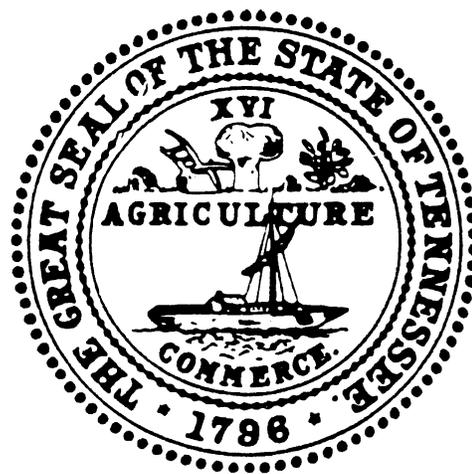


# AUDIT REPORT

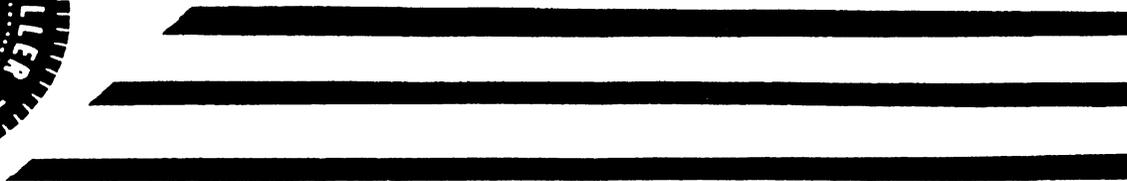
Tennessee Board of Regents  
Cleveland State Community College

For the Years Ended  
June 30, 2004, and June 30, 2003



STATE OF TENNESSEE  
COMPTROLLER OF THE TREASURY

Department of Audit  
Division of State Audit



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Financial/compliance audits of colleges and universities are available on-line at  
[www.comptroller.state.tn.us/sa/reports/index.html](http://www.comptroller.state.tn.us/sa/reports/index.html).  
For more information about the Comptroller of the Treasury, please visit our website at  
[www.comptroller.state.tn.us](http://www.comptroller.state.tn.us).



STATE OF TENNESSEE  
COMPTROLLER OF THE TREASURY

State Capitol  
Nashville, Tennessee 37243-0260  
(615) 741-2501

John G. Morgan  
Comptroller

July 29, 2005

The Honorable Phil Bredesen, Governor  
and  
Members of the General Assembly  
State Capitol  
Nashville, Tennessee 37243  
and

The Honorable Charles W. Manning, Chancellor  
Tennessee Board of Regents  
1415 Murfreesboro Road, Suite 350  
Nashville, Tennessee 37217  
and

Dr. Carl M. Hite, President  
Cleveland State Community College  
3535 Adkisson Drive  
P. O. Box 3570  
Cleveland, Tennessee 37320

Ladies and Gentlemen:

Transmitted herewith is the financial and compliance audit of the Tennessee Board of Regents, Cleveland State Community College, for the years ended June 30, 2004, and June 30, 2003. You will note from the independent auditor's report that unqualified opinions were given on the fairness of the presentation of the financial statements.

Consideration of internal control over financial reporting and tests of compliance disclosed one deficiency, which is detailed in the Results of the Audit section of this report. The college's administration has responded to the audit finding; the response is included following the finding. The Division of State Audit will follow up the audit to examine the application of the procedures instituted because of the audit finding.

Sincerely,

John G. Morgan  
Comptroller of the Treasury

JGM/sds  
05/044

State of Tennessee

# Audit Highlights

Comptroller of the Treasury

Division of State Audit

Financial and Compliance Audit  
**Cleveland State Community College**  
For the Years Ended June 30, 2004, and June 30, 2003

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## AUDIT OBJECTIVES

The objectives of the audit were to consider the college's internal control over financial reporting; to determine compliance with certain provisions of laws, regulations, contracts, and grant agreements; to determine the fairness of the presentation of the financial statements; and to recommend appropriate actions to correct any deficiencies.

## INTERNAL CONTROL FINDING

### **Failure to Properly Record the Serial Numbers and Locations of Equipment**

The purchasing agent is failing to enter the serial numbers and locations of equipment on the college's equipment management system. Without the prompt recording of this information, the college will lack the ability to properly safeguard and control these equipment assets (page 8).

## OPINIONS ON THE FINANCIAL STATEMENTS

The opinions on the financial statements are unqualified.

**Audit Report**  
**Tennessee Board of Regents**  
**Cleveland State Community College**  
**For the Years Ended June 30, 2004, and June 30, 2003**

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**Tennessee Board of Regents  
Cleveland State Community College  
For the Years Ended June 30, 2004, and June 30, 2003**

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**INTRODUCTION**

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**POST-AUDIT AUTHORITY**

This is a report on the financial and compliance audit of the Tennessee Board of Regents, Cleveland State Community College. The audit was conducted pursuant to Section 4-3-304, *Tennessee Code Annotated*, which authorizes the Department of Audit to “perform currently a post-audit of all accounts and other financial records of the state government, and of any department, institution, office, or agency thereof in accordance with generally accepted auditing standards and in accordance with such procedures as may be established by the comptroller.”

Section 8-4-109, *Tennessee Code Annotated*, authorizes the Comptroller of the Treasury to audit any books and records of any governmental entity that handles public funds when the Comptroller considers an audit to be necessary or appropriate.

**BACKGROUND**

The idea for Tennessee’s community college system was conceived in 1957 when the state legislature ordered a study of community college programs, a study which resulted in the Pierce-Albright Report. Acting on the recommendation of the Governor and the State Department of Education, the General Assembly authorized the Department of Education to establish several community colleges throughout Tennessee. Cleveland State Community College was established as a two-year college by the 1965 Tennessee General Assembly. The first class graduated in June 1969. The General Assembly vested the governance of Cleveland State Community College in the Tennessee Board of Regents on July 1, 1972.

**ORGANIZATION**

The governance of Cleveland State Community College is vested in the Tennessee Board of Regents. The Governor, the Commissioner of Education, the Commissioner of Agriculture, and the Director of the Tennessee Higher Education Commission serve *ex officio* on this board. The chief administrative officer of the college is the president, who is assisted and advised by members of the faculty and administrative staff.

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## AUDIT SCOPE

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The audit was limited to the period July 1, 2002, through June 30, 2004, and was conducted 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. Financial statements are presented for the years ended June 30, 2004, and June 30, 2003. Cleveland State Community College is an institution of the Tennessee Board of Regents, which is an integral part of state government. As such, the Tennessee Board of Regents has been included as a component unit in the *Tennessee Comprehensive Annual Financial Report*.

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## OBJECTIVES OF THE AUDIT

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The objectives of the audit were

1. to consider the college's internal control over financial reporting to determine auditing procedures for the purpose of expressing opinions on the financial statements;
  2. to determine compliance with certain provisions of laws, regulations, contracts, and grant agreements;
  3. to determine the fairness of the presentation of the financial statements; and
  4. to recommend appropriate actions to correct any deficiencies.
- 

## PRIOR AUDIT FINDINGS

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There were no findings in the prior audit report.

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## OBSERVATIONS AND COMMENTS

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### FRAUD CONSIDERATIONS

Statement on Auditing Standards No. 99, *Consideration of Fraud in a Financial Statement Audit*, promulgated by the American Institute of Certified Public Accountants, requires auditors to specifically assess the risk of material misstatement of an audited entity's financial statements due to fraud. The standard also restates the obvious premise that management, and not the auditors, is primarily responsible for preventing and detecting fraud in its own entity. Management's responsibility is fulfilled in part when it takes appropriate steps to assess the risk of fraud within the entity and to implement adequate internal controls to address the results of those risk assessments.

During our audit, we discussed these responsibilities with management and how management might approach meeting them. We also increased the breadth and depth of our inquiries of management and others in the entity as we deemed appropriate. We obtained formal assurances from top management that management had reviewed the entity's policies and procedures to ensure that they are properly designed to prevent and detect fraud and that management had made changes to the policies and procedures where appropriate. Top management further assured us that all staff had been advised to promptly alert management of all allegations of fraud, suspected fraud, or detected fraud and to be totally candid in all communications with the auditors. All levels of management assured us there were no known instances or allegations of fraud that were not disclosed to us.

### TECHNOLOGY CENTERS

Cleveland State Community College serves as the lead institution under an agreement with the Tennessee Technology Center at Athens. Under this agreement, Cleveland State Community College performs the accounting and reporting functions for the center. The chief administrative officer of the center is the director, who is assisted and advised by members of the faculty and administrative staff. The director is responsible to the Chancellor of the Tennessee Board of Regents.

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## RESULTS OF THE AUDIT

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### AUDIT CONCLUSIONS

#### Internal Control

As part of the audit of the college's financial statements for the years ended June 30, 2004, and June 30, 2003, we considered internal control over financial reporting to determine auditing procedures for the purpose of expressing opinions on the financial statements, as required by 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. A reportable condition, along with our recommendation and management's response, is detailed in the finding and recommendation. Consideration of internal control over financial reporting disclosed no material weaknesses.

#### Compliance

The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

#### Fairness of Financial Statement Presentation

The Division of State Audit has rendered unqualified opinions on the college's financial statements.



STATE OF TENNESSEE  
**COMPTROLLER OF THE TREASURY**  
DEPARTMENT OF AUDIT  
DIVISION OF STATE AUDIT

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NASHVILLE, TENNESSEE 37243-0264  
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**Report on Internal Control Over Financial Reporting and  
on Compliance and Other Matters Based on an Audit of  
Financial Statements Performed in Accordance With  
*Government Auditing Standards***

March 31, 2005

The Honorable John G. Morgan  
Comptroller of the Treasury  
State Capitol  
Nashville, Tennessee 37243

Dear Mr. Morgan:

We have audited the financial statements of Cleveland State Community College, an institution of the Tennessee Board of Regents, which is a component unit of the State of Tennessee, and its discretely presented component unit, as of and for the years ended June 30, 2004, and June 30, 2003, and have issued our report thereon dated March 31, 2005. We did not audit the financial statements of Cleveland State Community College Foundation, a discretely presented component unit of the college. Those financial statements were audited by another auditor whose report thereon has been furnished to us. 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. The financial statements of Cleveland State Community College Foundation were not audited in compliance with *Government Auditing Standards*. During the year ended June 30, 2004, the college implemented GASB Statement 39, *Determining Whether Certain Organizations Are Component Units*.

### **Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the college's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted a matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the college's ability to record, process, summarize, and report financial data consistent with management's assertions in the financial statements.

The following reportable condition was noted:

- The college is not properly recording the serial numbers and locations of equipment.

This condition is described in the Finding and Recommendation section of this report.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that the reportable condition described above is not a material weakness.

We also noted other matters involving the internal control over financial reporting, which we have reported to the college's management in a separate letter.

### **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 the college's 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*.

The Honorable John G. Morgan  
March 31, 2005  
Page Three

This report is intended solely for the information and use of the General Assembly of the State of Tennessee and management and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record.

Sincerely,

A handwritten signature in black ink, reading "Arthur A. Hayes, Jr." in a cursive script.

Arthur A. Hayes, Jr., CPA  
Director

AAH/sds

## **FINDING AND RECOMMENDATION**

### **Failure to properly record the serial numbers and locations of equipment**

#### **Finding**

The college's equipment records are maintained on its equipment management system, the Fixed Assets System. For 8 of 17 equipment items tested from the college's June 30, 2004, equipment listing (48%), the serial number of the item was not entered on the system. For 7 of 17 items tested (42%), the location was either not entered on the system or was entered incorrectly. For 3 of 17 items tested (18%), the asset tag was not affixed to the piece of equipment.

The college's Equipment Policy states,

All equipment is assigned a Cleveland State inventory number which . . . is affixed to the equipment. . . . All equipment should be secured at all times. . . . When equipment is moved to a new permanent location, an Equipment Inventory Change/Deletion Request should be forwarded to the inventory control clerk making note of the description, inventory tag number, new location, and the date.

The recording of serial numbers is necessary to properly identify and inventory equipment items.

On the first work day of each month, the college runs a program to determine through expense object codes which items in its accounts payable module are equipment purchases. If the voucher for an equipment item has been paid, the item is then automatically recorded in the Fixed Assets System. This establishes the asset in the Fixed Asset System with a temporary asset number, vendor, check number, date, and amount. The purchasing agent must then enter the permanent asset number (tag number), serial number, location, and any other additional information. According to college personnel, the serial number and location fields are not required fields in the fixed asset system. Therefore, the purchasing agent did not enter this information.

Without the prompt recording of serial numbers and equipment locations on the college's equipment system and the affixing of tag numbers to the equipment, the college lacks adequate information to properly safeguard and control its equipment assets.

#### **Recommendation**

Management should ensure that the serial number and location are required data fields in the equipment management system. This data should be entered by the purchasing agent and should be used in conducting the annual inventories performed by college personnel. Management should ensure that asset tags are affixed to all equipment.

### **Management's Comment**

Cleveland State Community College concurs with the finding. The college's equipment management system was modified to show the serial number and location as a required data field. A 100% physical inventory was conducted in June 2005. The serial number and location information for each item was collected and has been entered into the equipment management system. During the physical inventory, items were checked for asset tags. Those items with missing asset tags will have a replacement tag affixed by July 15, 2005.



STATE OF TENNESSEE  
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**Independent Auditor's Report**

March 31, 2005

The Honorable John G. Morgan  
Comptroller of the Treasury  
State Capitol  
Nashville, Tennessee 37243

Dear Mr. Morgan:

We have audited the accompanying basic financial statements of Cleveland State Community College, an institution of the Tennessee Board of Regents, which is a component unit of the State of Tennessee, as of and for the years ended June 30, 2004, and June 30, 2003, as listed in the table of contents. These financial statements are the responsibility of the college's management. Our responsibility is to express opinions on these financial statements, based on our audit. We did not audit the financial statements of Cleveland State Community College Foundation, a discretely presented component unit of the college. Those financial statements were audited by another auditor whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for Cleveland State Community College Foundation, is based on the report of the other auditor.

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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of Cleveland State Community College Foundation were not audited in compliance with *Government Auditing Standards*. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of the other auditor provide a reasonable basis for our opinions. Tennessee statutes, in addition to audit responsibilities, entrust certain other responsibilities to the Comptroller of the Treasury. Those responsibilities include serving as a member of the board of directors of many agencies, commissions, and component units of the State of Tennessee; managing the state's debt; and making loans to the state's colleges and universities from debt proceeds. Some of the boards on which the Comptroller of the Treasury serves as a member per state statutes include the State Building Commission and the Tennessee Higher Education Commission.

The Honorable John G. Morgan  
March 31, 2005  
Page Two

In our opinion, based on our audit and the report of the other auditor, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Tennessee Board of Regents, Cleveland State Community College, and its discretely presented component unit as of June 30, 2004, and June 30, 2003, and the respective changes in financial position and cash flows thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

During the year ended June 30, 2004, the college implemented GASB Statement 39, *Determining Whether Certain Organizations Are Component Units*.

The management's discussion and analysis on pages 12 through 27 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the basic financial statements. The component unit cash flow statement presented outside of the basic financial statements is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 31, 2005, on our consideration of the college's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Sincerely,

A handwritten signature in black ink that reads "Arthur A. Hayes, Jr." with a stylized flourish at the end.

Arthur A. Hayes, Jr., CPA  
Director

AAH/sds

## **Management's Discussion and Analysis**

This section of Cleveland State Community College's annual financial report presents a discussion and analysis of the financial performance of the college during the fiscal year ended June 30, 2004, with comparative information presented for the fiscal years ended June 30, 2003, and June 30, 2002. This discussion has been prepared by management along with the financial statements and related note disclosures and should be read in conjunction with the financial statements and notes. The financial statements, notes, and this discussion are the responsibility of management.

### **Using This Annual Report**

This report consists of three basic financial statements. The statement of net assets; the statement of revenues, expenses, and changes in net assets; and the statement of cash flows provide information on Cleveland State Community College as a whole and present a long-term view of the college's finances.

### **The Statement of Net Assets**

The statement of net assets presents the financial position of the college at the end of the fiscal year and includes all assets and liabilities of the college. The difference between total assets and total liabilities—net assets—is an indicator of the current financial condition of the college. 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.

Net assets are divided into three major categories. The first category, invested in capital assets, net of related debt, provides the college's equity in property, plant, and equipment owned by the college. The next asset category is restricted net assets, which is divided into two categories, nonexpendable and expendable. The corpus of nonexpendable restricted resources is only available for investment purposes. Expendable restricted net assets are available for expenditure by the college but must be spent for purposes as determined by donors and/or external entities that have placed time or purpose restrictions on the use of the assets. The final category is unrestricted net assets. Unrestricted net assets are available to the institution for any lawful purpose of the institution.

**Statements of Net Assets  
(in thousands of dollars)**

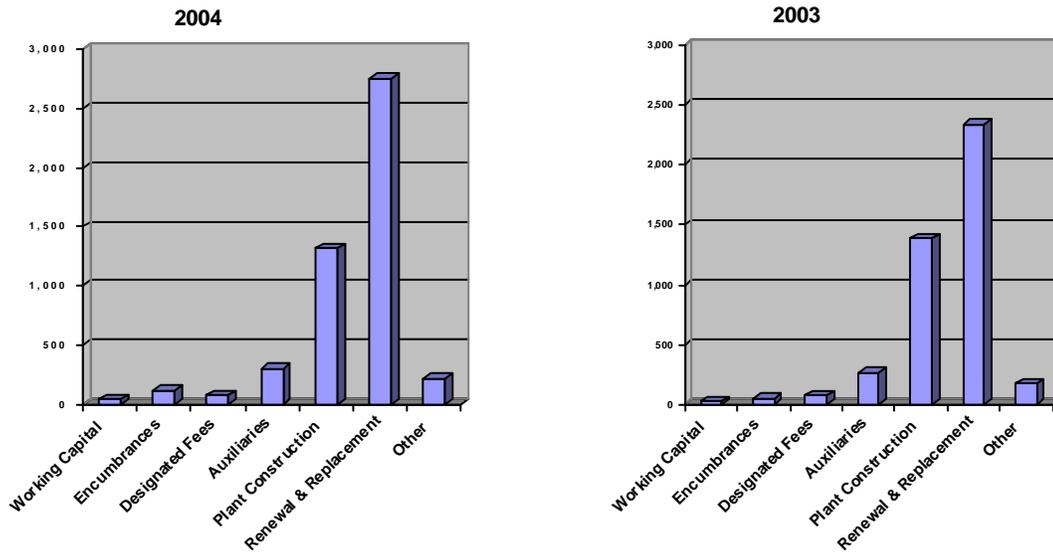
	Institution			Component Unit		
	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>
<b>Assets:</b>						
Current assets	\$2,725	\$2,414	\$2,365	\$721	\$689	\$634
Capital assets, net	3,645	3,962	4,061	-	-	-
Other assets	<u>4,118</u>	<u>3,746</u>	<u>3,446</u>	<u>4,083</u>	<u>3,690</u>	<u>3,705</u>
<b>Total assets</b>	<b><u>10,488</u></b>	<b><u>10,122</u></b>	<b><u>9,872</u></b>	<b><u>4,804</u></b>	<b><u>4,379</u></b>	<b><u>4,339</u></b>
<b>Liabilities:</b>						
Current liabilities	1,584	1,462	1,305	-	-	-
Noncurrent liabilities	<u>381</u>	<u>375</u>	<u>283</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Total liabilities</b>	<b><u>1,965</u></b>	<b><u>1,837</u></b>	<b><u>1,588</u></b>	<b><u>-</u></b>	<b><u>-</u></b>	<b><u>-</u></b>
<b>Net assets:</b>						
Invested in capital assets, net of related debt	3,645	3,938	4,014	-	-	-
Restricted - nonexpendable	-	-	-	4,199	4,050	3,798
Restricted - expendable	50	21	29	313	297	501
Unrestricted	<u>4,828</u>	<u>4,326</u>	<u>4,241</u>	<u>292</u>	<u>32</u>	<u>40</u>
<b>Total net assets</b>	<b><u>\$8,523</u></b>	<b><u>\$8,285</u></b>	<b><u>\$8,284</u></b>	<b><u>\$4,804</u></b>	<b><u>\$4,379</u></b>	<b><u>\$4,339</u></b>

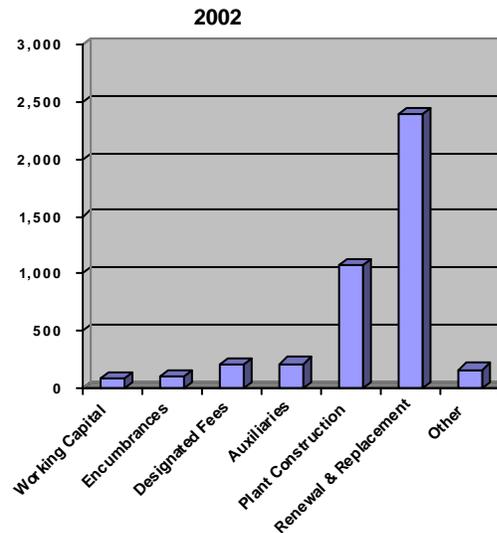
- Material increases in total assets occurred in cash and cash equivalents over the three-year period. This was due to an increase in current cash and cash equivalents carried for the Technology Center at Athens. Net capital assets decreased due to the depreciation on assets. Other assets increased \$672,000 over this time period due to transfers from current funds to plant funds.
- The increase in total liabilities was \$377,000 over the three-year period. This was due to an increase in the deposit held for the Technology Center at Athens and a decrease in long-term liabilities for notes payable.
- Restricted expendable net assets consist of carryforward balances of restricted grants. These funds are available to the college to spend within donor restrictions. The increase occurred due to unspent funds in four new grants in fiscal year 2004.
- Material assets for the Cleveland State Community College Foundation (component unit) consist of cash, interest receivables, pledges, and investments. There was an overall increase in total assets over the three-year period. This was due to a decrease in pledges receivable and an increase in investments.

- Restricted nonexpendable net assets increased over the three-year period due to an increase in the foundation's endowment for scholarships.
- Unrestricted net assets for the foundation increased due to no realized losses in fiscal year 2004.
- The foundation had no liabilities in 2002, 2003, or 2004.

Many of the college's unrestricted net assets have been designated or reserved for specific purposes such as: encumbrances, auxiliaries, repairs and replacement of equipment, quasi-endowments, and capital projects. The following graphs show the allocations. (Amounts are presented in thousands of dollars.)

### INSTITUTION





- The primary change in the college's unrestricted net assets occurred in the reserve for renewals and replacements. This was due to a transfer of \$416,400 in fiscal year 2004 from unrestricted funds in anticipation of the replacement of the college's administrative software.
- Reserves for encumbrances also increased in 2004 due to an increase in purchase orders issued near year-end for the replacement of equipment.
- Designated Fees decreased in fiscal years 2004 and 2003 from 2002. This can be attributed to a one-time carryover of Technology Access Fees in 2002.
- The allocation for plant construction increased between fiscal years 2002 and 2003 due to a capital project gift of \$250,000 that has not been spent.
- The unrestricted balance for the foundation is unallocated and unreserved.

### **The Statement of Revenues, Expenses, and Changes in Net Assets**

The statement of revenues, expenses, and changes in net assets presents the operating results of the college, as well as the nonoperating revenues and expenses. Annual state appropriations, while budgeted for operations, are considered nonoperating revenues according to accounting principles generally accepted in the United States of America.

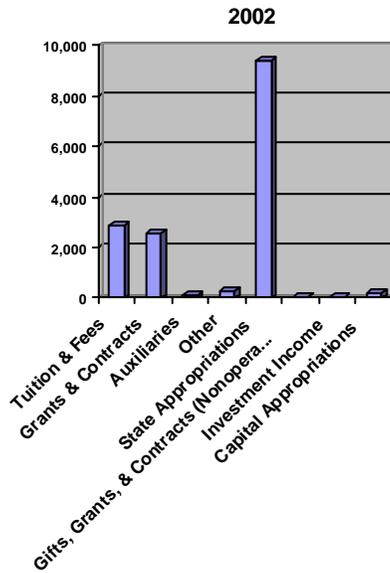
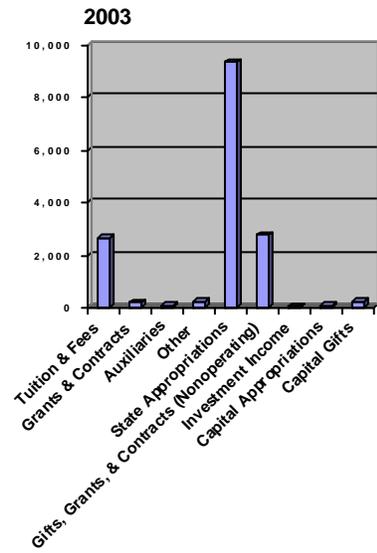
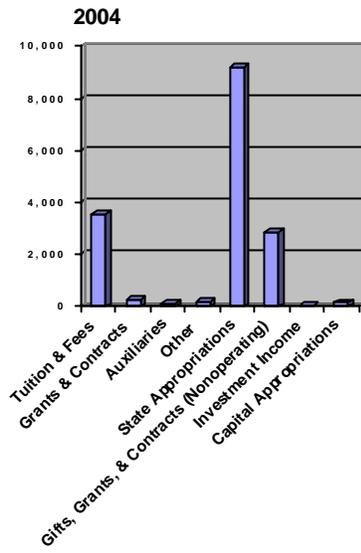
**Statements of Revenues, Expenses, and Changes in Net Assets**  
(in thousands of dollars)

	Institution			Component Unit		
	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>
<b>Operating revenues:</b>						
Net tuition and fees	\$3,524	\$ 2,664	\$ 2,849	\$ -	\$ -	\$ -
Grants and contracts	280	212	2,596	33	-	-
Auxiliary	101	92	107	-	-	-
Other	<u>180</u>	<u>223</u>	<u>257</u>	<u>219</u>	<u>193</u>	<u>201</u>
<b>Total operating revenues</b>	<b><u>4,085</u></b>	<b><u>3,191</u></b>	<b><u>5,809</u></b>	<b><u>252</u></b>	<b><u>193</u></b>	<b><u>201</u></b>
Operating expenses	<u>16,098</u>	<u>15,761</u>	<u>14,971</u>	<u>221</u>	<u>354</u>	<u>317</u>
<b>Operating gain (loss)</b>	<b><u>(12,013)</u></b>	<b><u>(12,570)</u></b>	<b><u>(9,162)</u></b>	<b><u>31</u></b>	<b><u>(161)</u></b>	<b><u>(116)</u></b>
<b>Nonoperating revenues and expenses:</b>						
State appropriations	9,176	9,338	9,422	-	-	-
Gifts, grants, and contracts	2,872	2,765	40	-	-	-
Investment income	38	52	74	240	(63)	(269)
Other revenues and expenses	<u>(1)</u>	<u>(2)</u>	<u>(4)</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Total nonoperating revenues and expenses</b>	<b><u>12,085</u></b>	<b><u>12,153</u></b>	<b><u>9,532</u></b>	<b><u>240</u></b>	<b><u>(63)</u></b>	<b><u>(269)</u></b>
<b>Income (loss) before other revenues, expenses, gains, or losses</b>	<b><u>72</u></b>	<b><u>(417)</u></b>	<b><u>370</u></b>	<b><u>271</u></b>	<b><u>(224)</u></b>	<b><u>(385)</u></b>
<b>Other revenues, expenses, gains, or losses:</b>						
Capital appropriations	166	94	210	-	-	-
Capital grants and gifts	-	250	-	-	-	-
Additions to permanent endowments	-	-	-	154	264	169
Other	<u>-</u>	<u>-</u>	<u>(4)</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Total other revenues, expenses, gains, or losses</b>	<b><u>166</u></b>	<b><u>344</u></b>	<b><u>206</u></b>	<b><u>154</u></b>	<b><u>264</u></b>	<b><u>169</u></b>
<b>Increase (decrease) in net assets</b>	<b><u>238</u></b>	<b><u>(73)</u></b>	<b><u>576</u></b>	<b><u>425</u></b>	<b><u>40</u></b>	<b><u>(216)</u></b>
Net assets at beginning of year, as originally reported	8,285	8,284	24,233	4,379	4,339	4,555
Cumulative effect of changes in accounting principle	-	-	(16,525)	-	-	-
Net assets at beginning of year, restated	<u>8,285</u>	<u>8,358</u>	<u>7,708</u>	<u>4,379</u>	<u>4,339</u>	<u>4,555</u>
<b>Net assets at end of year</b>	<b><u>\$8,523</u></b>	<b><u>\$8,285</u></b>	<b><u>\$8,284</u></b>	<b><u>\$4,804</u></b>	<b><u>\$4,379</u></b>	<b><u>\$4,339</u></b>

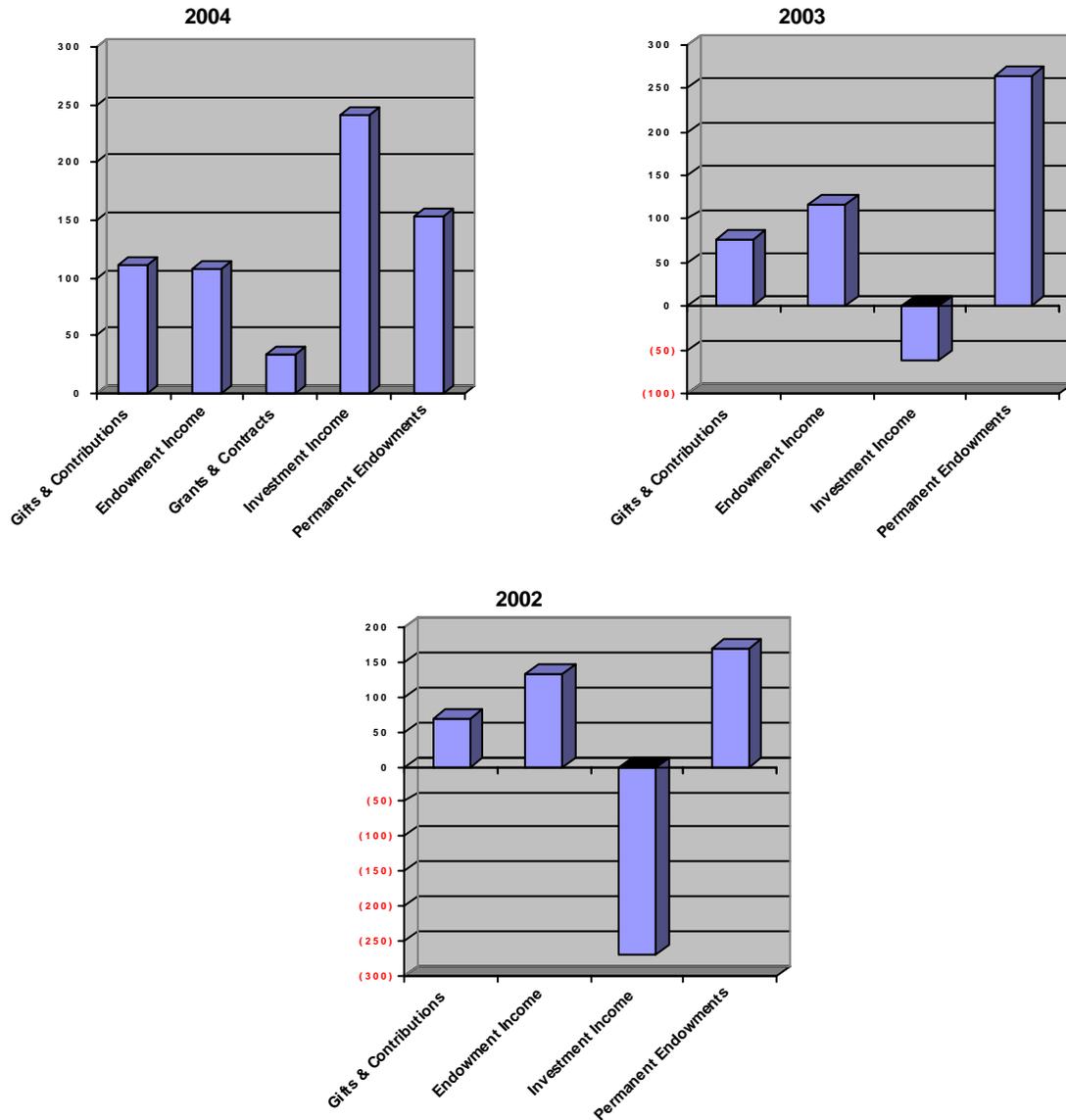
Revenues

The following is a graphic illustration of revenues by source (both operating and nonoperating), which are used to fund the college's operating activities for the years ended June 30, 2004, 2003, and 2002. (Amounts are presented in thousands of dollars.)

# INSTITUTION



## COMPONENT UNIT



- The increase in tuition and fees is primarily due to a 14% increase in fees for the 2004 academic year. The decrease in tuition and fees from 2002 to 2003 was due to an increase in the scholarship allowance.
- Operating grants and contracts decreased \$2,383,642 from 2002 to 2003. Federal and state student financial aid grants were reclassified to nonoperating revenue in the 2003 fiscal year.

- Other operating revenue decreased \$41,000 in fiscal year 2004. Rental income decreased \$13,000 because the college is no longer renting space to a local television station. Due to the budget restraints in the community, industries did not request ACT Workkey assessments, resulting in a decrease of revenue by \$46,000 over the three-year period. There was a decrease in the sale of surplus property revenue in 2004 due to a one-time sale of used vehicles in 2003.
- Nonoperating revenues decreased \$68,000 in fiscal year 2004. This was due to a \$162,000 decrease in state appropriations; a \$107,000 increase in nonoperating gifts, grants, and contracts; and a \$13,000 decrease in investment income. State appropriations decreased \$246,000 due to budget reductions by the State of Tennessee over the three-year period. Investment income decreased \$36,000 over three years due to the continuing reduction in interest rates.
- Operating revenues to the foundation increased \$59,000 in 2004. There was an increase of \$35,000 in gifts and contributions. Grants and contracts increased due to the foundation receiving a \$2,500 grant from the Tennessee Arts Commission and a \$30,000 federal grant from the U.S. Department of Agriculture.
- There was a \$303,000 increase in nonoperating revenue for the foundation in 2004. The foundation had an increase of \$265,000 in realized and unrealized gains on investments. In fiscal year 2003, the foundation had a realized loss of \$87,956 on investments. In fiscal year 2002, the foundation had \$161,839 in realized losses and \$81,956 in unrealized losses.

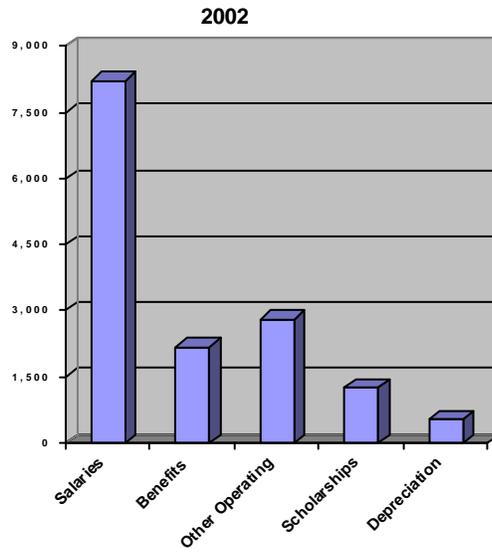
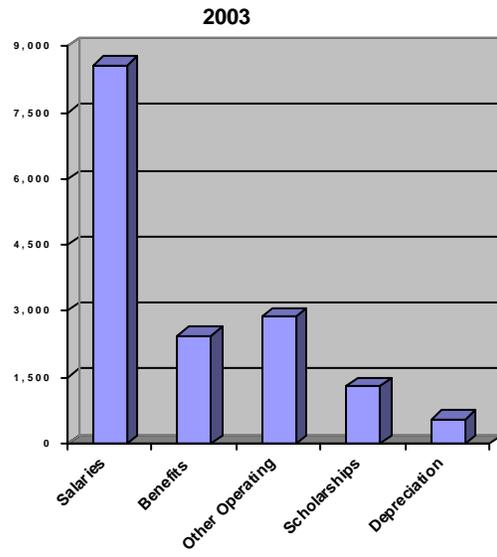
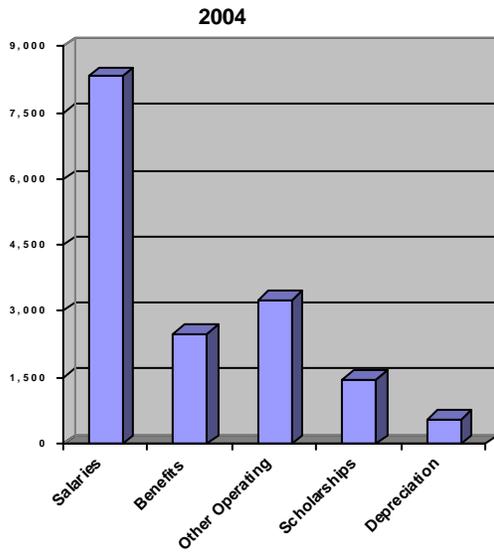
### Expenses

Operating expenses can be displayed in two formats, natural classification and program classification. Both formats are displayed below.

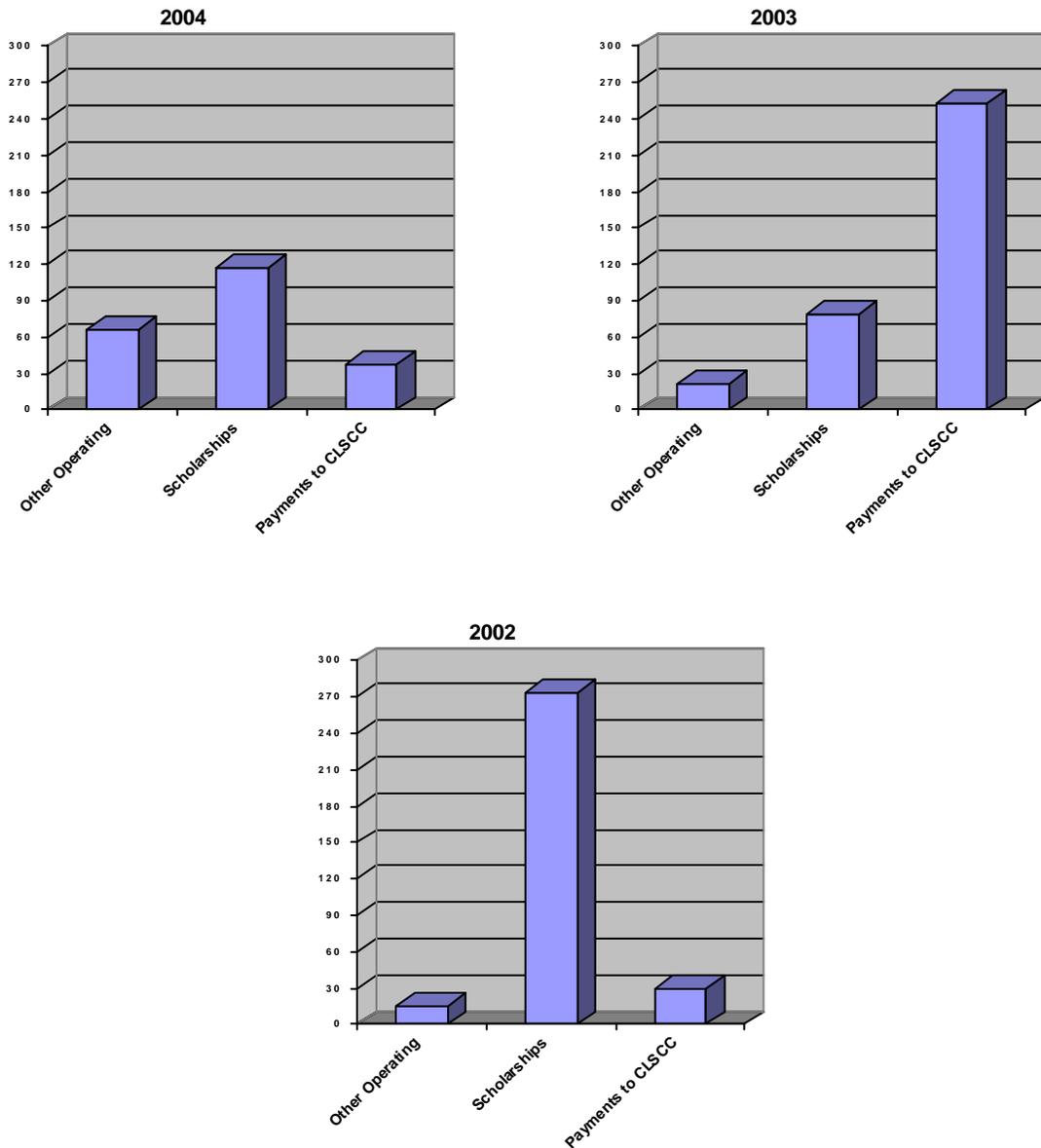
#### **Natural Classification (in thousands of dollars)**

	<u>Institution</u>			<u>Component Unit</u>		
	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>
Salaries	\$ 8,329	\$ 8,574	\$ 8,218	\$ -	\$ -	\$ -
Benefits	2,498	2,446	2,169	-	-	-
Other operating	3,256	2,880	2,806	66	22	15
Scholarships	1,457	1,312	1,246	117	79	273
Depreciation	558	549	533	-	-	-
Payments to or on behalf of Cleveland State	-	-	-	38	253	29
<b>Total</b>	<b><u>\$16,098</u></b>	<b><u>\$15,761</u></b>	<b><u>\$14,972</u></b>	<b><u>\$ 221</u></b>	<b><u>\$354</u></b>	<b><u>\$317</u></b>

# INSTITUTION



## COMPONENT UNIT



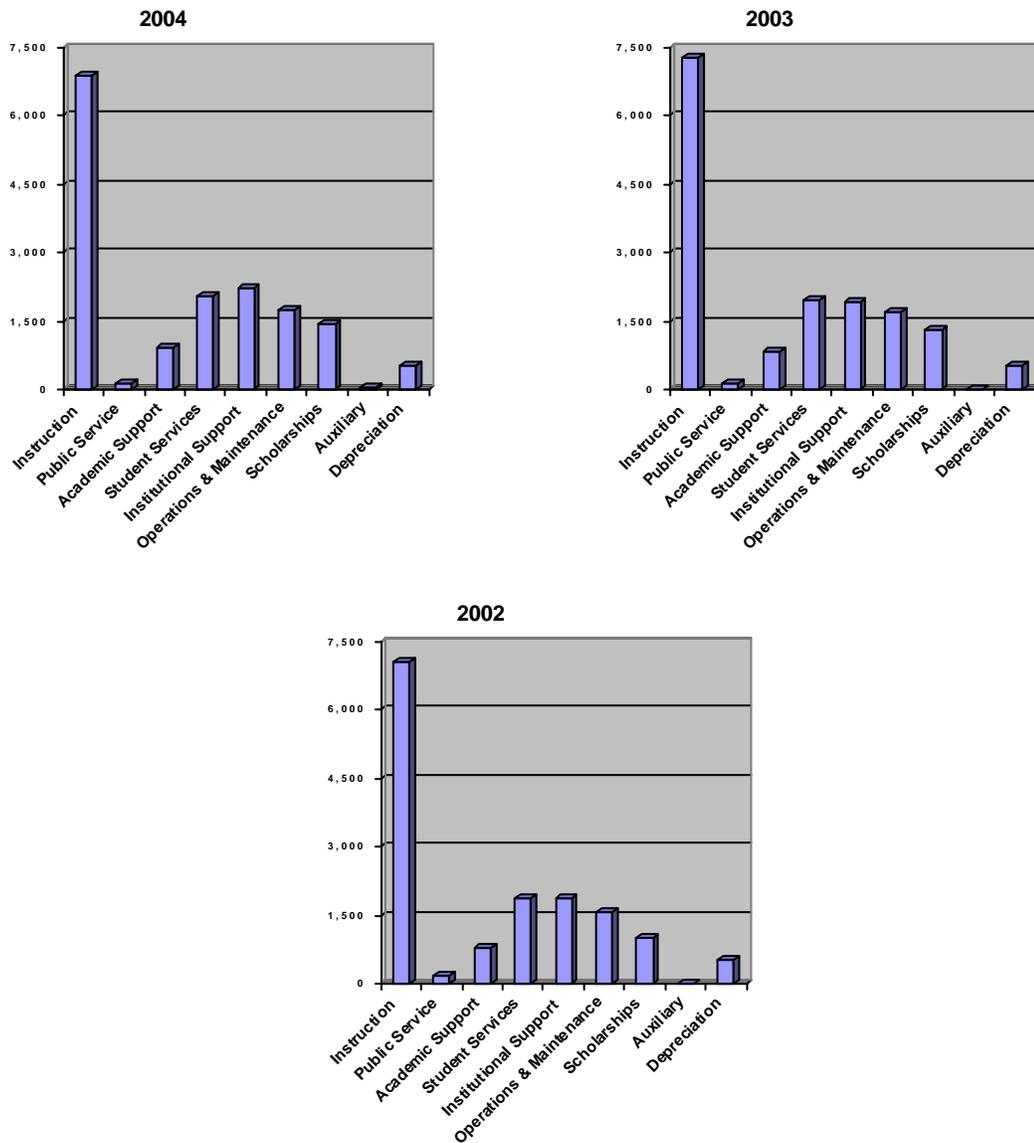
- In fiscal year 2004, 67 percent of the college's expenses are attributed to salaries and benefits. Scholarships and depreciation account for 13 percent of total expenses with other operating expenses representing the remaining 20 percent.
- Salaries decreased 3% due to several unfilled positions in fiscal year 2004. Benefits increased during this time due to an increase in medical insurance in January 2004. Salaries and benefits increased approximately \$633,000 between fiscal year 2003 and fiscal year 2002. The increase reflects a pay raise of three percent in January, 2003. There was also an increase in health insurance premiums of approximately 25 percent in January, 2003.

- In fiscal year 2004, other operating expenses increased due to the purchase of supplies and an increase in rental cost for the off-campus site in Athens, Tennessee. Utilities increased due to an increase in rates. There was also an increase in expenses for the maintenance of the campus. Operating expenses increased in fiscal year 2003 over 2002 by approximately 3 percent. Utilities increased due to the market. Travel to off-campus sites increased in 2003.
- Scholarships increased in fiscal year 2004 due to an increase in Pell awards and out-of-state athletic scholarships.
- Other operating expenses increased \$44,000 in fiscal year 2004 for the foundation. This was due to the expenditure of one-time grant funds and the purchase of Blackbaud software.
- Foundation scholarship expenditures increased \$38,000 in 2004 due to the emphasis placed on recruiting gifts for annual awards. Overall, there has been a decrease in scholarships between 2002 and 2004. This can be attributed to the investment market and interest rates.
- Payments to Cleveland State Community College decreased in fiscal year 2004. In fiscal year 2003, there was a one-time capital project donation from the foundation to Cleveland State.

**Program Classification  
(in thousands of dollars)**

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Instruction	\$ 6,888	\$ 7,269	\$ 7,063
Public Service	137	156	208
Academic Support	948	828	805
Student Services	2,042	1,969	1,892
Institutional Support	2,236	1,920	1,878
Operations & Maintenance	1,769	1,711	1,562
Scholarships	1,457	1,325	1,003
Auxiliary	63	34	28
Depreciation	<u>558</u>	<u>549</u>	<u>533</u>
Total	<u>\$16,098</u>	<u>\$15,761</u>	<u>\$14,972</u>

## INSTITUTION



- Instructional expenditures decreased due to several unfilled positions in fiscal year 2004. The increase in Instruction in fiscal year 2003 was due primarily to salary and benefit increases.
- The decrease in Public Service over the three-year period was due to the elimination of matching funds for the Small Business Grant.
- Academic Support increased in fiscal year 2004 primarily due to an increase in expenditures of technology access funds in the Library and campus-wide Information Technology Services. The increase between fiscal years 2003 and 2002 was due to salary and benefit increases.

- Student Services increased due to an increase in athletic expenditures in fiscal year 2004. The increase in fiscal year 2003 was due primarily to salary and benefit increases. Travel also increased in this function due to athletic post-season tournaments.
- Institutional Support increased \$316,000 in fiscal year 2004. This increase can be attributed to the transfer of Institutional Advancement from Student Services, a position transferred from Academic Support to Personnel, and the transfer of a position from Instruction to Administration and Government Services. The increase between fiscal years 2003 and 2002 was due to salary and benefit increases.
- The increase in Operations and Maintenance in fiscal year 2004 was due to the purchase of maintenance supplies. The increase between fiscal years 2003 and 2002 was due to salary and benefit increases, the increased cost of utilities, and an increase in the purchase of supplies for campus maintenance.
- Scholarships increased due to an increase in Pell awards and athletic out-of-state scholarships for fiscal year 2004.
- The Auxiliary increase in fiscal year 2004 was due to a one-time settlement of a claim with Wallace Bookstores.

### The Statement of Cash Flows

The statement of cash flows provides information about cash receipts and cash payments during the year. This statement also assists users in assessing the college's ability to generate net cash flows, its ability to meet its obligations as they come due, and its need for external financing.

	<b>Statements of Cash Flows</b>					
	<b>(in thousands of dollars)</b>					
	Institution			Component Unit		
	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>
<b>Cash provided (used) by:</b>						
Operating activities	\$(11,510)	\$(11,908)	\$(8,387)	\$ 107	\$(158)	\$ 185
Noncapital financing activities	12,208	12,355	9,487	148	309	88
Capital and related financing activities	(92)	19	(160)	-	-	-
Investing activities	<u>38</u>	<u>52</u>	<u>75</u>	<u>(185)</u>	<u>(93)</u>	<u>(81)</u>
<b>Net increase (decrease) in cash</b>	<b>\$ 644</b>	<b>\$ 518</b>	<b>\$ 1,015</b>	<b>\$ 70</b>	<b>\$ 58</b>	<b>\$192</b>
<b>Cash, beginning of year</b>	<b><u>\$5,995</u></b>	<b><u>\$ 5,477</u></b>	<b><u>\$ 4,462</u></b>	<b><u>\$ 508</u></b>	<b><u>\$ 450</u></b>	<b><u>\$258</u></b>
<b>Cash, end of year</b>	<b><u>\$6,639</u></b>	<b><u>\$ 5,995</u></b>	<b><u>\$ 5,477</u></b>	<b><u>\$ 578</u></b>	<b><u>\$ 508</u></b>	<b><u>\$450</u></b>

- Cash used by operating activities decreased in fiscal year 2004 as compared to 2003. Cash used for payment to suppliers increased \$448,000. Cash used to pay employees decreased \$224,000. Receipt of tuition and fees increased \$789,000 due to an increase in maintenance fees. Cash used by operating activities increased in fiscal year 2003 as compared to 2002 due to an increase in cash used for salaries and benefits. Cash used for payment to suppliers also increased over fiscal year 2002.
- Cash flows from noncapital financing activities decreased \$147,000 in fiscal year 2004. State appropriations decreased \$240,000. The increase in noncapital financing activities between fiscal years 2003 and 2002 can be attributed to an increase in state appropriations and deposits held for others.
- Cash flows from capital and related financing activities decreased in FY 2004. Purchases of capital assets decreased by \$144,000. There was a one-time inflow of cash in fiscal year 2003 of a \$250,000 capital gift.
- Cash flows from investing activities decreased over the three-year period due to lower interest rates.
- There was an increase in cash flows provided by operating activities for the foundation. There was a decrease in payments to Cleveland State Community College due to the one-time capital donation in fiscal year 2003.
- Cash flows from noncapital financing activities decreased for the foundation in fiscal year 2004 due to a decrease in endowment gifts. Unconditional promises to give have decreased over the three-year period.
- The foundation's cash flow from investing activities over the three-year period has decreased due to the purchase of additional investments.
- Cash increased for Cleveland State Community College over the three fiscal years. This increase in cash improves the college's liquidity and its ability to meet its obligations as they come due.
- Cash increased for the Cleveland State Community College Foundation over the three fiscal years, which improves liquidity.

## Capital Assets and Debt Administration

### *Capital Assets*

At June 30, 2004, Cleveland State Community College had \$3,644,744.72 invested in capital assets, net of accumulated depreciation of \$10,281,940.10. Depreciation charges totaled \$558,452.67 for the current fiscal year. Details of these assets are shown below.

#### Schedules of Capital Assets, Net of Depreciation (in thousands of dollars)

	Institution			Component Unit		
	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>
Land	\$ 290	\$ 290	\$ 290	\$ -	\$ -	\$ -
Land improvements & infrastructure	355	281	155	-	-	-
Buildings	2,217	2,475	2,733	-	-	-
Equipment	513	631	590	-	-	-
Library holdings	254	271	292	-	-	-
Projects in progress	15	14	-	-	-	-

Infrastructure improvements increased \$119,819 in fiscal year 2004 due to the upgrade of the campus network system by the college. Depreciation on land improvements and infrastructure was \$45,426. Other improvements increased in fiscal year 2003 due to the replacement of sidewalks on campus.

The decrease in buildings was due to the recording of depreciation over the three years.

Additional equipment in the amount of \$89,642 was purchased by the college in fiscal year 2004. \$53,312 of obsolete equipment along with accumulated depreciation of \$40,740 was written off. Depreciation on equipment for 2004 was \$194,530. In fiscal year 2003, additional equipment in the amount of \$248,411 was purchased by the college. A total of \$112,694 of obsolete equipment along with matching accumulated depreciation was written off. Depreciation on equipment for 2003 was \$207,758.

The college purchased \$43,173 of library holdings during the 2004 fiscal year. Depreciation expense was \$60,226. The college purchased \$40,362 of library holdings during the 2003 fiscal year. Depreciation expense was \$61,246.

## **Planned expenditures for fiscal year 2005**

There are no significant capital expenditures planned for the 2005 fiscal year.

More detailed information about the college's capital assets is presented in Note 5 to the financial statements.

### *Debt*

At June 30, 2004, neither the college nor its component unit had outstanding debt.

The college completed the repayment of a note for the purchase of HVAC chillers during fiscal year 2004. More detailed information about the college's long-term liabilities is presented in Note 6 to the financial statements.

## **Economic Factors That Will Affect the Future**

The State of Tennessee has been forced to reduce its support of higher education due to significant budget reductions. In fiscal year 2003, Cleveland State's appropriations were reduced \$370,600 from the original approved budget. During the fiscal year 2004, state appropriations were reduced another \$239,570. In partial response, the Tennessee Board of Regents authorized a 14% fee increase in 2003-04 and another 7% increase for the year 2004-05.

We are not aware of any other factors or decisions that are expected to have a significant impact on the future financial position of the college.

The Cleveland State Community College Foundation has 84% of its assets in investments. The majority of these investments are bonds, stocks, money market accounts, and government securities. Worries over the economy, higher interest rates, and the conflict in Iraq could all have a major impact on the potential earnings from investment by the foundation.

## **Requests for Information**

This financial report is designed to provide a general overview of the institution's finances for all those with an interest in the college's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be directed to Dr. Charles Hurley, Vice President for Finance and Administration, Cleveland State Community College, P.O. Box 3570, Cleveland, TN 37320-3570, or by calling (423) 614-8750.

**TENNESSEE BOARD OF REGENTS  
CLEVELAND STATE COMMUNITY COLLEGE  
STATEMENTS OF NET ASSETS  
JUNE 30, 2004, AND JUNE 30, 2003**

	Cleveland State Community College		Component Unit - Cleveland State Community College Foundation	
	June 30, 2004	June 30, 2003	June 30, 2004	June 30, 2003
<b>ASSETS</b>				
Current assets:				
Cash (Notes 2, 3, and 14)	\$ 2,592,848.20	\$ 2,296,462.00	\$ 578,312.00	\$ 507,870.00
Accounts, notes, and grants receivable (net) (Note 4)	118,041.98	90,819.22	15,337.00	17,661.00
Pledges receivable (net) (Note 14)	-	-	127,969.81	163,462.00
Prepaid expenses and deferred charges	14,161.26	26,729.51	-	-
Total current assets	<u>2,725,051.44</u>	<u>2,414,010.73</u>	<u>721,618.81</u>	<u>688,993.00</u>
Noncurrent assets:				
Cash (Notes 2, 3, and 14)	4,046,134.23	3,698,550.78	-	-
Investments (Note 14)	-	-	4,045,304.00	3,614,078.00
Accounts, notes, and grants receivable (net) (Note 4)	72,064.45	47,798.79	-	-
Pledges receivable (net) (Note 14)	-	-	37,456.19	75,865.00
Capital assets (net) (Note 5)	3,644,744.72	3,961,812.70	-	-
Total noncurrent assets	<u>7,762,943.40</u>	<u>7,708,162.27</u>	<u>4,082,760.19</u>	<u>3,689,943.00</u>
Total assets	<u>10,487,994.84</u>	<u>10,122,173.00</u>	<u>4,804,379.00</u>	<u>4,378,936.00</u>
<b>LIABILITIES</b>				
Current liabilities:				
Accounts payable	215,249.24	225,074.60	-	-
Accrued liabilities	292,207.82	295,968.69	-	-
Deferred revenue	183,206.76	187,285.91	-	-
Compensated absences (Note 6)	137,248.90	146,659.70	-	-
Accrued interest payable	-	461.44	-	-
Long-term liabilities, current portion (Note 6)	-	23,890.50	-	-
Deposits held in custody for others	756,581.54	582,438.13	-	-
Total current liabilities	<u>1,584,494.26</u>	<u>1,461,778.97</u>	<u>-</u>	<u>-</u>
Noncurrent liabilities:				
Compensated absences (Note 6)	380,804.38	374,914.39	-	-
Total noncurrent liabilities	<u>380,804.38</u>	<u>374,914.39</u>	<u>-</u>	<u>-</u>
Total liabilities	<u>1,965,298.64</u>	<u>1,836,693.36</u>	<u>-</u>	<u>-</u>
<b>NET ASSETS</b>				
Invested in capital assets, net of related debt	3,644,744.72	3,937,922.20	-	-
Restricted for:				
Nonexpendable:				
Scholarships and fellowships	-	-	4,081,889.00	3,934,185.00
Other	-	-	116,762.00	115,487.00
Expendable:				
Scholarships and fellowships	281.60	281.60	193,451.00	179,275.00
Instructional department uses	45,984.63	14,818.66	41,924.00	42,365.00
Other	3,295.59	6,211.05	78,452.00	75,268.00
Unrestricted (Note 7)	<u>4,828,389.66</u>	<u>4,326,246.13</u>	<u>291,901.00</u>	<u>32,356.00</u>
Total net assets	<u>\$ 8,522,696.20</u>	<u>\$ 8,285,479.64</u>	<u>\$ 4,804,379.00</u>	<u>\$ 4,378,936.00</u>

The notes to the financial statements are an integral part of this statement.

**TENNESSEE BOARD OF REGENTS  
CLEVELAND STATE COMMUNITY COLLEGE  
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS  
FOR THE YEARS ENDED JUNE 30, 2004, AND JUNE 30, 2003**

	Cleveland State Community College		Component Unit - Cleveland State Community College Foundation	
	Year Ended June 30, 2004	Year Ended June 30, 2003	Year Ended June 30, 2004	Year Ended June 30, 2003
<b>REVENUES</b>				
Operating revenues:				
Student tuition and fees (net of scholarship allowances of \$1,901,646.00 for the year ended June 30, 2004, and \$1,859,504.00 for the year ended June 30, 2003)	\$ 3,523,697.42	\$ 2,663,902.57	\$ -	\$ -
Gifts and contributions	-	-	111,561.00	77,048.00
Endowment income per spending plan	-	-	107,650.00	115,595.00
Governmental grants and contracts	273,616.46	212,622.32	32,500.00	-
Nongovernmental grants and contracts	6,011.00	-	-	-
Sales and services of educational departments	4,259.54	4,352.13	-	-
Auxiliary enterprises:				
Bookstore	96,068.66	86,738.62	-	-
Food service	2,100.00	2,100.00	-	-
Other	3,157.57	3,494.78	-	-
Interest earned on loans to students	-	903.36	-	-
Other operating revenues	176,163.26	217,344.34	-	-
Total operating revenues	<u>4,085,073.91</u>	<u>3,191,458.12</u>	<u>251,711.00</u>	<u>192,643.00</u>
<b>EXPENSES</b>				
Operating expenses (Note 12):				
Salaries and wages	8,329,166.28	8,573,929.52	-	-
Benefits	2,497,589.46	2,446,084.50	-	-
Utilities, supplies, and other services	3,255,836.77	2,880,570.64	66,363.77	22,258.00
Scholarships and fellowships	1,457,494.81	1,311,973.61	116,420.00	79,238.00
Depreciation expense	558,452.67	548,737.37	-	-
Payments to or on behalf of Cleveland State Community College	-	-	38,300.23	252,502.00
Total operating expenses	<u>16,098,539.99</u>	<u>15,761,295.64</u>	<u>221,084.00</u>	<u>353,998.00</u>
Operating income (loss)	<u>(12,013,466.08)</u>	<u>(12,569,837.52)</u>	<u>30,627.00</u>	<u>(161,355.00)</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>				
State appropriations	9,175,700.00	9,337,770.00	-	-
Gifts (college gifts include \$38,300.23 from component unit in 2004 and \$2,298.00 in 2003)	91,973.02	21,064.30	-	-
Grants and contracts	2,780,296.30	2,743,557.37	-	-
Investment income (for component unit, net of investment expense of \$23,882.00 in 2004 and \$24,101.00 in 2003)	38,035.35	51,986.09	241,216.00	(62,225.00)
Interest on capital asset-related debt	(733.06)	(1,892.69)	-	-
Net nonoperating revenues	<u>12,085,271.61</u>	<u>12,152,485.07</u>	<u>241,216.00</u>	<u>(62,225.00)</u>
Income (loss) before other revenues, expenses, gains, or losses	<u>71,805.53</u>	<u>(417,352.45)</u>	<u>271,843.00</u>	<u>(223,580.00)</u>
Capital appropriations	165,411.03	94,313.72	-	-
Capital grants and gifts (college gifts include \$250,204.00 from component unit in 2003)	-	250,204.00	-	-
Additions to permanent endowments	-	-	153,600.00	263,831.00
Total other revenues	<u>165,411.03</u>	<u>344,517.72</u>	<u>153,600.00</u>	<u>263,831.00</u>
Increase in net assets	<u>237,216.56</u>	<u>(72,834.73)</u>	<u>425,443.00</u>	<u>40,251.00</u>
<b>NET ASSETS</b>				
Net assets - beginning of year, as restated (Note 13)	8,285,479.64	8,358,314.37	4,378,936.00	4,338,685.00
Net assets - end of year	<u>\$ 8,522,696.20</u>	<u>\$ 8,285,479.64</u>	<u>\$ 4,804,379.00</u>	<u>\$ 4,378,936.00</u>

The notes to the financial statements are an integral part of this statement.

**TENNESSEE BOARD OF REGENTS  
CLEVELAND STATE COMMUNITY COLLEGE  
STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED JUNE 30, 2004, AND JUNE 30, 2003**

	Year Ended <u>June 30, 2004</u>	Year Ended <u>June 30, 2003</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Tuition and fees	\$ 3,479,944.71	\$ 2,691,249.77
Grants and contracts	260,035.31	225,686.77
Sales and services of educational activities	4,594.54	4,318.13
Payments to suppliers and vendors	(3,252,427.62)	(2,804,515.13)
Payments to employees	(8,342,599.83)	(8,566,768.55)
Payments for benefits	(2,475,199.72)	(2,457,035.32)
Payments for scholarships and fellowships	(1,456,189.86)	(1,312,269.42)
Interest earned on loans to students	-	1,806.71
Auxiliary enterprise charges:		
Bookstore	96,068.66	86,718.65
Food services	2,500.00	1,700.00
Other	3,157.57	3,494.78
Other receipts (payments)	<u>170,566.20</u>	<u>217,202.91</u>
Net cash used by operating activities	<u>(11,509,550.04)</u>	<u>(11,908,410.70)</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
State appropriations	9,174,200.00	9,413,770.00
Gifts and grants received for other than capital or endowment purposes	2,859,272.07	2,757,417.88
Changes in deposits held for others	<u>174,143.41</u>	<u>183,880.91</u>
Net cash provided by noncapital financing activities	<u>12,207,615.48</u>	<u>12,355,068.79</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Capital appropriations	165,411.03	170,063.67
Capital grants and gifts received	-	250,204.00
Purchases of capital assets and construction	(232,457.17)	(376,024.30)
Principal paid on capital debt and leases	(23,890.50)	(22,752.85)
Interest paid on capital debt and leases	<u>(1,194.50)</u>	<u>(2,332.17)</u>
Net cash provided (used) by capital and related financing activities	<u>(92,131.14)</u>	<u>19,158.35</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Income on investments	<u>38,035.35</u>	<u>51,986.09</u>
Net cash provided by investing activities	<u>38,035.35</u>	<u>51,986.09</u>
Net increase in cash	643,969.65	517,802.53
Cash - beginning of year	<u>5,995,012.78</u>	<u>5,477,210.25</u>
Cash - end of year	<u>\$ 6,638,982.43</u>	<u>\$ 5,995,012.78</u>

**TENNESSEE BOARD OF REGENTS  
CLEVELAND STATE COMMUNITY COLLEGE  
STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED JUNE 30, 2004, AND JUNE 30, 2003**

	<u>Year Ended</u> <u>June 30, 2004</u>	<u>Year Ended</u> <u>June 30, 2003</u>
<b>Reconciliation of operating loss to net cash used by operating activities:</b>		
Operating loss	\$ (12,013,466.08)	\$ (12,569,837.52)
Adjustments to reconcile operating loss to net cash used by operating activities:		
Depreciation expense	558,452.67	548,737.37
Gifts in-kind	12,997.25	7,203.79
Other adjustment	(8,927.52)	-
Change in assets and liabilities:		
Receivables, net	(49,988.42)	23,412.95
Prepaid/deferred items	12,568.25	(7,031.03)
Other assets	-	1,031.16
Accounts payable	(9,825.36)	73,941.49
Accrued liabilities	(3,760.87)	(23,630.82)
Deferred revenue	(4,079.15)	19,244.87
Compensated absences	(3,520.81)	19,467.19
Due to grantor	-	(822.34)
Loans to students and employees	-	(127.81)
Net cash used by operating activities	<u>\$ (11,509,550.04)</u>	<u>\$ (11,908,410.70)</u>
<b>Non-cash transactions</b>		
Gifts in-kind	\$ 12,997.25	\$ 7,203.79
Trade-in allowances	8,927.52	-

The notes to the financial statements are an integral part of this statement.

**Tennessee Board of Regents  
Cleveland State Community College  
Notes to the Financial Statements  
June 30, 2004, and June 30, 2003**

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**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Reporting Entity**

The college is a part of the State University and Community College System of Tennessee (Tennessee Board of Regents). This system is a component unit of the State of Tennessee because the state appoints a majority of the system's governing body and provides financial support; the system is discretely presented in the *Tennessee Comprehensive Annual Financial Report*.

**Basis of Presentation**

The financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB). In June 1999, the GASB issued Statement 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*. This was followed in November 1999 by GASB Statement 35, *Basic Financial Statements—and Management's Discussion and Analysis—for Public Colleges and Universities* and in May 2002, by GASB Statement 39, *Determining Whether Certain Organizations Are Component Units*. The financial statement presentation required by those statements provides a comprehensive, entity-wide perspective of the college's, including component units, assets, liabilities, net assets, revenues, expenses, changes in net assets, and cash flows.

**Basis of Accounting**

For financial statement purposes, the college is considered a special-purpose government engaged only in business-type activities. Accordingly, the financial statements have been prepared using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. All significant interfund transactions have been eliminated.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. The college has the option of following private-sector guidance issued subsequent to November 30, 1989, subject to the above limitation. The college has

**Tennessee Board of Regents  
Cleveland State Community College  
Notes to the Financial Statements (Cont.)  
June 30, 2004, and June 30, 2003**

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elected not to follow private-sector guidance issued subsequent to November 30, 1989.

Amounts reported as operating revenues include (1) tuition and fees, net of waivers and discounts; (2) federal, state, local, and private grants and contracts; (3) sales and services of auxiliary enterprises; and (4) other sources of revenue. Operating expenses for the college include (1) salaries and wages; (2) employee benefits; (3) scholarships and fellowships; (4) depreciation; and (5) utilities, supplies, and other services.

All other activity is nonoperating in nature and includes (1) state appropriations for operations; (2) investment income; (3) interest on capital asset-related debt; and (4) nonoperating gifts and grants.

When both restricted and unrestricted resources are available for use, generally it is the college's policy to use the restricted resources first.

**Compensated Absences**

The college's employees accrue annual leave at varying rates, depending on length of service or classification. Some employees also earn compensatory time. The amount of these liabilities and their related benefits are reported in the statement of net assets.

**Capital Assets**

Capital assets, which include property, plant, equipment, and library holdings, are reported in the statement of net assets at historical cost or at fair value at date of donation, less accumulated depreciation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's useful life are not capitalized.

A capitalization threshold of \$100,000 is used for buildings, and \$50,000 is used for infrastructure. Equipment is capitalized when the unit acquisition cost is \$5,000 or greater. The capitalization threshold for additions and improvements to buildings and land is set at \$50,000.

These assets, with the exception of land, are depreciated using the straight-line method over the estimated useful lives, which range from 5 to 40 years.

**Tennessee Board of Regents  
Cleveland State Community College  
Notes to the Financial Statements (Cont.)  
June 30, 2004, and June 30, 2003**

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**Net Assets**

The college's net assets are classified as follows:

Invested in capital assets, net of related debt – This represents the college's total investment in capital assets, net of outstanding debt obligations related to those capital assets. To the extent debt has been incurred but not yet expended for capital assets, such amounts are not included as a component of invested in capital assets, net of related debt.

Expendable restricted net assets – Expendable restricted net assets include resources which the college is legally or contractually obligated to spend in accordance with restrictions imposed by external third parties.

Unrestricted net assets – Unrestricted net assets represent resources derived from student tuition and fees, state appropriations, and sales and services of educational departments and auxiliary enterprises. These resources are used for transactions relating to the educational and general operations of the college, and may be used at the discretion of the college to meet current expenses for any purpose. The auxiliary enterprises are substantially self-supporting activities that provide services for students, faculty, and staff.

**Scholarship Discounts and Allowances**

Student tuition and fee revenues, and certain other revenues from students, are reported net of scholarship discounts and allowances in the statement of revenues, expenses, and changes in net assets. Scholarship discounts and allowances are the difference between the stated charge for goods and services provided by the college and the amount that is paid by the student and/or third parties making payments on the student's behalf. Certain governmental grants, such as Pell grants, and other federal, state, or nongovernmental programs, are recorded as either operating or nonoperating revenues in the college's financial statements. To the extent that revenues from such programs are used to satisfy tuition and fees and other student charges, the college has recorded a scholarship discount and allowance.

**NOTE 2. CASH**

This classification includes demand deposits and petty cash on hand. At June 30, 2004, cash consisted of \$222,650.31 in bank accounts, \$1,160.00 of petty cash on hand, \$6,175,569.14 in the State of Tennessee Local Government Investment Pool administered by the State Treasurer, and \$239,602.98 in LGIP deposits for capital

**Tennessee Board of Regents  
Cleveland State Community College  
Notes to the Financial Statements (Cont.)  
June 30, 2004, and June 30, 2003**

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projects. At June 30, 2003, cash consisted of \$552,229.63 in bank accounts, \$1,060.00 of petty cash on hand, \$5,203,325.81 in the State of Tennessee Local Government Investment Pool administered by the State Treasurer, and \$238,397.34 in LGIP deposits for capital projects.

LGIP deposits for capital projects - Payments related to the college's capital projects are made by the State of Tennessee's Department of Finance and Administration. The college's estimated local share of the cost of each project is held in a separate Local Government Investment Pool (LGIP) account. As expenses are incurred, funds are withdrawn from the LGIP account by the Tennessee Board of Regents and transferred to the Department of Finance and Administration. The funds in the account are not available to the college for any other purpose until the project is completed and the Tennessee Board of Regents releases any remaining funds.

**NOTE 3. DEPOSITS**

The college's deposits are in financial institutions that participate in the bank collateral pool administered by the State Treasurer. The securities pledged to protect these accounts are pledged in the aggregate rather than against each individual account. The members of the pool may be required by agreement to pay an assessment to cover any deficiency. Under this additional assessment agreement, public fund accounts covered by the pool are considered to be insured for purposes of credit risk disclosure.

At June 30, 2004, the carrying amount of the college's deposits was \$222,650.31, and the bank balance including accrued interest was \$754,785.87. The bank balance was insured. At June 30, 2003, the carrying amount of the college's deposits was \$552,229.63, and the bank balance including accrued interest was \$986,122.01. The bank balance was insured.

The laws of the State of Tennessee require that collateral be pledged to secure all uninsured deposits. Tennessee Board of Regents policies require that the market value of collateral pledged equal 115%, 100%, or 90% of the uninsured deposits at financial institutions participating in the collateral pool. The pledge level is based on financial criteria set by the Collateral Pool Board with the financially strongest institutions being eligible for the lowest pledge level.

**Tennessee Board of Regents  
Cleveland State Community College  
Notes to the Financial Statements (Cont.)  
June 30, 2004, and June 30, 2003**

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The college also has deposits in the Local Government Investment Pool (LGIP) administered by the State Treasurer. The LGIP is part of the Pooled Investment Fund. The fund's investment policy and custodial credit risk are presented in the *Tennessee Comprehensive Annual Financial Report*. That report may be obtained by writing to the Tennessee Department of Finance and Administration, Division of Accounts, 14th Floor William R. Snodgrass Tennessee Tower, 312 Eighth Avenue North, Nashville, Tennessee 37243-0298, or by calling (615) 741-2140.

**NOTE 4. RECEIVABLES**

Receivables included the following:

	<u>June 30, 2004</u>	<u>June 30, 2003</u>
Student accounts receivable	\$118,245.52	\$83,098.83
Grants receivable	72,201.27	52,609.12
State appropriation receivable	13,200.00	11,700.00
Other receivables	<u>7,420.70</u>	<u>9,170.12</u>
Subtotal	211,067.49	156,578.07
Less allowance for doubtful accounts	<u>(20,961.06)</u>	<u>(17,960.06)</u>
Total receivables	<u>\$190,106.43</u>	<u>\$138,618.01</u>

**NOTE 5. CAPITAL ASSETS**

Capital asset activity for the year ended June 30, 2004, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Transfers</u>	<u>Reductions</u>	<u>Ending Balance</u>
Land	\$290,530.50	\$ -	\$ -	\$ -	\$290,530.50
Land improvements and infrastructure	958,428.44	119,818.95	-	-	1,078,247.39
Buildings	9,159,463.21	-	-	-	9,159,463.21
Equipment	2,804,650.75	89,642.47	-	53,312.59	2,840,980.63
Library holdings	559,083.36	43,173.05	-	59,894.15	542,362.26

**Tennessee Board of Regents  
Cleveland State Community College  
Notes to the Financial Statements (Cont.)  
June 30, 2004, and June 30, 2003**

Projects in progress	<u>13,778.13</u>	<u>1,322.70</u>	-	-	<u>15,100.83</u>
Total	<u>13,785,934.39</u>	<u>253,957.17</u>	-	<u>113,206.74</u>	<u>13,926,684.82</u>
Less accum. depreciation:					
Land improvements and infrastructure	677,471.30	45,426.83	-	-	722,898.13
Buildings	6,684,513.63	258,270.00	-	-	6,942,783.63
Equipment	2,174,032.83	194,530.20	-	40,740.11	2,327,822.92
Library holdings	<u>288,103.93</u>	<u>60,225.64</u>	-	<u>59,894.15</u>	<u>288,435.42</u>
Total accum. depreciation	<u>9,824,121.69</u>	<u>558,452.67</u>	-	<u>100,634.26</u>	<u>10,281,940.10</u>
Capital assets, net	<u>\$3,961,812.70</u>	<u>\$(304,495.50)</u>	\$ -	<u>\$12,572.48</u>	<u>\$3,644,744.72</u>

Capital asset activity for the year ended June 30, 2003, was as follows:

	Beginning Balance	Additions	Transfers	Reductions	Ending Balance
Land	\$290,530.50	\$ -	\$ -	\$ -	\$290,530.50
Land improvements and infrastructure	884,955.74	73,472.70	-	-	958,428.44
Buildings	9,159,463.21	-	-	-	9,159,463.21
Equipment	2,668,933.77	248,411.09	-	112,694.11	2,804,650.75
Library holdings	572,097.76	40,362.38	-	53,376.78	559,083.36
Projects in progress	-	<u>13,778.13</u>	-	-	<u>13,778.13</u>
Total	<u>13,575,980.98</u>	<u>376,024.30</u>	-	<u>166,070.89</u>	<u>13,785,934.39</u>
Less accum. depreciation:					
Land improvements and infrastructure	656,008.24	21,463.06	-	-	677,471.30
Buildings	6,426,243.62	258,270.01	-	-	6,684,513.63
Equipment	2,078,968.66	207,758.28	-	112,694.11	2,174,032.83
Library holdings	<u>280,234.69</u>	<u>61,246.02</u>	-	<u>53,376.78</u>	<u>288,103.93</u>
Total accum. depreciation	<u>9,441,455.21</u>	<u>548,737.37</u>	-	<u>166,070.89</u>	<u>9,824,121.69</u>
Capital assets, net	<u>\$4,134,525.77</u>	<u>\$(172,713.07)</u>	\$ -	\$ -	<u>\$3,961,812.70</u>

**Tennessee Board of Regents  
Cleveland State Community College  
Notes to the Financial Statements (Cont.)  
June 30, 2004, and June 30, 2003**

**NOTE 6. LONG-TERM LIABILITIES**

Long-term liabilities activity for the year ended June 30, 2004, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Current Portion</u>
Payables:					
Loans	\$ 23,890.50	\$ -	\$ 23,890.50	\$ -	\$ -
Subtotal	<u>23,890.50</u>	<u>-</u>	<u>23,890.50</u>	<u>-</u>	<u>-</u>
Other liabilities:					
Compensated absences	<u>521,574.09</u>	<u>101,503.17</u>	<u>105,023.98</u>	<u>518,053.28</u>	<u>137,248.90</u>
Subtotal	<u>521,574.09</u>	<u>101,503.17</u>	<u>105,023.98</u>	<u>518,053.28</u>	<u>137,248.90</u>
Total long-term liabilities	<u>\$545,464.59</u>	<u>\$101,503.17</u>	<u>\$128,914.48</u>	<u>\$518,053.28</u>	<u>\$137,248.90</u>

Long-term liabilities activity for the year ended June 30, 2003, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Current Portion</u>
Payables:					
Loans	\$ 46,643.35	\$ -	\$22,752.85	\$ 23,890.50	\$23,890.50
Subtotal	<u>46,643.35</u>	<u>-</u>	<u>22,752.85</u>	<u>23,890.50</u>	<u>23,890.50</u>
Other liabilities:					
Compensated absences	<u>502,106.90</u>	<u>96,386.86</u>	<u>76,919.67</u>	<u>521,574.09</u>	<u>146,659.70</u>
Subtotal	<u>502,106.90</u>	<u>96,386.86</u>	<u>76,919.67</u>	<u>521,574.09</u>	<u>146,659.70</u>
Total long-term liabilities	<u>\$548,750.25</u>	<u>\$96,386.86</u>	<u>\$99,672.52</u>	<u>\$545,464.59</u>	<u>\$170,550.20</u>

**Loans Payable**

The Tennessee Board of Regents, on behalf of the college, borrowed funds from the state's Energy Management Loan Fund to replace a chiller. The loan had an interest rate of 5%, a face amount of \$108,605.00, a minimum annual debt service of \$25,085.02, and a due date of February 9, 2004. The balance owed by the college was \$23,890.50 at June 30, 2003.

**Tennessee Board of Regents  
Cleveland State Community College  
Notes to the Financial Statements (Cont.)  
June 30, 2004, and June 30, 2003**

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**NOTE 7. UNRESTRICTED NET ASSETS**

Unrestricted net assets include funds that have been designated or reserved for specific purposes. The unrestricted net assets are composed of the following:

	<u>June 30, 2004</u>	<u>June 30, 2003</u>
Working capital	\$43,707.53	\$29,024.18
Encumbrances	119,641.91	52,286.12
Designated fees	78,432.80	75,148.04
Auxiliaries	302,336.82	269,162.31
Plant construction	1,315,311.36	1,385,731.80
Renewal and replacement of equipment	2,753,325.50	2,339,306.46
Unreserved/undesignated	<u>215,633.74</u>	<u>175,587.22</u>
Total	<u>\$4,828,389.66</u>	<u>\$4,326,246.13</u>

**NOTE 8. PENSION PLANS**

**A. Defined Benefit Plan**

**Tennessee Consolidated Retirement System**

Plan Description - The college contributes to the State Employees, Teachers, and Higher Education Employees Pension Plan (SETHEEPP), a cost-sharing, multiple-employer, defined benefit pension plan administered by the Tennessee Consolidated Retirement System (TCRS). TCRS provides retirement, death, and disability benefits as well as annual cost-of-living adjustments to plan members and their beneficiaries. Title 8, Chapters 34-37, *Tennessee Code Annotated*, establishes benefit provisions. State statutes are amended by the Tennessee General Assembly.

The TCRS issues a publicly available financial report that includes financial statements and required supplementary information for SETHEEPP. That report may be obtained by writing to the Tennessee Department of the Treasury, Consolidated Retirement System, 10th Floor Andrew Jackson Building, Nashville, Tennessee 37243-0230, or by calling (615) 741-8202.

**Tennessee Board of Regents  
Cleveland State Community College  
Notes to the Financial Statements (Cont.)  
June 30, 2004, and June 30, 2003**

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Funding Policy - Plan members are noncontributory. The college is required to contribute an actuarially determined rate. The current rate is 7.3% of annual covered payroll. Contribution requirements for the college are established and may be amended by the TCRS' Board of Trustees. The college's contributions to TCRS for the years ended June 30, 2004, 2003, and 2002 were \$354,384.04, \$360,814.40, and \$298,247.95. Contributions met the requirements for each year.

**B. Defined Contribution Plans**

**Optional Retirement Plans (ORP)**

Plan Description - The college contributes to three defined contribution plans: Teachers Insurance and Annuity Association-College Retirement Equities Fund (TIAA-CREF), Aetna Life Insurance and Annuity Company, and Variable Annuity Life Insurance Company (VALIC). These plans are administered by the Tennessee Department of the Treasury. Each plan provides retirement benefits to faculty and staff who are exempt from the overtime provisions of the Fair Labor Standards Act and who waive membership in the TCRS. Benefits depend solely on amounts contributed to the plan plus investment earnings. Plan provisions are established by state statute in Title 8, Chapter 35, Part 4, *Tennessee Code Annotated*. State statutes are amended by the Tennessee General Assembly.

Funding Policy - Plan members are noncontributory. The college contributes an amount equal to 10% of the employee's base salary up to the social security wage base and 11% above the social security wage base. Contribution requirements are established and amended by state statute. The contribution made by the college to the plans was \$253,962.90 for the year ended June 30, 2004, and \$267,866.76 for the year ended June 30, 2003. Contributions met the requirements for each year.

**NOTE 9. OTHER POST-EMPLOYMENT BENEFITS**

The State of Tennessee administers a group health insurance program which provides post-employment health insurance benefits to eligible college retirees. This benefit is provided and administered by the State of Tennessee. The college assumes no liability for retiree health care programs. Information related to this plan is available

**Tennessee Board of Regents  
Cleveland State Community College  
Notes to the Financial Statements (Cont.)  
June 30, 2004, and June 30, 2003**

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at the statewide level in the *Tennessee Comprehensive Annual Financial Report*. That report may be obtained by writing to the Tennessee Department of Finance and Administration, Division of Accounts, 14th Floor William R. Snodgrass Tennessee Tower, 312 Eighth Avenue North, Nashville, Tennessee 37243-0298, or by calling (615) 741-2140.

**NOTE 10. INSURANCE-RELATED ACTIVITIES**

It is the policy of the state not to purchase commercial insurance for the risks of losses for general liability, automobile liability, professional malpractice, and workers' compensation. The state's management believes it is more economical to manage these risks internally and set aside assets for claim settlement in its internal service fund, the Risk Management Fund. The state purchases commercial insurance for real property, flood, earthquake, and builder's risk losses and surety bond coverage on the state's officials and employees. The Risk Management Fund is also responsible for claims for damage to state owned property up to the amount of the property insurance aggregate deductible amount. The insurance policy deductibles vary from \$25,000 per occurrence, depending on the type of coverage, to an aggregate of \$7.5 million.

The college participates in the Risk Management Fund. The fund allocates the cost of providing claims servicing and claims payment by charging a premium to the college based on a percentage of the college's expected loss costs, which include both experience and exposures. This charge considers recent trends in actual claims experience of the state as a whole. An actuarial valuation is performed as of fiscal year-end to determine the fund liability and premium allocation. Since the college participates in the Risk Management Fund, it is subject to the liability limitations under the provisions of the Tennessee Claims Commission Act, *Tennessee Code Annotated*, Section 9-8-101 et seq. Liability for negligence of the college for bodily injury and property damage is limited to \$300,000 per person and \$1,000,000 per occurrence. The limits of liability under workers' compensation are set forth in *Tennessee Code Annotated*, Section 50-6-101 et seq. Claims are paid through the state's Risk Management Fund. At June 30, 2004, the Risk Management Fund held \$101.1 million in cash designated for payment of claims.

During the year ended June 30, 2003, the state incurred 13 property claims which exceeded the per occurrence deductible. The gross amount of claims for the period

**Tennessee Board of Regents  
Cleveland State Community College  
Notes to the Financial Statements (Cont.)  
June 30, 2004, and June 30, 2003**

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was approximately \$7.2 million, of which the state's property insurance carrier will ultimately assume approximately \$2.2 million.

At June 30, 2004, the scheduled coverage for the college was \$23,142,600.00 for buildings and \$10,366,900.00 for contents. At June 30, 2003, the scheduled coverage for the college was \$22,362,400.00 for buildings and \$13,165,600.00 for contents.

The state has also set aside assets in the Employee Group Insurance Fund, an internal service fund, to provide a program of health insurance coverage for the employees of the state with the risk retained by the state. The college participates in the Employee Group Insurance Fund. The fund allocates the cost of providing claims servicing and claims payment by charging a premium to the college based on estimates of the ultimate cost of claims that have been reported but not settled and of claims that have been incurred but not reported. Employees and providers have 13 months to file medical claims.

**NOTE 11. COMMITMENTS AND CONTINGENCIES**

Sick Leave - The college records the cost of sick leave when paid. Generally, since sick leave (earned one day per month with unlimited accumulation) is paid only when an employee dies or is absent because of illness, injury, or related family death, there is no liability for sick leave at June 30. The dollar amount of unused sick leave was \$3,708,985.18 at June 30, 2004, and \$3,873,043.34 at June 30, 2003.

Operating Leases - The college has entered into various operating leases for buildings and equipment. Such leases will probably continue to be required. Expenses under operating leases for real property were \$84,726.08 and for personal property were \$90,228.26 for the year ended June 30, 2004. Amounts for the year ended June 30, 2003, were \$88,546.08 and \$73,918.29. All operating leases are cancelable at the lessee's option.

Construction in Progress - At June 30, 2004, outstanding commitments under construction contracts totaled \$6,944.17 for the Early Childhood Center, of which \$0.00 will be funded by future state capital outlay appropriations.

**Tennessee Board of Regents  
Cleveland State Community College  
Notes to the Financial Statements (Cont.)  
June 30, 2004, and June 30, 2003**

**NOTE 12. NATURAL CLASSIFICATIONS WITH FUNCTIONAL CLASSIFICATIONS**

The college's operating expenses by functional classification for the year ended June 30, 2004, are as follows:

<u>Functional Classification</u>	<u>Salaries</u>	<u>Benefits</u>	<u>Natural Classification</u>			<u>Total</u>
			<u>Operating</u>	<u>Scholarships</u>	<u>Depreciation</u>	
Instruction	\$4,652,253.53	\$1,273,980.33	\$962,093.86	\$ -	\$ -	\$6,888,327.72
Public service	103,031.00	18,438.63	14,940.27	-	-	136,409.90
Academic support	745,314.29	235,802.70	(32,938.75)	-	-	948,178.24
Student services	979,240.58	362,607.43	700,036.88	-	-	2,041,884.89
Institutional support	1,359,502.11	417,199.54	458,818.31	-	-	2,235,519.96
Operation & maint.	489,824.77	189,560.83	1,089,800.79	-	-	1,769,186.39
Scholar. & fellow.	-	-	-	1,457,494.81	-	1,457,494.81
Auxiliary	-	-	63,085.41	-	-	63,085.41
Depreciation	-	-	-	-	558,452.67	558,452.67
<b>Total</b>	<b><u>\$8,329,166.28</u></b>	<b><u>\$2,497,589.46</u></b>	<b><u>\$3,255,836.77</u></b>	<b><u>\$1,457,494.81</u></b>	<b><u>\$558,452.67</u></b>	<b><u>\$16,098,539.99</u></b>

The college's operating expenses by functional classification for the year ended June 30, 2003, are as follows:

<u>Functional Classification</u>	<u>Salaries</u>	<u>Benefits</u>	<u>Natural Classification</u>			<u>Total</u>
			<u>Operating</u>	<u>Scholarships</u>	<u>Depreciation</u>	
Instruction	\$5,106,076.23	\$1,320,244.17	\$843,067.78	\$ -	\$ -	\$7,269,388.18
Public service	93,116.81	28,054.19	34,483.07	-	-	155,654.07
Academic support	761,372.58	240,798.90	(173,781.27)	-	-	828,390.21
Student services	922,854.81	326,910.80	718,778.46	-	-	1,968,544.07
Institutional support	1,169,685.97	355,970.33	394,741.42	-	-	1,920,397.72
Operation & maint.	507,408.96	174,106.11	1,029,812.33	-	-	1,711,327.40
Scholar. & fellow.	13,414.16	-	-	1,311,973.61	-	1,325,387.77
Auxiliary	-	-	33,468.85	-	-	33,468.85
Depreciation	-	-	-	-	548,737.37	548,737.37
<b>Total</b>	<b><u>\$8,573,929.52</u></b>	<b><u>\$2,446,084.50</u></b>	<b><u>\$2,880,570.64</u></b>	<b><u>\$1,311,973.61</u></b>	<b><u>\$548,737.37</u></b>	<b><u>\$15,761,295.64</u></b>

**Tennessee Board of Regents  
Cleveland State Community College  
Notes to the Financial Statements (Cont.)  
June 30, 2004, and June 30, 2003**

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**NOTE 13. PRIOR-YEAR RESTATEMENT**

The college failed to write off \$74,031.53 of accumulated depreciation (infrastructure) at June 30, 2002. As a result, for the year ended June 30, 2003, the beginning balance of net assets – invested in capital assets, net of related debt, has been increased by \$74,031.53.

**NOTE 14. COMPONENT UNIT**

The Cleveland State Community College Foundation is a legally separate, tax-exempt organization supporting Cleveland State Community College. The foundation acts primarily as a fund-raising organization to supplement the resources that are available to the college in support of its programs. The 53-member board of the foundation is self-perpetuating and consists of graduates and friends of the college who are elected to 3-year terms. Although the college does not control the timing or amount of receipts from the foundation, the majority of resources, or income thereon, that the foundation holds and invests are restricted to the activities of the college by the donors. Because these restricted resources held by the foundation can only be used by, or for the benefit of, the college, the foundation is considered a component unit of the college and is discretely presented in the college's financial statements.

The foundation is a nonprofit organization that reports under Financial Accounting Standards Board (FASB) standards, including FASB Statement 117, *Financial Statements of Not-for-Profit Organizations*. As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features. With the exception of necessary presentation reformatting, no modifications have been made to the foundation's financial information in the college's financial statements for these differences.

During the year ended June 30, 2004, the foundation made distributions of \$38,300.23 to or on behalf of the college for both restricted and unrestricted purposes. During the year ended June 30, 2003, the foundation made distributions of \$252,502.00 to or on behalf of the college for both restricted and unrestricted purposes. Complete financial statements for the foundation can be obtained from Beirne' Beaty, Cleveland State Community College, P. O. Box 3570, Cleveland, Tennessee 37320.

**Tennessee Board of Regents  
Cleveland State Community College  
Notes to the Financial Statements (Cont.)  
June 30, 2004, and June 30, 2003**

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Concentrations of credit risk - The foundation maintains cash balances at one financial institution. These cash balances are insured by the Federal Depository Insurance Corporation up to \$100,000 per institution. At June 30, 2004, and June 30, 2003, the foundation's uninsured cash balances totaled \$428,301 and \$407,870, respectively.

Investments - Investments are recorded on the date of contribution and are stated at fair value. Unrealized gains and losses are determined by the difference between fair values at the beginning and end of the year.

Investments held at June 30, 2004, were as follows:

	<u>Cost</u>	<u>Fair Value</u>
Cash management funds	\$119,851.00	\$119,851.00
U. S. government securities	761,294.00	756,614.00
Municipal bonds	52,036.00	52,140.00
Mutual funds	282,848.00	350,263.00
Closely held equity investments	14,850.00	14,850.00
Corporate bonds	645,195.00	638,262.00
Common stock	1,727,715.00	1,784,151.00
Common funds	271,886.00	287,321.00
Other assets	<u>39,432.00</u>	<u>41,852.00</u>
Totals	<u>\$3,915,107.00</u>	<u>\$4,045,304.00</u>

Investments held at June 30, 2003, were as follows:

	<u>Cost</u>	<u>Fair Value</u>
Cash management funds	\$158,025.00	\$158,025.00
U. S. government securities	711,733.00	737,556.00
Municipal bonds	52,036.00	54,434.00
Mutual funds	272,848.00	286,914.00
Closely held equity investments	14,850.00	14,850.00
Corporate bonds	595,499.00	618,149.00
Common stock	1,683,076.00	1,618,039.00
Common funds	127,647.00	90,147.00

**Tennessee Board of Regents  
Cleveland State Community College  
Notes to the Financial Statements (Cont.)  
June 30, 2004, and June 30, 2003**

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Other assets	<u>39,432.00</u>	<u>35,964.00</u>
Totals	<u>\$3,655,146.00</u>	<u>\$3,614,078.00</u>

Pledges Receivable - Pledges receivable are summarized below net of the allowance for doubtful accounts.

	<u>June 30, 2004</u>	<u>June 30, 2003</u>
Current pledges	\$135,648.00	\$173,270.00
Pledges due in one to five years	40,182.00	90,015.00
Pledges due after five years	<u>6,600.00</u>	<u>7,886.00</u>
Subtotal	182,430.00	271,171.00
Less discounts to net present value	<u>(17,004.00)</u>	<u>(31,844.00)</u>
Total pledges receivable, net	<u>\$165,426.00</u>	<u>\$239,327.00</u>

UNAUDITED

TENNESSEE BOARD OF REGENTS  
CLEVELAND STATE COMMUNITY COLLEGE  
SUPPLEMENTARY INFORMATION  
STATEMENTS OF CASH FLOWS - COMPONENT UNIT  
FOR THE YEARS ENDED JUNE 30, 2004, AND JUNE 30, 2003

	Year Ended <u>June 30, 2004</u>	Year Ended <u>June 30, 2003</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Gifts and contributions	\$ 185,462.00	\$ 71,215.25
Endowment income per spending plan	109,974.00	124,816.00
Grants and contracts	32,500.00	-
Payments to suppliers and vendors	(66,363.77)	(22,258.00)
Payments for scholarships and fellowships	(116,420.00)	(79,238.00)
Payments to Cleveland State Community College	(38,300.23)	(252,502.00)
Net cash provided (used) by operating activities	<u>106,852.00</u>	<u>(157,966.75)</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
Private gifts for endowment purposes	<u>148,117.00</u>	<u>309,451.75</u>
Net cash provided by noncapital financing activities	<u>148,117.00</u>	<u>309,451.75</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from sales and maturities of investments	2,636,479.00	2,477,482.00
Purchases of investments	(2,797,124.00)	(2,546,453.00)
Other investing receipts (payments)	(23,882.00)	(24,101.00)
Net cash used by investing activities	<u>(184,527.00)</u>	<u>(93,072.00)</u>
Net increase in cash	70,442.00	58,413.00
Cash - beginning of year	<u>507,870.00</u>	<u>449,457.00</u>
Cash - end of year (Note 14)	<u>\$ 578,312.00</u>	<u>\$ 507,870.00</u>
<b>Reconciliation of operating income (loss) to net cash provided (used) by operating activities:</b>		
Operating income (loss)	\$ 30,627.00	\$ (161,355.00)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Change in assets and liabilities:		
Receivables, net	<u>76,225.00</u>	<u>3,388.25</u>
Net cash provided (used) by operating activities	<u>\$ 106,852.00</u>	<u>\$ (157,966.75)</u>
<b>Noncash transactions</b>		
Unrealized gain (loss) on investments	\$ (265,098.00)	\$ 49,832.00
Donated stock	5,483.00	2,501.00