

**CINCINNATI STATE TECHNICAL
AND COMMUNITY COLLEGE**

**REPORT ON AUDIT OF INSTITUTION
OF HIGHER EDUCATION
IN ACCORDANCE WITH OMB CIRCULAR A-133
June 30, 2006**



**Auditor of State
Betty Montgomery**

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

We have reviewed the *Report of Independent Auditors* of the Cincinnati State Technical and Community College, Hamilton County, prepared by Crowe Chizek and Company LLC for the audit period July 1, 2005 through June 30, 2006. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The Cincinnati State Technical and Community College is responsible for compliance with these laws and regulations.

A handwritten signature in black ink that reads "Betty Montgomery".

BETTY MONTGOMERY
Auditor of State

December 18, 2006

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CINCINNATI STATE TECHNICAL
AND COMMUNITY COLLEGE

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

June 30, 2006

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REPORT OF INDEPENDENT AUDITORS

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

We have audited the accompanying financial statements of the business-type activities of Cincinnati State Technical and Community College (the College), a component unit of the State of Ohio, as of and for the year ended June 30, 2006 and 2005, which comprise the College's basic financial statements 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 business-type activities of the College, as of June 30, 2006 and 2005, and its changes in net assets and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 18, 2006, 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 grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing results of our audit.

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

The Management's Discussion and Analysis (MD&A) on pages 3 to 11 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 this supplemental information. However, we did not audit the information and express no opinion on it.

Crowe Chizek and Company LLC

Crowe Chizek and Company LLC

Columbus, Ohio
September 18, 2006

**CINCINNATI STATE TECHNICAL AND COMMUNITY COLLEGE
MANAGEMENT'S DISCUSSION AND ANALYSIS**

INTRODUCTION

Our discussion and analysis of Cincinnati State Technical and Community College's (the "College") financial performance provides an overview of the College's financial activities for the years ended June 30, 2006, with selected comparative information for the years ended June 30, 2004 and 2005. This discussion has been prepared by management and should be read in conjunction with the financial statements and the notes thereto which follow this section.

Cincinnati State is a public, two-year college operating under the authority of the Ohio Board of Regents. Governed by a nine-member Board of Trustees, the College offers over 70 associate degree programs and majors and numerous certificate programs. In addition to pre-baccalaureate and technical programs, the College provides many continuing education opportunities through flexibly scheduled courses, seminars and on-site training for area businesses and industries and has one of the largest co-op education programs in the country. Cincinnati State is fully accredited by the North Central Association of Colleges and Schools (NCA) and holds numerous programmatic accreditations.

The College is currently participating in the Academic Quality Improvement Program (AQIP), an NCA program based on the Malcolm Baldrige National Award principles for organizational quality management. Many faculty and staff participate in the Continuous Quality Improvement Network (CQIN), a national organization that benchmarks best practices in higher education. Partnerships with the American Quality and Productivity Center, the American Society for Quality and the Association for Quality provide many training opportunities and other resources.

Cincinnati State serves four Ohio counties in the metropolitan Cincinnati area and counties in Northern Kentucky and Eastern Indiana. Educational programs and services are delivered at the main Clifton campus and three extension sites, Harrison, Evendale and Warren County, as well as several regional sites located in schools, non-profit agencies and organizations. Distance learning courses enroll students from outside and within the geographic region. At Cincinnati State, access means geographic convenience, affordability and resources to allow students to matriculate successfully.

USING THE FINANCIAL STATEMENTS

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

STATEMENT OF NET ASSETS

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

	<u>2006</u>	<u>2005</u>	<u>2004</u>
ASSETS			
Cash, cash equivalents and investments	\$ 11,027	\$ 4,793	\$ 16,872
Accounts receivable, net	6,864	7,014	6,348
Other assets	1,190	1,211	845
Capital assets, net	<u>93,874</u>	<u>96,746</u>	<u>87,193</u>
Total assets	<u>112,955</u>	<u>109,764</u>	<u>111,258</u>
LIABILITIES			
Accounts payable and accrued expenses	6,756	7,193	7,279
Deferred revenue	3,542	3,355	2,860
Debt	<u>49,245</u>	<u>48,942</u>	<u>49,083</u>
Total liabilities	<u>59,543</u>	<u>59,490</u>	<u>59,222</u>
NET ASSETS			
Invested in capital assets, net of related debt	45,915	46,365	50,052
Restricted	173	218	341
Unrestricted	<u>7,324</u>	<u>3,691</u>	<u>1,643</u>
Total net assets	<u>\$ 53,412</u>	<u>\$ 50,274</u>	<u>\$ 52,036</u>

Assets

Cash and investments make up 9.8%, 4.4% and 15% of total assets at June 30, 2006, 2005 and 2004, respectively. The significant increase in 2006 is primarily the result of an increase in revenues without a corresponding increase in expenses. An increase in enrollment boosted both tuition revenue and state appropriations. In addition a new student fee was levied. Cash includes bank deposits, overnight sweep investments and investments in the State Treasury Asset Reserve of Ohio (STAR Ohio) and other bank certificates of deposit.

Accounts receivable make up 6.1%, 6.4% and 5.7% of the total assets at June 30, 2006, 2005 and 2004, respectively. The decrease in accounts receivable is attributable primarily to more timely billing and collections of grants and contracts. In 2004, state appropriations included funding for capital projects. Accounts receivable include (*in thousands*):

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Grants	\$ 1,569	\$ 2,495	\$ 1,169
State appropriations	277	112	1,161
Student and other operating receivables	7,255	6,663	5,324
Allowance for doubtful accounts	<u>(2,237)</u>	<u>(2,256)</u>	<u>(1,306)</u>
	<u>\$ 6,864</u>	<u>\$ 7,014</u>	<u>\$ 6,348</u>

Capital assets, net of depreciation, make up 83.1%, 88.1% and 78.4% of the total assets at June 30, 2006, 2005 and 2004, respectively. The decrease in capital assets is due primarily to depreciation in 2006 exceeding capital additions as the Advanced Learning and Technology Center (ALTC) and other significant construction were completed in 2005. Other assets include prepaid expenses and cafeteria inventory.

Liabilities

Liabilities of \$6.8 million consist of accounts payable and accrued expenses primarily for wages, benefits, supplies and utilities and \$3.5 million of deferred revenue for summer-term classes, which is recognized in fiscal year 2007 when the majority of the term occurs.

The College issued bonds in fiscal year 2003 in the amount of \$47,580,000 for the construction of the ATLC and parking garage. The bonds are due to mature in the year 2029.

Net Assets

Invested in capital assets consists of capital assets net of accumulated depreciation and reduced by outstanding liabilities and debt attributable to the acquisition or construction of those assets. This is the largest net asset category totaling 86.0%, 92.2% and 96.2% of total assets at June 30, 2006, 2005 and 2004, respectively. Restricted net assets are subject to externally imposed stipulations that they be maintained permanently (unexpendable) or that they can be fulfilled by actions of the College pursuant to those stipulations (expendable). All of the College's restricted net assets are expendable. Unrestricted net assets are not subject to externally imposed stipulations and may be designated for specific purposes by action of management or

the Board of Trustees. Substantially all unrestricted net assets are allocated for academic and capital programs and initiatives.

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

The Statement of Revenues, Expenses and Changes in Net Assets present both the operating results and the nonoperating revenues and expenses of the College. State appropriations, while budgeted for operations, are considered nonoperating revenues. A summarized comparison for the years ended June 30 follows (*in thousands*):

	<u>2006</u>	<u>2005</u>	<u>2004</u>
REVENUES			
Tuition and fees, net	\$ 19,841	\$ 16,579	\$ 12,975
Grants and contracts	14,164	13,406	11,658
Sales and services	1,788	1,643	1,878
Auxiliary services	2,408	2,051	1,540
Other operating and nonoperating revenue and gifts	1,386	1,181	2,115
State instructional appropriations	24,081	23,404	20,337
State capital appropriations	<u>4,169</u>	<u>1,271</u>	<u>7,235</u>
Total revenues	<u>67,837</u>	<u>59,535</u>	<u>57,738</u>
EXPENSES			
Instruction	25,383	24,137	22,383
Public support	1,416	1,679	2,088
Academic support	3,957	3,581	3,440
Student services	5,725	5,343	4,908
Institutional support	10,972	11,511	10,685
Operations and maintenance of plant	6,785	5,059	4,007
Depreciation	4,797	4,758	3,769
Scholarships	1,223	852	1,064
Auxiliary services	2,159	1,973	1,452
Interest on capital asset related debt	<u>2,282</u>	<u>2,404</u>	<u>-</u>
Total expenses	<u>64,699</u>	<u>61,297</u>	<u>53,796</u>
Increase (decrease) in net assets	3,138	(1,762)	3,942
Net assets, beginning of year	<u>50,274</u>	<u>52,036</u>	<u>48,094</u>
Net assets, end of year	<u>\$ 53,412</u>	<u>\$ 50,274</u>	<u>\$ 52,036</u>

Revenues

State appropriations comprising state instructional subsidy and access challenge funding increased by \$677,000, or 2.9%, compared to fiscal year 2005.

State capital appropriations increased by \$2.9 million in fiscal year 2006. 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.

Student tuition and fees are reported net of scholarship allowance. Instructional revenues for fiscal year 2006 increased by \$3.5 million, or 13.1%, over fiscal year 2005 as a result of increased enrollment, a tuition rate increase and a new student fee. Financial aid in the form of grants and scholarships increased by \$269,000, or 2.6%, in 2006. The effect of netting the scholarship allowances against the instructional revenues resulted in a net increase in tuition and fees of \$3.3 million, or 19.7%.

Sales and services revenue consists primarily of workforce development job skills training. While there was a decline in activity in the industrial maintenance program, an increase in activity in the community outreach and health program resulted in a slight increase in workforce development revenues of \$48,000. Non-credit revenues through the College's community outreach program generated an increase of approximately \$286,000. Overall, sales and services revenues increased by \$145,000, or 8.8%.

Auxiliary services revenues consist of parking, cafeteria, childcare center, airport rental fees and fuel sales, and sales of the Midwest Culinary Institute (MCI). Parking revenues and cafeteria sales represent approximately 71.2% of the fiscal year 2006 total auxiliary services revenues of \$2.4 million. The increase of \$357,000, or 17.4%, over fiscal year 2005 comprises an increase in parking revenues of \$116,000, or 14.1%. In addition, in fiscal year 2006 the MCI opened a retail bakery and test-marketed a restaurant, which generated new revenue of \$139,000 and \$12,000, respectively.

Expenses

Expenses for fiscal year 2006 increased by \$3.4 million, or 5.6%, over fiscal year 2005. The change derives primarily from the following six functional categories of expense.

Instructional expenses increased by \$1.2 million or 5.2%. Increased spending for adjunct instructors, instructional overload and special units arises from the increases in enrollment and credit hours.

Academic support expenses increased by \$376,000, or 10.5%. Two of several reasons for the increase include filling vacant positions and hiring additional student workers.

Student services expenses increased by \$382,000, or 7.2%, as a result of needs generated by the increase in enrollment.

Operation & maintenance of plant expenses increased by \$1.7 million, or 34.1%, as a result of operating a new building for a full year and increases in utility costs.

Public support is made up largely of workforce development programs. Expenses decreased by \$263,000, or 15.7%, primarily as a result of the decline in activity of the industrial maintenance program.

The major portion of the increase in auxiliary services expenses of \$186,000, or 9.4%, was a result of opening a retail bakery.

STATEMENT OF CASH FLOWS

The Statement of Cash Flows provides additional information about the College's financial results by reporting the major sources and uses of cash. A comparative summary of the statements of cash flows for the years ended June 30 follows (*in thousands*):

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Net cash from operating activities	\$ (18,112)	\$ (20,165)	\$ (24,906)
Net cash flows provided by non-capital financing activities	24,081	23,404	20,337
Net cash flows from capital and related financing activities	(52)	(15,513)	(25,124)
Net cash flows provided by investing activities	<u>317</u>	<u>195</u>	<u>2,764</u>
Net increase (decrease) in cash and cash equivalents	6,234	(12,079)	(26,929)
Cash and cash equivalents, beginning of year	<u>4,793</u>	<u>16,872</u>	<u>43,801</u>
Cash and cash equivalents, end of year	<u>\$ 11,027</u>	<u>\$ 4,793</u>	<u>\$ 16,872</u>

The \$6.2 million increase in net cash flows results from increases in enrollment, the tuition rate, student fees and state instructional subsidy due to enrollment increases.

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

State appropriations are the primary source of non-capital financing activities. GASB Statement 35 requires that we reflect this source of revenue as nonoperating even though the College's budget depends on this to continue the current levels of operations. Had these resources been reported as operating revenue, the net cash used in operating activities would have been a surplus of \$6.0 million in 2006, a surplus of \$3.2 million in 2005 and a deficit of \$4.6 million in 2004.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

Capital assets, net of accumulated depreciation, totaled \$93.9 million at June 30, 2006, a decrease of \$2.8 million. Significant changes to capital assets during fiscal year 2006, included (in millions):

	Balance, June 30, <u>2005</u>	Net Additions/ <u>Reductions</u>	Balance, June 30, <u>2006</u>
Land	\$ 2.1	\$ 0.5	\$ 2.6
Land improvements	2.2	0.0	2.2
Buildings and improvements	111.7	1.1	112.8
Equipment and furniture	19.9	(9.5)	10.4
Library books and audio visual	1.5	0.1	1.6
Accumulated depreciation	<u>(40.7)</u>	<u>5.0</u>	<u>(35.7)</u>
Capital assets, net	<u>\$ 96.7</u>	<u>\$ (2.8)</u>	<u>\$ 93.9</u>

Equipment includes computer software. The decrease of \$9.5 million in that category is a result of removing fully depreciated software, and its accumulated depreciation, that had become obsolete.

Debt

At June 30, 2006, bonds payable, including the bond premium, amounting to \$48.9 million consisted of the General Receipts Bonds, Series 2002, for the ATLC and parking garage.

Debt increased by \$303,000, resulting from the addition of a \$546,000 capital lease for ATLC-related communication infrastructure less the annual principal payment and the annual amortization of the \$1.5 million bond premium on the General Receipts Bonds and the annual lease payment on the capital lease.

ECONOMIC IMPACT ON FUTURE OPERATIONS

The State of Ohio appropriations represented 41.6% of the College's total revenue sources for both 2006 and 2005. Costs, however, have continued to increase. In fiscal year 2006, the College exerted tight fiscal management, by exercising extensive cost-cutting and cost-saving measures, and by entering into new partnerships. While these measures continue, the Board of Trustees approved a 6% increase in tuition and fees effective summer term 2006.

The College must continue to position for its vital role in the economic future of the region. To that end, the College has created task forces for enrollment and retention. The work of these two groups has resulted in the creation of a student services web site; more frequent and

informative student orientations; enhanced delivery of financial aid; increased recruiting of non-traditional students; the addition of student activities, including clubs and student organizations; and more collaborative relationships among student-service organizations.

In fact, academic year 2006-2007 has been designated as “the year of retention.” A five-year plan has been developed to improve student retention. Faculty, staff and students are equal partners in this effort. One of the project goals is 59% retention rate of all first-time, full-time freshmen returning a second year. This is a 2% annual increase over a five-year period.

The decrease in state instructional subsidy, coupled with an increased demand for a highly educated workforce, necessitates that Cincinnati State partner with other regional educational institutions, with business, and with public and non-profit sectors to meet the challenge. Sponsored by Knowledge Works Foundation, STRIVE is the newest and most comprehensive regional consortium for aligning the Pre-K through 16 education system in order to promote workforce development by improving college access. The vision of the consortium is that, through collaborative efforts, all students in the Cincinnati and Northern Kentucky region will receive the necessary support to succeed throughout the education pipeline and obtain the skills necessary to succeed in a 21st century workforce. Partnerships like this allow the College to focus on its strengths as an educational institution and utilize its resources more effectively and efficiently in fulfillment of its mission.

The College exists in an increasingly competitive higher education environment and works to position itself to meet students’ needs better than its competitors. Institutional strategies have included expanded offerings in distance education and development of dual enrollment programs with the University of Cincinnati. The Center for Innovative Technologies (CIT) was launched in 2006 to position the College to compete more aggressively in information and engineering technologies education. CIT encompasses 24 academic programs recognized nationally for excellence and supported by the Advanced Technology & Learning Center (ATLC was opened in 2004) with state-of-the-art equipment and lab space. The Midwest Culinary Institute continues to affirm itself as top-tier with renowned faculty, additional offerings such as a Personal Chef Certificate and a successful culinary television show. A new program in Safety and Security Management with options in Construction Safety, Healthcare Leadership, and Hazardous Materials will establish the College as the regional leader in credit Public Safety education. Participation in the Ohio-mandated Transfer Assurance Guidelines enforces the quality of and value of Cincinnati State courses to students typically seeking a four-year college.

The College has made a commitment to creating an environment of continuous improvement through the Quality Management Initiative (QMI). This effort includes undergoing institutional reaccreditation from the Higher Learning Commission, a member of the North Central Association of Colleges and Schools via the Academic Quality Improvement Program (AQIP). AQIP is based on Malcolm Baldrige National Award principles for organizational quality management. In 2005, the College completed a 100-page Systems Portfolio that focused on processes, results, and improvement strategies. The College received a Systems Appraisal and has begun the process of addressing the feedback, which will assist long-term growth and efficiencies in operational areas.

Two continuing endeavors are the program review process and the program cost analysis project, both of which will enhance the quality of academic programs and obtain greater efficiencies in both academic and administrative program areas. Although still being refined, the process has already resulted in elimination of some low enrollment programs with allocation of these resources to growth areas.

The Workforce Development Center optimized its use of facilities by partnering with and relocating the Emergency Medical Services program. The facility is now fully deployed, and the Center expects to continue its profitability by working with local employers to offer credit courses on and off-site.

Finally, with energy costs continuing to escalate, the college is conducting a formal review of its energy consumption. It is the College's intent to incorporate the data from the study into the short- and long-range strategic planning process, resulting in new initiatives that will reduce energy costs.

Looking forward, the College is positioned to maintain its financial condition through stable-to-growing enrollments; through new financial resources, including partnerships and private gifts; by containing and sharing health care costs; by managing energy consumption; and by continuing to successfully control costs through firm fiscal management.

CINCINNATI STATE TECHNICAL AND COMMUNITY COLLEGE
STATEMENT OF NET ASSETS
June 30, 2006 and 2005

	<u>2006</u>	<u>2005</u>
ASSETS		
Current assets		
Cash and cash equivalents	\$ 11,026,260	\$ 4,785,731
Accounts receivable, net	6,864,474	7,013,802
Inventories	25,514	22,255
Prepaid and other assets	<u>630,892</u>	<u>566,319</u>
Total current assets	<u>18,547,140</u>	<u>12,388,107</u>
Noncurrent assets		
Cash and cash equivalents	1,136	7,261
Notes receivable, net	84,189	143,921
Other assets	448,166	478,878
Capital assets, net	<u>93,874,267</u>	<u>96,746,113</u>
Total noncurrent assets	<u>94,407,758</u>	<u>97,376,173</u>
Total assets	<u>112,954,898</u>	<u>109,764,280</u>
LIABILITIES		
Current liabilities		
Accounts payable	1,167,607	1,525,048
Accrued liabilities		
Wages	481,819	1,380,932
Compensated absences	3,509,978	3,123,887
Other	996,741	502,711
Interest	600,199	661,089
Deferred revenue	3,541,792	3,354,766
Current portion of long-term debt	<u>311,902</u>	<u>140,546</u>
Total current liabilities	10,610,038	10,688,979
Long-term debt	<u>48,932,876</u>	<u>48,801,370</u>
Total liabilities	<u>59,542,914</u>	<u>59,490,349</u>
NET ASSETS		
Invested in capital assets, net of related debt	45,915,588	46,365,734
Restricted	172,624	218,101
Unrestricted	<u>7,323,772</u>	<u>3,690,096</u>
Total net assets	<u>\$ 53,411,984</u>	<u>\$ 50,273,931</u>

See accompanying notes to financial statements.

CINCINNATI STATE TECHNICAL AND COMMUNITY COLLEGE
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
Years ended June 30, 2006 and 2005

	<u>2006</u>	<u>2005</u>
REVENUES		
Operating revenues		
Student tuition and fees, net of scholarships and student financial aid of \$10,595,425 and \$10,326,234 in 2006 and 2005, respectively	\$ 19,840,626	\$ 16,578,773
Federal grants and contracts	10,124,780	9,555,924
State and local grants and contracts	3,524,696	3,276,206
Nongovernmental grants and contracts	514,583	574,389
Sales and services of educational departments	1,788,033	1,643,434
Auxiliary enterprises	2,407,696	2,051,147
Other operating revenues	<u>988,943</u>	<u>887,400</u>
Total operating revenues	<u>39,189,357</u>	<u>34,567,273</u>
EXPENSES		
Operating expenses		
Instructional	25,383,064	24,136,481
Public support	1,415,547	1,678,627
Academic support	3,957,179	3,581,211
Student services	5,725,124	5,342,841
Institutional support	10,972,132	11,511,187
Plant operation and maintenance	6,785,143	5,059,068
Scholarships and student financial aid	1,222,913	852,194
Auxiliary enterprises	2,158,742	1,973,124
Depreciation	<u>4,797,904</u>	<u>4,758,045</u>
Total operating expenses	<u>62,417,748</u>	<u>58,892,778</u>
Operating loss	(23,228,391)	(24,325,505)
NONOPERATING REVENUES (EXPENSES)		
State appropriations	24,080,972	23,403,548
Interest on capital asset related debt	(2,282,123)	(2,404,330)
Investment income, net of investment expense	<u>316,588</u>	<u>194,786</u>
Net nonoperating revenues	<u>22,115,437</u>	<u>21,194,004</u>
Loss before other revenues, expenses, gains or losses	(1,112,954)	(3,131,501)
Capital appropriations from the state	4,168,954	1,270,715
Capital grants and gifts	<u>82,053</u>	<u>98,755</u>
Increase (decrease) in net assets	3,138,053	(1,762,031)
Net assets:		
Net assets, beginning of year	<u>50,273,931</u>	<u>52,035,962</u>
Net assets, end of year	<u>\$ 53,411,984</u>	<u>\$ 50,273,931</u>

See accompanying notes to financial statements.

CINCINNATI STATE TECHNICAL AND COMMUNITY COLLEGE
STATEMENTS OF CASH FLOWS
Years ended June 30, 2006 and 2005

	<u>2006</u>	<u>2005</u>
Cash flows from operating activities		
Tuition and fees	\$ 20,034,769	\$ 15,393,882
Federal, state and local grants and contracts	13,851,418	13,924,141
Payments to suppliers	(10,103,645)	(10,995,953)
Payments to utilities	(2,120,381)	(1,415,587)
Payments to employees	(31,520,620)	(28,966,917)
Payments for benefits	(10,570,784)	(10,435,661)
Payments for scholarships and student financial aid	(1,222,913)	(852,194)
Auxiliary enterprise revenues	248,954	78,023
Sales and services of educational activities	1,788,033	1,643,434
Other receipts	<u>1,503,525</u>	<u>1,461,789</u>
Net cash from operating activities	<u>(18,111,644)</u>	<u>(20,165,043)</u>
Cash flows from noncapital financing activities		
State appropriations	<u>24,080,972</u>	<u>23,403,548</u>
Cash flows from capital and related financing activities		
State capital appropriations	4,168,954	1,270,715
Principal payments on bonds	(140,546)	(140,592)
Proceeds from capital lease obligations	545,733	-
Principal payments on capital lease obligations	(102,325)	-
Interest payments on bonds and capital lease obligations	(2,343,013)	(2,344,464)
Capital grants and gifts received	82,053	98,755
Purchases of capital assets	<u>(2,262,368)</u>	<u>(14,397,137)</u>
Net cash from capital and related financing activities	<u>(51,512)</u>	<u>(15,512,723)</u>
Cash flows from investing activities		
Interest on investments	<u>316,588</u>	<u>194,786</u>
Net increase (decrease) in cash and cash equivalents	6,234,404	(12,079,432)
Cash and cash equivalents, beginning of year	<u>4,792,992</u>	<u>16,872,424</u>
Cash and cash equivalents, end of year	<u>\$ 11,027,396</u>	<u>\$ 4,792,992</u>
Reconciliation of net operating loss to cash from operating activities:		
Operating loss	\$ (23,228,391)	\$ (24,325,505)
Adjustments to reconcile operating loss to net cash from operating activities		
Depreciation expense	4,797,904	4,758,045
Loss on disposal of capital assets	336,310	85,958
Change in assets and liabilities		
Receivables	209,060	(587,526)
Inventories	(3,259)	(7,199)
Other assets	(33,861)	(438,347)
Accounts payable and accrued expenses	(376,433)	(145,115)
Deferred revenue	<u>187,026</u>	<u>494,646</u>
Net cash from operating activities	<u>\$ (18,111,644)</u>	<u>\$ (20,165,043)</u>

See accompanying notes to financial statements.

CINCINNATI STATE TECHNICAL AND COMMUNITY COLLEGE
NOTES TO FINANCIAL STATEMENTS
June 30, 2006 and 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization—Cincinnati State Technical and Community College (the College) is a community college organized under the laws of Ohio. The College is a two-year institution of higher education receiving assistance from the State of Ohio through enrollment-based subsidies. The subsidies are determined annually based upon a formula devised by the Ohio Board of Regents, adjusted to consider state resources available. The College offers associate degree programs and majors and certificate programs in a distinctive plan of cooperative education, which prepares students for employment and/or career advancement, upon graduation. Further, among other things, community college status allows the College to offer university transfer degrees (e.g., Associate of Art and Associate of Science degrees). The College is a component unit of the State of Ohio.

Basis of Presentation: The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB). 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.

In accordance with GASB Statement No 35, *Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities*, and subsequent standards issued by GASB, the College has elected to report as an entity engaged in business-type activities. GASB 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 asset 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 the use of which is subject to externally imposed stipulations that can be fulfilled by actions of the College pursuant to those stipulations or that expire by the passage of time.

Nonexpendable: Net assets subject to externally imposed stipulations that they be maintained permanently by the College.
- Unrestricted: Net assets the use of which 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 be limited by contractual agreements with outside parties.

(Continued)

CINCINNATI STATE TECHNICAL AND COMMUNITY COLLEGE
NOTES TO FINANCIAL STATEMENTS
June 30, 2006 and 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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 original maturity of three months or less to be a cash equivalent.

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

Capital Assets: Land, land improvements, buildings, equipment and library books are stated at cost at date of acquisitions or, in the case of gifts, fair value at date of donation. Fixed assets acquired prior to June 30, 1988, have been recorded on the basis of a cost-based appraisal prepared by an independent appraisal firm. Subsequent additions have been recorded at cost. Additions greater than \$5,000 are capitalized for furniture and fixtures and greater than \$1,000 for all other assets. Infrastructure assets are included in the financial statements and are depreciated. Depreciation is computed using the straight-line method over the estimated useful life of the asset. Expenditures for construction in progress are capitalized as incurred.

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

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

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

Grants and Scholarships: Student tuition and fees are presented net of scholarships and student financial aid applied directly to student accounts. Scholarships and student financial aid consist primarily of awards to students from 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.

(Continued)

CINCINNATI STATE TECHNICAL AND COMMUNITY COLLEGE
NOTES TO FINANCIAL STATEMENTS
June 30, 2006 and 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

Recent Accounting Pronouncements: For the year ended June 30, 2005, the College implemented GASB Statement No. 40, *Deposit and Investment Risk Disclosures*, an amendment of GASB Statement No. 3. This new standard revises the existing requirements regarding disclosure of custodial credit risk and establishes requirements regarding disclosure of credit risk, concentration of credit risk, interest rate risk and foreign currency risk. It has no impact on the amounts of investments, net assets or changes in net assets.

Termination Benefits - In 2006, Government Accounting Standards Board Statement No. 47, *Accounting for Termination Benefits* became effective. Currently, the College provides no benefits required to be recognized by this statement.

Component Unit Consideration: GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*, became effective on July 1, 2003. This Statement amended Statement 14, *The Financial Reporting Entity*, to provide additional guidance to determine whether certain organizations for which the primary government is not financially accountable should be reported as component units based on the nature and significance of their relationship with the primary government. Generally, it requires reporting, as a component unit, an organization that raises and holds significant economic resources for the direct benefit of a government unit. The Cincinnati State Technical and Community College Foundation is not included as a component unit of the College since its economic resources are not considered significant to the College.

NOTE 2 - CASH AND CASH EQUIVALENTS

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

(Continued)

CINCINNATI STATE TECHNICAL AND COMMUNITY COLLEGE
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2006 and 2005

NOTE 2 - CASH AND CASH EQUIVALENTS (Continued)

At June 30, 2006, the cash on hand was \$11,120, the carrying amount of the College's deposits was \$11,016,276 and the depository bank balance was \$11,741,289. The difference between the carrying amount and the depository bank balance is due principally to outstanding checks and deposits-in-transit. The bank balance includes \$5,080 in the State Treasury Asset Reserve of Ohio (STAR Ohio) for which the collateral requirements mentioned above do not apply. Of the remaining \$11,736,209 bank balance, \$100,000 was covered by federal depository insurance and \$11,636,209 was collateralized by pledged, pooled securities not in the College's name. STAR Ohio is an investment pool managed by the State Treasurer's Office that allows governmental entities within the State to pool their funds for investment purposes. STAR Ohio is not registered with the Securities Exchange Commission (SEC) as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price, which is the price the investment could be sold for on the measurement date.

A portion of the College's cash (\$1,136 and \$7,261 at June 30, 2006 and 2005) is noncurrent since it is designated for restricted purposes.

NOTE 3 - ACCOUNTS RECEIVABLE

Accounts receivable, net of allowance for doubtful accounts, as of June 30, 2006 and 2005, were as follows:

	<u>2006</u>	<u>2005</u>
Grants	\$ 1,569,348	\$ 2,494,602
State appropriations	277,499	112,459
Tuition and other	7,255,205	6,662,611
Allowance for doubtful accounts	<u>(2,237,578)</u>	<u>(2,255,870)</u>
	<u>\$ 6,864,474</u>	<u>\$ 7,013,802</u>

(Continued)

CINCINNATI STATE TECHNICAL AND COMMUNITY COLLEGE
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2006 and 2005

NOTE 4 - CAPITAL ASSETS

Capital assets activity for the years ended June 30, 2006, and 2005, was as follows:

	2006 Beginning <u>Balance</u>	<u>Additions</u>	<u>Disposals</u>	2006 Ending <u>Balance</u>
Land	\$ 2,096,976	\$ 486,473	\$ -	\$ 2,583,449
Land improvements	2,222,712	33,366	-	2,256,078
Buildings and improvements	111,703,123	1,348,330	(295,352)	112,756,101
Equipment and furniture	19,915,837	326,117	(9,885,813)	10,356,141
Library books and audio visual	<u>1,540,216</u>	<u>68,082</u>	<u>-</u>	<u>1,608,298</u>
Total fixed assets	137,478,864	2,262,368	(10,181,165)	129,560,067
Accumulated depreciation	<u>40,732,751</u>	<u>4,797,904</u>	<u>(9,844,855)</u>	<u>35,685,800</u>
Capital assets, net	<u>\$ 96,746,113</u>	<u>\$ (2,535,536)</u>	<u>\$ (336,310)</u>	<u>\$ 93,874,267</u>
	2005			2005
	Beginning <u>Balance</u>	<u>Additions</u>	<u>Disposals</u>	Ending <u>Balance</u>
Land	\$ 2,096,976	\$ -	\$ -	\$ 2,096,976
Land improvements	2,222,712	-	-	2,222,712
Buildings and improvements	61,073,163	50,676,692	(46,732)	111,703,123
Equipment and furniture	19,822,410	409,445	(316,018)	19,915,837
Library books and audio visual	1,465,401	74,815	-	1,540,216
Construction-in-progress	<u>36,763,815</u>	<u>(36,763,815)</u>	<u>-</u>	<u>-</u>
Total fixed assets	123,444,477	14,397,137	(362,750)	137,478,864
Accumulated depreciation	<u>36,251,498</u>	<u>4,758,045</u>	<u>(276,792)</u>	<u>40,732,751</u>
Capital assets, net	<u>\$ 87,192,979</u>	<u>\$ 9,639,092</u>	<u>\$ (85,958)</u>	<u>\$ 96,746,113</u>

The following estimated useful lives are used to compute depreciation:

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

(Continued)

CINCINNATI STATE TECHNICAL AND COMMUNITY COLLEGE
NOTES TO FINANCIAL STATEMENTS
June 30, 2006 and 2005

NOTE 5 - LONG-TERM DEBT

Long-term debt activity for the years ended June 30, 2006, and 2005, was as follows:

	Balance <u>July 1, 2005</u>	<u>Increase</u>	<u>Decrease</u>	Balance <u>June 30, 2006</u>	<u>Current</u>	<u>Long-Term</u>
General receipts						
bonds	\$ 47,530,000	\$ -	\$ (50,000)	\$ 47,480,000	\$ 85,000	\$ 47,395,000
Bond premium	<u>1,411,916</u>	-	<u>(90,546)</u>	<u>1,321,370</u>	<u>90,469</u>	<u>1,230,901</u>
Total	48,941,916	-	(140,546)	48,801,370	175,469	48,625,901
Capital lease obligation	-	<u>545,733</u>	<u>(102,325)</u>	<u>443,408</u>	<u>136,433</u>	<u>306,975</u>
Total	<u>\$ 48,941,916</u>	<u>\$ 545,733</u>	<u>\$ (242,871)</u>	<u>\$ 49,244,778</u>	<u>\$ 311,902</u>	<u>\$ 48,932,876</u>
	Balance			Balance		
	<u>July 1, 2004</u>	<u>Increase</u>	<u>Decrease</u>	<u>June 30, 2005</u>	<u>Current</u>	<u>Long-Term</u>
General receipts						
bonds	\$ 47,580,000	\$ -	\$ (50,000)	\$ 47,530,000	\$ 50,000	\$ 47,480,000
Bond premium	<u>1,502,508</u>	-	<u>(90,592)</u>	<u>1,411,916</u>	<u>90,546</u>	<u>1,321,370</u>
Total	<u>\$ 49,082,508</u>	<u>\$ -</u>	<u>\$ (140,592)</u>	<u>\$ 48,941,916</u>	<u>\$ 140,546</u>	<u>\$ 48,801,370</u>

During the year ended June 30, 2003, the College issued General Receipts Bonds, series 2002 for \$47,580,000 that bear interest rates between 2.25% to 5.25% and that mature in 2029. Proceeds were used for paying costs of capital facilities. The bonds are collateralized by a pledge of general receipts of the College. The College entered into the capital lease during the year ended June 30, 2006, to acquire communication infrastructure equipment. The cost of the equipment was approximately \$500,000 and has net book value of approximately \$479,000 at June 30, 2006.

(Continued)

CINCINNATI STATE TECHNICAL AND COMMUNITY COLLEGE
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2006 and 2005

NOTE 5 - LONG-TERM DEBT (Continued)

The annual debt service requirements to maturity for the bonds and capital lease obligations are as follows:

Year Ending <u>June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 221,433	\$ 2,417,958	\$ 2,639,391
2008	246,441	2,414,909	2,661,350
2009	681,431	2,400,596	3,082,027
2010	624,103	2,367,741	2,991,844
2011	1,065,000	2,318,350	3,383,350
2012-2016	8,270,000	10,479,563	18,749,563
2017-2021	11,730,000	7,825,594	19,555,594
2022-2026	15,075,000	4,302,253	19,377,253
2027-2029	<u>10,010,000</u>	<u>594,125</u>	<u>10,604,125</u>
Total	<u>\$ 47,923,408</u>	<u>\$ 35,121,089</u>	<u>\$ 83,044,497</u>

NOTE 6 - EMPLOYEE BENEFIT PLANS

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

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

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

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

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

(Continued)

CINCINNATI STATE TECHNICAL AND COMMUNITY COLLEGE
NOTES TO FINANCIAL STATEMENTS
June 30, 2006 and 2005

NOTE 6 - EMPLOYEE BENEFIT PLANS (Continued)

SERS and STRS plan members are required to contribute 10.0% of their annual salary. The College is currently required to contribute 14% of annual covered payroll for SERS and STRS. The contribution requirements of plan members and the College are established and may be amended by state statute. The College's contributions to SERS and STRS for the years ending June 30, 2006, 2005 and 2004, were as follows:

<u>Year</u>	<u>Contribution</u>	
	<u>SERS</u>	<u>STRS</u>
2006	\$ 1,145,003	\$ 2,815,270
2005	1,151,623	2,696,051
2004	1,059,894	2,611,443

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, 2006, no contributions or rollovers from other benefit plans have been made to approved providers.

NOTE 7 - OTHER POSTEMPLOYMENT BENEFITS

In addition to the pension benefits described in Note 6, SERS and STRS provide post-retirement health care coverage. The Ohio Revised Code provides the authority for public employers to fund post-retirement health care through their contributions. Information presented herein about the financial activities and position of SERS and STRS has been extracted from information provided to the College by officials of SERS and STRS. The Other Post employment Benefits expense is included in the College's annual contributions as described in Note 6.

(Continued)

CINCINNATI STATE TECHNICAL AND COMMUNITY COLLEGE
NOTES TO FINANCIAL STATEMENTS
June 30, 2006 and 2005

NOTE 7 - OTHER POSTEMPLOYMENT BENEFITS (Continued)

SERS: SERS coverage is made available to service retirees with ten or more years of qualifying service credit for disability and survivor benefit recipients. Effective January 1, 2004, all retirees and beneficiaries are required to pay a portion of their health care premium. The portion is based on years of services, Medicare eligibility and retirement status. A safety net is in place for retirees whose household income falls below the federal poverty levels. Premiums are reduced by 50% for those who apply.

After the allocation for basic benefits, the remainder of the employer's 14% contribution is allocated to providing health care benefits. At June 30, 2005, the health care allocation is 3.43%. In addition, SERS levies a surcharge to fund health care benefits equal to 14% of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal 2005, the minimum pay has been established at \$27,400. The surcharge, added to the unallocated portion of the 14% employer contribution rate, provides for maintenance of asset target level for the health care fund. Surcharge amounts billed to the College have not been significant.

Health care benefits are financed on a pay-as-you-go basis. The target level for the health care reserve is 150% of the annual health care expenses, before premium deduction. Gross expenses for health care at June 30, 2005 were \$218,816,560. At June 30, 2005, the Retirement System's net assets available for payment of health care benefits were \$267.5 million and the number of benefit recipients was approximately 62,000.

STRS: STRS Ohio provides access to health care coverage to retirees who participated in the Defined Benefit or Combined Plans and their dependents. Coverage under the current program includes hospitalization, physician fees, prescription drugs and partial reimbursement of monthly Medicare Part B premiums. Pursuant to the Ohio Revised Code (RC), the State Teachers Retirement Board (the Board) has discretionary authority over how much, if any, of the health care costs will be absorbed by STRS. All benefit recipients are required to pay a portion of the health care costs in the form of a monthly premium.

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

The Board allocates employer contributions to the Health Care Stabilization Fund from which health care benefits are paid. For the fiscal year ended June 30, 2005, the Board allocated employer contributions equal to 1% of covered payroll to the Health Care Stabilization Fund. The balance in the Health Care Stabilization Fund was \$3.3 billion on June 30, 2005.

(Continued)

CINCINNATI STATE TECHNICAL AND COMMUNITY COLLEGE
NOTES TO FINANCIAL STATEMENTS
June 30, 2006 and 2005

NOTE 7 - OTHER POSTEMPLOYMENT BENEFITS (Continued)

For fiscal year ended June 30, 2005, net health care costs paid by STRS were approximately \$254,780,000. There were 115,395 eligible benefit recipients.

NOTE 8 - COMPENSATED ABSENCES

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

Leave days may be accumulated and are absorbed by time off due to illness or injury, or, within certain limitations, paid to the employee upon retirement or termination. The amount paid to an employee upon retirement or termination is limited to one-third of the accumulated leave days up to a maximum payout of 65 days. Full-time employees who are not in the College's American Association of University Professors bargaining unit and were hired on or after March 1, 1990, are entitled to a maximum payout of 30 days. The College has accrued a liability for all accumulated days earned by the employees up to the maximum payout upon retirement. At June 30, 2006 and 2005, the liability for personal and/or sick leave was approximately \$2,458,000 and \$2,100,000, 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, 2006 and 2005, the liability for vacation was approximately \$1,052,000 and \$1,024,000, respectively.

NOTE 9 - GRANTS AND CONTRACTS

The College receives grants and contracts from certain federal, state and local agencies. The costs, both direct and indirect, that have been charged to the grant or contract are subject to examination and approval by the granting agency. It is the opinion of the College administration that any disallowance or adjustment of such costs would not have a material effect on the accompanying financial statements.

(Continued)

CINCINNATI STATE TECHNICAL AND COMMUNITY COLLEGE
NOTES TO FINANCIAL STATEMENTS
June 30, 2006 and 2005

NOTE 10 - LEASES

The College leases various equipment and facilities under operating leases. Rental expenditures relating to operating lease agreements were approximately \$239,000 and \$241,000 for the years ended June 30, 2006 and 2005, respectively. The approximate future minimum payments under operating leases at June 30, 2006, are due as follows:

2007		\$ 983,000
2008		641,000
2009		348,000
2010		106,000
2011		<u>9,000</u>
Total		<u>\$ 2,087,000</u>

NOTE 11 - AUXILIARY ENTERPRISES

Revenues and expenses of the College's auxiliary enterprises for the years ended June 30, 2006, and 2005, consist of the following:

<u>2006</u>	<u>Parking</u>	<u>Cafeteria</u>	<u>Airport</u>	<u>Childcare Center</u>	<u>MCI Auxiliary</u>	<u>Total</u>
Revenues	\$ 937,473	\$ 777,860	\$ 234,864	\$ 306,743	\$ 150,756	\$ 2,407,696
Expenses	<u>419,785</u>	<u>1,031,841</u>	<u>288,316</u>	<u>275,453</u>	<u>143,347</u>	<u>2,158,742</u>
Excess (deficiency) of revenues over expenses	<u>\$ 517,688</u>	<u>\$ (253,981)</u>	<u>\$ (53,452)</u>	<u>\$ 31,290</u>	<u>\$ 7,409</u>	<u>\$ 248,954</u>
 <u>2005</u>						
Revenues	\$ 821,686	\$ 736,694	\$ 212,889	\$ 279,877	\$ -	\$ 2,051,146
Expenses	<u>445,925</u>	<u>1,030,341</u>	<u>234,631</u>	<u>262,227</u>	<u>-</u>	<u>1,973,124</u>
Excess (deficiency) of revenues over expenses	<u>\$ 375,761</u>	<u>\$ (293,647)</u>	<u>\$ (21,742)</u>	<u>\$ 17,650</u>	<u>\$ -</u>	<u>\$ 78,022</u>

During the year ended June 30, 2006, the College opened the MCI auxiliary retail bakery and test-marketed a planned restaurant. Depreciation expense is not allocated to the individual auxiliary enterprise.

(Continued)

CINCINNATI STATE TECHNICAL AND COMMUNITY COLLEGE
NOTES TO FINANCIAL STATEMENTS
June 30, 2006 and 2005

NOTE 12 - RESTRICTED NET ASSETS

Restricted net assets are expendable for use in public service of approximately \$52,000 (2006) and \$50,000 (2005), and in student loans of approximately \$121,000 (2006) and \$168,000 (2005).

NOTE 13 - RISK MANAGEMENT

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

NOTE 14 - PENDING LITIGATION

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

CINCINNATI STATE TECHNICAL AND COMMUNITY COLLEGE
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 June 30, 2006

<u>Federal Grant/Program Title</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Federal CFDA</u>	<u>Federal Expenditures</u>
U. S. DEPARTMENT OF EDUCATION:			
Direct Programs			
Student Financial Aid Cluster			
Federal Pell Grant Program		84.063	\$ 6,841,806
Federal Perkins Loan Program		84.038	164,189
Federal Work Study Program		84.033	365,715
Federal Supplemental Educational Opportunity Grant Program		84.007	478,185
Federal Family Educational Loan Program		84.032	<u>17,406,025</u>
Total Student Financial Aid Cluster			25,255,920
TRIO Cluster			
Upward Bound		84.047	177,594
Student Support Services		84.042A	225,587
EOC		84.066	<u>221,753</u>
Total TRIO Cluster			624,934
Basic Grants to States		84.048	239,167
Child Care Solutions		84.335A	21,826
Disability Grant		84.333A	43,628
Pass through Cincinnati Public Schools			
CPS High School Tutoring	421253	84.341A	29,056
No Child Left Behind	424172	84.010	<u>77,204</u>
			106,260
Pass through University of Cincinnati			
Gaining Early Awareness and Readiness for Undergraduate Programs (GEAR-UP)	P000-030-J617/ P000-030-E968	84.334A	<u>726,849</u>
Total U. S. Department of Education			<u>27,018,584</u>

(Continued)

CINCINNATI STATE TECHNICAL AND COMMUNITY COLLEGE
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 June 30, 2006

<u>Federal Grant/Program Title</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Federal CFDA</u>	<u>Federal Expenditures</u>
U. S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
Direct Programs			
HCOP Grant		93.822	\$ 185,055
Passed through Hamilton County per DHS			
Tutoring Grant, passed through Hamilton County per DHS	83347	93.558	<u>43,374</u>
Total U. S. Department of Health and Human Services			<u>228,429</u>
FEDERAL AVIATION ADMINISTRATION, U. S. DEPARTMENT OF TRANSPORTATION			
FAA Airport Grant		20.106	<u>300,000</u>
U. S. DEPARTMENT OF LABOR			
Job Corp, passed through Management and Training Corp		17.257	<u>81,885</u>
Total Federal Awards			<u>\$ 27,628,898</u>

CINCINNATI STATE TECHNICAL AND COMMUNITY COLLEGE
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year ended June 30, 2006

NOTE 1 - BASIS OF ACCOUNTING

This schedule includes the federal awards activity of Cincinnati State Technical and Community College and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments and Non-profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the basic financial statements. Catalog of Federal Domestic Assistance (CFDA) numbers are presented for those programs for which such numbers were available. All programs are presented by federal department. Pass-through programs are also presented by the entity through which the College received the federal award.

NOTE 2 - LOANS

The College participates in the Federal Family Education Loan Program (including Stafford Loans and Supplemental Loans for Students). Loans processed by the College under this Loan Program were the following for the year ended June 30, 2006:

Unsubsidized Stafford Loan	\$ 9,988,244
Subsidized Stafford Loan	6,785,250
PLUS Loan	632,531

The College administers the Federal Perkins Loan Program (CDFA 84.038). The College made no expenditures or transfers for this program for the year ended June 30, 2006. Only the outstanding loan balance is included in the accompanying Schedule of Expenditures of Federal Awards totaling \$164,189 at June 30, 2006.



Crowe Chizek and Company LLC
Member Horwath International

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

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

We have audited the financial statements of Cincinnati State Technical and Community College (the College) as of and for the year ended June 30, 2006, and have issued our report thereon dated September 18, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the College's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving internal control that we have reported to management in a separate letter dated September 18, 2006.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the College's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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

Crowe Chizek and Company LLC

Crowe Chizek and Company LLC

Columbus, Ohio
September 18, 2006



Crowe Chizek and Company LLC
Member Horwath International

REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE
TO EACH MAJOR PROGRAM AND INTERNAL CONTROL
OVER COMPLIANCE IN ACCORDANCE
WITH OMB CIRCULAR A-133

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

Compliance

We have audited the compliance of Cincinnati State Technical and Community College (the College) with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2006. The College's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the College's management. Our responsibility is to express an opinion on the College's compliance based on our audit.

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

In our opinion, the College complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2006.

Internal Control Over Compliance

The management of Cincinnati State Technical and Community College is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, except for the functions performed at the College's contract outside service center in connection with processing transactions from the Perkins program, we considered the College's internal control over compliance with requirements that could have a direct and material effect on a major federal award program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course 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. However, we noted other matters involving compliance that we have reported to management in a separate letter dated September 18, 2006.

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

Crowe Chizek and Company LLC

Crowe Chizek and Company LLC

Columbus, Ohio
September 18, 2006

CINCINNATI STATE TECHNICAL AND COMMUNITY COLLEGE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
June 30, 2006

A. SUMMARY OF AUDITOR'S RESULTS

1. The auditor's report expresses an unqualified opinion on the financial statements of Cincinnati State Technical and Community College for the year ended June 30, 2006.
2. No instances of noncompliance material to the financial statements of Cincinnati State Technical and Community College were disclosed during the audit.
3. There were no reportable conditions relative to internal control over major federal award programs for Cincinnati State Technical and Community College.
4. The auditors' report on compliance for the major federal award programs for Cincinnati State Technical and Community College expresses an unqualified opinion.
5. There were no audit findings relative to the major federal award programs for Cincinnati State Technical and Community College.
6. Major programs include:

Student Financial Aid Cluster (consisting of):
 Federal Pell Grant Program, CFDA No. 84.063
 Federal Work Study Program, CFDA No. 84.033
 Federal Supplemental Educational Opportunity
 Grant, CFDA No. 84.007
 Federal Perkins Loan Program, CFDA No. 84.038
 Federal Family Education Loan Program, CFDA No. 84.032
7. The threshold for distinguishing Types A and B programs was \$306,686.
8. Cincinnati State Technical and Community College was determined not to be a low-risk auditee.

B. FINDINGS - FINANCIAL STATEMENT AUDIT

None

C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD AUDIT

None

(Continued)

CINCINNATI STATE TECHNICAL AND COMMUNITY COLLEGE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
June 30, 2006

D. CORRECTIVE ACTION PLAN

None

E. SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

See findings

CINCINNATI STATE TECHNICAL
AND COMMUNITY COLLEGE
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
June 30, 2006

FINDING 05-01 - Upward Bound (CFDA No. 84.047), Student Support Services (CFDA No. 84.042) and Educational Opportunity Center (CFDA No. 84.066)

During our testing and inquiry with management, we noted that the College is reimbursed for indirect costs under these programs but does not currently have a negotiated cost rate agreement in place.

Status: Corrective action has been taken.



**Auditor of State
Betty Montgomery**

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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
DECEMBER 28, 2006**