AUDIT REPORT

Tennessee Board of Regents
Cleveland State Community College

For the Years Ended
June 30, 2008, and June 30, 2007

STATE OF TENNESSEE

COMPTROLLER OF THE TREASURY

Department of Audit

Division of State Audit

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STATE OF TENNESSEE
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August 11, 2009

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, 2008, and June 30, 2007. 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 resulted in no audit findings.

Sincerely,

Arthur A. Hayes, Jr., CPA
Director

AAH/sds
09/046

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, 2008, and June 30, 2007

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.

AUDIT FINDINGS

The audit report contains no findings.

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, 2008, and June 30, 2007

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Tennessee Board of Regents
Cleveland State Community College
For the Years Ended June 30, 2008, and June 30, 2007

INTRODUCTION

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 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 Executive 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.

AUDIT SCOPE

The audit was limited to the period July 1, 2006, through June 30, 2008, 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 generally accepted government auditing standards. Financial statements are presented for the years ended June 30, 2008, and June 30, 2007. 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.*

OBJECTIVES OF THE AUDIT

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

There were no findings in the prior audit report.

OBSERVATIONS AND COMMENTS

MANAGEMENT'S RESPONSIBILITY FOR RISK ASSESSMENT

Auditors and management are required to assess the risk of fraud in the operations of the institution. The risk assessment is based on a critical review of operations considering what frauds could be perpetrated in the absence of adequate controls. The auditors' risk assessment is limited to the period during which the audit is conducted and is limited to the transactions that the auditors are able to test during that period. The risk assessment by management is the primary method by which the institution is protected from fraud, waste, and abuse. Since new programs may be established at any time by management or older programs may be discontinued, that assessment is ongoing as part of the daily operations of the institution.

Risks of fraud, waste, and abuse are mitigated by effective internal controls. It is management's responsibility to design, implement, and monitor effective controls in the institution. Although internal and external auditors may include testing of controls as part of their audit procedures, these procedures are not a substitute for the ongoing monitoring required of management. After all, the auditor testing is limited and is usually targeted to test the effectiveness of particular controls. Even if controls appear to be operating effectively during the time of the auditor testing, they may be rendered ineffective the next day by management override or by other circumventions that, if left up to the auditor to detect, will not be noted until the next audit engagement and then only if the auditor tests the same transactions and controls. Furthermore, since staff may be seeking to avoid auditor criticisms, they may comply with the controls during the period that the auditors are on site and revert to ignoring or disregarding the control after the auditors have left the field.

The risk assessments and the actions of management in designing, implementing, and monitoring the controls should be adequately documented to provide an audit trail both for auditors and for management, in the event that there is a change in management or staff, and to maintain a record of areas that are particularly problematic.

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, 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 CENTER

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.

RESULTS OF THE AUDIT

AUDIT CONCLUSIONS

Internal Control

As part of the audit of the college's financial statements for the years ended June 30, 2008, and June 30, 2007, we considered internal control over financial reporting as a basis for designing 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 generally accepted government auditing standards. Consideration of internal control over financial reporting disclosed no significant deficiencies or material weaknesses.

Compliance

The results of our tests disclosed no instances of noncompliance that are required to be reported under generally accepted 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
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DEPARTMENT OF AUDIT
DIVISION OF STATE AUDIT

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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*

July 22, 2009

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:

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, 2008, and June 30, 2007, and have issued our report thereon dated July 22, 2009. During the year ended June 30, 2008, the college implemented GASB Statement 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions.*

Our report was modified to include a reference to other auditors. 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 generally accepted government auditing standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the college's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the college's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the college's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the college's ability to initiate, authorize, record, process, or report financial data reliably in accordance with accounting principles generally accepted in the United States of America such that there is more than a remote likelihood that a misstatement of the college's financial statements that is more than inconsequential will not be prevented or detected by the college's internal control.

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

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

However, we noted certain 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 generally accepted government auditing standards.

This report is intended solely for the information and use of the General Assembly of the State of Tennessee, the Tennessee Board of Regents, 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,

Arthur A. Hayes, Jr.

Arthur A. Hayes, Jr., CPA
Director

AAH/sds

STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
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Independent Auditor's Report

July 22, 2009

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:

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, 2008, and June 30, 2007, 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 other auditors 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 auditors.

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 generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As discussed in Note 1, the financial statements of Cleveland State Community College, an institution of the Tennessee Board of Regents, are intended to present the financial position, the changes in financial position, and the cash flows of only Cleveland State Community College. They do not purport to, and do not, present fairly the financial position of the Tennessee Board of Regents, as of June 30, 2008, and June 30, 2007, and the changes in its financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, based on our audit and the report of the other auditors, 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, 2008, and June 30, 2007, 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.

As discussed in Note 13, during the year ended June 30, 2008, the college implemented GASB Statement 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*.

The management's discussion and analysis on pages 12 through 32 and the OPEB schedule of funding progress on page 57 are not a required part of the basic financial statements but are 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. In its management's discussion and analysis, Cleveland State Community College has not presented condensed financial information comparing the 2007 and 2006 fiscal years which is required by accounting principles generally accepted in the United States of America to supplement, although not be a part of, the basic financial statements.

Our audit was conducted for the purpose of forming opinions on the basic financial statements. The accompanying financial information on page 58 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with generally accepted government auditing standards, we have also issued our report dated July 22, 2009, 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 generally accepted government auditing standards and should be read in conjunction with this report in considering the results of our audit.

Sincerely,

Arthur A. Hayes, Jr., CPA
Director

AAH/sds

Tennessee Board of Regents
Cleveland State Community College
Management's Discussion and Analysis
June 30, 2008, and June 30, 2007

This section of Cleveland State Community College's report presents a discussion and analysis of the financial performance of the college during the fiscal year ended June 30, 2008, with comparative information presented for the fiscal year ended June 30, 2007. This discussion has been prepared by management along with the financial statements and related note disclosures and should be read in conjunction with the independent auditor's report, the audited financial statements, and the accompanying notes. The financial statements, notes, and this discussion are the responsibility of management.

The college has a discretely presented component unit, the Cleveland State Community College Foundation. More detailed information about the college's component unit is included in Note 15 of the financial statements. Information and analysis regarding the component unit are also included in this section.

Using This 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.

Condensed Statements of Net Assets
(in thousands of dollars)

Institution
Cleveland State Community College

	2008	2007
Assets:		
Current assets	$ 3,657	$ 2,605
Capital assets, net	3,359	3,738
Other assets	5,574	5,242
Total assets	12,590	11,585
Liabilities:		
Current liabilities	3,059	2,401
Noncurrent liabilities	1,387	751
Total liabilities	4,446	3,152
Net assets:		
Invested in capital assets, net of related debt	3,020	3,272
Restricted - expendable	658	502
Unrestricted	4,466	4,659
Total net assets	$ 8,144	$ 8,433

Institution

Comparison of FY 2008 to FY 2007

- Current and other assets consist of cash, accounts receivables, grant receivables, and prepaid expenses.

  1. The largest increase in current assets occurred in cash. Funds held by the college for the Tennessee Technology Center at Athens increased. Excess funds were also maintained by the college in current cash due to an anticipated reduction in the fiscal year 2009 budget.

  2. Accounts receivable increased due to a change in the collection of student accounts receivable from federal financial aid. Students are now responsible for the difference between the college's refund policy and the U.S. Department of

Education's refund policy. Also, the amount of receivables for veterans and the amount owed by area industries increased.

3. Noncurrent cash also increased due to an increase in funds for the Tennessee Technology Center at Athens.

- Capital assets decreased due primarily to an increase in accumulated depreciation.

- There was an increase in current liabilities. Deferred revenue increased due to an increase in summer enrollment. Deposits held in custody for others increased due to an increase in the amount held for the Tennessee Technology Center at Athens.

- The increase in noncurrent liabilities is due to the college's initial recognition of its OPEB obligation (see Note 13) and an increase in compensated absences and long-term liabilities. The increase in compensated absences was a result of an increase in leave. An increase in Tennessee State School Bond Authority indebtedness increased long-term liabilities.

- Net assets decreased overall in fiscal year 2008. Invested in capital assets, net of related debt decreased primarily due to depreciation cost, the disposal of obsolete and outdated equipment, and increased debt. The increase in expendable net assets was in the capital projects category due to additional funds from the Cleveland State Community College Foundation. Other expendable restricted net assets increased as a result of restricted faculty and student funds. Unrestricted net assets decreased. Funds from the fiscal year 2007 reserve were spent in fiscal year 2008.

Condensed Statements of Net Assets
(in thousands of dollars)

Component Unit
Cleveland State Community College Foundation

	2008	2007
Assets:		
Current assets	$ 243	$ 277
Other assets	6,134	6,648
Total assets	6,377	6,925

Liabilities:		
Current liabilities	12	21
Total liabilities	12	21
Net assets:		
Restricted - nonexpendable	4,667	4,586
Restricted - expendable	860	1,057
Unrestricted	838	1,261
Total net assets	$ 6,365	$ 6,904

Component Unit

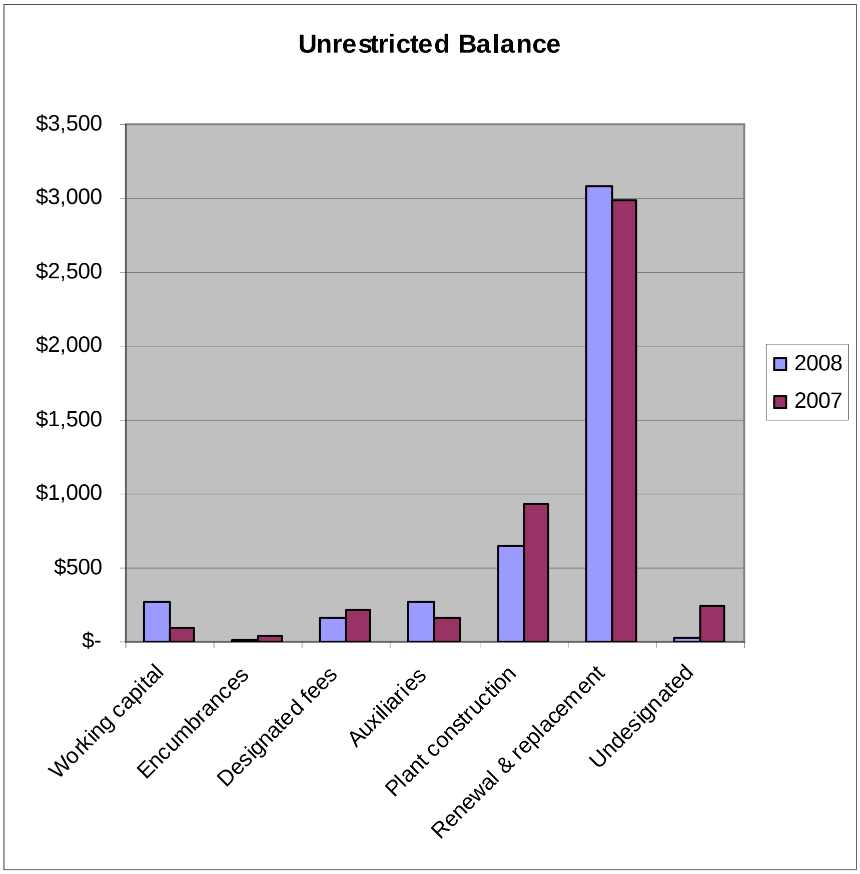
Comparison of FY 2008 to FY 2007

Material assets for the Cleveland State Community College Foundation consist of cash, interest receivable, pledges receivable, and investments.

- The decrease in current assets was primarily due to a decrease in cash. Cash was transferred to investment accounts.
- Investments decreased due to an overall decrease in market values.
- Pledges receivable decreased due to a change in the foundation's practice of accepting pledges more than one year in advance.
- Liabilities decreased in the amount owed to Cleveland State Community College for the healthcare program.
- Nonexpendable restricted net assets increased due to an increase in contributions to the permanent endowment.
- Expendable restricted net assets decreased due to funds transferred to unrestricted for expenditure.
- The unrestricted net asset balance decreased due to the recognition of $657,960 in unrealized losses on investments.

Many of the college's unrestricted net assets have been designated for specific purposes such as repairs and replacement of equipment and capital projects. The following graph shows the allocations. Amounts are presented in thousands of dollars.

Institution



Comparison of FY 2008 to FY 2007

Institution

- Working capital increased due to an increase in student accounts receivable.
- Encumbrances decreased as a result of an early cut-off date for fiscal year 2008 expenditures.
- Designated fees decreased due to the use of technology access fees in reserve.
- Auxiliaries increased due to an increase in funds from bookstore commissions held in this reserve.
- Plant construction decreased due to debt incurred for the Energy Performance project.
- Renewal and replacement balance increased due to a transfer to the administrative software reserve from unrestricted funds.
- Undesignated reserves decreased. This was due primarily to undesignated funds being transferred to renewals and replacements to increase the administrative software replacement reserve.

Component Unit

- The unrestricted balance for the foundation decreased. This balance is undesignated.

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.

Condensed Statements of Revenues, Expenses, and Changes in Net Assets
(in thousands of dollars)
Institution
Cleveland State Community College

	2008	2007
Operating revenues:		
Net tuition and fees	$ 3,723	$ 3,349
Grants and contracts	672	569
Auxiliary	154	149
Other	145	148
Total operating revenues	4,694	4,215
Operating expenses	21,075	18,767
Operating loss	(16,381)	(14,552)
Nonoperating revenues and expenses:		
State appropriations	10,962	10,451
Gifts	139	146
Grants & contracts	4,014	3,517
Investment income	294	348
Other expenses	(24)	(20)
Total nonoperating revenues and expenses	15,385	14,442
Income (loss) before other revenues, expenses, gains, or losses	(996)	(110)
Other revenues, expenses, gains, or losses:		
Capital appropriations	553	254
Capital grants and gifts	150	200
Other	4	(26)
Total other revenues, expenses, gains, or losses	707	428
Increase (decrease) in net assets	(289)	318
Net assets at beginning of year	8,433	8,115
Net assets at end of year	$ 8,144	$ 8,433

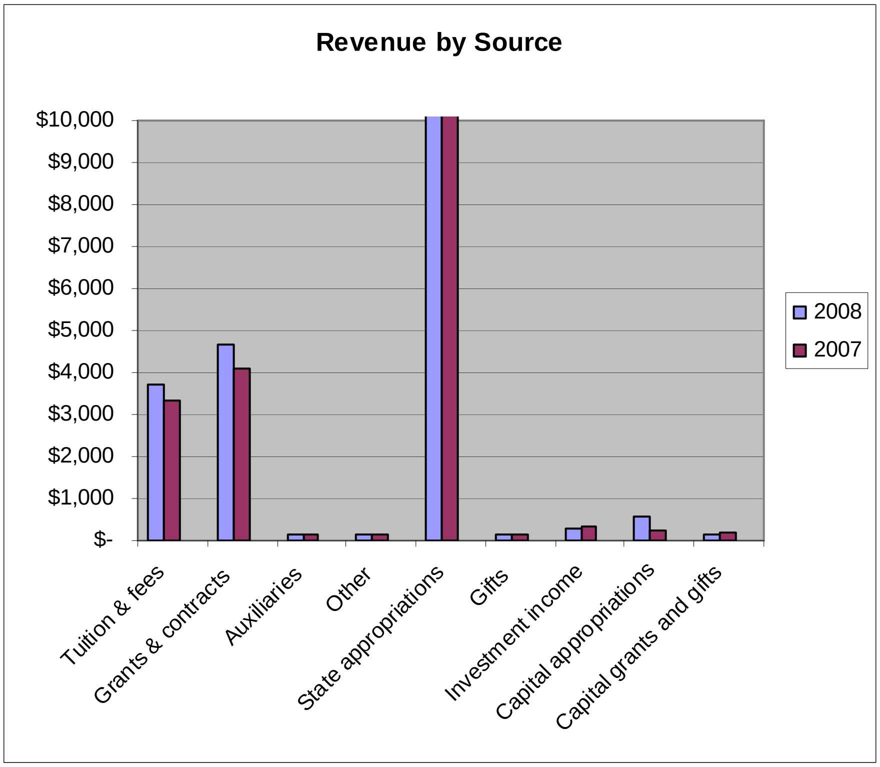
Condensed Statements of Revenues, Expenses, and Changes in Net Assets
(in thousands of dollars)
Component Unit
Cleveland State Community College Foundation

	2008	2007
Operating revenues:		
Gifts and contributions	$ 145	$ 110
Endowment income per spending plan	310	182
Total operating revenues	455	292
Operating expenses	458	508
Operating loss	(3)	(216)
Nonoperating revenues and expenses:		
Investment income	(616)	616
Total nonoperating revenues and expenses	(616)	616
Income (loss) before other revenues, expenses, gains, or losses	(619)	400
Other revenues, expenses, gains, or losses:		
Additions to permanent endowments	80	64
Total other revenues, expenses, gains, or losses	80	64
Increase (decrease) in net assets	(539)	464
Net assets at beginning of year	6,904	6,440
Net assets at end of year	$ 6,365	$ 6,904

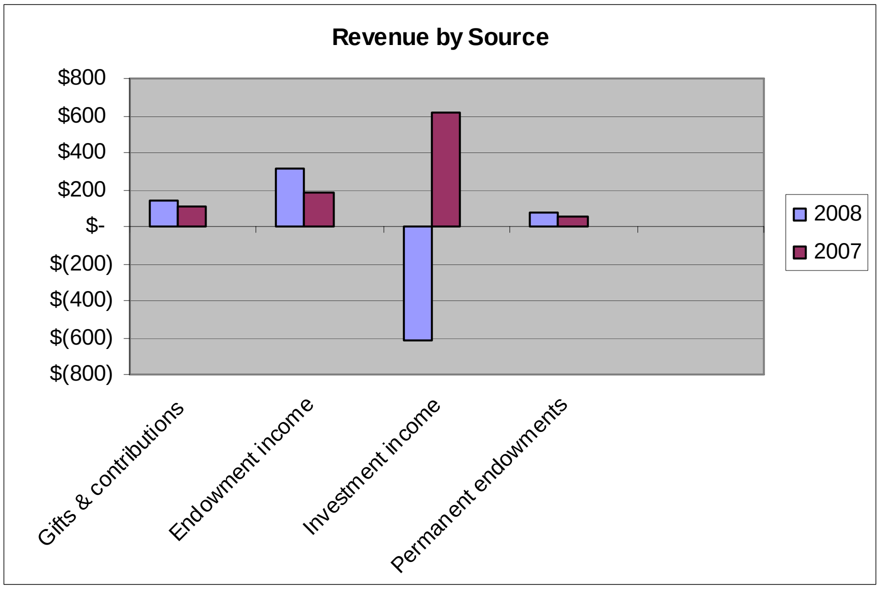
Revenues

The following is a graphic illustration of revenues by source (both operating and nonoperating), which are used to fund the college's and foundation's operating activities for the years ended June 30, 2008, and June 30, 2007. Amounts are presented in thousands of dollars.

Institution



Component Unit



Comparison of FY 2008 to FY 2007

Institution

- Operating revenues increased for fiscal year 2008. The increase in tuition and fees was due to a 6% increase in maintenance fees and an increase in spring and summer enrollment. Grants increased due to an increase in the WIA Program and Perkins Basic grants. Other operating revenue increased due to the recognition of on-behalf Medicare health insurance payments made by the State of Tennessee.

- There was an increase in operating state appropriations from the State of Tennessee.

- Investment income decreased due to a decline in interest rates.

- Capital appropriations increased due to two new reroofing projects by the state.

- Capital grants and gifts decreased due to a reduction in capital gifts from fiscal year 2007 from the Cleveland State Community College Foundation for the auditorium renovation project.

Component Unit

- Operating revenues increased for the foundation. This increase was due to an increase in temporarily restricted contributions and dividends paid to the foundation.
- Investment income decreased due to an unrealized loss on investments.
- Additions to permanent endowments increased due to an increase in contributions from donors.

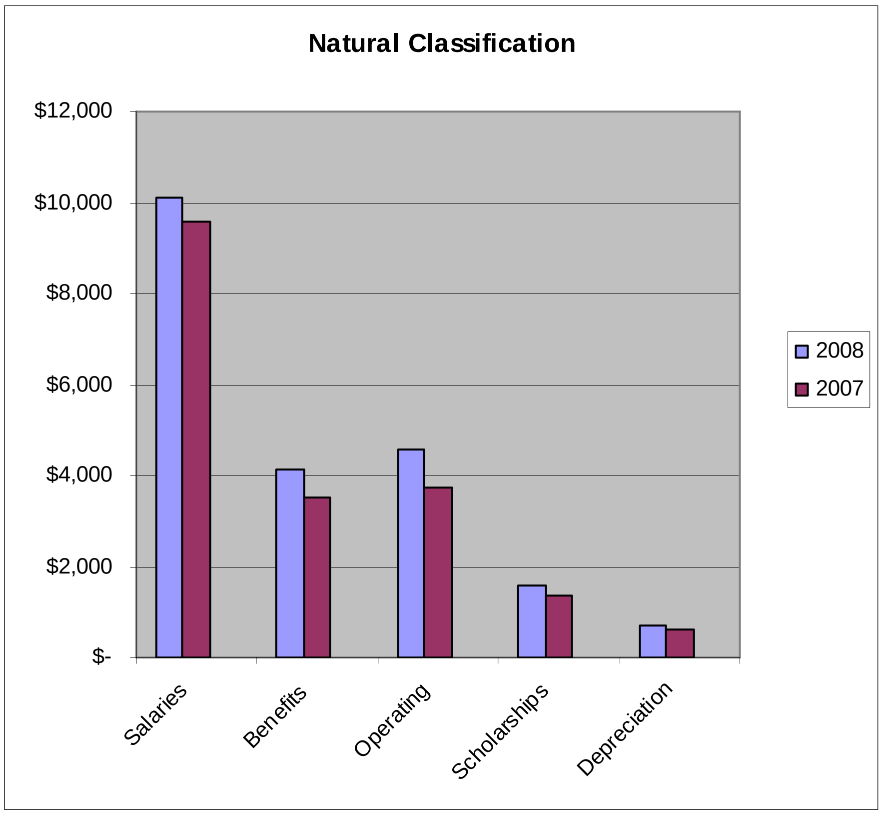
Expenses

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

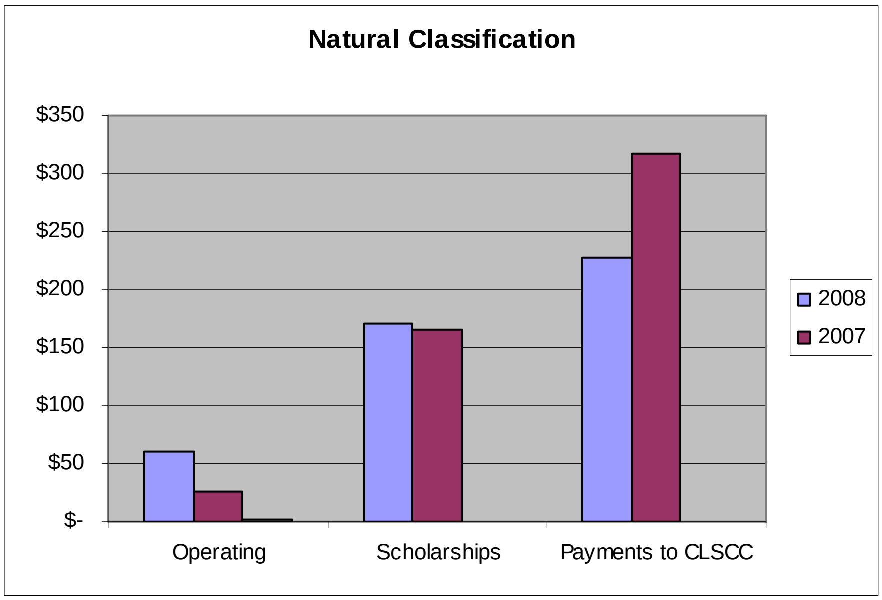
Natural Classification
(in thousands of dollars)

	Institution		Component Unit	
	Cleveland State Community College		Cleveland State Community College Foundation	
	2008	2007	2008	2007
Salaries	$ 10,122	$ 9,596	$ -	$ -
Benefits	4,119	3,507	-	-
Utilities, supplies, and other services	4,570	3,717	60	26
Scholarships and fellowships	1,579	1,350	170	165
Depreciation expense	685	597	-	-
Payments to or on behalf of CLSCC	-	-	228	317
Total	$ 21,075	$ 18,767	$ 458	$ 508

Institution
(in thousands of dollars)



Component Unit
(in thousands of dollars)



Comparison of FY 2008 to FY 2007

Institution

- Salaries increased due to a 3% employee raise and a one-time bonus.
- Benefits increased in proportion to the raise and bonus. Health insurance premiums increased in January 2008. The OPEB liability was recorded as a benefit for the first time in fiscal year 2008.
- Utilities, supplies, and other services increased primarily due to two reroofing projects and an overall increase in operating cost for the college.
- Scholarships increased due to an increase in federal and state financial aid. The maximum amount for Pell awards and Tennessee Lottery awards increased.
- The depreciation increase is due primarily to the increase in software amortization.

Component Unit

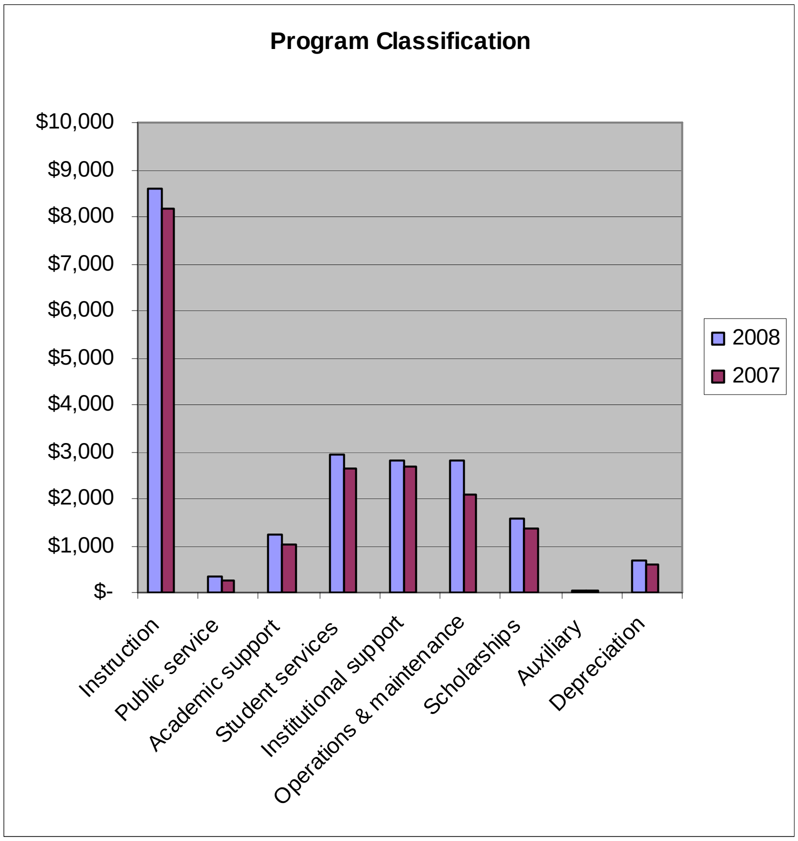
- Utilities, supplies, and other services increased for the foundation due to a one-time consulting contract and payments for international student travel.
- Scholarships increased due to an increase in tuition.
- Payments to or on-behalf of Cleveland State Community College decreased due to a decrease in available funds for the auditorium renovation and the healthcare program.

Program Classification
(in thousands of dollars)

Cleveland State Community College

	2008	2007
Instruction	$ 8,601	$ 8,159
Public service	360	263
Academic support	1,251	1,012
Student services	2,930	2,618
Institutional support	2,826	2,670
Operation & maintenance	2,813	2,065
Scholarships & fellowships	1,579	1,350
Auxiliary	30	33
Depreciation	685	597
Total	$ 21,075	$ 18,767

Institution
(in thousands of dollars)



Comparison of FY 2008 to FY 2007

All program areas of the college increased in fiscal year 2008. Salaries increased for all the program areas due to a 3% employee raise and a one-time bonus. Benefits increased in conjunction with the salary increases. There was also a health insurance premium increase in January 2008 and the OPEB liability was recorded as a benefit in the programs areas. Fiscal year 2008 was the first year this liability has been recorded.

Other increases in the programs were in operating, scholarships, and depreciation.

- Instructional operating increased due to an increase in cost of supplies and services. Technology fee expenditures increased for instruction.

- Public service increased due to an increase in the expenditures of the WIA Grant spent for adult support services.

- Academic services operational cost increased due to new expenditures for administrative software training and implementation, and the purchase of new software.

- Student services operating cost increased primarily in the area of athletics due to increased travel cost. Marketing and advertising cost also increased for student services.

- There was a decrease in institutional support operational cost due primarily to a decrease in travel cost for administrative software training.

- The increase in operating cost for maintenance and operations was due to the reroofing of the gym and the technology building.

- Scholarships increased due to an increase in federal and state financial aid scholarships.

- The depreciation increase is due primarily to an increase in software amortization.

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.

Condensed Statements of Cash Flows
(in thousands of dollars)

Institution
Cleveland State Community College

	2008	2007
Cash provided (used) by:		
Operating activities	$ (15,392)	$ (13,845)
Noncapital financing activities	15,654	14,316
Capital and related financing activities	602	(233)
Investing activities	294	348
Net increase (decrease) in cash	**1,158**	**586**
Cash, beginning of year	**7,392**	**6,806**
Cash, end of year	**$ 8,550**	**$ 7,392**

Comparison of FY 2008 to FY 2007

- Cash from operating activities decreased during fiscal year 2008 due to an increase in operating expenses.
- Cash flow from noncapital financing activities increased due to an increase in operating state appropriations and an increase in revenue from federal and state financial aid grants. Cash held for the Tennessee Technology Center at Athens increased.
- Capital and related financing activities increased due to an increase in capital debt by the college and an increase in capital state appropriations for an HVAC project and reroofing projects.
- The purchase of capital assets and construction decreased in fiscal year 2008. There was a decrease in the purchase of capitalized administrative software over fiscal year 2007.
- Investing activities decreased due to a decline in interest earned in fiscal year 2008.
- Overall, the college's liquidity increased in 2008.

Capital Assets and Debt Administration

Capital Assets

Cleveland State Community College had $3,359,010 invested in capital assets, net of accumulated depreciation of $11,506,672 at June 30, 2008; and $3,738,077 invested in capital assets, net of accumulated depreciation of $10,918,388 at June 30, 2007. Depreciation charges totaled $685,419 and $597,483 for the years ended June 30, 2008, and June 30, 2007, respectively. Details of these assets are shown below.

Schedule of Capital Assets, Net of Depreciation
(in thousands of dollars)

Institution
Cleveland State Community College

	2008	2007
Land	$ 268	$ 268
Land improvements & infrastructure	191	253
Buildings	1,334	1,517
Equipment	455	556
Library holdings	194	205
Software	848	908
Projects in progress	69	31
Total	$ 3,359	$ 3,738

Institution

- In fiscal year 2008, land improvements and infrastructure decreased due to the annual addition of depreciation. There were no capital additions.

- Buildings decreased due to the recording of annual depreciation. There were no capital additions to buildings in fiscal year 2008.

- Overall equipment decreased in fiscal year 2008. New purchases of equipment totaled $70,435. There was $27,888 of obsolete and outdated equipment along with the accumulated depreciation written off in fiscal year 2008. Annual depreciation totaled $170,769.

- Library holdings decreased in fiscal year 2008. New purchases of library holdings totaled $38,476. Obsolete inventory from 1999 was written off totaling $69,247 along with the accumulated depreciation. Depreciation on library holdings totaled $50,231.

- Capitalized software purchases totaled $159,411 in fiscal year 2008. Amortization of capitalized software for the year was $219,496.

- Projects in progress increased due to expenses on the Auditorium Renovation project and the HVAC project for the technology building.

Component Unit

- The foundation had no capital assets for fiscal years 2008 or 2007.

Planned Expenditures for Fiscal Year 2009

The college will continue to implement the new administrative software system which is being funded by the college.

Renovation of the college's auditorium will be completed in fiscal year 2009. This project is being funded from private donations and debt incurred by the college.

The HVAC system for the technology building will be completed in fiscal year 2009. This project is being funded by state appropriations.

A second business incubator building is being planned for fiscal year 2009. This project is being funded from private donations and grants.

Renovation of the baseball concession stand is being funded by private donations.

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

Debt

The college had $708,861 and $465,849 in Tennessee State School Bond Authority (TSSBA) debt outstanding at June 30, 2008, and June 30, 2007, respectively. The component unit had no debt. The table below summarizes these amounts by type of debt instrument.

Schedule of Outstanding Debt

Institution
Cleveland State Community College

	2008	**2007**
TSSBA debt:		
Commercial paper	$391,952.27	$ -
Bonds payable	316,908.50	465,848.50
Total	$708,860.77	$465,848.50

In fiscal year 2005, the college borrowed commercial paper funds in the amount of $393,000 for the purchase of the SCT Banner license. In fiscal year 2006, the college incurred additional commercial paper debt in the amount of $369,741 for computer hardware. The bonds payable in the amount of $316,908.50 is the balance owed on this debt. There are two remaining principal payments on this bond. Principal in the amount of $148,940.00 was paid on this bond in fiscal year 2008.

The college incurred additional Tennessee State School Bond Authority commercial paper debt in the amount of $391,952.27 during fiscal year 2008. A total of $369,390.40 was incurred for the Energy Performance project for the college, and $22,561.87 was incurred for the renovation of the auditorium.

The Tennessee State School Bond Authority authorizes all capital long-term debt for the college. TSSBA debt currently is rated AA by Standard & Poor's.

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 economic position of Cleveland State Community College is closely tied to that of the State of Tennessee. The State of Tennessee has projected a shortfall in sales tax revenues for the 2008-09 year. Appropriations to the college are expected to be reduced by approximately 2.3% in fiscal year 2009. The Tennessee Board of Regents has approved an increase of 6% in tuition for the upcoming 2008-09 academic year.

The Cleveland State Community College Foundation receives most of its funding from investments. Market fluctuations could have a major impact on investment revenue in the coming year. The foundation did a feasibility study for a major gift campaign in 2008. Results from the study were positive, but due to a downturn in the economy, the trustees decided to postpone the campaign for a year.

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, 2008, AND JUNE 30, 2007

	Cleveland State Community College		Component Unit - Cleveland State Community College Foundation	
	June 30, 2008	June 30, 2007	June 30, 2008	June 30, 2007
ASSETS				
Current assets:				
Cash (Notes 2, 3, and 15)	$ 3,209,673.64	$ 2,374,576.24	$ 58,017.00	$ 92,334.00
Accounts and grants receivable (net) (Note 4)	432,968.42	220,247.91	24,978.00	23,203.00
Pledges receivable (net) (Note 15)	-	-	160,222.00	161,170.00
Prepaid expenses and deferred charges	14,154.38	10,278.86	-	-
Total current assets	3,656,796.44	2,605,103.01	243,217.00	276,707.00
Noncurrent assets:				
Cash (Notes 2, 3, and 15)	5,340,513.82	5,017,099.11	-	-
Investments (Note 15)	-	-	5,990,664.00	6,373,119.00
Accounts and grants receivable (net) (Note 4)	233,667.11	224,209.99	-	-
Pledges receivable (net) (Note 15)	-	-	143,284.00	275,406.00
Capital assets (net) (Note 5)	3,359,009.92	3,738,077.03	-	-
Total noncurrent assets	8,933,190.85	8,979,386.13	6,133,948.00	6,648,525.00
Total assets	12,589,987.29	11,584,489.14	6,377,165.00	6,925,232.00
LIABILITIES				
Current liabilities:				
Accounts payable	337,082.44	329,860.83	12,212.00	20,979.00
Accrued liabilities	344,339.66	340,812.98	-	-
Deferred revenue	329,908.54	276,748.40	-	-
Compensated absences (Note 6)	164,159.37	161,571.62	-	-
Long-term liabilities, current portion (Note 6)	155,195.00	148,940.00	-	-
Deposits held in custody for others	1,728,598.27	1,142,910.89	-	-
Total current liabilities	3,059,283.28	2,400,844.72	12,212.00	20,979.00
Noncurrent liabilities:				
Net OPEB obligation (Notes 6 and 9)	369,102.00	-	-	-
Compensated absences (Note 6)	464,600.73	433,966.28	-	-
Long-term liabilities, noncurrent portion (Note 6)	553,665.77	316,908.50	-	-
Total noncurrent liabilities	1,387,368.50	750,874.78	-	-
Total liabilities	4,446,651.78	3,151,719.50	12,212.00	20,979.00
NET ASSETS				
Invested in capital assets, net of related debt	3,019,539.55	3,272,228.53	-	-
Restricted for:				
Nonexpendable:				
Scholarships and fellowships	-	-	4,541,190.00	4,462,183.00
Instructional department uses	-	-	125,309.00	124,461.00
Expendable:				
Scholarships and fellowships	1,013.03	2,281.60	110,320.00	142,170.00
Instructional department uses	40,722.80	51,169.18	188,288.00	247,546.00
Capital projects	576,693.87	423,909.83	425,056.00	551,091.00
Other	39,054.29	24,741.74	136,399.00	115,828.00
Unrestricted (Note 7)	4,466,311.97	4,658,438.76	838,391.00	1,260,974.00
Total net assets	$ 8,143,335.51	$ 8,432,769.64	$ 6,364,953.00	$ 6,904,253.00

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

TENNESSEE BOARD OF REGENTS
CLEVELAND STATE COMMUNITY COLLEGE
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2008, AND JUNE 30, 2007

	Cleveland State Community College		Component Unit - Cleveland State Community College Foundation	
	Year Ended June 30, 2008	Year Ended June 30, 2007	Year Ended June 30, 2008	Year Ended June 30, 2007
REVENUES				
Operating revenues:				
Student tuition and fees (net of scholarship allowances of $3,202,220.00 for the year ended June 30, 2008, and $2,786,824.00 for the year ended June 30, 2007)	$ 3,723,174.31	$ 3,348,733.68	$ -	$ -
Gifts and contributions	-	-	144,995.00	110,353.00
Endowment income per spending plan	-	-	310,239.00	181,658.00
Governmental grants and contracts	664,268.18	567,474.17	-	-
Nongovernmental grants and contracts (college grants include $7,945.83 from component unit in 2008)	7,945.83	1,710.00	-	-
Sales and services of educational departments	11,413.22	11,258.46	-	-
Auxiliary enterprises:				
Bookstore	148,425.45	142,744.14	-	-
Food service	2,812.69	2,913.15	-	-
Other	2,834.17	3,048.51	-	-
Other operating revenues	133,810.75	137,347.75	-	-
Total operating revenues	4,694,684.60	4,215,229.86	455,234.00	292,011.00
EXPENSES				
Operating expenses (Note 12):				
Salaries and wages	10,122,181.44	9,595,755.44	-	-
Benefits	4,119,182.39	3,507,073.82	-	-
Utilities, supplies, and other services	4,569,639.43	3,716,867.65	60,276.00	25,583.00
Scholarships and fellowships	1,579,354.44	1,350,425.20	170,082.00	164,709.00
Depreciation expense	685,418.74	597,483.38	-	-
Payments to or on behalf of Cleveland State Community College (Note 15)	-	-	227,836.00	317,314.00
Total operating expenses	21,075,776.44	18,767,605.49	458,194.00	507,606.00
Operating income (loss)	(16,381,091.84)	(14,552,375.63)	(2,960.00)	(215,595.00)
NONOPERATING REVENUES (EXPENSES)				
State appropriations	10,962,200.00	10,450,900.00	-	-
Gifts (college gifts include $69,890.17 from component unit in 2008 and $117,314.00 in 2007)	138,454.09	146,767.04	-	-
Grants and contracts	4,013,713.19	3,517,029.02	-	-
Investment income (for component unit, net of investment expense of $35,362.00 in 2008 and $33,038.00 in 2007)	294,057.09	347,863.34	(616,193.00)	615,640.00
Interest on capital asset-related debt	(23,913.54)	(20,163.94)	-	-
Net nonoperating revenues	15,384,510.83	14,442,395.46	(616,193.00)	615,640.00
Income (loss) before other revenues, expenses, gains, or losses	(996,581.01)	(109,980.17)	(619,153.00)	400,045.00
Capital appropriations	552,622.88	254,521.26	-	-
Capital grants and gifts (college gifts include $150,000.00 from component unit in 2008 and $200,000.00 in 2007	150,000.00	200,000.00	-	-
Additions to permanent endowments	-	-	79,853.00	64,212.00
Other	4,524.00	(26,495.31)	-	-
Total other revenues	707,146.88	428,025.95	79,853.00	64,212.00
Increase (decrease) in net assets	(289,434.13)	318,045.78	(539,300.00)	464,257.00
NET ASSETS				
Net assets - beginning of year	8,432,769.64	8,114,723.86	6,904,253.00	6,439,996.00
Net assets - end of year	$ 8,143,335.51	$ 8,432,769.64	$ 6,364,953.00	$ 6,904,253.00

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

TENNESSEE BOARD OF REGENTS
CLEVELAND STATE COMMUNITY COLLEGE
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2008, AND JUNE 30, 2007

	Year Ended June 30, 2008	Year Ended June 30, 2007
CASH FLOWS FROM OPERATING ACTIVITIES		
Tuition and fees	$ 3,674,476.80	$ 3,376,487.78
Grants and contracts	649,983.59	596,716.83
Sales and services of educational activities	8,457.22	10,624.46
Payments to suppliers and vendors	(4,507,069.61)	(3,728,539.25)
Payments to employees	(10,072,830.11)	(9,537,659.91)
Payments for benefits	(3,735,812.92)	(3,498,006.54)
Payments for scholarships and fellowships	(1,674,151.59)	(1,350,425.20)
Auxiliary enterprise charges:		
Bookstore	143,760.04	142,754.89
Food services	2,812.69	2,913.15
Other	2,834.17	3,048.51
Other receipts	115,854.78	137,763.76
Net cash used by operating activities	(15,391,684.94)	(13,844,321.52)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State appropriations	10,959,700.00	10,453,500.00
Gifts and grants received for other than capital or endowment purposes	4,109,051.32	3,663,796.06
Changes in deposits held for others	585,687.38	198,558.23
Net cash provided by noncapital financing activities	15,654,438.70	14,315,854.29
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from capital debt	391,952.27	26,274.40
Capital appropriations	552,622.88	254,521.26
Capital grants and gifts	150,000.00	200,000.00
Proceeds from sale of capital assets	4,524.00	12,829.48
Purchase of capital assets and construction	(321,564.27)	(536,917.71)
Principal paid on capital debt	(148,940.00)	(173,189.90)
Interest paid on capital debt	(26,893.62)	(16,774.49)
Net cash provided (used) by capital and related financing activities	601,701.26	(233,256.96)
CASH FLOWS FROM INVESTING ACTIVITIES		
Income on investments	294,057.09	347,863.34
Net cash provided by investing activities	294,057.09	347,863.34
Net increase in cash	1,158,512.11	586,139.15
Cash - beginning of year	7,391,675.35	6,805,536.20
Cash - end of year	$ 8,550,187.46	$ 7,391,675.35

TENNESSEE BOARD OF REGENTS
CLEVELAND STATE COMMUNITY COLLEGE
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2008, AND JUNE 30, 2007

	Year Ended June 30, 2008	Year Ended June 30, 2007
Reconciliation of operating loss to net cash used by operating activities:		
Operating loss	$ (16,381,091.84)	$ (14,552,375.63)
Adjustments to reconcile operating loss to net cash used by operating activities:		
Depreciation expense	685,418.74	597,483.38
Gifts in-kind	43,115.96	-
Change in assets and liabilities:		
Receivables, net	(219,677.63)	35,935.04
Prepaid/deferred items	(2,244.59)	(4,968.06)
Accounts payable	22,434.25	(31,124.51)
Accrued liabilities	373,977.83	19,138.91
Deferred revenue	53,160.14	32,534.93
Compensated absences	33,222.20	59,054.42
Net cash used by operating activities	$ (15,391,684.94)	$ (13,844,321.52)
Noncash transactions		
Gifts in-kind	$ 43,115.96	$ -
Gifts of capital assets	6,741.00	-
Trade-in allowances	-	800.00
Loss on disposals of capital assets	-	(40,094.79)

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

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*. The financial statements present only that portion of the Tennessee Board of Regents' activities that is attributable to the transactions of Cleveland State Community College.

The Cleveland State Community College Foundation is considered a component unit of the college. 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. See Note 15 for more detailed information about the component unit and how to obtain the report.

Basis of Presentation

The financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) applicable to governmental colleges and universities engaged in business-type activities as prescribed by the Governmental Accounting Standards Board (GASB).

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 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) certain 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) utilities, supplies, and other services; (4) scholarships and fellowships; and (5) depreciation.

All other activity is nonoperating in nature and includes (1) state appropriations for operations; (2) investment income; (3) interest on capital asset-related debt; (4) certain grants and contracts; and (5) gifts and nonexchange transactions.

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, library holdings, and software, 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. The capitalization threshold for software is set at $100,000.

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

Under a contract with the Tennessee Department of Labor and Workforce Development, the college is the administrative entity and grant recipient for the Local Workforce Investment Area in Workforce Investment Area Number 4 of the State of Tennessee. The title to all the equipment purchased by Cleveland State Community College under the provisions of the Workforce Investment Act resides with the U.S. Government. Therefore, this equipment is not included in Cleveland State Community College's capital assets.

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.

Nonexpendable restricted net assets - Nonexpendable restricted net assets consist of endowment and similar type funds in which donors or other outside sources have stipulated, as a condition of the gift instrument, that the principal is to be maintained inviolate and in perpetuity, and invested for the purpose of producing present and future income, which may be expendable or added to principal.

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

At June 30, 2008, cash consisted of $291,258.66 in bank accounts, $1,140.00 of petty cash on hand, $7,681,094.93 in the State of Tennessee Local Government Investment Pool (LGIP) administered by the State Treasurer, and $576,693.87 in LGIP deposits for capital projects. At June 30, 2007, cash consisted of $496,965.13 in bank accounts, $1,260.00 of petty cash on hand, $6,469,540.39 in the State of Tennessee Local Government Investment Pool administered by the State Treasurer, and $423,909.83 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 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. INVESTMENTS

Credit Risk. Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The college is authorized by statute to invest funds in accordance with Tennessee Board of Regents policies. Under the current policy, funds other than endowments may be invested only in obligations of the United States or its agencies which are backed by the full faith and credit of the United States, repurchase agreements for United States securities, certificates of deposit in banks and savings and loan associations, banker's acceptances, commercial paper, money market mutual funds, and the State of Tennessee Local Government Investment Pool (LGIP). Securities are rated using Standard and Poor's, Moody's, and/or Fitch's. Tennessee Board of Regents policy restricts investments in banker's acceptances and commercial paper. The policy requires that prime banker's acceptances must be issued by domestic banks with a minimum AA rating or foreign banks with a AAA long-term debt rating by a majority of the rating services that have rated the issuer. The policy further requires that commercial paper must be issued by corporations with a minimum rating of A1 or equivalent as provided by a majority of the rating services that rate the issuer. If there is no long-term debt rating, the short-term debt must be rated A1 by all rating services (minimum of two). Commercial paper of a banking institution must not be purchased. As of June 30, 2008, and June 30, 2007, the college's investments consisted entirely of investments in the Local Government Investment Pool. The fair value of these investments, reported as cash on the statements of net assets, was $ 8,257,788.80 at June 30, 2008, and $6,893,450.22 at June 30, 2007. LGIP investments are not rated by nationally recognized statistical ratings organizations.

NOTE 4. RECEIVABLES

Receivables included the following:

	June 30, 2008	June 30, 2007
Student accounts receivable	$426,578.79	$205,254.26
Grants receivable	257,674.65	241,152.60
State appropriation receivable	11,200.00	8,700.00
Other receivables	29,615.29	23,807.15
Subtotal	725,068.73	478,914.01
Less allowance for doubtful accounts	58,433.20	34,456.11
Total receivables	$666,635.53	$444,457.90

NOTE 5. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2008, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance
Land	$267,886.74	$ -	$ -	$ 267,886.74
Land improvements and infrastructure	1,160,961.73	-	-	1,160,961.73
Buildings	9,159,463.21	-	-	9,159,463.21
Equipment	2,564,497.04	70,435.91	27,887.56	2,607,045.39
Library holdings	463,836.95	38,476.10	69,247.21	433,065.84
Software	1,008,918.25	159,410.78	-	1,168,329.03
Projects in progress	30,901.28	38,028.84	-	68,930.12
Total	14,656,465.20	306,351.63	97,134.77	14,865,682.06
Less accum. depreciation:				
Land improvements and infrastructure	908,135.02	61,969.69	-	970,104.71
Buildings	7,642,276.46	182,952.80	-	7,825,229.26
Equipment	2,008,570.47	170,768.96	27,887.56	2,151,451.87
Library holdings	258,514.39	50,231.32	69,247.21	239,498.50
Software	100,891.83	219,495.97	-	320,387.80
Total accum. depreciation	10,918,388.17	685,418.74	97,134.77	11,506,672.14
Capital assets, net	$ 3,738,077.03	$ (379,067.11)	$ -	$3,359,009.92

Capital asset activity for the year ended June 30, 2007, was as follows:

	Beginning Balance	Additions	Transfers	Reductions	Ending Balance
Land	$ 290,530.50	$ -	$ -	$22,643.76	$ 267,886.74
Land improvements and infrastructure	1,160,961.73	-	-	-	1,160,961.73
Buildings	9,159,463.21	-	-	-	9,159,463.21
Equipment	2,635,979.32	96,548.18	-	168,030.46	2,564,497.04
Library holdings	495,747.92	36,308.09	-	68,219.06	463,836.95
Software	-	356,430.34	652,487.91	-	1,008,918.25
Projects in progress	667,588.74	30,901.28	(652,487.91)	15,100.83	30,901.28
Total	14,410,271.42	520,187.89	-	273,994.11	14,656,465.20

Less accum. depreciation:					
Land improvements and infrastructure	846,165.33	61,969.69	-	-	908,135.02
Buildings	7,459,323.65	182,952.81	-	-	7,642,276.46
Equipment	1,975,757.27	198,463.46	-	165,650.26	2,008,570.47
Library holdings	273,527.86	53,205.59	-	68,219.06	258,514.39
Software	-	100,891.83	-	-	100,891.83
Total accum. depreciation	10,554,774.11	597,483.38	-	233,869.32	10,918,388.17
Capital assets, net	$3,855,497.31	$ (77,295.49)	$ -	$ 40,124.79	$3,738,077.03

NOTE 6. LONG-TERM LIABILITIES

Long-term liabilities activity for the year ended June 30, 2008, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Payables:					
TSSBA debt:					
Bonds	$ 465,848.50	$ -	$ 148,940.00	$ 316,908.50	$155,195.00
Commercial paper	-	391,952.27	-	391,952.27	-
Subtotal	465,848.50	391,952.27	148,940.00	708,860.77	155,195.00
Other liabilities:					
Compensated absences	595,537.90	96,790.27	63,568.07	628,760.10	164,159.37
Net OPEB obligation	-	369,102.00	-	369,102.00	-
Subtotal	595,537.90	465,892.27	63,568.07	997,862.10	164,159.37
Total long-term liabilities	$1,061,386.40	$ 857,844.54	$212,508.07	$1,706,722.87	$319,354.37

Long-term liabilities activity for the year ended June 30, 2007, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Payables:					
TSSBA debt:					
Bonds	$ 612,764.00	$ -	$146,915.50	$ 465,848.50	$148,940.00
Other liabilities:					
Compensated absences	536,483.48	122,445.79	63,391.37	595,537.90	161,571.62
Total long-term liabilities	$1,149,247.48	$122,445.79	$210,306.87	$1,061,386.40	$310,511.62

TSSBA Debt - Bonds

Bonds, with an interest rate of 4%, were issued by the Tennessee State School Bond Authority (TSSBA). The bonds are due serially to 2010 and are secured by pledges of the facilities' revenues to which they relate and certain other revenues and fees of the college, including state appropriations.

Debt service requirements to maturity for the college's portion of TSSBA bonds at June 30, 2008, are as follows:

Year Ending June 30	Principal	Interest	Total
2009	$155,195.00	$12,676.34	$167,871.34
2010	161,713.50	6,468.54	168,182.04
	$316,908.50	$19,144.88	$336,053.38

TSSBA Debt - Commercial Paper

The Tennessee State School Bond Authority issues commercial paper to finance the costs of various capital projects during their construction phase. When projects are placed in service, long-term, fixed-rate debt is issued by TSSBA to finance the project over its useful payback period and the commercial paper is redeemed. The amount issued for projects at the college was $391,952.27 at June 30, 2008.

For the commercial paper program, the Tennessee State School Bond Authority maintains an interest rate reserve fund. The college contributes amounts to the reserve fund based on the amounts drawn. The principal of the reserve will be contributed to pay off notes or credited back to the college when the notes are converted to bonds. The interest earned on the reserve is used to pay interest due during the month.

More detailed information regarding the bonds and commercial paper can be found in the notes to the financial statements in the financial report for the Tennessee State School Bond Authority. That report may be obtained by writing to the Director of Bond Finance, Suite 1600, James K. Polk Building, Nashville, Tennessee 37243-1402, or by calling (615) 401-7872.

NOTE 7. UNRESTRICTED NET ASSETS

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

	June 30, 2008	June 30, 2007
Working capital	$ 269,786.50	$ 95,470.12
Encumbrances	13,744.70	38,051.99
Designated fees	157,294.48	212,156.01
Auxiliaries	275,238.18	158,355.53
Plant construction	641,773.48	929,994.31
Renewal and replacement of equipment	3,075,644.50	2,983,026.57
Undesignated	32,830.13	241,384.23
Total	$4,466,311.97	$4,658,438.76

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.

Funding Policy - Plan members are noncontributory. The college is required to contribute an actuarially determined rate. The current rate is 13.62% 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, 2008, 2007, and 2006 were $879,025.67, $823,674.65, and $602,724.58. 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 $280,139.58 for the year ended June 30, 2008, and $264,695.60 for the year ended June 30, 2007. Contributions met the requirements for each year.

NOTE 9. OTHER POST-EMPLOYMENT BENEFITS

Healthcare is the only "other postemployment benefit" (OPEB) provided to employees. The State of Tennessee administers a group health insurance program which provides post-employment health insurance benefits to eligible college retirees. This program includes two plans available to higher education employees – the State Employee Group Plan and the Medicare Supplement Plan. Both plans are agent multiple-employer defined benefit OPEB plans. Benefits are established and amended by an insurance committee created by Title 8, Chapter 27, Part 201, *Tennessee Code Annotated*. Prior to reaching age 65, all members have the option of choosing a preferred provider organization (PPO), point of service (POS), or health maintenance organization (HMO) plan for healthcare benefits. Subsequent to age 65, members who are also in the state's retirement system may participate in a state-administered Medicare supplement that does not include pharmacy. The state makes on-behalf payments to the Medicare supplement plan for the college's eligible retirees; see Note 14. The plans are reported in the *Tennessee Comprehensive Annual Financial Report*. That report is available on the state's website at http://tennessee.gov/finance/act/cafr.html.

Funding Policy. The premium requirements of plan members are established and may be amended by the insurance committee. The plans are self-insured and financed on a pay-as-you-go basis with the risk shared equally among the participants. Claims liabilities of the plan are periodically computed using actuarial and statistical techniques to establish premium rates. In accordance with TCA 8-27-205 (b), retirees not eligible for Medicare pay a percentage of the total state premium under the State Employee Group Plan based on years of service, leaving a portion of retiree premiums effectively subsidized by contributions to the State Employee Group Plan for active employees. Retirees with 30 years of service pay 20% of the total premium under the State Employee Group Plan. Retirees with 20 but less than 30 years of service pay 30% of the total premium under the State Employee Group Plan. Retirees 55 and older with less than 20 but more than 10 years of service pay 40% of the total premium under the State Employee Group Plan. Contributions for the State Employee Group Plan for the year ended June 30, 2008, were $2,007,321.92, which consisted of $1,605,125.56 from the college and $402,196.36 from the employees.

Annual OPEB Cost and Net OPEB Obligation	State Employee Group Plan
Annual Required Contribution (ARC)	$543,000.00
Interest on the Net OPEB Obligation	-
Adjustment to the ARC	-
Annual OPEB Cost	543,000.00
Amount of contribution	(173,898.00)
Increase (decrease) in Net OPEB Obligation	369,102.00
Net OPEB Obligation – beginning of year	-
Net OPEB Obligation – end of year	$369,102.00

Year-end	Plan	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation at Year-end
June 30, 2008	State Employee Group Plan	$543,000.00	32%	$369,102.00

Funded Status and Funding Progress. The funded status of the plan as of June 30, 2008, was as follows:

	State Employee Group Plan
Actuarial valuation date	July 1, 2007
Actuarial accrued liability (AAL)	$5,558,000.00
Actuarial value of plan assets	-
Unfunded actuarial accrued liability (UAAL)	$5,558,000.00
Actuarial value of assets as a percentage of the AAL	0%
Covered payroll (active plan members)	$8,544,557.00
UAAL as percentage of covered payroll	65.1%

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future, and actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. The schedule of funding progress, presented as RSI following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Actuarial Methods and Assumptions. Calculations are based on the types of benefits provided under the terms of the substantive plan at the time of each valuation and on the pattern of sharing of costs between the employer and plan members to that point. Actuarial calculations reflect a long-term perspective. Consistent with that perspective, actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets.

In the July 1, 2007, actuarial valuation, the Projected Unit Credit actuarial cost method was used. The actuarial assumptions included a 4.5 percent investment rate of return (net of administrative expenses) and an annual healthcare cost trend rate of 7 percent initially, increased to 11 percent in the second year and then reduced by decrements to an ultimate rate of 5 percent after 12 years. Both rates include a 3 percent inflation assumption. The unfunded actuarial accrued liability is being amortized as a level percentage of payroll on a closed basis over a 30-year period beginning with July 1, 2007.

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. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years. The Risk Management Fund is also responsible for claims for damages 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 $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. Information regarding the determination of the claims liabilities and the changes in the balances of the claims liabilities for the years ended June 30, 2008, and June 30, 2007, 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 Rosa L. Parks Avenue, Nashville, Tennessee 37243-1102, or by calling (615) 741-2140. 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, 2008, the Risk Management Fund held $123.9 million in cash and cash equivalents designated for payment of claims. At June 30, 2007, the Risk Management fund held $116.7 million in cash and cash equivalents designated for payment of claims.

At June 30, 2008, the scheduled coverage for the college was $41,063,300.00 for buildings and $11,384,900.00 for contents. At June 30, 2007, the scheduled coverage for the college was $40,231,000.00 for buildings and $11,317,400.00 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

<u>Sick Leave</u> - 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 $3,833,876.03 at June 30, 2008, and $3,935,856.49 at June 30, 2007.

<u>Operating Leases</u> - 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 $127,536.00 and for personal property were $50,188.04 for the year ended June 30, 2008. The amounts for the year ended June 30, 2007, were $129,036.00 and $49,315.05. All operating leases are cancelable at the lessee’s option.

<u>Construction in Progress</u> - At June 30, 2008, outstanding commitments under construction contracts totaled $159,372.35 for the Auditorium Renovation project, the HVAC Equipment and Control project, the Technology Building Roofing project, and the Gymnasium Roof Replacement project, of which $119,500.35 will be funded by future state capital outlay appropriations.

NOTE 12. NATURAL CLASSIFICATIONS WITH FUNCTIONAL CLASSIFICATIONS

The college's operating expenses by functional classification for the year ended June 30, 2008, are as follows:

Functional Classification	Salaries	Benefits	Natural Classification Other Operating	Scholarships	Depreciation	Total
Instruction	$5,407,675.73	$2,040,700.22	$1,151,934.77	$ -	$ -	$ 8,600,310.72
Public service	205,147.76	64,423.02	90,659.92	-	-	360,230.70
Academic support	884,972.42	377,918.71	(11,614.41)	-	-	1,251,276.72
Student services	1,400,992.45	659,676.58	868,688.51	-	-	2,929,357.54
Institutional support	1,676,238.00	673,657.36	476,376.44	-	-	2,826,271.80
Operation & maintenance	547,155.08	302,806.50	1,963,285.87	-	-	2,813,247.45
Scholarships & fellowships	-	-	-	1,579,354.44	-	1,579,354.44
Auxiliary	-	-	30,308.33		-	30,308.33
Depreciation	-	-	-	-	685,418.74	685,418.74
Total	$10,122,181.44	$4,119,182.39	$4,569,639.43	$1,579,354.44	$685,418.74	$21,075,776.44

The college's operating expenses by functional classification for the year ended June 30, 2007, are as follows:

Functional Classification	Salaries	Benefits	Natural Classification Other Operating	Scholarships	Depreciation	Total
Instruction	$5,183,056.40	$1,751,948.30	$1,224,080.97	$ -	$ -	$ 8,159,085.67
Public service	187,907.42	50,769.73	24,300.89	-	-	262,978.04
Academic support	837,659.97	322,721.19	(147,992.59)	-	-	1,012,388.57
Student services	1,286,517.48	532,669.27	799,017.37	-	-	2,618,204.12
Institutional support	1,563,239.74	597,601.99	508,984.44	-	-	2,669,826.17
Operation & maintenance	537,374.43	251,363.34	1,276,000.41	-	-	2,064,738.18
Scholarships & fellowships	-	-	-	1,350,425.20	-	1,350,425.20
Auxiliary	-	-	32,476.16	-	-	32,476.16
Depreciation	-	-	-	-	597,483.38	597,483.38
Total	$9,595,755.44	$3,507,073.82	$3,716,867.65	$1,350,425.20	$597,483.38	$18,767,605.49

NOTE 13. CHANGE IN ACCOUNTING PRINCIPLE

During the year ended June 30, 2008, the college implemented Governmental Accounting Standards Board's Statement 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. This statement establishes standards for the measurement, recognition, and display of OPEB expense and related liabilities, note disclosures, and required supplementary information. The statement was implemented prospectively with a zero net OPEB obligation at transition.

NOTE 14. ON-BEHALF PAYMENTS

During the year ended June 30, 2008, the State of Tennessee made payments of $18,927.97 on behalf of the college for retirees participating in the Medicare Supplement Plan. The Medicare Supplement Plan is a postemployment benefit healthcare plan and is discussed further in Note 9. The plan is reported in the *Tennessee Comprehensive Annual Financial Report*. That report is available on the state's website at http://tennessee.gov/finance/act/cafr.html.

NOTE 15. 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 47-member board of the foundation is self-perpetuating and consists of graduates and friends of the college who are elected to three-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, 2008, the foundation made distributions of $227,836.00 to or on behalf of the college for both restricted and unrestricted purposes. During the year ended June 30, 2007, the foundation made distributions of $317,314.00 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, TN 37320.

Cash - Cash consists of a demand deposit account. At June 30, 2008, the foundation's uninsured cash balance totaled $50,000. At June 30, 2007, the foundation's cash balance was entirely insured. The bank balance at June 30, 2007, was entirely insured.

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

Investments held at June 30, 2008, were as follows:

	Cost	Market Value
Cash management funds	$ 410,508.00	$ 410,508.00
U.S. Treasury obligations	873,401.00	990,351.00
U.S. Agency obligations	832,889.00	734,929.00
Certificates of deposit	150,000.00	150,000.00
Common stock	1,215,509.00	1,342,266.00
Corporate bonds	303,226.00	301,711.00
Closely held equity investments	14,850.00	26,895.00
Mutual funds - equity	819,618.00	842,718.00
Common Fund	1,182,785.00	1,111,894.00
Other assets	78,165.00	79,392.00
Total investments	$5,880,951.00	$5,990,664.00

Investments held at June 30, 2007, were as follows:

	Cost	Market Value
Cash management funds	$ 126,086.00	$ 126,086.00
U.S. Treasury obligations	921,787.00	913,399.00
U.S. Agency obligations	890,466.00	881,841.00
Certificates of deposit	143,000.00	143,000.00
Common stock	1,194,909.00	1,517,786.00
Corporate bonds	399,011.00	391,272.00
Closely held equity investments	14,850.00	25,245.00
Mutual funds - equity	769,884.00	939,537.00
Common Fund	1,090,923.00	1,363,433.00
Other assets	57,324.00	71,520.00
Total investments	$5,608,240.00	$6,373,119.00

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

	June 30, 2008	June 30, 2007
Current pledges	$169,835.00	$ 170,840.00
Pledges due in one to five years	161,500.00	318,480.00
Pledges due after five years	-	800.00
Subtotal	331,335.00	490,120.00
Less discount to net present value	27,829.00	53,544.00
Total pledges receivable, net	$303,506.00	$436,576.00

Endowments - If a donor has not provided specific instructions to the foundation, the foundation's policies and procedures permit it to authorize for expenditure the net appreciation (realized and unrealized) of the investments of endowment funds. When administering its power to spend net appreciation, the foundation is required to consider the foundation's long-term and short-term needs, present and anticipated financial requirements, expected total return on its investments, price-level trends, and general economic conditions. Any net appreciation spent is required to be spent for the purposes for which the endowment was established.

NOTE 16. SUBSEQUENT EVENTS

Further disruption in the credit markets and overall declines in economic conditions in markets in the United States of America and internationally have resulted in significant declines in the fair value of the foundation's investments subsequent to June 30, 2008. Based on information available from fund managers, the foundation estimates that the value of the investments as of April 30, 2009, has declined approximately $1.5 million compared to the value as of June 30, 2008.

Tennessee Board of Regents
Cleveland State Community College
Required Supplementary Information
OPEB Schedule of Funding Progress
Unaudited

Actuarial Valuation Date	Plan	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b-a)/c)]
July 1, 2007	State Employee Group Plan	$ -	$5,558,000.00	$5,558,000.00	0%	$8,544,557.00	65.1%

TENNESSEE BOARD OF REGENTS
CLEVELAND STATE COMMUNITY COLLEGE
SUPPLEMENTARY INFORMATION
SCHEDULES OF CASH FLOWS - COMPONENT UNIT
FOR THE YEARS ENDED JUNE 30, 2008, AND JUNE 30, 2007

	Year Ended June 30, 2008	Year Ended June 30, 2007
CASH FLOWS FROM OPERATING ACTIVITIES		
Gifts and contributions	$ 278,064.00	$ 226,925.00
Endowment income per spending plan	308,464.00	181,064.00
Payments to suppliers and vendors	(60,276.00)	(25,583.00)
Payments for scholarships and fellowships	(170,082.00)	(164,709.00)
Payments to Cleveland State Community College	(236,603.00)	(304,112.00)
Net cash provided (used) by operating activities	119,567.00	(86,415.00)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Private gifts for endowment purposes	79,853.00	64,213.00
Net cash provided by noncapital financing activities	79,853.00	64,213.00
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of investments	4,156,754.00	3,305,530.00
Purchases of investments	(4,355,129.00)	(3,277,322.00)
Other investing receipts (payments)	(35,362.00)	(33,038.00)
Net cash used by investing activities	(233,737.00)	(4,830.00)
Net decrease in cash	(34,317.00)	(27,032.00)
Cash - beginning of year	92,334.00	119,366.00
Cash - end of year	$ 58,017.00	$ 92,334.00
Reconciliation of operating loss to net cash provided (used) by operating activities:		
Operating loss	$ (2,960.00)	$ (215,595.00)
Adjustments to reconcile operating loss to net cash provided (used) by operating activities:		
Change in assets and liabilities:		
Receivables, net	131,294.00	115,978.00
Accounts payable	(8,767.00)	13,202.00
Net cash provided (used) by operating activities	$ 119,567.00	$ (86,415.00)
Noncash transactions		
Unrealized gain (loss) on investments	$ (657,960.00)	$ 577,408.00