11,610,650
Phone System Lease	<u>-</u>	<u>1,300,000</u>	<u>346,091</u>	<u>953,909</u>
Total	<u>\$ 12,000,000</u>	<u>\$ 1,550,235</u>	<u>\$ 985,676</u>	<u>\$ 12,564,559</u>

On March 31, 2001, the College entered into a long-term lease-purchase agreement with a financial institution to finance certain energy conservation improvements under Ohio House Bill 7. The agreement requires payments of principal and interest in equal monthly installments of \$120,861 through August 2012. The building improvements under the capital lease had a net book value of \$12,366,262 at June 30, 2003, which was composed of a capitalized cost of \$12,792,685 less accumulated depreciation of \$426,423.

On August 24, 2001, the College entered into a long-term lease-purchase agreement with a financial institution to finance its new phone system. The agreement requires payments of principal and interest in equal monthly installments of \$38,312 through August 2004. The components financed by the lease amounted to \$1,292,732, which is included in construction in progress at June 30, 2003.

Future minimum lease payments under the capital leases are due as follows:

Fiscal Year	Amount
2004	\$ 1,910,069
2005	1,526,951
2006	1,450,327
2007	1,450,327
2008	1,450,327
2009-2013	<u>6,043,033</u>
Total minimum lease payments	13,831,034
Less amount representing interest	<u>2,586,271</u>
Present value of net minimum lease payments	<u>\$ 11,244,763</u>

Operating Leases—The College leases a building, certain equipment and automobiles under noncancelable operating leases. Future minimum rental payments under operating leases with remaining terms in excess of one year as of June 30, 2003 are as follows:

Year	Amount
2004	\$4,286,964
2005	2,125,650
2006	1,089,506
2007	<u>357,629</u>
Total	<u>\$7,859,749</u>

The College's rent expense under these leases was \$3,289,000 and \$2,843,000 for the years ended June 30, 2003 and 2002, respectively.

On September 4, 2002, the College entered into a lease agreement to lease real estate to a third party. The lease is an operating lease, which commenced on October 1, 2002, with a partial lease year from September 4, 2002 through September 30, 2002. The lease is for a period of two years and has fixed monthly rentals of \$28,085. The lease provides for four additional 2-year renewals at the option of the tenant. Rental for the first two renewals remains the same as the initial term, with a 10% increase going into effect for the third renewal term. Total rental revenue under this lease was approximately \$253,000 in 2003.

12. LONG TERM DEBT

The College's long-term debt at June 30, 2003 consisted of the following:

Series A bonds, including premium of \$870,466	\$ 29,975,466
Series B bonds	<u>17,875,000</u>
Total	47,850,466
Less current portion	<u>280,000</u>
Long-term portion	<u>\$ 47,570,466</u>

In September 2002, the College issued \$29,105,000 Cuyahoga Community College District, Ohio General Receipts Bonds, Series A, and in October 2002, the College issued \$17,875,000 Cuyahoga Community College District, Ohio General Receipts Bonds, Series B. The proceeds of both issuances are being used to fund the Corporate College project and are described below:

- The Series A Bonds consist of \$6,275,000 of serial bonds maturing each June 1 and December 1, beginning June 1, 2004 and ending December 1, 2013. Interest on each series varies and ranges from 1.6% to 3.55%. The remaining \$22,830,000 are term bonds, with interest rates ranging from 4.6% to 5%, maturing as follows: \$1,525,000 on December 1, 2015; \$6,715,000 on December 1, 2022; \$1,765,000 on June 1, 2024; and \$12,825,000 on December 1, 2032.
- The Series B Bonds mature on December 1, 2032. The holders of these notes are permitted to demand repayment prior to maturity under certain circumstances. As a result, the College has executed a remarketing agreement and a letter of credit with a financial institution which requires the financial institution to use its best efforts to resell any portion of the notes presented for payment prior to their scheduled maturity. The letter of credit, which expires on October 9,

2004, provides assurance that funds will be available through the financial institution to redeem any non-marketable notes prior to their maturity. The notes provide for interest at a rate as determined by the remarketing agent based upon current transactions in comparable securities that enable the agent to remarket the notes at par. The interest rate on the Series B Bonds was 3.15% on June 30, 2003.

The bonds are payable as follows (with an assumed interest rate of 3.15% for the Series B Bonds):

	Principal	Interest	Total
2004	\$ 280,000	\$ 1,874,986	\$ 2,154,986
2005	950,000	1,862,202	2,812,202
2006	975,000	1,839,475	2,814,475
2007	1,000,000	1,814,167	2,814,167
2008	1,030,000	1,786,349	2,816,349
2009-2013	5,625,000	8,431,374	14,056,374
2014-2018	6,740,000	7,313,253	14,053,253
2019-2023	8,330,000	5,725,294	14,055,294
2024-2028	10,270,000	3,775,798	14,045,798
2029-2032	<u>11,780,000</u>	<u>1,311,724</u>	<u>13,091,724</u>
Total	<u>\$ 46,980,000</u>	<u>\$ 35,734,622</u>	<u>\$ 82,714,622</u>

13. INCOME TAXES

The College is exempt from income taxes as a not-for-profit organization under federal income tax laws and regulations of the Internal Revenue Service.

14. CONTINGENCIES

Under the terms of federal and state grants, periodic audits are required and certain costs may be questioned as not being appropriate expenditures under the terms of the grants. Such audits could lead to reimbursement to the grantor agencies. The College management believes such reimbursements, if any, will be immaterial.

15. LITIGATION

During the normal course of its operations, the College has been named as a defendant in certain legal actions and claims. The College management is of the opinion that the disposition of these legal actions and claims will not have a material adverse effect on the financial condition of the College. The College purchases commercial insurance to cover certain potential losses.

16. FOUNDATION

The Foundation was formed in 1973 to obtain private financing support for the promotion of excellence at the College. The Foundation provides scholarships to financially disadvantaged students and merit scholarships to those students demonstrating excellent academic abilities. The Foundation also provides support to specific educational departments and programs of the College. The accounting records for the Foundation are maintained at the College in Cleveland, Ohio. Certain administrative expenses of the Foundation are borne directly by the College. The Foundation has total assets of \$13.2 million at June 30, 2003 and total revenues, investment income and other support of \$4.6 million for the year then ended.

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CUYAHOGA COMMUNITY COLLEGE

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

Federal Grantor/Pass Through Grantor/Program Title	Pass-Through Number	Federal CFDA Number or Primary Grant Number	Expenditures
STUDENT FINANCIAL AID CLUSTER (SFA)			
U.S. Department of Education:			
Direct Programs:			
Federal Pell Grant Program		84.063	\$ 17,960,912
Federal Supplemental Education Opportunity Grant		84.007	439,420
Federal Work-Study Program		84.033	<u>712,336</u>
Total Student Financial Aid Cluster			<u>19,112,668</u>
OTHER PROGRAMS			
Academic Support—U.S. Department of Education:			
Pass-Through Programs from			
Ohio Department of Education:			
Tech-Prep	VETP-2003-04 FB	84.243	<u>249,999</u>
Institutional Support—U.S. Department of Education:			
Direct Programs:			
Early Childhood Literacy		84.215	177,971
Pass-Through Programs from			
Polaris Joint Vocational School District:			
Alliance & Innovation	R303A980063-02	84.303	<u>529,970</u>
Total Other Programs—Institutional Support			<u>707,941</u>

See Notes to Supplemental Schedule of Expenditures of Federal Awards.

(Continued)

CUYAHOGA COMMUNITY COLLEGE

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

Federal Grantor/Pass Through Grantor/Program Title	Pass-Through Number	Federal CFDA Number or Primary Grant Number	Expenditures
PUBLIC SERVICE			
U.S. Department of Education:			
Direct Programs:			
Trio Cluster:			
Student Support Services		84.042	266,653
Disabled Student Services		84.042	278,038
Total CFDA #84.042			544,691
Project Talent Search		84.044	500,728
Upward Bound		84.047	314,407
Veterans Upward Bound		84.047	300,649
Total CFDA #84.047			615,056
Education Opportunity Center		84.066	295,574
Total Trio Cluster			1,956,049
Gear-Up Partnership Program		84.334	324,788
Title III—Strengthening Institutions		84.031	465,545
Pass-Through Programs from			
Ohio Department of Education:			
Adult Basic and Literacy Education	PROJECT #063404-AB-S1-2003	84.002	28,394
Adult Basic and Literacy Education	PROJECT #063404-AB-S1-2002C	84.002	2,528
Adult Basic and Literacy Education	PROJECT #063404-AB-S2-2003	84.002	26,160
Project Ideal-Ohio Literacy Network		84.002	19,126
Total CFDA #84.002			76,208
Rainbow Terrace-Technology Learning Center	PROJECT #063404-T1S1-03	84.287	50,612
Vocational Administration	CPIII-A02	84.048	19,450
Vocational Education—Sex Equity	CPIII-A02	84.048	185,899
Orientation to Non-Traditional Occupation for Women	VESE2003ONOW09	84.048	15,000
Vocational Education—Special Needs	CPIII-A02	84.048	167,138
Pass-Through Programs from			
Polaris Joint Vocational School District:			
Orientation to Non-Traditional Occupation for Women		84.048	19,549
Total CFDA #84.048			407,036
Total Public Service			3,280,238
Total U.S. Department of Education			23,350,846

See Notes to Supplemental Schedule of Expenditures of Federal Awards.

(Continued)

CUYAHOGA COMMUNITY COLLEGE

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

Federal Grantor/Pass Through Grantor/Program Title	Pass-Through Number	Federal CFDA Number or Primary Grant Number	Expenditures
PUBLIC SERVICE			
National Institute of Health:			
Direct Program:			
Bridges to Success		93.859	<u>142,956</u>
Environmental Protection Agency			
Pass-Through Program from			
National Fish & Wildlife Foundation:			
Cuyahoga Wetland Enhancement	2001-0240-011	66.500	<u>9,955</u>
U.S. Department of Agriculture:			
Pass-Through Program from			
Ohio Department of Education:			
Family Daycare	IRN110270	10.558	<u>87,818</u>
U.S. Department of Health and Human Services:			
Pass-Through Program from Western Reserve Area			
Agency on Aging:			
Title III Shape Up	None	93.044	13,529
Health Education for Senior Adults	None	93.044	<u>42,800</u>
Total CFDA #93.044			<u>56,329</u>
National Science Foundation:			
Pass-Through Program from Brevard Community College:			
Spacetec-NSF	None	47.076	<u>26,348</u>
U.S. Department of Housing and Urban Development:			
Pass-Through Program from Cuyahoga County:			
Board of Health			
Lead Based Paint Hazard Control	None	14.900	21,065
Pass-Through Program from City of Cleveland:			
Entrepreneur Development (SEED) Program	None	14.246	<u>46,675</u>
Total U.S. Department of Housing and Urban Development			<u>67,740</u>

See Notes to Supplemental Schedule of Expenditures of Federal Awards.

(Continued)

CUYAHOGA COMMUNITY COLLEGE

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

Federal Grantor/Pass Through Grantor/Program Title	Pass-Through Number	Federal CFDA Number or Primary Grant Number	Expenditures
PUBLIC SERVICE			
U.S. Department of Labor			
WIA Cluster:			
Pass-Through Program from Cuyahoga County, Ohio:			
Integrated System Technology Training Program	None	17.260	996,562
Year-Round Youth Education and Training	CE 13100-01	17.259	93,650
Pass-Through Program from the City of Cleveland, Ohio:			
In-School Workforce Investment Act		17.259	<u>23,130</u>
Total CFDA #17.259			116,780
Total WIA Cluster			1,113,342
Pass-Through Program from Cuyahoga County, Ohio:			
Advance Tech Training Network	None	17.261	479,429
Pass-Through Program from the City of Cleveland, Ohio:			
Youth Opportunity	None	17.263	<u>131,888</u>
Total U.S. Department of Labor			<u>1,724,659</u>
National Endowment for the Arts—National Foundation on the Arts and Humanities			
Direct Program:			
JazzFest—NEA		45.024	20,000
JazzFest—Doris Duke - NEA		45.024	40,000
Pass-Through Program from Heartland Foundation:			
Jones/Amie Zane Dance Co.	FY03-89	45.024	<u>5,000</u>
Total National Endowment for the Arts— National Foundation on the Arts and Humanities			<u>65,000</u>
Corporation for National and Community Service			
Pass-Through Program from Center for Healthy Communities:			
Healthy Neighborhood	None	94.005	2,000
Pass-Through Program from Association for Gerontology in Higher Education:			
Intergenerational Service Learning	None	94.011	<u>7,850</u>
Total Corporation for National and Community Service			<u>9,850</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$25,541,501</u>

See Notes to Supplemental Schedule of Expenditures of Federal Awards.

(Concluded)

CUYAHOGA COMMUNITY COLLEGE

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

1. BASIS OF PRESENTATION

The accompanying Supplemental Schedule of Expenditures of Federal Awards (the "Schedule") reflects the expenditures of Cuyahoga Community College (the "College") under programs financed by the U.S. Government for the year ended June 30, 2003. The Schedule has been prepared using the accrual basis of accounting.

For purposes of the Schedule, federal awards include the following:

- Direct federal awards
- Pass-through funds received from non-federal organizations made under federally sponsored programs conducted by those organizations.

All programs are presented by federal department. Pass-through programs are also presented by the entity through which the College received the federal award. Catalog of Federal Domestic Assistance ("CFDA") Numbers or Primary Grant Numbers are presented for those programs for which such numbers are available.

2. FEDERAL LOAN PROGRAMS

Federal Perkins Loan Program—The outstanding balance under this federal loan program administered by the College is as follows:

	CFDA Number	Outstanding Balance at June 30, 2003
Federal Perkins Loan Program	84.038	<u>\$ 514,223</u>

Total loan disbursements under the program for the year ended June 30, 2003 are identified below:

	CFDA Number	Disbursements
Federal Perkins Loan Program	84.038	<u>\$ 56,743</u>

The above expenditures include disbursements and expenditures such as loans to students and administrative expenditures. The Schedule only includes administrative costs of the loan program.

Nursing Student Loan Program—The outstanding balance under this federal loan program administered by the College is as follows:

	CFDA Number	Outstanding Balance at June 30, 2003
Nursing Student Loan Program	93.364	<u>\$ 126,385</u>

There were no loan expenditures or disbursements under the program during the year ended June 30, 2003.

Federal Direct Student Loan Program—During the fiscal year ended June 30, 2003, the College processed the following amount of new loans under the Federal Direct Student Loan Program:

	CFDA Number	Amount Disbursed
Federal Direct Student Loan Program	84.268	<u>\$4,771,594</u>

* * * * *



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

Board of Trustees
Cuyahoga Community College

We have audited the financial statements of Cuyahoga Community College (the "College") as of and for the year ended June 30, 2003, and have issued our report thereon dated December 5, 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 statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance 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 for the internal control components does not reduce to a relatively low level the risk that misstatement 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 a material weakness. In addition, we noted other matters involving the internal control over financial reporting that we have reported to management of the College in a separate letter dated December 5, 2003.

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

Deloitte & Touche LLP

December 5, 2003



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

Board of Trustees
Cuyahoga Community College

Compliance

We have audited the compliance of Cuyahoga Community College (the "College") with the types of compliance requirements described in the *U.S. Office of Management and Budget ("OMB") Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2003. The College's major federal programs are identified in the summary of auditors' results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the College's management. Our responsibility is to express an opinion on the College's compliance based on our audit.

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

In our opinion, the College complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2003.

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, management, federal awarding agencies, pass-through entities and the Auditor of the State of Ohio and is not intended to be and should not be used by anyone other than those specified parties.

Deloitte & Touche LLP

December 5, 2003

CUYAHOGA COMMUNITY COLLEGE

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

Part I Summary of Auditors' Results

- Type of Report Issued on the Financial Statements as of and for the Year Ended June 30, 2003—Unqualified.
- Reportable Conditions in Internal Control Disclosed by the Audit of the Financial Statements—N/A (none reported).
- Noncompliance Noted that is Material to the Financial Statements of the College—None.
- Reportable Conditions in Internal Control Over Major Federal Award Programs Disclosed by the Audit of the Financial Statements—N/A (none reported).
- Type of Report Issued on Compliance for Major Federal Award Programs—Unqualified.
- The audit disclosed no audit findings required to be reported under section .510(a) of OMB Circular A-133.
- Major Federal Award Programs Identified for the Year Ended June 30, 2003:
 - Student Financial Aid Cluster Programs (CFDA #84.007, 84.033, 84.038, 84.063, 84.268 and 93.364)
 - Public Service Trio Cluster (CFDA #84.042, 84.044, 84.047, and 84.066)
 - Public Service WIA Cluster (CFDA #17.259 and 17.260)
- Dollar Threshold Used to Distinguish Between Type A and Type B Programs—\$930,313.
- The College is considered to be a Low Risk Auditee as defined under OMB Circular A-133.

Part II Financial Statement Findings

None

Part III Federal Award Findings and Questioned Costs

None

CUYAHOGA COMMUNITY COLLEGE

STATUS OF PRIOR YEAR COMMENTS ON INTERNAL CONTROL AND LEGAL COMPLIANCE FOR THE YEAR ENDED JUNE 30, 2003

There were no significant or material comments on internal control and legal compliance included in the prior year reports.



**Auditor of State
Betty Montgomery**

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CUYAHOGA COMMUNITY COLLEGE

CUYAHOGA COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
JANUARY 15, 2004**