AUDIT REPORT

Tennessee Board of Regents
Cleveland State Community College

For the Years Ended
June 30, 2012, and June 30, 2011

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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July 8, 2013

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, 2012, and June 30, 2011. 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,

Deborah V. Loveless

Deborah V. Loveless, CPA
Director

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State of Tennessee

A u d i t   H i g h l i g h t s

Comptroller of the Treasury Division of State Audit

Financial and Compliance Audit

Cleveland State Community College

For the Years Ended June 30, 2012, and June 30, 2011

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, 2012, and June 30, 2011

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Tennessee Board of Regents
Cleveland State Community College
For the Years Ended June 30, 2012, and June 30, 2011

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, 2010, through June 30, 2012, 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, 2012, and June 30, 2011. 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 discretely presented 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 controls 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, 2012, and June 30, 2011, 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
COMPTROLLER OF THE TREASURY
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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*

June 19, 2013

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, 2012, and June 30, 2011, and have issued our report thereon dated June 19, 2013. 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

Management of the college is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the college's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our 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.

We noted certain matters that we reported to the management of Cleveland State Community College in a separate letter.

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,

Deborah V. Loveless

Deborah V. Loveless, CPA
Director

DVL/sds

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

June 19, 2013

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, 2012, and June 30, 2011, 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 and the report of the other auditors provide 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, 2012, and June 30, 2011, 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, 2012, and June 30, 2011, 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.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 11 through 29 and the schedule of funding progress on page 57 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during the audit of the basic financial statements. Although our opinion on the basic financial statements is not affected, a material departure from the prescribed guidelines exists. In its management's discussion and analysis, management has omitted condensed financial information comparing the 2011 and 2010 fiscal years. We do not express an opinion or provide any assurance on the information.

Our audit was conducted for the purpose of forming opinions on the basic financial statements as a whole. The accompanying financial information on page 58 is presented for purposes of additional analysis and is not a required part of the basic financial statements. This information is the responsibility of the university's management and was derived from, and relates directly to, the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied by us and the other auditors in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves and other additional procedures, in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information, based on our audit and the report of other auditors, 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 June 19, 2013, 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,

Deborah V. Loveless

Deborah V. Loveless, CPA
Director

DVL/sds

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

This section of Cleveland State Community College's annual financial report presents a discussion and analysis of the financial performance of the college during the fiscal year ended June 30, 2012, with comparative information presented for the fiscal year ended June 30, 2011. 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 16 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

	2012	2011
Assets:		
Current assets	$ 6,716	$ 7,820
Capital assets, net	6,597	4,797
Other assets	5,432	6,689
Total assets	18,745	19,306
Liabilities:		
Current liabilities	3,536	3,036
Noncurrent liabilities	2,141	1,983
Total liabilities	5,677	5,019
Net assets:		
Invested in capital assets, net of related debt	6,597	4,797
Restricted - expendable	126	105
Unrestricted	6,345	9,385
Total net assets	$ 13,068	$ 14,287

Institution

Comparison of fiscal year 2012 to fiscal year 2011

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

- Total current assets decreased $1,104,779 from 2011 to 2012. The significant decrease was in cash. The majority of the change was due to the transfer of funds to unexpended plant.

- Capital assets increased from 2011 to 2012 by $1,800,196 due to the purchase of equipment, a HVAC project for the gymnasium, and the private donation of a building. More detailed information is presented in the Capital Assets section of this report.

- Other assets decreased principally in noncurrent cash due to the expenditure of plant funds for various campus projects.

- Current liabilities increased in fiscal year 2012. The increase was due to the following:

    1. Accounts payable increased $190,863 due to the timing of year-end purchases.

    2. Deferred revenue increased $156,431 due to a tuition increase of 9.3% and an increase in enrollment in the Regents On-Line Degree Program for the summer semester.

    3. Deposits held in custody for others increased $125,903 due to an increase in funds held by Cleveland State for the Technology Center at Athens.

- Noncurrent liabilities increased due to an increase in net other postemployment benefit (OPEB) obligations of $97,187 and an increase in compensated absences of $87,712. The OPEB liability increased as a result of actuarial valuations and the annual required contribution. Additional information regarding the state's postemployment benefit healthcare plan is provided in Note 11.

- Invested in capital assets, net of related debt, increased from fiscal year 2011 to 2012 in the amount of $1,800,196. This was due mainly to an increase in equipment purchases and an increase in buildings.

- Unrestricted net assets decreased in 2012 because of a $2.2 million decrease in state appropriations, along with increasing operating expenses.

Condensed Statements of Net Assets
(in thousands of dollars)

Component Unit
Cleveland State Community College Foundation

	2012	2011
Assets:		
Current assets	$ 230	$ 294
Other assets	6,447	6,406
Total assets	6,677	6,700
Liabilities:		
Current liabilities	3	65
Total liabilities	3	65
Net assets:		
Restricted - nonexpendable	5,018	4,941
Restricted - expendable	721	655
Unrestricted	935	1,039
Total net assets	$ 6,674	$ 6,635

Component Unit

Comparison of fiscal year 2012 to fiscal year 2011

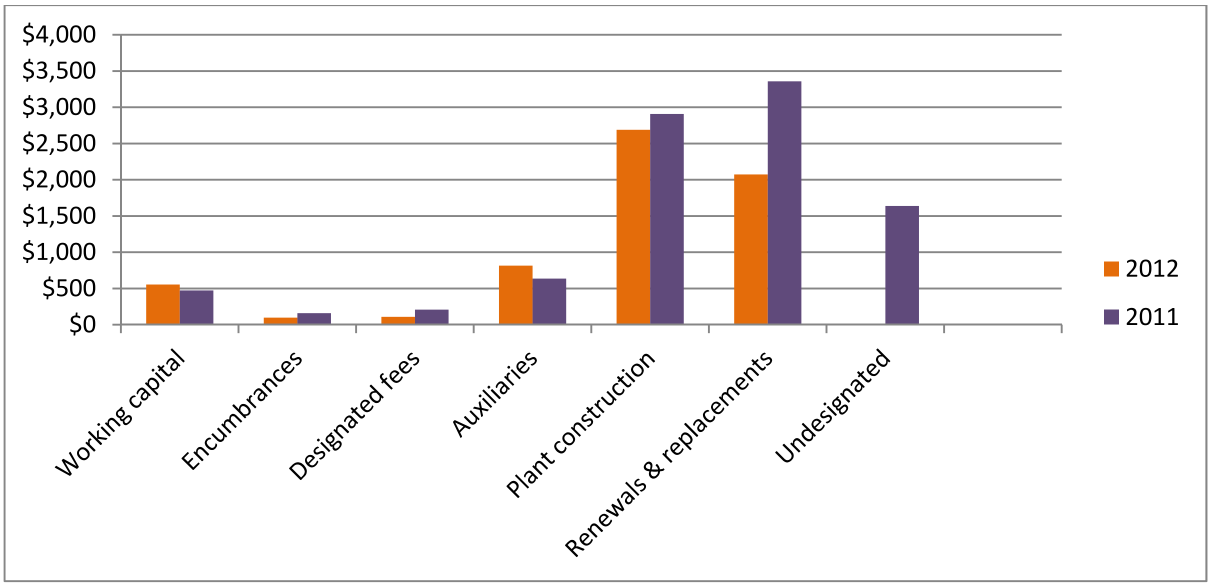
Material assets for the Cleveland State Community College Foundation consist of cash, interest receivable, pledges receivable, and investments.

- Current assets decreased in fiscal year 2012 by $63,463, primarily due to a reduction in cash. In fiscal year 2011, funds were held in current cash to meet the current fund obligations.
- Investments increased by $77,729 in 2012. This was due to contributions.
- Liabilities decreased $61,717 in 2012 due to payment of a $60,000 grant owed to the college for the nursing program at June 30, 2011.
- Nonexpendable restricted net assets increased $77,617. This increase was due to an increase in endowed scholarships.
- Expendable restricted net assets increased $65,872 due to an increase in scholarship funds.

- Unrestricted net assets decreased $104,381 due to realized and unrealized losses recognized as unrestricted funds.

Many of the college's unrestricted net assets have been designated for specific purposes such as working capital, encumbrances, designated fees, auxiliaries, plant construction, and renewals and replacements of capital assets.

Institution
(in thousands of dollars)
Unrestricted Balance



Comparison of fiscal year 2012 to fiscal year 2011

Institution

- Working capital increased $81,242, primarily due to an increase in student accounts receivable. The number of students owing tuition and fees from Title IV unofficial withdrawals increased.

- Encumbrances decreased $62,227 due to the timing of a one-time marketing invoice outstanding at June 30, 2011.

- Designated fees decreased $100,361 due to the expenditure of technology access funds that were carried forward from previous years.

- Auxiliaries increased $180,539 due to an increase in funds from bookstore commissions held in this reserve.

- Plant construction decreased $217,630 due to the expenditure of funds for various improvement projects on campus.

- The renewal and replacement balance decreased $1,283,762 due to the purchase of equipment, furniture, and media and communication upgrades.

Component Unit

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

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

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

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

Institution
Cleveland State Community College

	2012	2011
Operating revenues:		
Net tuition and fees	$ 6,459	$ 6,219
Grants and contracts	767	555
Auxiliary	219	165
Other	138	111
Total operating revenues	7,583	7,050
Operating expenses	29,698	27,060
Operating loss	(22,115)	(20,010)
Nonoperating revenues and expenses:		
State appropriations	9,125	11,074
Gifts	64	136
Grants & contracts	10,468	10,644
Investment income	17	27
Other nonoperating revenues (expenses)	(5)	(19)
Total nonoperating revenues and expenses	19,669	21,862
Income (loss) before other revenues, expenses, gains, or losses	(2,446)	1,852
Other revenues, expenses, gains, or losses:		
Capital appropriations	927	629
Capital grants and gifts	300	-
Total other revenues, expenses, gains, or losses	1,227	629
Increase (decrease) in net assets	(1,219)	2,481
Net assets at beginning of year	14,287	11,806
Net assets at end of year	$ 13,068	$ 14,287

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

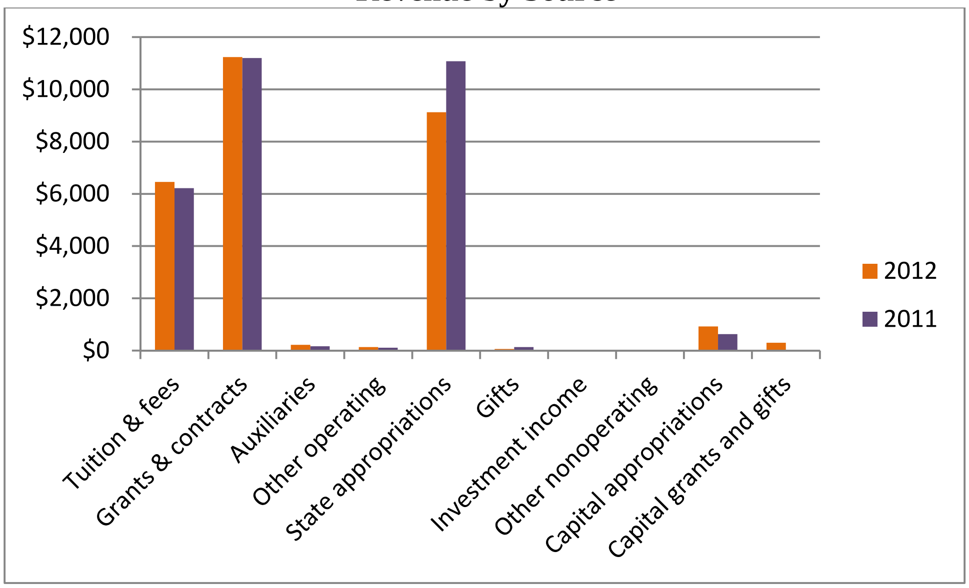
Component Unit
Cleveland State Community College Foundation

	2012	2011
Operating revenues:		
Gifts and contributions	$ 167	$ 433
Endowment income per spending plan	182	169
Total operating revenues	349	602
Operating expenses	285	377
Operating income	64	225
Nonoperating revenues and expenses:		
Investment income	(101)	830
Total nonoperating revenues and expenses	(101)	830
Income (loss) before other revenues, expenses, gains, or losses	(37)	1,055
Other revenues, expenses, gains, or losses:		
Additions to permanent endowments	76	110
Total other revenues, expenses, gains, or losses	76	110
Increase in net assets	39	1,165
Net assets at beginning of year	6,635	5,470
Net assets at end of year	$ 6,674	$ 6,635

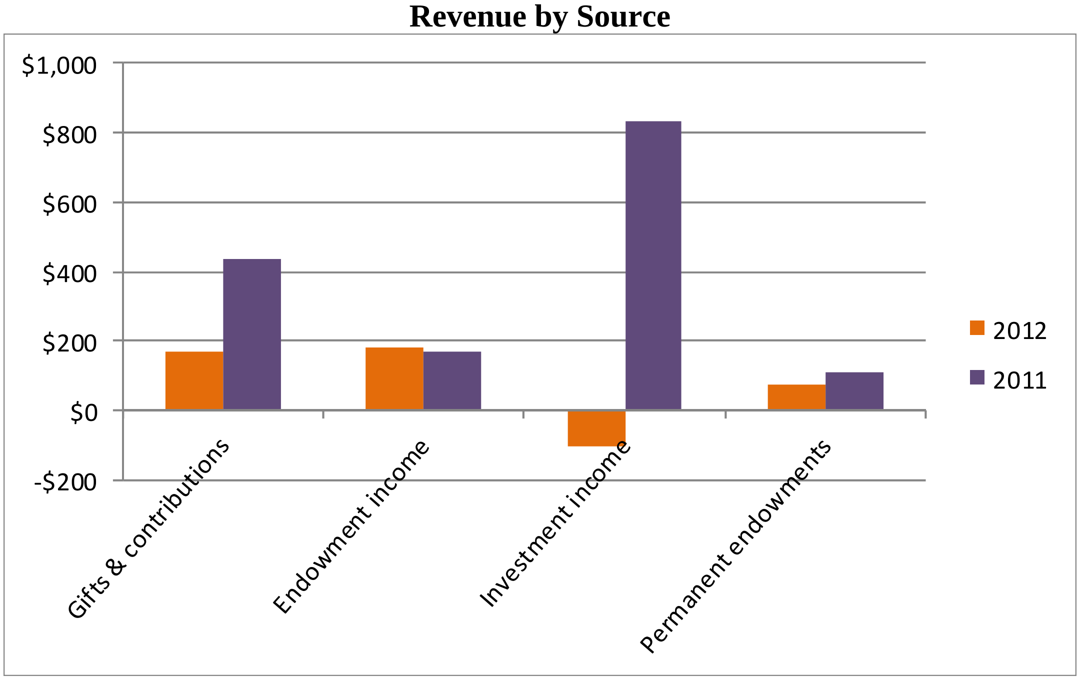
Revenues

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, 2012, and June 30, 2011.

Institution
(in thousands of dollars)
Revenue by Source



Component Unit
(in thousands of dollars)
Revenue by Source



Comparison of fiscal year 2012 to fiscal year 2011

Institution

- Tuition and fees increased $240,054 due to an average 9.3% increase in tuition for the 2011-12 year.

- State appropriations decreased $1,948,949 due to the receipt of nonrecurring state appropriations in 2010-11 and a decrease in state funding for 2012.

- Grants and contracts increased overall from 2011 to 2012.

  (1) Operating grants increased $212,056 due primarily to the awarding of a federal Title III grant to the college.

  (2) Nonoperating grants decreased $175,997. This was due to a decrease in restricted American Recovery and Reinvestment Act State Fiscal Stabilization Funds (SFSF) in 2012.

- Capital appropriations increased $297,885 due to funding for the HVAC system in the gymnasium and starting the Technology Building addition and renovation project.

- Capital grants and gifts increased $300,000 due to the donation of the Business Incubator Building to the college.

Component Unit

- Total operating revenues decreased for the foundation. Gifts and contributions decreased $265,068, primarily due to a decrease in temporarily restricted donations.

- Investment income decreased from 2011 to 2012. This was a result of declining market conditions.

- Additions to permanent endowments decreased $33,489 due to a decrease in contributions from donors.

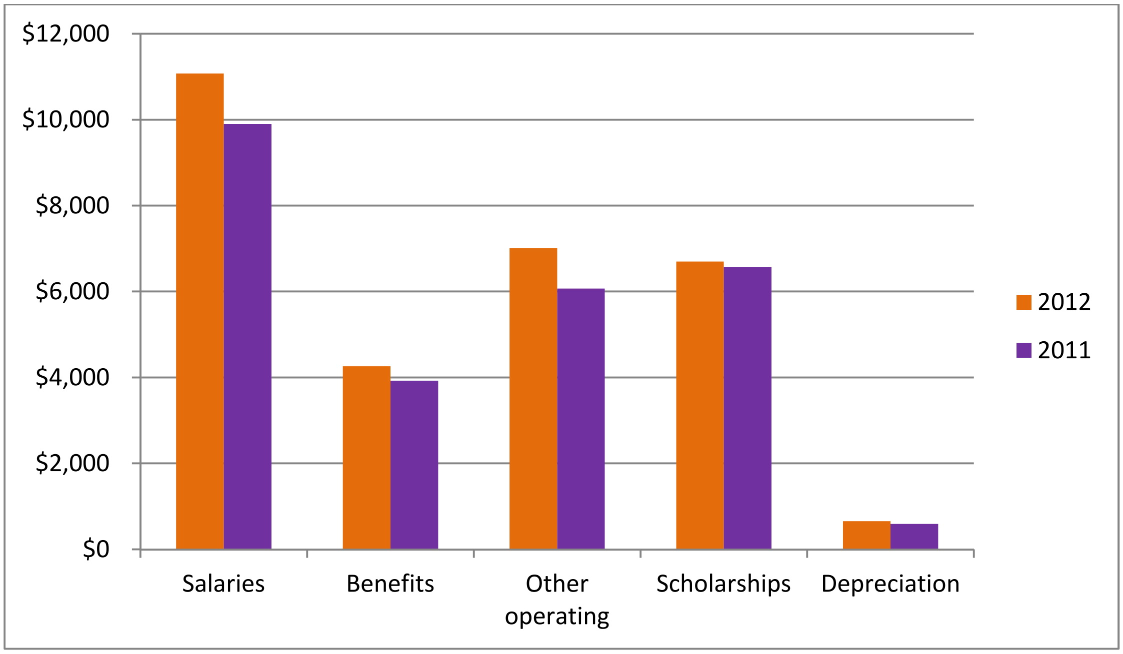
Expenses

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

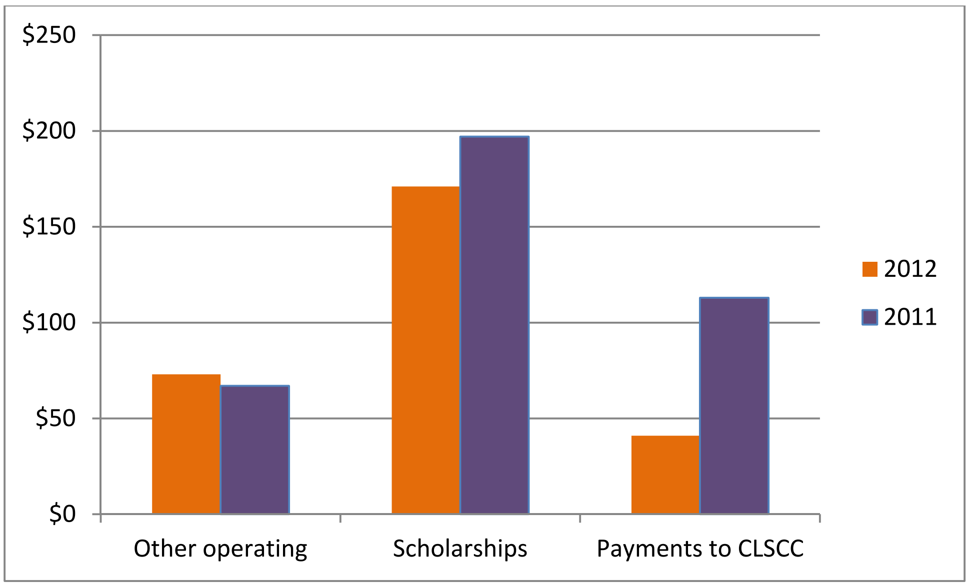
Natural Classification
(in thousands of dollars)

	Institution Cleveland State Community College		Component Unit Cleveland State Community College Foundation	
	2012	**2011**	**2012**	**2011**
Salaries	$ 11,072	$ 9,900	$ -	$ -
Benefits	4,260	3,925	-	-
Utilities, supplies, and other services	7,014	6,068	73	67
Scholarships and fellowships	6,696	6,574	171	197
Depreciation expense	656	593	-	-
Payments to or on behalf of Cleveland State	-	-	41	113
Total	$ 29,698	$ 27,060	$ 285	$ 377

Institution
(in thousands of dollars)
Natural Classification



Component Unit
(in thousands of dollars)
Natural Classification



<u>Comparison of fiscal year 2012 to fiscal year 2011</u>

Institution

- Salaries increased $1,171,279 in 2012 over 2011 due to a 3% salary increase and a one-time service award of $1,000 to employees.

- Benefits increased $335,298 in fiscal year 2012 from 2011. Primarily, the increase is a result of the salary increase and an insurance premium increase in January 2012.

- Utilities, supplies, and other services increased $946,234 in 2012 due to various repair projects on campus, such as the replacement of communication radios, installation of recycle bins, carpet replacement, furniture replacement, and lab upgrades.

- Scholarships increased $121,948 due to the tuition increase.

- Depreciation increased $62,855 due primarily to an increase in building and equipment assets.

Component Unit

- Utilities, supplies, and other services increased $6,641 due to an increase in administrative expense.

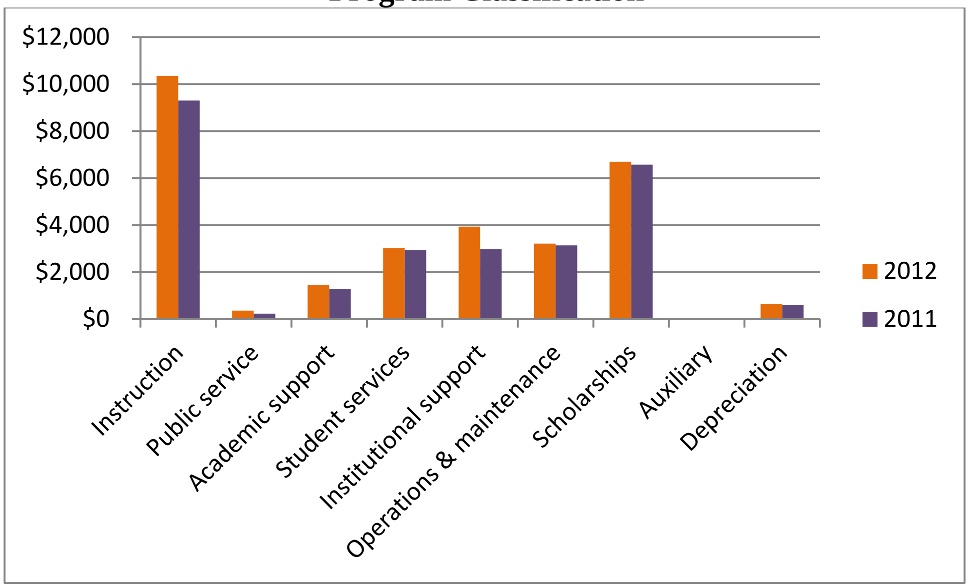
- Scholarships decreased $26,756 due to donor restrictions on some scholarships that could not be awarded and due to a decrease in enrollment for the spring 2012 semester.

- Payments to Cleveland State Community College decreased $71,452 during 2012. In fiscal year 2011, there was a one-time payment to the college in the amount of $60,000 for the startup of the evening nursing program.

Program Classification
(in thousands of dollars)
Institution
Cleveland State Community College

	2012	2011
Instruction	$ 10,344	$ 9,298
Public service	358	229
Academic support	1,453	1,277
Student services	3,020	2,941
Institutional support	3,934	2,979
Operation & maintenance	3,209	3,137
Scholarships & fellowships	6,696	6,574
Auxiliary	28	32
Depreciation	656	593
Total	$ 29,698	$ 27,060

Institution
(in thousands of dollars)
Program Classification



Comparison of fiscal year 2012 to fiscal year 2011

- Instruction expenses increased $1,046,775. Primarily, this was due to the 3% salary raise, the service awards, and related benefits. Operating expense also increased due to the new Title III grant expenses, National Science Foundation grant expenses, and an increase in nursing program expenses due to the start of the new evening program.

- Public service expenses increased $129,359 due to the new community program department.

- Academic support increased $175,565. Primarily, the increase was due to the college outsourcing Banner Hosting to the Office of Information Resources (OIR) and increased technology access fee expenses.

- Student services increased $79,011 in 2012 over 2011. Primarily, this was due to the 3% salary raise, service awards, and related employee benefits.

- Institutional support increased overall by $954,723 from 2011 to 2012. Salaries and benefits increased due to the 3% salary raise, service awards, and related benefits.

Operating cost increased due to the purchase of furniture for the new student services renovations.

- Operations and maintenance increased $72,103 in fiscal year 2012. Primarily, the increase was in operating cost due to several campus maintenance and emergency repair projects. These projects included heating/air maintenance, electrical and water line repairs, and the cleanup of the campus after a severe spring storm.

- Scholarships increased $121,948 due to the tuition increase.

- Depreciation increased $62,855 due primarily to an increase in building and equipment assets.

Capital Assets and Debt Administration

Capital Assets

Cleveland State Community College had $6,597,340.63 invested in capital assets, net of accumulated depreciation of $13,207,190.63 at June 30, 2012; and $4,797,144.28 invested in capital assets, net of accumulated depreciation of $12,775,670.55 at June 30, 2011. Depreciation charges totaled $656,293.34 and $593,437.90 for the years ended June 30, 2012, and June 30, 2011, 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	107	119
Buildings	3,278	2,442
Equipment	1,041	457
Library holdings	166	167
Intangible assets	544	680
Projects in progress	1,193	664
Total	$ 6,597	$ 4,797

Institution

- Buildings increased $1,143,222 due to the completion of phase 1 of the HVAC project in the gymnasium and the recording of the donation to the college of the Business Incubator Building.

- Overall equipment increased in fiscal year 2012. New purchases of equipment totaled $747,015. There was $184,411 of obsolete and outdated equipment, along with the accumulated depreciation, written off in fiscal year 2012. Annual depreciation totaled $163,799.

- Library holdings decreased in fiscal year 2012. New purchases of library holdings totaled $37,459. Obsolete inventory from 2003 totaling $40,362 was written off, along with the accumulated depreciation. Annual depreciation on library holdings totaled $38,284.

- Capitalized software decreased $136,111 due to the recording of the 2012 amortization expense.

- Projects in progress increased $528,794 in 2012. This increase consisted of the $501,884 Student Services Renovation project, the $539,657 Technology Building Addition project, the $51,537 Gymnasium HVAC Phase 2 project, and the $3,325 Fire Alarm and Communication System project. A total of $567,610 was transferred out of projects in progress to buildings due to the completion of the Gymnasium HVAC Phase 1 project to buildings.

Component Unit

The foundation had no capital assets for fiscal years 2012 or 2011.

Planned Expenditures for Fiscal Year 2013

The second phase of the HVAC system for the gymnasium will be completed in fiscal year 2013. This project is being funded by state capital appropriations.

The Tennessee General Assembly appropriated funds for the purpose of implementing a capital outlay program to increase the capacity of Tennessee community colleges to serve Tennesseans. Cleveland State was awarded $2,000,000 for the addition and renovation of the Technology

Building. A private donation in the amount of $300,000 will be used as a match for this project. This project is in progress and has a completion date of late summer 2012.

The renovation of the student services area will be completed in summer of 2012. This project is being funded by Cleveland State.

The fire alarm system will be upgraded and an emergency notification capabilities project was planned for 2012. The project has been expanded with an estimated completion in fiscal year 2013. The total cost of this project is yet to be determined. The project will be funded by the college.

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

Debt

The college had $333,240 and $359,115 in debt outstanding at June 30, 2012, and June 30, 2011, 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

	2012	2011
TSSBA debt:		
Bonds payable	$333,240.27	$359,115.12
Total	$333,240.27	$359,115.12

A new bond was issued in fiscal year 2009 for debt incurred on the energy savings project in the amount of $415,977 payable over 15 years. Principal in the amount of $25,875 was paid in fiscal year 2012. The remaining balance of principal owed is $333,240.

The ratings on debt issued by the Tennessee State School Bond Authority at June 30, 2012, were as follows:

Fitch	AA+
Moody's Investor Service	Aa1
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

In January 2010, the "Complete College Tennessee Act of 2010" was signed into law. This law required the development of a new funding formula to incentivize outcomes to a greater degree across a range of variables. This will have a significant impact on funding in future years for Cleveland State Community College.

The Tennessee Board of Regents has approved an increase of 4.7% in tuition for the upcoming 2012-13 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's scholarship funds are derived from a combination of unrestricted gifts and income from investments, predominantly endowed funds. The volatility of the financial markets has produced inconsistent investment returns in recent years, a trend that is expected to continue. In addition, the personal net worth of many foundation donors has declined in recent years due to the same volatility in investments, as well as a stagnant business growth. This has resulted in greater difficulty in securing long-term or multiyear gift commitments.

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, 2012, AND JUNE 30, 2011

	Cleveland State Community College		Component Unit - Cleveland State Community College Foundation	
	June 30, 2012	June 30, 2011	June 30, 2012	June 30, 2011
ASSETS				
Current assets:				
Cash (Notes 2, 3, and 16)	$ 6,010,823.10	$ 7,281,448.21	$ 173,987.00	$ 231,478.00
Accounts and grants receivable (net) (Note 4)	674,122.42	506,571.10	4,949.00	4,799.00
Due from primary government	10,400.00	15,060.52	-	-
Pledges receivable (net) (Note 16)	-	-	51,027.36	57,149.06
Prepaid expenses and deferred charges	20,058.84	17,104.50	-	-
Total current assets	6,715,404.36	7,820,184.33	229,963.36	293,426.06
Noncurrent assets:				
Cash (Notes 2, 3, and 16)	5,292,797.32	6,384,767.65	-	-
Investments (Note 16)	-	-	6,372,816.00	6,295,087.00
Accounts and grants receivable (net) (Note 4)	139,288.14	304,240.98	-	-
Pledges receivable (net) (Note 16)	-	-	73,759.64	110,634.94
Capital assets (net) (Note 5)	6,597,340.63	4,797,144.28	-	-
Total noncurrent assets	12,029,426.09	11,486,152.91	6,446,575.64	6,405,721.94
Total assets	18,744,830.45	19,306,337.24	6,676,539.00	6,699,148.00
LIABILITIES				
Current liabilities:				
Accounts payable (Note 6)	715,604.82	524,741.43	2,926.00	64,643.00
Accrued liabilities	295,044.23	280,462.49	-	-
Due to grantors	12,076.00	1,124.12	-	-
Deferred revenue	648,996.14	492,564.79	-	-
Compensated absences (Note 7)	149,033.73	149,071.55	-	-
Long-term liabilities, current portion (Note 7)	26,835.18	25,874.85	-	-
Deposits held in custody for others	1,688,505.52	1,562,602.30	-	-
Total current liabilities	3,536,095.62	3,036,441.53	2,926.00	64,643.00
Noncurrent liabilities:				
Net OPEB obligation (Note 11)	1,274,228.00	1,177,041.00	-	-
Compensated absences (Note 7)	560,309.84	472,597.80	-	-
Long-term liabilities (Note 7)	306,405.09	333,240.27	-	-
Total noncurrent liabilities	2,140,942.93	1,982,879.07	-	-
Total liabilities	5,677,038.55	5,019,320.60	2,926.00	64,643.00
NET ASSETS				
Invested in capital assets, net of related debt	6,597,340.63	4,797,144.28	-	-
Restricted for:				
Nonexpendable:				
Scholarships and fellowships	-	-	4,783,229.00	4,707,117.00
Instructional department uses	-	-	186,381.00	184,876.00
Other	-	-	48,397.00	48,397.00
Expendable:				
Scholarships and fellowships	29,728.43	17,228.43	173,350.00	107,226.00
Instructional department uses	31,334.77	19,542.86	107,086.00	110,386.00
Capital projects	-	-	294,129.00	284,100.00
Other	64,908.89	68,562.67	146,504.00	153,485.00
Unrestricted (Note 8)	6,344,479.18	9,384,538.40	934,537.00	1,038,918.00
Total net assets	$ 13,067,791.90	$ 14,287,016.64	$ 6,673,613.00	$ 6,634,505.00

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, 2012, AND JUNE 30, 2011

	Cleveland State Community College		Component Unit - Cleveland State Community College Foundation	
	Year Ended June 30, 2012	Year Ended June 30, 2011	Year Ended June 30, 2012	Year Ended June 30, 2011
REVENUES				
Operating revenues:				
Student tuition and fees (net of scholarship allowances of $4,563,989.00 for the year ended June 30, 2012, and $4,480,364.00 for the year ended June 30, 2011)	$ 6,458,864.91	$ 6,218,810.16	$ -	$ -
Gifts and contributions	-	-	167,486.00	432,554.00
Endowment income per spending plan	-	-	181,556.00	168,993.00
Governmental grants and contracts	751,636.21	537,691.82	-	-
Nongovernmental grants and contracts (college grants include $15,000.00 from component unit in 2012 and $17,388.89 in 2011)	15,500.00	17,388.89	-	-
Sales and services of educational departments	17,461.00	12,187.02	-	-
Sales and services of other activities	84,826.53	54,233.71	-	-
Auxiliary enterprises:				
Bookstore	210,255.17	158,394.84	-	-
Food service	5,101.33	2,994.45	-	-
Other	3,768.88	4,376.14	-	-
Other operating revenues	35,214.11	44,359.70	-	-
Total operating revenues	7,582,628.14	7,050,436.73	349,042.00	601,547.00
EXPENSES				
Operating expenses (Note 14):				
Salaries and wages	11,071,482.46	9,900,203.59	-	-
Benefits	4,259,928.43	3,924,630.02	-	-
Utilities, supplies, and other services	7,014,127.40	6,067,893.21	73,471.00	66,830.00
Scholarships and fellowships	6,696,123.86	6,574,175.48	170,576.00	197,332.00
Depreciation expense	656,293.34	593,437.90	-	-
Payments to or on behalf of Cleveland State Community College (Note 16)	-	-	41,410.00	112,862.00
Total operating expenses	29,697,955.49	27,060,340.20	285,457.00	377,024.00
Operating income (loss)	(22,115,327.35)	(20,009,903.47)	63,585.00	224,523.00
NONOPERATING REVENUES (EXPENSES)				
State appropriations	9,124,773.71	11,073,723.00	-	-
Gifts (college gifts include $26,410.00 from component unit in 2012 and $95,473.11 in 2011)	64,136.35	136,296.31	-	-
Grants and contracts	10,468,017.86	10,644,014.68	-	-
Investment income (for component unit, net of investment expense of $33,707.00 in 2012 and $32,196.00 in 2011)	17,224.70	27,056.77	(100,947.00)	830,353.00
Interest on capital asset-related debt	(18,684.55)	(19,532.31)	-	-
Other	13,550.00	-	-	-
Net nonoperating revenues	19,669,018.07	21,861,558.45	(100,947.00)	830,353.00
Income (loss) before other revenues, expenses, gains, or losses	(2,446,309.28)	1,851,654.98	(37,362.00)	1,054,876.00
Capital appropriations	927,084.54	629,199.27	-	-
Capital grants and gifts	300,000.00	-	-	-
Additions to permanent endowments	-	-	76,470.00	109,959.00
Total other revenues	1,227,084.54	629,199.27	76,470.00	109,959.00
Increase (decrease) in net assets	(1,219,224.74)	2,480,854.25	39,108.00	1,164,835.00
NET ASSETS				
Net assets - beginning of year	14,287,016.64	11,806,162.39	6,634,505.00	5,469,670.00
Net assets - end of year	$ 13,067,791.90	$ 14,287,016.64	$ 6,673,613.00	$ 6,634,505.00

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

TENNESSEE BOARD OF REGENTS
CLEVELAND STATE COMMUNITY COLLEGE
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2012, AND JUNE 30, 2011

	Year Ended June 30, 2012	Year Ended June 30, 2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Tuition and fees	$ 6,533,096.21	$ 6,176,139.16
Grants and contracts	902,645.39	506,007.31
Sales and services of educational activities	17,461.00	12,187.02
Sales and services of other activities	84,826.53	54,233.71
Payments to suppliers and vendors	(6,821,372.48)	(5,980,946.49)
Payments to employees	(11,070,535.88)	(9,895,127.63)
Payments for benefits	(4,025,177.22)	(3,698,753.95)
Payments for scholarships and fellowships	(6,703,865.83)	(6,494,822.97)
Auxiliary enterprise charges:		
Bookstore	169,764.65	151,872.24
Food services	4,441.33	2,664.45
Other	3,768.88	4,376.14
Other receipts	35,214.11	43,387.70
Net cash used by operating activities	(20,869,733.31)	(19,118,783.31)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State appropriations	9,101,225.75	11,052,900.00
Gifts and grants received for other than capital or endowment purposes	10,511,488.11	10,776,495.79
Federal student loan receipts	8,537,788.00	7,394,236.17
Federal student loan disbursements	(8,525,712.00)	(7,394,236.17)
Changes in deposits held for others	125,903.22	288,483.32
Net cash provided by noncapital financing activities	19,750,693.08	22,117,879.11
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital appropriations	927,084.54	629,199.27
Purchase of capital assets and construction	(2,142,939.69)	(956,915.17)
Principal paid on capital debt	(25,874.85)	(591,351.93)
Interest paid on capital debt	(19,049.91)	(18,278.23)
Net cash used by capital and related financing activities	(1,260,779.91)	(937,346.06)
CASH FLOWS FROM INVESTING ACTIVITIES		
Income on investments	17,224.70	27,056.77
Net cash provided by investing activities	17,224.70	27,056.77
Net increase (decrease) in cash	(2,362,595.44)	2,088,806.51
Cash - beginning of year	13,666,215.86	11,577,409.35
Cash - end of year	$ 11,303,620.42	$ 13,666,215.86

TENNESSEE BOARD OF REGENTS
CLEVELAND STATE COMMUNITY COLLEGE
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2012, AND JUNE 30, 2011

	Year Ended June 30, 2012	Year Ended June 30, 2011
Reconciliation of operating loss to net cash used by operating activities:		
Operating loss	$ (22,115,327.35)	$ (20,009,903.47)
Adjustments to reconcile operating loss to net cash used by operating activities:		
Depreciation expense	656,293.34	593,437.90
Gifts in-kind	35,726.62	37,988.36
Other	23,147.96	21,623.00
Change in assets and liabilities:		
Receivables, net	(12,598.48)	(50,845.71)
Prepaid/deferred items	(2,954.34)	1,720.33
Accounts payable	190,863.39	78,930.46
Accrued liabilities	14,947.10	(57,723.45)
Net OPEB obligation	97,187.00	187,071.00
Deferred revenue	156,431.35	26,647.14
Compensated absences	87,674.22	52,316.15
Due to grantors	(1,124.12)	(45.02)
Net cash used by operating activities	$ (20,869,733.31)	$ (19,118,783.31)
Noncash investing, capital, and financing transactions		
Gifts of capital assets	$ 300,000.00	$ -
Trade-in allowance	$ 13,550.00	$ -

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The college is a part of the State University and Community College System of Tennessee (Tennessee Board of Regents). This system is a component unit of the State of Tennessee because the state appoints a majority of the system's governing body and provides 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 16 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 and sick leave at varying rates, depending on length of service or classification. Some employees also earn compensatory time. The amount of the liabilities for annual leave and compensatory time and their related benefits are reported in the statement of net assets. There is no liability for unpaid accumulated sick leave since the college's policy is to pay this only if the employee dies or is absent because of illness, injury, or related family death.

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.

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, sales and services of educational departments, other activities, 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, 2012, cash consisted of $558,921.62 in bank accounts, $1,640.00 of petty cash on hand, $10,439,525.86 in the State of Tennessee Local Government Investment Pool (LGIP) administered by the State Treasurer, and $303,532.94 in LGIP deposits for capital projects. At June 30, 2011, cash consisted of $470,654.96 in bank accounts, $1,640.00 of petty cash on hand, $11,708,703.98 in LGIP, and $1,485,216.92 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, 2012, and June 30, 2011, the college's investments consisted entirely of investments in the Local Government Investment Pool. The fair value of these investments was $10,743,058.80 at June 30, 2012, and $13,193,920.90 at June 30, 2011. 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 risk disclosures are presented in the *State of Tennessee's Treasurer's Report*. That report is available on the state's website at www.treasury.tn.gov.

NOTE 4. RECEIVABLES

Receivables included the following:

	June 30, 2012	June 30, 2011
Student accounts receivable	$ 830,798.28	$ 738,326.82
Grants receivable	183,023.87	319,657.17

State appropriation receivable	-	10,000.00
Other receivables	102,999.67	36,830.07
Subtotal	1,116,821.82	1,104,814.06
Less allowance for doubtful accounts	303,411.26	294,001.98
Total receivables	$ 813,410.56	$ 810,812.08

NOTE 5. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2012, 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	11,045,851.66	575,611.73	567,610.42	-	12,189,073.81
Equipment	2,782,196.49	747,014.92	-	184,410.88	3,344,800.53
Library holdings	345,381.02	37,458.82	-	40,362.38	342,477.46
Intangible assets	1,306,387.19	-	-	-	1,306,387.19
Projects in progress	664,150.00	1,096,404.22	(567,610.42)	-	1,192,943.80
Total	17,572,814.83	2,456,489.69	-	224,773.26	19,804,531.26
Less accumulated depreciation/amortization:					
Land improvements and infrastructure	1,042,479.56	11,525.42	-	-	1,054,004.98
Buildings	8,604,489.13	306,574.20	-	-	8,911,063.33
Equipment	2,324,515.93	163,798.86	-	184,410.88	2,303,903.91
Library holdings	178,352.88	38,283.98	-	40,362.38	176,274.48
Intangible assets	625,833.05	136,110.88	-	-	761,943.93
Total	12,775,670.55	656,293.34	-	224,773.26	13,207,190.63
Capital assets, net	$ 4,797,144.28	$1,800,196.35	$ -	$ -	$ 6,597,340.63

Capital asset activity for the year ended June 30, 2011, 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	11,034,803.66	11,048.00	-	-	11,045,851.66
Equipment	2,569,499.03	273,342.99	-	60,645.53	2,782,196.49
Library holdings	359,164.47	41,439.91	-	55,223.36	345,381.02
Intangible assets	1,306,387.19	-	-	-	1,306,387.19
Projects in progress	31,093.74	633,056.26	-	-	664,150.00
Total	16,729,796.56	958,887.16	-	115,868.89	17,572,814.83
Less accumulated depreciation/amortization:					
Land improvements and infrastructure	1,041,501.87	977.69	-	-	1,042,479.56
Buildings	8,305,414.93	299,074.20	-	-	8,604,489.13
Equipment	2,267,946.85	117,214.61	-	60,645.53	2,324,515.93
Library holdings	193,515.72	40,060.52	-	55,223.36	178,352.88
Intangible assets	489,722.17	136,110.88	-	-	625,833.05
Total	12,298,101.54	593,437.90	-	115,868.89	12,775,670.55
Capital assets, net	$ 4,431,695.02	$365,449.26	$ -	$ -	$ 4,797,144.28

NOTE 6. ACCOUNTS PAYABLE

Accounts payable included the following:

	June 30, 2012	June 30, 2011
Vendors payable	$699,131.01	$495,905.66
Unapplied student payments	-	7,741.97
Other payables	16,473.81	21,093.80
Total accounts payable	$715,604.82	$524,741.43

NOTE 7. LONG-TERM LIABILITIES

Long-term liabilities activity for the year ended June 30, 2012, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Payables:					
TSSBA debt:					
Bonds	$359,115.12	$ -	$ 25,874.85	$ 333,240.27	$ 26,835.18
Subtotal	359,115.12	-	25,874.85	333,240.27	26,835.18
Other liabilities:					
Compensated absences	621,669.35	177,022.21	89,347.99	709,343.57	149,033.73
Subtotal	621,669.35	177,022.21	89,347.99	709,343.57	149,033.73
Total long-term liabilities	$980,784.47	$177,022.21	$115,222.84	$1,042,583.84	$175,868.91

Long-term liabilities activity for the year ended June 30, 2011, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Payables:					
TSSBA debt:					
Bonds	$ 383,712.46	$ -	$ 24,597.34	$359,115.12	$ 25,874.85
Commercial paper	566,754.59	-	566,754.59	-	-
Subtotal	950,467.05	-	591,351.93	359,115.12	25,874.85
Other liabilities:					
Compensated absences	569,353.20	84,311.10	31,994.95	621,669.35	149,071.55
Subtotal	569,353.20	84,311.10	31,994.95	621,669.35	149,071.55
Total long-term liabilities	$1,519,820.25	$84,311.10	$623,346.88	$980,784.47	$174,946.40

TSSBA Debt - Bonds

Bonds, with interest rates ranging from 3.5% to 5%, 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 (see Note 9 for further detail) and certain other revenues and fees of the college, including state appropriations. 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, 2012, and $44,439.15 at June 30, 2011.

Debt service requirements to maturity for the college's portion of TSSBA bonds at June 30, 2012, are as follows:

Year Ending June 30	Principal	Interest	Total
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	30,652.59	14,309.36	44,961.95
2017	32,249.00	12,776.74	45,025.74
2018 – 2022	185,854.30	39,289.04	225,143.34
2023	-	2,061.88	2,061.88
Total	$333,240.27	$118,495.54	$451,735.81

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, 2012	June 30, 2011
Working capital	$ 555,747.79	$ 474,505.40
Encumbrances	99,157.91	161,384.44
Designated fees	108,865.87	209,227.01
Auxiliaries	816,248.91	635,709.29
Plant construction	2,690,289.88	2,907,919.59
Renewal and replacement of equipment	2,074,168.82	3,357,931.00
Undesignated	-	1,637,861.67
Total	$6,344,479.18	$9,384,538.40

NOTE 9. PLEDGED REVENUES

The college has pledged certain revenues and fees, including state appropriations, to repay $333,240.27 in revenue bonds issued in December 2008 (see Note 7 for further detail). Proceeds from the bonds provided financing for an energy savings performance project. The bonds are payable through 2023. Annual principal and interest payments on the bonds are expected to require .22% of available revenues. The total principal and interest remaining to be paid on the bonds at June 30, 2012, is $451,735.81. Principal and interest paid for fiscal year 2012 and total available revenues in that year were $44,737.57 and $20,403,849.88, 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 www.treasury.tn.gov/tcrs.

Funding Policy - Plan members are noncontributory. The college is required to contribute an actuarially determined rate. The current rate is 14.91% 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, 2012, 2011, and 2010, were $887,970.33, $831,071.19, and $742,187.85. Contributions met the requirements for each year.

B. Defined Contribution Plans

Optional Retirement Plans

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 contributions made by the college to the plans were $357,520.11 for the year ended June 30, 2012, and $310,464.52 for the year ended June 30, 2011. Contributions met the requirements for each year.

NOTE 11. OTHER POSTEMPLOYMENT 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 8-27-101, *Tennessee Code Annotated.* Prior to reaching age 65, all members have the option of choosing between the standard or partnership preferred provider organization (PPO) plan for healthcare benefits. Subsequent to age 65, members who are also in the state's retirement system may participate in a state-administered Medicare supplement that does not include pharmacy. The state makes on-behalf payments to the Medicare supplement plan for the college's eligible retirees; see Note 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 www.tn.gov/finance/act/cafr.shtml.

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 are subsidized 80%; retirees with 20 years of service but less than 30 years of service, 70%; and retirees with less than 20 years of service, 60%. Retirees in the Medicare Supplement Plan have flat-rate premium subsidies based on years of service. Retirees who are 65 years of age or older have flat-rate premium subsidies based on years of service. Retirees with 30 years of service receive $50 per month; retirees with 20 years of service but less than 30 years of service, $37.50; and retirees with 15 years of service but less than 20 years of service, $25.

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

	2012	2011
Annual required contribution (ARC)	$ 349,000.00	$ 386,000.00
Interest on the net OPEB obligation	47,082.00	44,549.00
Adjustment to the ARC	(49,976.00)	(42,196.00)
Annual OPEB cost	346,106.00	388,353.00
Amount of contribution	(248,919.00)	(201,282.00)
Increase in net OPEB obligation	97,187.00	187,071.00

Net OPEB obligation – beginning of year	1,177,041.00	989,970.00
Net OPEB obligation – end of year	$1,274,228.00	$1,177,041.00

Year-end	Plan	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation at Year-end
June 30, 2012	State Employee Group Plan	$346,106.00	71.9%	$1,274,228.00
June 30, 2011	State Employee Group Plan	$388,353.00	51.8%	$1,177,041.00
June 30, 2010	State Employee Group Plan	$427,726.00	38.1%	$989,970.00

Funded Status and Funding Progress

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

State Employee Group Plan

Actuarial valuation date	July 1, 2011	July 1, 2010
Actuarial accrued liability (AAL)	$3,576,000.00	$3,919,000.00
Actuarial value of plan assets	-	-
Unfunded actuarial accrued liability (UAAL)	$3,576,000.00	$3,919,000.00
Actuarial value of assets as a percentage of the AAL	0%	0%
Covered payroll (active plan members)	$7,723,752.00	$8,179,393.00
UAAL as percentage of covered payroll	46.3%	47.9%

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, 2011, actuarial valuation, the Projected Unit Credit actuarial cost method was used. The actuarial assumptions included a 4 percent investment rate of return (net of administrative expenses) and an annual healthcare cost trend rate of 9.25 percent in fiscal year 2012. The rate decreases to 8.75 percent in fiscal year 2013, and then reduces by decrements to an ultimate rate of 5 percent in fiscal year 2021. All rates include a 2.5 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 associated with casualty losses for general liability, automobile liability, professional medical 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, builder's risk (for construction projects starting prior to July 1, 2012) and crime and fidelity coverage on the state's officials and employees. The contractor is responsible for acquiring builder's risk insurance for all construction projects after June 30, 2012, thus builder's risk is no longer covered by the Risk Management Fund. For property coverage, the deductible for an individual state agency is the first $25,000 of losses. The Risk Management Fund is responsible for property losses for the annual aggregate deductible of $10 million for perils other than earthquakes and flood. Purchased insurance coverage is responsible for losses exceeding the $10 million annual aggregate deductible. For earthquake and flood, there is a deductible of $10 million per occurrence. The maximum insurance coverage is $750 million per year for perils other than earthquake and flood. The maximum flood insurance coverage is $50 million per occurrence, except there is only $25 million of coverage in flood zones A and V. The maximum earthquake insurance coverage is $50 million per occurrence. The amounts of settlements have not exceeded insurance coverage for each of the three past fiscal years.

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, 2012, and June 30, 2011, are presented in the *Tennessee Comprehensive Annual Financial Report*. The CAFR is available on the state's website at www.tn.gov/finance/act/cafr.shtml. 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, 2012, the Risk Management Fund held $97.2 million in cash and cash equivalents designated for payment of claims. At June 30, 2011, the Risk Management Fund held $107.6 million in cash and cash equivalents designated for payment of claims.

At June 30, 2012, the scheduled coverage for the college was $73,390,925.00 for buildings and $14,438,700.00 for contents. At June 30, 2011, the scheduled coverage for the college was $67,761,260.61 for buildings and $14,323,570.00 for contents.

The state has also set aside assets in the Employee Group Insurance Fund, an internal service fund, to provide a program of health insurance coverage for the employees of the state with the risk retained by the state. The college participates in the Employee Group Insurance Fund. The fund allocates the cost of providing claims servicing and claims payment by charging a premium to the college based on estimates of the ultimate cost of claims, including the 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. The dollar amount of unused sick leave was $3,619,091.96 at June 30, 2012, and $3,231,306.88 at June 30, 2011.

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 $140,535.96 and for personal property were $35,672.04 for the year ended June 30, 2012. The amounts for the year ended June 30, 2011, were $140,535.96 and $40,897.60. All operating leases are cancelable at the lessee's option.

Construction in Progress

At June 30, 2012, outstanding commitments under construction contracts totaled $1,025,755.37 for the HVAC Equipment and Controls Update project, the Technology Building Addition and Renovation project, the Humanities Lab Renovation project, the Student Services Interior Renovations project, and the ADA Adaptations project, of which $821,405.04 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, 2012, are as follows:

	Natural Classification					
Functional Classification	Salaries	Benefits	Other Operating	Scholarships	Depreciation	Total
Instruction	$ 6,061,461.90	$2,164,380.96	$2,118,487.16	$ -	$ -	$10,344,330.02
Public service	226,346.13	50,631.06	81,426.29	-	-	358,403.48
Academic support	912,157.01	406,336.67	134,047.75	-	-	1,452,541.43
Student services	1,398,004.74	561,118.98	1,061,362.34	-	-	3,020,486.06
Institutional support	1,929,056.19	799,514.49	1,204,939.50	-	-	3,933,510.18
Maintenance & operation	544,456.49	277,946.27	2,386,234.30	-	-	3,208,637.06
Scholarships & fellowships	-	-	-	6,696,123.86	-	6,696,123.86
Auxiliary	-	-	27,630.06	-	-	27,630.06
Depreciation	-	-	-	-	656,293.34	656,293.34

Total	$11,071,482.46	$4,259,928.43	$7,014,127.40	$6,696,123.86	$656,293.34	$29,697,955.49

The college's operating expenses for the year ended June 30, 2011, are as follows:

	Natural Classification					
Functional Classification	Salaries	Benefits	Other Operating	Scholarships	Depreciation	Total
Instruction	$5,544,454.03	$1,998,975.09	$1,754,125.87	$ -	$ -	$ 9,297,554.99
Public service	136,374.14	54,677.17	37,992.92	-	-	229,044.23
Academic support	795,821.02	357,935.63	123,219.67	-	-	1,276,976.32
Student services	1,358,044.99	612,262.07	971,167.67	-	-	2,941,474.73
Institutional support	1,600,310.30	655,965.27	722,511.94	-	-	2,978,787.51
Operation & maintenance	465,199.11	244,814.79	2,426,519.75	-	-	3,136,533.65
Scholarships & fellowships	-	-	-	6,574,175.48	-	6,574,175.48
Auxiliary	-	-	32,355.39	-	-	32,355.39
Depreciation	-	-	-	-	593,437.90	593,437.90
Total	$9,900,203.59	$3,924,630.02	$6,067,893.21	$6,574,175.48	$593,437.90	$27,060,340.20

Expenses initially incurred by the academic support function as a result of providing internal services to the other functional classifications were allocated to the other functional areas by reducing the academic support function's operating expenses by the total amount of salaries, benefits, and operating expenses incurred in the provision of these services, and allocating this amount to the other functional areas' operating expenses on the basis of usage. As a result of this process, expenses totaling $1,112,860.56 for the year ended June 30, 2012, and $689,374.65 for the year ended June 30, 2011, were reallocated from academic support to the other functional areas.

NOTE 15. ON-BEHALF PAYMENTS

During the year ended June 30, 2012, the State of Tennessee made payments of $23,147.96 on behalf of the college for retirees participating in the Medicare Supplement Plan. The amount for the year ended June 30, 2011, was $21,623.00. 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 www.tn.gov/finance/act/cafr.shtml.

NOTE 16. 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 38-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, 2012, the foundation made distributions of $41,410.00 to or on behalf of the college for both restricted and unrestricted purposes. During the year ended June 30, 2011, the foundation made distributions of $112,862.00 to or on behalf of the college for both restricted and unrestricted purposes. Complete financial statements for the foundation can be obtained from Adam Lowe, 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, 2012, and at June 30, 2011.

	Total Fair Value at June 30, 2012	Quoted Prices Level 1	Significant Other Inputs Level 2	Significant Unobservable Inputs Level 3
Assets:				
Cash	$ 173,987.00	$ 173,987.00	$ -	$ -
Investments	6,372,816.00	6,062,039.00	310,777.00	-
Pledges receivable	124,787.00	-	-	124,787.00
Interest receivable	4,949.00	4,949.00	-	-
Total assets	$6,676,539.00	$6,240,975.00	$310,777.00	$124,787.00
Liabilities:				
Accounts payable	$ 2,926.00	$ 2,926.00	$ -	$ -
Total liabilities	$ 2,926.00	$ 2,926.00	$ -	$ -

	Total Fair Value at June 30, 2011	Quoted Prices Level 1	Significant Other Inputs Level 2	Significant Unobservable Inputs Level 3
Assets:				
Cash	$ 231,478.00	$ 231,478.00	$ -	$ -
Investments	6,295,087.00	5,881,482.00	413,605.00	-
Pledges receivable	167,784.00	-	-	167,784.00
Interest receivable	4,799.00	4,799.00	-	-
Total assets	$6,699,148.00	$6,117,759.00	$413,605.00	$167,784.00
Liabilities:				
Accounts payable	$ 64,643.00	$ 64,643.00	$ -	$ -
Total liabilities	$ 64,643.00	$ 64,643.00	$ -	$ -

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

At June 30, 2012	Beginning Balance	Total Gains/(Losses), Realized and Unrealized	Transfers In/(Out) of Level 3	Ending Balance
Assets:				
Pledges receivable	$ 167,784.00	$ 15,476.00	$ (58,473.00)	$ 124,787.00

At June 30, 2011	Beginning Balance	Total Gains/(Losses), Realized and Unrealized	Transfers In/(Out) of Level 3	Ending Balance
Assets:				
Pledges receivable	$ 8,952.00	$ 201,746.00	$ (42,914.00)	$ 167,784.00

Cash

Cash consists of demand deposit accounts. The bank balances of deposits at June 30, 2012, were entirely insured. The bank balances of deposits at June 30, 2011, 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, 2012, were as follows:

	Cost	Fair Value
Cash management funds	$ 145,201.00	$ 145,201.00
Certificates of deposit	82,355.00	82,355.00
U.S. agency obligations	225,195.00	228,422.00
Mutual bond funds	1,248,755.00	1,263,682.00
Mutual equity funds	3,304,785.00	3,403,358.00
Common stock	1,097,183.00	1,232,638.00
Closely held equity investments	14,850.00	17,160.00
Total investments	$6,118,324.00	$6,372,816.00

Investments held at June 30, 2011, were as follows:

	Cost	Fair Value
Cash management funds	$ 203,282.00	$ 203,282.00
Certificates of deposit	83,588.00	83,588.00
U.S. agency obligations	275,195.00	278,973.00
Corporate bonds	49,750.00	51,044.00
Mutual bond funds	655,964.00	657,866.00
Mutual equity funds	3,608,016.00	3,728,530.00

Common stock	1,111,473.00	1,274,644.00
Closely held equity investments	14,850.00	17,160.00
Total investments	$6,002,118.00	$6,295,087.00

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, 2012	June 30, 2011
Current pledges	$ 54,089.00	$ 60,578.00
Pledges due in one to five years	85,500.00	131,984.00
Subtotal	139,589.00	192,562.00
Less discount to net present value	14,802.00	24,778.00
Total pledges receivable, net	$124,787.00	$167,784.00

Endowments

The Cleveland State Community College Foundation's endowment consists of approximately 245 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 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 the 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, 2012

	Permanently Restricted
Donor-restricted endowment funds	$5,018,007.00

Composition of Endowment by Net Asset Class
As of June 30, 2011

	Permanently Restricted
Donor-restricted endowment funds	$4,940,390.00

Changes in Endowment Net Assets
for the Fiscal Year Ended June 30, 2012

	Permanently Restricted
Endowment net assets, beginning of year	$4,940,390.00
Contributions	76,470.00
Transfers	1,147.00
Endowment net assets, end of year	$5,018,007.00

Changes in Endowment Net Assets
for the Fiscal Year Ended June 30, 2011

	Permanently Restricted
Endowment net assets, beginning of year	$4,830,431.00
Contributions	109,959.00

Endowment net assets, end of year	$4,940,390.00

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% 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 four-year rolling average of the fair 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, 2011	State Employee Group Plan	$ -	$3,576,000.00	$3,576,000.00	0%	$7,723,752.00	46.30%
July 1, 2010	State Employee Group Plan	$ -	$3,919,000.00	$3,919,000.00	0%	$8,179,393.00	47.91%
July 1, 2009	State Employee Group Plan	$ -	$4,419,000.00	$4,419,000.00	0%	$8,652,706.00	51.07%

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, 2012, AND JUNE 30, 2011

	Year Ended June 30, 2012	Year Ended June 30, 2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Gifts and contributions	$ 210,483.00	$ 273,722.00
Payments to suppliers and vendors	(73,471.00)	(66,830.00)
Payments for scholarships and fellowships	(171,003.00)	(197,082.00)
Payments to Cleveland State Community College	(102,700.00)	(52,655.00)
Net cash used by operating activities	(136,691.00)	(42,845.00)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Private gifts for endowment purposes	76,470.00	109,959.00
Net cash provided by noncapital financing activities	76,470.00	109,959.00
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment income	147,699.00	137,054.00
Proceeds from sales and maturities of investments	3,970,342.00	6,444,832.00
Purchases of investments	(4,115,311.00)	(6,580,250.00)
Net cash provided by investing activities	2,730.00	1,636.00
Net increase (decrease) in cash	(57,491.00)	68,750.00
Cash - beginning of year	231,478.00	162,728.00
Cash - end of year	$ 173,987.00	$ 231,478.00
Reconciliation of operating income to net cash used by operating activities:		
Operating income	$ 63,585.00	$ 224,523.00
Adjustments to reconcile operating income to net cash used by operating activities:		
Endowment income per spending plan	(181,556.00)	(168,993.00)
Change in assets and liabilities:		
Receivables, net	42,997.00	(158,832.00)
Accounts payable	(61,717.00)	60,457.00
Net cash used by operating activities	$ (136,691.00)	$ (42,845.00)
Noncash investing, capital, or financing transactions		
Unrealized gain (loss) on investments	$ (38,535.00)	$ 490,033.00