CINCINNATI STATE TECHNICAL AND COMMUNITY COLLEGE

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

June 30, 2012 and 2011

Dave Yost · Auditor of State

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 Horwath LLP, for the audit period July 1, 2011 through June 30, 2012. 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.

Dave Yost
Auditor of State

December 4, 2012

This page intentionally left blank.

CINCINNATI STATE TECHNICAL
AND COMMUNITY COLLEGE

REPORT ON AUDIT OF INSTITUTION OF HIGHER EDUCATION
IN ACCORDANCE WITH OMB CIRCULAR A-133
June 30, 2012 and 2011

CONTENTS

This page intentionally left blank.

Crowe Horwath LLP
Independent Member Crowe 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 years ended June 30, 2012 and 2011, 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 the 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 respective financial position of the business-type activities of the College, as of June 30, 2012 and 2011, and the respective changes in financial position and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated the same date as this report on our consideration of the College's internal control over financial reporting and on 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 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 the results of our audit.

Accounting principles generally accepted in the United States of America requires that the Management's Discussion and Analysis (MD&A) on pages 3 to 14 be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

(Continued)

Our audit was conducted for the purpose of forming an opinion on the financial statements that comprise the College's financial statements. 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 financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain other procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditure of federal awards is fairly stated, in all material respects, in relation to the financial statements as a whole.

Crowe Horwath LLP

Crowe Horwath LLP

Columbus, Ohio
October 15, 2012

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, 2012, with selected comparative information for the years ended June 30, 2011 and 2010. 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.

(Continued)

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)*:

	2012	2011	2010
ASSETS			
Cash, cash equivalents	$ 4,343	$ 2,455	$ 25,404
Investments	21,517	25,252	-
Accounts receivable, net	10,620	11,351	10,327
Other assets	2,489	1,293	1,571
Capital assets, net	85,588	86,290	86,545
Total assets	124,557	126,641	123,847
LIABILITIES			
Accounts payable and accrued expenses	9,021	9,304	8,486
Deferred revenue	4,065	5,687	5,687
Debt	45,708	45,959	47,111
Total liabilities	58,794	60,950	61,284
NET ASSETS			
Invested in capital assets, net of related debt	39,609	39,921	39,111
Restricted	3,971	3,103	3,169
Unrestricted	22,183	22,667	20,283
Total net assets	$ 65,763	$ 65,691	$ 62,563

Assets

Cash and investments make up 20.8%, 21.9% and 20.5% of total assets at June 30, 2012, 2011, and 2010, respectively. Cash includes bank deposits, overnight sweep investments and other bank certificates of deposit. In 2012, the College investments in corporate and government securities are not considered cash equivalents.

(Continued)

Accounts receivable make up 8.5%, 9.0% and 8.3% of the total assets at June 30, 2012, 2011 and 2010, respectively. The decrease in accounts receivable is attributable primarily to the lower. Accounts receivable include *(in thousands)*:

	2012	2011	2010
Grants	$ 1,773	$ 842	$ 866
State appropriations	-	641	-
Student and other operating receivables	12,629	13,643	12,757
Allowance for doubtful accounts	(3,782)	(3,775)	(3,296)
	$ 10,620	$ 11,351	$ 10,327

Capital assets, net of depreciation, make up 68.7%, 68.1% and 69.9% of the total assets at June 30, 2012, 2011 and 2010, respectively. The increase in the capital assets percentage is due primarily to the decrease in cash and investments and accounts receivable.

Other assets include prepaid expenses, bond escrow payments and cafeteria, restaurant and other College inventories.

Liabilities

Liabilities of $9.0 million consist of accounts payable and accrued expenses primarily for wages, benefits, supplies and utilities and $4.0 million of deferred revenue for summer-term classes, which is recognized in the fiscal year when the majority of the term occurs.

As discussed in more detail in the Debt section, on February 23, 2012, the College issued $38,775,000 in General Receipts Refunding Bonds, Series 2012 with an average effective interest rate of 3.33% to advance refund $36,815,000 of the outstanding Series 2002 bonds. The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of $2.37 million. This difference, reported as a deduction from bonds payable, is being charged to operations through the year 2029 using the effective-interest method. The College completed the advance refunding to reduce its total debt service payments over the next 17 years by $6.07 million and to obtain an economic gain (difference between the present values of the old and new debt service payments) of $5.01 million.

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 60.2%, 60.8% and 62.5% of total net assets at June 30, 2012, 2011 and 2010, 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.

(Continued)

A summarized comparison for the years ended June 30 follows *(in thousands)*:

	2012	2011	2010
REVENUES			
Tuition and fees, net	$ 28,827	$ 30,108	$ 28,193
Grants and contracts	25,506	25,137	19,780
Sales and services	1,680	1,657	1,441
Auxiliary services	5,262	4,811	4,242
Other operating and nonoperating revenue and gifts	1,893	1,818	1,384
State instructional appropriations	30,284	31,705	29,539
State capital appropriations	1,179	1,021	1,588
Total revenues	94,631	96,257	86,167
EXPENSES			
Instruction	36,815	37,292	33,815
Public support	3,918	2,004	2,177
Academic support	5,684	5,756	4,990
Student services	8,340	8,914	8,420
Institutional support	20,666	20,000	16,977
Operations and maintenance of plant	7,931	8,025	7,480
Depreciation	3,374	3,290	3,336
Scholarships	519	688	594
Auxiliary services	5,348	4,898	3,838
Interest on capital asset related debt	1,964	2,262	2,309
Total expenses	94,559	93,129	83,936
Increase in net assets	72	3,128	2,231
Net assets, beginning of year	65,691	62,563	60,332
Net assets, end of year	$ 65,763	$ 65,691	$ 62,563

Revenues

Revenues for fiscal year 2012 decreased by $1.6 million, or 1.7%, over fiscal year 2011. The change derives primarily from the following two (2) functional categories of revenue:

1. State instructional appropriations comprising state instructional subsidy decreased by $1.4 million, or 4.5%, compared to fiscal year 2011.

2. Student tuition and fees are reported net of scholarship allowance. Gross instructional revenues for fiscal year 2012 decreased by $1.7 million, or 3.5%, from fiscal year 2011. Financial aid in the form of grants and scholarships decreased by $422 thousand, or 2.3%, in 2012. Both decreases are due primarily to a decrease in enrollment. The effect of netting the scholarship allowances against the instructional revenues resulted in a net decrease in tuition and fees of $1.3 million or 4.3%.

Expenses

Expenses for fiscal year 2012 increased by $1.4 million or 1.5%, over fiscal year 2011. The change derives primarily from the following six (6) functional categories of expense:

1. Instructional expenses decreased by $477,000 or 1.3%. Decreased spending for adjunct instructors, instructional overload arises from decreased enrollment and unfilled vacancies.

(Continued)

2. Public support expenses increased by $1.9 million or 95.5%, primarily as a result of a new H2P grant of $20 million over three years.

3. Student services decreased by $574,000 or 6.4%, due to a decrease in grants and contracts related to this area as well as lower enrollment.

4. Institutional support expenses increased by $666,000 or 3.3%. Reasons for the increase include the new HR/payroll system implementation, strike-related legal fees and increased deferred maintenance projects.

5. The major portion of the increase in auxiliary services expenses of $450,000 or 9.2% was a result of increase in operations of food services and new auxiliary projects in the Midwest Culinary Institute (MCI).

6. The interest on capital asset related to debt decreased by $298,000 or 13.2% due the refinancing of the College's outstanding bond debt.

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):*

	2012	2011	2010
Net cash from operating activities	$ (45,798)	$ (40,673)	$ (38,776)
Net cash flows provided by non-capital financing activities	46,772	48,691	43,649
Net cash flows from capital and related financing activities	(3,226)	(6,062)	(1,853)
Net cash flows provided by investing activities	4,141	(24,905)	157
Net increase (decrease) in cash and cash equivalents	1,889	(22,949)	3,177
Cash and cash equivalents, beginning of year	2,454	25,403	22,226
Cash and cash equivalents, end of year	$ 4,343	$ 2,454	$ 25,403

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 and certain grants are the primary sources of non-capital financing activities. GASB Statement No. 35 requires that we reflect these sources 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 provided by operating activities would have been a surplus of $974,000 in 2012, $8.0 million in 2011 and $4.9 million in 2010.

(Continued)

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

Capital assets, net of accumulated depreciation, totaled $85.6 and $86.3 million at June 30, 2012 and 2012, a decrease of $0.7 and $0.2 million, respectively. Changes in capital assets during fiscal year 2012 and 2011, included (*in millions*):

	Balance, June 30, 2010	Net Additions/ Reductions	Balance, June 30, 2011	Net Additions/ Reductions	Balance, June 30, 2012
Land	$ 2.6	$ 0.0	$ 2.6	$ 0.0	$ 2.6
Land improvements	2.3	0.0	2.3	0.0	2.3
Buildings and improvements	117.1	1.0	118.1	3.9	122.0
Equipment and furniture	7.6	(0.3)	7.3	(0.2)	7.1
Library books and audio visual	1.6	0.0	1.6	0.1	1.7
Construction in Progress	0.0	1.8	1.8	(1.5)	0.3
Accumulated depreciation	(44.7)	(2.7)	(47.4)	(3.0)	(50.4)
Capital assets, net	$ 86.5	$ (0.2)	$ 86.3	$ (0.7)	$ 85.6

Debt

At June 30, 2012 and 2011, bonds payable amounting to $45.7 and $45.9 million, respectively, consisted of the General Receipts Bonds, Series 2002, for the ATLC and parking garage.

During the year ended June 30, 2003, the College issued General Receipts Bonds, Series 2002 for $47,580,000 that bore interest rates between 2.25% to 5.25% and that matured in 2029. Proceeds were used for paying costs of capital facilities.

On February 23, 2012, the College issued $38,775,000 in General Receipts Refunding Bonds, Series 2012 with an average effective interest rate of 3.33% to advance refund $36,815,000 of the outstanding Series 2002 bonds. The net proceeds of $40.47 million (after payment of $.44 million in underwriting fees, insurance, and other issuance costs) were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on these 2002 Series bonds. As a result, these 2002 Series bonds are considered to be defeased and the liability for those bonds has been removed from the statement of net assets. The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of $2.37 million. This difference, reported as a deduction from bonds payable, is being charged to operations through the year 2029 using the effective-interest method. The College completed the advance refunding to reduce its total debt service payments over the next 17 years by $6.07 million and to obtain an economic gain (difference between the present values of the old and new debt service payments) of $5.01 million.

(Continued)

ECONOMIC IMPACT ON FUTURE OPERATIONS

To bolster the Ohio economy, the Governor has placed higher education at the top of Ohio's priorities, emphasizing affordability, graduation, completion and quality. On September 11, 2012, Governor Kasich asked the state's university and college presidents to help him rewrite Ohio's higher education funding formula – the State Share of Instruction (SSI) – to move away from the current heavy reliance on enrollment and to place future funding focus on graduation and completion. This follows a successful effort last year by the university and college presidents to restructure the capital budget process and reallocate capital funding based on academic and workforce outcomes. The task force to restructure the SSI funding formula will be led by Dr. Gordon Gee, President of The Ohio State University, and report back to the Governor by the end of November.

Working in tandem with the Governor's initiatives, the Ohio Board of Regents has been asked to work with the University System of Ohio adult career centers, community colleges and universities to implement curricular models for graduating students with the skills employers are seeking as quickly and cost-effectively as possible. This Complete College Ohio initiative intends to provide comprehensive and bold new proposals to accomplish the goal of graduating more students and encouraging them to remain in Ohio upon graduation.

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

Strategic Planning

The College concluded its *Transition 2012* strategic plan and rolled out *Surging Forward* in September 2012, a three year plan developed under the leadership and guidance of President Dr. O'dell M. Owens. His strategic vision challenges the College to develop new revenue streams, expand development efforts to lower out-of-pocket tuition costs, improve internal community and provide academic support and incentives to foster student success.

The *Surging Forward plan* contains four strategic goals: <u>Increase Student Success</u> relates to improving graduation and retention rates; <u>Expand Our Reach</u> includes increasing enrollment at off-campus sites and recruitment of targeted demographic populations such as Hispanic/Latino, international, veteran and high school dual enrolled students; <u>Strengthen Fiscal Sustainability</u> involves increasing operating reserves and priority based budgeting as well as increasing non-traditional sources of revenue and scholarship funding; and <u>Build Community</u> seeks to enhance the internal community by providing professional development and leadership opportunities.

Academics

In academics, proactive initiatives to advance the College have focused on student retention and graduation. The strategies used are based on process improvements and establishing partnerships that have significant impact on our ability to build educational and employment pathways for students. These initiatives also support the College in achieving important financial objectives.

The Semester Transition was the most significant change in the core operations of the College since it converted from a technical school to a community college twenty years ago. Semester transition work started in 2009, and in Fall 2012 the College successfully changed from a quarter system to a semester school. The change was mandated by the Ohio Board of Regents in an effort to better align the state public institutions. The work involved redesign of every course and program curriculum, extensive outreach and advising of students, and system/process changes throughout most departments.

In addition, the College took advantage of the semester transition to implement as many improvements as possible to support student success. This included improvements in our academic residency, student fresh start, and probation policies. All course capacities were reviewed and adjusted as needed to increase our capacity while maintaining quality instruction. Examples of program efficiencies include Executive Assistant and Office Management, (two small programs) combined into one program, Administrative Assistant Technology; and Graphic Imaging Technology was moved to the successful Multimedia Cluster, sharing the first semester courses with the Graphic Design program. Six different Early Childhood Care and Education certificates, all with low enrollments, were combined into one certificate that serves the greatest needs within the child care employment sector.

Innovative partnerships have provided pathways for student success. Cincinnati State houses and leads the Southwest Ohio Tech Prep Consortium. With this work the College now has hundreds of high school articulation agreements in place to enable advance standing as students transition to college. The high school dual enrollment initiative was expanded and in Fall 2012 over 300 students will receive college credit while completing high school graduation requirements. Articulation and transfer of graduates to 4-year college programs is facilitated by the conversion to semesters. Agreements with the University of Cincinnati, Northern Kentucky University, Miami University, and many others are being updated. The College submitted and received approval for 184 State of Ohio transfer courses. Bachelor degree programs on campus through partnership with Tiffin University, Lindsey Wilson College, and Wilmington College have all grown.

Partnerships with community organizations such as Lower Price Hill Community School continue to provide more accessibility and preparation for special populations. This year the College added a partnership with CityLink, a new integrated social service provider, and River City Correctional Center.

New program development and expansion of Distance Education are major strategies to grow enrollment and address space limitations. This year marked the successful roll out of the Health Information Technology degree. Several fully online associate degrees and certificates were introduced and have students registered from across the country. More online and blended course sections were offered in 2011-12 generating 41,000 credit hours.

Lastly, the College opened its newest campus in downtown Middletown, Ohio on August 29, 2012. Originally projected at 200 students for the first full academic year, over 350 students enrolled for the Fall Semester alone. In its first year at Middletown, the College is offering fourteen (14) associate degree programs, five (5) certificate programs and fourteen (14) workforce development training programs for academic credit.

Workforce Development

The College's Workforce Development Center Campus ("WDC") in Evendale, Ohio, has become one of the premier regional providers of leading-edge credit and non-credit training and education services. Based on a client engagement model, the WDC"s programming and project development processes are driven entirely by employer needs and evaluated by established metrics to measure return-on-investment. The Center is aligned with Baldrige principles of performance excellence and is agile and precise in its prompt response to employer and business needs. Each primary program area has employer Advisory Committees which provide continuous feedback and focus on their workforce needs and career pathways.

(Continued)

As an entrepreneurial, revenue generating division of the College, the WDC provides supplemental income to help support the College's operational expenses. Gross revenues for FY 2012 were $3.5 million with net revenue of $1.72 million. Over one hundred organizations chose the WDC to provide training and consulting services including private sector, public, not-for-profit and educational organizations. During FY 2012, nearly 7,700 students attended more than 750 classes taught at the Evendale campus or client sites. Courses and programs ranged from seventy-seven General Electric Aviation's Jet Engine Teardown School (JETS) for engineers to an extensive Electrical Repairman program at AK Steel, created as part of the College's launch of the new Middletown campus.

Understanding and addressing the critical needs of dislocated workers and struggling businesses during the economic downturn has been a primary focus of the WDC during the past fiscal year. Establishing promising career pathways and stackable certificates through collaborations across the College greatly benefit citizens seeking opportunities, new careers or enhancing skill sets for incumbent workers seeking promotion. In this context, Program Managers meet promptly with newly dislocated workers from regional businesses being shuttered. During these meetings, they share training and career opportunities, such as the fully paid DOL bioscience certification program and the Health Information Technology grant certification training – two Ohio business sectors experiencing substantial growth and job opportunities. In addition, information is shared regarding open enrollment and accelerated programming in high job placement fields such as Pharmacy Technical and Phlebotomy.

The WDC has recently launched highly innovative programming and collaborations such as the urban core-focused Urban Accelerated Skills Training Academy funded by the Ohio Department of Job and Family Services as well as a national partnership with the American Society of Home Inspectors (ASHI) designed to certify students in this field. The WDC places its customer first in every area of its operations, and this focus continues to be the single most important contributor to the success of the clients and students it serves.

Quality Management

The College has made a commitment to fostering an environment of continuous improvement through its Quality Management Initiative (QMI), which began in 1997. In 2001, the College joined the Academic Quality Improvement Program (AQIP), an alternative process for maintaining accreditation through the Higher Learning Commission, a member of the North Central Association of Colleges and Schools. In addition to using AQIP for assessment and institutional improvement, the College engages in quality assessment benchmarking studies such as the National Community College Benchmark Project (NCCBP) and has participated in the Continuous Quality Improvement Network (CQIN) since 1999. CQIN is a national organization that benchmarks best practices in higher education. These partnerships provide opportunities for benchmarking against national and regional standards in assessing institutional performance

Enrollment and Retention

For FY 2012, total credit hours and FTEs were down 5.6% with headcount down 5.4%. There were a number of factors contributing to the overall enrollment decline, including transition to semesters, declining number of Ohio high school graduates, an improving regional employment picture and increasing completion from area public and proprietary colleges. For the FY 2013 Fall Semester, the College was just one of two Ohio universities/colleges that did not lose enrollment from the previous fall. This was due to the opening of the new Middletown campus, an extremely competitively priced tuition and fee structure and to the concentrated effort on the part of all College academic divisions/departments to restructure academic courses for semesters, provide the necessary student advising for the new course structures and to reach out to prospective students through the College's *Get There Sessions* run by the Admissions Department.

(Continued)

The College continues to take measures to improve enrollment and retention by improving academic support to impact student persistence to graduation. An important goal of the College's new strategic plan is to increase retention from its current 47.5% to 60% by the end of FY 2015.

Energy Management

The College has displayed strong leadership in controlling energy consumption while at the same time experiencing record growth. Multiple energy projects such as a HVAC DDC system replacement, lighting retrofits, window and door replacements, mechanical and equipment upgrades, sub-metering technology in the Main building for continuous commissioning, and block scheduling practices have accelerated the reduction of energy demand allowing the College to exceed HB 251 energy efficiency goals ahead of schedule. The College is engaged in exploring the installation of a possible solar field through design and development which could enhance studies associated with renewable energy initiatives and also provides an additional opportunity to reduce electric demand from an outside provider by the College. The College stopped purchasing electric power through the regulated market and began purchasing electric power through the deregulated market decreasing its costs by approximately 33% annually.

The electrical infrastructure replacement project for the Main building has been successfully completed, providing the College with quality sustainable power and business continuity through new control gear which was not possible from retired gear. The installation of laser and temperature sensors on all hoods in MCI labs to reduce energy by having hoods function on demand rather than continuous run. Smart metering project is almost complete for the entire Clifton campus which will allow live data on energy utilization 24/7 on a dashboard format which also enhances continuous commissioning efforts. Installation of a refrigeration temperature monitoring system is being done to regulate food storage areas. We have been designing several lighting retrofit projects to reduce costs for garages and the gym.

The College recycling initiative supported by a federal grant is successfully yielding nearly 4,000 lbs. of corrugated product, 3,000 lbs. of office paper, 2,000 lbs of aluminum, and 1,500 lbs. of plastic bottles annually. This reduces the amount of waste being transported to the landfill while also reducing disposal fees for the College. We are working with recycling team to initiated foods waste recycling to keep out of landfill. The goal to process food waste will reduce several hundred tons to the landfill which reduces waste removal cost for the college. The College is applying for a grant from the county for this project.

Information Technology

Information Technology Services (ITS) supports Cincinnati State's mission of teaching and learning by providing flexible, quality driven, leading-edge technologies that align with and meet the ever-changing needs of students, faculty, staff and community in the College's unique experiential learning environment. This past year, ITS successfully completed a major initiative to become Payment Card Industry (PCI) compliant. This effort has evolved into a larger, more inclusive Information Security Program that includes the establishment of an Information Security Council, and Information Security Awareness Program, information security policies, standards and change management processes and procedures.

Although nearly all IT equipment on campus is now on a refresh cycle, there is a significant amount of audio-visual equipment upgrades still pending. All classrooms have been upgraded to smart-rooms (approx. 180 rooms total). Smart-rooms include: Instructor PC, podium, document camera, VHS/DVD combo, touch panel controls, sound system, data/video projector. We continue to interface with outside companies/institutions - University of Cincinnati and Sinclair Community College - with electronic transcript exchange, and Regional Metro Bus System for discounted fares for students. ITS remains focused on supporting a paper-less environment using ImageNow for our campus document imaging and a custom developed electronic forms (eForms) system. There are over 170,000 eForms submitted annually.

(Continued)

In February 2012, Dr. David Hickey was appointed the new Vice President for Technology and Chief Information Officer (CIO) for the College. He joined the College from Mason City School District, Ohio where he was CIO and directed technology services for the District. Prior to that, Dr. Hickey was Director of Technology Services for Cincinnati Public Schools.

The following technology initiatives are planned to be completed during the 2012-2013 fiscal year: ITS Disaster Recovery/Business Continuity Plan, Colleague HR Payroll system, the first wave of mobile applications, Virtual Desktop, Altiris IT Management Suite and the R25/Schedule 25, an enterprise wide scheduling system.

Fund Raising

As part of the College's new strategic plan, Dr. Owens has launched the $*1,000 4 One* fundraising initiative that will raise $1 million annually for student scholarships over the next three years. Over $700,000 was raised in FY 2012, a 33% increase over FY 2011. Student Scholarships are a key component of the College's strategic plan as data has shown the significant impact they have on retention and graduation.

The Cincinnati State Foundation, a not-for-profit organization, through its volunteers and programs, promotes and supports the programs, services and capital improvement projects of the Cincinnati State Technical and Community College. The Cincinnati State Foundation operates so as to solicit, receive, hold, administer, and apply funds or other property, raised through gifts, devices, bequests, endowments, grants or otherwise, or proceeds thereof, for the benefit of Cincinnati State Technical and Community College.

College/Faculty Relations

The three-year collective bargaining agreement between the College and the Cincinnati State Chapter of the American Association of University Professors (AAUP) expired on September 5, 2011. On August 29, 2011, a State-appointed Fact Finder was brought in to evaluate and report on the outstanding issues. The Fact Finder's Report was issued on September 12, 2011. The Board of Trustees accepted the Fact Finder's Report on September 14, 2011; the AAUP rejected the Report on September 16. After giving a strike notice on September 12, 2011, the AAUP initiated a work stoppage on September 23, 2011. On September 30, 2011, the AAUP returned to work but without a contract. Negotiations were successfully concluded in late October and on November 3 2011, the Board of Trustees approved a new three-year collective bargaining agreement with the AAUP.

Middletown Campus

In a first of its kind in Ohio and as a key component of its strategic growth plan, the College entered into public/private collaboration agreement with Higher Education Partners, LLC, (HEP) of New Bedford, Massachusetts to open up a new Community College location in downtown Middletown, Ohio for Fall Semester 2012. Initial term of agreement with HEP is twenty (20) years with four (4) five (5) year renewals. The Collaboration Agreement has been approved by Ohio Attorney General.

The Middletown campus opened on August 29, 2012. Originally projected at 200 students for the first full academic year, over 350 students enrolled for the Fall Semester alone. In its first year at Middletown, the College is offering fourteen (14) associate degree programs, five (5) certificate programs and fourteen (14) workforce development training programs for academic credit. Additional academic program offerings are planned for the Spring Semester.

(Continued)

HEP purchased the 60,000 sq. ft. former CG&E building in downtown Middletown that will provide academic programming – on location, on-line and/or hybrid to up to a projected 5,000 students by end of 5 years within ten (10) mile radius of facility. HEP will invest up to $6 million in Middletown facility in acquisition, construction and equipment costs. The College will not be responsible for any of these costs but has approval over design, construction and equipment and the right to purchase the Middletown facility at end of initial term for HEP original acquisition cost.

The College has complete control over academic programs and educational approvals offered at Middletown. There are opportunities to share in royalties for jointly developed academic content. A joint marketing plan is being developed. HEP retains rights, duties and financial responsibilities relating to management, ownership and repair of facility but the College has complete control over use of facility.

The College will retain records and be financially accountable for direct academic costs, academic support costs and operating expenses at Middletown. HEP will pay the College 5% of these costs as indirect costs and will guarantee that revenues are never less than 105% of these expenses.

HEP will receive 15% of all revenues (service fee) from Middletown facility, including tuition and fees, Workforce Development programming revenue, State Subsidy, rental revenues and any other revenues received from other public/private sources, if Collaboration revenues are available. Once Collaboration income is sufficient to pay for ongoing and rolled forward service fee and unreimbursed building costs, all excess income goes to the College. Therefore the Collaboration Agreement is designed to protect the College from loss and provides for the possibility to receive excess income.

Summary

Looking forward, the College remains positioned to maintain its strong financial position through enhanced academic programming, higher student retention and graduation, partnerships, continuous quality improvement, fundraising and by continuing to successfully control costs through firm sound fiscal and operational management.

CINCINNATI STATE TECHNICAL AND COMMUNITY COLLEGE
STATEMENTS OF NET ASSETS
June 30, 2012 and 2011

	2012	2011
ASSETS		
Current assets		
Cash and cash equivalents	$ 4,343,475	$ 2,454,456
Investments	6,765,672	13,452,423
Accounts receivable, net	10,620,076	11,350,554
Inventories	144,606	83,009
Prepaid and other assets	1,908,594	913,858
Total current assets	23,782,423	28,254,300
Noncurrent assets		
Investments	14,750,845	11,799,434
Other assets	435,648	296,605
Capital assets, net	85,588,192	86,290,159
Total noncurrent assets	100,774,685	98,386,198
Total assets	124,557,108	126,640,498
LIABILITIES		
Current liabilities		
Accounts payable	2,124,830	2,600,376
Accrued liabilities		
Wages	1,249,933	1,189,733
Compensated absences	3,712,602	3,973,168
Other	1,414,001	904,207
Interest	519,543	635,962
Deferred revenue	4,064,653	5,686,655
Current portion of long-term debt	1,890,092	1,225,194
Total current liabilities	14,975,654	16,215,295
Long-term debt	43,818,184	44,734,264
Total liabilities	58,793,838	60,949,559
NET ASSETS		
Invested in capital assets, net of related debt	39,609,046	39,920,787
Restricted expendable	3,971,153	3,103,450
Unrestricted	22,183,071	22,666,702
Total net assets	$ 65,763,270	$ 65,690,939

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, 2012 and 2011

	2012	2011
REVENUES		
Operating revenues		
Student tuition and fees, net of scholarships and student financial aid of $17,586,572 and $18,008,913 in 2012 and 2011, respectively	$ 28,827,192	$ 30,107,838
Federal grants and contracts	6,222,947	4,476,252
State and local grants and contracts	1,220,877	1,496,448
Nongovernmental grants and contracts	1,574,903	2,179,039
Sales and services of educational departments	1,679,996	1,657,287
Auxiliary enterprises	5,261,699	4,810,654
Other operating revenues	1,476,319	1,432,321
Total operating revenues	46,263,933	46,159,839
EXPENSES		
Operating expenses		
Instructional	36,815,121	37,291,562
Public support	3,917,611	2,003,843
Academic support	5,684,332	5,756,486
Student services	8,340,299	8,913,906
Institutional support	20,665,845	20,000,317
Plant operation and maintenance	7,931,311	8,025,272
Scholarships and student financial aid	519,046	688,704
Auxiliary enterprises	5,348,039	4,898,052
Depreciation	3,374,071	3,290,357
Total operating expenses	92,595,675	90,868,499
Operating loss	(46,331,742)	(44,708,660)
NONOPERATING REVENUES (EXPENSES)		
State appropriations	30,284,352	31,704,543
Federal grants and contracts – non-exchange	16,487,284	16,986,730
Interest on capital asset related debt	(1,964,125)	(2,261,564)
Investment income, net of investment expense	405,957	346,551
Net nonoperating revenues	45,213,468	46,776,260
Increase (decrease) before other revenues, expenses, gains or losses	(1,118,274)	2,067,600
Capital appropriations from the state	1,179,346	1,020,761
Capital grants and gifts	11,259	39,607
Increase in net assets	72,331	3,127,968
Net assets		
Net assets, beginning of year	65,690,939	62,562,971
Net assets, end of year	$ 65,763,270	$ 65,690,939

See accompanying notes to financial statements.

CINCINNATI STATE TECHNICAL AND COMMUNITY COLLEGE
STATEMENTS OF CASH FLOWS
Years ended June 30, 2012 and 2011

	2012	2011
Cash flows from operating activities		
Tuition and fees	$ 28,588,487	$ 29,756,297
Federal, state and local grants and contracts	6,150,600	5,954,861
Payments to suppliers	(22,701,162)	(17,051,708)
Payments to utilities	(1,633,844)	(1,786,534)
Payments to employees	(44,573,134)	(45,792,033)
Payments for benefits	(15,755,306)	(16,246,398)
Payments for scholarships and student financial aid	(519,046)	(688,704)
Auxiliary enterprises revenues	5,261,699	4,810,654
Auxiliary enterprises expenses	(5,348,039)	(4,898,052)
Sales and services of educational activities	1,679,996	1,657,287
Other receipts	3,051,222	3,611,359
Net cash from operating activities	(45,798,527)	(40,672,971)
Cash flows from noncapital financing activities		
State appropriations	30,284,352	31,704,543
Federal grants and contracts – non-exchange	16,487,284	16,986,730
Net cash from noncapital financing activities	46,771,636	48,691,273
Cash flows from capital and related financing activities		
Capital appropriations from the state	1,819,752	380,355
Principal payments and refinancings on bonds	(1,140,000)	(1,152,310)
New borrowings	888,818	-
Interest payments on bonds and capital lease obligations	(2,080,543)	(2,273,966)
Capital grants and gifts received	11,258	39,607
Purchases of capital assets	(2,724,671)	(3,056,069)
Net cash from capital and related financing activities	(3,225,386)	(6,062,383)
Cash flows from investing activities		
Interest on investments	355,740	247,246
Purchases of investments	(10,284,034)	(25,152,552)
Proceeds from sales of investments	14,069,590	-
Net cash from investing activities	4,141,296	(24,905,306)
Net increase (decrease) in cash and cash equivalents	1,889,019	(22,949,387)
Cash and cash equivalents, beginning of year	2,454,456	25,403,843
Cash and cash equivalents, end of year	$ 4,343,475	$ 2,454,456

Non-cash activity – The advance refunding of $36,815,000 in bonds is considered a non-cash activity.

	2012	2011
Reconciliation of net operating loss to Cash from operating activities:		
Operating loss	(46,331,742)	$ (44,708,660)
Adjustments to reconcile operating loss to net cash from operating activities		
Depreciation expense	3,374,071	3,290,357
Provisions for doubtful accounts	953,536	1,253,781
Loss on disposal of capital assets	52,567	20,876
Change in assets and liabilities		
Receivables	(863,464)	(1,623,121)
Inventories	(61,597)	(30,015)
Other assets	(1,133,777)	294,026
Accounts payable and accrued expenses	(166,119)	829,825
Deferred revenue	(1,622,002)	(40)
Net cash from operating activities	$ (45,798,527)	$ (40,672,971)

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 does not conflict with or contradict GASB pronouncements. The College has elected to not apply FASB pronouncements issued after the applicable date.

GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*, provides 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 reports 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. The balance at June 30, 2012 and 2011 was primarily restricted for grants, scholarships and capital expenditures.

  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)

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 College'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.

Investments: Investments are reported at fair value based on quoted market prices. Changes in unrealized gains (losses) on the carrying value of investments are reported as a component of investment income in the Statements of Revenues, Expenses, and Changes in Net Assets.

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: Accumulated unpaid vacation and sick leave benefits have been accrued in accordance with GASB Statement No. 16, *Accounting for Compensated Absences*. The College uses the termination method to accrue sick leave compensated absences on the Statement of Net Assets.

Operating and Nonoperating Revenue: All revenues from programmatic sources are considered to be operating revenues. Included in nonoperating revenues are state appropriations, certain grants, 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 certain government programs. Payments made directly to students from scholarships and student financial aid is presented as student aid expense.

Federal Grants and Contracts: In accordance with GASB Statement No. 24, *Accounting and Financial Reporting for Certain Grants and Other Financial Assistance* and related implementation guidance, Pell Grants, and certain other grants are considered nonexchange transactions and are recorded as nonoperating revenues in the accompanying financial statements.

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Release of Restricted Funds: When expense is incurred for purposes for which both restricted and unrestricted resources are available, it is the College's policy to apply restricted resources first, then unrestricted resources as needed.

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

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

Adoption of New Accounting Pronouncements: GASB Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions - an amendment of GASB Statement No. 53*, issued June 2011. The provisions of this Statement are effective for periods beginning after June 15, 2011. This Statement is intended to improve financial reporting by state and local governments by clarifying the circumstances in which hedge accounting continues to be applied when a swap counterparty, or a swap counterparty's credit support provider, is replaced. The adoption of this guidance had no significant impact on the College's operating results or financial condition.

Recent Accounting Pronouncements: As of June 30, 2012, the GASB has issued the following statements not yet implemented by the College. The statements which might impact the College are as follows:

- GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Agreements*, issued November 2010. The provisions of this Statement are effective for periods beginning after December 15, 2011. This Statement addresses how to account for and report service concession arrangements (SCAs), a type of public-private or public-public partnership into which state and local governments are increasingly entering.

- GASB Statement No. 61, *The Financial Reporting Entity: Omnibus*, issued November 2010. The provisions of this Statement are effective for periods beginning after June 15, 2012. This Statement is designed to improve financial reporting for governmental entities by amending the requirements of Statements No. 14, *The Financial Reporting Entity,* and No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, to better meet user needs and address reporting entity issues that have come to light since those Statements were issued in 1991 and 1999, respectively.

- GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, issued December 2010. The provisions of this Statement are effective for periods beginning after December 15, 2011. This Statement is intended to enhance the usefulness of its Codification by incorporating guidance that previously could only be found in certain Financial Accounting Standards Board and American Institute of Certified Public Accountants ("AICPA") pronouncements.

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

- GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, issued June 2011. The provisions of this Statement are effective for periods beginning after December 15, 2011. This Statement is intended to improve financial reporting by providing citizens and other users of state and local government financial reports with information about how past transactions will continue to impact a government's financial statements in the future.

- GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, issued March 2012. The provisions of this Statement are effective for periods beginning after December 15, 2012. This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities.

- GASB Statement No. 66, *Technical Corrections – 2012 – an amendment of GASB Statements No. 10 and No. 62*, issued March 2012. The provisions of this Statement are effective for periods beginning after December 15, 2012. This Statement is intended to improve accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements, *Statements No. 54, Fund Balance Reporting and Governmental Fund Type Definitions, and No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*.

- GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*, issued June 2012. The provisions of this Statement are effective for periods beginning after June 15, 2014. This Statement is intended to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities.

The College's management has not yet determined the effect these statements will have on the College's financial statements.

<u>Reclassification</u>: Certain reclassifications have been made to the fiscal year 2011 amounts to conform with the fiscal year 2012 presentation. These reclassifications had no effect on the total net assets or change in net assets.

NOTE 2 – CASH, CASH EQUIVALENTS AND INVESTMENTS

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.

NOTE 2 – CASH, CASH EQUIVALENTS AND INVESTMENTS (Continued)

At June 30, 2012 and 2011, the cash on hand was $14,920 and $13,720, the carrying amount of the College's deposits was $4,328,555 and $2,440,913 and the depository bank balance was $5,399,918 and $3,121,298, respectively. The difference between the carrying amount and the depository bank balance is due principally to outstanding checks and deposits-in-transit. Of the $5,399,918 bank balance at June 30, 2012, $250,000 was covered by federal depository insurance and $5,149,918 was collateralized by pledged, pooled securities not in the College's name. Of the $3,121,298 bank balance at June 30, 2011, $250,000 was covered by federal depository insurance and $2,871,298 was collateralized by pledged, pooled securities not in the College's name.

The investment balance in both years includes $177 in State Treasury Asset Reserve of Ohio ("STAR Ohio") funds for which collateral requirements mentioned above do not apply as of June 30, 2012 and 2011. 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. Custodial credit risk for deposits is the risk that, in the event of a bank failure, the College's deposits may not be returned to the College. The College follows the deposit policy for custodial risk in accordance with the Ohio Revised Code.

The College also has an investment management agreement with PNC Bank, as permitted by state stature. The agreement allows (within state limits) investment in both debt and equity instruments. Investments at June 30, 2012 and 2011 were as follows:

	2012	2011
Investment Type		
Bond Funds	$ 20,779,609	$ 21,098,191
Money Market Funds	736,731	2,153,489
Certificates of Deposit	-	2,000,000
Star Ohio Funds	177	177
Total	$ 21,516,517	$ 25,251,857

Interest Rate Risk: As a means of limiting its exposure to fair value losses arising from rising interest rates and in accordance with state statutes, the College's investment policy limits investment portfolio maturities to five years of less.

As of June 30, 2012, the College investment maturities were as follows:

		Investment Maturities (in years)	
Investment Type	Fair Value	Less than 1	1 to 5
U.S. Government Obligations	$ 7,479,788	$ 1,152,772	$ 6,327,016
U.S. Government Agency Bonds	11,786,091	3,362,262	8,423,829
Corporate Bonds	1,513,730	1,513,730	-
Star Ohio Funds	177	177	-
Subtotal	20,779,786	6,028,941	14,750,845
Money Market Funds	736,731	736,731	-
Total	$21,516,517	$ 6,765,672	$14,750,845

(Continued)

NOTE 2 – CASH, CASH EQUIVALENTS AND INVESTMENTS (Continued)

As of June 30, 2011, the College investment maturities were as follows:

		Investment Maturities (in years)	
Investment Type	Fair Value	Less than 1	1 to 5
U.S. Government Obligations	$ 2,925,817	$ 1,303,857	$ 1,621,960
U.S. Government Agency Bonds	11,905,667	3,263,824	8,641,843
Corporate Bonds	6,266,707	4,731,076	1,535,631
Certificates of Deposit	2,000,000	2,000,000	-
Star Ohio Funds	177	177	-
Subtotal	23,098,368	11,298,934	11,799,434
Money Market Funds	2,153,489	2,153,489	-
Total	$ 25,251,857	$ 13,452,423	$11,799,434

Credit Risk: Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The College's investment policy contains provisions to manage credit risk.

As of June 30, 2012 and 2011, thirty percent ($6,455,940) and twenty-two percent ($5,527,621) of the College's portfolio is held in various Federal National Mortgage Association Notes, sixteen percent ($3,502,380) and eleven percent ($2,691,432) is held in various Federal Home Loan Mortgage Corporation Notes, and eight percent ($1,827,771) and eleven percent ($2,856,722) is held in various Federal Home Loan Bank Notes, respectively.

The credit ratings of the College's interest-bearing investments as of June 30, 2012, are as follows:

		Quality Ratings	
Investment Type	Fair Value	AAA (M)	AA+ (S&P)
Bond Funds	$ 20,779,609	$ 20,779,609	$ -
Money Market Funds	736,731	736,731	-
Star Ohio Funds	177	177	-
Total	$ 21,516,517	$ 21,516,517	$ -

The credit ratings of the College's interest-bearing investments as of June 30, 2011 are as follows:

		Quality Ratings	
Investment Type	Fair Value	AAA (M)	AA+ (S&P)
Bond Funds	$ 21,098,191	$ 20,147,721	$ 950,470
Money Market Funds	2,153,489	2,153,489	-
Certificates of Deposit	2,000,000	2,000,000	-
Star Ohio Funds	177	177	-
Total	$ 25,251,857	$ 24,301,387	$ 950,470

NOTE 3 - ACCOUNTS RECEIVABLE

Accounts receivable, net of allowance for doubtful accounts, as of June 30, 2012 and 2011, were as follows:

	2012	2011
Grants	$ 1,772,635	$ 842,041
State appropriations	-	640,406
Tuition and other	12,629,197	13,642,950
Allowance for doubtful accounts	(3,781,756)	(3,774,843)
	$ 10,620,076	$ 11,350,554

(Continued)

NOTE 4 - CAPITAL ASSETS

Capital assets activity for the years ended June 30, 2012 and 2011 was as follows:

2012	Beginning Balance	Additions	Transfers and Disposals	Ending Balance
Nondepreciable assets:				
Land	$ 2,583,449	$ 21,000	$ -	$ 2,604,449
Construction in progress	1,828,429	345,118	(1,828,429)	345,118
Total nondepreciable assets:	4,411,878	366,118	(1,828,429)	2,949,567
Depreciable assets:				
Land improvements	2,256,078	-	-	2,256,078
Buildings and improvements	118,132,268	2,023,881	1,828,429	121,984,578
Equipment and furniture	7,271,627	254,264	(413,126)	7,112,765
Library books and audio visual	1,619,244	80,408	(27,701)	1,671,951
Total depreciable assets:	129,279,217	2,358,553	1,387,602	133,025,372
Total cost:	133,691,095	2,724,671	(440,827)	135,974,939
Accumulated depreciation:				
Buildings and improvements	41,211,341	2,837,468	-	44,048,809
Equipment and furniture	5,470,933	453,630	(361,727)	5,562,836
Library books and audio visual	718,662	82,973	(26,533)	775,102
Total accumulated depreciation	47,400,936	3,374,071	(388,260)	50,386,747
Capital assets, net	$ 86,290,159	$ (649,400)	$ (52,567)	$ 85,588,192

2011	Beginning Balance	Additions	Transfers and Disposals	Ending Balance
Nondepreciable assets:				
Land	$ 2,583,449	$ -	$ -	$ 2,583,449
Construction in progress	-	1,828,429	-	1,828,429
Total nondepreciable assets:	2,583,449	1,828,429	-	4,411,878
Depreciable assets:				
Land improvements	2,256,078	-	-	2,256,078
Buildings and improvements	117,179,737	964,677	(12,146)	118,132,268
Equipment and furniture	7,691,902	166,165	(586,440)	7,271,627
Library books and audio visual	1,588,114	96,797	(65,668)	1,619,244
Total depreciable assets:	128,715,831	1,227,639	(664,254)	129,279,217
Total cost:	131,299,280	3,056,069	(664,254)	133,691,095
Accumulated depreciation				
Buildings and improvements	38,486,796	2,736,691	(12,146)	41,211,341
Equipment and furniture	5,569,183	471,833	(570,083)	5,470,933
Library books and audio visual	697,978	81,833	(61,149)	718,662
Total accumulated depreciation	44,753,957	3,290,357	(643,378)	47,400,936
Capital assets, net	$ 86,545,323	$ (234,288)	$ (20,876)	$ 86,290,159

(Continued)

NOTE 4 – CAPITAL ASSETS (Continued)

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

NOTE 5 - LONG-TERM DEBT

Long-term debt activity for the years ended June 30, 2012 and 2011 was as follows:

	Balance July 1, 2011	Additions	Reductions	Balance June 30, 2012	Current	Long-Term
General receipts bonds	$ 45,085,000	$38,775,000	$(37,955,000)	$ 45,905,000	$1,900,000	$ 44,005,000
Bond Premium	874,458	2,133,199	(911,728)	2,095,929	212,523	1,883,406
Deferred refunding	-	(2,367,121)	74,468	(2,292,653)	(222,431)	(2,070,222)
Total	$ 45,959,458	$38,541,078	$(38,792,260)	$ 45,708,276	$1,890,092	$ 43,818,134

	Balance July 1, 2010	Additions	Reductions	Balance June 30, 2011	Current	Long-Term
General receipts bonds	$ 46,150,000	$ -	$ (1,065,000)	$ 45,085,000	$1,140,000	$ 43,945,000
Bond premium	961,768	-	(87,310)	874,458	85,194	789,264
Total	$ 47,111,768	$ -	$ (1,152,310)	$ 45,959,458	$1,225,194	$ 44,734,264

During the year ended June 30, 2003, the College issued General Receipts Bonds, Series 2002 for $47,580,000 that bore interest rates between 2.25% to 5.25% and that matured in 2029. Proceeds were used for paying costs of capital facilities. The bonds were collateralized by a pledge of general receipts of the College. The bond agreement includes certain covenants and guidelines related to the College's indebtedness.

On February 23, 2012, the College issued $38,775,000 in General Receipts Refunding Bonds, Series 2012 with an average effective interest rate of 3.33% and that matured in 2029 to advance refund $36,815,000 of the outstanding Series 2002 bonds. The net proceeds of $40.47 million (after payment of $.44 million in underwriting fees, insurance, and other issuance costs) were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on these 2002 Series bonds. As a result, these 2002 Series bonds are considered to be defeased and the liability for those bonds has been removed from the statement of net assets. The Series 2012 bond agreement also includes certain covenants and guidelines related to the College's indebtedness.

The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of $2.37 million. This difference, reported as a deduction from bonds payable, is being charged to operations through the year 2029 using the effective-interest method. The College completed the advance refunding to reduce its total debt service payments over the next 17 years by $6.07 million and to obtain an economic gain (difference between the present values of the old and new debt service payments) of $5.01 million.

(Continued)

NOTE 5 - LONG-TERM DEBT (Continued)

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

Year Ending June 30	Principal	Interest	Total
2013	$ 1,900,000	$ 1,106,019	$ 3,006,019
2014	1,885,000	1,508,238	3,393,238
2015	2,440,000	1,424,788	3,864,788
2016	2,230,000	1,313,738	3,543,738
2017	2,455,000	1,215,363	3,670,363
2018-2022	13,270,000	5,106,338	18,376,338
2023-2027	15,675,000	2,660,088	18,335,088
2028-2029	6,050,000	265,672	6,315,672
Total	$ 45,905,000	$ 14,600,244	$ 60,505,244

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, 2011 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

SERS and STRS plan members are required to contribute 10% 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, 2012, 2011 and 2010, were as follows:

	Contribution	
Year	SERS	STRS
2012	$ 2,052,156	$ 3,962,852
2011	1,978,920	4,210,630
2010	1,788,456	3,622,985

(Continued)

NOTE 6 - EMPLOYEE BENEFIT PLANS (Continued)

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.

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.

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.

The Health Care Fund was established under, and is administered in accordance with Internal Revenue Code § 105(e). Each year after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer 14% contribution to the Health Care Fund. For the years ended June 30, 2012, 2011 and 2010, the health care allocation is 0.55%, 1.43%, and .46%, respectively. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. State law provides that no employer shall pay a health care surcharge greater than 2% of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5% of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2012, the minimum compensation level was established at $35,800. The surcharge, added to the unallocated portion of the 14% employer contribution rate is the total amount assigned to the Health Care Fund. The College's contributions assigned to health care for the years ended June 30, 2012, 2011, and 2010 were $80,620, $202,133, and $58,764, respectively.

STRS: STRS Ohio provides access to health care coverage to eligible retirees who participated in the Defined Benefit or Combined Plans. Coverage under the current program includes hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare Part B premiums. Pursuant to Chapter 3307 of the Ohio Revised Code, the Retirement Board has discretionary authority over how much, if any, of the associated health care costs will be absorbed by STRS Ohio. All benefit recipients, for the most recent year, pay a portion of the health care costs in the form of a monthly premium.

The ORC 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.

(Continued)

NOTE 7 - OTHER POSTEMPLOYMENT BENEFITS (Continued)

Under Ohio Law, funding for post-employment health care may be deducted from employer contributions. Of the 14% employer contribution rate, 1% of the covered payroll was allocated to post-employment health care for 2012, 2011 and 2010. The portion of the College's 2012, 2011 and 2010 contributions to STRS Ohio used to fund post-employment benefits was $283,601, $300,759, and $258,785, respectively.

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 sick leave for which payment is deemed probable. This liability is in accordance with GASB 16, Accounting for Compensated Absences.

At June 30, 2012 and 2011, the liability for personal and/or sick leave was approximately $2,259,000 and $2,421,000, 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, 2012 and 2011, the liability for vacation was approximately $1,454,000 and $1,553,000, 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.

NOTE 10 - LEASES

The College leases various equipment and facilities under operating leases. Rental expenditures relating to operating lease agreements were approximately $1,825,000 and $1,742,000 for the years ended June 30, 2012 and 2011, respectively. The approximate future minimum payments under operating leases at June 30, 2012, are due as follows:

2013	$ 1,643,000
2014	1,359,000
2015	712,000
2016	636,000
2017	636,000
Total	$ 4,986,000

(Continued)

NOTE 11 - AUXILIARY ENTERPRISES

Revenues and expenses of the College's auxiliary enterprises for the years ended June 30, 2012 and 2011 consist of the following:

2012	Parking	Food Services	Airport	Childcare Center	MCI	CIT Studios	Total
Revenues	$ 1,471,325	$ 2,066,597	$ 262,343	$ 359,378	$1,078,338	$ 23,718	$ 5,261,699
Expenses	1,083,313	2,181,169	229,542	398,940	1,442,394	12,681	5,348,039
Excess (deficiency) of revenues over expenses	$ 388,012	$ (114,572)	$ 32,800	$ (39,561)	$ (364,056)	$ 11,037	$ (83,340)

2011	Parking	Food Services	Airport	Childcare Center	MCI	CIT Studios	Total
Revenues	$ 1,430,629	$ 1,649,954	$ 204,705	$ 365,601	$1,138,636	$ 21,130	$ 4,810,654
Expenses	1,305,444	1,535,409	178,606	396,202	1,470,116	12,275	4,898,052
Excess (deficiency) of revenues over expenses	$ 125,185	$ 114,545	$ 26,099	$ (30,601)	$ (331,480)	$ 8,855	$ (87,398)

NOTE 12 - RESTRICTED NET ASSETS

Restricted net assets are expendable for use in student loans of approximately $31,000 (2012) and $31,000 (2011) and in debt service facility fee of $3,940,000 (2012) and $3,073,000 (2011).

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.

(Continued)

NOTE 15 – SUBSEQUENT EVENT

In a first of its kind in Ohio and as a key component of its strategic growth plan, the College entered into public/private collaboration agreement with Higher Education Partners, LLC, (HEP) of New Bedford, Massachusetts to open up a new Community College location in downtown Middletown, Ohio for Fall Semester 2012. Initial term of agreement with HEP is twenty (20) years with four (4) five (5) year renewals. The Collaboration Agreement has been approved by Ohio Attorney General. The Middletown campus opened on August 29, 2012.

HEP will invest up to $6 million in the Middletown facility in acquisition, construction and equipment costs. The College will not be responsible for any of these costs but has approval over design, construction and equipment and the right to purchase the Middletown facility at end of initial term for HEP original acquisition cost.

The Collaborative Agreement provides for the College to receive Collaborative Agreement revenue equal to 105% of agreed upon expenses, for participation in agreed upon revenue by HEP and for excess net income to be received by the College. Therefore the Collaboration Agreement is designed to protect the College from loss and provides for the possibility to receive excess income.

SUPPLEMENTARY INFORMATION

Federal Grant/Program Title	Pass-Through Entity Identifying Number	Federal CFDA	Federal Expenditures
U. S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT			
Passed through Urban League			
Community Development Block Grants/Entitlement Grants		14.218	$ 42,769
U.S. DEPARTMENT OF LABOR			
Community Based Job Training Grants		17.269	127,181
Program of Competitive Grants for Worker Training and Placement in High Growth and Emerging Industry Sectors		17.275 - ARRA	1,369,806
Passed through Edison Biotechnology Center dba BioOhio			
Program of Competitive Grants for Worker Training and Placement in High Growth and Emerging Industry Sectors		17.275 - ARRA	425,401
			1,795,207
Trade Adjustment Assistance Community College and Career Training (TAACCCT) Grants		17.282	1,552,194
Total U.S. Department of Labor			3,474,582
U. S. DEPARTMENT OF TRANSPORTATION			
Airport Improvement Program		20.106	139,859
U. S. DEPARTMENT OF ENERGY			
Passed through the Greater Cincinnati Energy Alliance			
Energy Efficiency and Conservation Block Grant Program		81.128 - ARRA	172,226
U. S. DEPARTMENT OF EDUCATION:			
Student Financial Aid Cluster			
Federal Supplemental Educational Opportunity Grants		84.007	491,756
Federal Direct Student Loans		84.268	44,509,999
Federal Work-Study Program		84.033	397,915
Federal Pell Grant Program		84.063	16,487,284
Total Student Financial Aid Cluster			61,886,954
Passed through Cincinnati Public Schools			
Title I Grants to Local Educational Agencies	424172	84.010	21,178

(Continued)

Federal Grant/Program Title	Pass-Through Entity Identifying Number	Federal CFDA	Federal Expenditures
TRIO Cluster			
TRIO Student Support Services		84.042A	$ 253,990
TRIO Upward Bound Traditional		84.047A	156,549
TRIO Upward Bound Veteran's		84.047V	275,216
TRIO Educational Opportunity Center		84.066	216,170
Total TRIO Cluster			901,925
Center and Technical Education Basic - Grants to States		84.048	343,076
Tech-Prep Education		84.243A	14,313
Passed through University of Cincinnati			
Gaining Early Awareness and Readiness for Undergraduate Programs (GEAR-UP)	P000-030-J617	84.334A	263,249
Total U.S. Department of Education			63,430,695
U. S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
Passed through Cuyahoga Community College			
Health Information Technology Professionals in Health Care		93.721 - ARRA	187,920
CORPORATION FOR NATIONAL AND COMMUNITY SERVICE			
Passed through Greater Cincinnati Workforce Network			
Social Innovation Fund		94.019	68,265
Total Federal Awards			$ 67,516,316

See accompanying notes to schedule of expenditures of federal awards.

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 Direct Student Loans Program (CFDA 84.268) (including Direct Subsidized Loans, Direct Unsubsidized Loans and Direct PLUS Loans). Loans processed by the College under this Loan Program were the following for the year ended June 30, 2012:

Direct Unsubsidized Loans	$ 25,361,548
Direct Subsidized Loans	18,691,566
PLUS Loans	456,885
Total	$ 44,509,999

NOTE 3 – SUBRECIPIENTS

The College passes-through to not-for-profit providers (subrecipients) certain federal assistance received by the College directly from the federal awarding agency or from a pass-through entity. The subrecipient providers have certain compliance responsibilities related to administering these Federal programs. Under Federal Circular A-133 the College is responsible for monitoring subrecipients to help assure that Federal awards are expended for authorized purposes in compliance with law, regulations and the provisions of contracts or grant agreements, and that performance goals are achieved. Included within the Schedule of Expenditures of Federal Awards are the following awards passed through to subrecipients:

Federal Grant/Program Title	Federal CFDA	Federal Expenditures
Community Based Training Grants	17.269	$ 27,648
Program of Competitive Grants for Worker Training and Placement in High Growth And Emerging Industry Sectors	17.275 ARRA	842,562
Trade Adjustment Assistance Community College and Career Training (TAACCCT) Grants	17.282	909,825

Under the Trade Adjustment Community College and Career Training (TAACCCT) Grants the College has been identified as the lead institution in a consortium of co-grantees. The College has the overall fiscal and administrative responsibility for the grant and those funds identified have been passed through to co-grantees.

REPORT OF INDEPENDENT AUDITORS 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, 2012, 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

Management of the College is responsible for establishing and maintaining effective 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 *deficiency in internal control* 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 and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or 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*.

(Continued)

We noted certain matters that we reported to management of the College in a separate letter dated the same date as this report.

This report is intended solely for the information and use of management, Board of Trustees, others within the entity, the State of Ohio Office of the Auditor, 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 Horwath LLP

Crowe Horwath LLP

Columbus, Ohio
October 15, 2012

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON 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 Cincinnati State Technical and Community College's (the "College") compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the College's major federal programs for the year ended June 30, 2012. 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 of the College's compliance with those requirements.

In our opinion, the College complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 2012-01 and 2012-02.

Internal Control Over Compliance

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 to determine the 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, 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.

(Continued)

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies as described in the accompanying schedule of findings and questioned costs as items 2012-01 and 2012-02. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

The College's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the College's responses and, accordingly, we express no opinion on the responses.

We noted certain other matters that we have reported to management in a separate letter dated the same date as this report.

This report is intended solely for the information and use of management, Board of Trustees, the State of Ohio Office of the Auditor, 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 Horwath LLP

Crowe Horwath LLP

Columbus, Ohio
October 15, 2012

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued:	Unqualified	
Internal control over financial reporting:		
Material weakness(es) identified?	______ Yes	__X__ No
Significant deficiencies identified not considered to be material weaknesses?	______ Yes	__X__ None Reported
Noncompliance material to financial statements noted?	_______ Yes	__X__ No

Federal Awards

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

(Continued)

Section I - Summary of Auditor's Results (Continued)

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
17.275 - ARRA	Program of Competitive Grants for Workers Training and Placement in High Growth and Emerging Industry
17.282	Trade Adjustment Assistance Community College and Career Training (TAACCCT) Grants
	Student Financial Aid Cluster:
84.007	Federal Supplemental Educational Opportunity Grants
84.268	Federal Direct Student Loans
84.033	Federal Work-Study Program
84.063	Federal Pell Grant Program
84.048	Career and Technical Education – Basic Grants to States
93.721 - ARRA	Health Information Technology Professionals in Health Care

Dollar threshold used to distinguish between Type A and Type B programs: $ 300,000

Auditee qualified as low-risk auditee? ______Yes __X__ No

Section II - Financial Statement Findings

None

Section III - Federal Award Findings

Finding 2012-01

Federal Program Information: Federal Supplemental Educational Opportunity Grants, CFDA #84.007, Federal Direct Student Loans, CFDA #84.268, Federal Pell Grant Program, CFDA #84.063

Criteria: 34 CFR 668.22 – Treatment of Title IV funds when a student withdrawals

Condition: The following were noted based on our testing of return of fund calculations for 60 students:

a) 7 instances were noted where the calculation was not performed and therefore funds were not returned within 45 days of the school's determination that the student withdrew.
b) 1 instance was noted where the calculation was manually updated and the incorrect number of days in the term was used.

Questioned Costs:

a) $1,675 of Federal funds were not returned within 45 days of student's withdraw.
b) $1 of Pell was over-returned.

(Continued)

Section III - Federal Award Findings (Continued)

Finding 2012-01 (Continued)

Cause:	The College has developed system queries to identify withdrawn students and to perform the return of funds calculation when necessary. However, it was determined that the system was not correctly identifying withdrawn students with Title IV aid and as a result calculations were not prepared within the required time frame. Additionally, controls are not in place to review calculations overridden by advisors when manual calculations are performed.
Effect:	The College is not in compliance with return of Title IV requirements.
Recommendation:	We recommend that controls be implemented to ensure completeness of return of Title IV calculations being performed automatically by the system. Additionally, we recommend that procedures be implemented to identify and review calculations that have been manually performed to ensure calculations are performed in accordance with federal regulations.
Management's Response:	Management concurs with the finding.
Corrective Action:	The Office of Financial Aid (OFA) will continue to review regulations to ensure the office is compliant with policies regarding return of Title IV monies. In addition, OFA will work the Information Technology Services Division to develop, test, implement, and monitor the appropriate measures to ensure compliance with this process. For the 2012-2013 Academic Year, we will implement a quality assurance review of this process to make sure the system is working as expected.

Finding 2012-02

Federal Program Information:	Federal Supplemental Educational Opportunity Grants (SEOG), CFDA #84.007, Federal Work-Study Program (FWS), CFDA #84.033, Federal Pell Grant Program (PELL), CFDA #84.063
Criteria:	34 CFR 668.163 (d) Accounting and internal control systems and financial records.
Condition:	During our testing of the reconciliation of G5 cash draw downs and the general ledger, an instance was noted where amounts were drawn from the incorrect financial aid programs. FWS funds of $21,950 were drawn from SEOG and Pell funds $50,000 were drawn from FWS and not returned within the three day requirement. In addition, the SEFA and general ledger were initially incorrectly stated.
Questioned Costs:	None noted.
Cause:	While journal entries to record cash drawdowns are regularly reviewed by someone other than the person requesting the funds, it was not noted that incorrect programs were drawn from. In addition, management performs reconciliations between the financial aid office and the accounting office as to disbursements made but they do not compare these reconciliations to drawdowns made from G5 system.

(Continued)

Section III - Federal Award Findings (Continued)

Finding 2012-02 (Continued)

Effect:	Inadequate controls over reconciliations of drawdowns performed within the G5 system and the general ledger could result in violations with compliance with federal regulations.
Recommendation:	We recommend that journal entries and supporting documentation for all drawdowns be reviewed to ensure correct drawdowns were made. In addition, we recommend that reconciliations be performed between financial aid, accounting, and the information from the Department of Education for all programs.
Management's Response:	Management concurs with the finding.
Corrective Action:	A formal procedure has been developed that provides for a formal reconcilement to the federal Title IV "G5" drawdown database. This reconcilement is now a requirement for each/every drawdown of Title IV funds from the "G5" database. This additional reconcilement process is in addition to the current process of reconcilement of Title IV funds to the College general ledger.

Section IV - Prior Year Findings and Questioned Costs

Finding 2011-01

Federal Program Information:	Federal Supplemental Educational Opportunity Grants, CFDA #84.007, Federal Direct Student Loans, CFDA #84.268, Federal Work-Study Program, CFDA #84.033, Federal Pell Grant Program, CFDA #84.063, Academic Competitiveness Grants, CFDA #84.375
Condition:	During our testing, it was noted that individuals with access to the Financial Aid module, have the ability to delete transmittal rules that have been built into the system which could override system eligibility determinations.
Status:	Corrected.

Finding 2011-02

Federal Program Information:	Federal Supplemental Educational Opportunity Grants, CFDA #84.007, Federal Direct Student Loans, CFDA #84.268, Federal Pell Grant Program, CFDA #84.063, Academic Competitiveness Grants, CFDA #84.375
Condition:	In a test of 40 students, we noted three instances in which the withdrawal date used in the Return of Title IV calculation was not consistent with the documentation that was provided to the Registrar's Office for processing.
Status:	Corrected.

(Continued)

Section IV - Prior Year Findings and Questioned Costs (Continued)

Finding 2011-03

Federal Program Information:	Academic Competitiveness Grants, CFDA #84.375
Condition:	In a test of 40 students, we noted one instance in which the College awarded ACG funds although the student had not completed a rigorous secondary school program of study.
Questioned Costs:	The student in the original sample was over-awarded $600. Management performed a full file exam over a sample representing approximately 20% of the population of students and noted 1 additional error with an over-award of $450.
Status:	The Academic Competitiveness Grants program ended after the 2011 award year. The over-awarded funds were returned during 2012.

Finding 2011-04

Federal Program Information:	Competitive Grant for Worker Training, CFDA #17.275 (ARRA)
Condition:	During our testing of participant eligibility in the Competitive Grant for Worker Training program, we tested the documentation of eligibility for a sample of 25 participants and noted the following: a. For 13 participants, it was noted that participant applications used to determine eligibility under the grant were not maintained. b. For 23 participants, it was noted that no signed statement attesting to the validation of the information the eligible participant provided was maintained. c. It was noted that two participants served under the grant were not entered into RAD, the Department of Labor reporting system.
Status:	Corrected.

This page intentionally left blank.

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 18, 2012