

**Tennessee Board of Regents
Cleveland State Community College**

**For the Year Ended
June 30, 1998**

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June 30, 1999

The Honorable Don Sundquist, Governor
and

Members of the General Assembly
State Capitol
Nashville, Tennessee 37243

and

The Honorable Charles E. Smith, Chancellor
Tennessee Board of Regents
1415 Murfreesboro Road, Suite 350
Nashville, Tennessee 37217

and

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

Ladies and Gentlemen:

Transmitted herewith is the financial and compliance audit of the Tennessee Board of Regents, Cleveland State Community College, for the year ended June 30, 1998. You will note from the independent auditor's report that an unqualified opinion was given on the fairness of the presentation of the financial statements.

Consideration of internal control over financial reporting and tests of compliance resulted in no audit findings.

Sincerely,

John G. Morgan
Comptroller of the Treasury

JGM/sdr/ms
99/036

State of Tennessee

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

Comptroller of the Treasury

Division of State Audit

Financial and Compliance Audit
Cleveland State Community College
For the Year Ended June 30, 1998

AUDIT OBJECTIVES

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

AUDIT FINDINGS

The audit report contains no findings.

OPINION ON THE FINANCIAL STATEMENTS

The opinion on the financial statements is unqualified.

"Audit Highlights" is a summary of the audit report. To obtain the complete audit report which contains all findings, recommendations, and management comments, please contact

Comptroller of the Treasury, Division of State Audit
1500 James K. Polk Building, Nashville, TN 37243-0264
(615) 741-3697

Audit Report
Tennessee Board of Regents
Cleveland State Community College
For the Year Ended June 30, 1998

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**Tennessee Board of Regents
Cleveland State Community College
For the Year Ended June 30, 1998**

INTRODUCTION

POST-AUDIT AUTHORITY

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

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

BACKGROUND

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

ORGANIZATION

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

AUDIT SCOPE

The audit was limited to the period July 1, 1997, through June 30, 1998, and was conducted in accordance with generally accepted government auditing standards. Financial statements are presented for the year ended June 30, 1998, and for comparative purposes, the year ended June 30, 1997. Cleveland State Community College is an institution of the Tennessee Board of Regents, which is an integral part of state government. As such, the Tennessee Board of Regents has been included as a component unit in the *Tennessee Comprehensive Annual Financial Report*.

OBJECTIVES OF THE AUDIT

The objectives of the audit were

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

PRIOR AUDIT FINDINGS

There were no findings in the prior audit report.

RESULTS OF THE AUDIT

AUDIT CONCLUSIONS

Internal Control

As part of the audit of the college's financial statements for the year ended June 30, 1998, we considered internal control over financial reporting to determine auditing procedures for the purpose of expressing an opinion on the financial statements, as required by generally accepted government auditing standards.

Compliance

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

Fairness of Financial Statement Presentation

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

**Report on Compliance and on Internal Control
Over Financial Reporting Based on an Audit of
Financial Statements Performed in Accordance With
*Government Auditing Standards***

February 12, 1999

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

Dear Mr. Morgan:

We have audited the financial statements of Cleveland State Community College, an institution of the Tennessee Board of Regents, which is a component unit of the State of Tennessee, as of and for the year ended June 30, 1998, and have issued our report thereon dated February 12, 1999. We conducted our audit in accordance with generally accepted government auditing standards.

Compliance

As part of obtaining reasonable assurance about whether the college's financial statements are free of material misstatement, we performed tests of the college's compliance with certain provisions of laws, regulations, contracts, and grants, 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 that are required to be reported under *Government Auditing Standards*.

We did, however, note certain other less significant instances of noncompliance, which we have reported to the college's management in a separate letter.

The Honorable John G. Morgan
February 12, 1999
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Internal Control Over Financial Reporting

In planning and performing our audit, we considered the college's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

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

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

Sincerely,

Arthur A. Hayes, Jr., CPA, Director
Division of State Audit

AAH/sdr

Independent Auditor's Report

February 12, 1999

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

Dear Mr. Morgan:

We have audited the accompanying balance sheets of Cleveland State Community College, an institution of the Tennessee Board of Regents, which is a component unit of the State of Tennessee, as of June 30, 1998, and June 30, 1997, and the related statements of changes in fund balances and current funds revenues, expenditures, and other changes for the years then ended. These financial statements are the responsibility of the college's management. Our responsibility is to express an opinion on these financial statements, based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Tennessee Board of Regents, Cleveland State Community College, as of June 30, 1998, and June 30, 1997, and the changes in fund balances and the current funds revenues, expenditures, and other changes for the years then ended in conformity with generally accepted accounting principles.

The Honorable John G. Morgan
February 12, 1999
Page Two

The Year 2000 Disclosures on page 22 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and do not express an opinion on it. In addition, we do not provide assurance that Cleveland State Community College is or will become year 2000 compliant, that Cleveland State Community College's year 2000 remediation efforts will be successful in whole or part, or that parties with which Cleveland State Community College does business are or will become year 2000 compliant.

As discussed in Note 10 to the financial statements, the college implemented GASB 16, *Accounting for Compensated Absences*, in conformity with generally accepted accounting principles. Also, as discussed in Note 9, the college changed the threshold for capitalizing equipment.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 12, 1999, on our consideration of the college's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants.

Sincerely,

Arthur A. Hayes, Jr., CPA, Director
Division of State Audit

AAH/sdr

TENNESSEE BOARD OF REGENTS
CLEVELAND STATE COMMUNITY COLLEGE
BALANCE SHEETS
JUNE 30, 1998, AND JUNE 30, 1997

	June 30, 1998	June 30, 1997		June 30, 1998	June 30, 1997
ASSETS			LIABILITIES AND FUND BALANCES		
Current funds:			Current funds:		
Unrestricted:			Unrestricted:		
General:			General:		
Cash (Note 2)	\$ 897,408.31	\$ 1,003,748.43	Liabilities:		
Accounts receivable (net of allowance of \$3,642.50 at June 30, 1998, and \$3,642.50 at June 30, 1997)	69,756.14	53,509.82	Accounts payable	\$ 133,057.12	\$ 71,155.27
Inventories	30,436.38	16,604.32	Accrued liabilities	290,017.21	284,168.80
Due from restricted current funds	252,809.96	91,541.70	Deferred revenue	240,143.66	238,551.00
Prepaid expenses and deferred charges	116,718.22	130,059.03	Compensated absences (Note 10)	436,420.57	429,402.21
			Total liabilities	1,099,638.56	1,023,277.28
			Fund balances:		
			Nondiscretionary allocations:		
			Allocation for working capital	20,667.40	11,930.74
			Allocation for encumbrances	123,352.14	135,406.15
			Allocation for designated appropriations	1,237.18	813.06
			Discretionary allocations:		
			Allocation for subsequent budget	387,400.00	515,400.00
			Allocation for athletics	2,310.65	1,946.79
			Allocation for student activity fees	299.65	-
			Allocation for technology fees	16,045.51	-
			Designated for compensated absences (Note 10)	(436,420.57)	(429,402.21)
			Unallocated	152,598.49	36,091.49
			Total fund balances	267,490.45	272,186.02
Total general	1,367,129.01	1,295,463.30	Total general	1,367,129.01	1,295,463.30
Auxiliary enterprises:			Auxiliary enterprises:		
Cash (Note 2)	329,519.09	480,950.93	Liabilities:		
Accounts receivable	1,650.05	945.18	Accounts payable	79.96	86.14
Inventories	1,078.99	818.90			
			Total liabilities	79.96	86.14
			Fund balances:		
			Nondiscretionary allocation:		
			Allocation for working capital	2,729.04	1,764.08
			Discretionary allocations:		
			Allocation for contingencies	4,439.13	5,359.68
			Allocation for repurchase of bookstore inventory	325,000.00	325,000.00
			Unallocated	-	150,505.11
			Total fund balances	332,168.17	482,628.87
Total auxiliary enterprises	332,248.13	482,715.01	Total auxiliary enterprises	332,248.13	482,715.01
Total unrestricted	1,699,377.14	1,778,178.31	Total unrestricted	1,699,377.14	1,778,178.31
Restricted:			Restricted:		
Cash	68,620.93	42,665.07	Liabilities:		
Accounts and grants receivable	293,705.92	144,254.00	Accounts payable	36,601.17	61,430.12
			Due to unrestricted current funds	252,809.96	91,541.70
			Total liabilities	289,411.13	152,971.82
			Fund balance	72,915.72	33,947.25
Total restricted	362,326.85	186,919.07	Total restricted	362,326.85	186,919.07
Total current funds	\$ 2,061,703.99	\$ 1,965,097.38	Total current funds	\$ 2,061,703.99	\$ 1,965,097.38
Loan funds:			Loan funds:		
Cash (Note 2)	\$ 304.04	\$ 3,785.99	Fund balances:		
Notes receivable (net of allowance of \$3,180.85 at June 30, 1998, and \$5,527.84 at June 30, 1997)	2,396.75	5,462.55	U.S. government grants refundable	\$ 3,984.56	\$ 9,509.56
Accrued interest receivable	1,726.50	1,317.64	Institutional:		
			Restricted - matching	442.73	1,056.62
Total loan funds	\$ 4,427.29	\$ 10,566.18	Total loan funds	\$ 4,427.29	\$ 10,566.18

TENNESSEE BOARD OF REGENTS
CLEVELAND STATE COMMUNITY COLLEGE
BALANCE SHEETS
JUNE 30, 1998, AND JUNE 30, 1997

	<u>June 30, 1998</u>	<u>June 30, 1997</u>		<u>June 30, 1998</u>	<u>June 30, 1997</u>
<u>ASSETS</u>			<u>LIABILITIES AND FUND BALANCES</u>		
Plant funds:			Plant funds:		
Unexpended plant:			Unexpended plant:		
Cash (Note 2)	\$ <u>806,106.36</u>	\$ <u>727,637.50</u>	Fund balance:		
			Unrestricted	\$ <u>806,106.36</u>	\$ <u>727,637.50</u>
Total unexpended plant	<u>806,106.36</u>	<u>727,637.50</u>	Total unexpended plant	<u>806,106.36</u>	<u>727,637.50</u>
Renewals and replacements:			Renewals and replacements:		
Cash (Note 2)	<u>1,141,139.14</u>	<u>1,107,821.33</u>	Fund balance:		
			Unrestricted	<u>1,141,139.14</u>	<u>1,107,821.33</u>
Total renewals and replacements	<u>1,141,139.14</u>	<u>1,107,821.33</u>	Total renewals and replacements	<u>1,141,139.14</u>	<u>1,107,821.33</u>
Investment in plant:			Fund balance:		
Land	135,130.50	135,130.50	Net investment in plant	<u>21,355,836.19</u>	<u>21,029,856.48</u>
Buildings	8,699,398.48	8,699,398.48			
Improvements other than buildings	1,146,985.96	1,146,985.96			
Equipment	4,773,759.25	5,073,130.54			
Library books	3,063,648.00	3,017,376.00			
Other library holdings	<u>3,536,914.00</u>	<u>2,957,835.00</u>			
Total investment in plant	<u>21,355,836.19</u>	<u>21,029,856.48</u>	Total investment in plant	<u>21,355,836.19</u>	<u>21,029,856.48</u>
Total plant funds	\$ <u>23,303,081.69</u>	\$ <u>22,865,315.31</u>	Total plant funds	\$ <u>23,303,081.69</u>	\$ <u>22,865,315.31</u>
Agency funds:			Agency funds:		
Cash (Note 2)	\$ <u>206,045.58</u>	\$ <u>167,157.10</u>	Liabilities:		
			Deposits held in custody for others	\$ <u>206,045.58</u>	\$ <u>167,157.10</u>
Total agency funds	\$ <u>206,045.58</u>	\$ <u>167,157.10</u>	Total agency funds	\$ <u>206,045.58</u>	\$ <u>167,157.10</u>

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

TENNESSEE BOARD OF REGENTS
CLEVELAND STATE COMMUNITY COLLEGE
STATEMENT OF CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 1998

	Current Funds			Plant Funds		
	Unrestricted	Restricted	Loan Funds	Unexpended	Renewals and Replacements	Investment In Plant
REVENUES AND OTHER ADDITIONS						
Unrestricted current funds revenues	\$ 11,400,985.02	\$ -	\$ -	\$ -	\$ -	\$ -
Auxiliary enterprise revenues	88,782.62	-	-	-	-	-
State appropriations	-	89,400.00	-	196,786.35	-	-
Federal grants and contracts	-	3,846,338.74	-	-	-	-
State grants and contracts	-	277,168.55	-	-	-	-
Private gifts, grants, and contracts	-	19,230.65	-	-	-	-
Investment income	-	-	258.14	40,616.94	62,332.29	-
Interest on loans receivable	-	-	331.22	-	-	-
Reduction in doubtful accounts	-	-	2,346.99	-	-	-
Expended for plant facilities (including \$398,150.59 charged to current fund expenditures)	-	-	-	-	-	439,761.45
Library holdings revaluation	-	-	-	-	-	562,651.94
Other	-	-	142.00	-	-	-
Total revenues and other additions	11,489,767.64	4,232,137.94	3,078.35	237,403.29	62,332.29	1,002,413.39
EXPENDITURES AND OTHER DEDUCTIONS						
Education and general expenditures	11,564,550.60	4,110,569.60	-	-	-	-
Auxiliary enterprise expenditures	28,517.79	-	-	-	-	-
Indirect costs recovered	-	82,599.87	-	-	-	-
Refunded to grantors	-	-	4,860.00	-	-	-
Loan cancellations and write-offs	-	-	3,817.24	-	-	-
Expended for plant facilities	-	-	-	8,300.86	33,310.00	-
Expended for noncapital items	-	-	-	198,733.57	-	-
Disposal of plant facilities	-	-	-	-	-	142,646.38
Total expenditures and other deductions	11,593,068.39	4,193,169.47	8,677.24	207,034.43	33,310.00	142,646.38
TRANSFERS AMONG FUNDS - ADDITIONS (DEDUCTIONS)						
Nonmandatory:						
Unexpended plant	(48,100.00)	-	-	48,100.00	-	-
Renewals and replacements	(4,295.52)	-	-	-	4,295.52	-
Loan funds	540.00	-	(540.00)	-	-	-
Total transfers	(51,855.52)	-	(540.00)	48,100.00	4,295.52	-
Net increases (decreases) for the year	(155,156.27)	38,968.47	(6,138.89)	78,468.86	33,317.81	859,767.01
Fund balance at July 1, 1997, restated (Note 9)	754,814.89	33,947.25	10,566.18	727,637.50	1,107,821.33	20,496,069.18
Fund balance at June 30, 1998	\$ 599,658.62	\$ 72,915.72	\$ 4,427.29	\$ 806,106.36	\$ 1,141,139.14	\$ 21,355,836.19

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

TENNESSEE BOARD OF REGENTS
CLEVELAND STATE COMMUNITY COLLEGE
STATEMENT OF CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 1997

	Current Funds			Plant Funds		
	Unrestricted	Restricted	Loan Funds	Unexpended	Renewals and Replacements	Investment In Plant
REVENUES AND OTHER ADDITIONS						
Unrestricted current funds revenues	\$ 11,258,183.04	\$ -	\$ -	\$ -	\$ -	\$ -
Auxiliary enterprise revenues	107,193.65	-	-	-	-	-
State appropriations	-	92,184.00	-	3,597.56	-	-
Federal grants and contracts	-	3,073,527.80	-	-	-	-
State grants and contracts	-	256,562.25	-	-	-	-
Private gifts, grants, and contracts	-	79,555.08	-	-	-	-
Investment income	-	-	122.03	33,654.37	46,477.03	-
Interest on loans receivable	-	-	684.04	-	-	-
Reduction in doubtful accounts	-	-	2,310.73	-	-	-
Expended for plant facilities (including \$499,680.94 charged to current fund expenditures)	-	-	-	-	-	673,862.66
Library holdings revaluation (Note 8)	-	-	-	-	-	2,298,205.78
Other	-	-	130.00	-	-	-
Total revenues and other additions	11,365,376.69	3,501,829.13	3,246.80	37,251.93	46,477.03	2,972,068.44
EXPENDITURES AND OTHER DEDUCTIONS						
Education and general expenditures (Note 10)	11,235,794.90	3,473,869.49	-	-	-	-
Auxiliary enterprise expenditures	35,239.24	-	-	-	-	-
Indirect costs recovered	-	90,760.79	-	-	-	-
Refunded to grantors	-	4,043.75	-	-	-	-
Loan cancellations and write-offs	-	-	2,335.41	-	-	-
Administrative and collections costs	-	-	348.92	-	-	-
Expended for plant facilities	-	-	-	166,450.00	7,731.72	-
Expended for noncapital items	-	-	-	4,354.32	-	-
Disposal of plant facilities	-	-	-	-	-	141,777.17
Total expenditures and other deductions	11,271,034.14	3,568,674.03	2,684.33	170,804.32	7,731.72	141,777.17
TRANSFERS AMONG FUNDS - ADDITIONS (DEDUCTIONS)						
Nonmandatory:						
Unexpended plant	(88,100.00)	-	-	88,100.00	-	-
Renewals and replacements	(205,241.67)	-	-	-	205,241.67	-
Total transfers	(293,341.67)	-	-	88,100.00	205,241.67	-
Net increases (decreases) for the year	(198,999.12)	(66,844.90)	562.47	(45,452.39)	243,986.98	2,830,291.27
Fund balance at July 1, 1996, restated (Note 10)	953,814.01	100,792.15	10,003.71	773,089.89	863,834.35	18,199,565.21
Fund balance at June 30, 1997	\$ 754,814.89	\$ 33,947.25	\$ 10,566.18	\$ 727,637.50	\$ 1,107,821.33	\$ 21,029,856.48

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

TENNESSEE BOARD OF REGENTS
CLEVELAND STATE COMMUNITY COLLEGE
STATEMENT OF CURRENT FUNDS REVENUES, EXPENDITURES, AND OTHER CHANGES
FOR THE YEAR ENDED JUNE 30, 1998

	Unrestricted	Restricted	Total
REVENUES			
Tuition and fees	\$ 2,978,393.60	\$ -	\$ 2,978,393.60
State appropriations	7,976,800.00	89,400.00	8,066,200.00
Federal grants and contracts	88,576.69	3,738,649.60	3,827,226.29
State grants and contracts	-	274,707.71	274,707.71
Private gifts, grants, and contracts	12,579.50	7,812.29	20,391.79
Investment income	110,211.45	-	110,211.45
Sales and services of educational activities	117,070.70	-	117,070.70
Sales and services of auxiliary enterprises	88,782.62	-	88,782.62
Other sources	117,353.08	-	117,353.08
Total current revenues	11,489,767.64	4,110,569.60	15,600,337.24
EXPENDITURES AND TRANSFERS			
Educational and general:			
Expenditures:			
Instruction	6,277,022.04	235,024.75	6,512,046.79
Public service	64,678.12	2,422,198.42	2,486,876.54
Academic support	725,053.68	4,840.20	729,893.88
Student services	1,446,109.74	48,000.00	1,494,109.74
Institutional support	1,568,263.94	5,238.00	1,573,501.94
Operation and maintenance of plant	1,383,384.81	-	1,383,384.81
Scholarships and fellowships	100,038.27	1,395,268.23	1,495,306.50
Total educational and general expenditures	11,564,550.60	4,110,569.60	15,675,120.20
Nonmandatory transfers for:			
Unexpended plant	48,100.00	-	48,100.00
Loan funds	(540.00)	-	(540.00)
Total educational and general	11,612,110.60	4,110,569.60	15,722,680.20
Auxiliary enterprises			
Expenditures	28,517.79	-	28,517.79
Nonmandatory transfer for:			
Renewals and replacements	4,295.52	-	4,295.52
Total auxiliary enterprises	32,813.31	-	32,813.31
Total expenditures and transfers	11,644,923.91	4,110,569.60	15,755,493.51
OTHER ADDITION (DEDUCTION)			
Excess of restricted receipts over transfers to revenues	-	121,568.34	121,568.34
Indirect costs recovered	-	(82,599.87)	(82,599.87)
Net increase (decreases) in fund balances	\$ (155,156.27)	\$ 38,968.47	\$ (116,187.80)

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

TENNESSEE BOARD OF REGENTS
CLEVELAND STATE COMMUNITY COLLEGE
STATEMENT OF CURRENT FUNDS REVENUES, EXPENDITURES, AND OTHER CHANGES
FOR THE YEAR ENDED JUNE 30, 1997

	Unrestricted	Restricted	Total
REVENUES			
Tuition and fees	\$ 2,644,778.16	\$ -	\$ 2,644,778.16
State appropriations	8,135,200.00	102,607.21	8,237,807.21
Federal grants and contracts	95,257.78	2,992,304.49	3,087,562.27
State grants and contracts	-	298,386.07	298,386.07
Private gifts, grants, and contracts	40,645.00	80,571.72	121,216.72
Investment income	101,404.03	-	101,404.03
Sales and services of educational activities	98,935.46	-	98,935.46
Sales and services of auxiliary enterprises	107,193.65	-	107,193.65
Other sources	141,962.61	-	141,962.61
Total current revenues	11,365,376.69	3,473,869.49	14,839,246.18
EXPENDITURES AND TRANSFERS			
Educational and general (Note 10):			
Expenditures:			
Instruction	6,087,820.64	276,341.05	6,364,161.69
Public service	43,192.44	1,801,820.86	1,845,013.30
Academic support	698,757.74	5,760.32	704,518.06
Student services	1,506,848.67	80,755.75	1,587,604.42
Institutional support	1,446,583.91	1,610.34	1,448,194.25
Operation and maintenance of plant	1,343,564.95	-	1,343,564.95
Scholarships and fellowships	109,026.55	1,307,581.17	1,416,607.72
Total educational and general expenditures	11,235,794.90	3,473,869.49	14,709,664.39
Nonmandatory transfers for:			
Unexpended plant	88,100.00	-	88,100.00
Renewals and replacements	200,000.00	-	200,000.00
Total educational and general	11,523,894.90	3,473,869.49	14,997,764.39
Auxiliary enterprises			
Expenditures	35,239.24	-	35,239.24
Nonmandatory transfer for:			
Renewals and replacements	5,241.67	-	5,241.67
Total auxiliary enterprises	40,480.91	-	40,480.91
Total expenditures and transfers	11,564,375.81	3,473,869.49	15,038,245.30
OTHER ADDITION (DEDUCTIONS)			
Excess of restricted receipts over transfers to revenues	-	27,959.64	27,959.64
Indirect costs recovered	-	(90,760.79)	(90,760.79)
Refunded to grantors	-	(4,043.75)	(4,043.75)
Net decreases in fund balances	\$ (198,999.12)	\$ (66,844.90)	\$ (265,844.02)

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

**Tennessee Board of Regents
Cleveland State Community College
Notes to the Financial Statements
June 30, 1998, and June 30, 1997**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

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

Basis of Presentation

The financial statements of the college have been prepared in conformity with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB). The college uses the AICPA College Guide model for accounting and financial reporting.

Basis of Accounting

The financial statements of the college have been prepared on the accrual basis, except that depreciation on plant assets is not recorded and revenues and expenditures of an academic term encompassing more than one fiscal year are reported solely in the fiscal year in which the term is predominantly conducted. All restricted resources are recorded as additions to the fund balances of the appropriate fund groups. Restricted current resources are then recorded as revenues during the period in which they are expended. The statement of current funds revenues, expenditures, and other changes is a statement of financial activities of current funds related to the current reporting period. It does not purport to present the results of operations or the net income or loss for the period, as would a statement of income or a statement of revenues and expenses.

To the extent that current funds are used to finance plant assets, the funds are accounted for as (1) expenditures, for normal replacement of movable equipment and library holdings, and (2) nonmandatory transfers, for all other cases.

Fund Accounting

To ensure observance of limitations and restrictions placed on the use of the resources available, the college maintains accounts in accordance with the principles of fund accounting. With this procedure, resources for various purposes are classified for accounting and reporting purposes into funds for specified activities or

**Tennessee Board of Regents
Cleveland State Community College
Notes to the Financial Statements (Cont.)
June 30, 1998, and June 30, 1997**

objectives. Separate accounts are maintained for each fund; however, in the accompanying financial statements, funds with similar characteristics have been combined into fund groups. Accordingly, all financial transactions have been recorded and reported by fund group.

Within each fund group, fund balances restricted by outside sources are so indicated and are distinguished from unrestricted funds which are allocated to specific purposes by the governing board. Externally restricted funds may be used only in accordance with the purposes established by the source of such funds and contrast with unrestricted funds over which the governing board retains full control to use in achieving any of its institutional purposes.

All gains and losses arising from the sale, collection, or other disposition of noncash assets are accounted for in the fund that owned such assets. Ordinary income derived from receivables and the like is accounted for in the fund owning such assets. All other unrestricted revenue is accounted for in the unrestricted current funds. Restricted gifts, grants, appropriations, and other restricted resources are accounted for in the appropriate restricted funds. Restricted current funds are reported as revenues and expenditures when expended for current operating purposes.

Current Funds

Unrestricted current funds consist of those funds over which the college retains full control for use in achieving any of its authorized institutional purposes. Auxiliary enterprise activities are included in unrestricted current funds and include the cafeteria, the bookstore, and vending. Restricted current funds are externally restricted and may be used only in accordance with the purposes established by their source.

Loan Funds

Loan funds consist of resources made available for student loans.

Plant Funds

The plant funds group consists of (1) funds set aside for the acquisition of physical properties for institutional purposes, (2) funds set aside for the renewal and replacement of institutional properties, and (3) funds expended for, and thus invested in, institutional properties.

Agency Funds

**Tennessee Board of Regents
Cleveland State Community College
Notes to the Financial Statements (Cont.)
June 30, 1998, and June 30, 1997**

In handling these funds, the college acts solely as an agent; consequently, transactions of these funds do not affect the college's operating statements.

Inventories

Inventories are valued at the lower of cost or market. All items are maintained on an average-cost or first-in, first-out basis.

Compensated Absences

The college's employees accrue annual leave at varying rates, depending on length of service or classification. Some employees also earn compensatory time. The amount of these liabilities and their related benefits are recorded in the current funds. Since the liability is expected to be funded primarily from future unrestricted revenue sources, a related allocation has been made to the current fund balances so that these fund balances reflect current available funds.

Allocation for Working Capital

The unrestricted fund balance is allocated for the amount of working capital. "Working capital" is defined as the total of all petty cash, accounts receivable, inventories, and prepaid expenses in the unrestricted fund at the balance sheet date, except for student receivables credited to deferred revenue, accrued interest, and amounts due on federal letters of credit, less the accrued benefits on accrued faculty salaries.

Plant Assets

The physical plant and equipment are stated at cost at date of purchase or at fair value at date of donation. Interest during construction has not been capitalized. Library books are valued at \$48 per volume, and other library holdings are valued at various standardized values which approximate current costs. Depreciation on the physical plant and equipment is not recorded.

In the case of service departments, the college charges renewal and replacement of plant assets to current expenditures; these charges are also reported as additions to funds for renewals and replacements.

Under a contract with the Tennessee Department of Labor, the college is the administrative entity and grant recipient for the Job Training Partnership Act in service delivery area 5 of the State of Tennessee. The title to all the equipment

**Tennessee Board of Regents
Cleveland State Community College
Notes to the Financial Statements (Cont.)
June 30, 1998, and June 30, 1997**

purchased by the college under the provisions of the act resides with the U. S. Department of Labor. Therefore, this equipment is not included in the college's plant fund assets.

NOTE 2. DEPOSITS

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

The laws of the State of Tennessee require that collateral be pledged to secure all uninsured deposits. Tennessee Board of Regents policies require that the market value of collateral pledged equal 105% of the uninsured deposits.

NOTE 3. PENSION PLANS

A. Defined Benefit Plan

During the year ended June 30, 1997, the college implemented GASB Statement 27, *Accounting for Pensions by State and Local Government Employers*. In accordance with that statement, at transition it was determined that a pension liability or asset does not exist for this plan.

Tennessee Consolidated Retirement System

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

**Tennessee Board of Regents
Cleveland State Community College
Notes to the Financial Statements (Cont.)
June 30, 1998, and June 30, 1997**

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

Funding Policy - Plan members are noncontributory. The college is required to contribute an actuarially determined rate. The current rate is 3.65% of annual covered payroll. Contribution requirements for the college are established and may be amended by the TCRS' Board of Trustees. The college's contribution to TCRS for the year ended June 30, 1998, was \$191,063.94; for the year ended 1997, was \$392,803.97; and for the year ended 1996 was \$350,351.62. Contributions met the requirements for each year.

B. Defined Contribution Plans

Optional Retirement Plans (ORP)

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

Funding Policy - Plan members are noncontributory. The college contributes an amount equal to 10% of the employee's base salary up to the social security wage base and 11% above the social security wage base. Contribution requirements are established and amended by state statute. The contribution made by the college to the plans for the year ended June 30, 1998, was \$173,856.86, and for the year ended June 30, 1997, was \$155,136.79. Contributions met the requirements for each year.

**Tennessee Board of Regents
Cleveland State Community College
Notes to the Financial Statements (Cont.)
June 30, 1998, and June 30, 1997**

NOTE 4. OTHER POST-EMPLOYMENT BENEFITS

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

NOTE 5. INSURANCE-RELATED ACTIVITIES

The state purchases commercial insurance for real property losses above \$5 million per year and surety bond coverage on the state's officials and employees. In the past three fiscal years, the state has not had any claims filed with the commercial insurer. A designation for casualty losses in the amount of \$5 million has been established in the state's general fund to provide for any property losses not covered by the commercial insurance.

At June 30, 1998, the scheduled coverage for the college was \$21,527,700 for buildings and \$8,124,000 for contents. At June 30, 1997, the scheduled coverage was \$21,260,900 for buildings and \$8,130,000 for contents.

The state has set aside assets for claim settlement in an internal service fund, the Claims Award Fund. This fund services all claims for risk of loss to which the state is exposed, including general liability, automotive liability, professional malpractice, and workers' compensation. The college participates in the Claims Award Fund. The fund allocates the cost of providing claims servicing and claims payment by charging a premium to the college based on a percentage of the college's expected loss costs, which include both experience and exposures. This charge considers recent trends in actual claims experience of the state as a whole. An actuarial valuation is performed as of fiscal year-end to determine the fund liability and premium allocation. Since the college participates in the Claims Award Fund, it is subject to the liability limitations under the provisions of the Tennessee Claims Commission Act, *Tennessee Code Annotated*, Section 9-8-101 et seq. Liability for negligence of the college for bodily injury and property damage is limited to \$300,000 per person and \$1,000,000 per occurrence. The limits of liability under workers' compensation are set forth in *Tennessee Code Annotated*, Section 50-6-101 et seq. Claims are paid through the state's Claims Award Fund.

**Tennessee Board of Regents
Cleveland State Community College
Notes to the Financial Statements (Cont.)
June 30, 1998, and June 30, 1997**

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

NOTE 6. COMMITMENTS AND CONTINGENCIES

Sick Leave - The college records the cost of sick leave when paid. Generally, since sick leave (earned one day per month with unlimited accumulation) is paid only when an employee dies or is absent because of illness, injury, or related family death, there is no liability for sick leave at June 30. The dollar amount of unused sick leave was \$3,803,986.90 at June 30, 1998, and \$3,673,905.20 at June 30, 1997.

Operating Leases - The college has entered into various operating leases for buildings and equipment. Such leases will probably continue to be required. Expenditures under operating leases for real property were \$8,680.00 and for personal property were \$41,750.32 for the year ended June 30, 1998. The amounts for the year ended June 30, 1997, were \$22,880.00 and \$63,888.38. All operating leases are cancelable at the lessee's option.

Construction in Progress - At June 30, 1998, outstanding commitments under construction contracts totaled \$75,028.30 for roofing projects, which will be funded by future state capital outlay appropriations.

**Tennessee Board of Regents
Cleveland State Community College
Notes to the Financial Statements (Cont.)
June 30, 1998, and June 30, 1997**

NOTE 7. AFFILIATED ENTITY NOT INCLUDED

The college is the sole beneficiary of the Cleveland State Community College Foundation. This private, nonprofit foundation is controlled by a board independent of the college. The financial records, investments, and other financial transactions are not handled by the college, and these amounts are not included in the college's financial statements. As reported in the foundation's most recently audited financial report, at June 30, 1998, the foundation's assets totaled \$3,449,252.00 and the fund balance amounted to \$3,449,252.00.

NOTE 8. CHANGE IN ESTIMATE OF LIBRARY HOLDINGS STANDARDIZED VALUES

At June 30, 1997, the value for library books was increased from \$20 per volume to \$48 per volume, and the standardized values for other library holdings were also increased/decreased by various amounts. As a result of the revaluation, library books and other library holdings increased by \$1,760,136 and \$291,264, and net investment in plant, under the investment in plant fund subgroup, increased by \$2,051,400 at June 30, 1997.

NOTE 9. CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE

During the year ended June 30, 1998, the threshold for capitalizing equipment increased from \$500 to \$1,000. As a result of the change, equipment decreased by \$533,787.30. The cumulative effect of this change in accounting principle is reported in Exhibit B of the accompanying financial statements as a restatement of the beginning fund balance.

NOTE 10. PRIOR-YEAR RESTATEMENT

The college implemented GASB Statement 16, *Accounting for Compensated Absences*. As a result, the beginning fund balance for unrestricted current funds on Exhibit C was decreased by \$439,335.75. Also, total unrestricted educational and general expenditures for the year ended June 30, 1997 (Exhibits C and E) were decreased by \$9,933.54, and the compensated absence liability of \$429,402.21 at June 30, 1997, is shown in Exhibit A.

**Tennessee State Board of Regents
Cleveland State Community College
Required Supplementary Information
Disclosure of Year 2000 Issues**

The Year 2000 Issue (Y2K) arises because many computer software programs allocate two digits to the data field for year on the assumption that the first two digits will be 19. Such programs will thus interpret the year 2000 as the year 1900, the year 2001 as 1901, etc., absent reprogramming. Y2K affects both computer hardware (i.e., the embedded logic of computer chips) and computer software and could affect both the ability to enter data into the computer programs and the ability of such programs to correctly process data.

Cleveland State Community College has established a Y2K Coordinator to facilitate Y2K remediation efforts. The college has assessed the impact of Y2K on its computer systems and other electronic equipment. Computer systems are defined as both (1) programmed application systems that provide fiscal and administrative services and (2) supporting hardware and software computer systems infrastructure upon which the application systems reside and are processed. Other electronic equipment includes systems and devices other than traditional computer information systems that may utilize embedded chips in their operations.

The college has determined that certain computer systems are mission critical, certain are critical, and certain are supportive. Mission-critical computer systems are those for which there are no reliable manual alternatives, and for which failure to be in Y2K compliance would prevent the college from fulfilling its mission. Critical computer systems are those for which there are manual alternatives, but the college would unlikely be able to fully or efficiently perform the functions manually because of the volume of manual activity that would be required. Supportive computer systems are those for which there are manual alternatives and the college expects to be able to perform such functions manually, if necessary.

Cleveland State Community College has identified three mission-critical computer application systems: the Financial Records Systems (FRS), the Human Resource System (HRS), and the Student Information System (SIS). FRS and SIS have completed the validation/testing stage. This stage is defined as validating and testing the changes made during the remediation stage. HRS is in the assessment and remediation stages. The "assessment stage" is defined as identifying the systems and components for which year 2000 compliance work is needed. The "remediation stage" is defined as making changes to systems and equipment. We expect HRS to complete the validation/testing stage by June 1, 1999.

The college's mid-level computer system provides the supporting computer systems infrastructure upon which the college's application systems reside and are processed. The mid-level system represents multiple hardware and software components to include a central processor, workstations, and network operating system. The college determined that these components are currently in the validation/testing stage.

**Tennessee State Board of Regents
Cleveland State Community College
Required Supplementary Information (Cont.)
Disclosure of Year 2000 Issues**

The college identified other electronic equipment items as critical to conducting operations and determined that these systems are currently in the validation/testing stage.

The completion of all stages identified as necessary to address the Y2K issue is not a guarantee that systems and equipment will be Y2K compliant.

The college's Y2K initiatives did not result in the commitment of significant financial resources as of the end of the reporting period. Cleveland State Community College is not aware of any circumstances or significant costs to achieve Y2K compliance that will have a negative impact on the operations or financial status of the institution.