AUDIT REPORT

Tennessee Board of Regents
Cleveland State Community College

For the Years Ended
June 30, 2010, and June 30, 2009

STATE OF TENNESSEE

COMPTROLLER OF THE TREASURY

Department of Audit

Division of State Audit

Tennessee Comptroller of the Treasury

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STATE OF TENNESSEE
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August 31, 2011

The Honorable Bill Haslam, Governor
and
Members of the General Assembly
State Capitol
Nashville, Tennessee 37243
and
The Honorable John G. Morgan, Chancellor
Tennessee Board of Regents
1415 Murfreesboro Road, Suite 340
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, 2010, and June 30, 2009. 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
11/039

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, 2010, and June 30, 2009

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, 2010, and June 30, 2009

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Tennessee Board of Regents
Cleveland State Community College
For the Years Ended June 30, 2010, and June 30, 2009

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, 2008, through June 30, 2010, 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, 2010, and June 30, 2009. 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, 2010, and June 30, 2009, 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 material weaknesses.

Compliance and Other Matters

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.

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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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 27, 2011

The Honorable Bill Haslam, Governor
and
Members of the General Assembly
State Capitol
Nashville, Tennessee 37243
and
The Honorable John G. Morgan, Chancellor
Tennessee Board of Regents
1415 Murfreesboro Road, Suite 340
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, 2010, and June 30, 2009, and have issued our report thereon dated July 27, 2011. 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 *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the financial statements will not be prevented, or detected and corrected on a timely basis.

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

Compliance and Other Matters

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

July 27, 2011

The Honorable Bill Haslam, Governor
and
Members of the General Assembly
State Capitol
Nashville, Tennessee 37243
and
The Honorable John G. Morgan, Chancellor
Tennessee Board of Regents
1415 Murfreesboro Road, Suite 340
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, 2010, and June 30, 2009, 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, 2010, and June 30, 2009, 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 other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of Cleveland State Community College, and its discretely presented component unit as of June 30, 2010, and June 30, 2009, 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.

The management's discussion and analysis on pages 12 through 30 and the schedule of funding progress on page 60 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 2009 and 2008 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 61 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 27, 2011, 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 considered in assessing the results of our audit.

Sincerely,

Arthur A. Hayes, Jr.

Arthur A. Hayes, Jr., CPA
Director

AAH/sds

Tennessee Board of Regents
Cleveland State Community College
Management's Discussion and Analysis

This section of Cleveland State Community College's financial report presents a discussion and analysis of the financial performance of the college during the fiscal year ended June 30, 2010, with comparative information presented for the fiscal year ended June 30, 2009. 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 17 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

	2010	2009
Assets:		
Current assets	$ 5,952	$ 5,036
Capital assets, net	4,432	3,877
Other assets	6,458	5,073
Total assets	$ 16,842	$ 13,986
Liabilities:		
Current liabilities	$ 2,698	$ 3,384
Noncurrent liabilities	2,338	1,649
Total liabilities	$ 5,036	$ 5,033
Net assets:		
Invested in capital assets, net of related debt	$ 3,865	$ 3,674
Restricted - expendable	453	91
Unrestricted	7,488	5,188
Total net assets	$ 11,806	$ 8,953

Institution

Comparison of Fiscal Year 2010 to Fiscal Year 2009

The college had the following changes on the statement of net assets.

- Overall current assets increased. Current cash increased as a result of an increase in Local Government Investment Pool investments. Current accounts receivables increased due to an increase in tuition owed the college by third parties for the summer term. An accounts receivable from the State of Tennessee was owed to the college for the June State Fiscal Stabilization Funds.

- Capital assets increased from 2009 to 2010 due to the completion of the auditorium renovation and the HVAC project on the technology building. More detailed information is presented in the capital asset section of this report.

- Other assets increased due to a transfer of current cash to unexpended plant funds and a capital gift to the college from the foundation.

- Current liabilities decreased in 2010. The variance was due to the following:

    1. Based upon guidance provided by the Tennessee Recovery Act Management Office, the total allotment of fiscal year 2008-09 State Fiscal Stabilization Funds ($571,000) was drawn down and receipted as of June 30, 2009. It was subsequently determined that institutions would not lose the availability of funds not drawn down at June 30, 2009, and SFSF of $571,000 were returned on July 13, 2009, and were included on the statement of net assets as due to primary government in 2009.

    2. Deferred revenue increased due to an increase in the summer term student enrollment.

    3. Deposits held in custody for others decreased in 2010 due to a decrease in funds held for the Tennessee Technology Center at Athens.

- Noncurrent liabilities increased, primarily due to an increase in the amount of postemployment benefit obligations and the issuance of commercial paper by the Tennessee State School Bond Authority (TSSBA) on behalf of the college for a capital project.

- Net assets increased overall in fiscal year 2010. Capital assets increased due to the completion of the two capital projects mentioned above. Restricted expendable funds for capital projects increased due to a capital gift.

Condensed Statements of Net Assets
(in thousands of dollars)

Component Unit
Cleveland State Community College Foundation

	2010		2009	
Assets:				
Current assets	$	174	$	371
Other assets		5,300		5,101
Total assets	$	5,474	$	5,472
Liabilities:				
Current liabilities	$	4	$	19
Total liabilities	$	4	$	19
Net assets:				
Restricted - nonexpendable	$	4,830	$	4,732
Restricted - expendable		414		794
Unrestricted		226		(73)
Total net assets	$	5,470	$	5,453

Component Unit

Comparison of Fiscal Year 2010 to Fiscal Year 2009

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

- Current assets decreased in fiscal year 2010 by $197,029. This decrease was due primarily to a decrease in pledges receivables. A major capital pledge by a donor of $150,000 per year ended in 2010. Also, cash decreased $46,313 due to payouts of temporarily restricted assets, and interest receivable decreased $9,603 due to decreased market rates.

- Investments increased by $201,950 in 2010. This increase was due to current unrealized and realized gains.

- Noncurrent pledges receivable decreased $3,672 due to a change in the foundation's practice of accepting pledges more than one year in advance.

- Liabilities decreased by $15,069 due to a decrease in the amount owed to Cleveland State Community College for the Small Business Program and the Healthcare Program.

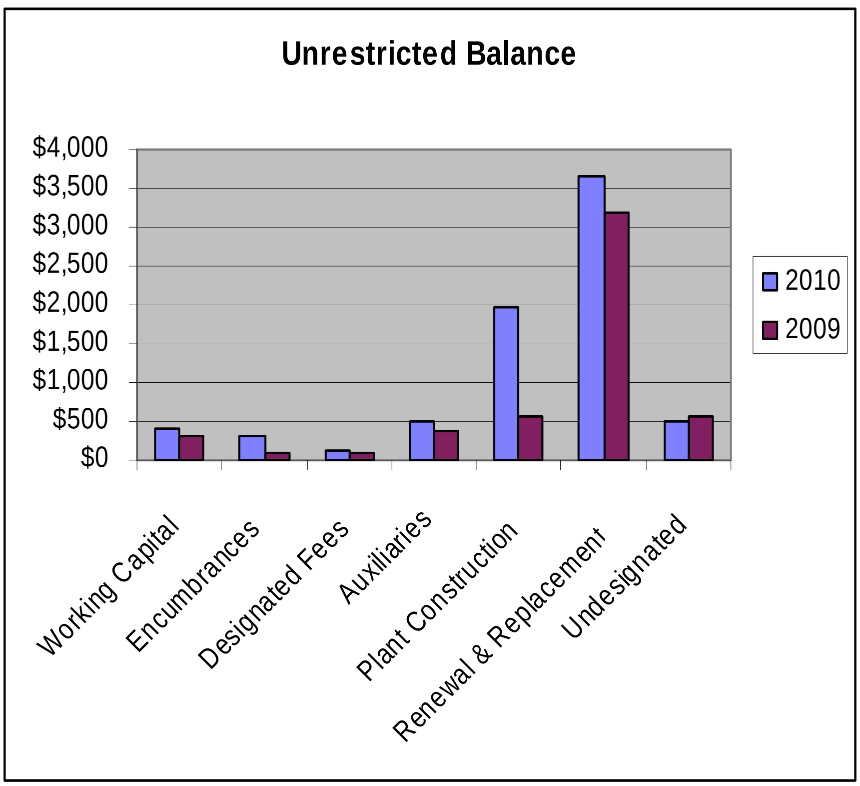
- Nonexpendable restricted net assets increased $98,350. This increase was due to contributions and a transfer to the endowment fund.

- Expendable restricted net assets decreased $380,898 due primarily to the release of the capital project funds to Cleveland State Community College.

- The unrestricted net assets increased $298,865 due to an unrealized gain recognized as unrestricted funds.

Many of the college's unrestricted net assets have been designated or reserved for specific purposes such as working capital, encumbrances, designated fees, auxiliaries, plant construction, and renewal and replacement of equipment. The following graph shows the allocations.

Institution
(in thousands of dollars)



Comparison of Fiscal Year 2010 to Fiscal Year 2009

Institution

- Working capital increased due to an increase in student accounts receivables. The number of students owing tuition and fees from Title IV unofficial withdrawals increased. There was also an increase in the amount owed by third parties for students' summer tuition.
- Encumbrances increased due to the issuance of purchase orders for two campus maintenance projects and a purchase order for an imaging system.
- Designated fees increased due to technology access fees and student activity fees carried forward to 2011.
- Auxiliaries increased due to an increase in funds from bookstore commissions held in this reserve.
- Plant construction increased due to a transfer from undesignated net assets for future campus projects.
- Renewal and replacement increased due to a transfer from undesignated net assets.

Component Unit

The unrestricted net asset balance for the foundation increased. 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

	2010	2009
Operating revenues:		
Net tuition and fees	$ 5,492	$ 4,909
Grants and contracts	917	687
Auxiliary	155	148
Other	119	106
Total operating revenues	6,683	5,850
Operating expenses	24,518	21,590
Operating loss	(17,835)	(15,740)
Nonoperating revenues and expenses:		
State appropriations	9,864	10,478
Gifts	95	162
Grants & contracts	9,818	5,545
Investment income	32	126
Other revenue and expense	(28)	103
Total nonoperating revenues and expenses	19,781	16,414
Income (loss) before other revenues, expenses, gains, or losses	1,946	674
Other revenues, expenses, gains, or losses:		
Capital appropriations	457	135
Capital grants and gifts	450	-
Total other revenues, expenses, gains, or losses	907	135
Increase (decrease) in net assets	2,853	809
Net assets at beginning of year	8,953	8,144
Net assets at end of year	$ 11,806	$ 8,953

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

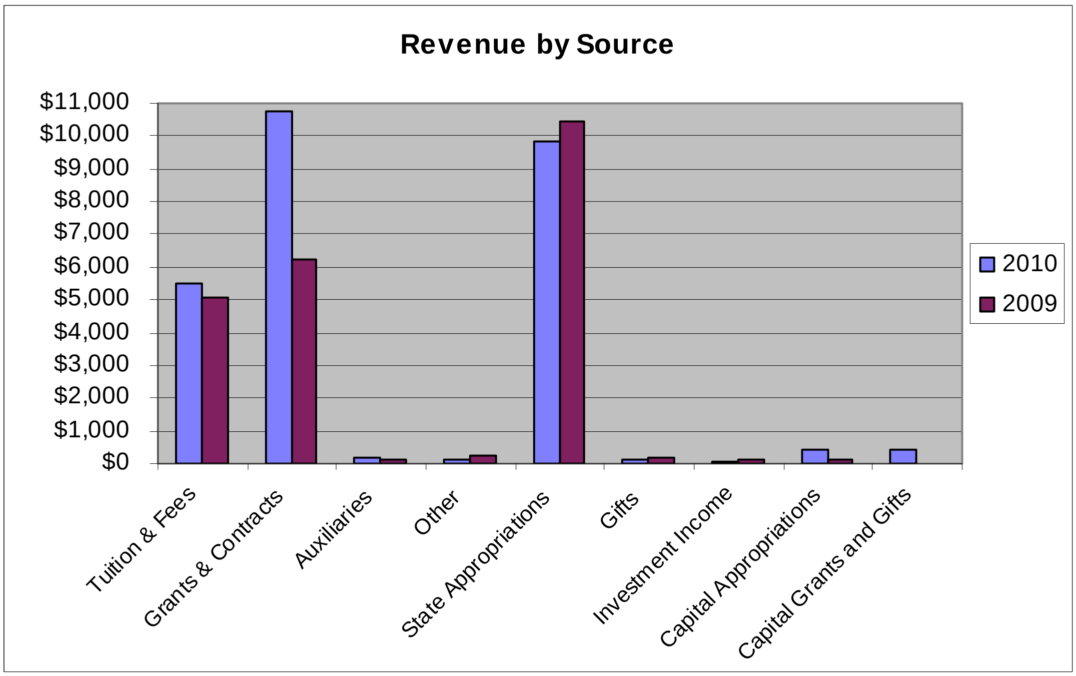
Component Unit
Cleveland State Community College Foundation

	2010	2009
Operating revenues:		
Gifts and contributions	$ 190	$ 148
Endowment income per spending plan	126	163
Total operating revenues	316	311
Operating expenses	767	395
Operating loss	(451)	(84)
Nonoperating revenues and expenses:		
Investment income	370	(905)
Total nonoperating revenues and expenses	370	(905)
Income (loss) before other revenues, expenses, gains, or losses	(81)	(989)
Other revenues, expenses, gains, or losses:		
Additions to permanent endowments	98	77
Total other revenues, expenses, gains, or losses	98	77
Increase (decrease) in net assets	17	(912)
Net assets at beginning of year	5,453	6,365
Net assets at end of year	$ 5,470	$ 5,453

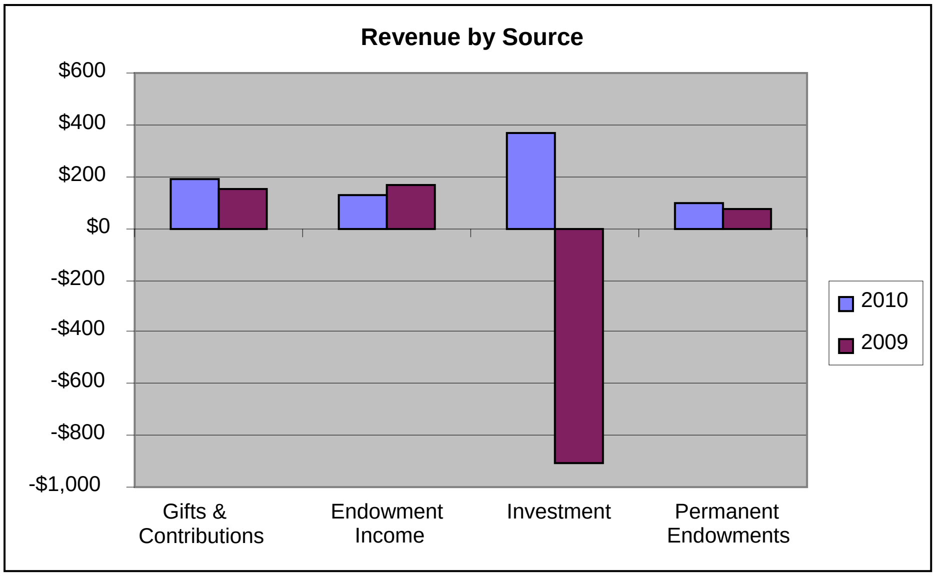
Revenues

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, 2010, and June 30, 2009.

Institution
(in thousands of dollars)



Component Unit
(in thousands of dollars)



Comparison of Fiscal Year 2010 to Fiscal Year 2009

Institution

- Tuition and fee revenue increased due to a 3.7% increase in tuition for the 2009-10 academic year and an enrollment increase.
- Grants increased due to a new energy grant and new WIA grants.
- State appropriations decreased $614,200 in fiscal year 2010, as a result of budget cuts by the State of Tennessee.
- Nonoperating grants and contracts increased due to an increase in student financial aid award amounts and the number of students receiving financial aid. State Fiscal Stabilization Funds in the amount of $1,228,544 were received from the State of Tennessee.
- Investment income decreased due to a decline in interest rates.

- Capital appropriations increased due to funding for the HVAC system in the technology building.

- Capital grants and gifts increased $450,000 due to a gift from the Cleveland State Community College Foundation for the auditorium renovation project.

Component Unit

- Overall operating revenues increased $4,813 for the foundation. Gifts and contributions increased $41,831, and interest and dividend income allocated to operations decreased $37,018 due to market interest rates.

- Investment income in fiscal year 2009 was ($905,104). This negative amount was due to an unrealized loss on investments. In fiscal year 2010, investment income was $369,586. This was due to a realized and an unrealized gain on investments.

- Additions to permanent endowments increased $20,952 due to an increase in contributions from donors.

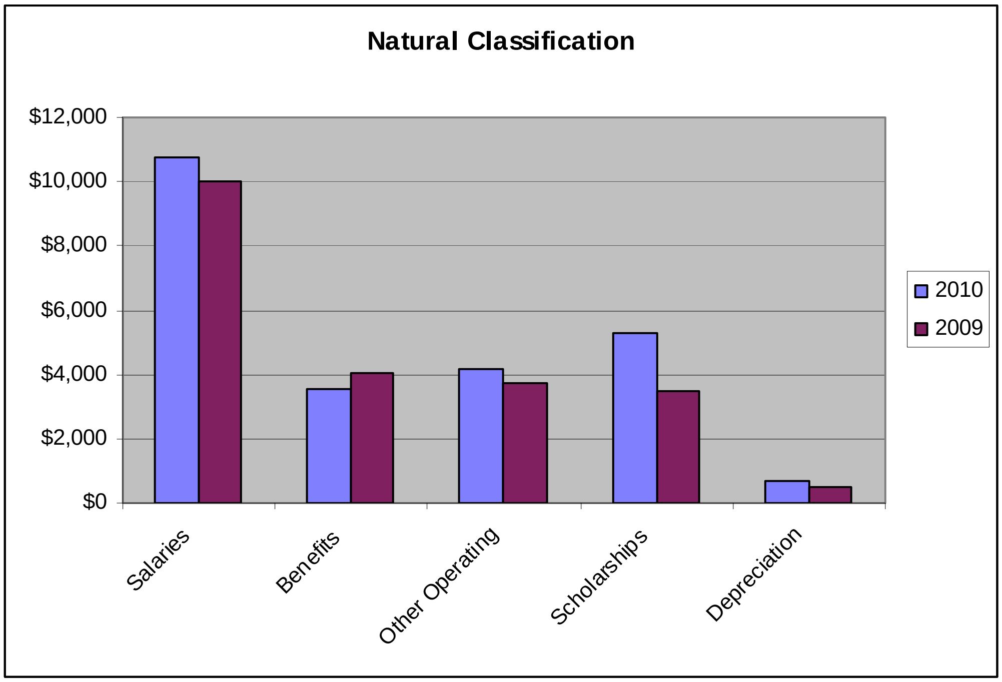
Expenses

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

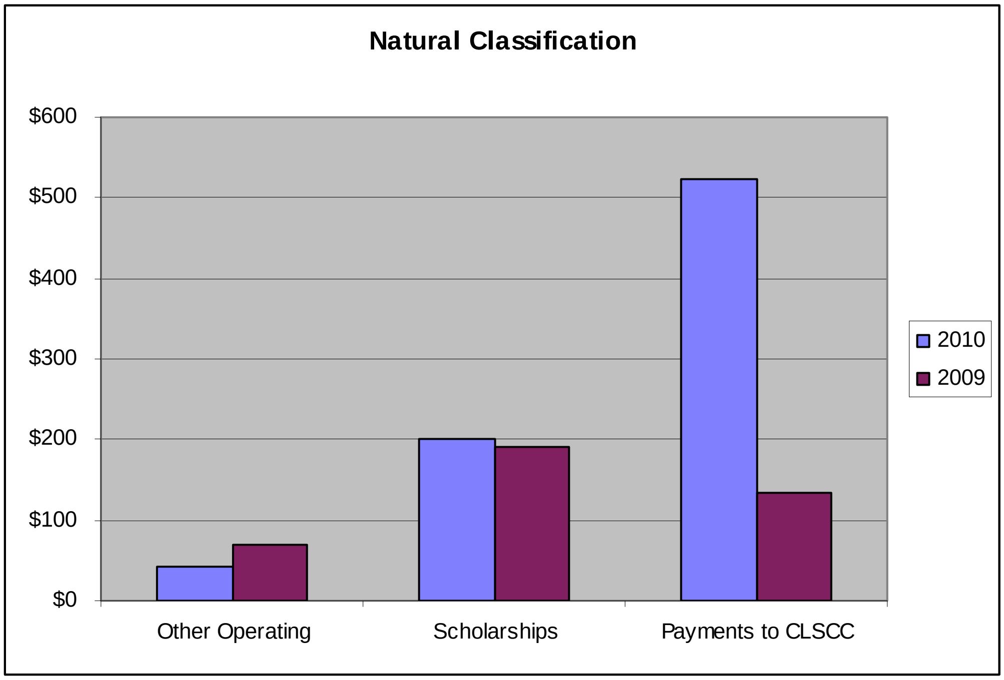
Natural Classification
(in thousands of dollars)

	Institution Cleveland State Community College		Component Unit Cleveland State Community College Foundation	
	2010	**2009**	**2010**	**2009**
Salaries	$ 10,774	$ 10,023	$ -	$ -
Benefits	3,543	4,023	-	-
Utilities, supplies, and other services	4,192	3,732	43	70
Scholarships and fellowships	5,311	3,342	200	190
Depreciation expense	698	470	-	-
Payments to or on behalf of CLSCC	-	-	524	135
Total	$ 24,518	$ 21,590	$ 767	$ 395

Institution
(in thousands of dollars)



Component Unit
(in thousands of dollars)



<u>Comparison of Fiscal Year 2010 to Fiscal Year 2009</u>

Institution

- Salaries increased due to the voluntary buyout program. Accrued annual leave and a severance package was paid to 19 employees who participated in the program.

- Benefits decreased in fiscal year 2010 from 2009. Cleveland State received a premium holiday for 2 months. This saved the college approximately $375,000 in insurance premiums.

- Utilities, supplies, and other services increased in 2010 due to restricted grant expenditures, increased instructional supplies, personal computer replacements, consultant training, and increased technology information cost.

- Scholarships increased $1,969,345, due primarily to an increase in Federal Pell awards.

- Depreciation increased from 2009 to 2010 with the completion of two capital building projects and the annual calculation of depreciation.

Component Unit

- Utilities, supplies, and other services decreased $27,046. Bad debt losses decreased $11,255. Other decreases in operating expenditures were to various programs.

- Scholarships increased $10,209 due to an increase in tuition cost.

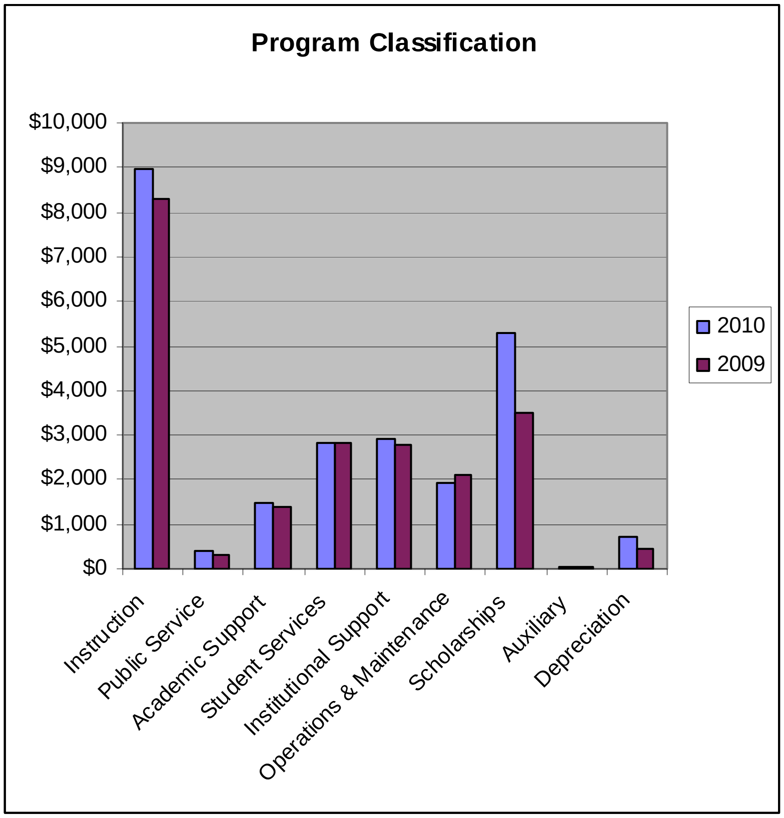
- Payments to Cleveland State Community College increased $389,375. There was a transfer of $450,000 to the college for the auditorium renovation project. There was a decrease of $30,912 in funds paid to the college for the Healthcare Program due to the partial completion of the program. There was a decrease in funding to the Small Business Center of $17,180. Other funding decreases were in mini-grants, department uses, and the TJCAA tournament.

Program Classification
(in thousands of dollars)

Cleveland State Community College

	2010	2009
Instruction	$ 8,953	$ 8,300
Public service	387	316
Academic support	1,480	1,398
Student services	2,806	2,836
Institutional support	2,909	2,803
Operation & maintenance	1,948	2,099
Scholarships & fellowships	5,311	3,341
Auxiliary	26	27
Depreciation	698	470
Total	$ 24,518	$ 21,590

Institution
(in thousands of dollars)



<u>Comparison of Fiscal Year 2010 to Fiscal Year 2009</u>

- Instruction increased due to an increase in adjunct faculty to meet the demands of the enrollment increase. Also, other operating expenses in that classification increased due to an increase in instructional materials.

- Public service increased due to an increase in WIA grant expenditures.

- Academic support increased due to the voluntary buyout program and increased information technology cost.

- Institutional support increased due to the voluntary buyout program and an increase in bad debt expense.

- Operations and maintenance decreased in fiscal year 2010 due to two vacant positions, the insurance premium holiday, and the completion of a roofing project in 2009.

- Scholarships increased $1,969,345 due primarily to an increase in Federal Pell awards.

- Depreciation increased from 2009 to 2010 with the completion of two capital building projects and the annual calculation of depreciation.

Capital Assets and Debt Administration

Capital Assets

Cleveland State Community College had $4,431,695 invested in capital assets, net of accumulated depreciation of $12,298,102 at June 30, 2010; and $3,876,579 invested in capital assets, net of accumulated depreciation of $11,823,432 at June 30, 2009. Depreciation charges totaled $698,339 and $470,391 for the years ended June 30, 2010, and June 30, 2009, respectively. Details of these assets are shown below.

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

Institution
Cleveland State Community College

	2010	2009
Land	$ 268	$ 268
Land improvements & infrastructure	119	153
Buildings	2,729	1,151
Equipment	302	339
Library holdings	166	181
Intangible assets	817	939
Projects in progress	31	846
Total	$ 4,432	$ 3,877

Institution

- In fiscal year 2010, land improvements and infrastructure decreased $33,391 due to the annual addition of depreciation. There were no capital additions.

- Buildings increased $1,578,108 during fiscal year 2010. There were two capital additions to buildings. The community service building increased $1,433,398, as a result of a renovation to the building. The value of the technology building increased due to the capitalization of a new HVAC system. The increases were offset by the annual depreciation of $297,233.

- Overall equipment decreased $37,426 in fiscal year 2010. New purchases of equipment totaled $150,725. There was $148,302 of obsolete and outdated equipment, along with the accumulated depreciation, written-off in fiscal year 2010. Annual depreciation totaled $188,151.

- Library holdings decreased $14,992 in fiscal year 2010. New purchases of library holdings totaled $28,461. Obsolete inventory from 2001, totaling $75,367, was written-off along with the accumulated depreciation. Annual depreciation on library holdings totaled $43,453.

- Capitalized software purchases totaled $13,969 in fiscal year 2010. Amortization of capitalized software for the year was $136,111.

- Projects in progress decreased due to the completion of the auditorium renovation project and the HVAC project for the technology building. Both of these projects were transferred and capitalized as an addition to buildings.

Component Unit

The foundation had no capital assets for fiscal years 2010 or 2009.

Planned Expenditures for Fiscal Year 2011

The first phase of the HVAC system for the gymnasium will be completed in fiscal year 2011. This project is being funded by state capital appropriations.

Modernization of the science labs will be completed in fiscal year 2011. This project will be funded with State Fiscal Stabilization Funds and state appropriations.

Renovation of the student center to provide a one-stop shop to students will be completed in fiscal year 2011. Funding for this project will again be provided by state appropriations.

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

Debt

The college had $950,467 and $610,438 in Tennessee State School Bond Authority (TSSBA) debt outstanding at June 30, 2010, and June 30, 2009, 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

	2010	2009
TSSBA debt:		
Commercial paper	$ 566,754.59	$ 41,407.02
Bonds payable	383,712.46	569,031.22
Total	$ 950,467.05	$ 610,438.24

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. This bond was paid in full in 2010. The last principal payment was $161,713.50.

A new bond was issued in fiscal year 2009 for debt incurred on the energy savings project in the amount of $415,971 payable over 15 years. Principal in the amount of $23,605.26 was paid in fiscal year 2010. The remaining balance of principal owed is $383,712.

The college incurred additional Tennessee State School Bond Authority (TSSBA) commercial paper debt in the amount of $566,754.59 for the renovation of the auditorium.

The ratings on debt issued by the Tennessee State School Bond Authority at June 30, 2010, were as follows:

Fitch	AA
Moody's Investor Service	Aa2
Standard & Poor's	AA

More detailed information about the college's long-term liabilities is presented in Note 7 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 2010-11 year. The college is expecting this shortfall to continue to affect appropriations from the state. In fiscal year 2010, state appropriations were reduced by $614,200 compared to fiscal year 2009. Cleveland State was awarded $1,173,000 in State Fiscal Stabilization Funds (SFSF) and $351,500 in Maintenance of Effort funds (MOE) in fiscal year 2010, which reduced the impact of the loss in state appropriations.

The Tennessee Board of Regents has approved an increase of 6.3% in tuition for the upcoming 2010-11 academic year.

We are not aware of any other factors, decisions, or conditions that are expected to have a significant impact on the financial position or results of operations during future fiscal years.

The Cleveland State Community College Foundation receives most of its funding from investments. The capital markets are down significantly, which will affect the foundation's revenues in 2010-11.

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. Thomas Wright, 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, 2010, AND JUNE 30, 2009

	Cleveland State Community College		Component Unit - Cleveland State Community College Foundation	
	June 30, 2010	June 30, 2009	June 30, 2010	June 30, 2009
ASSETS				
Current assets:				
Cash (Notes 2, 3, and 17)	$ 5,382,590.23	$ 4,594,693.63	$ 162,728.00	$ 209,041.00
Accounts and grants receivable (net) (Note 4)	499,621.99	425,208.36	5,056.00	14,659.00
Due from primary government	49,233.68	-	-	-
Pledges receivable (net) (Note 17)	-	-	6,245.28	147,358.49
Prepaid expenses and deferred charges	21,352.57	15,798.95	-	-
Total current assets	5,952,798.47	5,035,700.94	174,029.28	371,058.49
Noncurrent assets:				
Cash (Notes 2, 3, and 17)	6,194,819.12	4,773,371.39	-	-
Investments (Note 17)	-	-	5,297,120.00	5,095,170.00
Accounts and grants receivable (net) (Note 4)	263,116.37	300,018.94	-	-
Pledges receivable (net) (Note 17)	-	-	2,706.72	6,379.51
Capital assets (net) (Note 5)	4,431,695.02	3,876,578.90	-	-
Total noncurrent assets	10,889,630.51	8,949,969.23	5,299,826.72	5,101,549.51
Total assets	16,842,428.98	13,985,670.17	5,473,856.00	5,472,608.00
LIABILITIES				
Current liabilities:				
Accounts payable (Note 6)	445,810.97	375,244.46	4,186.00	19,255.00
Accrued liabilities	339,459.60	353,688.00	-	-
Due to primary government	1,169.14	571,000.00	-	-
Deferred revenue	465,917.65	344,037.98	-	-
Compensated absences (Note 7)	146,522.77	161,777.26	-	-
Long-term liabilities, current portion (Note 7)	24,597.34	185,318.76	-	-
Deposits held in custody for others	1,274,118.98	1,392,818.72	-	-
Total current liabilities	2,697,596.45	3,383,885.18	4,186.00	19,255.00
Noncurrent liabilities:				
Net OPEB obligation (Notes 7 and 11)	989,970.00	725,372.00	-	-
Compensated absences (Note 7)	422,830.43	498,871.67	-	-
Long-term liabilities (Note 7)	925,869.71	425,119.48	-	-
Total noncurrent liabilities	2,338,670.14	1,649,363.15	-	-
Total liabilities	5,036,266.59	5,033,248.33	4,186.00	19,255.00
NET ASSETS				
Invested in capital assets, net of related debt	3,864,940.43	3,673,458.38	-	-
Restricted for:				
Nonexpendable:				
Scholarships and fellowships	-	-	4,605,868.00	4,616,002.00
Instructional department uses	-	-	184,509.00	116,079.00
Other	-	-	40,054.00	-
Expendable:				
Scholarships and fellowships	13,427.83	13,957.63	103,517.00	104,804.00
Instructional department uses	17,919.62	29,998.90	159,932.00	123,106.00
Capital projects	362,516.16	391.68	-	441,509.00
Other	58,925.18	46,259.38	150,207.00	125,135.00
Unrestricted (Note 8)	7,488,433.17	5,188,355.87	225,583.00	(73,282.00)
Total net assets	$ 11,806,162.39	$ 8,952,421.84	$ 5,469,670.00	$ 5,453,353.00

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, 2010, AND JUNE 30, 2009

	Cleveland State Community College		Component Unit - Cleveland State Community College Foundation	
	Year Ended June 30, 2010	Year Ended June 30, 2009	Year Ended June 30, 2010	Year Ended June 30, 2009
REVENUES				
Operating revenues:				
Student tuition and fees (net of scholarship allowances of $4,153,419.00 for the year ended June 30, 2010, and $3,106,262.74 for the year ended June 30, 2009)	$ 5,492,570.23	$ 4,908,393.24	$ -	$ -
Gifts and contributions	-	-	189,850.00	148,019.00
Endowment income per spending plan	-	-	126,506.00	163,524.00
Governmental grants and contracts	895,700.13	649,139.78	-	-
Nongovernmental grants and contracts (college grants include $20,930.00 from component unit in 2010 and $35,811.00 in 2009)	21,457.24	37,975.51	-	-
Sales and services of educational departments	9,482.85	12,985.54	-	-
Auxiliary enterprises:				
Bookstore	149,548.63	142,795.94	-	-
Food service	1,859.88	2,700.00	-	-
Other	3,425.30	2,319.45	-	-
Other operating revenues	109,460.09	93,608.99	-	-
Total operating revenues	6,683,504.35	5,849,918.45	316,356.00	311,543.00
EXPENSES				
Operating expenses (Note 14):				
Salaries and wages	10,774,234.11	10,023,457.31	-	-
Benefits	3,542,866.77	4,022,878.50	-	-
Utilities, supplies, and other services	4,192,419.19	3,732,150.90	42,605.00	69,651.00
Scholarships and fellowships	5,310,566.50	3,341,221.19	200,273.00	190,064.00
Depreciation expense	698,339.36	470,390.86	-	-
Payments to or on behalf of Cleveland State Community College (Note 17)	-	-	524,536.00	135,161.00
Total operating expenses	24,518,425.93	21,590,098.76	767,414.00	394,876.00
Operating income (loss)	(17,834,921.58)	(15,740,180.31)	(451,058.00)	(83,333.00)
NONOPERATING REVENUES (EXPENSES)				
State appropriations	9,864,264.00	10,478,464.00	-	-
Gifts (college gifts include $53,606.00 from component unit in 2010 and $99,350.00 in 2009)	95,024.38	162,328.24	-	-
Grants and contracts	9,818,242.77	5,544,701.80	-	-
Investment income (for component unit, net of investment expense of $31,181.00 in 2010 and $29,391.00 in 2009)	31,631.73	125,575.65	369,586.00	(905,104.00)
Interest on capital asset-related debt	(28,232.88)	(12,089.15)	-	-
Other	-	114,992.87	-	-
Net nonoperating revenues	19,780,930.00	16,413,973.41	369,586.00	(905,104.00)
Income (loss) before other revenues, expenses, gains, or losses	1,946,008.42	673,793.10	(81,472.00)	(988,437.00)
Capital appropriations	457,732.13	135,293.23	-	-
Capital grants and gifts (college gifts include $450,000.00 from component unit in 2010)	450,000.00	-	-	-
Additions to permanent endowments	-	-	97,789.00	76,837.00
Total other revenues	907,732.13	135,293.23	97,789.00	76,837.00
Increase (decrease) in net assets	2,853,740.55	809,086.33	16,317.00	(911,600.00)
NET ASSETS				
Net assets - beginning of year	8,952,421.84	8,143,335.51	5,453,353.00	6,364,953.00
Net assets - end of year	$ 11,806,162.39	$ 8,952,421.84	$ 5,469,670.00	$ 5,453,353.00

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

Exhibit C

TENNESSEE BOARD OF REGENTS
CLEVELAND STATE COMMUNITY COLLEGE
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2010, AND JUNE 30, 2009

	Year Ended June 30, 2010	Year Ended June 30, 2009
CASH FLOWS FROM OPERATING ACTIVITIES		
Tuition and fees	$ 5,500,263.62	$ 5,069,507.07
Grants and contracts	967,073.54	625,414.12
Sales and services of educational activities	10,192.85	16,675.54
Payments to suppliers and vendors	(4,081,273.21)	(3,617,438.52)
Payments to employees	(10,860,578.00)	(9,993,047.30)
Payments for benefits	(3,272,772.96)	(3,646,711.73)
Payments for scholarships and fellowships	(5,277,738.05)	(3,492,195.77)
Auxiliary enterprise charges:		
Bookstore	142,201.64	146,696.14
Food services	1,859.88	2,700.00
Other	3,425.30	2,319.45
Other receipts	109,459.09	93,608.99
Net cash used by operating activities	(16,757,886.30)	(14,792,472.01)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State appropriations	9,844,900.00	10,461,300.00
Gifts and grants received for other than capital or endowment purposes	9,256,795.96	6,208,904.85
Federal student loan receipts	4,046,021.58	3,588,698.52
Federal student loan disbursements	(4,047,477.17)	(3,564,105.64)
Changes in deposits held for others	(117,244.15)	(360,372.43)
Other noncapital financing payments	-	(14,047.64)
Net cash provided by noncapital financing activities	18,982,996.22	16,320,377.66
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from capital debt	525,347.57	491,091.71
Capital appropriations	457,732.13	135,293.23
Capital grants and gifts	450,000.00	-
Proceeds from sale of capital assets	-	115,845.47
Purchase of capital assets and construction	(1,264,071.84)	(993,504.39)
Principal paid on capital debt	(185,318.76)	(589,514.24)
Interest paid on capital debt	(31,086.42)	(8,010.56)
Other capital and related financing receipts	-	13,195.04
Net cash used by capital and related financing activities	(47,397.32)	(835,603.74)
CASH FLOWS FROM INVESTING ACTIVITIES		
Income on investments	31,631.73	125,575.65
Net cash provided by investing activities	31,631.73	125,575.65
Net increase in cash	2,209,344.33	817,877.56
Cash - beginning of year	9,368,065.02	8,550,187.46
Cash - end of year	$ 11,577,409.35	$ 9,368,065.02

TENNESSEE BOARD OF REGENTS
CLEVELAND STATE COMMUNITY COLLEGE
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2010, AND JUNE 30, 2009

	Year Ended June 30, 2010	Year Ended June 30, 2009
Reconciliation of operating loss to net cash used by operating activities:		
Operating loss	$ (17,834,921.58)	$ (15,740,180.31)
Adjustments to reconcile operating loss to net cash used by operating activities:		
Depreciation expense	698,339.36	470,390.86
Gifts in-kind	36,237.51	68,705.19
Other	18,464.00	18,464.00
Change in assets and liabilities:		
Receivables, net	(34,639.07)	(59,891.77)
Prepaid/deferred items	(3,210.56)	(3,208.00)
Accounts payable	80,380.02	44,126.57
Accrued liabilities	(13,717.92)	6,833.18
Net OPEB obligation	264,598.00	356,270.00
Deferred revenue	121,879.67	14,129.44
Compensated absences	(91,295.73)	31,888.83
Net cash used by operating activities	$ (16,757,886.30)	$ (14,792,472.01)

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

Tennessee Board of Regents
Cleveland State Community College
Notes to the Financial Statements
June 30, 2010, and June 30, 2009

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 significant 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 17 for more detailed information about the component unit and how to obtain the report.

Basis of Presentation

The college's 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 intangible assets, are reported in the statement of net assets at historical cost or at fair value at date of donation, less accumulated depreciation/amortization. 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 intangible assets 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.

LWIA Equipment

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

This classification includes demand deposits and petty cash on hand. At June 30, 2010, cash consisted of $261,630.25 in bank accounts, $1,540.00 of petty cash on hand, $11,294,795.27 in the State of Tennessee Local Government Investment Pool (LGIP) administered by the State Treasurer, and $19,443.83 in LGIP deposits for capital projects. At June 30, 2009, cash consisted of $17,131.65 in bank accounts, $1,140.00 of petty cash on hand, $9,342,890.52 in the State of Tennessee Local Government Investment Pool administered by the State Treasurer, and $6,902.85 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 LGIP account. As expenses are incurred, funds are withdrawn from the LGIP account by the Tennessee Board of Regents and transferred to the Department of Finance and Administration. The funds in the account are not available to the college for any other purpose until the project is completed and the Tennessee Board of Regents releases any remaining funds.

NOTE 3. 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).

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. Prime banker’s acceptances are required to be eligible for purchase by the Federal Reserve System. To be eligible, the original maturity must not be more than 270 days, and it must 1) arise out of the current shipment of goods between countries or with the United States, or 2) arise out of storage within the United States of goods under contract of sale or expected to move into the channel of trade within a reasonable time and that are secured throughout their life by a warehouse receipt or similar document conveying title to the underlying goods.

Tennessee Board of Regents policy requires that prime commercial paper shall be limited to that of corporations that meet the following criteria: 1) Senior long-term debt, if any, should have a minimum rating of A1 or equivalent, and short-term debt should have 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 rating must be A1 by all rating services (minimum of two). 2) The rating should be based on the merits of the issuer or guaranteed by a nonbank. 3) A financial review should be made to ascertain the issuer’s financial strength to cover the debt. 4) Commercial paper of a banking institution should not be purchased. Prime commercial paper shall not have a maturity that exceeds 270 days.

As of June 30, 2010, and June 30, 2009, the college’s investments consisted entirely of investments in the Local Government Investment Pool. The fair value of these investments was $11,314,239.10 at June 30, 2010, and $9,349,793.37 at June 30, 2009.

LGIP investments are not rated by nationally recognized statistical ratings organizations. The LGIP is part of the State Pooled Investment Fund. The fund's required risks disclosures are presented in the *State of Tennessee's Treasurer's Report*. That report is available on the state's website at http://www.tn.gov/treasury or by calling (615) 741-2956.

NOTE 4. RECEIVABLES

Receivables included the following:

	June 30, 2010	June 30, 2009
Student accounts receivable	$682,977.54	$478,311.22
Grants receivable	270,628.79	319,375.82
State appropriation receivable	10,800.00	9,900.00
Other receivables	33,896.02	26,326.26
Subtotal	998,302.35	833,913.30
Less allowance for doubtful accounts	235,563.99	108,686.00
Total receivables	$762,738.36	$725,227.30

NOTE 5. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2010, was as follows:

	Beginning Balance	Additions	Transfers	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	-	1,875,340.45	-	11,034,803.66
Equipment	2,567,076.16	150,724.91	-	148,302.04	2,569,499.03
Library holdings	406,071.01	28,460.89	-	75,367.43	359,164.47
Intangible assets	1,292,418.49	13,968.70	-	-	1,306,387.19
Projects in progress	846,133.21	1,060,300.98	(1,875,340.45)	-	31,093.74
Total	15,700,010.55	1,253,455.48	-	223,669.47	16,729,796.56

Less accumulated depreciation/amortization:					
Land improvements and infrastructure	1,008,110.64	33,391.23	-	-	1,041,501.87
Buildings	8,008,182.07	297,232.86	-	-	8,305,414.93
Equipment	2,228,097.74	188,151.15	-	148,302.04	2,267,946.85
Library holdings	225,429.91	43,453.24	-	75,367.43	193,515.72
Intangible assets	353,611.29	136,110.88	-	-	489,722.17
Total	11,823,431.65	698,339.36	-	223,669.47	12,298,101.54
Capital assets, net	$ 3,876,578.90	$555,116.12	$ -	$ -	$ 4,431,695.02

Capital asset activity for the year ended June 30, 2009, was as follows:

	Beginning Balance	Additions	Transfers	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	2,607,045.39	52,911.33	-	92,880.56	2,567,076.16
Library holdings	433,065.84	33,755.96	-	60,750.79	406,071.01
Intangible assets	1,168,329.03	124,089.46	-	-	1,292,418.49
Projects in progress	68,930.12	777,203.09	-	-	846,133.21
Total	14,865,682.06	987,959.84	-	153,631.35	15,700,010.55
Less accumulated depreciation/amortization:					
Land improvements and infrastructure	970,104.71	38,005.93	-	-	1,008,110.64
Buildings	7,825,229.26	182,952.81	-	-	8,008,182.07
Equipment	2,151,451.87	169,526.43	-	92,880.56	2,228,097.74
Library holdings	239,498.50	46,682.20	-	60,750.79	225,429.91
Intangible assets	320,387.80	33,223.49	-	-	353,611.29
Total	11,506,672.14	470,390.86	-	153,631.35	11,823,431.65
Capital assets, net	$ 3,359,009.92	$517,568.98	$ -	$ -	$ 3,876,578.90

NOTE 6. ACCOUNTS PAYABLE

Accounts payable included the following:

	June 30, 2010	June 30, 2009
Vendors payable	$426,370.97	$368,526.46
Other payables	19,440.00	6,718.00
Total accounts payable	$445,810.97	$375,244.46

NOTE 7. LONG-TERM LIABILITIES

Long-term liabilities activity for the year ended June 30, 2010, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Payables:					
TSSBA debt:					
Bonds	$ 569,031.22	$ -	$185,318.76	$ 383,712.46	$ 24,597.34
Commercial paper	41,407.02	525,347.57	-	566,754.59	-
Subtotal	610,438.24	525,347.57	185,318.76	950,467.05	24,597.34
Other liabilities:					
Compensated absences	660,648.93	36,665.58	127,961.31	569,353.20	146,522.77
Net OPEB obligation	725,372.00	264,598.00	-	989,970.00	-
Subtotal	1,386,020.93	301,263.58	127,961.31	1,559,323.20	146,522.77
Total long-term liabilities	$1,996,459.17	$826,611.15	$313,280.07	$2,509,790.25	$171,120.11

Long-term liabilities activity for the year ended June 30, 2009, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Payables:					
TSSBA debt:					
Bonds	$ 316,908.50	$415,970.96	$163,848.24	$ 569,031.22	$ 185,318.76
Commercial paper	391,952.27	75,120.75	425,666.00	41,407.02	-

Subtotal	708,860.77	491,091.71	589,514.24	610,438.24	185,318.76
Other liabilities:					
Compensated absences	628,760.10	76,548.10	44,659.27	660,648.93	161,777.26
Net OPEB obligation	369,102.00	356,270.00	-	725,372.00	-
Subtotal	997,862.10	432,818.10	44,659.27	1,386,020.93	161,777.26
Total long-term liabilities	$1,706,722.87	$923,909.81	$634,173.51	$1,996,459.17	$347,096.02

TSSBA Debt - Bonds

Bonds, with interest rates ranging from 3.5% to 5.0%, were issued by the Tennessee State School Bond Authority (TSSBA). The bonds are due serially to 2023 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. See Note 9 for further details. The bonded indebtedness with the Tennessee State School Bond Authority included in long-term liabilities on the statement of net assets is shown net of assets held by the authority in the debt service reserve. The reserve amount was $44,439.15 at June 30, 2010, and $44,439.15 at June 30, 2009.

Debt service requirements to maturity for the college's portion of TSSBA bonds at June 30, 2010, are as follows:

Year Ending June 30	Principal	Interest	Total
2011	$ 24,597.34	$ 20,092.58	$ 44,689.92
2012	25,874.85	18,862.72	44,737.57
2013	26,835.18	17,957.10	44,792.28
2014	28,231.35	16,615.34	44,846.69
2015	29,417.85	15,486.08	44,903.93
2016 – 2020	169,304.48	56,164.18	225,468.66
2021 – 2023	79,451.41	12,272.84	91,724.25
Total	$383,712.46	$157,450.84	$541,163.30

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 $566,754.59 at June 30, 2010, and $41,407.02 at June 30, 2009.

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 is available on the state's website at www.comptroller1.state.tn.us/TSSBA/cafr.asp.

NOTE 8. 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, 2010	June 30, 2009
Working capital	$395,718.77	$317,496.44
Encumbrances	320,451.19	83,443.36
Designated fees	113,197.86	92,927.05
Auxiliaries	510,588.50	389,230.08
Plant construction	1,974,585.81	564,796.29
Renewal and replacement of equipment	3,658,304.80	3,184,792.35
Undesignated	515,586.24	555,670.30
Total	$7,488,433.17	$5,188,355.87

NOTE 9. PLEDGED REVENUES

The college has pledged certain revenues and fees, including state appropriations, to repay $383,712.46 in revenue bonds issued in December 2008. Proceeds from the bonds provided financing for an energy performance savings project. The bonds are payable through 2023. Annual principal and interest payments on the bonds are expected to require 1.08% of available revenues. The total principal and interest remaining to be paid on the bonds is $541,163.30. See Note 7 for further detail. Principal and interest paid for 2010 and total available revenues were $211,571.73 and $19,721,026.45, respectively.

NOTE 10. 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 is available on the state's website at http://www.state.tn.us/treasury/tcrs/index.html.

Funding Policy - Plan members are noncontributory. The college is required to contribute an actuarially determined rate. The current rate is 13.02% 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, 2010, 2009, and 2008 were $742,187.85, $792,527.88, and $879,025.67. 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), ING 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 $296,101.13 for the year ended June 30, 2010, and $293,900.17 for the year ended June 30, 2009. Contributions met the requirements for each year.

NOTE 11. 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 postemployment 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. For accounting purposes, the plans are agent multiple-employer defined benefit OPEB plans. Benefits are established and amended by an insurance committee created by Section 8-27-201, *Tennessee Code Annotated.* Prior to reaching age 65, retirees may participate in the State Employee Group Plan. Members of this plan have the option of choosing a preferred provider organization (PPO), point of service (POS), or health maintenance organization (HMO) plan for healthcare benefits. The POS and HMO options will no longer be available to members after January 1, 2011. Subsequent to age 65, retirees 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 for the college's eligible retirees; see Note 15. The plans are reported in the State of Tennessee's *Comprehensive Annual Financial Report* (CAFR). The CAFR is available on the state's website at http://tennessee.gov/finance/act/cafr.html.

Special Funding Situation

The State of Tennessee is legally responsible for contributions to the Medicare Supplement Plan that covers the retirees of other governmental entities, including Cleveland State Community College. The state is the sole contributor for the college retirees that participate in the Medicare Supplement Plan and, therefore, is acting as the employer.

Funding Policy

The premium requirements of members of the State Employee Group Plan are established and may be amended by the insurance committee. The plan is 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. Administrative costs of the plan are allocated to plan participants. In accordance with Section 8-27-205(b), *Tennessee Code Annotated*, retirees in the State Employee Group Plan pay the same base premium as active employees in the plan adjusted for years of service. Retirees with 30 years of service pay 20% of the total premium. Retirees with 20 years but less than 30 years of service pay 30% of the total premium. Retirees with less than 20 years of service pay 40% of the total premium.

College's Annual OPEB Cost and Net OPEB Obligation
State Employee Group Plan

	2010	2009
Annual required contribution (ARC)	$426,000	$550,000
Interest on the net OPEB obligation	32,642	16,610
Adjustment to the ARC	(30,916)	(16,166)
Annual OPEB cost	427,726	550,444
Amount of contribution	(163,128)	(194,174)
Increase in net OPEB obligation	264,598	356,270

Net OPEB obligation – beginning of year	725,372	369,102
Net OPEB obligation – end of year	$989,970	$725,372

Year-end	Plan	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation at Year-end
June 30, 2010	State Employee Group Plan	$427,726	38.1%	$989,970
June 30, 2009	State Employee Group Plan	$550,444	35.3%	$725,372

Funded Status and Funding Progress

The funded status of the college's portion of the State Employee Group Plan as of July 1, 2009, was as follows:

	State Employee Group Plan
Actuarial valuation date	July 1, 2009
Actuarial accrued liability (AAL)	$4,419,000
Actuarial value of plan assets	$ -
Unfunded actuarial accrued liability (UAAL)	$4,419,000
Actuarial value of assets as a percentage of the AAL	0%
Covered payroll (active plan members)	$8,179,393
UAAL as percentage of covered payroll	54%

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, 2009, 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 6 percent initially, increased to 10 percent in the second year and then reduced by decrements to an ultimate rate of 5 percent in fiscal year 2021. 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 12. INSURANCE-RELATED ACTIVITIES

It is the policy of the state not to purchase commercial insurance for the risks of losses for general liability, automobile liability, professional malpractice, and workers' compensation. The state's management believes it is more economical to manage these risks internally and set aside assets for claim settlement in its internal service fund, the Risk Management Fund. The state purchases commercial insurance for real property, flood, earthquake, and builder's risk losses and surety bond coverage on the state's officials and employees. The amounts of settlements have not exceeded insurance coverage for each 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, 2010, and June 30, 2009, are presented in the *Tennessee Comprehensive Annual Financial Report*. The CAFR is available on the state's website at http://tennessee.gov/finance/act/cafr.html. 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, 2010, the Risk Management Fund held $114.5 million in cash and cash equivalents designated for payment of claims. At June 30, 2009, the Risk Management fund held $127 million in cash and cash equivalents designated for payment of claims.

At June 30, 2010, the scheduled coverage for the college was $60,329,000 for buildings and $15,308,527 for contents. At June 30, 2009, the scheduled coverage for the college was $60,264,000 for buildings and $14,776,000 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 13. COMMITMENTS AND CONTINGENCIES

Sick Leave

The college records the cost of sick leave when paid. Generally, since sick leave (earned one day per month with unlimited accumulation) is paid only when an employee dies or is absent because of illness, injury, or related family death, there is no liability for sick leave at June 30. The dollar amount of unused sick leave was $3,237,269.10 at June 30, 2010, and $3,939,610.52 at June 30, 2009.

Operating Leases

The college has entered into various operating leases for buildings and equipment. Such leases will probably continue to be required. Expenses under operating leases for real property were $129,336.00 and for personal property were $39,249.92 for the year ended June 30, 2010. The amounts for the year ended June 30, 2009, were $127,536.00 and $41,346.61. All operating leases are cancelable at the lessee's option.

Construction in Progress

At June 30, 2010, outstanding commitments under construction contracts totaled $26,251.10 for the Technology Building HVAC project and the Science Lab Modernization project, of which $13,928.00 will be funded by future state capital outlay appropriations.

NOTE 14. NATURAL CLASSIFICATIONS WITH FUNCTIONAL CLASSIFICATIONS

The college's operating expenses for the year ended June 30, 2010, are as follows:

	Natural Classification					
Functional Classification	Salaries	Benefits	Other Operating	Scholarships	Depreciation	Total
Instruction	$5,633,850.13	$1,796,104.29	$1,523,419.15	$ -	$ -	$8,953,373.57
Public service	241,976.79	50,482.34	94,327.83	-	-	386,786.96
Academic support	1,122,821.55	289,427.98	68,182.90	-	-	1,480,432.43
Student services	1,444,016.90	528,825.69	833,699.95	-	-	2,806,542.54
Institutional support	1,774,573.43	609,467.59	524,627.98	-	-	2,908,669.00
Operation & maintenance	556,995.31	268,558.88	1,122,428.27	-	-	1,947,982.46
Scholarships & fellowships	-	-	-	5,310,566.50	-	5,310,566.50
Auxiliary	-	-	25,733.11	-	-	25,733.11
Depreciation	-	-	-	-	698,339.36	698,339.36
Total	$10,774,234.11	$3,542,866.77	$4,192,419.19	$5,310,566.50	$698,339.36	$24,518,425.93

The college's operating expenses for the year ended June 30, 2009, are as follows:

Functional Classification	Natural Classification Salaries	Benefits	Other Operating	Scholarships	Depreciation	Total
Instruction	$5,294,065.47	$1,930,052.27	$1,076,135.77	$ -	$ -	$8,300,253.51
Public service	226,305.10	74,904.67	15,033.64	-	-	316,243.41
Academic support	908,570.44	375,925.35	113,191.76	-	-	1,397,687.55
Student services	1,423,325.34	637,027.49	775,673.72	-	-	2,836,026.55
Institutional support	1,640,694.39	688,436.99	473,596.09	-	-	2,802,727.47
Operation & maintenance	530,496.57	316,531.73	1,252,087.20	-	-	2,099,115.50
Scholarships & fellowships	-	-	-	3,341,221.19	-	3,341,221.19
Auxiliary	-	-	26,432.72	-	-	26,432.72
Depreciation	-	-	-	-	470,390.86	470,390.86
Total	$10,023,457.31	$4,022,878.50	$3,732,150.90	$3,341,221.19	$470,390.86	$21,590,098.76

NOTE 15. ON-BEHALF PAYMENTS

During the year ended June 30, 2010, the State of Tennessee made payments of $18,464.00 on behalf of the college for retirees participating in the Medicare Supplement Plan. The amount for the year ended June 30, 2009, was $18,464.00. The Medicare Supplement Plan is a postemployment benefit healthcare plan and is discussed further in Note 11. 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 16. VOLUNTARY BUYOUT PROGRAM

The college implemented a Voluntary Buyout Plan in fiscal year 2010 as a strategy in addressing budgetary constraints due to state appropriation reversions and potential budget reductions in the forthcoming fiscal year. Nineteen employees participated in the Voluntary Buyout Plan with 5 terminating by December 30, 2009, and 14 terminating by January 4, 2010.

Severance pay was payable the month following the employee separation date, between November 2009 and February 2010. Severance pay included:

- Base severance payment equal to five times the employee's monthly rate of pay in effect on August 24, 2009.

- Service payment of $750.00 for each full year of state service as of the separation date.
- Amount equivalent to the employee's next longevity payment based on their years of creditable state service.
- Amount equivalent to six months of the college's portion of the monthly health insurance premium based on single health coverage.

As of June 30, 2010, expenditures for annual leave and severance pay for the Volunteer Buyout Plan were $1,003,818.03.

NOTE 17. 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 35-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. 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 adjustments, 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, 2010, the foundation made distributions of $524,536.00 to or on behalf of the college for both restricted and unrestricted purposes. During the year ended June 30, 2009, the foundation made distributions of $135,161.00 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.

Fair Value Measurements

The foundation reports certain assets and liabilities at fair value. Fair value has been determined using quoted prices in active markets for identical assets and liabilities that are accessible at the measurement date (Level 1), inputs other than quoted market prices included in Level 1 that are directly or indirectly observable for the asset or liability (Level 2), or significant unobservable inputs (Level 3). The following tables categorize the recurring fair value measurements for assets and liabilities at June 30, 2010, and June 30, 2009.

	Total Fair Value at June 30, 2010	Quoted Prices Level 1	Significant Other Inputs Level 2	Significant Unobservable Inputs Level 3
Assets:				
Cash	$162,728	$162,728	$ -	$ -
Interest receivable	5,056	5,056	-	-
Investments	5,297,120	5,297,120	-	-
Pledges receivable	8,952	-	-	8,952
Total assets	$5,473,856	$5,464,904	$ -	$8,952
Liabilities:				
Accounts payable	$4,186	$4,186	$ -	$ -
Total liabilities	$4,186	$4,186	$ -	$ -

	Total Fair Value at June 30, 2009	Quoted Prices Level 1	Significant Other Inputs Level 2	Significant Unobservable Inputs Level 3
Assets:				
Cash	$209,041	$209,041	$ -	$ -
Interest receivable	14,659	14,659	-	-
Investments	5,095,170	5,095,170	-	-
Pledges receivable	153,738	-	-	153,738
Total assets	$5,472,608	$5,318,870	$ -	$153,738
Liabilities:				
Accounts payable	$19,255	$19,255	$ -	$ -
Total liabilities	$19,255	$19,255	$ -	$ -

The following table reconciles beginning and ending balances of all assets valued using Level 3 inputs.

	Beginning Balance	Total Realized and Unrealized Gains/(Losses)	Transfers In/(Out) of Level 3	Ending Balance
At June 30, 2010				
Pledges Receivable	$153,738	$2,292	$(147,078)	$8,952

	Beginning Balance	Total Realized and Unrealized Gains/(Losses)	Transfers In/(Out) of Level 3	Ending Balance
At June 30, 2009				
Pledges Receivable	$303,506	$8,812	$(158,580)	$153,738

Cash

Cash consists of demand deposit accounts. The bank balances of deposits at June 30, 2010, were entirely insured. The bank balances of deposits at June 30, 2009, were entirely insured.

Investments

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

Investments held at June 30, 2010, were as follows:

	Cost	Fair Value
Cash management funds	$ 306,804	$ 306,804
Certificates of deposit	82,233	82,233
U.S. treasury obligations	102,875	102,148
U.S. agency obligations	550,379	554,150
Corporate bonds	49,750	52,157
Common stock	1,431,344	1,340,277
Mutual equity funds	2,298,442	2,147,804
Mutual bond funds	657,157	694,387
Closely held equity investments	14,850	17,160
Total investments	$5,493,834	$5,297,120

Investments held at June 30, 2009, were as follows:

	Cost	Fair Value
Cash management funds	$ 111,424	$ 111,424
Certificates of deposit	80,000	80,000
U.S. treasury obligations	532,353	544,277
U.S. agency obligations	881,810	887,520
Common stock	402,905	385,346
Corporate bonds	49,750	51,402
Mutual equity funds	2,792,848	2,289,630
Mutual bond funds	650,000	659,414
Closely held equity investments	14,850	26,895
Other assets	78,165	59,262
Total investments	$5,594,105	$5,095,170

Pledges Receivable

Pledges receivable are summarized below. Historically, any differences in amounts promised and amounts collected have not been material. Accordingly, no provision is made for uncollectible promises to give.

	June 30, 2010	June 30, 2009
Current pledges	$6,620	$156,200
Pledges due in one to five years	3,100	7,300
Subtotal	9,720	163,500
Less discount to net present value	(768)	(9,762)
Total pledges receivable, net	$8,952	$153,738

Endowments

The Cleveland State Community College Foundation's endowment consists of approximately 290 individual funds established for a variety of purposes. Its endowment includes only donor-restricted endowment funds. As required by GAAP, net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of relevant law - The Board of Trustees of the Cleveland State Community College Foundation has interpreted the Uniform Prudent Management of Institutional Funds Act (the Act) as adopted by Tennessee as being applicable to the operation of the foundation. As a result of this interpretation, the Cleveland State Community College Foundation classifies as permanently restricted net assets accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund and governed by approved spending policy. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the foundation in a manner consistent with the standard of prudence prescribed by the Act. In accordance with the Act, the foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the fund; (2) the purposes of the foundation and the endowment fund; (3) general economic conditions; (4) the possible effect of inflation or deflation; (5) the expected total return from income and the appreciation of investments; (6) other resources of the foundation; and (7) the investment policies of the foundation.

Composition of Endowment by Net Asset Class
As of June 30, 2010

	Permanently Restricted
Donor-restricted endowment funds	$4,830,431

Composition of Endowment by Net Asset Class
As of June 30, 2009

	Permanently Restricted
Donor-restricted endowment funds	$4,732,081

Changes in Endowment Net Assets
for the Fiscal Year Ended June 30, 2010

	Permanently Restricted
Endowment net assets, beginning of year	$4,732,081
Contributions	97,789
Transfers	561
Endowment net assets, end of year	$4,830,431

Changes in Endowment Net Assets
for the Fiscal Year Ended June 30, 2009

	Permanently Restricted
Endowment net assets, beginning of year	$4,666,499
Contributions	76,837
Other	(11,255)
Endowment net assets, end of year	$4,732,081

Return objectives and risk parameters - The foundation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the organization must hold in perpetuity or for a donor-specified period. Under this policy, as approved by the Board of Trustees, the endowment assets are invested in a manner that is intended to produce results that attain an average real total return equal to or greater than the approved maximum spending level of 5% over the long term. The foundation expects its endowment funds, over time, to provide an average rate of return of approximately 5 percent annually. Actual returns in any given year may vary from this amount.

Strategies employed for achieving objectives - To satisfy its long-term rate-of-return objectives, the foundation relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The foundation targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk restraints.

Spending policy and how the investment objectives relate - The foundation has a policy of appropriating for distribution each year not more than 5% of the 4-year rolling average of the market value of the endowment and at least the total of interest and dividends earned in the prior year. In establishing this policy, the foundation considered the long-term expected return on its endowment. Accordingly, over the long-term, the foundation expects the current spending policy to allow its endowment to grow between 2 and 3 percent annually. This is consistent with the foundation's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.

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	$5,558,000	0%	$8,544,557	65.1%
July 1, 2009	State Employee Group Plan	$ -	$4,419,000	$4,419,000	0%	$8,179,393	54%

An additional year will be reported as the data become available. The amount reported here for covered payroll relates to the fiscal year in which the valuations were performed.

TENNESSEE BOARD OF REGENTS
CLEVELAND STATE COMMUNITY COLLEGE
SUPPLEMENTARY INFORMATION
SCHEDULES OF CASH FLOWS - COMPONENT UNIT
FOR THE YEARS ENDED JUNE 30, 2010, AND JUNE 30, 2009

	Year Ended June 30, 2010	Year Ended June 30, 2009
CASH FLOWS FROM OPERATING ACTIVITIES		
Gifts and contributions	$ 334,636.00	$ 297,787.00
Payments to suppliers and vendors	(42,605.00)	(69,651.00)
Payments for scholarships and fellowships	(200,096.00)	(190,064.00)
Payments to Cleveland State Community College	(539,782.00)	(128,118.00)
Net cash used by operating activities	(447,847.00)	(90,046.00)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Private gifts for endowment purposes	97,789.00	76,837.00
Net cash provided by noncapital financing activities	97,789.00	76,837.00
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment income	136,109.00	173,843.00
Proceeds from sales and maturities of investments	6,968,703.00	6,285,906.00
Purchases of investments	(6,769,886.00)	(6,266,125.00)
Other investing receipts (payments)	(31,181.00)	(29,391.00)
Net cash provided by investing activities	303,745.00	164,233.00
Net increase (decrease) in cash	(46,313.00)	151,024.00
Cash - beginning of year	209,041.00	58,017.00
Cash - end of year	$ 162,728.00	$ 209,041.00
Reconciliation of operating loss to net cash used by operating activities:		
Operating loss	$ (451,058.00)	$ (83,333.00)
Adjustments to reconcile operating loss to net cash used by operating activities:		
Endowment income per spending plan	(136,109.00)	(173,843.00)
Change in assets and liabilities:		
Receivables, net	154,389.00	160,087.00
Accounts payable	(15,069.00)	7,043.00
Net cash used by operating activities	$ (447,847.00)	$ (90,046.00)
Noncash investing, capital, or financing transactions		
Unrealized gain (loss) on investments	$ 302,214.00	$ (598,042.00)