CINCINNATI STATE TECHNICAL AND COMMUNITY COLLEGE

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

June 30, 2007

Mary Taylor, CPA
Auditor of State

Board of Trustess
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, 2006 through June 30, 2007. 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.

Mary Taylor

Mary Taylor, CPA
Auditor of State

February 25, 2008

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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
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CONTENTS

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Crowe Chizek and Company LLC
Member Horwath International

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, 2007 and 2006, 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, 2007 and 2006, 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 October 11, 2007, 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 13 is not a required part of the basic financial statements but is supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of 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
October 11, 2007

INTRODUCTION

Our discussion and analysis of Cincinnati State Technical and Community College's (the "College") financial performance provides an overview of the College's financial activities for the year ended June 30, 2007, with selected comparative information for the years ended June 30, 2006 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)*:

	2007	2006	2005
ASSETS			
Cash, cash equivalents and investments	$ 15,376	$ 11,027	$ 4,793
Accounts receivable, net	6,350	6,864	7,014
Other assets	1,338	1,190	1,211
Capital assets, net	92,410	93,874	96,746
Total assets	115,474	112,955	109,764
LIABILITIES			
Accounts payable and accrued expenses	7,092	6,756	7,193
Deferred revenue	2,843	3,542	3,355
Debt	48,933	49,245	48,942
Total liabilities	58,868	59,543	59,490
NET ASSETS			
Invested in capital assets, net of related debt	44,588	45,915	46,365
Restricted	446	173	218
Unrestricted	11,572	7,324	3,691
Total net assets	$ 56,606	$ 53,412	$ 50,274

Assets

Cash and investments make up 13.3%, 9.8% and 4.4% of total assets at June 30, 2007, 2006 and 2005, respectively. This continues the trend that began last year that shows improved operating results increasing the College's cash and investments. 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 5.5%, 6.1% and 6.4% of the total assets at June 30, 2007, 2006 and 2005, respectively. The decrease in accounts receivable is attributable primarily to more timely billing and collections of grants and contracts. Accounts receivable include *(in thousands)*:

	2007	2006	2005
Grants	$ 1,195	$ 1,569	$ 2,495
State appropriations	1	277	112
Student and other operating receivables	7,741	7,255	6,663
Allowance for doubtful accounts	(2,587)	(2,237)	(2,256)
	$ 6,350	$ 6,864	$ 7,014

Capital assets, net of depreciation, make up 80.0%, 83.1% and 88.1% of the total assets at June 30, 2007, 2006 and 2005, respectively. The decrease in the capital assets percentage is due primarily to depreciation in 2007 and 2006 exceeding capital additions and the increase in cash and investments noted above. Other assets include prepaid expenses and cafeteria inventory.

Liabilities

Liabilities of $7.1 million consist of accounts payable and accrued expenses primarily for wages, benefits, supplies and utilities and $2.8 million of deferred revenue for summer-term classes, which is recognized in fiscal year 2008 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 Advance Technology & Learning Center (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 78.8%, 86.0%, and 92.2% of total net assets at June 30, 2007, 2006 and 2005, 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)*:

	2007	2006	2005
REVENUES			
Tuition and fees, net	$ 21,945	$ 19,841	$ 16,579
Grants and contracts	12,897	14,164	13,406
Sales and services	2,082	1,788	1,643
Auxiliary services	2,786	2,408	2,051
Other operating and nonoperating revenue and gifts	1,573	1,386	1,181
State instructional appropriations	26,051	24,081	23,404
State capital appropriations	2,156	4,169	1,271
Total revenues	69,490	67,837	59,535
EXPENSES			
Instruction	25,893	25,383	24,137
Public support	1,708	1,416	1,679
Academic support	4,066	3,957	3,581
Student services	5,884	5,725	5,343
Institutional support	12,692	10,972	11,511
Operations and maintenance of plant	6,456	6,785	5,059
Depreciation	3,590	4,797	4,758
Scholarships	1,226	1,223	852
Auxiliary services	2,369	2,159	1,973
Interest on capital asset related debt	2,412	2,282	2,404
Total expenses	66,296	64,699	61,297
Increase (decrease) in net assets	3,194	3,138	(1,762)
Net assets, beginning of year	53,412	50,274	52,036
Net assets, end of year	$ 56,606	$ 53,412	$ 50,274

Revenues

State appropriations comprising state instructional subsidy and access challenge funding increased by $2.0 million, or 8.2%, compared to fiscal year 2006.

State capital appropriations decreased by $2.0 million in fiscal year 2007. 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 2007 increased by $1,194,000, or 3.9%, over fiscal year 2006 as a result of a tuition rate increase and a full year of a new student fee implemented in 2006. Financial aid in the form of grants and scholarships decreased by $910,000, or 8.6%, in 2007 primarily due to a decrease in enrollment. The effect of netting the scholarship allowances against the instructional revenues resulted in a net increase in tuition and fees of $2.1 million, or 10.6%.

Sales and services revenue consists primarily of workforce development job skills training. Workforce development programs were realigned in fiscal year 2007. For-credit training generated an increase in workforce development revenues of $391,000. Non-credit revenues through the College's community outreach program decreased approximately $70,000. Overall, sales and services revenues increased by $294,000, or 16.4%.

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 71.5% of the fiscal year 2007 total auxiliary services revenues of $2.8 million. The increase of $378,000, or 15.7%, over fiscal year 2006 comprises an increase in parking revenues of $121,000, or 12.9%. In addition, in fiscal year 2007 the MCI opened a catering service, which generated new revenue of $135,000. The cafeteria took over vending operations in 2007. This resulted in additional revenue of $121,000 for the cafeteria in 2007.

Expenses

Expenses for fiscal year 2007 increased by $1.6 million, or 2.5%, over fiscal year 2006. The change derives primarily from the following six functional categories of expense.

Instructional expenses increased by $510,000 or 2.0%. Increased spending for adjunct instructors, instructional overload and special units arises from vacant positions.

Public support is made up largely of workforce development programs. Expenses increased by $292,000, or 20.6%, primarily as a result of an increase in workforce development programmatic activities.

Institutional support expenses increased by $1.7 million, or 15.7%. Reasons for the increase include filling vacant positions, increased use of contracted services and increasing the provision for doubtful receivables.

Operation and maintenance of plant decreased by $330,000 or 4.8%, due to a decrease in utility costs.

Depreciation expenses decreased by $1.2 million, or 25.2%, as a result of writing off software that became fully depreciated in 2006.

The major portion of the increase in auxiliary services expenses of $210,000, or 9.7%, was a result of opening a catering service in the MCI.

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):*

	2007	2006	2005
Net cash from operating activities	$ (19,693)	$ (18,112)	$ (20,165)
Net cash flows provided by non-capital financing activities	26,051	24,081	23,404
Net cash flows from capital and related financing activities	(2,710)	(52)	(15,513)
Net cash flows provided by investing activities	701	317	195
Net increase (decrease) in cash and cash equivalents	4,349	6,234	(12,079)
Cash and cash equivalents, beginning of year	11,027	4,793	16,872
Cash and cash equivalents, end of year	$ 15,376	$ 11,027	$ 4,793

The $4.3 million increase in net cash flows results from increases in the tuition rate, student fees and state instructional subsidy funding 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 $6.4 million in 2007, a surplus of $6.0 million in 2006, and a surplus of $3.2 million in 2005.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

Capital assets, net of accumulated depreciation, totaled $92.4 million at June 30, 2007, a decrease of $1.5 million. Significant changes to capital assets during fiscal year 2007, included (*in millions*):

	Balance, June 30, 2006	Net Additions/ Reductions	Balance, June 30, 2007
Land	$ 2.6	$ 0	$ 2.6
Land improvements	2.2	0	2.2
Buildings and improvements	112.8	1.9	114.7
Equipment and furniture	10.4	(.7)	9.7
Library books and audio visual	1.6	(.2)	1.4
Accumulated depreciation	(35.7)	(2.5)	(38.2)
Capital assets, net	$ 93.9	$ (1.5)	$ 92.4

Equipment includes computer software. The decrease of $700,000 in that category is a result of removing fully depreciated software.

Debt

At June 30, 2007, bonds payable, including the bond premium, amounting to $48.6 million consisted of the General Receipts Bonds, Series 2002, for the ATLC and parking garage. Capital lease obligations of $307,000 consist of communication infrastructure.

Debt decreased by $312,000, resulting from 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 new Governor of Ohio, Ted Strickland, has placed higher education at the top of Ohio's priorities, emphasizing affordability and quality. To that end, tuition has been frozen for two years to make college more affordable and accessible to Ohio's students and adult learners. However, as an investment in the transformed system of higher education, the Governor and the Legislature have increased state funding in the new state budget. Over the next biennium, state funding for the College will increase by $3.6 million. At the same time, the new state budget has mandated that state colleges and universities demonstrate efficiency savings of 1% and 3% in fiscal years 2008 and 2009, respectively, equating to $500,000 and $1.5 million, respectively. Collaboration among Ohio's institutions is also a central theme of the Governor's initiative.

In addition, Governor Strickland has elevated the Chancellor of the Ohio Board of Regents to a Cabinet-level position and, by executive directive, has ordered the Chancellor to create The University System of Ohio to meet Ohioan's needs for the 21st century.

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

Academics

In academics, proactive initiatives have included new program development, enhancement and elimination of weak programs, and forging innovative partnerships. Development of an Academic Master Plan and a Distance Learning Strategic Plan were also completed to address long-term trends.

Program development is based on a study of Ohio labor trends and the growth of new technologies. Renewable Energy, Power Systems and Building Technology will be available to students in the 2008 fall term. Biotechnology and Technology Management are new programs planned for the 2008 winter term.

During the past year, the College fully implemented the Program Review process based on a model involving program quality, cost, and enrollment. Three programs were eliminated and aggressive program enhancements were implemented for others. The estimated savings is $300,000. Improvements in the program review process are planned for the coming year, such as recognition of "flagship" programs and an early warning system for programs in trouble.

Several new partnership agreements have increased Cincinnati State's visibility and the success of student transfer to four-year programs. The most important new partnership with the University of Cincinnati, called "Cincinnati Pathways," provides Cincinnati State students with an integrated seamless pathway to a UC bachelor's degree. The guaranteed admission and guaranteed scholarship, plus a range of shared support activities such as advising, will increase enrollment at both institutions. Participation in the Ohio-mandated Transfer Assurance Guidelines enforces the quality and value of Cincinnati State courses and strengthens our four-year college agreements.

Agreements with corporate and community partners have been forged to support growth and innovative opportunities for students. The College has collaborated with MAX Technical Training to offer Information Technology classes at MAX's Mason, Ohio location. In December 2006, Cincinnati State received a President's Community-Based Job Training Grant for Healthcare. This $1.5 million grant supports efforts to increase our capacity in high-demand health programs such as Nursing, Respiratory Care, Surgical Technology and Occupational Therapy. Cincinnati State was one of only two colleges in Ohio to receive this grant. Cincinnati State continues to expand its Tech Prep agreements and now is the largest institution with about one third of the consortium's 1,000 college students. The Greater Cincinnati Tech Prep Consortium moved its headquarters to Cincinnati State in 2007 to solidify the partnership.

The quality of academic programs continues to be emphasized through successful professional reviews and numerous awards. The recent reaccreditations of Nursing, Diagnostic Medical Sonography (DMS) and Surgical Technology programs are examples. The Ohio Department of Education Office of Educator Preparation approved the Early Childhood Care and Education (ECE) program. Graphic Design students competed in the ADDY Awards (American Advertising Federation), winning best animation, best website, and best-in-show student entry. Our students won the Audience Choice Award, the Pre-Production Award, and the Best of Show Award, sweeping all the categories in competition with many four-year institutions in the 2006 Weekend Film Festival. Culinary faculty and students joined with the University of Cincinnati to win the *Culinology Gold Award* at the Research Chefs Association Annual Conference. Cooperative Education continues to be a cornerstone of the high quality educational experience at Cincinnati State. This year the College was inducted into the Cooperative Education Hall of Honor. Cincinnati State and Georgia Tech have been distinguished as the first college/university inductees.

Workforce Development

The Workforce Development Center is developing a Center of Excellence model that will position Cincinnati State as the premier regional training provider. This restructuring of our industry training model is designed to create synergy among similar program offerings across the College that will enhance the reputation of the College as a "full-service" training partner; create a "one-stop" approach for public- and private-sector organizations that will increase employee opportunities to receive academic credit through existing College certificates/degrees or customized programs; and establish the College as a "regional hub" in specific areas of training. The restructuring should be completed in approximately six months.

Quality Management

The College has made a commitment to creating an environment of continuous improvement through the Quality Management Initiative (QMI). This effort includes undergoing institutional reaccredidation from the Higher Learning Commission via the Academic Quality Improvement Program (AQIP). AQIP is based on Malcolm Baldrige National Award principles for organizational quality management. In this academic year, the College met all AQIP requirements.

Enrollment and Retention

Following four years of unprecedented enrollment growth, the College experienced a decrease in enrollment for 2006. The decline is attributed to a number of factors including the opening of a new nursing college that had previously contracted with the College, increased competition, flat high school graduation rates, rapidly declining population in the primary service area of Hamilton County, and strong employment opportunities.

Several initiatives have been implemented to respond to the decreased enrollment. They include new branding, targeted advertising, development of a website dedicated to prospective students, emerging distance learning opportunities, and new academic degree programs and certificates. In addition, a student services resource lab provides a dedicated environment for on-line registration. The web page has been redesigned to assist non-degree students with registration.

Enrollment for the 2007 fall term has increased by 3%.

The College continues to increase and improve academic support and student engagement through co-curricular and extracurricular activities to impact student persistence to graduation. The five-year strategic retention plan is being implemented and is showing early indications of increased retention in the first four terms of the academic year. Data outcomes for the first year experience course indicate that students completing the course successfully have a higher grade point average than those who do not enroll or complete the course successfully. A retention quality team focuses on improving customer service and on teaching and learning as it relates to student retention.

Master Plan

During this calendar year, Cincinnati State is developing a ten-year comprehensive College Master Plan for the future development of the College. It will include an Academic Master Plan that will forecast the future of educational programming and needs for additional resources. It will also include a Facilities Master Plan that evaluates existing land, infrastructure, facilities, and systems; visualizes spaces and technologies needed by the educational programs and services; and specifies the capital outlay projects necessary to meet these needs. Overall, the comprehensive College Master Plan will determine a logical structure for ordered growth and change so that the College determines best use of its resources.

These Master Plans will serve as the foundation for the upcoming strategic planning process.

Energy Management

The college is embarking on an energy conservation initiative under the coordinated management of the Ohio Department of Administrative Services. This project will include, in various buildings, installation of direct digital controls, enhancement of existing direct digital controls, installation of a high efficiency primary boiler, installation of gas-fired domestic water heaters, and lighting controls. This project will generate a reduction in annual utility costs of approximately 13%.

Information Technology

Technology has a significant impact on the College's competitive position, on the quality of academic programs and on administrative efficiencies. The College continues to make significant progress in instructional support, administrative computing, networking and infrastructure enhancements and user support. Management is fully committed to the financial support of information technology including several of the recently initiated endeavors—scheduling and event-planning software to allow more efficient use of facilities; online grade reports, registration statements and internal forms to eliminate paper, printing, postage, and mail handling costs; document imaging to reduce storage costs; and server virtualization to add infrastructure capacity without having to add hardware.

Fundraising

The Cincinnati State Foundation is charged with seeking private and public funding for the benefit of the College. The Foundation Board will strategically integrate its long-term fundraising objectives with the College's Master Plans to include specifically targeting major gifts and securing a greater number of individual and corporate endowed scholarship funds. The Foundation also instituted the Collegiate Corporate Partners campaign to increase giving, volunteerism, cooperative education and corporate training opportunities.

Summary

Looking forward, the College remains positioned to maintain its financial condition through enhanced academic programming, partnerships, continuous quality improvement and master planning; through growing enrollments and retention; and by continuing to successfully control costs through firm fiscal and operational management.

CINCINNATI STATE TECHNICAL AND COMMUNITY COLLEGE
STATEMENT OF NET ASSETS
June 30, 2007 and 2006

	2007	2006
ASSETS		
Current assets		
Cash and cash equivalents	$ 15,369,806	$ 11,026,260
Accounts receivable, net	6,349,905	6,864,474
Inventories	65,153	25,514
Prepaid and other assets	818,388	630,892
Total current assets	22,603,252	18,547,140
Noncurrent assets		
Cash and cash equivalents	6,628	1,136
Notes receivable, net	36,766	84,189
Other assets	417,483	448,166
Capital assets, net	92,410,145	93,874,267
Total noncurrent assets	92,871,022	94,407,758
Total assets	115,474,274	112,954,898
LIABILITIES		
Current liabilities		
Accounts payable	1,621,687	1,167,607
Accrued liabilities		
Wages	471,080	481,819
Compensated absences	3,574,248	3,509,978
Other	771,594	996,741
Interest	654,437	600,199
Deferred revenue	2,842,560	3,541,792
Current portion of long-term debt	336,788	311,902
Total current liabilities	10,272,394	10,610,038
Long-term debt	48,596,088	48,932,876
Total liabilities	58,868,482	59,542,914
NET ASSETS		
Invested in capital assets, net of related debt	44,587,900	45,915,588
Restricted	446,429	172,624
Unrestricted	11,571,463	7,323,772
Total net assets	$ 56,605,792	$ 53,411,984

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, 2007 and 2006

	2007	2006
REVENUES		
Operating revenues		
Student tuition and fees, net of scholarships and student financial aid of $9,684,958 and $10,595,425 in 2007 and 2006, respectively	$ 21,944,631	$ 19,840,626
Federal grants and contracts	8,806,790	10,124,780
State and local grants and contracts	3,599,994	3,524,696
Nongovernmental grants and contracts	489,842	514,583
Sales and services of educational departments	2,081,899	1,788,033
Auxiliary enterprises	2,786,157	2,407,696
Other operating revenues	828,256	988,943
Total operating revenues	40,537,569	39,189,357
EXPENSES		
Operating expenses		
Instructional	25,892,802	25,383,064
Public support	1,708,172	1,415,547
Academic support	4,066,518	3,957,179
Student services	5,883,600	5,725,124
Institutional support	12,692,250	10,972,132
Plant operation and maintenance	6,455,606	6,785,143
Scholarships and student financial aid	1,226,184	1,222,913
Auxiliary enterprises	2,368,936	2,158,742
Depreciation	3,589,805	4,797,904
Total operating expenses	63,883,873	62,417,748
Operating loss	(23,346,304)	(23,228,391)
NONOPERATING REVENUES (EXPENSES)		
State appropriations	26,050,719	24,080,972
Interest on capital asset related debt	(2,411,989)	(2,282,123)
Investment income, net of investment expense	701,122	316,588
Net nonoperating revenues	24,339,852	22,115,437
Increase (decrease) before other revenues, expenses, gains or losses	993,548	(1,112,954)
Capital appropriations from the state	2,155,765	4,168,954
Capital grants and gifts	44,495	82,053
Increase in net assets	3,193,808	3,138,053
Net assets:		
Net assets, beginning of year	53,411,984	50,273,931
Net assets, end of year	$ 56,605,792	$ 53,411,984

See accompanying notes to financial statements.

CINCINNATI STATE TECHNICAL AND COMMUNITY COLLEGE
STATEMENTS OF CASH FLOWS
Years ended June 30, 2007 and 2006

	2007	2006
Cash flows from operating activities		
Tuition and fees	$ 21,998,179	$ 20,034,769
Federal, state and local grants and contracts	12,215,998	13,851,418
Payments to suppliers	(10,739,989)	(10,103,645)
Payments to utilities	(2,082,465)	(2,120,381)
Payments to employees	(32,179,756)	(31,520,620)
Payments for benefits	(11,495,691)	(10,570,784)
Payments for scholarships and student financial aid	(1,226,184)	(1,222,913)
Auxiliary enterprise revenues	417,221	248,954
Sales and services of educational activities	2,081,899	1,788,033
Other receipts	1,318,098	1,503,525
Net cash from operating activities	(19,692,690)	(18,111,644)
Cash flows from noncapital financing activities		
State appropriations	26,050,719	24,080,972
Cash flows from capital and related financing activities		
State capital appropriations	2,155,765	4,168,954
Principal payments on bonds	(175,469)	(140,546)
Proceeds from capital lease obligations	-	545,733
Principal payments on capital lease obligations	(136,433)	(102,325)
Interest payments on bonds and capital lease obligations	(2,357,751)	(2,343,013)
Capital grants and gifts received	44,495	82,053
Purchases of capital assets	(2,240,720)	(2,262,368)
Net cash from capital and related financing activities	(2,710,113)	(51,512)
Cash flows from investing activities		
Interest on investments	701,122	316,588
Net increase in cash and cash equivalents	4,349,038	6,234,404
Cash and cash equivalents, beginning of year	11,027,396	4,792,992
Cash and cash equivalents, end of year	$ 15,376,434	$ 11,027,396
Reconciliation of net operating loss to cash from operating activities:		
Operating loss	$ (23,346,304)	$ (23,228,391)
Adjustments to reconcile operating loss to net cash from operating activities		
Depreciation expense	3,589,805	4,797,904
Loss on disposal of capital assets	115,037	336,310
Change in assets and liabilities		
Receivables	561,992	209,060
Inventories	(39,639)	(3,259)
Other assets	(156,813)	(33,861)
Accounts payable and accrued expenses	282,464	(376,433)
Deferred revenue	(699,232)	187,026
Net cash from operating activities	$ (19,692,690)	$ (18,111,644)

See accompanying notes to financial statements.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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.

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.

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

- 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.

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.

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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.

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.

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Recent Accounting Pronouncements: In June 2004, the GASB issued Statement No. 45, *Accounting and Financial Reporting by Employees for Postemployment Benefits Other Than Pensions.* This statement establishes standards for the measurement, recognition, and display of other postemployment benefit expenses/expenditures and related liabilities (assets), note disclosures, and, if applicable, required supplementary information in the financial reports of employers subject to governmental accounting standards. The provisions of this statement are effective for financial statements for fiscal periods beginning after December 15, 2006. Because the College participates only in state sponsored postemployment benefit plans, the adoption of this statement requires certain additional disclosures in the footnotes but has no other impact on the financial statements.

In September 2006, the GASB issued Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues.* Governmental entities sometimes exchange an interest in their expected future cash flows from collecting specific receivables or specific revenues for immediate cash payments. This statement establishes criteria that the entity will use to ascertain whether the proceeds received should be reported as revenue or as a liability. The statement also includes guidance to be used for recognizing other assets and liabilities arising from the sale of specific receivables or future revenues, including residual interests and recourse provisions. The provisions of this statement are effective for financial statements for fiscal periods beginning after December 15, 2006. The College does not anticipate that this statement will have a material effect on its financial statements.

In November 2006, the GASB issued Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations.* This statement addresses accounting and reporting standards for pollution (including contamination) remediation obligations, which are obligations to address the current or potential detrimental effects of existing pollution by participating in pollution remediation activities such as site assessments and cleanups. The scope of the statement excludes pollution prevention or control obligations with respect to current operations and future remediation activities that are required upon retirement of an asset. The provisions of this statement are effective for financial statements for fiscal periods beginning after December 15, 2007. The College has not yet evaluated the impact that the adoption of this statement will have on its financial statements.

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

In May 2007, the GASB issued Statement No. 50, *Pension Disclosures - an amendment of GASB Statements No. 25 and No. 27.* This statement more closely aligns the financial reporting requirements for pensions with those for other postemployment benefits and, in doing so, enhances information disclosed in notes to financial statements or presented as required supplementary information by pension plans and by employers that provide pension benefits. The provisions of this statement are effective for financial statements for fiscal periods beginning after June 15, 2007. Because the College participates in only State sponsored postemployment benefit plans, the adoption of this statement requires certain additional disclosures in the footnotes but has no other impact on the financial statements.

In June 2007, the GASB issued Statement No. 51, *Accounting and Financial Reporting for Intangible Assets.* This statement requires that all intangible assets not specifically excluded by its scope provisions be classified as capital assets. Accordingly, existing authoritative guidance related to the accounting and financial reporting for capital assets should be applied to these intangible assets, as applicable. The statement also provides authoritative guidance that specifically addresses the nature of these intangible assets. The provisions of this statement are effective for financial statements for fiscal periods beginning after June 15, 2009. The College has not yet evaluated the impact that the adoption of this statement will have on its financial statements.

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.

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NOTE 2 - CASH AND CASH EQUIVALENTS (Continued)

At June 30, 2007, the cash on hand was $11,420, the carrying amount of the College's deposits was $15,365,014 and the depository bank balance was $15,626,847. 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 $5,117,485 in the State Treasury Asset Reserve of Ohio (STAR Ohio) for which the collateral requirements mentioned above do not apply. Of the remaining $10,509,362 bank balance, $100,000 was covered by federal depository insurance and $10,409,362 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 ($6,628 and $1,136 at June 30, 2007 and 2006) 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, 2007 and 2006, were as follows:

	2007	2006
Grants	$ 1,194,938	$ 1,569,348
State appropriations	769	277,499
Tuition and other	7,740,714	7,255,205
Allowance for doubtful accounts	(2,586,516)	(2,237,578)
	$ 6,349,905	$ 6,864,474

(Continued)

NOTE 4 - CAPITAL ASSETS

Capital assets activity for the years ended June 30, 2007 and 2006 was as follows:

	2007 Beginning Balance	Additions	Disposals	2007 Ending Balance
Land	$ 2,583,449	$ -	$ -	$ 2,583,449
Land improvements	2,256,078	-	-	2,256,078
Buildings and improvements	112,756,101	1,905,688	-	114,661,789
Equipment and furniture	10,356,141	335,032	(1,006,342)	9,684,831
Library books and audio visual	1,608,298	-	(205,805)	1,402,493
Total fixed assets	129,560,067	2,240,720	(1,212,147)	130,588,640
Accumulated depreciation	35,685,800	3,589,805	(1,097,110)	38,178,495
Capital assets, net	$ 93,874,267	$ (1,349,085)	$ (115,037)	$ 92,410,145

	2006 Beginning Balance	Additions	Disposals	2006 Ending Balance
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	1,540,216	68,082	-	1,608,298
Total fixed assets	137,478,864	2,262,368	(10,181,165)	129,560,067
Accumulated depreciation	40,732,751	4,797,904	(9,844,855)	35,685,800
Capital assets, net	$ 96,746,113	$ (2,535,536)	$ (336,310)	$ 93,874,267

The following estimated useful lives are used to compute depreciation:

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

(Continued)

NOTE 5 - LONG-TERM DEBT

Long-term debt activity for the years ended June 30, 2007 and 2006, was as follows:

	Balance July 1, 2006	Increase	Decrease	Balance June 30, 2007	Current	Long-Term
General receipts bonds	$ 47,480,000	$ -	$ (85,000)	$ 47,395,000	$ 110,000	$ 47,285,000
Bond premium	1,321,370	-	(90,469)	1,230,901	90,355	1,140,546
Total	48,801,370	-	(175,469)	48,625,901	200,355	48,425,546
Capital lease obligation	443,408	-	(136,433)	306,975	136,433	170,542
Total	$ 49,244,778	$ -	$ (311,902)	$ 48,932,876	$ 336,788	$ 48,596,088

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

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 bond agreement includes certain covenants and guidelines related to the College's indebtedness. 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 \$307,000 at June 30, 2007.

(Continued)

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 June 30	Principal	Interest	Total
2008	$ 246,433	$ 2,409,622	$ 2,656,055
2009	681,433	2,395,308	3,076,741
2010	624,109	2,362,454	2,986,563
2011	1,065,000	2,313,063	3,378,063
2012	1,140,000	2,257,000	3,397,000
2013-2017	9,245,000	10,003,063	19,248,063
2018-2022	12,330,000	7,186,144	19,516,144
2023-2027	15,850,000	3,503,069	19,353,069
2028-2029	6,520,000	224,500	6,744,500
Total	$ 47,701,975	$ 32,654,223	$ 80,356,198

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 for the year ended June 30, 2006 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)

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, 2007, 2006 and 2005, were as follows:

	Contribution	
Year	SERS	STRS
2007	$ 1,333,014	$ 2,848,303
2006	1,145,003	2,815,270
2005	1,151,623	2,696,051

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, 2007, 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 postemployment benefits expense is included in the College's annual contributions as described in Note 6.

(Continued)

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 25% 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, 2006, the health care allocation is 3.42%. 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 2006, the minimum pay has been established at $35,800. 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, 2006, were $228 million. At June 30, 2006, the Retirement System's net assets available for payment of health care benefits were $295 million and the number of benefit recipients was approximately 62,500.

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, 2006, 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 $3.5 billion on June 30, 2006.

(Continued)

NOTE 7 - OTHER POSTEMPLOYMENT BENEFITS (Continued)

For fiscal year ended June 30, 2006, net health care costs paid by STRS were approximately $282,743,000. There were 119,184 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, 2007 and 2006, the liability for personal and/or sick leave was approximately $2,473,000 and $2,458,000, 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, 2007 and 2006, the liability for vacation was approximately $1,101,000 and $1,052,000, 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)

NOTE 10 - LEASES

The College leases various equipment and facilities under operating leases. Rental expenditures relating to operating lease agreements were approximately $1,232,000 and $1,121,000 for the years ended June 30, 2007 and 2006, respectively. The approximate future minimum payments under operating leases at June 30, 2007, are due as follows:

2008	$ 974,000
2009	622,000
2010	254,000
2011	8,000
Total	$ 1,858,000

NOTE 11 - AUXILIARY ENTERPRISES

Revenues and expenses of the College's auxiliary enterprises for the years ended June 30, 2007, and 2006, consist of the following:

2007	Parking	Cafeteria	Airport	Childcare Center	MCI Auxiliary	Total
Revenues	$1,058,260	$ 934,660	$ 226,668	$ 274,412	$ 292,157	$ 2,786,157
Expenses	634,775	983,604	207,777	320,535	222,245	2,368,936
Excess (deficiency) of revenues over expenses	$ 423,485	$ (48,944)	$ 18,891	$ (46,123)	$ 69,912	$ 417,221

2006	Parking	Cafeteria	Airport	Childcare Center	MCI Auxiliary	Total
Revenues	$ 937,473	$ 777,860	$ 234,864	$ 306,743	$ 150,756	$ 2,407,696
Expenses	419,785	1,031,841	288,316	275,453	143,347	2,158,742
Excess (deficiency) of revenues over expenses	$ 517,688	$ (253,981)	$ (53,452)	$ 31,290	$ 7,409	$ 248,954

During the year ended June 30, 2006, the College opened the MCI auxiliary restaurant and catering service. Depreciation expense is not allocated to the individual auxiliary enterprise.

(Continued)

NOTE 12 - RESTRICTED NET ASSETS

Restricted net assets are expendable for use in public service of approximately $38,000 (2007) and $52,000 (2006), in student loans of approximately $75,000 (2007) and $121,000 (2006) and in debt service facility fee $333,000 (2007) and $0 (2006).

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.

Federal Grant/Program Title	Pass-Through Entity Identifying Number	Federal CFDA	Federal Expenditures
U. S. DEPARTMENT OF EDUCATION:			
Direct Programs			
Student Financial Aid Cluster			
Federal Pell Grant Program		84.063	$ 6,173,193
Academic Competitiveness Grant		84.375	39,180
Federal Perkins Loan Program		84.038	97,109
Federal Work Study Program		84.033	345,580
Federal Supplemental Educational Opportunity Grant Program		84.007	276,168
Federal Family Educational Loan Program		84.032	17,899,382
Total Student Financial Aid Cluster			24,830,612
TRIO Cluster			
Upward Bound		84.047	226,176
Student Support Services		84.042A	246,392
EOC		84.066	224,014
Total TRIO Cluster			696,582
Basic Grants to States		84.048	164,051
Pass through Cincinnati Public Schools			
No Child Left Behind	424172	84.010	71,606
Pass through University of Cincinnati			
Gaining Early Awareness and Readiness for Undergraduate Programs (GEAR-UP)	P000-030-J617	84.334A	695,678
Total U. S. Department of Education			26,458,529

(Continued)

Federal Grant/Program Title	Pass-Through Entity Identifying Number	Federal CFDA	Federal Expenditures
U. S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
Direct Programs			
HCOP Grant		93.822	$ 90,211
Passed through Hamilton County per DHS			
Academic Remediation		93.558	72,104
Tutoring Grant	83347	93.558	21,121
Total U. S. Department of Health and Human Services			183,436
U. S. DEPARTMENT OF TRANSPORTATION			
FAA Airport Grant		20.106	23,264
U. S. DEPARTMENT OF LABOR			
ETA		17.261	233,538
Community Based Job Training		17.269	5,581
Pass through Management and Training Corp.			
Job Corp		17.257	7,607
Total U. S. Department of Labor			246,726
Total Federal Awards			$ 26,911,955

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, 2007:

Unsubsidized Stafford Loan	$ 9,801,391
Subsidized Stafford Loan	7,305,381
PLUS Loan	792,610

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, 2007. Only the outstanding loan balance is included in the accompanying Schedule of Expenditures of Federal Awards totaling $97,109 at June 30, 2007.

Crowe

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*

Board of Trustees
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, 2007, and have issued our report thereon dated the same date as this report. 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 as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the College's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the College's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the College's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the College's financial statements that is more than inconsequential will not be prevented or detected by the College's internal control. . We consider the deficiency in internal control over financial reporting described in the financial statement findings section as item 07-01 to be a significant deficiency.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the College's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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.*

Cincinnati State Technical and Community College's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the College's response and, accordingly, we express no opinion on it.

We noted certain matters that we reported to management of the College in a separate letter dated October 11, 2007.

This report is intended solely for the information and use of the Board of Trustees, management, 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
October 11, 2007

Crowe

Crowe Chizek and Company LLC
Member Horwath International

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

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

Compliance

We have audited the compliance of Cincinnati State and Technical College (the "College") with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to its major federal program for the year ended June 30, 2007. The College's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal program is the responsibility of the College's management. Our responsibility is to express an opinion on the College's compliance based on our audit.

We conducted our audit 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 of the College's compliance with those requirements.

In our opinion, the College complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2007.

Internal Control Over Compliance

The management of the College is responsible for establishing and maintaining effective internal control over compliance with the 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 the 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, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the College's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses as defined below. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined below.

A *control deficiency* in the College's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the College's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the College's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the College's internal control.

We noted certain other matters that we have reported to management in a separate letter dated October 11, 2007.

This report is intended solely for the information and use of the Board of Trustees, management, 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
October 11, 2007

PART I: SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued	Unqualified			
Internal control over financial reporting:				
Material weakness(es) identified?		Yes	X	No
Significant deficiency identified not considered to be material weaknesses?	X	Yes		No
Noncompliance material to financial statements noted?		Yes	X	No

Federal Awards

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

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster Number
	Total Federal Student Aid (consisting of):
84.063	Federal Pell Grant Program
84.375	Academic Competitiveness Grant
84.033	Federal Work Student Program
84.007	Federal Supplemental Educational Opportunity Grant Program
84.038	Federal Perkins Loan Program
84.032	Federal Family Education Loan Program

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

(Continued)

PART II - FINANCIAL STATEMENT FINDINGS

FINDING 07-01

Criteria: The College should implement and maintain appropriate control procedures over all aspects of payroll processing including appropriate monitoring.

Condition: During our audit testing procedures, we noted timecards had been submitted for several student workers from one department for two pay periods instead of submitting the timecards each pay period as normal procedures would require. In addition, the timecards appeared almost identical, with the same hours for each day for each person. In our review of the situation with the Chief Fiscal Officer and Controller, they explained that the timecard processing situation for these students had come to their attention in January as part of the normal payroll processing procedures.

They further indicated that at that time the Controller met with the divisional and the department heads of this area to clarify the College's time recording and processing policies. The department head agreed to record actual hours worked for these students and to process the timecards biweekly. However, as part of our follow up of this matter during our year end procedures, it appears that this department has not changed its procedures and continues to record the time for these students as discussed above.

Based upon the observations noted above we believe that the controls over the program are deficient as follows:

- Student workers are not recording time based on actual hours worked.
- The time cards are being reviewed and approved even though the time cards do not report actual hours worked.
- The deficiencies continued even after discussion of what was considered appropriate procedures.

Cause: The cause appears to be a matter of convenience in that the students do not have to come in to submit their time cards and the department head can review and approve the time cards at one time.

Effect: The process as structured does not provide for adequate documentation that the students worked the hours for which they were paid.

Recommendation: We recommend that the College review the procedures over this program to ensure that the program is operating according to established policies related to payroll approval and documentation and that appropriate oversight and review of the program is maintained and documented. This would include students completing individual timecards for the specific time they worked, daily approval of the hours worked and submission of the approved timecards each pay period as required by College procedures. We also recommend that consideration be given to having the time cards approved by the divisional head in addition to the department head.

Management's Response: The College concurs with this finding.

(Continued)

Corrective Actions Taken or To Be Taken: The College has implemented additional policies and procedures including:

- A defined work schedule for each student
- A sign-in sheet that indicates work start and stop times and tasks completed
- Random checks of work being performed and documentation of these random checks
- Completion of timecards by the individual student
- Approver of timecards will monitor the accuracy of hours reflected on them
- Periodic assessment of work completed will be increased

In addition, divisional and finance office representatives will meet monthly to assess the compliance with the established procedures.

PART III - FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARDS

None

PART IV - SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

None

Mary Taylor, CPA
Auditor of State

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
MARCH 6, 2008

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