AUDIT REPORT

Tennessee Board of Regents
Nashville State Community College

For the Years Ended
June 30, 2009, and June 30, 2008

STATE OF TENNESSEE

COMPTROLLER OF THE TREASURY

Department of Audit

Division of State Audit

Tennessee Comptroller of the Treasury

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January 13, 2011

The Honorable Phil Bredesen, Governor
and
Members of the General Assembly
State Capitol
Nashville, Tennessee 37243
and
The Honorable John G. Morgan, Chancellor
Tennessee Board of Regents
1415 Murfreesboro Road, Suite 350
Nashville, Tennessee 37217
and
Dr. George H. Van Allen, President
Nashville State Community College
120 White Bridge Road
Nashville, Tennessee 37209

Ladies and Gentlemen:

Transmitted herewith is the financial and compliance audit of the Tennessee Board of Regents, Nashville State Community College, for the years ended June 30, 2009, and June 30, 2008. You will note from the independent auditor's report that unqualified opinions were given on the fairness of the presentation of the financial statements.

Consideration of internal control over financial reporting and tests of compliance disclosed a deficiency, which is detailed in the Results of the Audit section of this report. The college's administration has responded to the audit finding; the response is included following the finding. The Division of State Audit will follow up the audit to examine the application of the procedures instituted because of the audit finding.

Sincerely,

Arthur A. Hayes, Jr.

Arthur A. Hayes, Jr., CPA
Director

AAH/cd
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State of Tennessee

Audit Highlights

Comptroller of the Treasury Division of State Audit

Financial and Compliance Audit
Nashville State Community College
For the Years Ended June 30, 2009, and June 30, 2008

AUDIT OBJECTIVES

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

INTERNAL CONTROL FINDING

As Noted in the Prior Audit, the College Needs an Improved System of Internal Control for the Preparation of the College's Financial Statements
In the current audit, we again found that controls were not adequate to ensure that the financial statements were prepared in accordance with generally accepted accounting principles (page 9).

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

OPINIONS ON THE FINANCIAL STATEMENTS

The opinions on the financial statements are unqualified.

Audit Report
Tennessee Board of Regents
Nashville State Community College
For the Years Ended June 30, 2009, and June 30, 2008

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Tennessee Board of Regents
Nashville State Community College
For the Years Ended June 30, 2009, and June 30, 2008

INTRODUCTION

POST-AUDIT AUTHORITY

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

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

BACKGROUND

The idea for Tennessee's community college system was conceived in 1957 when the state legislature ordered a study of community college programs, a study which resulted in the Pierce-Albright Report. Acting on the recommendation of the Governor and the Department of Education, the General Assembly authorized the Department of Education to establish several community colleges throughout Tennessee.

In March 1963, the Tennessee General Assembly passed House Bill 633, authorizing the establishment of a statewide system of area vocational-technical schools and regional technical schools. Nashville State Technical Institute opened in the fall of 1970. Until 1983, the institute operated under the Tennessee State Board of Vocational-Technical Education. The 93rd General Assembly transferred the institute to the Tennessee Board of Regents July 1, 1983.

In April 2002, the General Assembly amended Section 49-8-101, *Tennessee Code Annotated*, and changed the name of Nashville State Technical Institute to Nashville State Technical Community College. A subsequent amendment, effective July 1, 2009, renamed the college Nashville State Community College.

The college offers two-year programs and certificates to prepare adults for employment as technicians in career areas. The programs lead to an Associate of Applied Science degree. Also, the college offers special programs and courses to meet the needs of industry, business, and government.

ORGANIZATION

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

AUDIT SCOPE

The audit was limited to the period July 1, 2007, through June 30, 2009, and was conducted in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in generally accepted government auditing standards. Financial statements are presented for the years ended June 30, 2009, and June 30, 2008. Nashville State Community College is an institution of the Tennessee Board of Regents, which is an integral part of state government. As such, the Tennessee Board of Regents has been included as a component unit in the *Tennessee Comprehensive Annual Financial Report.*

OBJECTIVES OF THE AUDIT

The objectives of the audit were

1. to consider the college's internal control over financial reporting to determine auditing procedures for the purpose of expressing opinions on the financial statements;

2. to determine compliance with certain provisions of laws, regulations, contracts, and grant agreements;

3. to determine the fairness of the presentation of the financial statements; and

4. to recommend appropriate actions to correct any deficiencies.

PRIOR AUDIT FINDINGS

Section 8-4-109, *Tennessee Code Annotated*, requires that each state department, agency, or institution report to the Comptroller of the Treasury the action taken to implement the recommendations in the prior audit report. The college filed its report with the Department of Audit on February 24, 2009. A follow-up of all prior audit findings was conducted as part of the current audit.

RESOLVED AUDIT FINDING

The current audit disclosed that the college has corrected the previous audit finding concerning internal controls relating to the reconciliation of bank accounts.

REPEATED AUDIT FINDING

The prior audit report also contained a finding concerning financial statement misstatements. This finding has not been resolved and is repeated in this report.

OBSERVATIONS AND COMMENTS

MANAGEMENT'S RESPONSIBILITY FOR RISK ASSESSMENT

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

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

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

FRAUD CONSIDERATIONS

Statement on Auditing Standards No. 99, *Consideration of Fraud in a Financial Statement Audit*, promulgated by the American Institute of Certified Public Accountants, requires auditors to specifically assess the risk of material misstatement of an audited entity's financial statements due to fraud. The standard also restates the obvious premise that management, not the auditors, is primarily responsible for preventing and detecting fraud in its own entity. Management's responsibility is fulfilled in part when it takes appropriate steps to assess the risk of fraud within the entity and to implement adequate internal controls to address the results of those risk assessments.

During our audit, we discussed these responsibilities with management and how management might approach meeting them. We also increased the breadth and depth of our inquiries of management and others in the entity as we deemed appropriate. We obtained formal assurances from top management that management had reviewed the entity's policies and procedures to ensure that they are properly designed to prevent and detect fraud and that management had made changes to the policies and procedures where appropriate. Top management further assured us that all staff had been advised to promptly alert management of all allegations of fraud, suspected fraud, or detected fraud and to be totally candid in all communications with the auditors. All levels of management assured us there were no known instances or allegations of fraud that were not disclosed to us.

TECHNOLOGY CENTERS

Nashville State Community College serves as the lead institution under agreements with the Tennessee Technology Center at Dickson and the Tennessee Technology Center at Nashville. Under these agreements, Nashville State Community College performs the accounting and reporting functions for the centers. The chief administrative officer of each center is the director, who is assisted and advised by members of the faculty and administrative staff. Each director is responsible to the Chancellor of the Tennessee Board of Regents.

RESULTS OF THE AUDIT

AUDIT CONCLUSIONS

Internal Control

As part of the audit of the college's financial statements for the years ended June 30, 2009, and June 30, 2008, we considered internal control over financial reporting as a basis for designing auditing procedures for the purpose of expressing opinions on the financial statements, as required by auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in generally accepted government auditing standards. Consideration of internal control over financial reporting disclosed a material weakness.

Compliance and Other Matters

The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under generally accepted government auditing standards.

Fairness of Financial Statement Presentation

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

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

November 12, 2010

The Honorable Phil Bredesen, Governor
and
Members of the General Assembly
State Capitol
Nashville, Tennessee 37243
and
The Honorable John G. Morgan, Chancellor
Tennessee Board of Regents
1415 Murfreesboro Road, Suite 350
Nashville, Tennessee 37217
and
Dr. George H. Van Allen, President
Nashville State Community College
120 White Bridge Road
Nashville, Tennessee 37209

Ladies and Gentlemen:

We have audited the financial statements of Nashville 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, 2009, and June 30, 2008, and have issued our report thereon dated November 12, 2010. During the year ended June 30, 2008, the college implemented GASB Statement 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions.*

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in generally accepted government auditing standards.

Internal Control Over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a deficiency in internal control over financial reporting that we consider to be a significant deficiency.

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

We consider the following deficiency to be a significant deficiency in internal control over financial reporting:

- As noted in the prior audit, the college needs an improved system of internal control for the preparation of the college's financial statements

This deficiency is described in the Finding and Recommendation section of this report.

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

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we consider the significant deficiency described above to be a material weakness.

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

Compliance and Other Matters

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

Nashville State Community College's response to the finding identified in our audit is included in the Finding and Recommendation section of this report. We did not audit the college's response and, accordingly, we express no opinion on it.

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

Sincerely,

Arthur A. Hayes, Jr., CPA
Director

AAH/cd

FINDING AND RECOMMENDATION

<u>As noted in the prior audit, the college needs an improved system of internal control for the preparation of the college's financial statements</u>

Finding

The previous audit report contained an audit finding concerning inadequate controls that resulted in errors in the financial statements of Nashville State Community College (NSCC). In the current audit, we again found that controls were not adequate to ensure that the financial statements were prepared in accordance with generally accepted accounting principles. Management concurred with the previous audit finding and stated that a notice was sent to all management personnel in the Business Office reminding them of the chain of command to follow for technical advice. Management further stated that the accounting management staff would meet twice per month to discuss accounting specific issues. Management further stated that the Vice President had stressed to Business Office management personnel the importance of good coordination in requesting, approving, executing, and reviewing accounting entries and transactions. However, errors continue to be made in financial reporting.

The Controller, with assistance from various Business Office staff, is responsible for the preparation of the financial statements. The Vice President of Finance and Administrative Services is responsible for the oversight and review of the reporting process and the financial statements.

<u>Errors on the Statements of Net Assets</u>

Our review of NSCC's Statements of Net Assets for the years ended June 30, 2009, and June 30, 2008, revealed errors affecting cash, net assets invested in capital assets, and deferred revenue.

- The college accounts for cash of the Tennessee Technology Centers at Dickson and Nashville. This cash, $2,617,069.23 for 2009 and $4,751,535.29 for 2008, was reported as noncurrent. It should have been reported as current cash as it was available to satisfy current liabilities. These errors were corrected in the audited financial statements.

- Invested in capital assets, net of related debt was understated on the June 30, 2009, Statement of Net Assets. The understatement resulted from total debt of $759,123.16 being deducted from capital assets, rather than just $34,588.86 related to the Chiller CFC Conversion. The total debt amount includes $724,534.30 for energy projects, which do not relate to specific capital assets and should not be included in the calculation for invested in capital assets, net of related debt. The error was corrected in the audited financial statements.

- Deferred revenue on the June 30, 2008, Statement of Net Assets was understated by $305,024.53 due to an error in NSCC's calculation of the Technology Access Fee portion of deferred revenue. NSCC reclassifies fees collected for summer terms but not earned by the fiscal year end of June 30 as deferred revenue. This calculation error, in turn, caused revenues for 2008 to be overstated and revenues for 2009 to be understated by the same amount. These errors were corrected in the audited financial statements.

Errors on the Statement of Revenues, Expenses, and Changes in Net Assets

On the college's 2008 Statement of Revenues, Expenses, and Changes in Net Assets, scholarships and fellowships expense was overstated by $251,089.72, and student tuition and fees revenue was overstated by the same amount. The reported amount for scholarships and fellowships was $1,882,554.05, whereas the correct amount should have been $1,631,464.33. The reported amount for student tuition and fees was $8,887,790.96, whereas the correct amount should have been $8,636,701.24. Incorrect year-end entries were made on the worksheet used in preparing the financial statements. An audit adjustment was made to correct both accounts.

Errors on the Statements of Cash Flows

Several errors were noted on the 2009 and 2008 NSCC cash flows statements. The errors primarily resulted from bond activity included in cash flows from operating activity, errors made in year-end adjusting entries, and changes in assets and liabilities in the reconciliation of operating loss to net cash used by operating activities not reconciling to the change in prior- and current-year amounts. Corrections were made to the audited financial statements.

2009	Unaudited	Audited
Cash flows from noncapital financing activities:		
Gifts and grants for other than capital purposes	10,077,026.59	10,942,626.59
Federal student loan receipts	9,850,367.42	12,933,603.77
Federal student loan disbursements	(9,850,367.42)	(12,933,603.77)
Reconciliation of operating loss to net cash used by operating activities:		
Change in assets and liabilities:		
Accounts payable	(354,240.75)	(119,184.07)
Accrued liabilities	735,523.07	740,808.76
Deferred revenue	1,078,641.32	(44,529.49)

Compensated absences	75,450.01	(2,339.04)
Other liabilities	0.00	(157,536.17)

2008

Cash flows from operating activities:		
Tuition and fees	7,983,585.41	8,470,454.18
Payments to suppliers and vendors	(4,711,799.96)	(5,449,758.45)
Payments for scholarships and fellowships	(1,650,253.30)	(1,399,163.58)
Reconciliation of operating loss to net cash used by operating activities:		
Other adjustments	(147,958.17)	(175,588.25)
Change in assets and liabilities:		
Receivables, net	(709,970.72)	(600,581.81)
Prepaid/deferred items	840,298.97	(13,467.79)
Accounts payable	781,532.41	25,361.41
Accrued liabilities	834,928.77	818,381.11
Deferred revenue	(1,303,053.85)	576,232.64
Compensated absences	72,964.59	55,698.50
Other long-term liabilities	0.00	4,093.54

Errors in the Notes to the Financial Statements

The Local Government Investment Pool (LGIP) totals in the investments note did not agree to LGIP totals in the cash note. The totals in the investments note only included LGIP totals for the college and excluded LGIP accounts for the technology centers. At June 30, 2009, and June 30, 2008, the college disclosed the fair value of LGIP investments as $24,589,161.18 and $19,091,929.06, respectively. The total LGIP funds that should have been disclosed were $31,748,302.11 at June 30, 2009, and $27,125,951.79 at June 30, 2008. Corrections were made in the audited notes to the financial statements.

These reporting errors were due to oversight and lack of understanding on preparation of the cash flows statement and resulted in significant misstatements in the college's unaudited financial statements. With an improved review process, the Vice President of Finance and Administrative Services could have detected and corrected these errors before the financial statements were completed.

Recommendation

More care should be taken in preparing the financial statements and notes. The Vice President of Finance and Administrative Services should give more oversight to the review of year-end journal entries and to the review of the financial statements and related notes.

Management should continue to evaluate risks and include them in documented risk assessments. Management should ensure that staff who are responsible for the design and implementation of internal controls to adequately mitigate those risks and to prevent and detect exceptions timely are continually evaluating those controls. Management should ensure that staff who are responsible for ongoing monitoring for compliance with all requirements are indeed monitoring and taking prompt action should exceptions occur. All controls and control activities, including monitoring, should be adequately documented.

Management's Comment

Management concurs with the finding and recommendation.

A formal financial statement review plan will be developed and implemented for fiscal year 2011. All Business Office managers will participate in the development and implementation of the plan. The plan will identify each manager's review responsibilities including the Vice President. Prior to implementation in fiscal year 2011, accounting personnel will participate in a pre-close session where the plan will be delineated and questions answered.

A comprehensive review of the risk assessment that was completed in the Business Office in fiscal year 2009 will be conducted in fiscal year 2011. Following that review, a training session will be held with accounting managers on the updated risk assessment to outline the changes and reinforce control responsibilities. The Vice President will review the control plans quarterly to ensure that proper monitoring has occurred and determine if additional training is needed.

A meeting with Business Office managers will be held in November 2010, to review the audit finding and the action plans for ensuring that the financial statements are prepared in accordance with generally accepted accounting principles.

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Independent Auditor's Report

November 12, 2010

The Honorable Phil Bredesen, Governor
and
Members of the General Assembly
State Capitol
Nashville, Tennessee 37243
and
The Honorable John G. Morgan, Chancellor
Tennessee Board of Regents
1415 Murfreesboro Road, Suite 350
Nashville, Tennessee 37217
and
Dr. George H. Van Allen, President
Nashville State Community College
120 White Bridge Road
Nashville, Tennessee 37209

Ladies and Gentlemen:

We have audited the accompanying basic financial statements of Nashville 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, 2009, and June 30, 2008, as listed in the table of contents. These financial statements are the responsibility of the college's management. Our responsibility is to express opinions on these financial statements, based on our audit.

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

As discussed in Note 1, the financial statements of Nashville 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 Nashville 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, 2009, and June 30, 2008, and the changes in its financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of Nashville State Community College, and its discretely presented component unit as of June 30, 2009, and June 30, 2008, and the respective changes in financial position and cash flows thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 16, during the year ended June 30, 2008, the college implemented GASB Statement 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions.*

The management's discussion and analysis on pages 16 through 39 and the schedule of funding progress on page 67 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the basic financial statements. The accompanying financial information on page 68 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with generally accepted government auditing standards, we have also issued our report dated November 12, 2010, on our consideration of the college's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with generally accepted government auditing standards and should be considered in assessing the results of our audit.

Sincerely,

Arthur A. Hayes, Jr., CPA
Director

AAH/cd

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

This section of Nashville State Community College's report presents a discussion and analysis of the financial performance of the college during the fiscal years ended June 30, 2009, and June 30, 2008, with comparative information presented for the fiscal year ended June 30, 2007. This discussion has been prepared by management along with the financial statements and related note disclosures and should be read in conjunction with the independent auditor's report, the audited financial statements, and accompanying notes. The financial statements, notes, and this discussion are the responsibility of management.

The college has one discretely presented component unit, the Nashville State Community College Foundation. More detailed information about the college's component unit is presented in Note 18 to the financial statements. Information regarding the component unit is also included in this section.

Using This Report

This report consists of three basic financial statements. The Statement of Net Assets; the Statement of Revenues, Expenses, and Changes in Net Assets; and the Statement of Cash Flows provide information on Nashville State Community College as a whole and present a long-term view of the college's finances.

The Statement of Net Assets

The Statement of Net Assets presents the financial position of the college at the end of the fiscal year and includes all assets and liabilities of the college. The difference between total assets and total liabilities—net assets—is an indicator of the current financial condition of the college. Assets and liabilities are generally measured using current values. One notable exception is capital assets, which are stated at historical cost less an allowance for depreciation.

Net assets are divided into three major categories. The first category, invested in capital assets, net of related debt, provides the college's equity in property, plant, and equipment owned by the college. The next asset category is restricted net assets, which is divided into two categories, nonexpendable and expendable. The corpus of nonexpendable restricted resources is only available for investment purposes. Expendable restricted net assets are available for expenditure by the college but must be spent for purposes as determined by donors and/or external entities that have placed time or purpose restrictions on the use of the assets. The final category is unrestricted net assets. Unrestricted net assets are available to the institution for any lawful purpose of the institution.

Nashville State Community College
Condensed Statements of Net Assets
(in thousands of dollars)

	2009	2008	2007
Assets:			
Current assets	$15,938	$14,708	$ 8,968
Capital assets, net	30,833	22,647	18,304
Other assets	19,144	14,730	14,882
Total assets	**65,915**	**52,085**	**42,154**
Liabilities:			
Current liabilities	9,657	9,669	7,458
Noncurrent liabilities	2,586	1,980	1,275
Total liabilities	**12,243**	**11,649**	**8,733**
Net assets:			
Invested in capital assets, net of related debt	30,798	22,602	17,469
Restricted – nonexpendable	5	5	5
Restricted – expendable	919	795	397
Unrestricted	21,950	17,034	15,550
Total net assets	**$53,672**	**$40,436**	**$33,421**

Comparison of FY 2009 to FY 2008

- Total assets increased in FY09 due to increases in capital projects related to the construction of the new Student Services Building, infrastructure improvements of parking areas, and renovation of existing buildings.
- The increase of total net assets in FY09 is due to an increase in capital projects and infrastructure improvements connected to the construction of the new Student Services Building and existing building renovations.

Comparison of FY 2008 to FY 2007

- The primary cause for the increase in current assets and net assets was capital projects funding for the Student Services Building under construction.
- The increase in current liabilities is primarily due to an increase in technology center cash shown as deposits held in custody for others.

- The increase in unrestricted net assets is attributable to income before other revenues, expenses, or losses.
- The increase in restricted expendable net assets is primarily due to increases in scholarship and instructional department uses funds.

Nashville State Community College Foundation
Condensed Statements of Net Assets
(in thousands of dollars)

	2009	2008	2007
Assets:			
Current assets	$669	$728	$761
Total Assets	**669**	**728**	**761**
Liabilities:			
Current liabilities	1	5	10
Total Liabilities	**1**	**5**	**10**
Net assets:			
Restricted – nonexpendable	203	222	260
Restricted – expendable	171	189	237
Unrestricted	294	312	254
Total Net Assets	**$668**	**$723**	**$751**

Comparison of FY 2009 to FY 2008

- Current assets decreased in FY09 due to declines in market values of investments.
- Current liabilities decreased due to decreases in all areas of accounts payables.
- Restricted nonexpendable net assets decreased due to decreased market value.
- Restricted expendable net assets decreased due to scholarship expenditures exceeding gifts.
- Unrestricted net assets decreased due to declines in the net income from special events and reduced private gifts.

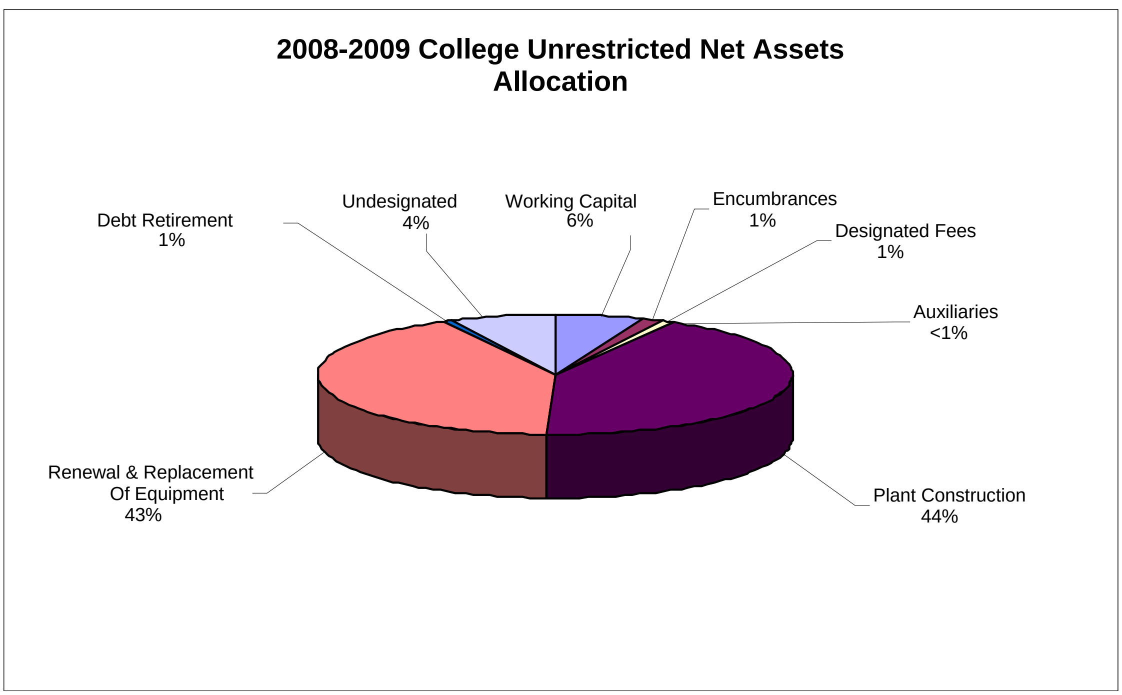
Comparison of FY 2008 to FY 2007

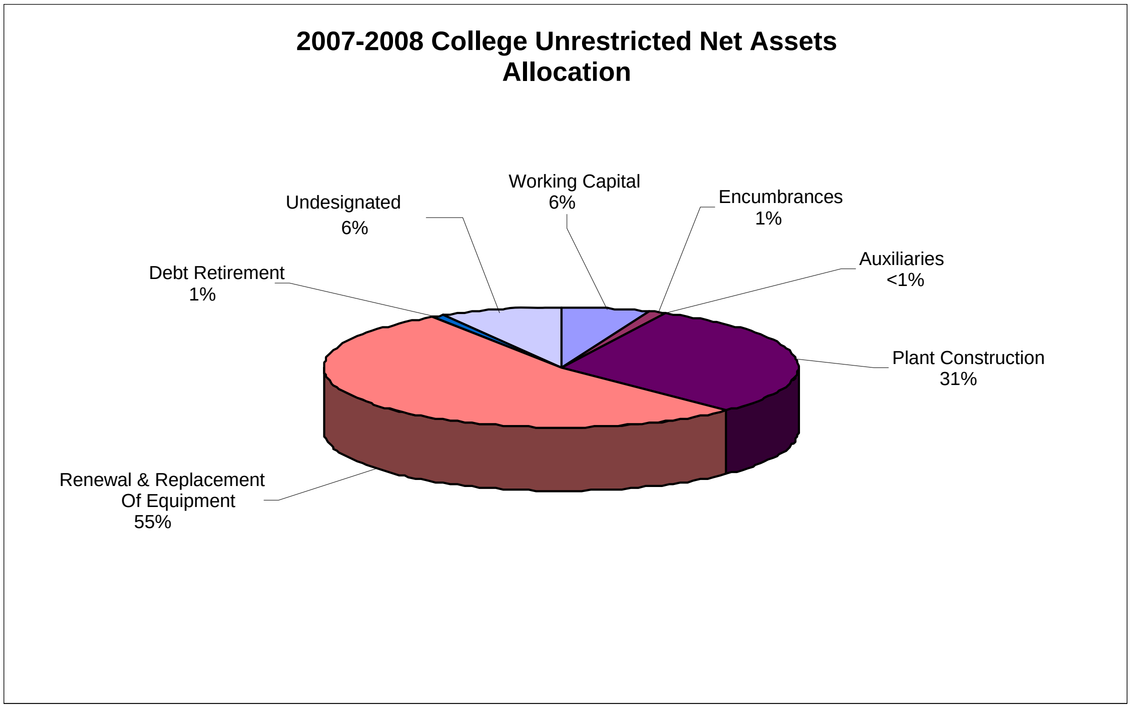
- Current assets decreased in FY08 primarily due to a transfer of scholarships and three endowment funds to the Upper Cumberland Foundation. Investments also decreased due to a decline in market values.

- Restricted nonexpendable net assets decreased primarily due to a transfer of three endowment funds to the Upper Cumberland Foundation.
- There were two new endowment gifts, $30,000 from the Nissan Foundation and $10,000 from John Mayfield. The foundation board also authorized a $10,000 match that was transferred from unrestricted and declared $10,000 of restricted scholarship donations for the Jacob Roberts Memorial Endowment.
- Restricted expendable net assets decreased due to a transfer of $14,042.48 in scholarship funds to the Upper Cumberland Foundation and restricted scholarship expenditures.
- Unrestricted net assets increased primarily due to increased special event revenues and increased unrestricted gifts.

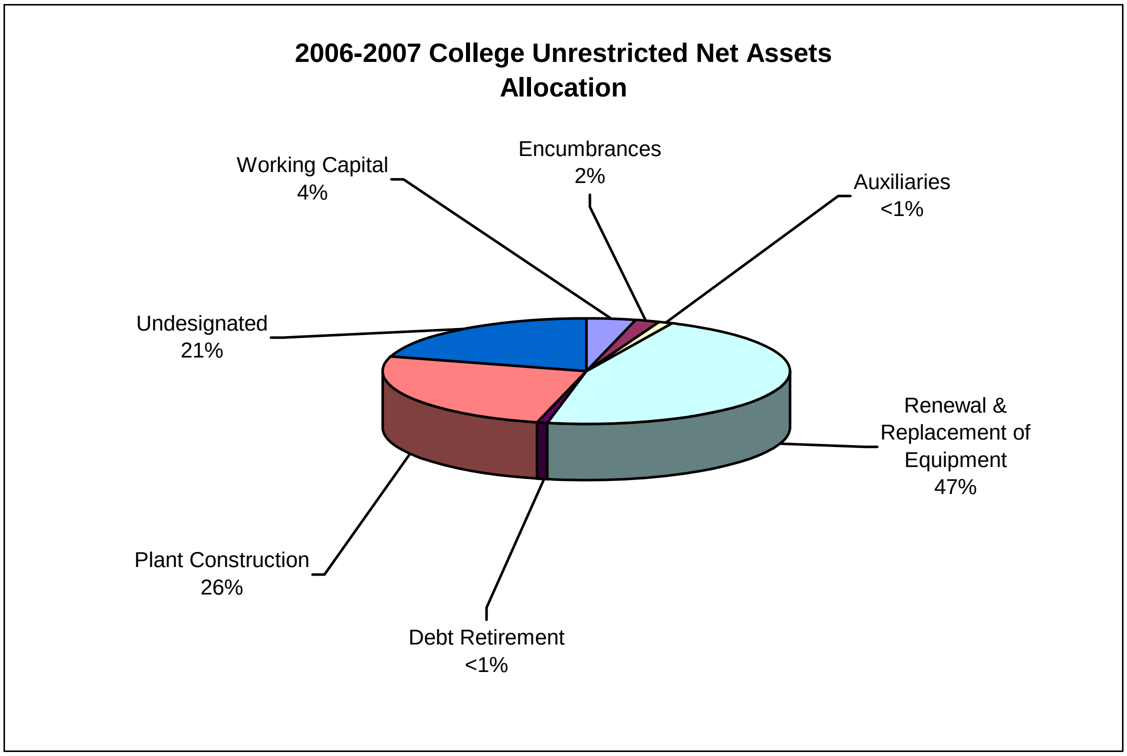
Many of the college's unrestricted net assets have been designated for specific purposes such as repairs and replacement of equipment, future debt service, quasi-endowments, capital projects, and student loans. The following charts show the allocations:

College





2007-2008 College Unrestricted Net Assets Allocation
Working Capital 6%
Encumbrances 1%
Auxiliaries <1%
Plant Construction 31%
Renewal & Replacement Of Equipment 55%
Debt Retirement 1%
Undesignated 6%



2006-2007 College Unrestricted Net Assets Allocation
Working Capital 4%
Encumbrances 2%
Auxiliaries <1%
Renewal & Replacement of Equipment 47%
Debt Retirement <1%
Plant Construction 26%
Undesignated 21%

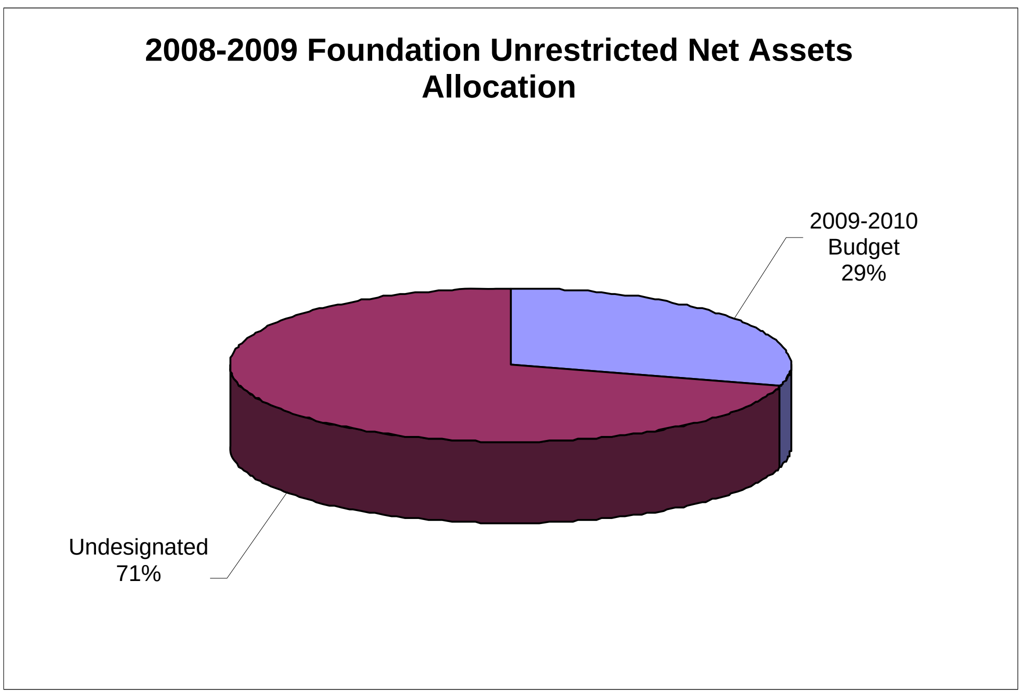
Comparison of FY 2009 to FY 2008

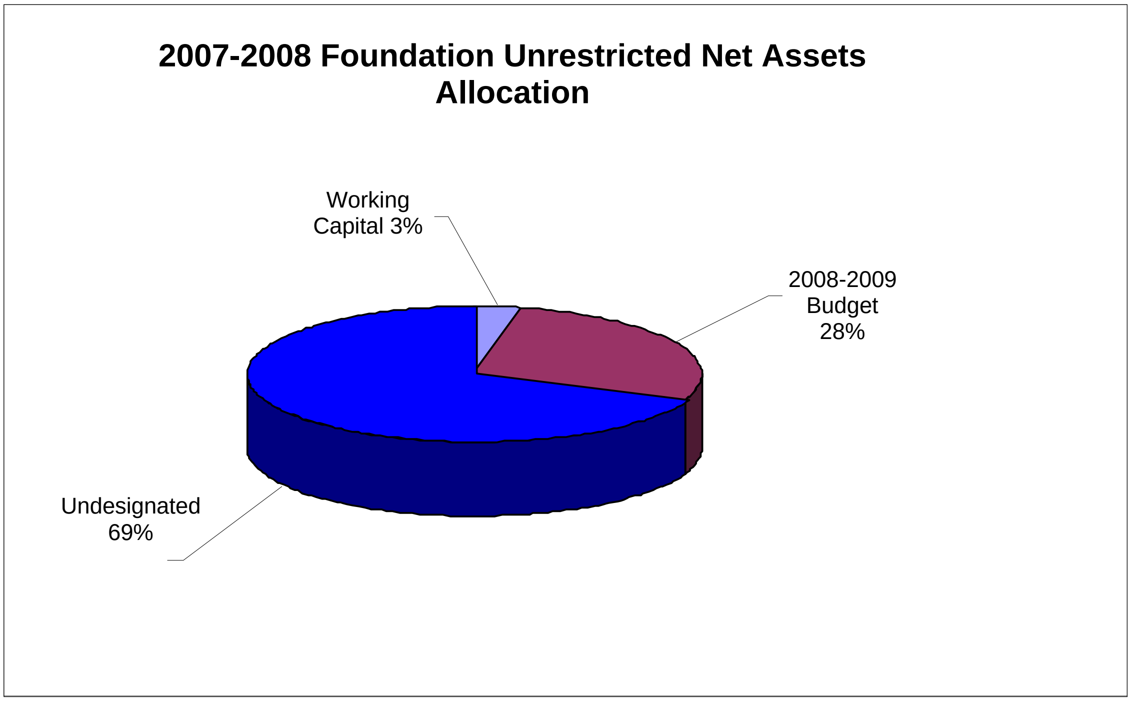
Plant construction and renewals and replacement of equipment both showed increases due to the continued construction of the new Student Services Building and additional equipment purchases. A segment has been added in FY09 for Technology Access Fee carryforward funds.

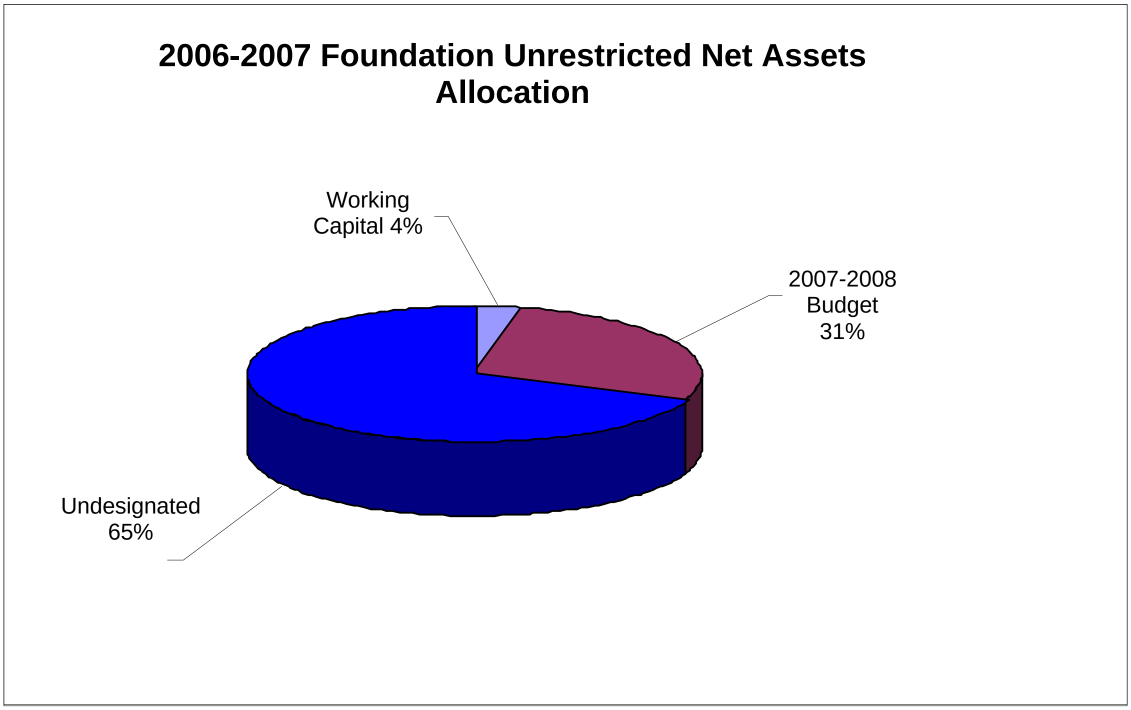
Comparison of FY 2008 to FY 2007

Plant construction on the Student Services Building represents the major change in allocations for unrestricted net assets.

Foundation




2007-2008 Foundation Unrestricted Net Assets Allocation
Working Capital 3%
2008-2009 Budget 28%
Undesignated 69%


2006-2007 Foundation Unrestricted Net Assets Allocation
Working Capital 4%
2007-2008 Budget 31%
Undesignated 65%

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

The Statement of Revenues, Expenses, and Changes in Net Assets presents the operating results of the college, as well as the nonoperating revenues and expenses. Annual state appropriations, while budgeted for operations, are considered nonoperating revenues according to accounting principles generally accepted in the United States of America.

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

	2009	2008	2007
Operating revenues:			
Net tuition and fees	$ 9,521	$ 8,332	$ 8,539
Grants and contracts	3,602	2,889	2,672
Auxiliary	268	270	211
Other	311	302	303
Total operating revenues	**13,702**	**11,793**	**11,725**
Operating expenses	37,623	34,213	33,050
Operating loss	**(23,921)**	**(22,420)**	**(21,325)**
Nonoperating revenues and expenses:			
State appropriations	15,677	16,474	15,325
Gifts	187	178	233
Grants and contracts	9,890	6,859	6,284
Investment income	288	760	883
Other revenues and expenses	(33)	(183)	(30)
Total nonoperating revenues and expenses	**26,009**	**24,088**	**22,695**
Income before other revenues, expenses, gains, or losses	**2,088**	**1,668**	**1,370**
Other revenues, expenses, gains, or losses:			
Capital appropriations	11,148	5,347	609
Total other revenues, expenses, gains, or losses	**11,148**	**5,347**	**609**
Increase in net assets	**13,236**	**7,015**	**1,979**
Net asset at beginning of year	**40,436**	**33,421**	**31,442**
Net assets at end of year	**$53,672**	**$40,436**	**$33,421**

Comparison of FY 2009 to FY 2008

- Operating revenues decreased in FY09 due to declines in revenue from the scholarship banquet and golf tournament due to economic conditions.
- Investment revenue reflects a negative balance that significantly increased in FY09 due to declines in market value related to economic downturns.

Comparison of FY 2008 to FY 2007

- Operating revenues increased less than 8 percent overall, most of which is attributable to maintenance fee increases.
- Nonoperating revenues increased less than 7 percent overall, most of which is attributable to state appropriations increases.
- Other revenues increased by capital appropriations funding.

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

	2009	2008	2007
Operating revenues:			
Gifts	$ 76	$ 52	$ 81
Grants and contracts	-	-	62
Other	134	188	146
Total operating revenues	**210**	**240**	**289**
Operating expenses	210	206	222
Operating loss	**-**	**34**	**67**
Nonoperating revenues and expenses:			
Investment income (loss)	(66)	(15)	53
Payment to Upper Cumberland Foundation	-	(87)	-
Total nonoperating revenues and expenses	**(66)**	**(102)**	**53**
Income (loss) before other revenues, expenses, gains, or losses	**(66)**	**(68)**	**120**
Other revenues, expenses, gains, or losses:			
Additions to permanent endowments	11	40	26
Total other revenues, expenses, gains, or losses	**11**	**40**	**26**

Increase (decrease) in net assets	**(55)**	**(28)**	**146**
Net assets at beginning of year	**723**	**751**	**605**
Net assets at end of year	**$668**	**$723**	**$751**

Comparison of FY 2009 to FY 2008

- Operating revenues decreased in FY09 due to declines in revenue from the scholarship banquet and golf tournament due to economic conditions.
- Investment revenue reflects a negative balance that significantly increased in FY09 due to declines in market value related to economic downturns.

Comparison of FY 2008 to FY 2007

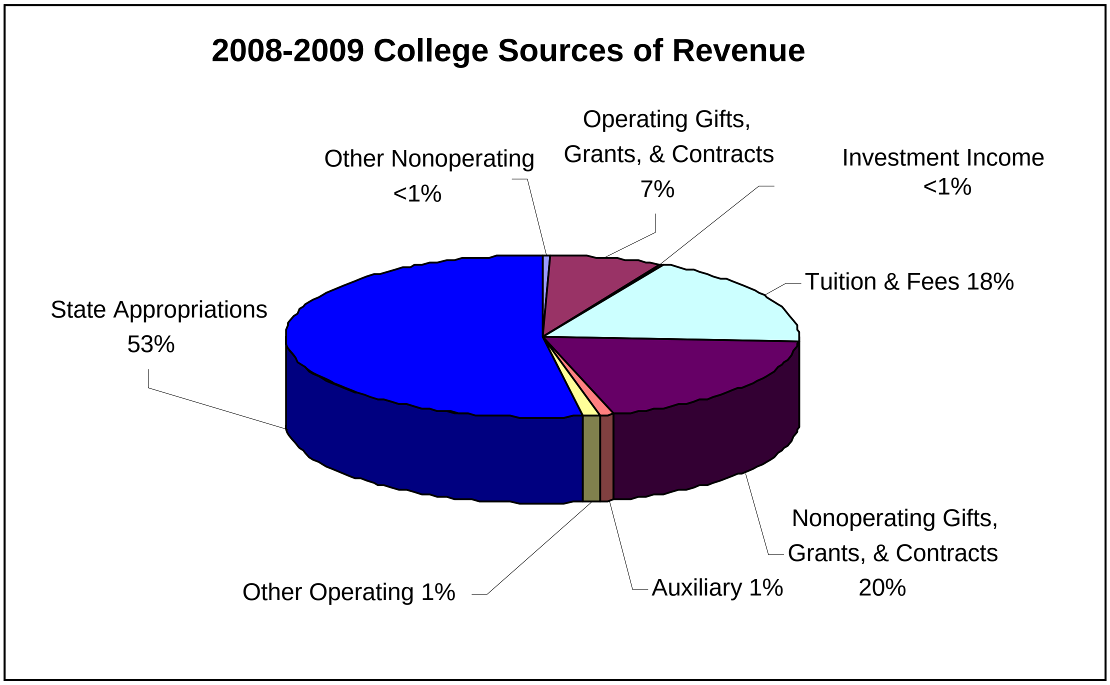
- The most significant change in operating revenues was increased special event revenues.
- Gifts declined due in part to the decision to move the faculty staff campaign to the academic year from the calendar year.
- There were no contracts or grants received by the foundation in FY08.
- Investment revenue was negative due to a decline in market value of investments.

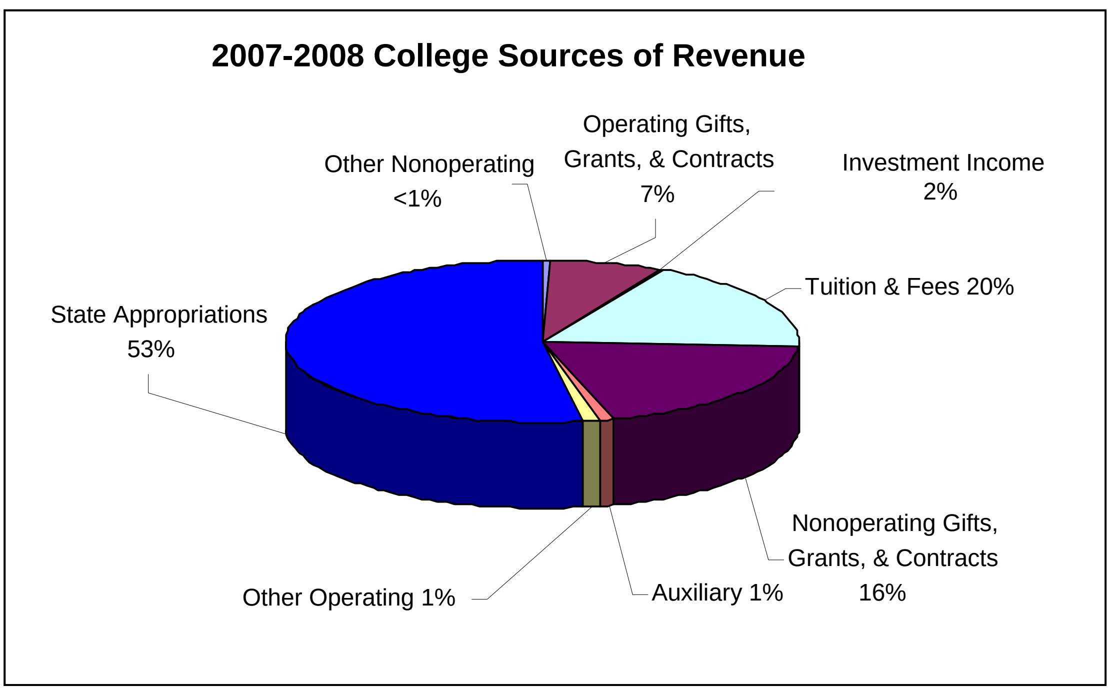
Revenues

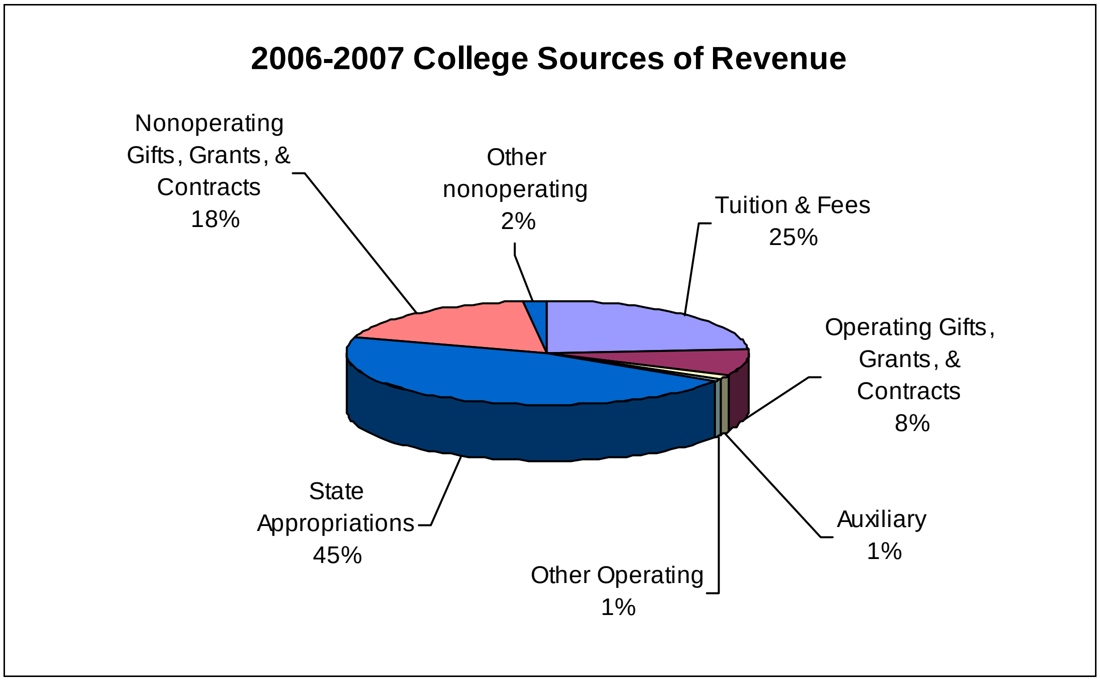
College

The following is a graphic illustration of revenues by source (both operating and nonoperating), which are used to fund the college's operating activities for the years ended June 30, 2009; June 30, 2008; and June 30, 2007.

Tennessee Board of Regents
Nashville State Community College
Management's Discussion and Analysis (Cont.)

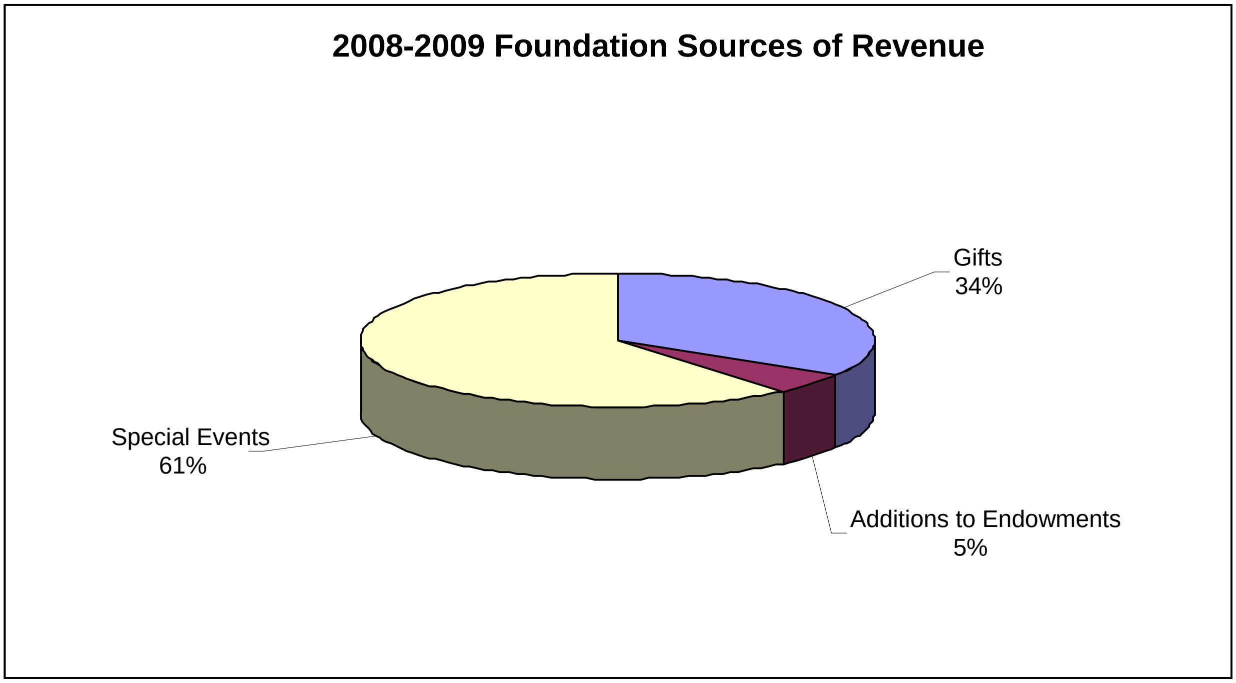


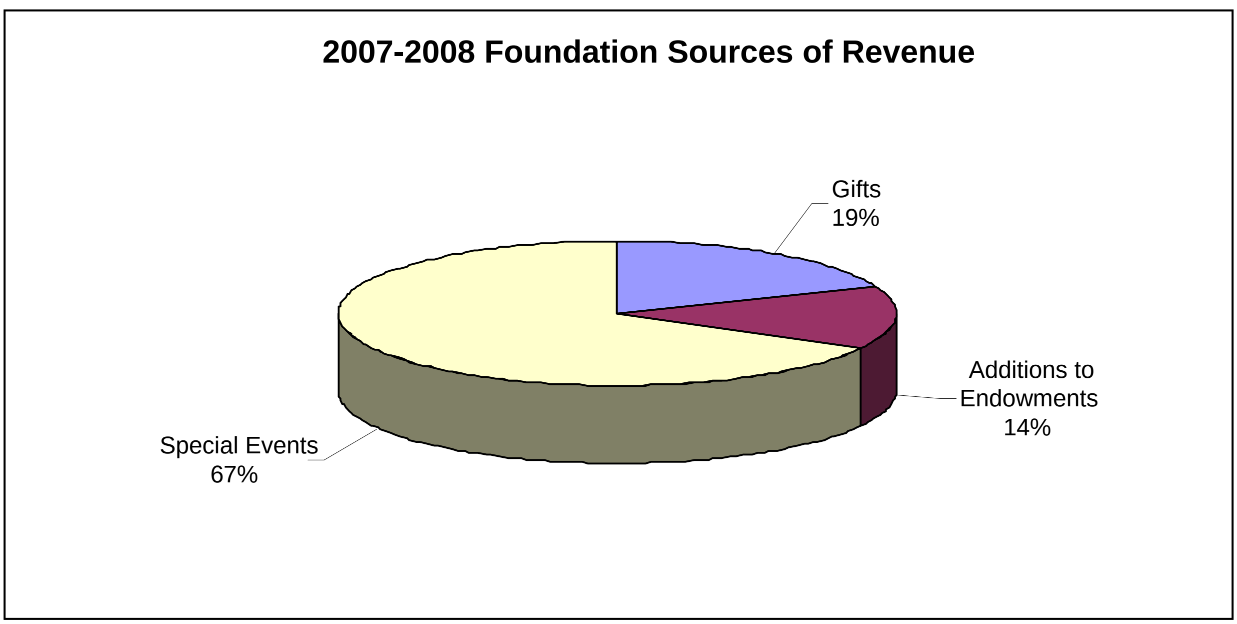


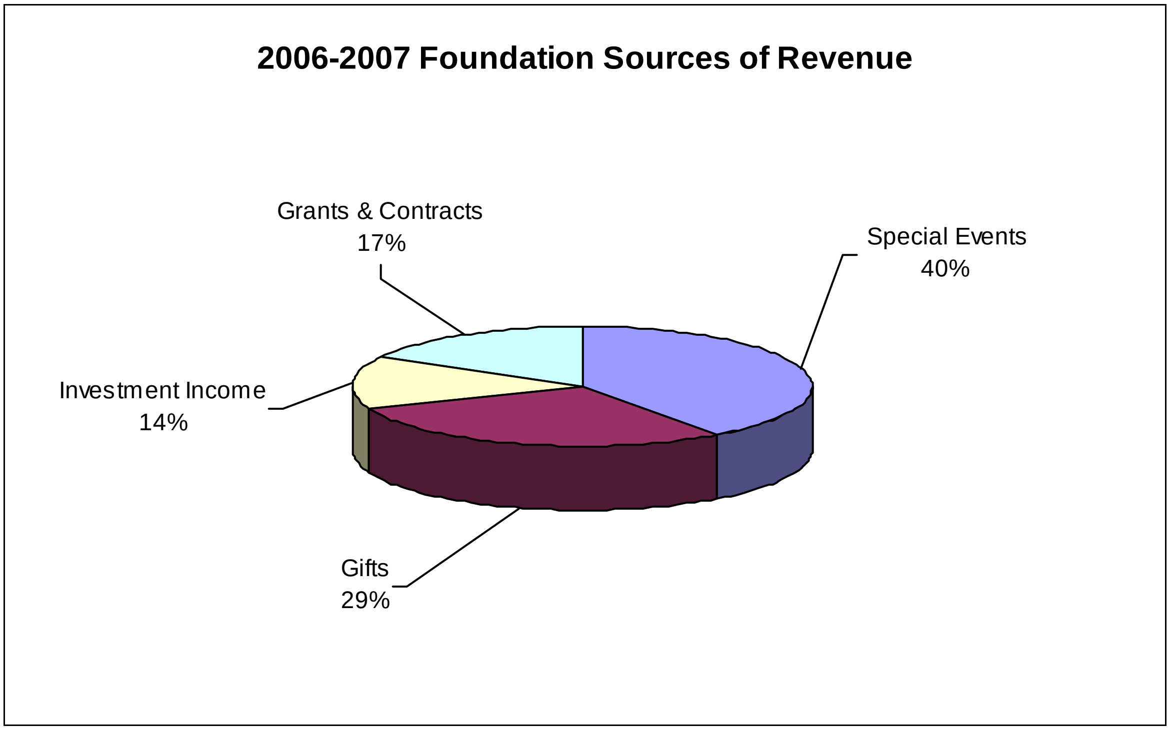


Foundation

The following is a graphic illustration of revenues by source (both operating and nonoperating), which are used to fund the foundation's operating activities for the years ended June 30, 2009; June 30, 2008; and June 30, 2007.


2008-2009 Foundation Sources of Revenue
Gifts
34%
Special Events
61%
Additions to Endowments
5%


2007-2008 Foundation Sources of Revenue
Gifts
19%
Additions to
Endowments
14%
Special Events
67%

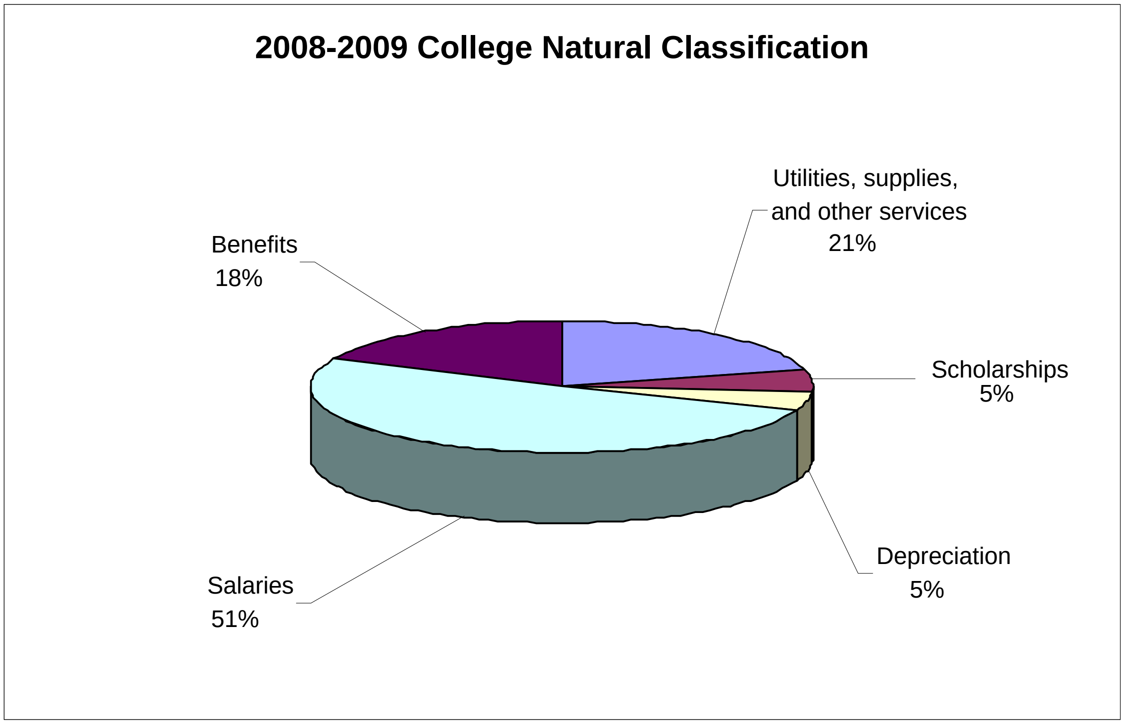


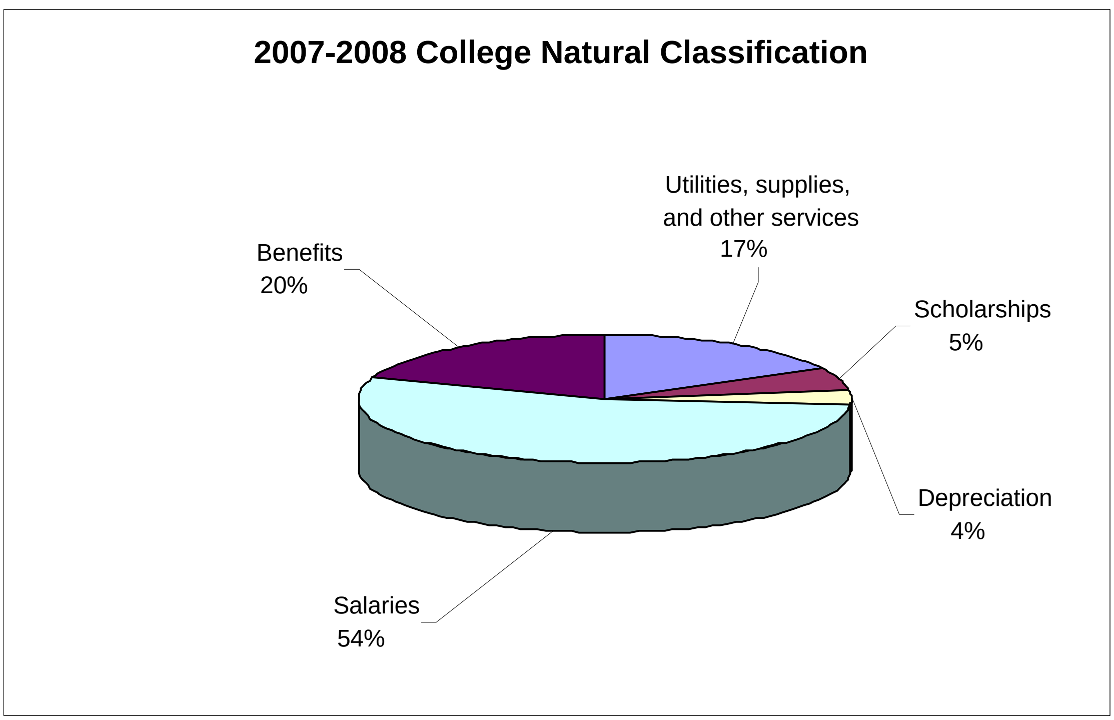
Expenses

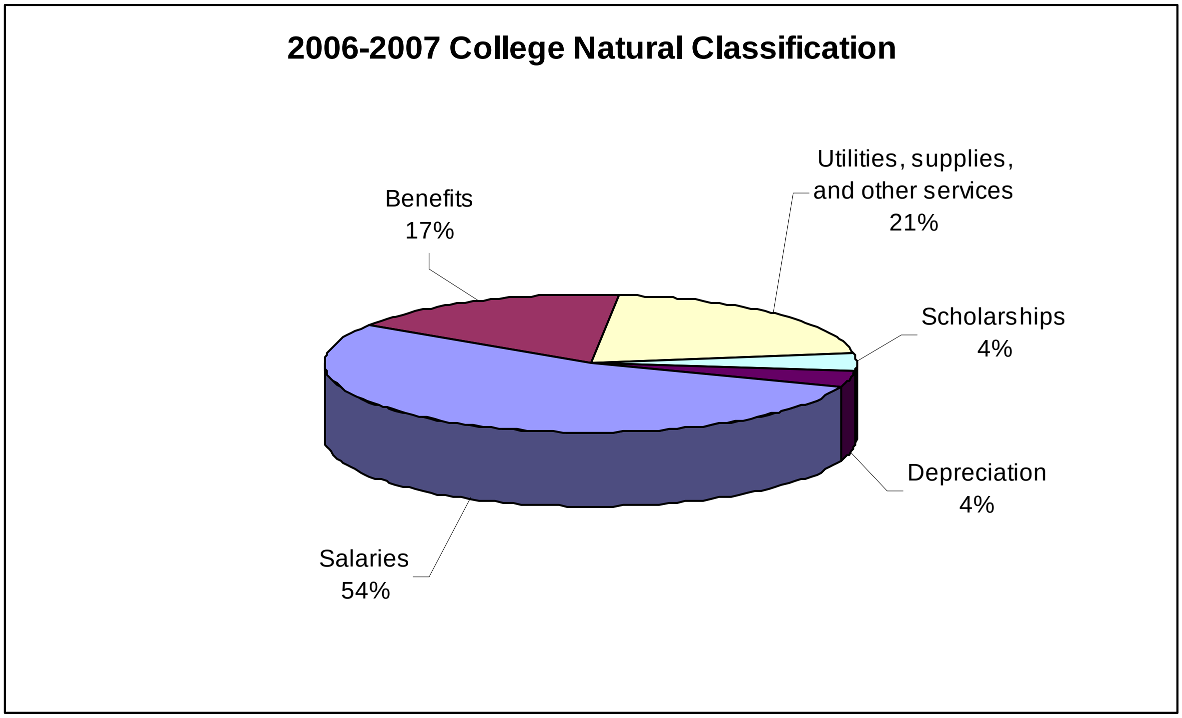
Operating expenses can be displayed in two formats, natural classification and program classification. Both formats are displayed below (in thousands of dollars).

Natural Classification
for the College

	2009	**2008**	**2007**
Salaries	$19,163	$18,499	$17,683
Benefits	6,817	6,791	5,593
Utilities, supplies, and other services	7,930	5,946	7,029
Scholarships	1,977	1,631	1,444
Depreciation	1,737	1,345	1,301
TOTAL	$37,624	$34,212	$33,050


2008-2009 College Natural Classification
Utilities, supplies, and other services 21%
Benefits 18%
Scholarships 5%
Depreciation 5%
Salaries 51%


2007-2008 College Natural Classification
Utilities, supplies, and other services 17%
Benefits 20%
Scholarships 5%
Depreciation 4%
Salaries 54%



<u>Comparison of FY 2009 to FY 2008</u>

- Increases in utilities, supplies, and other services are due to increased purchases for the new Student Services Building.
- Depreciation increased due to new and replacement equipment inventory related to the new Student Services Building and renovations of existing labs and buildings.
- Salaries and benefits portion decreased because of the increases in operating and depreciation costs.

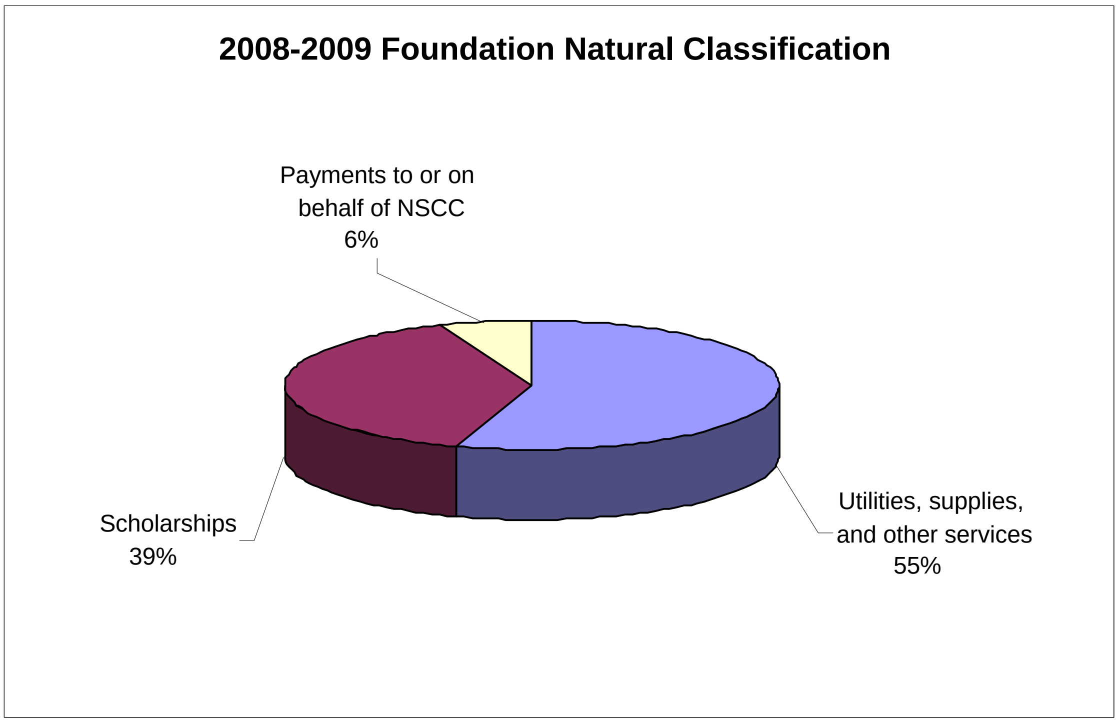
<u>Comparison of FY 2008 to FY 2007</u>

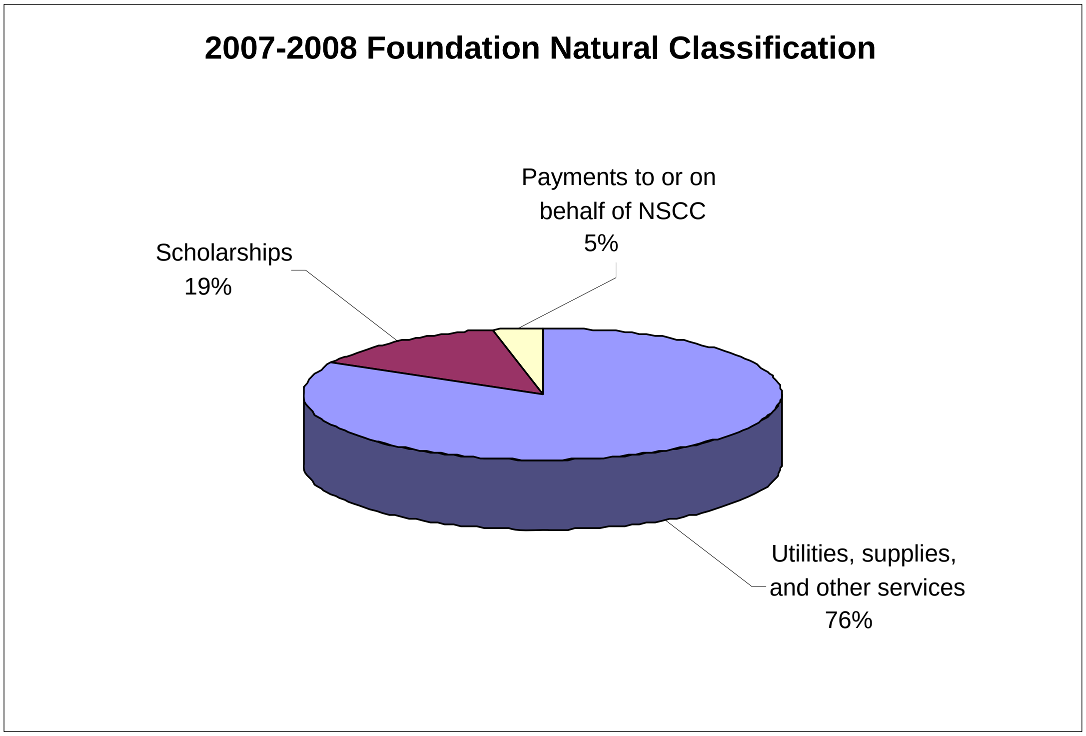
- The increase in salary and benefits is due to employee pay increases, the corresponding benefit increases, and annual health insurance rate increases.
- Scholarship increases are primarily in the area of Pell Grants and Tennessee Lottery Scholarships.
- The utilities, supplies, and other expenses classification includes such items as printing, utilities, classroom and office supplies, and maintenance costs. This category decreased

due to reduced computer purchases, reduced professional services, reduced supply expenses, and reduced software maintenance.

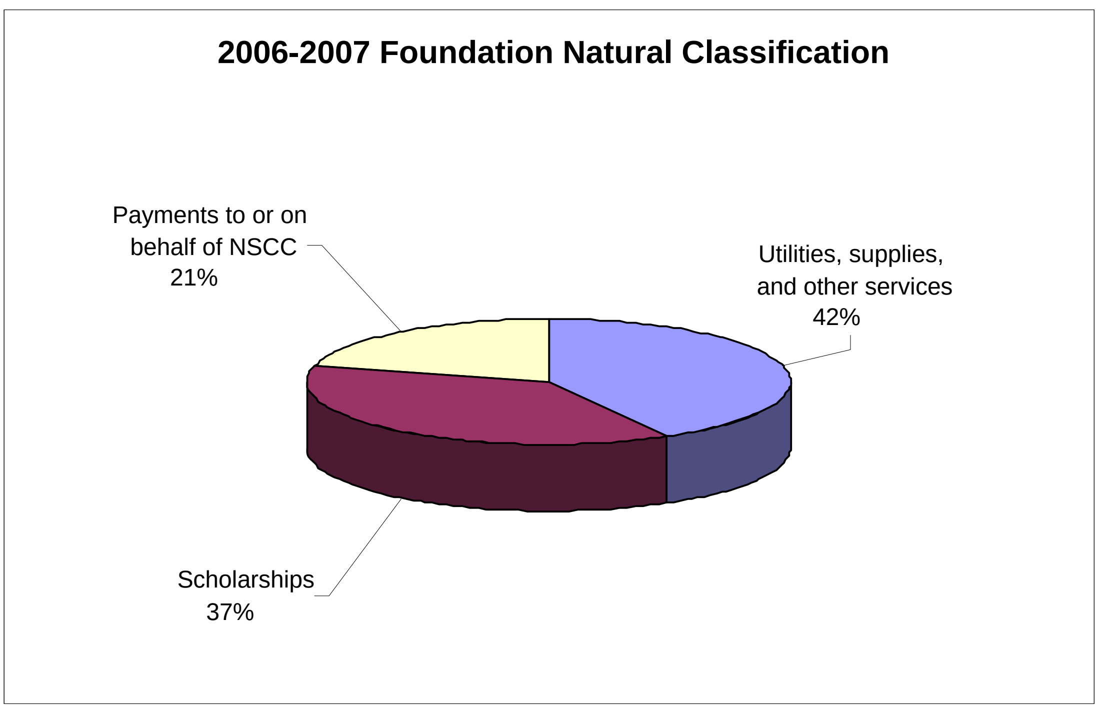
Natural Classification for the Foundation

	2009	2008	2007
Utilities, supplies, and other services	$116	$156	$ 93
Scholarships	82	40	83
Payments to or on behalf of NSCC	12	10	46
TOTAL	$210	$206	$222





2007-2008 Foundation Natural Classification
Payments to or on behalf of NSCC 5%
Scholarships 19%
Utilities, supplies, and other services 76%



2006-2007 Foundation Natural Classification
Payments to or on behalf of NSCC 21%
Utilities, supplies, and other services 42%
Scholarships 37%

Comparison of FY 2009 to FY 2008

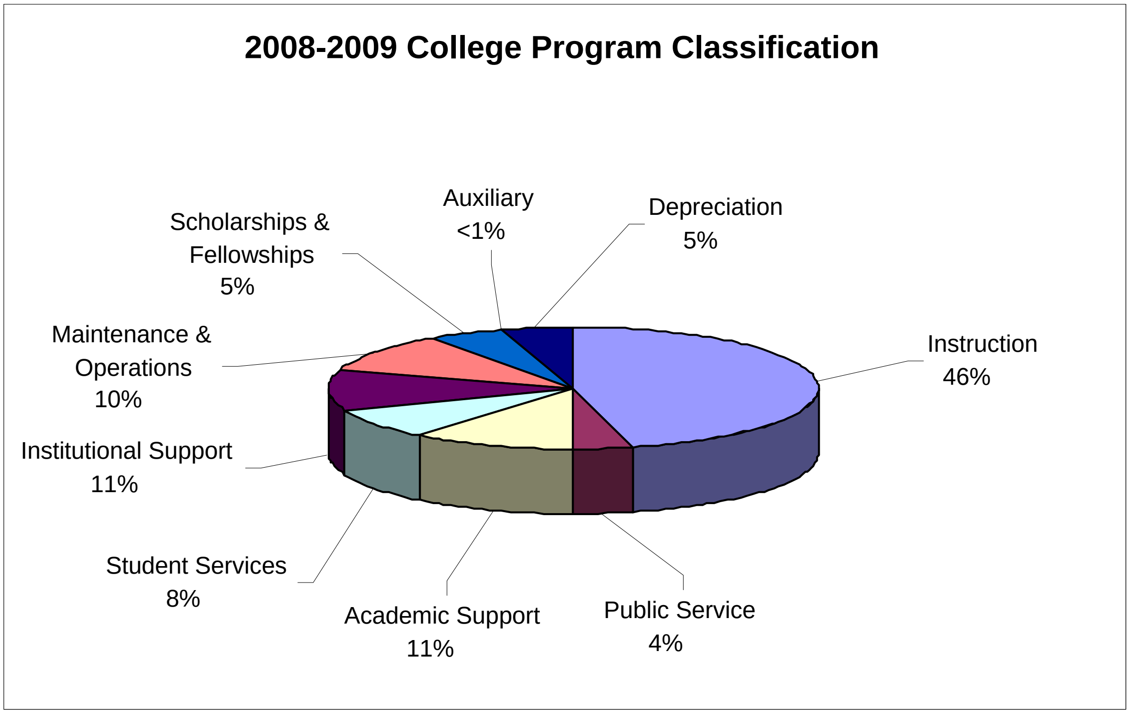
- Operating costs decreased in FY09 due to reductions in spending related to current economic conditions and anticipated reduced revenues.
- Scholarships portion increased this fiscal year due to payments for scholarships to the College and for Pinnacle National Bank scholarships.
- Payments on behalf increased due to increased expenses related to donor cultivation.

Comparison of FY 2008 to FY 2007

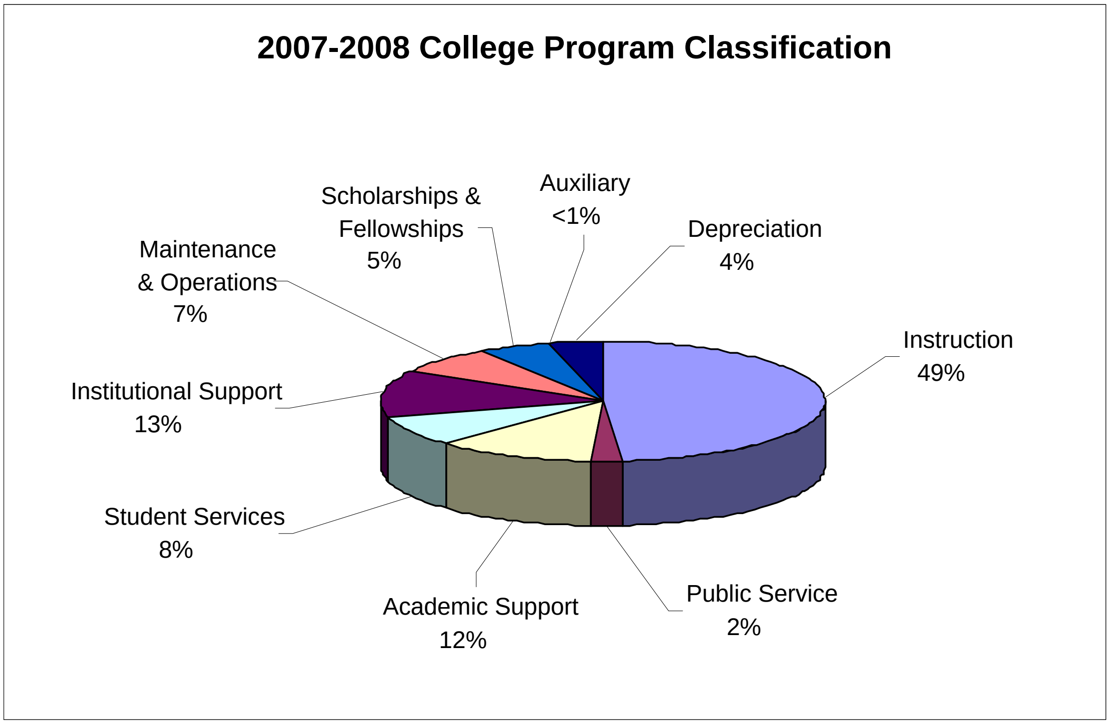
- Increased special events costs were the primary cause of the increase in operating.
- Scholarships decreased due to fewer scholarship awards.
- Payments on behalf of the college decreased because the prior-year amount included a one-time Ford CITE grant.

Program Classification
for the College

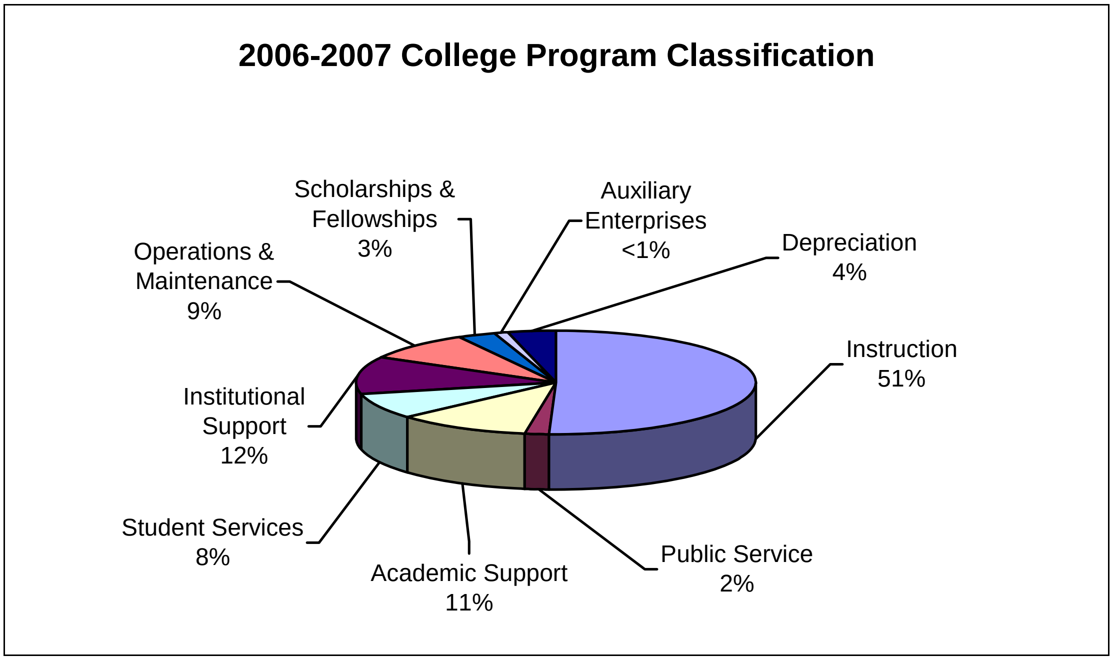
	2009	2008	2007
Instruction	$17,293	$16,751	$16,707
Public Service	1,492	792	720
Academic Support	4,042	3,972	3,606
Student Services	3,144	2,940	2,601
Institutional Support	4,086	4,402	4,102
Operations & Maintenance	3,956	2,460	2,942
Scholarships & Fellowships	1,868	1,547	1,068
Auxiliary Enterprises	5	4	4
Depreciation	1,738	1,345	1,300
TOTAL	$37,624	$34,213	$33,050



2008-2009 College Program Classification
Scholarships & Fellowships 5%
Auxiliary <1%
Depreciation 5%
Maintenance & Operations 10%
Instruction 46%
Institutional Support 11%
Student Services 8%
Academic Support 11%
Public Service 4%



2007-2008 College Program Classification
Scholarships & Fellowships 5%
Auxiliary <1%
Depreciation 4%
Maintenance & Operations 7%
Instruction 49%
Institutional Support 13%
Student Services 8%
Academic Support 12%
Public Service 2%



Comparison of FY 2009 to FY 2008

- The increase in operations and maintenance portion is attributable to the costs and purchases involved with the new Student Services Buildings and renovations of other buildings on campus.
- Depreciation increased due to the larger equipment inventory relating to the new Student Services Building.
- Institutional support decreased due to reduced operating expenses.

Comparison of FY 2008 to FY 2007

- The increase in scholarship expenses was due to increased Pell and Tennessee Lottery.
- Other minor increases were attributable to a pay increase and the corresponding benefit increases.

Capital Assets and Debt Administration

Capital Assets

Nashville State Community College had $30,832,601 invested in capital assets, net of accumulated depreciation of $16,375,679 at June 30, 2009; $22,647,104 invested in capital assets, net of accumulated depreciation of $14,832,214 at June 30, 2008; and $18,303,937 invested in capital assets, net of accumulated depreciation of $13,898,545 at June 30, 2007. Depreciation charges totaled $1,737,554, $1,344,875, and $1,300,663 for the years ended June 30, 2009; June 30, 2008; and June 30, 2007, respectively. Details of these assets are shown below.

Nashville State Community College
Capital Assets, Net of Depreciation (in thousands of dollars)

	2009	2008	2007
Land	$1,340	$1,340	$1,340
Land improvements and infrastructure	3,137	667	734
Buildings	20,907	12,608	13,325
Equipment	1,486	1,480	1,585
Library holdings	285	287	290
Software	370	432	493
Projects in progress	3,307	5,833	537
Total	$30,832	$22,647	$18,304

Comparison of FY 2009 to FY 2008

- Additional land improvements and increases in infrastructure assets in FY09 were related to the new parking lot, landscape, etc., for the new Student Services Building which was funded by state capital funds.
- Increases in building assets in FY09 were due to the new Student Services Building.
- The decrease in projects in progress in FY09 was due to capitalizing the new Student Services Building and parking lot.

Comparison of FY 2008 to FY 2007

- Buildings capital assets lessened in FY08 due to normal depreciation. Higher buildings capital assets in FY07 were related to the science lab renovation project.

- Equipment decreased in FY08 also due to increased accumulated depreciation and equipment deletions.
- Projects in progress showed a significant increase in FY08 due to the construction of the new Student Union Building and other renovations.

Renovations of the old Student Services Building and Weld Building will continue in FY10. Renovated areas will provide additional office and classroom space. More detailed information about the college's capital assets is presented in Note 5 to the financial statements.

The foundation had no capital assets at June 30, 2009, or June 30, 2008.

Debt

The college had $759,123, $810,197, and $835,051 in debt outstanding at June 30, 2009; June 30, 2008; and June 30, 2007, respectively. The table below summarizes these amounts by type of debt instrument.

Description of Debt	2009	2008	2007
TSSBA Bonds due 2022	$759,123	$810,197	$835,051

The ratings on debt issued by the Tennessee State School Bond Authority at June 30, 2009, were as follows:

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

More detailed information about the college's long-term liabilities is presented in Note 6 to the financial statements.

The foundation had no debt outstanding at June 30, 2009, or June 30, 2008.

Economic Factors That Will Affect the Future

The college experienced dramatic enrollment increases over the past fiscal year, including double digit increases in the spring and summer semesters. With the nation in the midst of a prolonged recession, no state appropriation increases are expected to fund enrollment increases.

The college also received budget cuts that were the largest percentage decrease for any college within the TBR system. The majority of the budget cut amount is being replaced with temporary American Recovery and Reinvestment Act (ARRA) funding that will expire after the fiscal year ending June 30, 2011. The college implemented the full budget reductions in the 2009-2010 budget cycle and is planning to use ARRA funding for capacity building and projects which reduce long-term costs and better position the college for the financial challenges of a prolonged recession.

Requests for Information

This financial report is designed to provide a general overview of the institution's finances for all those with an interest in the college's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be directed to Dr. George Van Allen, President, Nashville State Community College, 120 White Bridge Road, Nashville, TN 37209.

TENNESSEE BOARD OF REGENTS
NASHVILLE STATE COMMUNITY COLLEGE
STATEMENTS OF NET ASSETS
JUNE 30, 2009, AND JUNE 30, 2008

	Nashville State Community College		Component Unit Nashville State Community College Foundation	
	June 30, 2009	June 30, 2008	June 30, 2009	June 30, 2008
ASSETS				
Current assets:				
Cash and cash equivalents (Notes 2, 3, and 18)	$ 13,211,338.73	$ 12,433,488.93	$ 312,391.53	$ 309,275.84
Short-term investments (Note 18)	-	-	356,184.86	407,822.32
Accounts, notes, and grants receivable (net) (Note 4)	2,249,722.90	1,998,064.21	-	10,760.48
Prepaid expenses and deferred charges	477,570.73	276,433.28	-	-
Total current assets	15,938,632.36	14,707,986.42	668,576.39	727,858.64
Noncurrent assets:				
Cash (Notes 2 and 3)	19,143,928.16	14,729,697.72	-	-
Capital assets (net) (Note 5)	30,832,600.74	22,647,104.40	-	-
Total noncurrent assets	49,976,528.90	37,376,802.12	-	-
Total assets	65,915,161.26	52,084,788.54	668,576.39	727,858.64
LIABILITIES				
Current liabilities:				
Accounts payable	262,632.62	381,816.69	956.80	5,086.52
Accrued liabilities	1,504,588.74	1,457,451.91	-	-
Due to primary government	865,600.00	-	-	-
Student deposits	1,885.73	1,885.73	-	-
Deferred revenue	1,339,819.14	1,384,348.63	-	-
Compensated absences (Note 6)	350,527.88	293,346.22	-	-
Accrued interest payable	5,388.07	5,761.18	-	-
Long-term liabilities, current portion (Note 6)	54,389.93	52,097.76	-	-
Deposits held in custody for others	5,272,454.07	5,909,689.68	-	-
Other liabilities	-	182,266.78	-	-
Total current liabilities	9,657,286.18	9,668,664.58	956.80	5,086.52
Noncurrent liabilities:				
Net OPEB obligation (Notes 6 and 11)	1,443,809.04	750,137.11	-	-
Compensated absences (Note 6)	408,295.96	467,816.66	-	-
Long-term liabilities (Note 6)	704,733.23	758,099.68	-	-
Other liabilities (Note 6)	28,824.15	4,093.54	-	-
Total noncurrent liabilities	2,585,662.38	1,980,146.99	-	-
Total liabilities	12,242,948.56	11,648,811.57	956.80	5,086.52
NET ASSETS				
Invested in capital assets, net of related debt	30,798,011.88	22,602,106.48	-	-
Restricted for:				
Nonexpendable:				
Scholarships and fellowships	4,739.67	4,739.67	202,464.37	221,979.36
Expendable:				
Scholarships and fellowships (Notes 7 and 18)	471,374.68	292,374.18	144,886.76	162,108.44
Instructional department uses	135,402.93	207,006.19	2,524.00	2,524.00
Other	311,949.77	295,935.83	23,516.18	23,838.05
Unrestricted (Note 8)	21,950,733.77	17,033,814.62	294,228.28	312,322.27
Total net assets	$ 53,672,212.70	$ 40,435,976.97	$ 667,619.59	$ 722,772.12

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

Exhibit B

TENNESSEE BOARD OF REGENTS
NASHVILLE STATE COMMUNITY COLLEGE
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2009, AND JUNE 30, 2008

	Nashville State Community College		Component Unit Nashville State Community College Foundation	
	Year Ended June 30, 2009	Year Ended June 30, 2008	Year Ended June 30, 2009	Year Ended June 30, 2008
REVENUES				
Operating revenues:				
Student tuition and fees (net of scholarship allowances of $9,017,519.82 for the year ended June 30, 2009, and $6,551,162.60 for the year ended June 30, 2008)	$ 9,521,107.19	$ 8,331,676.71	$ -	$ -
Gifts and contributions	-	-	75,944.09	51,905.48
Governmental grants and contracts	3,232,004.86	2,550,433.09	-	-
Nongovernmental grants and contracts	369,941.21	338,665.40	-	-
Sales and services of educational departments	5,590.00	23,597.34	-	-
Auxiliary enterprises:				
Bookstore	268,265.46	269,955.94	-	-
Other operating revenues	305,823.62	278,507.88	134,334.08	188,063.44
Total operating revenues	13,702,732.34	11,792,836.36	210,278.17	239,968.92
EXPENSES				
Operating expenses (Note 14):				
Salaries and wages	19,162,601.88	18,498,869.43	-	-
Benefits	6,816,586.93	6,791,417.40	-	-
Utilities, supplies, and other services	7,930,174.86	5,945,827.01	115,751.75	155,571.14
Scholarships and fellowships	1,976,639.33	1,631,464.33	81,976.75	40,070.41
Depreciation expense	1,737,554.65	1,344,874.98	-	-
Payments to or on behalf of Nashville State Community College (Note 18)	-	-	12,620.09	9,938.35
Total operating expenses	37,623,557.65	34,212,453.15	210,348.59	205,579.90
Operating income (loss)	(23,920,825.31)	(22,419,616.79)	(70.42)	34,389.02
NONOPERATING REVENUES (EXPENSES)				
State appropriations	15,676,759.00	16,474,200.00	-	-
Gifts, including $12,620.09 from component unit for the year ended June 30, 2009, and $9,938.35 for the year ended June 30, 2008	186,659.17	178,582.38	-	-
Grants and contracts	9,890,367.42	6,858,498.57	-	-
Investment income (loss)	288,245.57	759,786.78	(66,274.22)	(15,222.33)
Interest on capital asset-related debt	(30,881.53)	(21,951.87)	-	-
Payment to Upper Cumberland Foundation	-	-	-	(87,102.85)
Other nonoperating revenues (expenses)	(1,658.28)	(161,314.72)	-	-
Net nonoperating revenues (expenses)	26,009,491.35	24,087,801.14	(66,274.22)	(102,325.18)
Income (loss) before other revenues, expenses, gains, or losses	2,088,666.04	1,668,184.35	(66,344.64)	(67,936.16)
Capital appropriations	11,147,569.69	5,347,273.29	-	-
Additions to permanent endowments	-	-	11,192.11	40,000.00
Total other revenues	11,147,569.69	5,347,273.29	11,192.11	40,000.00
Increase (decrease) in net assets	13,236,235.73	7,015,457.64	(55,152.53)	(27,936.16)
NET ASSETS				
Net assets - beginning of year	40,435,976.97	33,420,519.33	722,772.12	750,708.28
Net assets - end of year	$ 53,672,212.70	$ 40,435,976.97	$ 667,619.59	$ 722,772.12

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

Exhibit C

TENNESSEE BOARD OF REGENTS
NASHVILLE STATE COMMUNITY COLLEGE
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2009, AND JUNE 30, 2008

	Year Ended June 30, 2009	Year Ended June 30, 2008
CASH FLOWS FROM OPERATING ACTIVITIES		
Tuition and fees	$ 9,303,079.46	$ 8,470,454.18
Grants and contracts	3,354,466.79	2,664,599.78
Sales and services of educational activities	5,590.00	23,597.34
Payments to suppliers and vendors	(7,637,497.51)	(5,449,758.45)
Payments to employees	(19,047,986.03)	(18,491,277.37)
Payments for benefits	(6,777,790.27)	(6,741,060.26)
Payments for scholarships and fellowships	(1,976,639.33)	(1,399,163.58)
Auxiliary enterprise charges:		
Bookstore	268,265.46	269,955.94
Other receipts	305,823.62	268,039.96
Net cash used by operating activities	(22,202,687.81)	(20,384,612.46)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State appropriations	15,660,600.00	16,471,800.00
Gifts and grants received for other than capital purposes, including $12,620.09 from Nashville State Community College Foundation for the year ended June 30, 2009, and $9,938.35 for the year ended June 30, 2008	10,942,626.59	7,037,080.95
Federal student loan receipts	12,933,603.77	9,049,312.44
Federal student loan disbursements	(12,933,603.77)	(9,049,312.44)
Changes in deposits held for others	(637,235.61)	1,457,941.73
Net cash provided by noncapital financing activities	25,965,990.98	24,966,822.68
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital appropriations	11,147,569.69	5,347,273.29
Purchases of capital assets and construction	(9,923,685.79)	(5,690,136.03)
Principal paid on capital debt	(52,097.76)	(9,894.55)
Interest paid on capital debt	(31,254.64)	(18,947.16)
Other capital and related financing receipts	-	1,408.18
Net cash provided (used) by capital and related financing activities	1,140,531.50	(370,296.27)
CASH FLOWS FROM INVESTING ACTIVITIES		
Income on investments	288,245.57	759,786.78
Net cash provided by investing activities	288,245.57	759,786.78
Net increase in cash	5,192,080.24	4,971,700.73
Cash - beginning of year	27,163,186.65	22,191,485.92
Cash - end of year	$ 32,355,266.89	$ 27,163,186.65

TENNESSEE BOARD OF REGENTS
NASHVILLE STATE COMMUNITY COLLEGE
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2009, AND JUNE 30, 2008

	Year Ended June 30, 2009	Year Ended June 30, 2008
Reconciliation of operating loss to net cash used by operating activities:		
Operating loss	$ (23,920,825.31)	$ (22,419,616.79)
Adjustments to reconcile operating loss to net cash used by operating activities:		
Depreciation expense	1,737,554.65	1,344,874.98
Other adjustments	15,221.00	(175,588.25)
Change in assets and liabilities:		
Receivables, net	(250,720.69)	(600,581.81)
Prepaid/deferred items	(201,137.45)	(13,467.79)
Accounts payable	(119,184.07)	25,361.41
Accrued liabilities	740,808.76	818,381.11
Deferred revenue	(44,529.49)	576,232.64
Compensated absences	(2,339.04)	55,698.50
Other liabilities	(157,536.17)	4,093.54
Net cash used by operating activities	$ (22,202,687.81)	$ (20,384,612.46)

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 Nashville State Community College.

The Nashville State Community College Foundation is considered a component unit of the college. Although the college does not control the timing or amount of receipts from the foundation, the majority of resources, or income thereon, that the foundation holds and invests are restricted to the activities of the college by the donors. Because these restricted resources held by the foundation can only be used by, or for the benefit of, the college, the foundation is considered a component unit of the college and is discretely presented in the college's financial statements. See Note 18 for more detailed information about the component unit and how to obtain the report.

Basis of Presentation

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

Basis of Accounting

For financial statement purposes, the college is considered a special-purpose government engaged only in business-type activities. Accordingly, the financial statements have been prepared using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. All significant interfund transactions have been eliminated.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. The college has the option of following private-sector guidance issued subsequent to November 30, 1989, subject to the above limitation. The college has elected not to follow private-sector guidance issued subsequent to November 30, 1989.

Amounts reported as operating revenues include (1) tuition and fees, net of waivers and discounts; (2) certain federal, state, local, and private grants and contracts; (3) sales and services of auxiliary enterprises; and (4) other sources of revenue. Operating expenses for the college include (1) salaries and wages; (2) employee benefits; (3) utilities, supplies, and other services; (4) scholarships and fellowships; and (5) depreciation.

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

When both restricted and unrestricted resources are available for use, generally it is the college's policy to use the restricted resources first.

Compensated Absences

The college's employees accrue annual leave at varying rates, depending on length of service or classification. Some employees also earn compensatory time. The amount of these liabilities and their related benefits are reported in the statement of net assets.

Capital Assets

Capital assets, which include property, plant, equipment, library holdings, and software, are reported in the statement of net assets at historical cost or at fair value at date of donation, less accumulated depreciation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's useful life are not capitalized.

A capitalization threshold of $100,000 is used for buildings, and $50,000 is used for infrastructure. Equipment is capitalized when the unit acquisition cost is $5,000 or greater. The capitalization threshold for additions and improvements to buildings and land is set at $50,000. The capitalization threshold for software is set at $100,000.

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

Net Assets

The college's net assets are classified as follows:

Invested in capital assets, net of related debt - This represents the college's total investment in capital assets, net of outstanding debt obligations related to those capital assets. To the extent debt has been incurred but not yet expended for capital assets, such amounts are not included as a component of invested in capital assets, net of related debt.

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

Expendable restricted net assets - Expendable restricted net assets include resources which the college is legally or contractually obligated to spend in accordance with restrictions imposed by external third parties.

Unrestricted net assets - Unrestricted net assets represent resources derived from student tuition and fees, state appropriations, and sales and services of educational departments and auxiliary enterprises. These resources are used for transactions relating to the educational and general operations of the college, and may be used at the discretion of the college to meet current expenses for any purpose. The auxiliary enterprises are substantially self-supporting activities that provide services for students, faculty, and staff.

Scholarship Discounts and Allowances

Student tuition and fee revenues, and certain other revenues from students, are reported net of scholarship discounts and allowances in the statement of revenues, expenses, and changes in net assets. Scholarship discounts and allowances are the difference between the stated charge for goods and services provided by the college and the amount that is paid by the student and/or third parties making payments on the student's behalf. Certain governmental grants, such as Pell grants, and other federal, state, or nongovernmental programs are recorded as either operating or nonoperating revenues in the college's financial statements. To the extent that revenues from such programs are used to satisfy tuition and fees and other student charges, the college has recorded a scholarship discount and allowance.

NOTE 2. CASH

At June 30, 2009, cash consisted of $605,064.78 in bank accounts, $1,900.00 of petty cash on hand, $31,457,974.70 in the State of Tennessee Local Government Investment Pool (LGIP) administered by the State Treasurer, and $290,327.41 in LGIP deposits for capital projects. At June 30, 2008, cash consisted of $35,334.86 in bank accounts, $1,900.00 of petty cash on hand, $26,633,985.27 in LGIP, and $491,966.52 in LGIP deposits for capital projects.

LGIP deposits for capital projects - Payments related to the college's capital projects are made by the State of Tennessee's Department of Finance and Administration. The college's estimated local share of the cost of each project is held in a separate LGIP account. As expenses are incurred, funds are withdrawn from the LGIP account by the Tennessee Board of Regents and transferred to the Department of Finance and Administration. The funds in the account are not available to the college for any other purpose until the project is completed and the Tennessee Board of Regents releases any remaining funds.

NOTE 3. INVESTMENTS

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The college is authorized by statute to invest funds in accordance with Tennessee Board of Regents policies. Under the current policy, funds other than endowments may be invested only in obligations of the United States or its agencies backed by the full faith and credit of the United States; repurchase agreements for United States securities; certificates of deposit in banks and savings and loan associations; banker's acceptances; commercial paper; money market mutual funds; and the State of Tennessee Local Government Investment Pool (LGIP). The policy requires that investments of endowments in equity securities be limited to funds from private gifts or other sources external to the college and that endowment investments be prudently diversified. Securities are rated using Standard and Poor's, Moody's, and/or Fitch's rating services. Tennessee Board of Regents policy restricts investments in banker's acceptances and commercial paper. The policy requires that prime banker's acceptances must be issued by domestic banks with a minimum AA rating or foreign banks with a AAA long-term debt rating by a majority of the rating services that have rated the issuer. The policy further requires that commercial paper must be issued by corporations with a minimum rating of A1 or equivalent as provided by a majority of the rating services that rate the issuer. If there is no long-term debt rating, the short-term debt must be rated A1 by all rating services (minimum of two). Commercial paper of a banking institution must not be purchased. As of June 30, 2009, and June 30, 2008, the college's investments consisted entirely of investments in the Local Government Investment Pool. The fair value of these investments was $31,748,302.11 at June 30, 2009, and $27,125,951.79 at June 30, 2008. LGIP investments are not rated by nationally recognized statistical ratings organizations.

NOTE 4. RECEIVABLES

Receivables included the following:

	June 30, 2009	June 30, 2008
Student accounts receivable	$1,352,302.39	$1,276,748.13
Grants receivable	930,356.67	682,877.39
State appropriation receivable	53,338.00	52,400.00
Other receivables	83,725.84	107,038.69
Subtotal	2,419,722.90	2,119,064.21
Less allowance for doubtful accounts	(170,000.00)	(121,000.00)
Total receivables	$2,249,722.90	$1,998,064.21

NOTE 5. CAPITAL ASSETS

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

Tennessee Board of Regents
Nashville State Community College
Notes to the Financial Statements (Cont.)
June 30, 2009, and June 30, 2008

	Beginning Balance	Additions	Transfers	Reductions	Ending Balance
Land	$ 1,340,140.00	$ -	$ -	$ -	$ 1,340,140.00
Land improvements and infrastructure	1,577,382.21	893,609.17	1,772,646.82	-	4,243,638.20
Buildings	23,640,197.86	5,374,825.54	3,870,577.79	-	32,885,601.19
Equipment	3,879,705.12	473,903.40	-	128,438.49	4,225,170.03
Library holdings	592,210.98	63,684.14	-	66,286.33	589,608.79
Software	616,682.59	-	-	-	616,682.59
Projects in progress	5,832,999.64	3,117,663.54	(5,643,224.61)	-	3,307,438.57
Total	37,479,318.40	9,923,685.79	-	194,724.82	47,208,279.37
Less accumulated depreciation:					
Land improvements and Infrastructure	910,563.68	196,532.47	-	-	1,107,096.15
Buildings	11,031,565.50	947,355.55	-	-	11,978,921.05
Equipment	2,400,079.65	466,408.84	-	127,803.69	2,738,684.80
Library holdings	305,000.39	65,589.53	-	66,286.33	304,303.59
Software	185,004.78	61,668.26	-	-	246,673.04
Total accumulated depreciation	14,832,214.00	1,737,554.65	-	194,090.02	16,375,678.63
Capital assets, net	$22,647,104.40	$8,186,131.14	$ -	$ 634.80	$30,832,600.74

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

	Beginning Balance	Additions	Transfers	Reductions	Ending Balance
Land	$ 1,340,140.00	$ -	$ -	$ -	$ 1,340,140.00
Land improvements and infrastructure	1,577,382.21	-	-	-	1,577,382.21
Buildings	23,640,197.86	-	-	-	23,640,197.86
Equipment	3,900,874.81	331,511.01	-	352,680.70	3,879,705.12
Library holdings	590,665.28	62,164.63	-	60,618.93	592,210.98
Software	616,682.59	-	-	-	616,682.59
Projects in progress	536,539.25	5,296,460.39	-	-	5,832,999.64
Total	32,202,482.00	5,690,136.03	-	413,299.63	37,479,318.40
Less accumulated depreciation:					
Land improvements and infrastructure	843,951.71	66,611.97	-	-	910,563.68
Buildings	10,315,345.00	716,220.50	-	-	11,031,565.50

Equipment	2,315,575.27	435,091.25	-	350,586.87	2,400,079.65
Library holdings	300,336.32	65,283.00	-	60,618.93	305,000.39
Software	123,336.52	61,668.26	-	-	185,004.78
Total accumulated depreciation	13,898,544.82	1,344,874.98	-	411,205.80	14,832,214.00
Capital assets, net	$18,303,937.18	$4,345,261.05	$ -	$ 2,093.83	$22,647,104.40

NOTE 6. LONG-TERM LIABILITIES

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

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Payables:					
TSSBA debt:					
Bonds	$ 810,197.44	$ 1,023.48	$ 52,097.76	$ 759,123.16	$ 54,389.93
Other liabilities:					
Compensated absences	761,162.88	588,082.99	590,422.03	758,823.84	350,527.88
Net OPEB obligation	750,137.11	1,012,901.53	319,229.60	1,443,809.04	-
Other liabilities	4,093.54	24,730.61	-	28,824.15	-
Subtotal	1,515,393.53	1,625,715.13	909,651.63	2,231,457.03	350,527.88
Total long-term liabilities	$2,325,590.97	$1,626,738.61	$961,749.39	$2,990,580.19	$404,917.81

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

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Payables:					
TSSBA debt:					
Bonds	$ 54,892.47	$ 766,223.00	$ 10,918.03	$ 810,197.44	$ 52,097.76
Commercial paper	780,158.70	-	780,158.70	-	-
Subtotal	835,051.17	766,223.00	791,076.73	810,197.44	52,097.76
Other liabilities:					
Compensated absences	705,464.38	614,288.39	558,589.89	761,162.88	293,346.22
Net OPEB obligation	-	1,000,000.00	249,862.89	750,137.11	-
Other liabilities	-	4,093.54	-	4,093.54	-

Subtotal	705,464.38	1,618,381.93	808,452.78	1,515,393.53	293,346.22
Total long-term liabilities	$1,540,515.55	$2,384,604.93	$1,599,529.51	$2,325,590.97	$345,443.98

TSSBA Debt - Bonds

Bonds, with interest rates ranging from 3.25% to 5%, were issued by the Tennessee State School Bond Authority (TSSBA). The bonds are due serially to 2022 and are secured by pledges of the facilities' revenues to which they relate and certain other revenues and fees of the college, including state appropriations. (See Note 9.) The bonded indebtedness with the Tennessee State School Bond Authority included in long-term liabilities on the statement of net assets is shown net of unexpended debt proceeds of $1,023.48 at June 30, 2008.

Debt service requirements to maturity for the college's portion of TSSBA bonds at June 30, 2009, are as follows:

Year Ending June 30	Principal	Interest	Total
2010	$ 54,389.93	$ 30,816.28	$ 85,206.21
2011	56,783.85	28,531.18	85,315.03
2012	59,283.98	26,144.64	85,428.62
2013	48,792.40	24,005.84	72,798.24
2014	50,597.70	22,298.10	72,895.80
2015 – 2019	286,707.30	79,377.36	366,084.66
2020 – 2022	202,568.00	18,537.16	221,105.16
Total	$759,123.16	$229,710.56	$988,833.72

More detailed information regarding the bonds can be found in the notes to the financial statements in the financial report for the Tennessee State School Bond Authority. That report is available on the state's website at http://tn.gov/comptroller/bf/tssbacafr.htm.

NOTE 7. ENDOWMENTS

If a donor has not provided specific instructions to the college, state law permits the college to authorize for expenditure the earnings of the investments of endowment funds. When administering its power to spend the earnings, the college is required to consider the college's long-term and short-term needs, present and anticipated financial requirements, expected return on its investments, price-level trends, and general economic conditions. Any earnings spent are required to be spent for the purposes for which the endowment was established.

The college chooses to spend only a portion of the investment income each year. Under the spending plan established by the college, 95% of investment earnings on endowments, not otherwise specifying a specific spending plan, are available for allocation. The remaining amount, if any, is added to the endowment base. At June 30, 2009, investment income of $76.91 is available to be spent, which is included in restricted net assets expendable for scholarships and fellowships. At June 30, 2008, investment income of $196.72 is available to be spent, which is included in restricted net assets expendable for scholarships and fellowships.

NOTE 8. UNRESTRICTED NET ASSETS

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

	June 30, 2009	June 30, 2008
Working capital	$ 1,407,710.24	$ 1,070,919.19
Encumbrances	278,559.48	178,360.77
Designated fees	171,795.64	-
Auxiliaries	11,200.00	11,200.00
Plant construction	9,616,318.51	5,342,353.54
Renewal and replacement of equipment	9,417,470.66	9,286,449.14
Debt retirement	159,789.25	148,468.54
Undesignated	887,889.99	996,063.44
Total	$21,950,733.77	$17,033,814.62

NOTE 9. PLEDGED REVENUES

The college has pledged certain revenues and fees, including state appropriations, to repay $759,123.16 in revenue bonds issued from April 2002 to January 2008. Proceeds from the bonds provided financing for the Chiller/CFC Conversion and Energy Savings and Performance Contracting projects. The bonds are payable through May 2022. Annual principal and interest payments on the bonds are expected to require less than 1% of available revenues for each fiscal year. The total principal and interest remaining to be paid on the bonds at June 30, 2009, was $988,833.72. Principal and interest paid for the 2009 fiscal year and total available revenues were $82,979.29 and $35,472,534.10, respectively. Principal and interest paid for the 2008 fiscal year and total available revenues were $31,846.42 and $34,027,177.07, respectively.

NOTE 10. PENSION PLANS

A. Defined Benefit Plan

Tennessee Consolidated Retirement System

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

The TCRS issues a publicly available financial report that includes financial statements and required supplementary information for SETHEEPP. That report is available on the state's website at http://www.state.tn.us/treasury/tcrs/index.html.

Funding Policy - Plan members are noncontributory. The college is required to contribute an actuarially determined rate. The current rate is 13.02% of annual covered payroll. Contribution requirements for the college are established and may be amended by the TCRS' Board of Trustees. The college's contributions to TCRS for the years ended June 30, 2009, 2008, and 2007 were

$1,227,840.73, $1,259,123.77, and $1,165,999.30. Contributions met the requirements for each year.

B. Defined Contribution Plans

Optional Retirement Plans (ORP)

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

Funding Policy - Plan members are noncontributory. The college contributes an amount equal to 10% of the employee's base salary up to the social security wage base and 11% above the social security wage base. Contribution requirements are established and amended by state statute. The contribution made by the college to the plans was $645,304.17 for the year ended June 30, 2009, and $608,327.01 for the year ended June 30, 2008. Contributions met the requirements for each year.

NOTE 11. OTHER POST-EMPLOYMENT BENEFITS

Healthcare is the only "other postemployment benefit" (OPEB) provided to employees. The State of Tennessee administers a group health insurance program which provides postemployment health insurance benefits to eligible college retirees. This program includes two plans – the State Employee Group Plan and the Medicare Supplement Plan. For accounting purposes, the plans are agent multiple-employer defined benefit OPEB plans. Benefits are established and amended by an insurance committee created by Section 8-27-201, *Tennessee Code Annotated,* for the State Employee Group Plan and Section 8-27-701, *Tennessee Code Annotated*, for the Medicare Supplement Plan. Prior to reaching age 65, retirees may participate in the State Employee Group Plan. Members of this plan have the option of choosing a preferred provider organization (PPO), point of service (POS), or health maintenance organization (HMO) plan for healthcare benefits. Subsequent to age 65, retirees who are also in the state's retirement system may participate in the Medicare Supplement Plan that does not include pharmacy. The state makes on-behalf payments to the Medicare supplement plan for the college's eligible retirees; see Note 17. The plans are reported in the *Tennessee Comprehensive Annual Financial Report*. That report is available on the state's website at http://tennessee.gov/finance/act/cafr.html, or by calling (615) 741-2140.

Special Funding Situation

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

Funding Policy

The premium requirements of members of the State Employee Group Plan are established and may be amended by the insurance committee. The plan is self-insured and financed on a pay-as-you-go basis with the risk shared equally among the participants. Claims liabilities of the plan are periodically computed using actuarial and statistical techniques to establish premium rates. Administrative costs of the plan are allocated to participants. Retirees in the State Employee Group Plan pay the same base premium as active employees in the plan adjusted for years of service. Retirees with 30 years of service pay 20% of the total premium. Retirees with 20 but less than 30 years of service pay 30% of the total premium. Retirees with less than 20 years of service pay 40% of the total premium.

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

	2009	2008
Annual required contribution (ARC)	$1,012,000.00	$1,000,000.00
Interest on the net OPEB obligation	33,756.16	-
Adjustment to the ARC	(32,854.63)	-
Annual OPEB cost	1,012,901.53	1,000,000.00

Amount of contribution	(319,229.60)	(249,862.89)
Increase in net OPEB obligation	693,671.93	750,137.11
Net OPEB obligation – beginning of year	750,137.11	-
Net OPEB obligation – end of year	$1,443,809.04	$ 750,137.11

Year-end	Plan	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation at Year-end
June 30, 2009	State Employee Group Plan	$1,012,901.53	31.5%	$1,443,809.04
June 30, 2008	State Employee Group Plan	$1,000,000.00	25.0%	$750,137.11

Funded Status and Funding Progress

The funded status of the college's portion of the State Employee Group Plan as of July 1, 2007, was as follows:

State Employee Group Plan

Actuarial valuation date	July 1, 2007
Actuarial accrued liability (AAL)	$9,000,000.00
Actuarial value of plan assets	-
Unfunded actuarial accrued liability (UAAL)	$9,000,000.00
Actuarial value of assets as a percentage of the AAL	0%
Covered payroll (active plan members)	$15,435,538.26
UAAL as percentage of covered payroll	58.3%

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

Actuarial Methods and Assumptions

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

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

NOTE 12. INSURANCE-RELATED ACTIVITIES

It is the policy of the state not to purchase commercial insurance for the risks of losses for general liability, automobile liability, professional malpractice, and workers' compensation. The state's management believes it is more economical to manage these risks internally and set aside assets for claim settlement in its internal service fund, the Risk Management Fund. The state purchases commercial insurance for real property, flood, earthquake, and builder's risk losses and surety bond coverage on the state's officials and employees. The amounts of settlements have not exceeded insurance coverage for each of the past three fiscal years. The Risk Management Fund is also responsible for claims for damages to state-owned property

up to the amount of the property insurance aggregate deductible amount. The insurance policy deductibles vary from $25,000 per occurrence, depending on the type of coverage, to an aggregate of $5 million.
The college participates in the Risk Management Fund. The fund allocates the cost of providing claims servicing and claims payment by charging a premium to the college based on a percentage of the college's expected loss costs, which include both experience and exposures. This charge considers recent trends in actual claims experience of the state as a whole. An actuarial valuation is performed as of fiscal year-end to determine the fund liability and premium allocation. Information regarding the determination of the claims liabilities and the changes in the balances of the claims liabilities for the years ended June 30, 2009, and June 30, 2008, are presented in the *Tennessee Comprehensive Annual Financial Report*. The CAFR is available on the state's website at http://tennessee.gov/finance/act/cafr.html. Since the college participates in the Risk Management Fund, it is subject to the liability limitations under the provisions of the Tennessee Claims Commission Act, *Tennessee Code Annotated*, Section 9-8-101 et seq. Liability for negligence of the college for bodily injury and property damage is limited to $300,000 per person and $1,000,000 per occurrence. The limits of liability under workers' compensation are set forth in *Tennessee Code Annotated*, Section 50-6-101 et seq. Claims are paid through the state's Risk Management Fund. At June 30, 2009, the Risk Management Fund held $127.0 million in cash and cash equivalents designated for payment of claims. At June 30, 2008, the Risk Management fund held $123.9 million in cash and cash equivalents designated for payment of claims.

At June 30, 2009, the scheduled coverage for the college was $90,787,100.00 for buildings and $26,205,500.00 for contents. At June 30, 2008, the scheduled coverage for the college was $70,209,600.00 for buildings and $23,805,500.00 for contents.

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

NOTE 13. COMMITMENTS AND CONTINGENCIES

Sick Leave

The college records the cost of sick leave when paid. Generally, since sick leave (earned one day per month with unlimited accumulation) is paid only when an employee dies or is absent because of illness, injury, or related family death, there is no liability for sick leave at June 30. The dollar amount of unused sick leave was $5,485,877.30 at June 30, 2009, and $5,366,766.14 at June 30, 2008.

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 $116,311.36 and for personal property were $58,310.15 for the year ended June 30, 2009. The amounts for the year ended June 30, 2008, were $114,946.82 and $60,492.92. All operating leases are cancelable at the lessee's option.

Construction in Progress

At June 30, 2009, outstanding commitments under construction contracts totaled $8,234,262.11 for the NSCC Cookeville campus, ADA improvements, Student Services Building, and NSCC roof repair and renovations, of which $8,224,931.53 will be funded by future state capital outlay appropriations.

NOTE 14. NATURAL CLASSIFICATIONS WITH FUNCTIONAL CLASSIFICATIONS

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

	Natural Classification					
Functional Classification	Salaries	Benefits	Other Operating	Scholarships	Depreciation	Total
Instruction	$10,799,782.50	$3,405,172.74	$3,079,717.82	$ 8,278.00	$ -	$17,292,951.06
Public service	604,533.59	197,565.40	690,002.90	-	-	1,492,101.89
Academic support	3,281,559.56	1,222,642.74	(487,800.37)	25,968.95	-	4,042,370.88
Student services	1,614,567.48	755,788.30	666,436.58	107,024.75	-	3,143,817.11
Institutional support	2,293,168.02	959,074.34	830,862.22	2,731.00	-	4,085,835.58
Operation & maintenance	568,990.73	276,343.41	3,110,552.62	-	-	3,955,886.76
Scholarships & fellowships	-	-	35,190.00	1,832,636.63	-	1,867,826.63
Auxiliary	-	-	5,213.09	-	-	5,213.09
Depreciation	-	-	-	-	1,737,554.65	1,737,554.65
Total	$19,162,601.88	$6,816,586.93	$7,930,174.86	$1,976,639.33	$1,737,554.65	$37,623,557.65

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

	Natural Classification					
Functional Classification	Salaries	Benefits	Other Operating	Scholarships	Depreciation	Total
Instruction	$10,367,179.53	$3,427,883.52	$2,924,279.44	$ 31,362.94	$ -	$16,750,705.43
Public service	468,110.06	149,735.56	174,730.84	-	-	792,576.46
Academic support	3,352,770.35	1,175,302.47	(611,726.79)	55,548.80	-	3,971,894.83
Student services	1,565,481.96	740,057.30	615,670.34	18,812.34	-	2,940,021.94
Institutional support	2,184,996.32	1,012,166.46	1,197,249.77	7,275.42	-	4,401,687.97
Operation & maintenance	560,331.21	286,272.09	1,613,102.07	-	-	2,459,705.37
Scholarships & fellowships	-	-	28,194.20	1,518,464.83	-	1,546,659.03
Auxiliary	-	-	4,327.14	-	-	4,327.14
Depreciation	-	-	-	-	1,344,874.98	1,344,874.98
Total	$18,498,869.43	$6,791,417.40	$5,945,827.01	$1,631,464.33	$1,344,874.98	$34,212,453.15

NOTE 15. AFFILIATED ENTITY NOT INCLUDED

The Upper Cumberland Educational Foundation is a private, nonprofit foundation with the Nashville State Community College as the sole beneficiary. The Upper Cumberland Educational Foundation is controlled by a board independent of the college. The Upper Cumberland Educational Foundation was chartered in fiscal year 2007 to serve the Cookeville area. The financial records, investments, and other financial transactions are handled external to the college. The Upper Cumberland

Educational Foundation is not included in the college's financial statements because it is immaterial to the college for financial reporting purposes.

During fiscal year 2008, funds totaling $87,102.85 held by the Nashville State Community College Foundation restricted to the Don Sundquist campus were transferred to the Upper Cumberland Educational Foundation. At June 30, 2009, the assets of the Upper Cumberland Educational Foundation totaled $87,817.22, liabilities were $0.00, and the fund balance was $87,817.22. At June 30, 2008, the assets of the Upper Cumberland Educational Foundation totaled $99,830.51, liabilities were $1,063.48, and the fund balance was $98,767.03.

NOTE 16. CHANGE IN ACCOUNTING PRINCIPLE

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

NOTE 17. ON-BEHALF PAYMENTS

During the year ended June 30, 2009, the State of Tennessee made payments of $15,221.00 on behalf of the college for retirees participating in the Medicare Supplement Plan. The amount for the year ended June 30, 2008, was $14,249.75. The Medicare Supplement Plan is a postemployment benefit healthcare plan and is discussed further in Note 11. The plan is reported in the *Tennessee Comprehensive Annual Financial Report*. That report is available on the state's website at http://tennessee.gov/finance/act/cafr.html.

NOTE 18. COMPONENT UNIT

The Nashville State Community College Foundation is a legally separate, tax-exempt organization supporting Nashville 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 29-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, including FASB Statement 117, *Financial Statements of Not-for-Profit Organizations*. As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features. With the exception of necessary presentation reformatting, no modifications have been made to the foundation's financial information in the college's financial statements for these differences.

During the year ended June 30, 2009, the foundation made distributions of $12,620.09 to or on behalf of the college for both restricted and unrestricted purposes. During the year ended June 30, 2008, the foundation made distributions of $9,938.35 to or on behalf of the college for both restricted and unrestricted purposes. Complete financial statements for the foundation can be obtained from Mary Cross, Vice President of Business and Finance, Nashville State Community College, 120 White Bridge Road, Nashville, Tennessee 37209.

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, 2009.

	Total Fair Value at June 30, 2009	Quoted Prices Level 1	Significant Other Inputs Level 2	Significant Unobservable Inputs Level 3
Assets:				
Mutual bond funds	$164,194.14	$164,194.14	$ -	$ -
Mutual equity funds	191,990.72	191,990.72	-	-
Total assets	$356,184.86	$356,184.86	$ -	$ -

All gains and losses, both realized and unrealized, have been reported on the statement of revenues, expenses, and changes in net assets as investment income. Of this total, ($58,423.69) is attributable to the change in unrealized gains or losses relating to those assets still held at June 30, 2009.

Cash and Cash Equivalents

Cash and cash equivalents consists of demand deposit accounts, money market funds, and the Local Government Investment Pool. The bank balances of deposits at June 30, 2009, were entirely insured. Uninsured bank deposits at June 30, 2008, totaled $123,333.68.

Investments

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

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

	Cost	Market Value
Mutual bond funds	$160,549.49	$164,194.14
Mutual equity funds	278,098.05	191,990.72
Total investments	$438,647.54	$356,184.86

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

	Cost	Market Value
Mutual bond funds	$177,567.36	$178,565.73
Mutual equity funds	255,076.48	229,256.59
Total investments	$432,643.84	$407,822.32

Endowments

The Nashville State Community College Foundation's endowment consists of 14 individual funds established for a variety of purposes. Its endowment includes donor-restricted endowment funds. As required by GAAP, net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of relevant law - The Board of Trustees of the Nashville State Community College Foundation has interpreted the Uniform Prudent Management of Institutional Funds Act (the Act) as adopted by Tennessee as being required to preserve the historic dollar value of the original gift with consideration to any donor stipulations that may apply. As a result of this interpretation, the Nashville State Community College Foundation classifies as permanently restricted net assets (1) the original value of gifts donated to the permanent endowment; (2) the original value of subsequent gifts to the permanent endowment; (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; and (4) amounts allocated by the Board of Trustees to function as endowments. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the foundation in a manner consistent with the standard of prudence prescribed by the Act. In accordance with the Act, the foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the fund; (2) the purposes of the foundation and the endowment fund; (3) general economic conditions; (4) the possible effect of inflation or deflation; (5) the expected total return from income and the appreciation of investments; (6) other resources of the foundation; and (7) the investment policies of the foundation.

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

	Permanently Restricted	Temporarily Restricted	Unrestricted	Total
Donor-restricted endowment funds	$202,464.37	$ -	$ -	$202,464.37
Board-designated endowment funds	-	-	-	-
Total funds	$202,464.37	$ -	$ -	$202,464.37

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

	Permanently Restricted	Temporarily Restricted	Unrestricted	Total
Endowment net assets beginning of year	$221,979.36	$ -	$ -	$221,979.36
Investment return:				
Investment income	22.55	-	-	22.55
Net depreciation (realized and unrealized)	(30,729.65)	-	-	(30,729.65)
Total investment return	(30,707.10)	-	-	(30,707.10)
Contributions	11,192.11	-	-	11,192.11
Endowment net assets, end of year	$202,464.37	$ -	$ -	$202,464.37

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 achieve a proper mix of safety of principal, current income, liquidity, and growth.

The foundation expects its endowment funds, over time, to provide an average rate of return of approximately 8% annually, or 4% plus the inflation rate. Actual returns in any given year may vary from this amount.

<u>Strategies employed for achieving objectives</u> - 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 and fixed-income investments to achieve its long-term return objectives within prudent risk restraints.

<u>Spending policy and how the investment objectives relate</u> - The foundation has a policy of appropriating for distribution each year only a portion of the investment income (including changes in the value of investments). Under the spending plan established by the foundation for endowments with a base of more than $10,000, 95% of investment earnings, on endowments not otherwise specifying a specific spending plan, are available for allocation. The remaining amount, if any, is added to the endowment base. On endowments with a balance of less than $10,000, all earnings are added to the base endowment. 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 at an average of 8 percent annually, or 4 percent plus the current inflation rate annually, depending upon economic conditions. This is consistent with the foundation's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.

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

Actuarial Valuation Date	Plan	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b-a)/c)]
July 1, 2007	State Employee Group Plan	$ -	$9,000,000	$9,000,000	0%	$15,435,538	58.3%

TENNESSEE BOARD OF REGENTS
NASHVILLE STATE COMMUNITY COLLEGE
SUPPLEMENTARY INFORMATION
SCHEDULES OF CASH FLOWS - COMPONENT UNIT
FOR THE YEARS ENDED JUNE 30, 2009, AND JUNE 30, 2008

	Year Ended June 30, 2009	Year Ended June 30, 2008
CASH FLOWS FROM OPERATING ACTIVITIES		
Gifts and contributions	$ 85,641.09	$ 46,669.50
Payments to suppliers and vendors	(119,881.37)	(153,807.85)
Payments for scholarships and fellowships	(81,976.75)	(40,070.41)
Payments to Nashville State Community College	(12,620.19)	(9,938.35)
Other receipts (payments)	134,334.08	188,063.44
Net cash provided by operating activities	5,496.86	30,916.33
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Private gifts for endowment purposes	11,192.11	40,000.00
Net cash provided by noncapital financing activities	11,192.11	40,000.00
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of investments	162,130.38	244,164.99
Income on investments	14,581.19	25,259.26
Purchases of investments	(187,662.53)	(302,799.41)
Other investing receipts (payments)	(2,622.32)	37,982.60
Net cash provided (used) by investing activities	(13,573.28)	4,607.44
Net increase in cash and cash equivalents	3,115.69	75,523.77
Cash and cash equivalents - beginning of year	309,275.84	233,752.07
Cash and cash equivalents - end of year	$ 312,391.53	$ 309,275.84
Reconciliation of operating income (loss) to net cash provided by operating activities:		
Operating income (loss)	$ (70.42)	$ 34,389.02
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
Change in assets and liabilities:		
Receivables, net	9,697.00	1,519.02
Prepaid/deferred items	-	(6,755.00)
Accounts payable	(4,129.72)	1,763.29
Net cash provided by operating activities	$ 5,496.86	$ 30,916.33
Noncash investing, capital, and financing activities:		
Unrealized loss on investments	$ (58,423.69)	$ (26,813.09)