STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY

TENNESSEE BOARD OF REGENTS
CLEVELAND STATE COMMUNITY COLLEGE

Financial and Compliance Audit Report

For the Years Ended June 30, 2014, and June 30, 2013

Justin P. Wilson, Comptroller

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STATE OF TENNESSEE
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August 4, 2015

The Honorable Bill Haslam, Governor
Members of the General Assembly
The Honorable John G. Morgan, Chancellor
Dr. William A. Seymour, President

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, 2014, and June 30, 2013. You will note from the independent auditor’s report that unmodified opinions were given on the fairness of the presentation of the financial statements.

Consideration of the internal control over financial reporting and tests of compliance disclosed certain deficiencies, which are detailed in the Findings and Recommendations section of this report. The college’s management has responded to the audit findings; the responses are included following each finding. The Division of State Audit will follow up the audit to examine the application of the procedures instituted because of the audit findings.

Sincerely,

Deborah V. Loveless

Deborah V. Loveless, CPA
Director

15/048

Audit Report
Tennessee Board of Regents
Cleveland State Community College
For the Years Ended June 30, 2014, and June 30, 2013

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For the Years Ended June 30, 2014, and June 30, 2013

Opinions on the Financial Statements

The opinions on the financial statements are unmodified.

Audit Findings

Management Needs to Improve Procedures for Preparing and Reviewing Financial Statements to Prevent Errors
Cleveland State Community College's procedures for preparation of its financial statements should be improved to ensure the accuracy and proper classification of the information presented in its financial statements. This deficiency resulted in several significant reporting errors (page 46).

Bank Reconciliations Should Be Prepared Promptly and Correctly
The college's accounting staff is not preparing complete and accurate bank account reconciliations on a timely basis (page 48).

Cleveland State Community College Did Not Provide Adequate Internal Controls in Four Specific Areas
The college did not design and monitor internal controls in four specific areas (page 50).

Cleveland State Community College, the Tennessee Board of Regents, and the Tennessee Department of Finance and Administration Did Not Provide Adequate Internal Controls in One Specific Area
The college, the Tennessee Board of Regents, and the Tennessee Department of Finance and Administration did not design and monitor internal controls in one specific area (page 51).

STATE OF TENNESSEE
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Independent Auditor's Report

The Honorable Bill Haslam, Governor
Members of the General Assembly
The Honorable John G. Morgan, Chancellor
Dr. William A. Seymour, President

Report on the Financial Statements

We have audited the accompanying 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, 2014, and June 30, 2013, and the related notes to the financial statements, which collectively comprise the basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements, based on our audit. We did not audit the financial statements of the Cleveland State Community College Foundation, a discretely presented component unit. Those statements were audited by other auditors, whose report has been furnished to us. Our opinion, insofar as it relates to the amounts included for the foundation, is based solely 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 *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, based on our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of Cleveland State Community College, and its discretely presented component unit as of June 30, 2014, and June 30, 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

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, 2014, and June 30, 2013, and the changes in financial position and cash flows thereof for the years then ended, in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

As discussed in Note 1, the college implemented GASB Statement 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, during the year ended June 30, 2013. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 through 14 and the schedule of funding progress on page 41 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, who 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, the following material departure from prescribed guidelines exists. In its management's discussion and analysis, management has omitted condensed financial information comparing the 2013 and 2012 fiscal years. We do not express an opinion or provide any assurance on the information.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the college's basic financial statements. The schedules of cash flows – component unit on page 42 are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The schedules of cash flows – component unit are the responsibility of the college's management and were derived from, and relate directly to, the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied 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 basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America by us and other auditors. In our opinion, based on our audit and the procedures performed as described above, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 9, 2015, on our consideration of the college's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the college's internal control over financial reporting and compliance.

Deborah V. Loveless

Deborah V. Loveless, CPA
Director
June 9, 2015

Tennessee Board of Regents
CLEVELAND STATE COMMUNITY COLLEGE
Management's Discussion and Analysis

Introduction

This section of Cleveland State Community College's financial report presents a discussion and analysis of the financial performance of the college during the fiscal year ended June 30, 2014, with comparative information presented for the fiscal year ended June 30, 2013. 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 financial statements, and the notes to the financial statements.

The college has one discretely presented component unit, the Cleveland State Community College Foundation. More detailed information about the foundation is presented in Note 15 to the financial statements. This discussion and analysis focuses on the college and does not include the foundation.

Overview of the Financial Statements

The financial statements have been prepared in accordance with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB), which establishes standards for external financial reporting for public colleges and universities. The financial statements are presented on a consolidated basis to focus on the college as a whole. The full scope of the college's activities is considered to be a single business-type activity and, accordingly, is reported within a single column in the basic financial statements.

The college's financial report includes the statement of net position; the statement of revenues, expenses, and changes in net position; and the statement of cash flows. Notes to the financial statements are also presented to provide additional information that is essential to a full understanding of the financial statements.

The Statement of Net Position

The statement of net position is a point-in-time financial statement. The statement of net position presents the financial position of the college at the end of the fiscal year. To aid the reader in determining the college's ability to meet immediate and future obligations, the statement includes all assets, liabilities, and net position of the college and segregates the assets and liabilities into current and noncurrent components. Current assets are those that are available to satisfy current liabilities, inclusive of assets that will be converted to cash within one year. Current liabilities are those that will be paid within one year. The statement of net position is prepared under the accrual basis of accounting; assets and liabilities are recognized when goods or services are provided or received, despite when cash is actually exchanged.

From the data presented, readers of the statement are able to determine the assets available to continue the operations of the college. They are also able to determine how much the college owes vendors, lenders, and others. Net position represents the difference between the college's assets and liabilities and is one indicator of the college's current financial condition.

The statement of net position also indicates the availability of net position for expenditure by the college. Net position is divided into three major categories. The first category, net investment in capital assets, represents the college's total investment in property, plant, and equipment, net of outstanding debt obligations related to these capital assets. To the extent debt has been incurred but not yet expended for capital assets, such amounts are not included. The next category is restricted net position, which is subdivided into two categories, nonexpendable and expendable. Nonexpendable restricted net position includes endowment and similar resources whose use is limited by donors or other outside sources and as a condition of the gift, the principal is to be maintained in perpetuity. Expendable restricted net position is 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 resources. The final category is unrestricted net position. Unrestricted net position is available to the college for any lawful purpose of the college.

The following table summarizes the college's assets, liabilities, and net position at June 30, 2014, and June 30, 2013.

Summary of Net Position
(in thousands of dollars)

	2014	2013
Assets:		
Current assets	$5,909	$7,115
Capital assets, net	9,110	7,894
Other assets	3,136	3,198
Total assets	**18,155**	**18,207**
Liabilities:		
Current liabilities	3,186	3,147
Noncurrent liabilities	2,201	2,214
Total liabilities	**5,387**	**5,361**
Net position:		
Net investment in capital assets	9,110	7,894
Restricted – expendable	167	127
Unrestricted	3,491	4,825
Total net position	**$ 12,768**	**$ 12,846**

Comparison of Fiscal Year 2014 to Fiscal Year 2013

Current assets decreased in fiscal year 2014 by $1,205,308. This decrease was a result of the following:

- Current cash decreased $372,075. This was due to the use of carryover funds from 2013 and a decrease in enrollment.
- Accounts and grants receivable decreased $861,711 due to a change in presentation of the receivables in fiscal year 2013.
- Due from primary government increased $14,500 due to the timing in receipt of funds.

Noncurrent assets increased $1,153,109.

- Noncurrent cash decreased $62,263 due to the expenditure of plant funds for several campus renovation projects.
- Capital assets increased $1,215,372. This was due to the purchase of equipment, installation of a fire alarm system, and several HVAC projects.

Current liabilities increased in fiscal year 2014 by $39,166.

- Accounts payable decreased $198,858 due to a decrease in year-end expenditures.
- Accrued liabilities increased $151,443 due to the timing of payroll benefit payments to vendors.
- Unearned revenue decreased $5,709 due to a decrease in summer enrollment.
- Compensated absences increased $15,410 due to the yearly accrual of leave.
- Deposits held in custody for others increased $102,941 due to an increase in the LGIP investment account for the College of Applied Technology at Athens.

Noncurrent liabilities decreased $13,244 in fiscal year 2014.

- An increase occurred with the recording of other postemployment benefits (OPEB) obligations for 2014 in the amount of $88,748.
- Compensated absences decreased $72,574 as a result of several retirements.
- Long-term liabilities decreased $29,418 as a result of the annual TSSBA payments.

The net position of the college decreased overall $78,122 in fiscal year 2014.

- Net investment in capital assets increased $1,215,372 due to the replacement of several HVAC systems, the installation of a fire alarm system, and the purchase of equipment.
- Unrestricted net position decreased $1,334,030 due to funds spent on the fire alarm system and other campus improvements.

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

The statement of revenues, expenses, and changes in net position presents the results of operations for the fiscal year. Revenues and expenses are recognized when earned or incurred, regardless of when cash is received. The statement indicates whether the college's financial condition has improved or deteriorated during the fiscal year. The statement presents the revenues received by the college, both operating and nonoperating; the expenses paid by the college, operating and nonoperating; and any other revenues, expenses, gains, or losses received or spent by the college.

Generally speaking, operating revenues are received for providing goods and services to the various customers and constituencies of the college. Operating expenses are those expenses paid to acquire or produce the goods and services provided in return for the operating revenues, and to carry out the mission of the college. Nonoperating revenues are revenues received for which goods and services are not provided directly to the payer. Although Cleveland State Community College is dependent upon state appropriations and gifts to fund educational and general operations, under GASB standards these funding sources are reported as nonoperating revenues, as is investment income. As a result, the college has historically reported an excess of operating expenses over operating revenues, resulting in an operating loss. Therefore, the "increase (decrease) in net position" is more indicative of overall financial results for the year.

A summary of the college's revenues, expenses, and changes in net position for the year ended June 30, 2014, and the previous year follows.

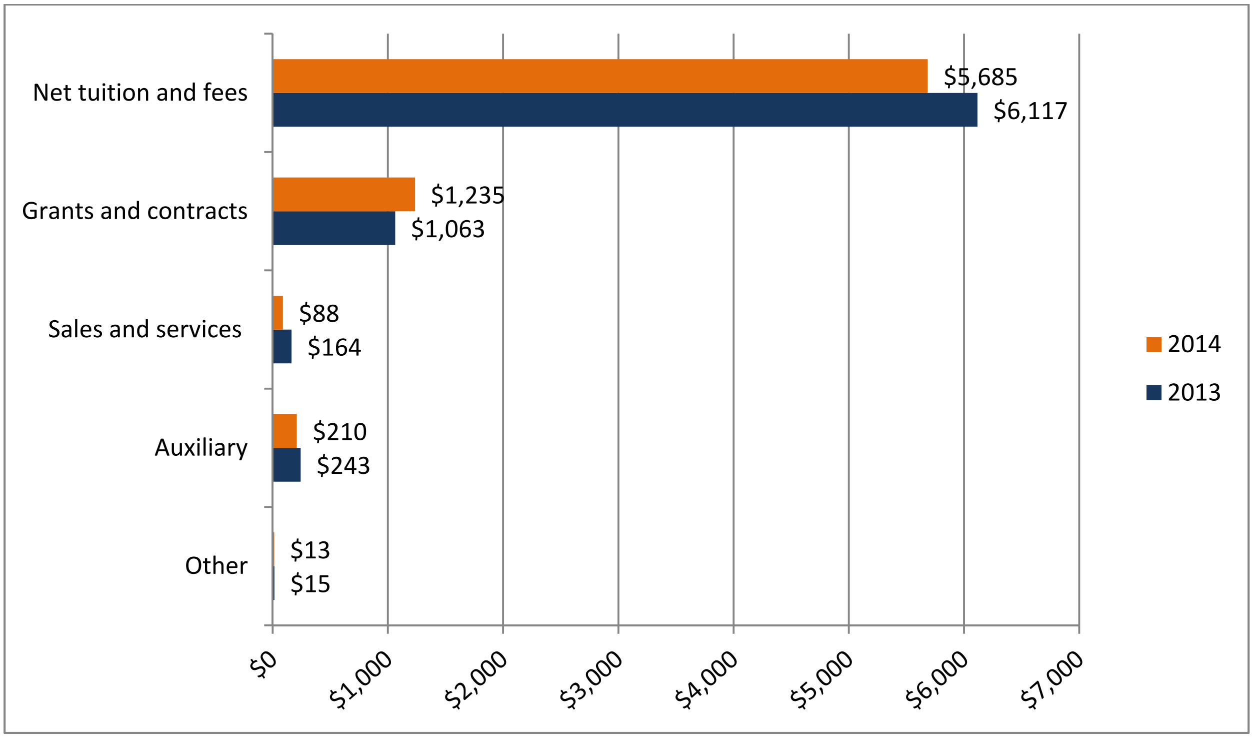
Summary of Revenues, Expenses, and Changes in Net Position
(in thousands of dollars)

	2014	2013
Operating revenues	$ 7,232	$ 7,602
Operating expenses	27,624	28,448
Operating loss	(20,392)	(20,846)
Nonoperating revenues and expenses	19,198	18,829
Income (loss) before other revenues, expenses, gains, or losses	(1,194)	(2,017)
Other revenues, expenses, gains, or losses	1,116	1,795
Increase (decrease) in net position	(78)	(222)
Net position at beginning of year	12,846	13,068
Net position at end of year	$12,768	$12,846

Operating Revenues

The following summarizes the operating revenues by source that were used to fund operating activities for the last two fiscal years:

Operating Revenues
(in thousands of dollars)



Comparison of Fiscal Year 2014 to Fiscal Year 2013

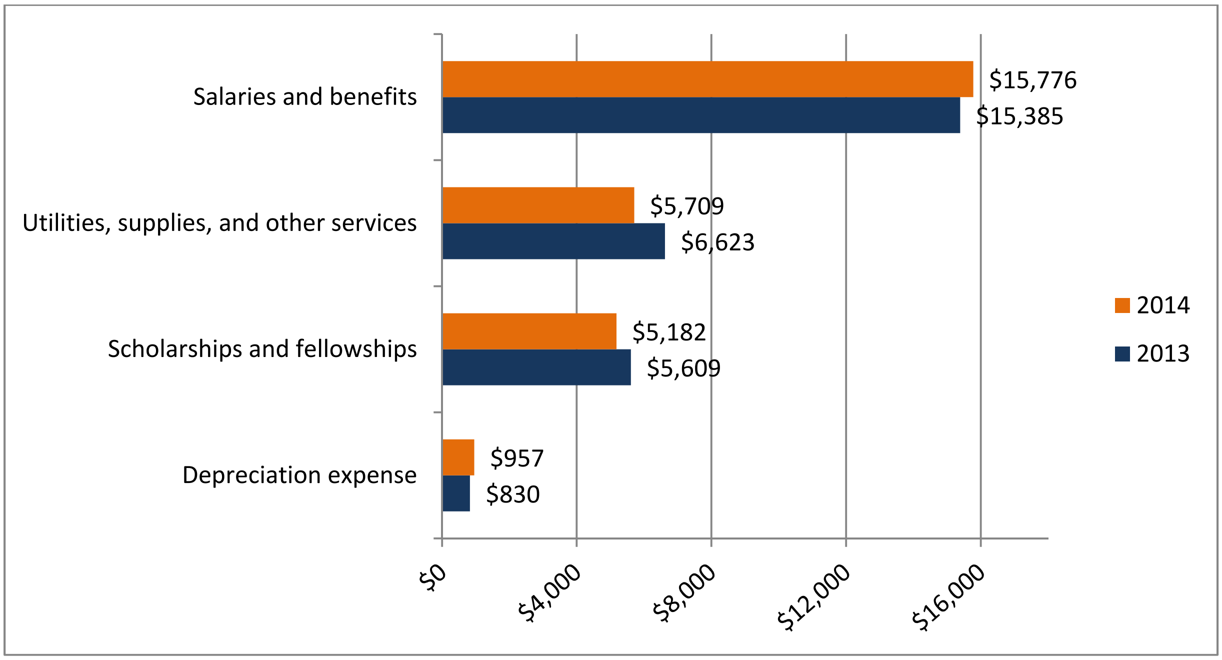
Operating revenues decreased $370,550 overall in 2014.

- Tuition and fees increased $431,713 due to an increase in maintenance fees but was offset by an increase in scholarship allowance of $268,130.
- Governmental grants and contracts increased $83,939. A federal Title III restricted grant and an RX Tennessee grant were the primary reason for the increase.
- Nongovernment grants and contracts increased $87,576 due to new workforce training contracts with local industries.
- Sales and services of other activities decreased $68,744 due to a decrease in rental income to the campus, a reduction in revenue provided by GED testing fees, and a decrease in the revenue from the sale of surplus property.

Operating Expenses

Operating expenses may be reported by nature or function. The college has chosen to report the expenses in their natural classification on the statement of revenues, expenses, and changes in net position and has displayed the functional classification in the notes to the financial statements. The following summarizes the operating expenses by natural classifications for the last two fiscal years:

Operating Expenses by Natural Classification
(in thousands of dollars)



Comparison of Fiscal Year 2014 to Fiscal Year 2013

Operating expenses decreased in fiscal year 2014.

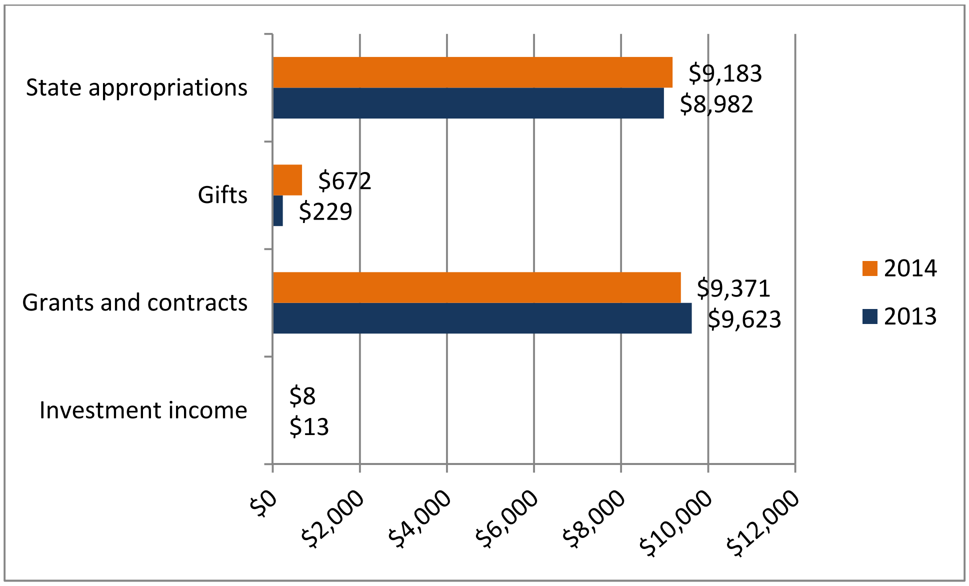
- Salaries increased $235,336. This was due to a 2.5% raise and the payout salary on several retiring employees.
- Benefits increased $154,988 due to the benefits on the raise and an increase in insurance premiums.
- Utilities, supplies, and other services decreased $913,721 in fiscal year 2014 due to one-time renovations of student services areas, equipment purchases, and the completion of the addition to the Technology Building in 2013.
- Scholarships and fellowships decreased $427,187. Scholarships decreased due to an enrollment decrease in summer school. The increase in scholarship allowance of $268,130 caused the additional decrease.

- Depreciation increased $126,384 due to the recording of 2014 depreciation on assets and the first time depreciation on new building improvements.

Nonoperating Revenues and Expenses

Certain revenue sources that the college relies on to provide funding for operations, including state noncapital appropriations, certain gifts and grants, and investment income, are defined by the GASB as nonoperating. Nonoperating expenses include financing costs on noncapital debt. The following summarizes the college's nonoperating revenues for the last two fiscal years:

Nonoperating Revenues
(in thousands of dollars)



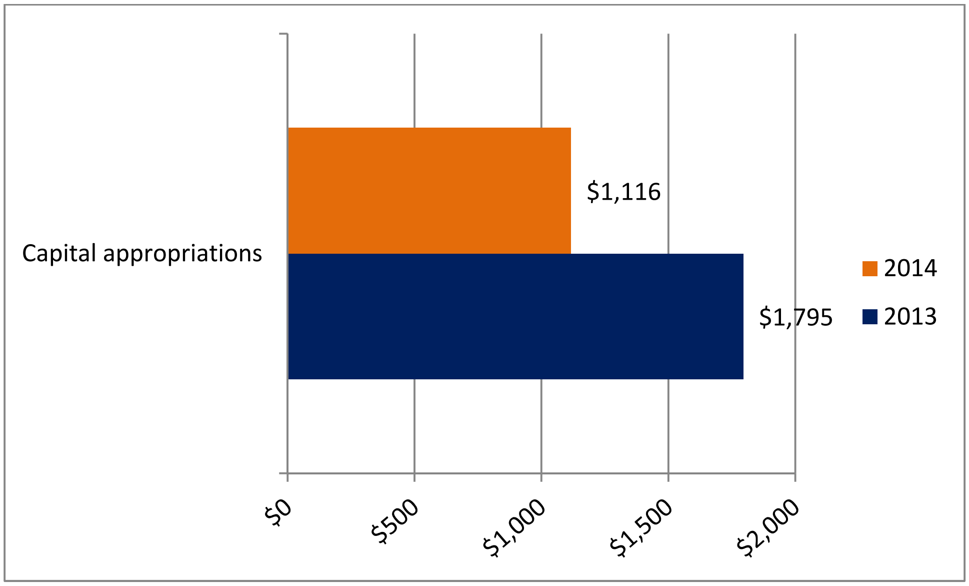
Comparison of Fiscal Year 2014 to Fiscal Year 2013

- State appropriations increased due to the effects of the new Tennessee Higher Education Commission formula outcomes and state funding of the 2.5% raise and the employee health insurance increase.
- Gifts increased $442,653 due to an increase in gifts to the college from the Cleveland State Community College Foundation for workforce development and scholarships.
- Grants and contracts decreased $251,674 due to a decrease in federal and state financial aid awards.

Other Revenues

This category is composed of state appropriations for capital purposes. This amount was as follows for the last two fiscal years:

Other Revenues
(in thousands of dollars)



Comparison of Fiscal Year 2014 to Fiscal Year 2013

- Capital appropriations decreased $678,970 due to the state funding of an addition to the Technology Building in 2013.

Capital Assets and Debt Administration

Capital Assets

Cleveland State Community College had $9,109,488 invested in capital assets, net of accumulated depreciation of $14,763,051 at June 30, 2014; and $7,894,116 invested in capital assets, net of accumulated depreciation of $13,934,054 at June 30, 2013. Depreciation charges totaled $956,803 and $830,419 for the years ended June 30, 2014, and June 30, 2013, respectively.

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

	2014	2013
Land	$ 268	$ 268
Land improvements & infrastructure	84	96
Buildings	5,784	5,242
Equipment	1,475	1,434
Library holdings	172	168
Intangible assets	272	408

Projects in progress	1,055	278
Total	$9,110	$7,894

Comparison of Fiscal Year 2014 to Fiscal Year 2013

Significant additions to capital assets occurred in fiscal year 2014. These increases were due to the addition of new HVAC systems in buildings, installation of a fire alarm and communication system, and the purchase of equipment.

Intangible assets decreased $136,000 due to the recording of depreciation for fiscal year 2014.

Projects in progress increased due to the unfinished HVAC replacement project in the student center and the incomplete fire alarm system. Both of these projects were still in progress as of June 30, 2014.

At June 30, 2014, outstanding commitments under construction contracts totaled $331,498 for various renovations and repairs of buildings and infrastructure. Future state capital outlay appropriations will fund $265,762 of these costs.

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

Debt

The college had $278,174 and $306,405 in debt outstanding at June 30, 2014, and June 30, 2013, respectively. The table below summarizes these amounts by type of debt instrument.

Outstanding Debt Schedule

	2014	**2013**
Bonds payable	$ 278,174	$ 306,405

The Tennessee State School Board Authority (TSSBA) issued bonds with interest rates ranging from 3.5% to 5.0% due serially to 2023, on behalf of Cleveland State Community College. The college is responsible for the debt service of these bonds. The current portion of the $278,174 outstanding at June 30, 2014, is $29,418.

The ratings on debt issued by the Tennessee State School Bond Authority at June 30, 2014, were as follows:

Fitch	AA+
Moody’s Investor Service	Aa1
Standard & Poor’s	AA

More information about the college’s long-term liabilities is presented in Note 7 to the financial statements.

Economic Factors That Will Affect the Future

The Tennessee Board of Regents has approved an increase of 5.8% in tuition for the upcoming 2014-15 academic year.

The economic position of Cleveland State Community College is closely tied to that of the State of Tennessee. State appropriations are a large source of funding for the college. Shortfalls in state revenues may have a significant impact on the college’s revenue.

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.

Tennessee Board of Regents
CLEVELAND STATE COMMUNITY COLLEGE
Statements of Net Position
June 30, 2014, and June 30, 2013

	Cleveland State Community College		Component Unit - Cleveland State Community College Foundation	
	June 30, 2014	June 30, 2013	June 30, 2014	June 30, 2013
Assets				
Current assets:				
Cash and cash equivalents (Notes 2, 3, and 15)	$ 5,028,981.66	$ 5,401,056.33	$ 79,143.39	$ 215,111.00
Accounts and grants receivable (net) (Note 4)	831,397.56	1,693,108.06	-	-
Due from component unit	2,650.54	2,649.71	-	-
Pledges receivable (net) (Note 15)	-	-	102,358.49	104,245.00
Due from primary government	14,500.00	-	-	-
Prepaid expenses	31,640.47	17,664.36	-	-
Accrued interest receivable	-	-	6,651.00	5,915.00
Total current assets	5,909,170.23	7,114,478.46	188,152.88	325,271.00
Noncurrent assets:				
Cash and cash equivalents (Notes 2, 3, and 15)	3,135,900.08	3,198,163.03	137,704.61	224,394.00
Investments (Note 15)	-	-	7,896,912.00	6,902,921.00
Pledges receivable (net) (Note 15)	-	-	7,822.51	68,621.00
Capital assets (net) (Note 5)	9,109,487.89	7,894,116.08	-	-
Total noncurrent assets	12,245,387.97	11,092,279.11	8,042,439.12	7,195,936.00
Total assets	18,154,558.20	18,206,757.57	8,230,592.00	7,521,207.00
Liabilities				
Current liabilities:				
Accounts payable (Note 6)	444,888.64	643,747.09	185.46	237.29
Accrued liabilities	487,017.38	335,573.94	-	-
Unearned revenue	444,002.64	449,711.23	-	-
Due to grantors	1,991.11	29,238.90	-	-
Due to college	-	-	2,650.54	2,649.71
Compensated absences (Note 7)	176,616.87	161,206.71	-	-
Long-term liabilities, current portion (Note 7)	29,417.85	28,231.35	-	-
Deposits held in custody for others	1,601,737.24	1,498,796.27	-	-
Total current liabilities	3,185,671.73	3,146,505.49	2,836.00	2,887.00
Noncurrent liabilities:				
Net OPEB obligation (Note 10)	1,479,535.00	1,390,787.00	-	-
Compensated absences (Note 7)	472,577.69	545,151.83	-	-
Long-term liabilities (Note 7)	248,755.89	278,173.74	-	-
Total noncurrent liabilities	2,200,868.58	2,214,112.57	-	-
Total liabilities	5,386,540.31	5,360,618.06	2,836.00	2,887.00
Net position				
Net investment in capital assets	9,109,487.89	7,894,116.08	-	-
Restricted for:				
Nonexpendable:				
Scholarships and fellowships	-	-	4,974,877.00	4,933,192.00
Instructional department uses	-	-	128,641.00	176,867.00
Other	-	-	119,054.00	58,285.00
Expendable:				
Scholarships and fellowships	16,982.54	26,228.47	2,481,977.00	1,515,651.00
Instructional department uses	81,183.48	41,312.75	193,570.00	197,339.00
Capital projects	-	-	-	300,973.00
Other	69,663.38	59,752.09	154,699.00	150,000.00
Unrestricted	3,490,700.60	4,824,730.12	174,938.00	186,013.00
Total net position	$ 12,768,017.89	$ 12,846,139.51	$ 8,227,756.00	$ 7,518,320.00

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

Tennessee Board of Regents
CLEVELAND STATE COMMUNITY COLLEGE
Statements of Revenues, Expenses, and Changes in Net Position
For the Years Ended June 30, 2014, and June 30, 2013

	Cleveland State Community College		Component Unit - Cleveland State Community College Foundation	
	Year Ended June 30, 2014	Year Ended June 30, 2013	Year Ended June 30, 2014	Year Ended June 30, 2013
Revenues				
Operating revenues:				
Student tuition and fees (net of scholarship allowances of $5,414,078.00 for the year ended June 30, 2014, and $5,145,947.06 for the year ended June 30, 2013)	$ 5,685,488.27	$ 6,117,201.39	$ -	$ -
Gifts and contributions	-	-	349,550.00	269,504.00
Endowment income (per spending plan)	-	-	244,011.00	204,311.00
Governmental grants and contracts	1,134,509.10	1,050,569.79	-	-
Nongovernmental grants and contracts (including $3,332.96 from component unit for the year ended June 30, 2014, and $3,500.00 for the year ended June 30, 2013)	100,195.32	12,618.98	-	-
Sales and services of educational activities	9,303.70	16,250.57	-	-
Sales and services of other activities	78,736.89	147,481.28	-	-
Auxiliary enterprises:				
Bookstore	206,161.68	236,699.14	-	-
Food service	1,478.73	3,413.49	-	-
Other auxiliaries	2,648.74	3,088.23	-	-
Other operating revenues	13,349.17	15,099.08	-	-
Total operating revenues	7,231,871.60	7,602,421.95	593,561.00	473,815.00
Expenses				
Operating expenses (Note 13):				
Salaries and wages	11,367,850.07	11,132,514.56	62,739.00	61,812.00
Benefits	4,407,695.15	4,252,707.06	20,251.00	20,038.00
Utilities, supplies, and other services	5,709,248.48	6,622,969.00	44,458.00	56,747.00
Scholarships and fellowships	5,182,230.45	5,609,417.93	281,295.00	101,962.00
Depreciation expense	956,803.27	830,419.40	-	-
Payments to or on behalf of Cleveland State Community College (Note 15)	-	-	625,648.00	184,278.00
Total operating expenses	27,623,827.42	28,448,027.95	1,034,391.00	424,837.00
Operating income (loss)	(20,391,955.82)	(20,845,606.00)	(440,830.00)	48,978.00
Nonoperating revenues (expenses)				
State appropriations	9,182,651.00	8,982,209.00	-	-
Gifts (including $622,314.79 from component unit for the year ended June 30, 2014, and $180,777.81 for the year ended June 30, 2013)	671,513.14	228,860.30	-	-
Grants and contracts	9,371,019.15	9,622,693.11	-	-
Investment income (net of investment expense of $47,711.00 for the component unit for the year ended June 30, 2014, and $39,559.00 for the year ended June 30, 2013)	7,638.37	12,829.54	999,285.00	552,123.00
Interest on noncapital debt	(16,405.34)	(17,734.73)	-	-
College support (Note 15)	-	-	96,753.00	93,269.00
Other nonoperating revenues	(18,708.00)	-	-	-
Net nonoperating revenues (expenses)	19,197,708.32	18,828,857.22	1,096,038.00	645,392.00
Income (loss) before other revenues, expenses, gains, or losses	(1,194,247.50)	(2,016,748.78)	655,208.00	694,370.00
Capital appropriations	1,116,125.88	1,795,096.39	-	-
Additions to permanent endowments	-	-	54,228.00	150,337.00
Total other revenues	1,116,125.88	1,795,096.39	54,228.00	150,337.00
Increase (decrease) in net position	(78,121.62)	(221,652.39)	709,436.00	844,707.00
Net position - beginning of year	12,846,139.51	13,067,791.90	7,518,320.00	6,673,613.00
Net position - end of year	$ 12,768,017.89	$ 12,846,139.51	$ 8,227,756.00	$ 7,518,320.00

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

Tennessee Board of Regents
CLEVELAND STATE COMMUNITY COLLEGE
Statements of Cash Flows
For the Years Ended June 30, 2014, and June 30, 2013

	Year Ended June 30, 2014	Year Ended June 30, 2013
Cash flows from operating activities		
Tuition and fees	$ 5,638,144.69	$ 5,798,964.44
Grants and contracts	2,084,085.32	325,836.40
Sales and services of educational activities	9,303.70	16,250.57
Sales and services of other activities	78,094.21	143,264.96
Payments to suppliers and vendors	(5,937,160.26)	(6,565,260.37)
Payments to employees	(11,405,056.95)	(11,132,517.03)
Payments for benefits	(4,104,255.83)	(4,139,101.17)
Payments for scholarships and fellowships	(5,178,209.28)	(5,612,270.49)
Auxiliary enterprise charges:		
Bookstore	225,412.46	221,060.41
Food services	1,478.73	4,403.49
Other auxiliaries	2,648.74	3,088.23
Other receipts	13,349.17	15,099.08
Net cash used by operating activities	(18,572,165.30)	(20,921,181.48)
Cash flows from noncapital financing activities		
State appropriations	9,146,000.00	8,972,750.29
Gifts and grants received for other than capital or endowment purposes	9,990,474.31	9,810,270.34
Federal student loan receipts	6,405,529.00	7,717,392.00
Federal student loan disbursements	(6,405,529.00)	(7,729,468.00)
Changes in deposits held for others	102,940.97	(189,709.25)
Principal paid on noncapital debt	(28,231.35)	(26,835.18)
Interest paid on noncapital debt	(16,734.42)	(18,350.86)
Net cash provided by noncapital financing activities	19,194,449.51	18,536,049.34
Cash flows from capital and related financing activities		
Capital appropriations	1,116,125.88	1,795,096.39
Purchase of capital assets and construction	(2,180,386.08)	(2,127,194.85)
Net cash used by capital and related financing activities	(1,064,260.20)	(332,098.46)
Cash flows from investing activities		
Income on investments	7,638.37	12,829.54
Net cash provided by investing activities	7,638.37	12,829.54
Net decrease in cash	(434,337.62)	(2,704,401.06)
Cash - beginning of year	8,599,219.36	11,303,620.42
Cash - end of year	$ 8,164,881.74	$ 8,599,219.36

Tennessee Board of Regents
CLEVELAND STATE COMMUNITY COLLEGE
Statements of Cash Flows (Continued)
For the Years Ended June 30, 2014, and June 30, 2013

	Year Ended June 30, 2014	Year Ended June 30, 2013
Reconciliation of operating loss to net cash used by operating activities:		
Operating loss	$ (20,391,955.82)	$ (20,845,606.00)
Adjustments to reconcile operating loss to net cash used by operating activities:		
Depreciation expense	956,803.27	830,419.40
Gifts in-kind	44,210.69	44,209.47
Other adjustments	22,151.00	17,209.00
Change in assets and liabilities:		
Receivables, net	859,059.96	(882,623.90)
Prepaid expenses	(13,976.11)	2,394.48
Accounts payable	(200,016.92)	(70,699.26)
Accrued liabilities	88,748.00	39,987.37
Net OPEB obligation	152,930.99	116,559.00
Unearned revenue	(5,708.59)	(199,284.91)
Compensated absences	(57,163.98)	(2,985.03)
Due to grantors	(27,247.79)	29,238.90
Net cash used by operating activities	$ (18,572,165.30)	$ (20,921,181.48)

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

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 its donors. Because these restricted resources held by the foundation can only be used by, or for the benefit of, the college, the foundation is considered a component unit of the college and is discretely presented in the college's financial statements. See Note 15 for more detailed information about the component unit and how to obtain the report.

Basis of Presentation

The college's financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America 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 of the provider's eligibility requirements have been met. All significant interfund transactions have been eliminated.

The college has classified its revenues and expenses as either operating or nonoperating according to the following criteria: Operating revenues and expenses are those that have the characteristics of exchange transactions. Operating revenues include (1) tuition and fees, net of scholarship discounts and allowances; (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 include (1) salaries and wages; (2) employee benefits; (3) utilities, supplies, and other services; (4) scholarships and fellowships; and (5) depreciation.

Nonoperating revenues and expenses include activities that have the characteristics of nonexchange transactions, such as gifts and contributions, and other activities that are defined as nonoperating by GASB Statement 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities that Use Proprietary Fund Accounting*, and GASB Statement 34, such as state appropriations and investment income.

When both restricted and unrestricted resources are available for use, it is the college's policy to determine which to use first, depending upon existing facts and circumstances.

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 position. 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 position 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 Position

The college's net position is classified as follows:

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

Nonexpendable restricted net position – Nonexpendable restricted net position consists 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 position – Expendable restricted net position includes resources that the college is legally or contractually obligated to spend in accordance with restrictions imposed by external third parties.

Unrestricted net position – Unrestricted net position represents resources derived from student tuition and fees; state appropriations; sales and services of educational departments and 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 college's discretion 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, as well as certain other revenues from students, are reported net of scholarship discounts and allowances in the statement of revenues, expenses, and changes in net position. 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.

Accounting Change

The college implemented GASB Statement 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, during the year ended June 30, 2013. The effect on the college was the renaming of the residual of all other elements in the statement of financial position as net position, rather than net assets.

Early Implementation of Accounting Pronouncement

In March 2012, GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities; it also recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. The provisions of this statement are effective for financial statements for periods beginning after December 15, 2012. However, the college has elected to early implement the provisions of this statement for fiscal year 2013.

Note 2. Cash

This classification includes demand deposits and petty cash on hand. At June 30, 2014, cash consisted of $470,553.38 in bank accounts, $1,340.00 of petty cash on hand, $7,490,257.92 in the Local Government Investment Pool (LGIP) administered by the State Treasurer, and $202,730.44 in LGIP deposits for capital projects. At June 30, 2013, cash consisted of $303,516.18 in bank accounts, $1,340 of petty cash on hand, $7,326,649.18 in the LGIP, and $967,714.00 in LGIP deposits for capital projects.

The LGIP is part of the State Pooled Investment Fund. The fund's required risk disclosures are presented in the *State of Tennessee Treasurer's Report*. That report is available on the state's website at www.treasury.tn.gov.

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, the Tennessee Board of Regents withdraws funds from the LGIP account and transfers them 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; bankers' acceptances; commercial paper; money market mutual funds; and the State of Tennessee Local Government Investment Pool.

Tennessee Board of Regents policy restricts investments in bankers' acceptances and commercial paper. The policy requires that prime bankers' 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 bankers' 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 that are under contract of sale or are 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 guarantee 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, 2014, and June 30, 2013, the college's investments consisted entirely of investments in the Local Government Investment Pool. The fair value of these investments was $7,692,988.36 at June 30, 2014, and $8,294,363.18 at June 30, 2013. LGIP investments are not rated by nationally recognized statistical ratings organizations.

Note 4. Receivables

Receivables included the following:

	June 30, 2014	June 30, 2013
Student accounts receivable	$ 999,729.81	$ 1,002,808.14
Grants receivable	149,260.90	946,688.74
Other receivables	89,407.77	96,777.65
Subtotal	1,238,398.48	2,046,274.53
Less allowance for doubtful accounts	(407,000.92)	(353,166.47)
Total receivables	$ 831,397.56	$ 1,693,108.06

Note 5. Capital Assets

Capital asset activity for the year ended June 30, 2014, 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	14,539,284.26	701,316.80	242,771.50	-	15.483,372.56
Equipment	3,935,775.91	417,462.17	-	96,637.66	4,256,600.42
Library holdings	339,491.99	42,059.89	-	39,379.59	342,172.29
Intangible assets	1,306,387.19	-	-	-	1,306,387.19
Projects in progress	278,382.50	1,019,547.22	(242,771.50)	-	1,055,158.22
Total	21,828,170.32	2,180,386.08	-	136,017.25	23,872,539.15
Less accumulated depreciation/amortization:					
Land improvements and infrastructure	1,065,480.90	11,475.92	-	-	1,076,956.82
Buildings	9,297,334.38	402,279.18	-	-	9,699,613.56
Equipment	2,501,816.29	368,782.15	-	88,426.66	2,782,171.78
Library holdings	171,367.90	38,155.18	-	39,379.59	170,143.49
Intangible assets	898,054.77	136,110.84	-	-	1,034,165.61
Total	13,934,054.24	956,803.27	-	127,806.25	14,763,051.26
Capital assets, net	$ 7,894,116.08	$1,223,582.81	$ -	$ 8,211.00	$ 9,109,487.89

Capital asset activity for the year ended June 30, 2013, 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	12,189,073.81	1,160,591.65	1,189,618.80	-	14,539,284.26
Equipment	3,344,800.53	651,358.12	-	60,382.74	3,935,775.91
Library holdings	342,477.46	40,187.58	-	43,173.05	339,491.99
Intangible assets	1,306,387.19	-	-	-	1,306,387.19
Projects in progress	1,192,943.80	275,057.50	(1,189,618.80)	-	278,382.50
Total	19,804,531.26	2,127,194.85	-	103,555.79	21,828,170.32
Less accumulated depreciation/amortization:					
Land improvements and infrastructure	1,054,004.98	11,475.92	-	-	1,065,480.90
Buildings	8,911,063.33	386,271.05	-	-	9,297,334.38
Equipment	2,303,903.91	258,295.12	-	60,382.74	2,501,816.29

Library holdings	176,274.48	38,266.47	-	43,173.05	171,367.90
Intangible assets	761,943.93	136,110.84	-	-	898,054.77
Total	13,207,190.63	830,419.40	-	103,555.79	13,934,054.24
Capital assets, net	$ 6,597,340.63	$ 1,296,775.45	$ -	$ -	$ 7,894,116.08

Note 6. Accounts Payable

Accounts payable included the following:

	June 30, 2014	June 30, 2013
Vendors payable	$404,488.81	$555,275.83
Unapplied student payments	3,719.60	-
Other payables	36,680.23	88,471.26
Total accounts payable	$444,888.64	$643,747.09

Note 7. Long-term Liabilities

Long-term liabilities activity for the year ended June 30, 2014, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
TSSBA debt:					
Bonds	$ 306,405.09	$ -	$ 28,231.35	$278,173.74	$ 29,417.85
Subtotal	306,405.09	-	28,231.35	278,173.74	29,417.85
Other liabilities:					
Compensated absences	706,358.54	79,814.90	136,978.88	649,194.56	176,616.87
Subtotal	706,358.54	79,814.90	136,978.88	649,194.56	176,616.87
Total long-term liabilities	$1,012,763.63	$79,814.90	$165,210.23	$927,368.30	$206,034.72

Long-term liabilities activity for the year ended June 30, 2013, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
TSSBA debt:					
Bonds	$ 333,240.27	$ -	$ 26,835.18	$ 306,405.09	$ 28,231.35
Subtotal	333,240.27	-	26,835.18	306,405.09	28,231.35
Other liabilities:					
Compensated absences	709,343.57	89,965.64	92,950.67	706,358.54	161,206.71
Subtotal	709,343.57	89,965.64	92,950.67	706,358.54	161,206.71
Total long-term liabilities	$1,042,583.84	$89,965.64	$119,785.85	$1,012,763.63	$189,438.06

TSSBA Debt – Bonds

Bonds, with interest rates ranging from 3.5% to 5.0%, were issued by the Tennessee State School Bond Authority (TSSBA). The bonds are due serially to 2023 and are secured by pledges of the facilities' revenues to which they relate and certain other revenues and fees of the college, including state appropriations; see Note 8 for further details. The bonded indebtedness with the Tennessee State School Bond Authority included in long-term liabilities on the statement of net position is shown net of assets held by the authority in the debt service reserve. The reserve amount was $44,439.15 at June 30, 2014, and $44,439.15 at June 30, 2013.

Debt service requirements to maturity for the college's portion of TSSBA bonds at June 30, 2014, are as follows:

Year Ending June 30	Principal	Interest	Total
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	33,684.98	11,406.16	45,091.14
2019	35,437.53	9,721.90	45,159.43
2020 – 2023	116,731.79	20,222.86	136,954.65
Total	$ 278,173.74	$ 83,923.10	$ 362,096.84

More detailed information regarding the bonds can be found in the notes to the financial statements in the financial report for the TSSBA. That report is available on the state's website at www.comptroller.tn.gov/tssba/cafr.asp.

Note 8. Pledged Revenues

The college has pledged certain revenues and fees, including state appropriations, to repay $278,173.74 in revenue bonds issued in December 2008. (See Note 7 for further detail.) Proceeds from the bonds provided financing for the energy savings performance project. The bonds are payable through 2023. Annual principal and interest payments on the bonds are expected to require 0.21% of available revenues. The total principal and interest remaining to be paid on the bonds at June 30, 2014, is $362,096.84. Principal and interest paid for fiscal year 2014 and total available revenues were $44,846.69 and $20,872,611.28, respectively. Principal and interest paid for fiscal year 2013 and total available revenues were $44,792.28 and $20,264,470.25, respectively.

Note 9. Pension Plans

Defined Benefit Plans

Tennessee Consolidated Retirement System

Plan description – The State of Tennessee provides a pension plan that covers state and higher education employees. That plan is a part of the Public Employee Retirement Plan, an agent 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.

TCRS issues a publicly available financial report that includes financial statements and required supplementary information for the Public Employee Retirement Plan. 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 15.03% of annual covered payroll. Contribution requirements for the college are established and may be amended by TCRS' Board of Trustees.

Annual pension cost – For the years ended June 30, 2014, and June 30, 2013, the college's contributions equaled the annual pension cost of $951,643.78 and $926,198.64, respectively.

Trend Information

Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
June 30, 2014	$951,643.78	100%	$0
June 30, 2013	$926,198.64	100%	$0
June 30, 2012	$887,970.33	100%	$0

Additional information - Information about the funded status of the plan as of the most recent valuation date, information about the actuarial methods and assumptions used in the valuations, and required supplementary information are available in the *Tennessee Comprehensive Annual Financial Report*. A copy of that report is available on the state's website at www.tn.gov/finance/act/cafr.shtml.

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, ING Life Insurance and Annuity Company, and Variable Annuity Life Insurance Company. 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 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 $380,794.65 for the year ended June 30, 2014, and $353,832.02 for the year ended June 30, 2013. Contributions met the requirements for each year.

Note 10. Other Postemployment Benefits

Healthcare is the only "other postemployment benefit" (OPEB) provided to employees. The State of Tennessee administers a group health insurance program that 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*, for the State Employee Group Plan and Section 8-27-701, *Tennessee Code Annotated*, for the Medicare Supplement Plan. Prior to reaching age 65, all members have the option of choosing between the standard or partnership preferred provider organization plan for health care benefits. Subsequent to age 65, members who are also in the state's retirement system may participate in a state-administered Medicare supplement that does not include pharmacy. The state makes on-behalf payments to the Medicare Supplement Plan for the college's eligible retirees; see Note 14. The plans are reported in the *Tennessee*

Comprehensive Annual Financial Report (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, which covers the retirees of other governmental entities, including Cleveland State Community College. The state is the sole contributor for the college retirees who 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. The plan's claims liabilities are periodically computed using actuarial and statistical techniques to establish premium rates. The plan's administrative costs are allocated to plan participants. Retirees in the State Employee Group Plan pay the same base premium, adjusted for years of service, as active employees. 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 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

	2014	2013
Annual required contribution (ARC)	$ 324,000	$ 353,000
Interest on the net OPEB obligation	55,631	50,969
Adjustment to the ARC	(54,198)	(54,103)
Annual OPEB cost	325,433	349,866
Amount of contribution	(236,685)	(233,307)
Increase in net OPEB obligation	88,748	116,559
Net OPEB obligation – beginning of year	1,390,787	1,274,228
Net OPEB obligation – end of year	$1,479,535	$1,390,787

Year-end	Plan	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation at Year-end
June 30, 2014	State Employee Group Plan	$325,433	72.7%	$1,479,535
June 30, 2013	State Employee Group Plan	$349,866	66.7%	$1,390,787
June 30, 2012	State Employee Group Plan	$346,106	71.9%	$1,274,228

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, 2013
Actuarial accrued liability (AAL)	$3,017,000
Actuarial value of plan assets	-
Unfunded actuarial accrued liability (UAAL)	$3,017,000
Actuarial value of assets as a percentage of the AAL	0%
Covered payroll (active plan members)	$9,212,438
UAAL as percentage of covered payroll	32.7%

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 Required Supplementary Information 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, 2013, actuarial valuation, the Projected Unit Credit actuarial cost method was used. The actuarial assumptions included a 4% investment rate of return (net of administrative expenses) and an annual healthcare cost trend rate of 7.5% initially. The rate decreased to 7.0% in fiscal year 2015 and then reduces by decrements to an ultimate rate of 4.19% in fiscal year 2044. All rates include a 2.5% 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. Payroll is assumed to grow at a rate of 3.0%.

Note 11. 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 year ended June 30, 2014, is presented in the *Tennessee Comprehensive Annual Financial Report* (CAFR). 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, Section 9-8-101 et seq., *Tennessee Code Annotated.* 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 Section 50-6-101 et seq., *Tennessee Code Annotated.* Claims are paid through the state's Risk Management Fund.

At June 30, 2014, the Risk Management Fund held $116.3 million in cash designated for payment of claims. At June 30, 2013, the Risk Management Fund held $108.5 million in cash designated for payment of claims.

At June 30, 2014, the scheduled coverage for the college was $76,158,600 for buildings and $14,438,700 for contents. At June 30, 2013, the scheduled coverage for the college was $77,559,600 for buildings and $14,407,000 for contents.

The state has also set aside assets in the Employee Group Insurance Fund, an internal service fund, to provide a program of health insurance coverage for the employees of the state, with the risk retained by the state. The college participates in the Employee Group Insurance Fund. The fund allocates the cost of providing claims servicing and claims payment by charging a premium to the college based on estimates of the ultimate cost of claims, 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 12. Commitments and Contingencies

Sick Leave

The college records the cost of sick leave when paid. The dollar amount of unused sick leave was $3,453,447.58 at June 30, 2014, and $3,503,195.58 at June 30, 2013.

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 $147,391.96 and expenses for personal property were $25,822.92 for the year ended June 30, 2014. The amounts for the year ended June 30, 2013, were $139,035.96 and $25,822.92. All operating leases are cancelable at the lessee’s option.

Construction in Progress

At June 30, 2014, outstanding commitments under construction contracts totaled $331,497.91 for the HVAC Equipment and Controls Update project, the ADA Adaptations project, and the Fire Alarm System Update project, of which $265,762.45 will be funded by future state capital outlay appropriations.

Note 13. Natural Classification With Functional Classifications

The college's operating expenses for the year ended June 30, 2014, are as follows:

	Natural Classification					
Functional Classification	Salaries	Benefits	Other Operating	Scholarships	Depreciation	Total
Instruction	$ 6,309,184.69	$2,278,314.80	$ 1,778,506.33	$ -	$ -	$ 10,366,005.82
Public service	252,194.87	96,683.80	110,658.81	-	-	459,537.48
Academic support	987,889.03	457,438.61	74,442.16	-	-	1,519,769.80
Student services	1,419,964.87	587,558.70	827,830.13	-	-	2,835,353.70
Institutional support	2,014,137.38	822,486.71	1,382,041.70	-	-	4,218,665.79
Maintenance & operation	384,479.23	165,212.53	1,510,295.60	-	-	2,059,987.36
Scholarships & fellowships	-	-	-	5,182,230.45	-	5,182,230.45
Auxiliary	-	-	25,473.75	-	-	25,473.75
Depreciation	-	-	-	-	956,803.27	956,803.27
Total	$ 11,367,850.07	$4,407,695.15	$5,709,248.48	$ 5,182,230.45	$956,803.27	$ 27,623,827.42

The college's operating expenses for the year ended June 30, 2013, are as follows:

	Natural Classification					
Functional Classification	Salaries	Benefits	Other Operating	Scholarships	Depreciation	Total
Instruction	$ 6,182,555.16	$2,173,409.73	$2,304,191.64	$ -	$ -	$ 10,660,156.53
Public service	279,742.47	89,864.75	118,290.68	-	-	487,897.90
Academic support	812,567.92	330,236.15	17,407.01	-	-	1,160,211.08
Student services	1,400,460.62	598,300.20	805,617.62	-	-	2,804,378.44
Institutional support	1,977,488.35	840,796.29	1,247,159.69	-	-	4,065,444.33
Maintenance & operation	479,700.04	220,099.94	2,101,752.07	-	-	2,801,552.05
Scholarships & fellowships	-	-	-	5,609,417.93	-	5,609,417.93
Auxiliary	-	-	28,550.29	-	-	28,550.29
Depreciation	-	-	-	-	830,419.40	830,419.40
Total	$11,132,514.56	$4,252,707.06	$6,622,969.00	$5,609,417.93	$830,419.40	$ 28,448,027.95

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 $1,308,915.64 for the year ended June 30, 2014, and $1,084,731.35 for the year ended June 30, 2013, were reallocated from academic support to the other functional areas.

Note 14. On-behalf Payments

During the year ended June 30, 2014, the State of Tennessee made payments of $22,151 on behalf of the college for retirees participating in the Medicare Supplement Plan. The amount for the year ended June 30, 2013, was $17,209. The Medicare Supplement Plan is a postemployment benefit healthcare plan and is discussed further in Note 10. 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 15. Component Unit

The Cleveland State Community College Foundation is a legally separate, tax-exempt organization supporting Cleveland State Community College. The foundation acts primarily as a fund-raising organization to supplement the resources that are available to the college in support of its programs. The 34-member board of the foundation is self-perpetuating and consists of graduates and friends 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.

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, 2014, the foundation made distributions of $625,648 to or on behalf of the college for both restricted and unrestricted purposes. During the year ended June 30, 2013, the foundation made distributions of $184,278 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 at fair value. Fair value has been determined using quoted prices in active markets for identical assets 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 (Level 2), or significant unobservable inputs (Level 3). The following table categorizes the recurring fair-value measurements for assets at June 30, 2014, and at June 30, 2013.

	Total Fair Value at June 30, 2014	Quoted Prices Level 1	Significant Other Inputs Level 2	Significant Unobservable Inputs Level 3
Assets:				
Cash and cash equivalents	$ 216,848	$ 216,848	$ -	$ -
Investments	7,896,912	7,879,422	-	17,490
Interest receivable	6,651	6,651	-	-
Total assets	$ 8,120,411	$ 8,102,921	$ -	$ 17,490

	Total Fair Value at June 30, 2013	Quoted Prices Level 1	Significant Other Inputs Level 2	Significant Unobservable Inputs Level 3
Assets:				
Cash and cash equivalents	$ 439,505	$ 439,505	$ -	$ -
Investments	6,902,921	6,885,431	-	17,490
Interest receivable	5,915	5,915	-	-
Total assets	$ 7,348,341	$ 7,330,851	$ -	$ 17,490

Cash and Cash Equivalents

Cash and cash equivalents consist of demand deposit accounts and money market funds. The bank balances of deposits at June 30, 2014, were entirely insured. The bank balances of deposits at June 30, 2013, 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, 2014, were as follows*:*

	Cost	Fair Value
U.S. agency obligations	$ 100,000	$ 100,069
Certificates of deposit	82,399	82,399
Mutual bond funds	1,077,819	1,087,431
Mutual equity funds	4,468,604	5,001,277

Common stock		1,040,557		1,608,246
Closely held equity investments		14,850		17,490
Total investments	$	6,784,229	$	7,896,912

Investments held at June 30, 2013, were as follows*:*

		Cost		Fair Value
U.S. agency obligations	$	100,000	$	101,083
Certificates of deposit		82,379		82,379
Mutual bond funds		1,349,269		1,329,821
Mutual equity funds		3,688,098		4,117,108
Common stock		921,634		1,255,040
Closely held equity investments		14,850		17,490
Total investments	$	6,156,230	$	6,902,921

Alternative investments – The foundation had investments in Bradley County Financial. The estimated fair value of these assets was $17,490 at June 30, 2014, and $17,490 at June 30, 2013.

The foundation believes the carrying amount of its alternative investments is a reasonable estimate of fair value as of June 30, 2014, and as of June 30, 2013. Because these investments are not readily marketable, the estimated value is subject to uncertainty and, therefore, may differ from the value that would have been used had a ready market for the investments existed, and such differences could be material. These investments are made in accordance with the foundation's investment policy that approves the allocation of funds to various asset classes in order to ensure the proper level of diversification. These investments are designed to enhance diversification and provide reductions in overall portfolio volatility. These fair values are estimated using various valuation techniques.

This investment is privately held and not publicly traded. The value is based on the off market trading prices times the number of shares as of June 30, 2014, and as of June 30, 2013.

Pledges Receivable

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

	June 30, 2014	June 30, 2013
Current pledges	$ 108,500	$ 110,500
Pledges due in one to five years	9,000	77,500
Subtotal	117,500	188,000
Less discount to net present value	(7,319)	(15,134)
Total pledges receivable, net	$ 110,181	$ 172,866

Endowments

The Cleveland State Community College Foundation's endowments consist of 243 individual funds established for a variety of purposes. Its endowment is made up of donor-restricted endowment funds. As required by accounting principles generally accepted in the United States of America, net position associated with endowment funds is 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 position (1) the original value of gifts donated to the permanent endowment; (2) the original value of subsequent gifts to the permanent endowment; and (3) 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. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net position is classified as temporarily restricted net position until the foundation appropriates those amounts for expenditure 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 Position Class
As of June 30, 2014

	Permanently Restricted	Temporarily Restricted	Total
Donor-restricted endowment funds	$5,222,572	$2,348,334	$7,570,906

Composition of Endowment by Net Position Class
As of June 30, 2013

	Permanently Restricted	Temporarily Restricted	Total
Donor-restricted endowment funds	$5,168,344	$1,394,365	$6,562,709

Changes in Endowment Net Position
for the Fiscal Year Ended June 30, 2014

	Permanently Restricted	Temporarily Restricted	Total
Endowment net position, beginning of year	$ 5,168,344	$ 1,394,365	$ 6,562,709
Investment return:			
Investment income	-	262,242	262,242
Net appreciation (realized and unrealized)	-	1,028,765	1,028,765
Total investment return	-	1,291,007	1,291,007
Contributions	54,228	-	54,228
Appropriations of endowment assets for expenditure	-	(289,327)	(289,327)
Investment expense	-	(47,711)	(47,711)
Endowment net position, end of year	$ 5,222,572	$ 2,348,334	$ 7,570,906

Changes in Endowment Net Position
for the Fiscal Year Ended June 30, 2013

	Permanently Restricted	Temporarily Restricted	Total
Endowment net position, beginning of year	$ 5,018,007	$ 747,104	$ 5,765,111
Investment return:			
Investment income	-	204,311	204,311
Net appreciation (realized and unrealized)	-	591,682	591,682
Total investment return	-	795,993	795,993
Contributions	150,337	-	150,337
Appropriations of endowment assets for expenditure	-	(109,173)	(109,173)
Investment expense	-	(39,559)	(39,559)

Endowment net position, end of year	$ 5,168,344	$ 1,394,365	$ 6,562,709

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 to 3% 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.

Support From Cleveland State Community College

The college paid certain payroll costs for college personnel who also performed services supporting the foundation amounting to $82,990 in fiscal year 2014 and $81,850 in fiscal year 2013. The college also paid other operating expenses supporting the foundation, amounting to $12,263 in fiscal year 2014 and $9,919 in fiscal year 2013. These supporting costs paid by the college are reflected in the statement of revenues, expenses, and changes in net position as college support, with a like amount included in expenses. The college provides office space and the use of certain common facilities and services to the foundation at no cost. The rental expense totaling $1,500 for each fiscal year has also been reported as college support, with a like amount included in expenses.

Prior-period Adjustments

At June 30, 2012, the cash and cash equivalents balance was increased by $145,201, and investments were decreased by $145,201, as money market funds were classified as investments. At June 30, 2012, an adjustment was made to reclassify $747,104 of accumulated endowment earnings of the foundation from unrestricted net position to temporarily restricted net position. Accumulated endowment earnings should be reported as temporarily restricted net position until appropriated for expenditure.

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

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, 2013	State Employee Group Plan	$ -	$3,017,000	$3,017,000	0%	$9,212,438	32.75%
July 1, 2011	State Employee Group Plan	$ -	$3,576,000	$3,576,000	0%	$7,723,752	46.30%
July 1, 2010	State Employee Group Plan	$ -	$3,919,000	$3,919,000	0%	$8,179,393	47.91%

The amount reported here for covered payroll relates to the fiscal year in which the valuations were performed.

Supplementary Information
CLEVELAND STATE COMMUNITY COLLEGE FOUNDATION
Supplementary Schedules of Cash Flows - Component Unit
For the Years Ended June 30, 2014, and June 30, 2013

	June 30, 2014	June 30, 2013
Cash flows from operating activities		
Gifts and contributions	$ 412,235.00	$ 221,425.00
Payments to suppliers and vendors	(30,297.00)	(45,091.00)
Payments for scholarships and fellowships	(279,095.00)	(101,962.00)
Payments to Cleveland State Community College	(628,297.00)	(184,554.00)
Net cash used by operating activities	(525,454.00)	(110,182.00)
Cash flows from noncapital financing activities		
Private gifts for endowment purposes	54,228.00	150,337.00
Net cash provided by noncapital financing activities	54,228.00	150,337.00
Cash flows from investing activities		
Proceeds from sales and maturities of investments	4,380,317.00	1,300,777.00
Income on investments	213,795.00	163,786.00
Purchases of investments	(4,345,543.00)	(1,384,401.00)
Net cash provided by investing activities	248,569.00	80,162.00
Net increase (decrease) in cash and cash equivalents	(222,657.00)	120,317.00
Cash and cash equivalents - beginning of year	439,505.00	173,987.00
Prior-period adjustment (Note 15)	-	145,201.00
Cash and cash equivalents - end of year	$ 216,848.00	$ 439,505.00
Reconciliation of operating gain (loss) to net cash used by operating activities:		
Operating income (loss)	$ (440,830.00)	$ 48,978.00
Adjustments to reconcile operating gain (loss) to net cash used by operating activities:		
Endowment income	(244,011.00)	(204,311.00)
Gifts in-kind	96,753.00	93,269.00
Change in assets and liabilities:		
Receivables	62,685.00	(48,079.00)
Accounts payable	(51.00)	(39.00)
Net cash used by operating activities	$ (525,454.00)	$ (110,182.00)
Noncash investing, capital, and financing activities		
Unrealized gain on investments	$ 386,043.00	$ 492,202.00

STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
DEPARTMENT OF AUDIT
DIVISION OF STATE AUDIT
SUITE 1500, JAMES K. POLK STATE OFFICE BUILDING
505 DEADERICK STREET
NASHVILLE, TENNESSEE 37243-1402

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Independent Auditor's 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*

The Honorable Bill Haslam, Governor
Members of the General Assembly
The Honorable John G. Morgan, Chancellor
Dr. William A. Seymour, President

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, 2014, and June 30, 2013, and the related notes to the financial statements, which collectively comprise the college's basic financial statements, and have issued our report thereon dated June 9, 2015. We conducted our audit in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Our report includes a reference to other auditors who audited the financial statements of Cleveland State Community College Foundation, as described in our report on Cleveland State Community College's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the college's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of the college's internal control.

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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, we identified the following deficiencies in internal control that we consider to be material weaknesses:

- Management needs to improve procedures for preparing and reviewing financial statements to prevent errors.
- Bank reconciliations should be prepared promptly and correctly.
- Cleveland State Community College did not provide adequate internal controls in four specific areas.
- Cleveland State Community College, the Tennessee Board of Regents, and the Tennessee Department of Finance and Administration did not provide adequate internal controls in one specific area.

These deficiencies are described in the Findings and Recommendations section of this report.

Compliance and Other Matters

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

Cleveland State Community College's Responses to the Findings

The college's responses to the findings identified in our audit are included in the Findings and Recommendations section of this report. The college's responses were not subjected to the auditing procedures applied in the audit of the financial statements, and, accordingly, we express no opinion on them.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Deborah V. Loveless

Deborah V. Loveless, CPA
Director
June 9, 2015

Findings and Recommendations

1. **Management needs to improve procedures for preparing and reviewing financial statements to prevent errors**

Condition

Cleveland State Community College's procedures for preparing its financial statements are not adequate to ensure the accuracy and proper classification of information.

Cause

The college's financial statements were prepared by the Business Manager with assistance from other staff members. The fiscal year 2014 and fiscal year 2013 statements were prepared by two different Business Managers. The first has since resigned and the second has retired. It was not possible for us to determine the exact cause of these errors since neither Business Manager was available to be interviewed. Turnover among other staff members also took place during the audit period. The lack of continuity in the college's accounting staff during the audit period was a contributing factor to these errors.

Criteria

Management is responsible for the preparation and fair presentation of the college's financial statements and accompanying notes in accordance with accounting principles generally accepted in the United States of America. This includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free of material misstatement.

Effect

This weakness resulted in the following significant reporting errors:

- On the college's statement of net position at June 30, 2013, cash was understated by $10,700.50 and grants receivable were overstated by $10,700.50. Per our review of the U.S. Department of Education's G5 system, Federal Work Study cash of $10,700.50 was drawn down on June 28, 2013. This amount was reported as grants receivable instead of cash. The audited statements and notes were corrected.

- On the college's statement of net position at June 30, 2013, unearned revenue was overstated by $287,512.47, and tuition and fees were therefore understated by $287,512.47. This was because an error was made in the unearned revenue calculation. The audited financial statements were corrected.

- On the college's statement of net position at June 30, 2013, accounts receivable totaling $885,237.33 in restricted funds were incorrectly classified as noncurrent assets rather than current assets. Because the funds would be received within the next year, they would be available to satisfy current liabilities and should, therefore, be classified as current assets. The audited statement was corrected.

- On the college's 2014 statement of revenues, expenses, and changes in net position, due to an error in calculating scholarship discounts and allowances, scholarships and fellowships were overstated by $23,922.00, and student tuition and fees were overstated by $23,922.00. The audited statement was corrected.

- On the college's 2013 statement of revenues, expenses, and changes in net position, incorrect amounts were used in calculating scholarship discounts and allowances because business office staff did not use the proper detail codes in pulling data from the Banner accounting system. As a result, scholarships and fellowships were overstated by $458,909.00, and student tuition and fees were overstated by $458,909.00. The audited statement was corrected.

- On the college's 2014 statement of revenues, expenses, and changes in net position, interest on debt of $16,405.34 was incorrectly classified as other nonoperating revenues (expenses) rather than being shown separately. The audited statement was corrected.

- In the college's 2013 financial report, in Note 5 reporting capital asset activity, in the transfer column, the amount transferred from projects in progress ($1,189,618.80) was erroneously shown as an addition on the land improvements and infrastructure line rather than the buildings line. The numbers were typed in and a formula was not used, so the ending balances were correct. The transfer amount was moved to the buildings line in the audited note.

- In the college's 2013 financial report, in Note 10 regarding other postemployment benefits, an incorrect covered payroll figure was reported in the "funded status and funding progress" portion of the note. The fiscal year ended June 30, 2013, covered payroll amount was reported, rather than the amount for the fiscal year ended June 30, 2011.

- The published version of the college's cash flow statement for the year ended June 30, 2014, did not include the Tennessee College of Applied Technology at Athens' cash. This caused ending cash to be understated by $1,398,462.57. The failure to include the TCAT cash also understated the changes in deposits held for others amount by $105,103.68 on that statement. Only the cash flow statement was incorrect; the statement of net position included the TCAT cash. The cash flow statement was corrected for the audit report.

- On the college's 2013 statement of cash flows, principal and interest payments of $26,835.18 and $18,350.86, respectively, were incorrectly reported in the capital financing section. Because the debt was incurred to fund energy saving measures that were not capitalized, the amounts should have been reported under noncapital financing activities. The audited statement was corrected.

Recommendation

The Vice President for Finance and Advancement should institute procedures that ensure the accuracy and proper classification of information presented in the financial statements. The procedures should address the preparation of the financial statements and notes and the subsequent review process.

The Vice President for Finance and Advancement should also ensure that current staff members who prepare daily accounting transactions and those preparing and/or reviewing the financial statements have adequate knowledge of governmental and Tennessee Board of Regents accounting and reporting requirements to properly perform their responsibilities. Because a large percentage of accounting employees have been employed with Cleveland State Community College for less than one year, training should be actively pursued from the Tennessee Board of Regents for all areas of daily operations and financial statement preparation and presentation. This is especially important since the majority of the new employees have no prior college accounting experience.

Management's Comment

We concur with the auditors' comments, and the following action will be taken to improve the situation. The Vice President of Finance and Advancement will institute procedures that ensure the accuracy and proper classification of information presented in the financial statements. These procedures will address the preparation of the financial statements and notes and the subsequent review process. New staff members will receive proper training from the Tennessee Board of Regents for all areas of daily operations and financial statement preparation and presentation. The college contracted with Strata consultants in early 2015 to train new employees in Banner Finance. Training sessions took place in February, March, and June 2015. In the month of June 2015, Cleveland State hired a retired Business Manager to concentrate on closing year end.

Additionally, a reorganization of the business office took place on April 1, 2015, which separated out the functions of Accounting and Budgeting. This created an Interim Director of Fiscal Services position responsible for budgeting functions and supervision of all business office areas and created a Coordinator of Accounting position responsible for supervising all accounting functions. This organizational structure created a better system of checks and balances for Cleveland State.

2. Bank reconciliations should be prepared promptly and correctly

Condition

College business office personnel do not prepare bank reconciliations correctly or on a timely basis. As of February 4, 2015, bank reconciliations had only been attempted through August 2014. Reconciliations were prepared by the Bursar and reviewed by the Director of Business Operations (prior title was Business Manager). The June 30, 2014, bank reconciliation was not dated, so it was not possible to determine if the reconciliation was prepared timely. However, the reconciliation was prepared by the current Bursar and reviewed by the Director of Business Operations at that time, both of whom were hired in September 2014. The June 30, 2013, bank reconciliation was dated September 2013 and labeled as being revised. There is no copy of a reconciliation that was prepared before the September version, so it is not possible to determine if the prior Bursar prepared that reconciliation in a timely manner.

As to the June 30, 2014, bank reconciliation, the current Bursar was not able to completely reconcile the general ledger to the bank statements. There was an $11,795.94 unreconciled difference. Per the Director of Business Operations at that time, the last reconciliation that was completely reconciled and was signed and dated by prior staff members was April 30, 2014. She stated that as of April 23, 2015, they have now prepared reconciliations through December 2014, but that the general ledger and the bank statements do not completely reconcile.

Cause

The college employed three different Bursars and three different Directors of Business Operations (prior title was Business Manager) from July 1, 2012, to March 31, 2015. Turnover among other staff members also took place during the audit period. Due to employee turnover in the business office, bank reconciliations were not performed timely and properly as they had been in the past. In addition, new employees were not experienced in the college and university environment and were not properly trained and supervised to perform their new job duties. This lack of continuity and failure to prepare new employees led to the failure to perform necessary, routine duties such as proper bank reconciliations.

Criteria

Proper reconciliation of bank account balances to the college's general ledger is an essential control necessary to ensure proper accounting for the college's cash assets.

Effect

The failure to perform proper, timely bank reconciliations could lead to reporting errors or possibly undetected misappropriations of cash.

Recommendation

Bank reconciliations should be prepared on a monthly basis soon after the receipt of the monthly bank statements. There should be no unreconciled differences between the college's general ledger and bank account balances. The reconciliations should be signed and dated by the preparer and reviewer, and any existing unreconciled balances should be resolved.

The Vice President for Finance and Advancement should ensure that employees performing bank reconciliations are properly trained and supervised.

Management's Comment

We concur with the auditors' comments, and the following action will be taken to improve the situation. The Vice President of Finance and Advancement will see that employees performing bank reconciliations are properly trained and supervised. A business office reorganization took place on April 1, 2015, which separated out the functions of Accounting and Budgeting. This created an Interim Director of Fiscal Services position responsible for budgeting functions and supervision of all business office areas and created a Coordinator of Accounting position responsible for supervising all accounting functions. This organizational structure created a better system of checks and balances for Cleveland State. Bank reconciliations will be prepared on a monthly basis with no unreconciled differences between the college's general ledger and bank account balances. The business office has set a written expectation that bank reconciliations will be completed by the 21st of the month following the date on the bank statement. It will be reviewed and signed on the 21st of each month by the Coordinator of Accounting and Interim Director of Fiscal Services, in addition to the Vice President of Finance and Advancement.

3. Cleveland State Community College did not provide adequate internal controls in four specific areas

Finding

Cleveland State Community College did not design and monitor internal controls in specific areas. We observed four conditions in violation of college policies and/or industry-accepted best practices. Inconsistent implementation of internal controls increases the risk of fraud or error.

The details of these findings are confidential pursuant to Section 10-7-504(i), *Tennessee Code Annotated.* We provided the college with detailed information regarding the specific conditions we identified, as well as our recommendations for improvement.

Recommendation

Management should ensure that these conditions are remedied by the prompt development and consistent implementation of internal controls. Management should implement effective controls to ensure compliance with applicable requirements; assign staff to be responsible for ongoing monitoring of the risks and mitigating controls; and take action if deficiencies occur.

Management's Comment

We concur with the finding and recommendation. The college is implementing additional internal controls over the specific areas noted during the audit.

4. Cleveland State Community College, the Tennessee Board of Regents, and the Tennessee Department of Finance and Administration did not provide adequate internal controls in one specific area

Finding

The college, the Tennessee Board of Regents (TBR), and the Tennessee Department of Finance and Administration (F&A) did not collaborate to design and monitor effective internal controls. We observed a condition that was a departure from industry-accepted best practices and was in violation of college, TBR, and/or F&A policies. Inconsistent implementation of internal controls increases the risk of fraud or error.

The details of this finding are confidential pursuant to Section 10-7-504(i), *Tennessee Code Annotated.* We provided the college, TBR, and F&A with detailed information regarding the specific condition we identified, as well as our recommendations for improvement.

Recommendation

Management of the college, TBR, and F&A should ensure that this condition is remedied by the prompt development and consistent implementation of internal controls. Management should implement effective controls to ensure compliance with applicable requirements; assign staff to be responsible for ongoing monitoring of the risks and mitigating controls; and take action if deficiencies occur.

Management's Comment

Cleveland State Community College

We concur with the finding and recommendation. With the necessary cooperation of the Tennessee Board of Regents and the Tennessee Department of Finance and Administration, the college will implement additional internal controls over the specific areas noted during the audit.

Tennessee Board of Regents

We concur. The Tennessee Board of Regents will develop policies and procedures to appropriately address the circumstances noted within the finding. TBR will do so in collaboration with its institutions and the Department of Finance and Administration.

Tennessee Department of Finance and Administration

We concur. The Department of Finance and Administration is working with TBR to increase internal controls.

Observations and Comments

<u>College of Applied Technology</u>

Cleveland State Community College serves as the lead institution under an agreement with the Tennessee College of Applied Technology at Athens. Under this agreement, Cleveland State Community College performs the accounting and reporting functions for the college. The chief administrative officer of the college 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. Prior to July 1, 2013, these workforce training schools were named Tennessee Technology Centers.