# AUDIT REPORT

## Tennessee Board of Regents
## Nashville State Community College

### For the Years Ended
### June 30, 2011, and June 30, 2010

## STATE OF TENNESSEE
### COMPTROLLER OF THE TREASURY
Department of Audit

Division of State Audit

***Arthur A. Hayes, Jr., CPA, JD, CFE***
Director

***Edward Burr, CPA***
Assistant Director

***Teresa L. Hensley, CPA***
Audit Manager

***Donald Vanatta, CFE***
In-Charge Auditor

***Andrew Furlong, CPA***
***Andrew E. Moss***
***Harshil Patel***
***Robyn R. Probus, CPA, CFE***
***Megan Talley, CPA***
Staff Auditors

***Gerry Boaz, CPA***
Technical Manager



Comptroller of the Treasury, Division of State Audit
1500 James K. Polk Building, Nashville, TN 37243-1402
(615) 401-7897


Financial/compliance audits of colleges and universities are available online at
www.comptroller.tn.gov/sa/AuditReportCategories.asp.
For more information about the Comptroller of the Treasury, please visit our website at
www.comptroller.tn.gov.

**STATE OF TENNESSEE**
**COMPTROLLER OF THE TREASURY**
**DEPARTMENT OF AUDIT**
**DIVISION OF STATE AUDIT**
**SUITE 1500**
**JAMES K. POLK STATE OFFICE BUILDING**
**NASHVILLE, TENNESSEE 37243-1402**
**PHONE (615) 401-7897**
**FAX (615) 532-2765**

August 29, 2012

The Honorable Bill Haslam, Governor
and
Members of the General Assembly
State Capitol
Nashville, Tennessee 37243
and
The Honorable John G. Morgan, Chancellor
Tennessee Board of Regents
1415 Murfreesboro Road, Suite 340
Nashville, Tennessee 37217
and
Dr. 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, 2011, and June 30, 2010. 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 certain deficiencies, which are detailed in the Results of the Audit section of this report. The college's administration has responded to the audit findings; the responses are included following each finding. The Division of State Audit will follow up the audit to examine the application of the procedures instituted because of the audit findings.

Sincerely,

Arthur A. Hayes, Jr., CPA
Director

AAH/vn
12/061

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, 2011, and June 30, 2010

## 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 FINDINGS

**As Noted in the Prior Two Audits, the College Needs to Improve Its 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 College Did Not Ensure That Endowment Amounts Were Adequately Supported or That Amounts Were Properly Reported in the Foundation's Financial Statements and Accompanying Notes to the Financial Statements**
Our audit discovered reporting errors related to endowments in the financial statements and the notes to the financial statements of the foundation. Also, the foundation's Executive Director was unable to provide gift instruments or other records indicating donor intent for some of the endowments (page 11).

The deficiencies described above were considered material weaknesses. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the college's financial statements will not be prevented, or detected and corrected on a timely basis.

## 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, 2011, and June 30, 2010

## TABLE OF CONTENTS

## TABLE OF CONTENTS (CONT.)

## Tennessee Board of Regents
## Nashville State Community College
## For the Years Ended June 30, 2011, and June 30, 2010

### 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.

Nashville State offers a high quality, technical education as students prepare to enter the work force, or gives students a strong foundation as they plan to move on to a four-year school. Students earn Associate's degrees and technical certificates in over 80 programs of study.

Business and industry professionals get short-term training and participate in continuing education through the Workforce and Community Development program.

### 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, 2009, through June 30, 2011, 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, 2011, and June 30, 2010. 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 FINDING

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 November 17, 2010. A follow-up of the prior audit finding was conducted as part of the current audit. The prior audit report contained a finding concerning the need for an improved system of internal control for the preparation of the college's financial statements. 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, 2011, and June 30, 2010, 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.  Material weaknesses, along with recommendations and management's responses, are detailed in the Findings and Recommendations section.

Compliance and Other Matters

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

Fairness of Financial Statement Presentation

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

**STATE OF TENNESSEE**
**COMPTROLLER OF THE TREASURY**
**DEPARTMENT OF AUDIT**
**DIVISION OF STATE AUDIT**
**SUITE 1500**
**JAMES K. POLK STATE OFFICE BUILDING**
**NASHVILLE, TENNESSEE 37243-1402**
**PHONE (615) 401-7897**
**FAX (615) 532-2765**

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

July 12, 2012

The Honorable Bill Haslam, Governor
and
Members of the General Assembly
State Capitol
Nashville, Tennessee 37243
and
The Honorable John G. Morgan, Chancellor
Tennessee Board of Regents
1415 Murfreesboro Road, Suite 340
Nashville, Tennessee 37217
and
Dr. 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, 2011, and June 30, 2010, and have issued our report thereon dated July 12, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in generally accepted government auditing standards.

**Internal Control Over Financial Reporting**

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses, and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the financial statements will not be prevented, or detected and corrected on a timely basis. We consider the following deficiencies to be material weaknesses:

- As noted in the prior two audits, the college needs to improve its system of internal control for the preparation of the college's financial statements

- The college did not ensure that endowment amounts were adequately supported or that amounts were properly reported in the foundation's financial statements and accompanying notes to the financial statements

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

**Compliance and Other Matters**

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

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

The Nashville State Community College's responses to the findings identified in our audit are included in the Findings and Recommendations section of this report. We did not audit the college's responses, and accordingly, we express no opinion on them.

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

Sincerely,

Arthur A. Hayes, Jr.

Arthur A. Hayes, Jr., CPA
Director

AAH/vn

## FINDINGS AND RECOMMENDATIONS

**1. <u>As noted in the prior two audits, the college needs to improve its system of internal control for the preparation of the college's financial statements</u>**

### Finding

The previous two audit reports contained an audit finding concerning inadequate controls that resulted in errors in the financial statements of Nashville State Community College (NSCC). Although improvements have been made, we again found that controls were not adequate to ensure that the financial statements were prepared in accordance with generally accepted accounting principles.

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, 2011, and June 30, 2010, revealed errors affecting investments, prepaid expenses, and net assets.

- Current short-term investments for the foundation were overstated by $261,831.94 at June 30, 2011, and $225,976.79 at June 30, 2010, and noncurrent investments were understated by the same amount. These errors occurred because investments relating to endowments were classified as current rather than noncurrent. Investments representing endowment funds are not available for current operations and therefore should be classified as noncurrent in accordance with *Emerging Issues Update 02-4*, in the National Association of College and University Business Officers' *Financial Accounting and Reporting Manual for Higher Education*. These errors were corrected in the audited financial statements.

- Because Pell expenses were improperly deferred at year-end, prepaid expenses for the college were overstated by $1,630,488.54 at June 30, 2011, and $892,083.06 at June 30, 2010, and scholarships and fellowships expense was understated by $738,405.48 for the year ended June 30, 2011, and $474,517.93 for the year ended June 30, 2010. Pell revenues are recognized in the period received, and based on the matching principle, related expenses should be recognized in the same period. These errors were corrected in the audited financial statements.

- Foundation net assets were incorrect at June 30, 2010, due to an error that occurred during the year-end closing process; certain accounts were accounted for twice. As a result, restricted nonexpendable net assets were overstated by $43,465.32, and restricted expendable net assets were understated by the same amount. These errors were corrected in the audited financial statements.

**Error on the Statements of Cash Flows**

The beginning balance of other post-employment benefits was incorrectly included in the calculation of payments to suppliers and vendors, and the ending balance was incorrectly included in the calculation of payments to employees. As a result, payments to suppliers and vendors were overstated by $1,443,809.04; payments to employees were understated by $1,898,103.37; and payments for benefits were overstated by $454,294.33. These errors were corrected in the audited financial statements.

These reporting errors show the need to improve the preparation and review process to minimize the risk of material misstatements in the college's unaudited financial statements.

## Recommendation

Management should evaluate and strengthen controls related to its financial statement preparation process to minimize errors in reporting and to ensure proper classification of amounts in the financial statements.

Management should evaluate risks associated with financial reporting and include them in documented risk assessments. In addition, 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. Management has provided additional training to key staff. Four staff members attended the Tennessee Board of Regents financial statement seminar in May 2012, and six staff members attended the State Audit training in April 2012. Additionally, all accounting staff members have online access to the National Association of College and University Business Officers' *Financial Accounting and Reporting Manual for Higher Education* (FARM). Access to FARM will give staff the best tool for researching accounting and reporting issues. The risk assessment for the instititutional support area was updated in June 2012, and the one for the finance area will be updated in June 2013.

## 2. <u>The college did not ensure that endowment amounts were adequately supported or that amounts were properly reported in the foundation's financial statements and accompanying notes to the financial statements</u>

### Finding

Our audit of the financial statements of Nashville State Community College—including its foundation, which is a discretely presented component unit of the college—discovered reporting errors related to endowments in the financial statements and the notes to the financial statements of the foundation. In addition, the Executive Director of the foundation was unable to provide gift instruments or other records indicating donor intent for some of the endowments.

The college reports under standards of the Governmental Accounting Standards Board (GASB), while the Nashville State Community College Foundation reports under standards of the Financial Accounting Standards Board (FASB). Certain revenue recognition criteria and presentation formats are different in GASB and FASB reporting.

The errors we found in the foundation reporting were as follows:

- In fiscal years 2011 and 2010 and certain previous fiscal years, all gains, losses, and investment income were improperly recorded as nonexpendable net assets. As a result, restricted nonexpendable net assets were understated by $3,972.81, restricted expendable net assets were overstated by $4,418.46, and unrestricted net assets were understated by $445.65 on the foundation's Statement of Net Assets at June 30, 2011. On the foundation's Statement of Net Assets at June 30, 2010, restricted nonexpendable net assets were understated by $22,706.34, restricted expendable net assets were overstated by $7,517.11, and unrestricted net assets were overstated by $15,189.23. These errors were corrected in the audited financial statements.

- In the college's 2011 and 2010 unaudited financial reports, the note disclosure of changes in endowment net assets for the foundation contained several significant errors. Temporarily restricted net assets were not included in the note, and the board-designated endowment was included as permanently restricted net assets rather than unrestricted net assets. Also, cumulative losses on endowment investments were included in permanently restricted net assets; however, these losses should have reduced temporarily restricted net assets, if available, with any remaining loss included in unrestricted net assets. In addition, contributions to endowments and appropriation of endowment assets for expenditure for 2010 were not included in the note disclosure. As a result, permanently restricted net assets were overstated by $20,428.48, temporarily restricted net assets were understated by $53,806.46, and unrestricted net assets were understated by $445.65 on the foundation's Statement of Net Assets at June 30, 2011. On the foundation's Statement of Net Assets at June 30, 2010, permanently restricted net assets were understated by $182.10, temporarily restricted net assets were understated by $45,368.30, and unrestricted net assets were overstated by $15,189.23. These errors were corrected in the audited note.

- For the fiscal years ended June 30, 2011, and June 30, 2010, the foundation failed to include the required note disclosure describing endowments whose values had fallen below the original principal of the endowment.

- For 7 of 14 endowments listed as donor-restricted funds (50%), the Executive Director of the foundation was unable to provide gift instruments or other records indicating donor intent. Because the unsupported endowments were originally recorded as donor-restricted, management considers them to be donor-restricted, although there is no support. Management is currently trying to obtain support for these endowments from the donors.

The foundation accounts for each endowment's spending and allocates realized and unrealized gains and losses to each of the endowments. Because investments may decrease in value, the overall value of individual endowments may fall below the original principal of the endowment, resulting in an "underwater" endowment. FASB Accounting Standards Codification, paragraph 958-205-45-22, states:

> In the absence of donor stipulations or law to the contrary, losses on the investments of a donor-restricted endowment fund shall reduce temporarily restricted net assets to the extent that donor-imposed temporary restrictions on net appreciation of the fund have not been met before the loss occurs. Any remaining loss shall reduce unrestricted net assets.

The disclosure of changes in endowment net assets and description of underwater endowments were new requirements as of June 30, 2009, under FASB standards (FASB ASC 958-205-50), and the staff had difficulties in determining what was required in the new disclosures.

The Uniform Prudent Management of Institutional Funds Act, which prohibits reporting of gains or losses in the endowment's nonexpendable portion of net assets, unless specified by the donor, was also new for fiscal year 2009. Staff did not change the college's method of accounting for gains and losses in the nonexpendable portion of the endowment fund upon enactment of the law. Additionally, staff did not comply with the foundation's endowment policy, which states that 5% of net earnings are to be allocated to the endowment corpus each year, with the remaining to be applied to temporarily restricted net assets. For both fiscal years 2011 and 2010, staff included all net earnings to the endowment corpus.

These reporting errors resulted in significant misclassifications in the college's unaudited component unit note. Management is responsible for the fair presentation of the financial statements. Not following all FASB reporting standards could adversely affect users of the financial statements. In addition, not obtaining gift instruments or other written agreements could result in mismanagement of endowment funds and spending donations in violation of the donor's intent.

## Recommendation

The accounting management staff at Nashville State Community College should follow all FASB reporting requirements that pertain to foundation endowments. Under FASB standards, based upon the existence and/or nature of donor-imposed restrictions, endowment interest income and net assets should be classified as permanently restricted, temporarily restricted, or unrestricted, while gains and losses generally should be classified as temporarily restricted or unrestricted. To improve financial reporting, the staff responsible for endowment reporting should, as a part of professional education, attend training that specifically addresses endowment accounting and financial reporting. Foundation statements should be reviewed by knowledgeable supervisory personnel upon completion. In addition, the Executive Director should continue to work with donors in obtaining written agreements for the reported endowments.

## Management's Comment

Management concurs with the finding and recommendation. A new NSCC Foundation Director was hired in June 2011, and immediately started the process of documenting the foundation endowments. Of the 15 endowments, seven now have documentation; three have documentation that is pending; one has been moved to the general endowment fund with the approval of the donor; and four will go to the Attorney General for an opinion that would allow the monies to be moved to the general endowment fund given that the donors are non-responsive. The Tennessee Board of Regents financial statement seminar held in May 2012 and attended by four accounting staff members did include endowment reporting information and training. Entries are being made at the end of FY 2012 to correct the endowment funds and other items noted in the audit report.

STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
DEPARTMENT OF AUDIT
DIVISION OF STATE AUDIT

SUITE 1500
JAMES K. POLK STATE OFFICE BUILDING
NASHVILLE, TENNESSEE 37243-1402
PHONE (615) 401-7897
FAX (615) 532-2765

**Independent Auditor's Report**

July 12, 2012

The Honorable Bill Haslam, Governor
and
Members of the General Assembly
State Capitol
Nashville, Tennessee 37243
and
The Honorable John G. Morgan, Chancellor
Tennessee Board of Regents
1415 Murfreesboro Road, Suite 340
Nashville, Tennessee 37217
and
Dr. 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, 2011, and June 30, 2010, 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, 2011, and June 30, 2010, 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, 2011, and June 30, 2010, and the respective changes in financial position and cash flows thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis on pages 17 through 38 and the schedule of funding progress on page 66 are not required parts 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 67 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with generally accepted government auditing standards, we have also issued our report dated July 12, 2012, 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/vn

# 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, 2011, and June 30, 2010, with comparative information presented for the fiscal year ended June 30, 2009. This discussion has been prepared by management along with the financial statements and related note disclosures and should be read in conjunction with the independent auditor's report, the audited financial statements, and 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<br>Condensed Statements of Net Assets<br>(in thousands of dollars) | | | |
|---|---|---|---|
| | **2011** | **2010** | **2009** |
| **Assets:** | | | |
| Current assets | $20,337 | $16,522 | $15,938 |
| Capital assets, net | 37,628 | 38,081 | 30,833 |
| Other assets | 34,041 | 25,573 | 19,144 |
| **Total Assets** | **92,006** | **80,176** | **65,915** |
| **Liabilities:** | | | |
| Current liabilities | 9,592 | 9,421 | 9,657 |
| Noncurrent liabilities | 3,261 | 2,981 | 2,586 |
| **Total Liabilities** | **12,853** | **12,402** | **12,243** |
| **Net Assets:** | | | |
| Invested in capital assets, net of related debt | 37,616 | 38,057 | 30,798 |
| Restricted – nonexpendable | 5 | 5 | 5 |
| Restricted – expendable | 642 | 594 | 919 |
| Unrestricted | 40,890 | 29,118 | 21,950 |
| **Total Net Assets** | **$79,153** | **$67,774** | **$53,672** |

Comparison of FY 2011 to FY 2010

- Total assets increased in FY 2011 due to receipt of American Recovery and Reinvestment Act (ARRA) and Maintenance of Effort (MOE) funding.
- Total noncurrent liabilities increased mainly due to increases in the net OPEB obligation.
- Total net assets increased in FY 2011 primarily due to the conserving of funds for development of campuses in Clarksville and Antioch.

Comparison of FY 2010 to FY 2009

- Total assets increased in FY 2010 due to increases in capital projects related to the renovation of existing buildings.
- Current liabilities decreased due to a reduction in deposits held in custody for others.
- The increase of total net assets in FY 2010 is primarily due to the conserving of funds for development of campuses in Clarksville and Antioch.

| Nashville State Community College Foundation<br>Condensed Statements of Net Assets<br>(in thousands of dollars) | | | |
|---|---|---|---|
| | **2011** | **2010** | **2009** |
| **Assets:** | | | |
| Current assets | $598 | $490 | $669 |
| Other assets | 275 | 249 | - |
| **Total Assets** | **873** | **739** | **669** |
| **Liabilities:** | | | |
| Current liabilities | 88 | 4 | 1 |
| **Total Liabilities** | **88** | **4** | **1** |
| **Net Assets:** | | | |
| Restricted – nonexpendable | 245 | 242 | 238 |
| Restricted – expendable | 159 | 135 | 152 |
| Unrestricted | 381 | 358 | 278 |
| **Total Net Assets** | **$785** | **$735** | **$668** |

Comparison of FY 2011 to FY 2010

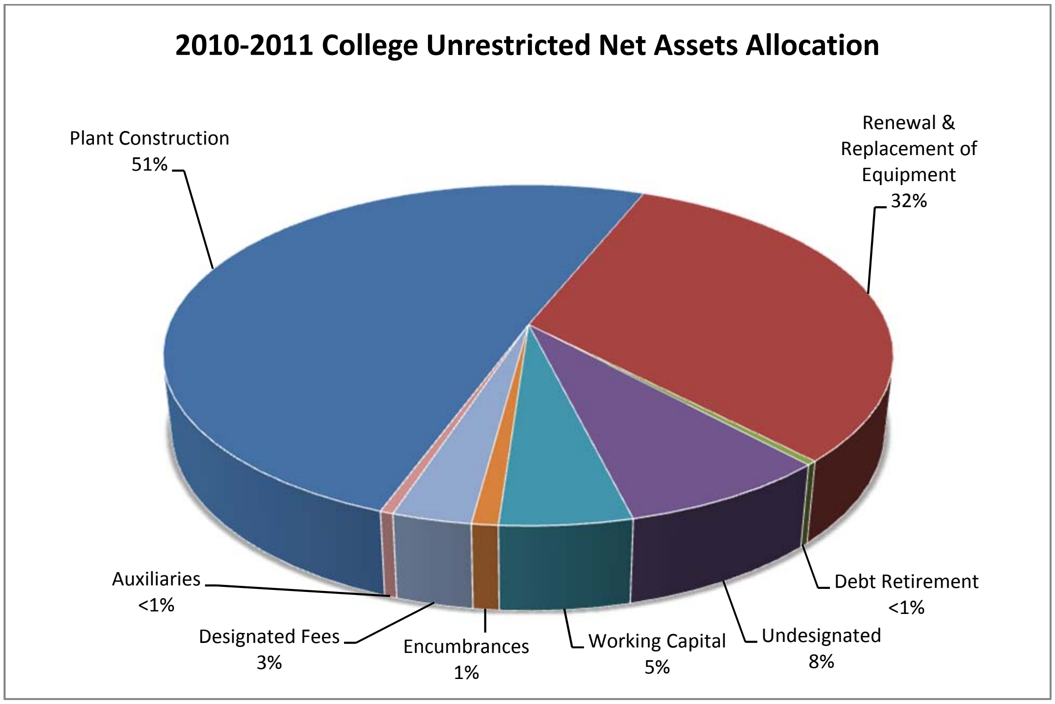
- Current assets increased in FY 2011 due to changes in the market values of investments.
- Current liabilities increased due to increased Dual Enrollment and Pinnacle Scholarships payable to the college for disbursement.
- Unrestricted net assets increased due to changes in market values of investments and conserving of funds for development of campus in Antioch.

Comparison of FY 2010 to FY 2009

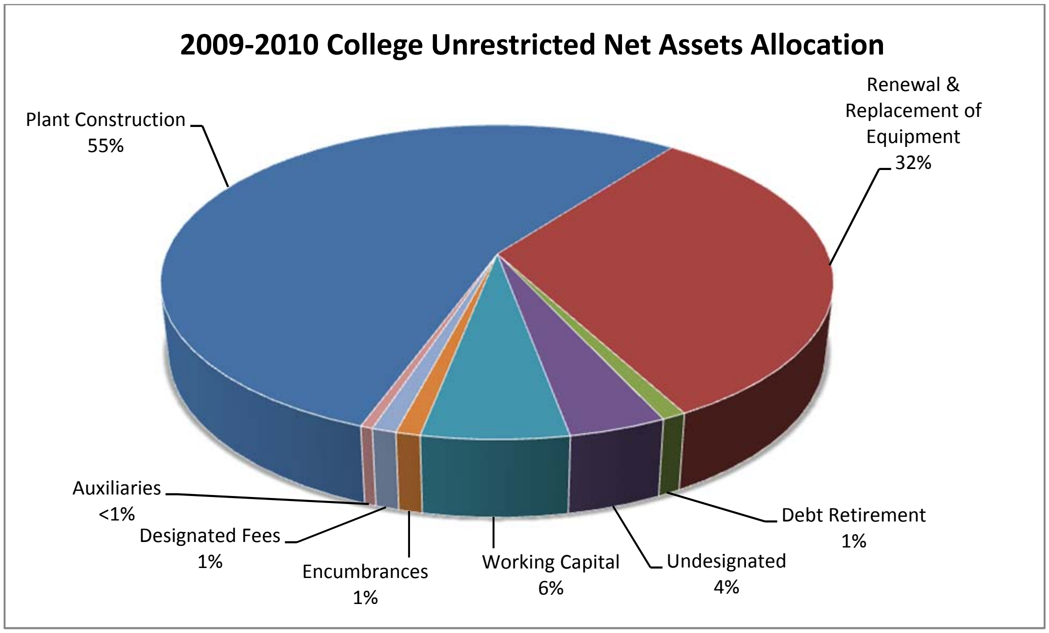
- Total assets increased in FY 2010 due to changes in the market values of investments.
- Current liabilities increased due to increased deferred revenues related to Dual Enrollment and Pinnacle Scholarships.
- Unrestricted net assets increased primarily due to improved special events revenue.

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

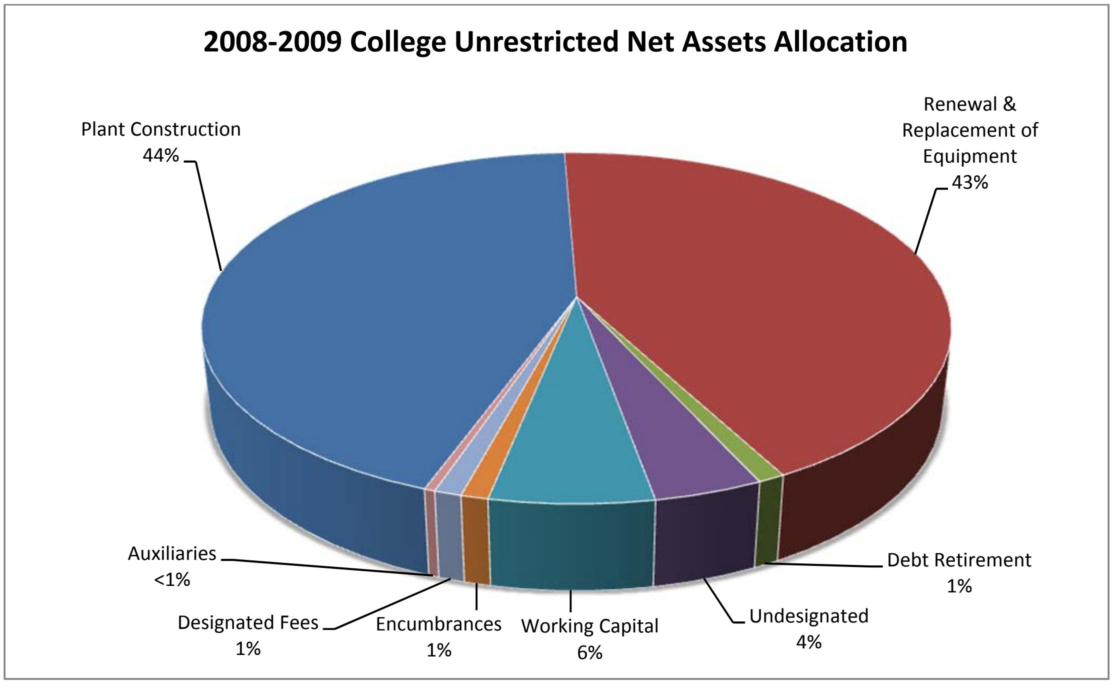
College



2010-2011 College Unrestricted Net Assets Allocation
Plant Construction 51%
Renewal & Replacement of Equipment 32%
Debt Retirement <1%
Undesignated 8%
Working Capital 5%
Encumbrances 1%
Designated Fees 3%
Auxiliaries <1%

2009-2010 College Unrestricted Net Assets Allocation
Plant Construction 55%
Renewal & Replacement of Equipment 32%
Debt Retirement 1%
Undesignated 4%
Working Capital 6%
Encumbrances 1%
Designated Fees 1%
Auxiliaries <1%



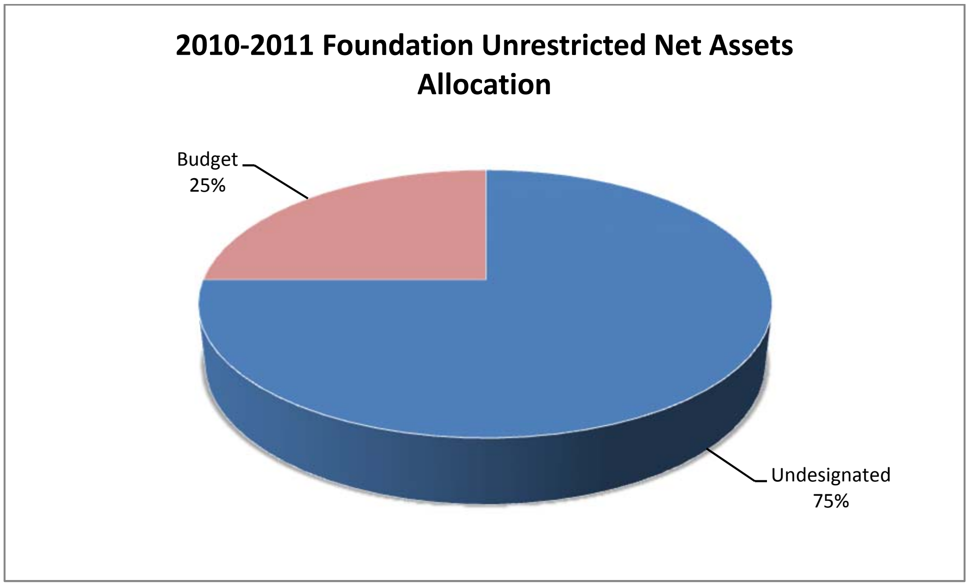

Comparison of FY 2011 to FY 2010

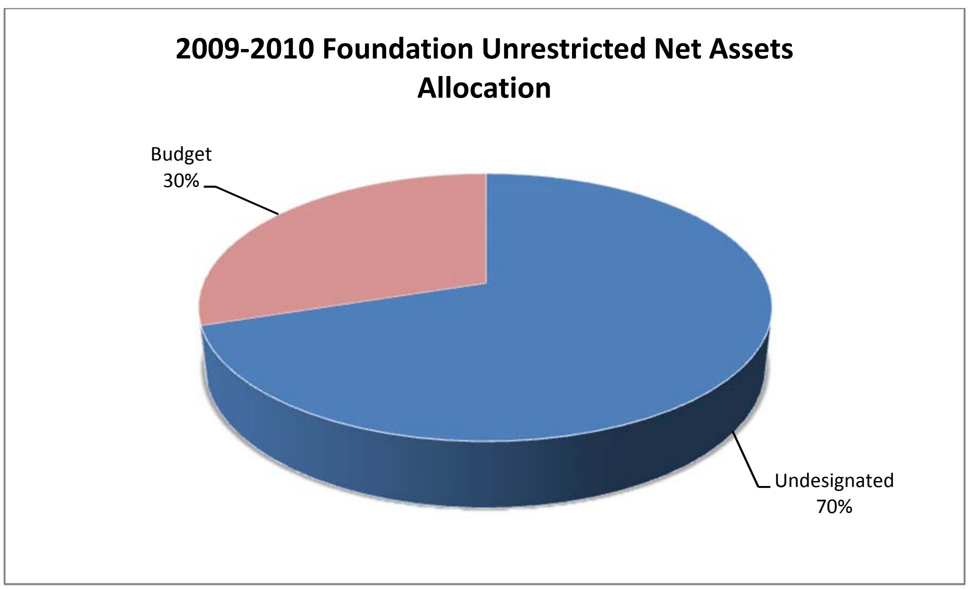
- Plant construction decreased due to the completion of capital projects related to the renovation of existing buildings.

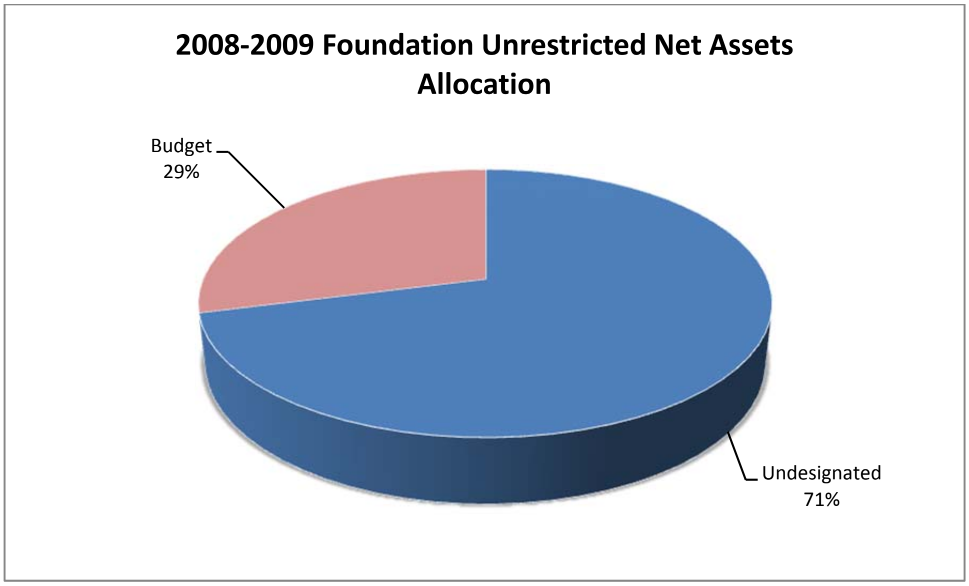
Comparison of FY 2010 to FY 2009

- Plant construction increased due to capital projects related to the renovation of existing buildings.

***Foundation***


2010-2011 Foundation Unrestricted Net Assets Allocation
Budget 25%
Undesignated 75%


2009-2010 Foundation Unrestricted Net Assets Allocation
Budget 30%
Undesignated 70%




### 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)** | | | |
| | **2011** | **2010** | **2009** |
| **Operating revenues:** | | | |
| Net tuition and fees | $15,853 | $14,742 | $ 9,521 |
| Grants and contracts | 4,872 | 4,502 | 3,602 |
| Auxiliary | 290 | 299 | 268 |
| Other | 367 | 351 | 311 |
| **Total operating revenues** | **21,382** | **19,894** | **13,702** |
| **Operating expenses** | **50,499** | **46,074** | **37,623** |
| **Operating loss** | **(29,117)** | **(26,180)** | **(23,921)** |
| **Nonoperating revenues (expenses):** | | | |
| State appropriations | 16,550 | 14,181 | 15,677 |
| Gifts | 159 | 223 | 187 |
| Grants and contracts | 22,554 | 16,325 | 9,890 |
| Investment income | 64 | 94 | 288 |

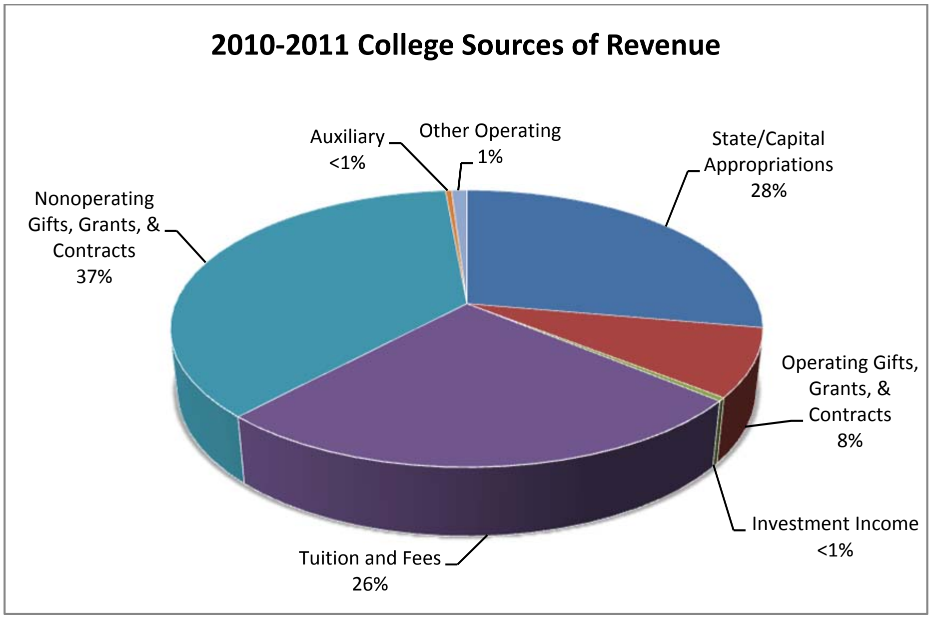
| | | | |
|---|---|---|---|
| Other nonoperating expenses | (28) | (35) | (33) |
| **Net nonoperating revenues** | **39,299** | **30,788** | **26,009** |
| **Income before other revenues, expenses, gains, or losses** | **10,182** | **4,608** | **2,088** |
| **Other revenues, expenses, gains, or losses:** | | | |
| Capital appropriations | 1,197 | 9,911 | 11,148 |
| **Total other revenues, expenses, gains, or losses** | **1,197** | **9,911** | **11,148** |
| **Increase in net assets** | **11,379** | **14,519** | **13,236** |
| **Net assets at beginning of year** | **67,774** | **53,672** | **40,436** |
| **Prior period adjustment** | **-** | **(417)** | **-** |
| **Net assets at end of year** | **$79,153** | **$67,774** | **$53,672** |

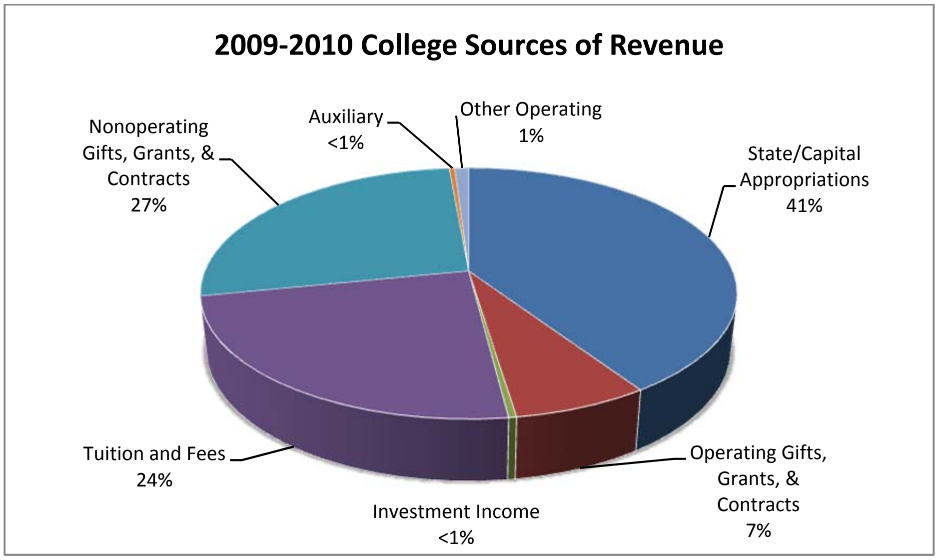
| **Nashville State Community College Foundation** | | | |
|---|---|---|---|
| **Condensed Statements of Revenues, Expenses, and Changes in Net Assets** | | | |
| | **2011** | **2010** | **2009** |
| **Operating revenues:** | | | |
| Gifts | $126 | $122 | $ 76 |
| Other | 82 | 168 | 134 |
| **Total operating revenues** | **208** | **290** | **210** |
| **Operating expenses** | **206** | **258** | **210** |
| **Operating income** | **2** | **32** | **-** |
| **Nonoperating revenues (expenses):** | | | |
| Investment income (loss) | 48 | 35 | (66) |
| **Net nonoperating revenues (expenses)** | **48** | **35** | **(66)** |
| **Income (loss) before other revenues, expenses, gains, or losses** | **50** | **67** | **(66)** |
| **Other revenues, expenses, gains, or losses:** | | | |
| Additions to permanent endowments | **-** | **-** | 11 |
| **Total other revenues, expenses, gains, or losses** | **-** | **-** | **11** |
| **Increase (decrease) in net assets** | **50** | **67** | **(55)** |
| **Net asset at beginning of year** | **735** | **668** | **723** |
| **Net assets at end of year** | **$785** | **$735** | **$668** |

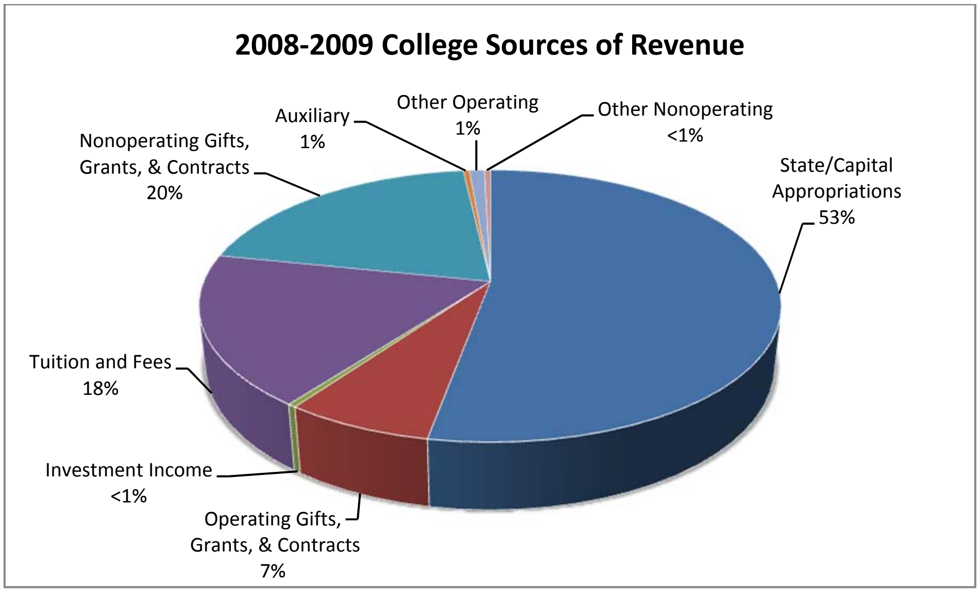
## Revenues

### *College*

The following is a graphic illustration of revenues by source (both operating and nonoperating), which were used to fund the college's operating activities for the years ended June 30, 2011, June 30, 2010, and June 30, 2009.






Comparison of FY 2011 to FY 2010

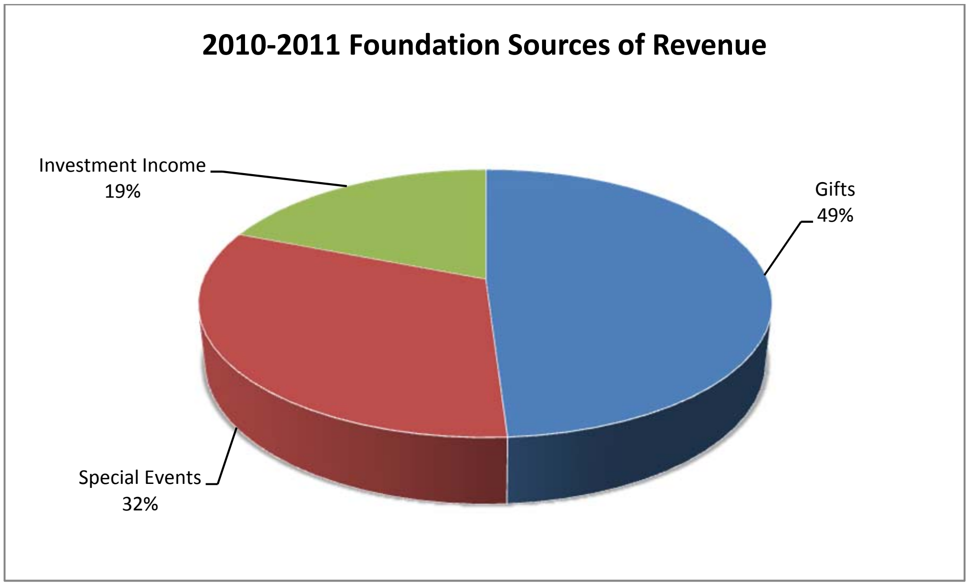
- Investment income decreased due to lower interest rates.
- Tuition and fees increased due to a rate increase and higher student enrollment.
- State appropriations increased related to MOE funding received in FY 2011 that was a replacement for State Fiscal Stabilization Fund (SFSF) funding.
- Nonoperating gifts, grants, and contracts increased due to increases in Pell and Lottery scholarship awards.

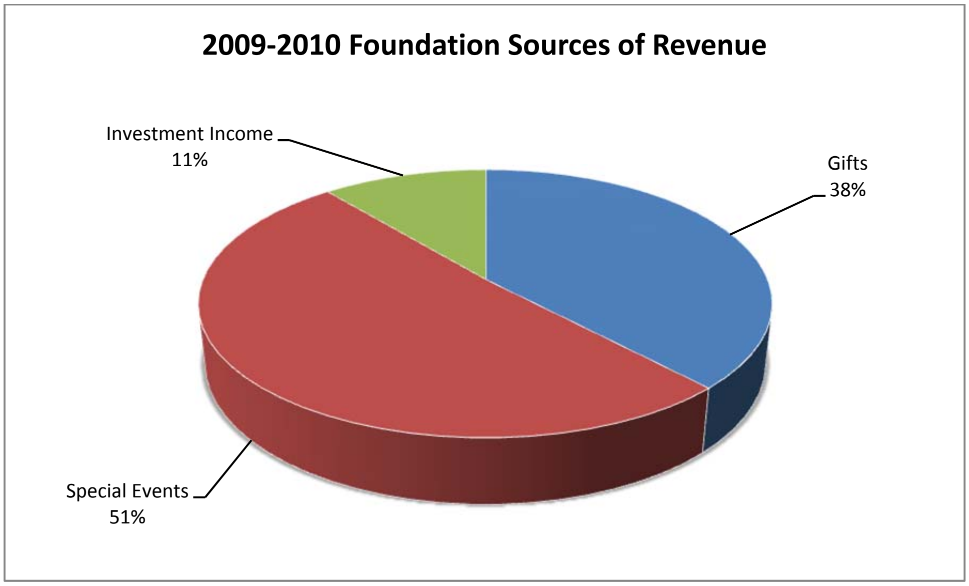
Comparison of FY 2010 to FY 2009

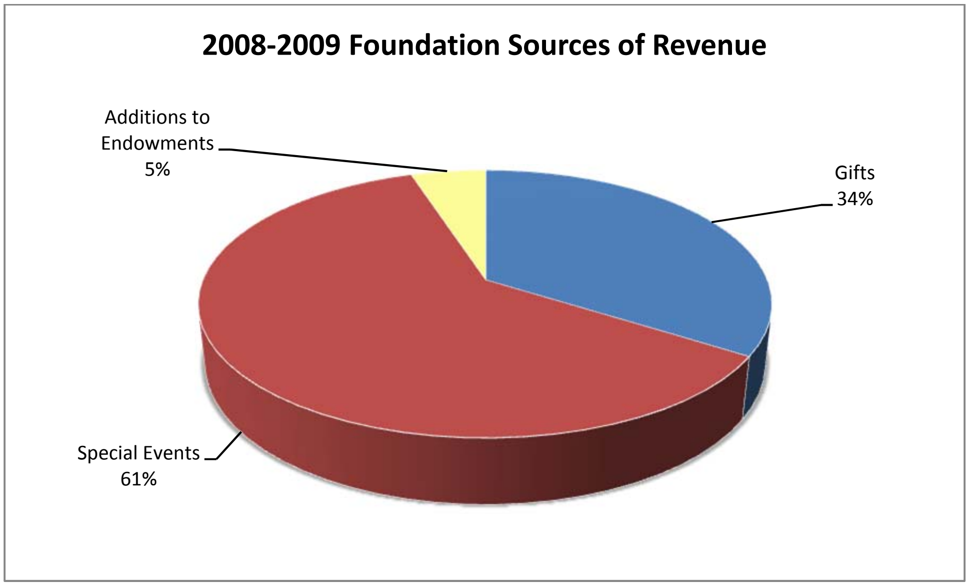
- Investment income decreased due to lower interest rates.
- Tuition and fees increased due to a rate increase in FY 2010 and higher student enrollment.
- Auxiliary revenue increased due to higher student enrollment.
- State appropriations decreased due to a reduction in budgeted appropriations in FY 2010.
- Nonoperating gifts, grants, and contracts increased due to increases in Pell and Lottery scholarship awards.

### *Foundation*

The following is a graphic illustration of revenues by source (both operating and nonoperating), which were used to fund the foundation's operating activities for the years ended June 30, 2011, June 30, 2010, and June 30, 2009.






Comparison of FY 2011 to FY 2010

- Special events decreased in FY 2011 due to the temporary loss of the Director of Development and Public Affairs.
- Gifts increased in FY 2011 due to increased donor cultivation efforts.

Comparison of FY 2010 to FY 2009

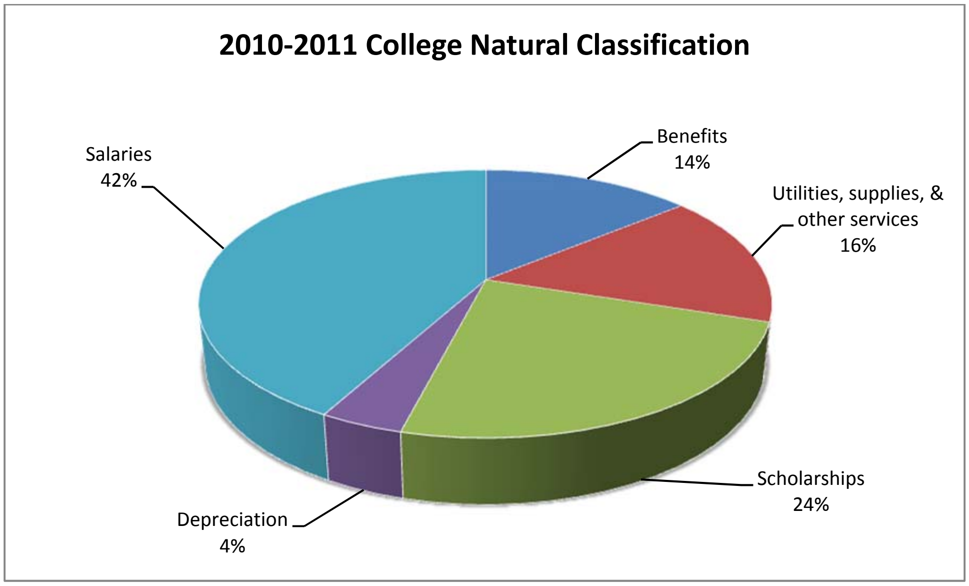
- Special events increased in FY 2010 due to improved revenue from the scholarship banquet and golf tournament.
- Gifts increased in FY 2010 due to increased donor cultivation efforts.
- There were no additions to permanent endowments in FY 2010 compared to FY 2009 contributions of $11,000.00.

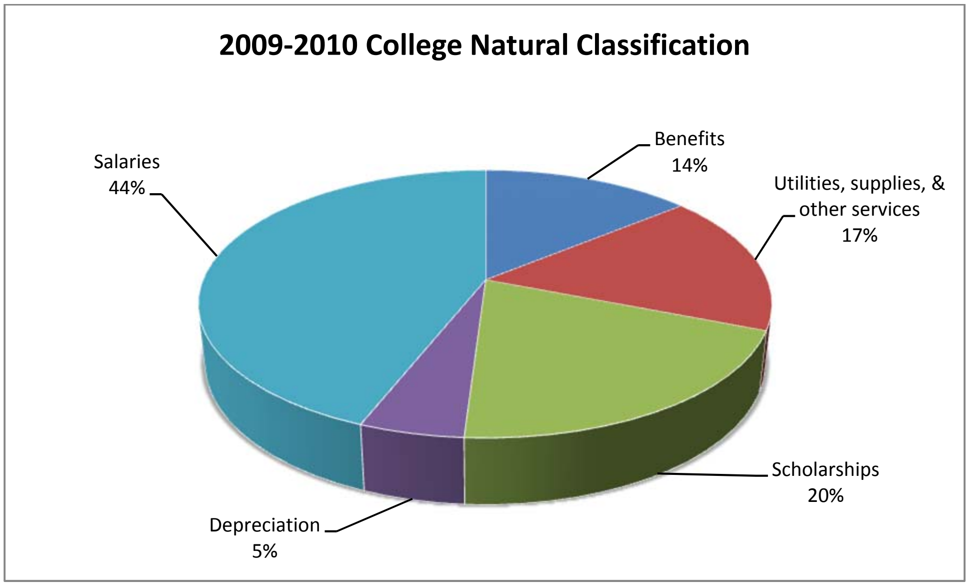
## Expenses

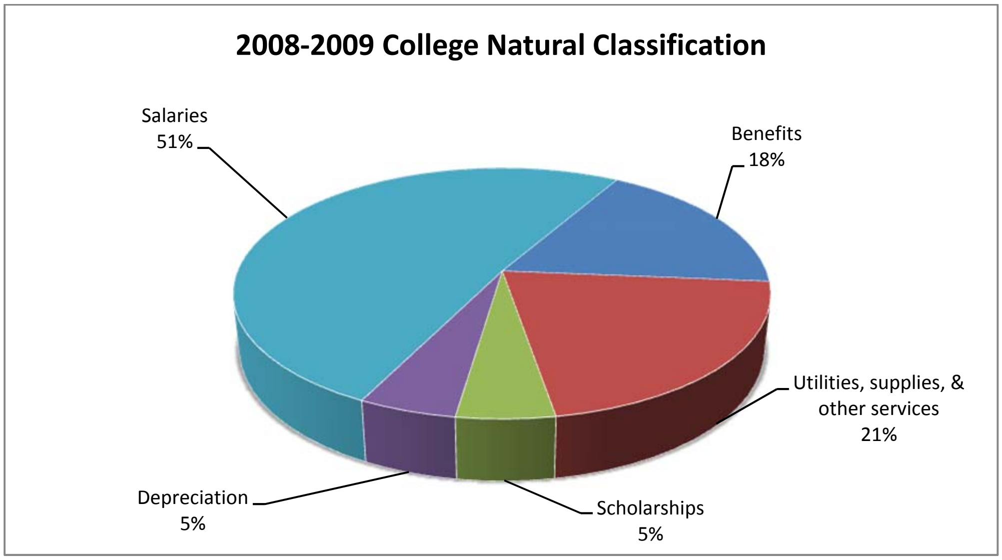
Operating expenses can be displayed in two formats, natural classification and program classification. Both formats are displayed below. Amounts are presented in thousands of dollars.

***Natural Classification***
***for the College***

| | 2011 | 2010 | 2009 |
|---|---|---|---|
| Salaries | $20,939 | $20,298 | $19,163 |
| Benefits | 7,054 | 6,520 | 6,816 |
| Utilities, supplies, and other services | 8,199 | 7,720 | 7,930 |
| Scholarships | 12,116 | 9,308 | 1,977 |
| Depreciation | 2,191 | 2,228 | 1,738 |
| **TOTAL** | **$50,499** | **$46,074** | **$37,624** |






<u>Comparison of FY 2011 to FY 2010</u>

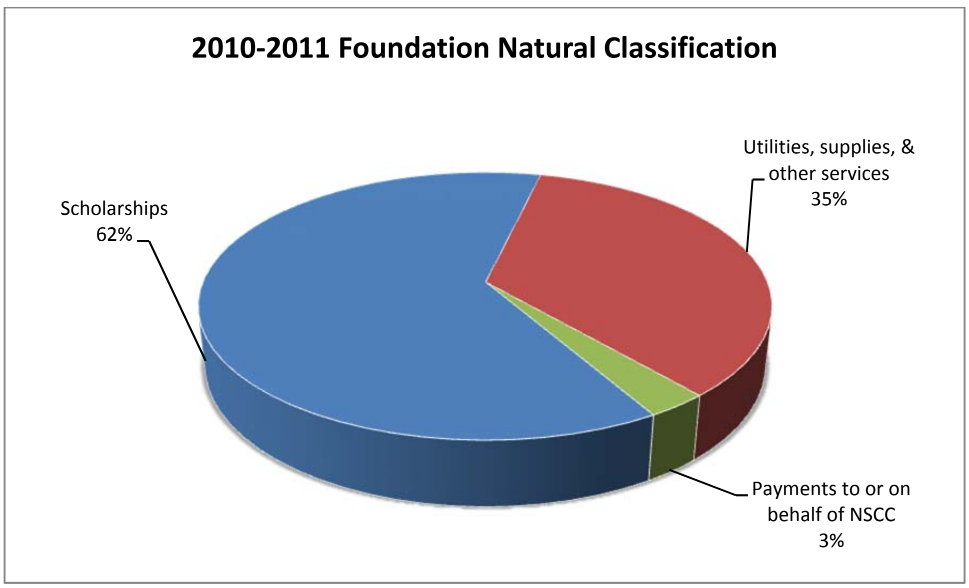
- Salaries and benefits increased due to higher student enrollment.
- Utilities, supplies, and other services increased due to higher student enrollment, SFSF spending related to information technology enhancement, and the expenses related to the new nursing program.

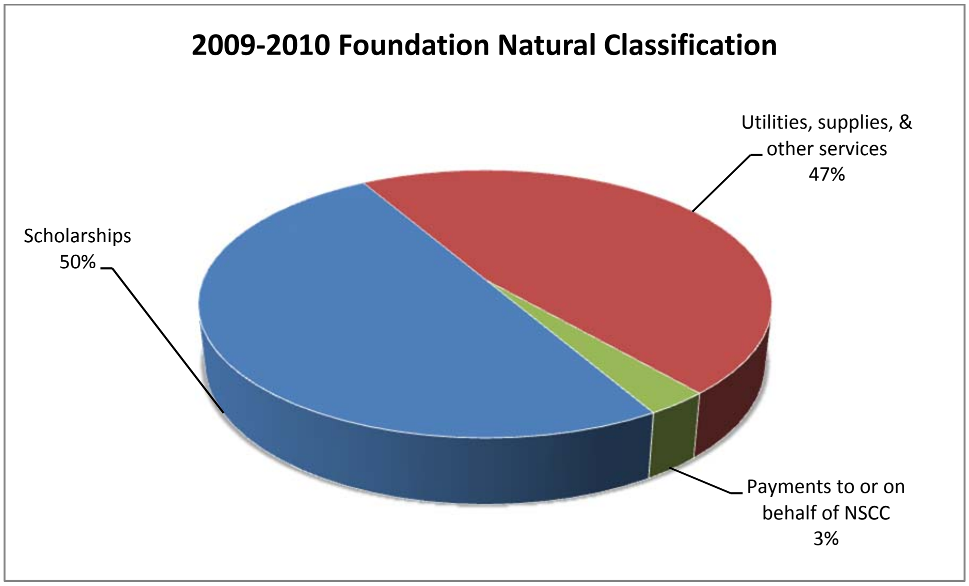
Comparison of FY 2010 to FY 2009

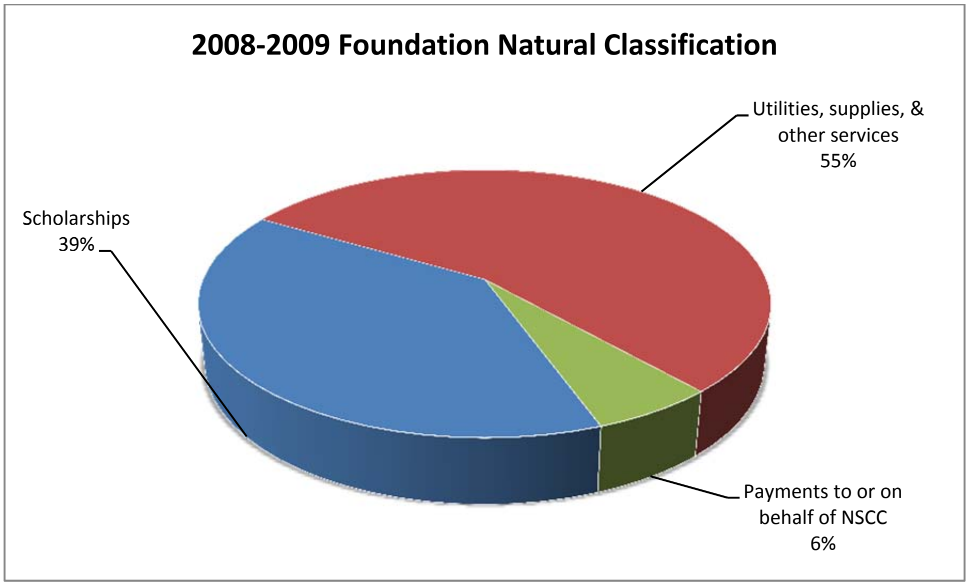
- Although the overall percentage of salaries decreased, the dollar amount increased due to higher student enrollment.
- Benefits decreased due to lower group insurance costs because of a premium holiday. The State Insurance Committee voted a two-month premium holiday for employee and employer insurance contributions during FY 2010.
- Depreciation increased due the capitalization of the Student Services Building and the expenditures related to the renovation of existing buildings.
- Scholarships increased due to an increase in Pell awards.

***Natural Classification***
***for the Foundation***

| | 2011 | 2010 | 2009 |
|---|---|---|---|
| Utilities, supplies, and other services | $ 72 | $122 | $116 |
| Scholarships | 127 | 129 | 82 |
| Payments to or on behalf of NSCC | 7 | 7 | 12 |
| **TOTAL** | **$206** | **$258** | **$210** |






Comparison of FY 2011 to FY 2010

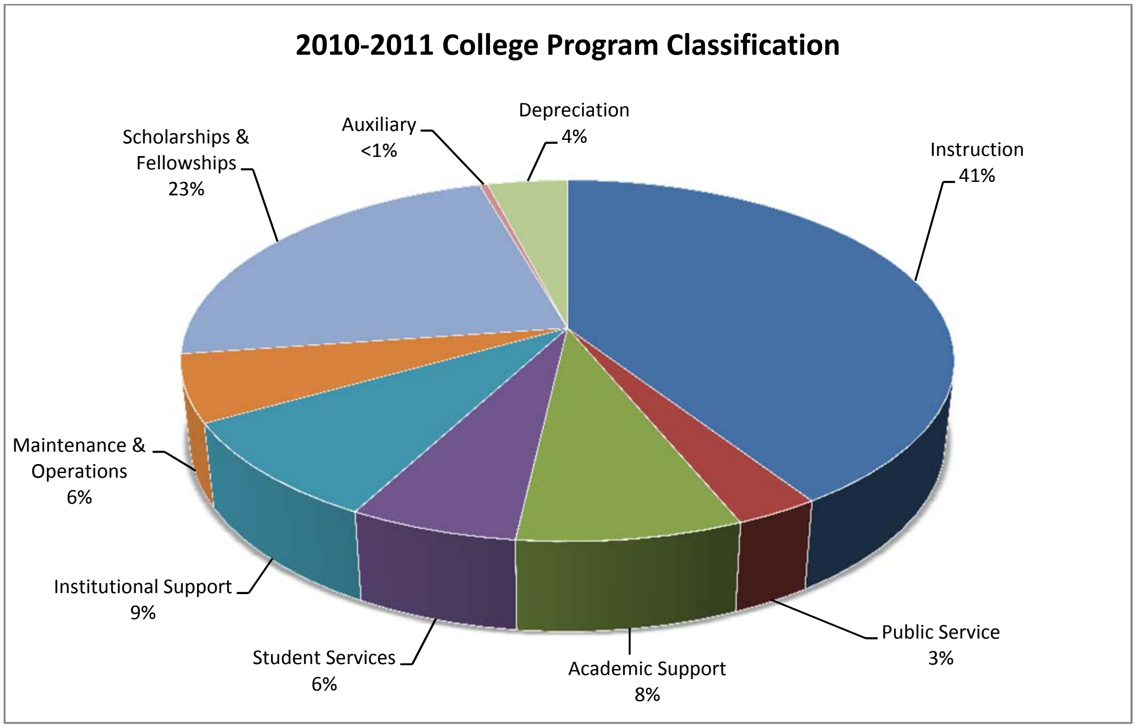
- Operating costs decreased in FY 2011 due to delays in spending related to current economic conditions.
- Although the overall percentage for scholarships increased, the dollar amount slightly decreased in FY 2011 as compared to FY 2010.

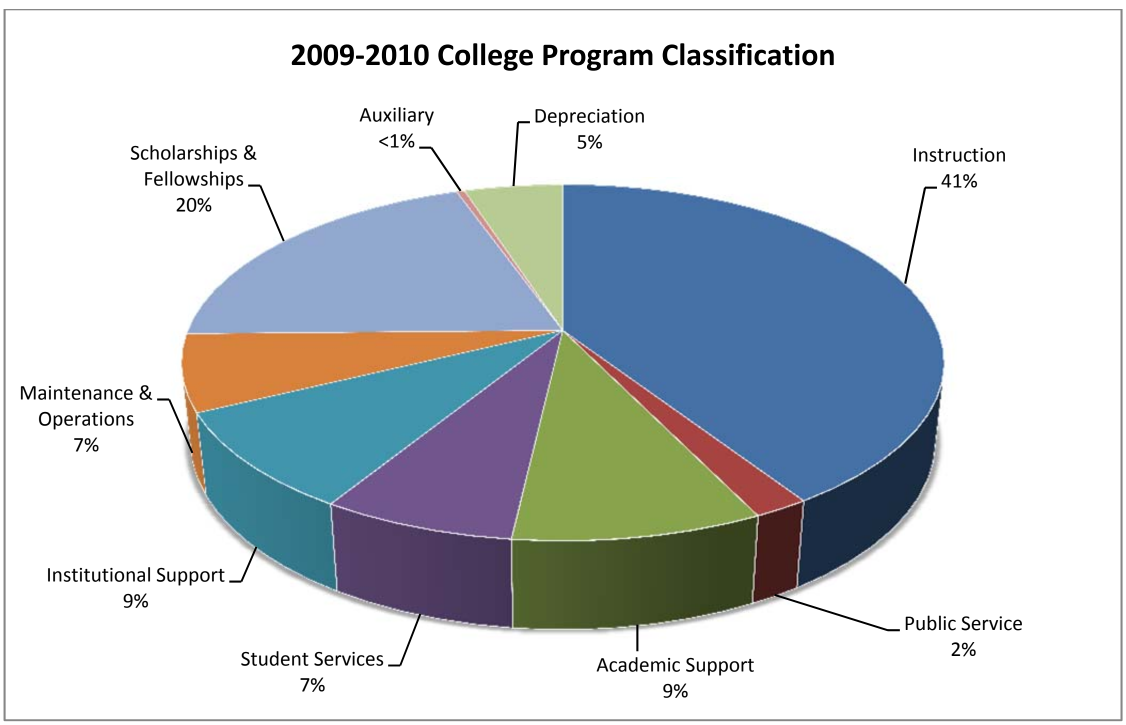
Comparison of FY 2010 to FY 2009

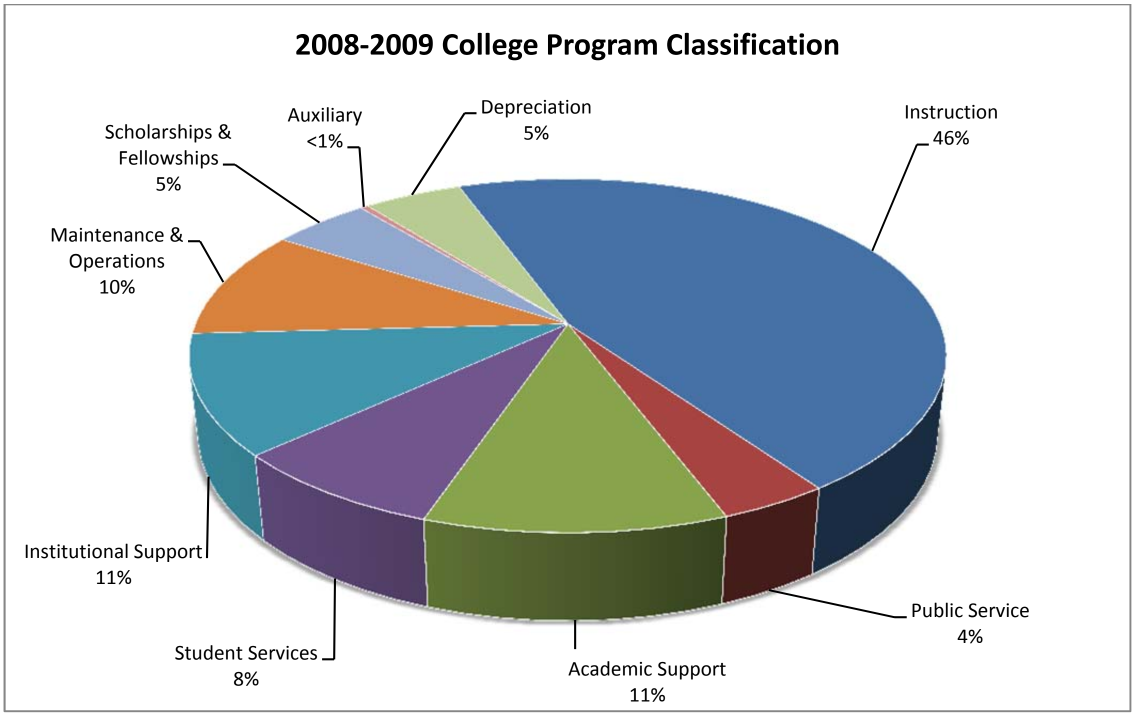
- Operating costs decreased in FY 2010 due to delays in spending related to current economic conditions.
- Scholarships increased in FY 2010 due to payments for scholarships to the college and for Culinary, Sweethearts for Scholarships, and Pinnacle National Bank scholarships.
- Payments to or on behalf of NSCC decreased due to reductions related to membership dues and subscriptions.

***Program Classification***
***for the College***

| | **2011** | **2010** | **2009** |
|---|---|---|---|
| Instruction | $20,559 | $18,997 | $17,293 |
| Public Service | 1,274 | 1,172 | 1,492 |
| Academic Support | 3,963 | 4,022 | 4,042 |
| Student Services | 3,136 | 3,026 | 3,144 |
| Institutional Support | 4,363 | 4,156 | 4,086 |
| Operations & Maintenance | 3,039 | 3,296 | 3,956 |
| Scholarships & Fellowships | 11,969 | 9,173 | 1,868 |
| Auxiliary Enterprises | 5 | 4 | 5 |
| Depreciation | 2,191 | 2,228 | 1,738 |
| **TOTAL** | **$50,499** | **$46,074** | **$37,624** |


2010-2011 College Program Classification
Depreciation 4%
Auxiliary <1%
Scholarships & Fellowships 23%
Instruction 41%
Maintenance & Operations 6%
Institutional Support 9%
Student Services 6%
Academic Support 8%
Public Service 3%


2009-2010 College Program Classification
Auxiliary <1%
Depreciation 5%
Scholarships & Fellowships 20%
Instruction 41%
Maintenance & Operations 7%
Institutional Support 9%
Student Services 7%
Academic Support 9%
Public Service 2%




Comparison of FY 2011 to FY 2010

- Instruction increased due to higher student enrollment and SFSF spending related to information technology enhancement.
- Student services and institutional support increased due to increased enrollment.

Comparison of FY 2010 to FY 2009

- The decrease in maintenance and operations is due to the completion of the Student Services Building in FY 2009.
- Although the overall percentage of instruction and institutional support decreased, the dollar amount increased due to higher student enrollment.
- Depreciation increased due to the capitalization of the Student Services Building and the expenditures related to the renovation of existing buildings.
- Scholarships and fellowships increased due to an increase in Pell awards.

## Capital Assets and Debt Administration

### Capital Assets

Nashville State Community College had $37,627,935.91 invested in capital assets, net of accumulated depreciation of $20,159,460.16 at June 30, 2011; $38,080,718.56 invested in capital assets, net of accumulated depreciation of $18,085,089.09 at June 30, 2010; and $30,832,600.74 invested in capital assets, net of accumulated depreciation of $16,375,678.63 at June 30, 2009. Depreciation charges totaled $2,191,432.38, $2,227,759.52, and $1,737,554.65 for the years ended June 30, 2011, June 30, 2010, and June 30, 2009, respectively. Details of these assets are shown below.

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

| | 2011 | 2010 | 2009 |
|---|---|---|---|
| Land | $ 1,340 | $ 1,340 | $ 1,340 |
| Land improvements and infrastructure | 2,769 | 2,953 | 3,137 |
| Buildings | 31,453 | 31,989 | 20,907 |
| Equipment | 1,461 | 1,218 | 1,486 |
| Library holdings | 266 | 272 | 285 |
| Software | 247 | 309 | 370 |
| Projects in progress | 92 | - | 3,307 |
| **Total** | **$37,628** | **$38,081** | **$30,832** |

Comparison of FY 2011 to FY 2010

- The overall decrease is due to the impact of depreciation expense offset by an increase in projects in progress related to the parking lot improvements.

Comparison of FY 2010 to FY 2009

- The decreases in land improvements and equipment are related to depreciation and asset retirements during the year.
- The increase in building assets in FY 2010 was due to the capitalization of the projects related to the existing building renovations that started in FY 2009.
- The decrease in projects in progress in FY 2010 was due to capitalizing the building renovations project.

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

## Debt

The college had $647,949.38, $704,733.23, and $759,123.16 in debt outstanding at June 30, 2011, June 30, 2010, and June 30, 2009, respectively. The component unit had no debt outstanding at June 30, 2011, June 30, 2010, or June 30, 2009. The table below summarizes these amounts by type of debt instrument.

| Description of Debt | 2011 | 2010 | 2009 |
|---|---|---|---|
| TSSBA Bonds due 2022 | $647,949.38 | $704,733.23 | $759,123.16 |

The ratings on debt issued by the Tennessee State School Bond Authority at June 30, 2011, 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.

## Economic Factors That Will Affect the Future

The college continued to experience enrollment increases over the past fiscal year, for the fall, spring and summer semesters. With the nation in a slow recovery from a prolonged recession, reduced state appropriations will be received in fiscal year 2012. The college will continue to rely upon tuition increases to meet the increased expenditures that are driven by the rising enrollment.

Further budget reductions were required in fiscal year 2011. The temporary ARRA funding, expiring September 30, 2011, was used for capacity building to meet enrollment increases and for projects which reduced long-term costs. These actions should assist the college in meeting the financial challenges of slow economic growth and budget reductions occurring in the near term.

## 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, Tennessee 37209.

# TENNESSEE BOARD OF REGENTS
# NASHVILLE STATE COMMUNITY COLLEGE
# STATEMENTS OF NET ASSETS
# JUNE 30, 2011, AND JUNE 30, 2010

| | Nashville State Community College | | Component Unit Nashville State Community College Foundation | |
|---|---|---|---|---|
| | June 30, 2011 | June 30, 2010 | June 30, 2011 | June 30, 2010 |
| **ASSETS** | | | | |
| Current assets: | | | | |
| Cash and cash equivalents (Notes 2, 3, and 18) | $ 16,738,533.31 | $ 13,454,734.11 | $ 416,490.12 | $ 324,041.29 |
| Short-term investments (Note 18) | - | - | 173,902.18 | 162,340.90 |
| Accounts, notes, and grants receivable (net) (Note 4) | 3,174,226.24 | 2,583,682.76 | 7,500.00 | 3,648.00 |
| Due from primary government | 295,187.64 | 412,510.05 | - | - |
| Prepaid expenses and deferred charges | 129,069.45 | 71,336.80 | - | - |
| Total current assets | 20,337,016.64 | 16,522,263.72 | 597,892.30 | 490,030.19 |
| Noncurrent assets: | | | | |
| Cash and cash equivalents (Notes 2, 3, and 18) | 34,041,000.40 | 25,572,919.63 | 13,363.01 | 23,363.01 |
| Investments (Note 18) | - | - | 261,831.94 | 225,976.79 |
| Capital assets (net) (Note 5) | 37,627,935.91 | 38,080,718.56 | - | - |
| Total noncurrent assets | 71,668,936.31 | 63,653,638.19 | 275,194.95 | 249,339.80 |
| Total assets | 92,005,952.95 | 80,175,901.91 | 873,087.25 | 739,369.99 |
| **LIABILITIES** | | | | |
| Current liabilities: | | | | |
| Accounts payable | 434,340.62 | 350,348.50 | 87,617.65 | 4,194.00 |
| Accrued liabilities | 1,619,497.04 | 1,547,730.33 | - | - |
| Student deposits | 2,685.73 | 2,285.73 | - | - |
| Deferred revenue | 2,462,819.11 | 1,827,319.42 | - | - |
| Compensated absences (Note 6) | 310,505.14 | 392,203.82 | - | - |
| Accrued interest payable | 4,590.00 | 4,997.97 | - | - |
| Long-term liabilities, current portion (Note 6) | 59,283.98 | 56,783.85 | - | - |
| Deposits held in custody for others | 4,602,266.19 | 5,142,918.81 | - | - |
| Other liabilities | 96,263.40 | 96,263.40 | - | - |
| Total current liabilities | 9,592,251.21 | 9,420,851.83 | 87,617.65 | 4,194.00 |
| Noncurrent liabilities: | | | | |
| Net OPEB obligation (Note 11) | 2,217,419.82 | 1,898,103.37 | - | - |
| Compensated absences (Note 6) | 454,397.75 | 435,038.12 | - | - |
| Long-term liabilities (Note 6) | 588,665.40 | 647,949.38 | - | - |
| Total noncurrent liabilities | 3,260,482.97 | 2,981,090.87 | - | - |
| Total liabilities | 12,852,734.18 | 12,401,942.70 | 87,617.65 | 4,194.00 |
| **NET ASSETS** | | | | |
| Invested in capital assets, net of related debt | 37,615,817.13 | 38,057,080.03 | - | - |
| Restricted for: | | | | |
| Nonexpendable: | | | | |
| Scholarships and fellowships | 4,739.67 | 4,739.67 | 245,344.13 | 241,613.51 |
| Expendable: | | | | |
| Scholarships and fellowships | 83,140.96 | 105,590.62 | 129,162.31 | 105,364.79 |
| Instructional department uses | 152,352.46 | 135,143.60 | 1,135.00 | 1,135.00 |
| Other | 407,277.39 | 352,793.00 | 28,467.84 | 28,878.71 |
| Unrestricted (Note 8) | 40,889,891.16 | 29,118,612.29 | 381,360.32 | 358,183.98 |
| Total net assets | $ 79,153,218.77 | $ 67,773,959.21 | $ 785,469.60 | $ 735,175.99 |

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

# TENNESSEE BOARD OF REGENTS
# NASHVILLE STATE COMMUNITY COLLEGE
# STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
# FOR THE YEARS ENDED JUNE 30, 2011, AND JUNE 30, 2010

| | Nashville State Community College | | Component Unit Nashville State Community College Foundation | |
|---|---|---|---|---|
| | Year Ended June 30, 2011 | Year Ended June 30, 2010 | Year Ended June 30, 2011 | Year Ended June 30, 2010 |
| **REVENUES** | | | | |
| Operating revenues: | | | | |
| Student tuition and fees (net of scholarship allowances of $10,077,668.48 for the year ended June 30, 2011, and $8,147,482.98 for the year ended June 30, 2010) | $ 15,852,776.07 | $ 14,742,331.80 | $ - | $ - |
| Gifts and contributions | - | - | 125,546.70 | 122,552.20 |
| Governmental grants and contracts | 4,442,406.25 | 4,087,829.69 | - | - |
| Nongovernmental grants and contracts | 430,582.63 | 414,080.70 | - | - |
| Sales and services of educational departments | 4,770.00 | 4,401.00 | - | - |
| Auxiliary enterprises: | | | | |
| Bookstore | 289,607.48 | 299,349.61 | - | - |
| Other operating revenues | 361,940.44 | 346,510.99 | 82,482.00 | 167,672.50 |
| Total operating revenues | 21,382,082.87 | 19,894,503.79 | 208,028.70 | 290,224.70 |
| **EXPENSES** | | | | |
| Operating expenses (Note 14): | | | | |
| Salaries and wages | 20,938,654.03 | 20,297,427.38 | - | - |
| Benefits | 7,053,859.57 | 6,520,445.36 | - | - |
| Utilities, supplies, and other services | 8,198,824.24 | 7,720,426.50 | 71,528.48 | 121,688.48 |
| Scholarships and fellowships | 12,115,861.22 | 9,307,831.50 | 126,901.85 | 129,472.58 |
| Depreciation expense | 2,191,432.38 | 2,227,759.52 | - | - |
| Payments to or on behalf of Nashville State Community College (Note 18) | - | - | 7,246.46 | 7,182.50 |
| Total operating expenses | 50,498,631.44 | 46,073,890.26 | 205,676.79 | 258,343.56 |
| Operating income (loss) | (29,116,548.57) | (26,179,386.47) | 2,351.91 | 31,881.14 |
| **NONOPERATING REVENUES (EXPENSES)** | | | | |
| State appropriations | 16,549,690.00 | 14,180,721.00 | - | - |
| Gifts, including $7,246.46 from component unit for the year ended June 30, 2011, and $7,182.50 for the year ended June 30, 2010 | 159,174.06 | 222,806.37 | - | - |
| Grants and contracts | 22,554,169.26 | 16,325,666.20 | - | - |
| Investment income | 64,072.75 | 94,415.59 | 47,941.70 | 35,675.26 |
| Interest on capital asset-related debt | (28,123.20) | (30,353.42) | - | - |
| Other nonoperating expenses | - | (5,477.88) | - | - |
| Net nonoperating revenues | 39,298,982.87 | 30,787,777.86 | 47,941.70 | 35,675.26 |
| Income before other revenues, expenses, gains, or losses | 10,182,434.30 | 4,608,391.39 | 50,293.61 | 67,556.40 |
| Capital appropriations | 1,196,825.26 | 9,910,920.25 | - | - |
| Total other revenues | 1,196,825.26 | 9,910,920.25 | - | - |
| Increase in net assets | 11,379,259.56 | 14,519,311.64 | 50,293.61 | 67,556.40 |
| **NET ASSETS** | | | | |
| Net assets - beginning of year | 67,773,959.21 | 53,672,212.70 | 735,175.99 | 667,619.59 |
| Prior period adjustment (Note 16) | - | (417,565.13) | - | - |
| Net assets - end of year | $ 79,153,218.77 | $ 67,773,959.21 | $ 785,469.60 | $ 735,175.99 |

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

**TENNESSEE BOARD OF REGENTS**
**NASHVILLE STATE COMMUNITY COLLEGE**
**STATEMENTS OF CASH FLOWS**
**FOR THE YEARS ENDED JUNE 30, 2011, AND JUNE 30, 2010**

| | Year Ended June 30, 2011 | Year Ended June 30, 2010 |
|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | |
| Tuition and fees | $ 16,269,431.42 | $ 15,006,693.86 |
| Grants and contracts | 4,847,622.18 | 4,140,754.53 |
| Sales and services of educational activities | 4,770.00 | 4,401.00 |
| Payments to suppliers and vendors | (9,137,014.28) | (8,167,576.71) |
| Payments to employees | (20,895,925.81) | (20,272,632.54) |
| Payments for benefits | (6,755,519.68) | (6,017,222.80) |
| Payments for scholarships and fellowships | (11,377,455.74) | (8,833,313.57) |
| Auxiliary enterprise charges: | | |
| Bookstore | 289,607.48 | 299,349.61 |
| Other receipts | 361,940.44 | 346,510.99 |
| Net cash used by operating activities | (26,392,543.99) | (23,493,035.63) |
| **CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES** | | |
| State appropriations | 16,534,800.00 | 14,173,238.00 |
| Gifts and grants received for other than capital purposes, including $7,246.46 from Nashville State Community College Foundation for the year ended June 30, 2011, and $7,182.50 for the year ended June 30, 2010 | 22,713,343.32 | 15,682,872.57 |
| Federal student loan receipts | 19,439,502.00 | 16,157,589.00 |
| Federal student loan disbursements | (19,439,502.00) | (16,157,589.00) |
| Changes in deposits held for others | (540,652.62) | (129,535.26) |
| Net cash provided by noncapital financing activities | 38,707,490.70 | 29,726,575.31 |
| **CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES** | | |
| Capital appropriations | 1,196,825.26 | 9,910,920.25 |
| Purchases of capital assets and construction | (1,738,649.73) | (9,481,355.22) |
| Principal paid on capital debt | (56,783.85) | (54,389.93) |
| Interest paid on capital debt | (28,531.17) | (30,743.52) |
| Net cash provided (used) by capital and related financing activities | (627,139.49) | 344,431.58 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | |
| Income on investments | 64,072.75 | 94,415.59 |
| Net cash provided by investing activities | 64,072.75 | 94,415.59 |
| Net increase in cash | 11,751,879.97 | 6,672,386.85 |
| Cash - beginning of year | 39,027,653.74 | 32,355,266.89 |
| Cash - end of year | $ 50,779,533.71 | $ 39,027,653.74 |

**TENNESSEE BOARD OF REGENTS**
**NASHVILLE STATE COMMUNITY COLLEGE**
**STATEMENTS OF CASH FLOWS**
**FOR THE YEARS ENDED JUNE 30, 2011, AND JUNE 30, 2010**

| | Year Ended June 30, 2011 | Year Ended June 30, 2010 |
|---|---|---|
| **Reconciliation of operating loss to net cash used by operating activities:** | | |
| Operating loss | $ (29,116,548.57) | $ (26,179,386.47) |
| Adjustments to reconcile operating loss to net cash used by operating activities: | | |
| Depreciation expense | 2,191,432.38 | 2,227,759.52 |
| Other adjustments | 19,090.00 | 15,221.00 |
| Change in assets and liabilities: | | |
| Receivables, net | (477,421.07) | (754,207.91) |
| Prepaid/deferred items | (57,732.65) | (11,331.20) |
| Accounts payable | 83,992.12 | 58,891.73 |
| Accrued liabilities | 391,483.16 | 594,099.32 |
| Deferred revenue | 635,499.69 | 487,500.28 |
| Compensated absences | (62,339.05) | 68,418.10 |
| Net cash used by operating activities | $ (26,392,543.99) | $ (23,493,035.63) |

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

### Basis of Accounting

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

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

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

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

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

**Compensated Absences**

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

**Capital Assets**

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

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

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

### Net Assets

The college's net assets are classified as follows:

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

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

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

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

### Scholarship Discounts and Allowances

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

## NOTE 2. CASH

This classification includes demand deposits and petty cash on hand. At June 30, 2011, cash consisted of $27,580.76 in bank accounts, $1,600.00 of petty cash on hand, $48,921,893.06 in the State of Tennessee Local Government Investment Pool (LGIP) administered by the State Treasurer, and $1,828,459.89 in LGIP deposits for capital projects. At June 30, 2010, cash consisted of $1,535,105.10 in bank accounts, $1,700.00 of petty cash on hand, $37,398,164.46 in LGIP, and $92,684.18 in LGIP deposits for capital projects.

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

## NOTE 3. INVESTMENTS

### Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The college is authorized by statute to invest funds in accordance with Tennessee Board of Regents policies. Under the current policy, funds other than endowments may be invested only in obligations of the United States or its agencies which are backed by the full faith and credit of the United States, repurchase agreements for United States securities, certificates of deposit in banks and savings and loan associations, banker's acceptances, commercial paper, money market mutual funds, and the State of Tennessee Local Government Investment Pool (LGIP). 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.

Tennessee Board of Regents policy restricts investments in banker's acceptances and commercial paper. The policy requires that prime banker's acceptances must be issued by domestic banks with a minimum AA rating or foreign banks with a AAA long-term debt rating by a majority of the rating services that have rated the issuer. Prime banker's acceptances are required to be eligible for purchase by the Federal Reserve System. To be eligible, the original maturity must not be more than 270 days, and it must 1) arise out of the current shipment of goods between countries or with the United States, or 2) arise out of storage within the United States of goods under contract of sale or expected to move into the channel or trade within a reasonable time and that are secured throughout their life by a warehouse receipt or similar document conveying title to the underlying goods.

Tennessee Board of Regents policy requires that prime commercial paper shall be limited to that of corporations that meet the following criteria: 1) Senior long-term debt, if any, should have a minimum rating of A1 or equivalent, and short-term debt should have a minimum rating of A1 or equivalent, as provided by a majority of the rating services that rate the issuer. If there is no long-term debt rating, the short-term debt rating must be A1 by all rating services (minimum of two). 2) The rating should be based on the merits of the issuer or guaranteed by a nonbank. 3) A financial review should be made to ascertain the issuer's financial strength to cover the debt. 4) Commercial paper of a banking institution should not be purchased. Prime commercial paper shall not have a maturity that exceeds 270 days.

As of June 30, 2011, and June 30, 2010, the college's investments consisted entirely of investments in the Local Government Investment Pool. The fair value of these investments was $50,750,352.95 at June 30, 2011, and $37,490,848.64 at June 30, 2010. LGIP investments are not rated by nationally recognized statistical ratings organizations. The LGIP is part of the State Pooled Investment Fund. The fund's required risks disclosures are presented in the *State of Tennessee Treasurer's Report*. That report is available on the state's website at www.treasury.tn.gov.

## NOTE 4. RECEIVABLES

Receivables included the following:

| | June 30, 2011 | June 30, 2010 |
|---|---|---|
| Student accounts receivable | $2,530,307.80 | $1,908,221.06 |
| Grants receivable | 1,021,691.59 | 879,002.48 |
| State appropriation receivable | 41,400.00 | 45,600.00 |
| Other receivables | 80,826.85 | 74,859.22 |
| Subtotal | 3,674,226.24 | 2,907,682.76 |

| | | |
|---|---|---|
| Less allowance for doubtful accounts | (500,000.00) | (324,000.00) |
| Total receivables | $3,174,226.24 | $2,583,682.76 |

## NOTE 5. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2011, was as follows:

| | Beginning Balance | Additions | Transfers | Reductions | Ending Balance |
|---|---|---|---|---|---|
| Land | $ 1,340,140.00 | $ - | $ - | $ - | $ 1,340,140.00 |
| Land improvements and infrastructure | 4,243,638.20 | - | - | - | 4,243,638.20 |
| Buildings | 45,386,694.19 | 929,800.46 | - | - | 46,316,494.65 |
| Equipment | 4,005,653.42 | 659,770.52 | - | (42,978.03) | 4,622,445.91 |
| Library holdings | 572,999.25 | 56,663.15 | - | (74,083.28) | 555,579.12 |
| Intangible assets | 616,682.59 | - | - | - | 616,682.59 |
| Projects in progress | - | 92,415.60 | - | - | 92,415.60 |
| Total | 56,165,807.65 | 1,738,649.73 | - | (117,061.31) | 57,787,396.07 |
| Less accumulated depreciation/ amortization: | | | | | |
| Land improvements and infrastructure | 1,291,052.75 | 183,956.59 | - | - | 1,475,009.34 |
| Buildings | 13,396,508.33 | 1,466,524.12 | - | - | 14,863,032.45 |
| Equipment | 2,788,105.49 | 416,317.18 | - | (42,978.03) | 3,161,444.64 |
| Library holdings | 301,081.22 | 62,966.23 | - | (74,083.28) | 289,964.17 |
| Intangible assets | 308,341.30 | 61,668.26 | - | - | 370,009.56 |
| Total | 18,085,089.09 | 2,191,432.38 | - | (117,061.31) | 20,159,460.16 |
| Capital assets, net | $ 38,080,718.56 | $ (452,782.65) | $ - | $ - | $ 37,627,935.91 |

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

| | Beginning Balance | Additions | Transfers | Reductions | Ending Balance |
|---|---|---|---|---|---|
| Land | $ 1,340,140.00 | $ - | $ - | $ - | $ 1,340,140.00 |
| Land improvements and infrastructure | 4,243,638.20 | - | - | - | 4,243,638.20 |

| | | | | | |
|---|---|---|---|---|---|
| Buildings | 32,885,601.19 | 9,193,654.43 | 3,307,438.57 | - | 45,386,694.19 |
| Equipment | 4,225,170.03 | 237,063.34 | - | (456,579.95) | 4,005,653.42 |
| Library holdings | 589,608.79 | 50,637.45 | - | (67,246.99) | 572,999.25 |
| Intangible assets | 616,682.59 | - | - | - | 616,682.59 |
| Projects in progress | 3,307,438.57 | - | (3,307,438.57) | - | - |
| Total | 47,208,279.37 | 9,481,355.22 | - | (523,826.94) | 56,165,807.65 |
| Less accumulated depreciation/ amortization: | | | | | |
| Land improvements and infrastructure | 1,107,096.15 | 183,956.60 | - | - | 1,291,052.75 |
| Buildings | 11,978,921.05 | 1,417,587.28 | - | - | 13,396,508.33 |
| Equipment | 2,738,684.80 | 500,522.76 | - | (451,102.07) | 2,788,105.49 |
| Library holdings | 304,303.59 | 64,024.62 | - | (67,246.99) | 301,081.22 |
| Intangible assets | 246,673.04 | 61,668.26 | - | - | 308,341.30 |
| Total | 16,375,678.63 | 2,227,759.52 | - | (518,349.06) | 18,085,089.09 |
| Capital assets, net | $ 30,832,600.74 | $ 7,253,595.70 | $ - | $ (5,477.88) | $ 38,080,718.56 |

## NOTE 6. LONG-TERM LIABILITIES

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

| | Beginning Balance | Additions | Reductions | Ending Balance | Current Portion |
|---|---|---|---|---|---|
| Payables: | | | | | |
| TSSBA debt: | | | | | |
| Bonds | $ 704,733.23 | $ - | $ 56,783.85 | $ 647,949.38 | $ 59,283.98 |
| Other liabilities: | | | | | |
| Compensated absences | 827,241.94 | 505,605.21 | 567,944.26 | 764,902.89 | 310,505.14 |
| Total long-term liabilities | $ 1,531,975.17 | $ 505,605.21 | $ 624,728.11 | $ 1,412,852.27 | $ 369,789.12 |

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

| | Beginning Balance | Additions | Reductions | Ending Balance | Current Portion |
|---|---|---|---|---|---|
| Payables: | | | | | |
| TSSBA debt: | | | | | |
| Bonds | $ 759,123.16 | $ - | $ 54,389.93 | $ 704,733.23 | $ 56,783.85 |
| Other liabilities: | | | | | |
| Compensated absences | 758,823.84 | 687,600.54 | 619,182.44 | 827,241.94 | 392,203.82 |
| Other | 28,824.15 | - | 28,824.15 | - | - |
| Subtotal | 787,647.99 | 687,600.54 | 648,006.59 | 827,241.94 | 392,203.82 |
| Total long-term liabilities | $ 1,546,771.15 | $ 687,600.54 | $ 702,396.52 | $ 1,531,975.17 | $ 448,987.67 |

**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 May 2022 and are secured by pledges of the facilities' revenues to which they relate (see Note 9 for further detail) and certain other revenues and fees of the college, including state appropriations.

Debt service requirements to maturity for the college's portion of TSSBA bonds at June 30, 2011, are as follows:

| Year Ending June 30 | Principal | Interest | Total |
|---|---|---|---|
| 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 | 52,722.80 | 20,274.20 | 72,997.00 |
| 2016 | 54,937.20 | 18,165.28 | 73,102.48 |
| 2017 – 2021 | 311,296.40 | 55,959.10 | 367,255.50 |
| 2022 | 70,318.90 | 3,515.94 | 73,834.84 |
| Total | $ 647,949.38 | $ 170,363.10 | $ 818,312.48 |

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 www.comptroller1.state.tn.us/tssba/.cafr.asp.

## 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 total 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 (including changes in the value of investments) 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, 2011, investment income of $9.81 is available to be spent, which is included in restricted net assets expendable for scholarships and fellowships. At June 30, 2010, investment income of $16.87 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, 2011 | June 30, 2010 |
|---|---|---|
| Working capital | $ 1,946,640.74 | $ 1,589,530.53 |
| Encumbrances | 301,959.90 | 374,779.51 |
| Designated fees | 1,056,740.29 | 362,569.39 |
| Auxiliaries | 13,200.00 | 14,300.00 |
| Plant construction | 20,894,383,94 | 15,997,563.11 |
| Renewal and replacement of equipment | 13,022,421.92 | 9,458,054.80 |
| Debt retirement | 178,738.85 | 169,345.90 |
| Undesignated | 3,475,805.52 | 1,152,469.05 |
| Total | $40,889,891.16 | $29,118,612.29 |

## NOTE 9. PLEDGED REVENUES

The college has pledged certain revenues and fees, including state appropriations, to repay $647,949.38 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. The total principal and interest remaining to be paid on the bonds at June 30, 2011, is $818,312.48. Principal and interest paid for fiscal year 2011 and total available revenues in that year were $84,907.02 and $44,056,367.61, respectively. Principal and interest paid for fiscal year 2010 and total available revenues in that year were $84,743.35 and $38,766,023.55, respectively. See Note 6 for further detail.

## NOTE 10. PENSION PLANS

### A. Defined Benefit Plan

**Tennessee Consolidated Retirement System**

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

The TCRS issues a publicly available financial report that includes financial statements and required supplementary information for SETHEEPP. That report is available on the state’s website at www.treasury.tn.gov.

Funding Policy - Plan members are noncontributory. The college is required to contribute an actuarially determined rate. The current rate is 14.91% of annual covered payroll. Contribution requirements for the college are established and may be amended by the TCRS’ Board of Trustees. The college’s contributions to TCRS for the years ended June 30, 2011, 2010, and 2009 were $1,498,285.10, $1,270,102.61, and $1,227,840.73. Contributions met the requirements for each year.

**B. Defined Contribution Plans**

**Optional Retirement Plans**

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

Funding Policy - Plan members are noncontributory. The college contributes an amount equal to 10% of the employee's base salary up to the social security wage base and 11% above the social security wage base. Contribution requirements are established and amended by state statute. The contributions made by the college to the plans were $663,200.93 for the year ended June 30, 2011, and $662,617.52 for the year ended June 30, 2010. Contributions met the requirements for each year.

## NOTE 11. OTHER POST-EMPLOYMENT BENEFITS

Healthcare is the only "other postemployment benefit" (OPEB) provided to employees. The State of Tennessee administers a group health insurance program which provides postemployment health insurance benefits to eligible college retirees. This program includes two plans available to higher education employees—the State Employee Group Plan and the Medicare Supplement Plan. For accounting purposes, the plans are agent multiple-employer defined benefit OPEB plans. Benefits are established and amended by an insurance committee created by Section 8-27-101, *Tennessee Code Annotated.* Prior to reaching age 65, retirees may participate in the State Employee Group Plan. In previous fiscal years, prior to reaching the age of 65, all members had the option of choosing a preferred provider organization (PPO), point of service (POS), or health maintenance organization (HMO) plan for healthcare benefits. However, as of January 1, 2011, the insurance plan structure was changed and as a result, all members now have the option of choosing between the standard or partnership preferred provider organization plan for healthcare benefits.

Subsequent to age 65, retirees who are also in the state's retirement system may participate in a state-administered Medicare supplement that does not include pharmacy. The state makes on-behalf payments to the Medicare supplement plan for the college's eligible retirees; see Note 17. The plans are reported in the State of Tennessee's *Comprehensive Annual Financial Report* (CAFR). The CAFR is available on the state's website at www.tn.gov/finance/act/cafr.shtml.

**Special Funding Situation**

The State of Tennessee is legally responsible for contributions to the Medicare Supplement Plan that covers the retirees of other governmental entities, including 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 plan participants. In accordance with Section 8-27-205(b), *Tennessee Code Annotated*, retirees in the State Employee Group Plan pay the same base premium as active employees in the plan adjusted for years of service. Retirees with 30 years of service are subsidized 80 percent; 20 but less than 30 years, 70 percent; and less than 20 years, 60 percent. Retirees who are 65 years of age or older have flat-rate premium subsidies based on years of service. Retirees with 30 years of service receive $50 per month; 20 but less than 30 years, $37.50; and 15 but less than 20 years, $25.

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

| | 2011 | 2010 |
|---|---|---|
| Annual required contribution (ARC) | $ 667,000.00 | $ 735,000.00 |
| Interest on the net OPEB obligation | 85,414.65 | 64,971.41 |
| Adjustment to the ARC | (80,904.62) | (61,540.81) |
| Annual OPEB cost | 671,510.03 | 738,430.60 |
| Amount of contribution | (352,193.58) | (284,136.27) |

| | | |
|---|---|---|
| Increase in net OPEB obligation | 319,316.45 | 454,294.33 |
| Net OPEB obligation – beginning of year | 1,898,103.37 | 1,443,809.04 |
| Net OPEB obligation – end of year | $2,217,419.82 | $1,898,103.37 |

| Year-end | Plan | Annual OPEB Cost | Percentage of Annual OPEB Cost Contributed | Net OPEB Obligation at Year-end |
|---|---|---|---|---|
| June 30, 2011 | State Employee Group Plan | $671,510.03 | 52.4% | $2,217,419.82 |
| June 30, 2010 | State Employee Group Plan | $738,430.60 | 38.5% | $1,898,103.37 |
| June 30, 2009 | State Employee Group Plan | $1,012,901.53 | 31.5% | $1,443,809.04 |

**Funded Status and Funding Progress**

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

State Employee Group Plan

| | | |
|---|---|---|
| Actuarial valuation date | July 1, 2010 | July 1, 2009 |
| Actuarial accrued liability (AAL) | $6,352,000.00 | $7,016,000.00 |
| Actuarial value of plan assets | - | - |
| Unfunded actuarial accrued liability (UAAL) | $6,352,000.00 | $7,016,000.00 |
| Actuarial value of assets as a percentage of the AAL | 0% | 0% |
| Covered payroll (active plan members) | $16,281,928.92 | $15,856,507.31 |
| UAAL as percentage of covered payroll | 39.0% | 44.2% |

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

### Actuarial Methods and Assumptions

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

In the July 1, 2010, 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 10 percent in fiscal year 2011. The rate decreases to 9.5 percent in fiscal year 2012, and then is reduced by decrements of 0.5 percent per year to an ultimate rate of 5 percent in fiscal year 2021. All 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, 2011, and June 30, 2010, are presented in the *Tennessee Comprehensive Annual Financial Report*. The CAFR is available on the state's website at www.tn.gov/finance/act/cafr.shtml. Since the college participates in the Risk Management Fund, it is subject to the liability limitations under the provisions of the Tennessee Claims Commission Act, *Tennessee Code Annotated,* Section 9-8-101 et seq. Liability for negligence of the college for bodily injury and property damage is limited to $300,000 per person and $1,000,000 per occurrence. The limits of liability under workers' compensation are set forth in *Tennessee Code Annotated,* Section 50-6-101 et seq. Claims are paid through the state's Risk Management Fund. At June 30, 2011, the Risk Management Fund held $107.6 million in cash and cash equivalents designated for payment of claims. At June 30, 2010, the Risk Management Fund held $114.5 million in cash and cash equivalents designated for payment of claims.

At June 30, 2011, the scheduled coverage for the college was $83,338,800.00 for buildings and $26,745,000.00 for contents. At June 30, 2010, the scheduled coverage for the college was $91,145,500.00 for buildings and $26,395,000.00 for contents.

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

## NOTE 13. COMMITMENTS AND CONTINGENCIES

### Sick Leave

The college records the cost of sick leave when paid. 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 $5,593,380.67 at June 30, 2011, and $5,681,313.49 at June 30, 2010.

### 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 $104,000.04 and for personal property were $63,556.71 for the year ended June 30, 2011. The amounts for the year ended June 30, 2010, were $104,000.04 and $59,180.56. All operating leases are cancelable at the lessee's option.

### Construction in Progress

At June 30, 2011, outstanding commitments under construction contracts totaled $2,277,737.78 for the Academic/Student Services Building, renovations, roof repairs, ADA adaptations, parking lot/roadway repairs, Antioch teaching site, and central plant infrastructure, of which $782,636.05 will be funded by future state capital outlay appropriations.

## NOTE 14. NATURAL CLASSIFICATIONS WITH FUNCTIONAL CLASSIFICATIONS

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

| | Natural Classification | | | | | |
|---|---|---|---|---|---|---|
| Functional Classification | Salaries | Benefits | Other Operating | Scholarships | Depreciation | Total |
| Instruction | $ 12,318,982.60 | $ 3,719,685.74 | $ 4,489,459.90 | $ 30,570.00 | $ - | $ 20,558,698.24 |
| Public service | 669,373.47 | 205,728.47 | 398,941.78 | - | - | 1,274,043.72 |
| Academic support | 3,409,350.42 | 1,170,309.83 | (636,525.65) | 19,494.00 | - | 3,962,628.60 |
| Student services | 1,687,445.75 | 724,009.37 | 622,188.44 | 102,151.00 | - | 3,135,794.56 |
| Institutional support | 2,353,205.82 | 983,426.70 | 1,023,055.47 | 3,057.00 | - | 4,362,744.99 |
| Operation & maintenance | 500,295.97 | 250,699.46 | 2,288,232.94 | - | - | 3,039,228.37 |
| Scholarships & fellowships | - | - | 8,296.00 | 11,960,589.22 | - | 11,968,885.22 |
| Auxiliary | - | - | 5,175.36 | - | - | 5,175.36 |
| Depreciation | - | - | - | - | 2,191,432.38 | 2,191,432.38 |
| Total | $ 20,938,654.03 | $ 7,053,859.57 | $ 8,198,824.24 | $ 12,115,861.22 | $ 2,191,432.38 | $ 50,498,631.44 |

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

| | Natural Classification | | | | | |
|---|---|---|---|---|---|---|
| Functional Classification | Salaries | Benefits | Other Operating | Scholarships | Depreciation | Total |
| Instruction | $ 11,793,399.50 | $ 3,405,274.08 | $ 3,785,814.09 | $ 13,000.50 | $ - | $ 18,997,488.17 |
| Public service | 629,990.14 | 183,561.64 | 358,453.27 | - | - | 1,172,005.05 |
| Academic support | 3,378,045.81 | 1,111,849.87 | (491,305.80) | 23,112.00 | - | 4,021,701.88 |
| Student services | 1,674,691.59 | 667,148.27 | 573,050.82 | 111,555.00 | - | 3,026,445.68 |
| Institutional support | 2,284,534.40 | 912,288.12 | 956,405.39 | 2,889.00 | - | 4,156,116.91 |
| Operation & maintenance | 536,765.94 | 240,323.38 | 2,518,431.06 | - | - | 3,295,520.38 |
| Scholarships & fellowships | - | - | 15,246.00 | 9,157,275.00 | - | 9,172,521.00 |
| Auxiliary | - | - | 4,331.67 | - | - | 4,331.67 |
| Depreciation | - | - | - | - | 2,227,759.52 | 2,227,759.52 |
| Total | $ 20,297,427.38 | $ 6,520,445.36 | $ 7,720,426.50 | $ 9,307,831.50 | $ 2,227,759.52 | $ 46,073,890.26 |

## 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.

At June 30, 2011, the assets of the Upper Cumberland Educational Foundation totaled $161,421.65, liabilities were $0.00, and the fund balance was $161,421.65. At June 30, 2010, the assets of the Upper Cumberland Educational Foundation totaled $117,406.34, liabilities were $0.00, and the fund balance was $117,406.34.

## NOTE 16. PRIOR-PERIOD ADJUSTMENT

Net assets at July 1, 2009, were increased $417,565.13 to correct the error in recording prepaid Pell expenses in prior years.

## NOTE 17. ON-BEHALF PAYMENTS

During the year ended June 30, 2011, the State of Tennessee made payments of \$19,090.00 on behalf of the college for retirees participating in the Medicare Supplement Plan. The amount for the year ended June 30, 2010, was \$15,221.00. The Medicare Supplement Plan is a postemployment benefit healthcare plan and is discussed further in Note 11. The plan is reported in the *Tennessee Comprehensive Annual Financial Report*. That report is available on the state's website at www.tn.gov/finance/act/cafr.shtml.

## NOTE 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 28-member board of the foundation is self-perpetuating and consists of graduates and friends of the college. Although the college does not control the timing or amount of receipts from the foundation, the majority of resources, or income thereon, that the foundation holds and invests are restricted to the activities of the college by the donors. Because these restricted resources held by the foundation can only be used by, or for the benefit of, the college, the foundation is considered a component unit of the college and is discretely presented in the college's financial statements.

The foundation is a nonprofit organization that reports under Financial Accounting Standards Board (FASB) standards. As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features. With the exception of necessary presentation adjustments, no modifications have been made to the foundation's financial information in the college's financial statements for these differences.

During the year ended June 30, 2011, the foundation made distributions of \$7,246.46 to or on behalf of the college for both restricted and unrestricted purposes. During the year ended June 30, 2010, the foundation made distributions of \$7,182.50 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 Finance and Administrative Services, 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 tables categorize the recurring fair value measurements for assets at June 30, 2011, and June 30, 2010.

| | Total Fair Value at June 30, 2011 | Quoted Prices Level 1 | Significant Other Inputs Level 2 | Significant Unobservable Inputs Level 3 |
|---|---|---|---|---|
| Assets: | | | | |
| Mutual bond funds | $ 316,326.73 | $ 316,326.73 | $ - | $ - |
| Mutual equity funds | 119,407.39 | 119,407.39 | - | - |
| Total assets | $ 435,734.12 | $ 435,734.12 | $ - | $ - |

| | Total Fair Value at June 30, 2010 | Quoted Prices Level 1 | Significant Other Inputs Level 2 | Significant Unobservable Inputs Level 3 |
|---|---|---|---|---|
| Assets: | | | | |
| Mutual bond funds | $ 172,779.00 | $ 172,779.00 | $ - | $ - |
| Mutual equity funds | 215,538.69 | 215,538.69 | - | - |
| Total assets | $ 388,317.69 | $ 388,317.69 | $ - | $ - |

### Cash and Cash Equivalents

Cash and cash equivalents consists of demand deposit accounts and money market funds. The bank balances of deposits at June 30, 2011, and June 30, 2010, were entirely insured.

### Investments

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

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

| | Cost | Market Value |
|---|---|---|
| Mutual bond funds | $ 308,557.87 | $ 316,326.73 |
| Mutual equity funds | 116,886.13 | 119,407.39 |
| Total investments | $ 425,444.00 | $ 435,734.12 |

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

| | Cost | Market Value |
|---|---|---|
| Mutual bond funds | $ 168,820.63 | $ 172,779.00 |
| Mutual equity funds | 235,286.69 | 215,538.69 |
| Total investments | $ 404,107.32 | $ 388,317.69 |

**Endowments**

The Nashville State Community College Foundation's endowment consists of 14 individual funds established for a variety of purposes. Its endowment includes both donor-restricted endowment funds and a fund designated by the Board of Trustees to function as an endowment. 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; and (3) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified as 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, 2011

| | Permanently Restricted | Temporarily Restricted | Unrestricted | Total |
|---|---|---|---|---|
| Donor-restricted endowment funds | $ 220,942.84 | $ 53,806.46 | $ (2,647.70) | $ 272,101.60 |
| Board-designated endowment funds | - | - | 3,093.35 | 3,093.35 |
| Total funds | $ 220,942.84 | $ 53,806.46 | $ 445.65 | $ 275,194.95 |

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

| | Permanently Restricted | Temporarily Restricted | Unrestricted | Total |
|---|---|---|---|---|
| Donor-restricted endowment funds | $ 219,160.73 | $ 45,368.30 | $ (17,975.37) | $ 246,553.66 |
| Board-designated endowment funds | - | - | 2,786.14 | 2,786.14 |
| Total funds | $ 219,160.73 | $ 45,368.30 | $ (15,189.23) | $ 249,339.80 |

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

| | Permanently Restricted | Temporarily Restricted | Unrestricted | Total |
|---|---|---|---|---|
| Endowment net assets, beginning of year | $ 219,160.73 | $ 45,368.30 | $ (15,189.23) | $ 249,339.80 |
| Investment return: | | | | |
| Investment income | 161.11 | 786.23 | 2,659.04 | 3,606.38 |
| Net appreciation (realized and unrealized) | - | 5,881.93 | 12,975.84 | 18,857.77 |
| Total investment return | 161.11 | 6,668.16 | 15,634.88 | 22,464.15 |

| | | | | |
|---|---|---|---|---|
| Contributions | 1,621.00 | 1,770.00 | - | 3,391.00 |
| Endowment net assets, end of year | $ 220,942.84 | $ 53,806.46 | $ 445.65 | $ 275,194.95 |

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

| | Permanently Restricted | Temporarily Restricted | Unrestricted | Total |
|---|---|---|---|---|
| Endowment net assets, beginning of year | $ 202,464.37 | $ - | $ - | $ 202,464.37 |
| Net asset adjustment | 14,217.11 | 41,433.31 | (24,271.12) | 31,379.30 |
| Endowment net assets, after adjustment | 216,681.48 | 41,433.31 | (24,271.12) | 233,843.67 |
| Investment return: | | | | |
| Investment income | 127.63 | 378.74 | 2,350.79 | 2,857.16 |
| Net appreciation (realized and unrealized) | - | 2,531.25 | 11,054.38 | 13,585.63 |
| Total investment return | 127.63 | 2,909.99 | 13,405.17 | 16,442.79 |
| Contributions | 2,351.62 | 1,025.00 | - | 3,376.62 |
| Appropriations of endowment assets for expenditure | - | - | (4,323.28) | (4,323.28) |
| Endowment net assets, end of year | $ 219,160.73 | $ 45,368.30 | $ (15,189.23) | $ 249,339.80 |

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 as well as board-designated funds. 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%, or 4% plus the inflation rate. Actual returns in any given year may vary from this amount.

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

Spending policy and how the investment objectives relate - The foundation has a policy of appropriating for distribution each year only a portion of the investment income (including changes in the value of investments) each year. Under the spending plan established by the foundation for endowments over the minimum base amount, 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 less than the minimum base amount, 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 .4% annually.

# 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, 2010 | State Employee Group Plan | $ - | $6,352,000 | $6,352,000 | 0% | $16,281,929 | 39.0% |
| July 1, 2009 | State Employee Group Plan | $ - | $7,016,000 | $7,016,000 | 0% | $15,856,507 | 44.2% |
| July 1, 2007 | State Employee Group Plan | $ - | $9,000,000 | $9,000,000 | 0% | $15,435,538 | 58.3% |

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

**TENNESSEE BOARD OF REGENTS**
**NASHVILLE STATE COMMUNITY COLLEGE**
**SUPPLEMENTARY INFORMATION**
**SCHEDULES OF CASH FLOWS - COMPONENT UNIT**
**FOR THE YEARS ENDED JUNE 30, 2011, AND JUNE 30, 2010**

| | Year Ended June 30, 2011 | Year Ended June 30, 2010 |
|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | |
| Gifts and contributions | $ 121,694.70 | $ 118,904.20 |
| Payments to suppliers and vendors | (71,528.48) | (118,451.28) |
| Payments for scholarships and fellowships | (43,478.20) | (129,472.58) |
| Payments to Nashville State Community College | (7,246.46) | (7,182.50) |
| Other receipts | 82,482.00 | 167,672.50 |
| Net cash provided by operating activities | 81,923.56 | 31,470.34 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | |
| Proceeds from sales and maturities of investments | 440,248.23 | 265,194.77 |
| Income on investments | 12,587.71 | 11,126.18 |
| Purchases of investments | (447,834.95) | (268,482.52) |
| Other investing payments | (4,475.72) | (4,296.00) |
| Net cash provided by investing activities | 525.27 | 3,542.43 |
| Net increase in cash and cash equivalents | 82,448.83 | 35,012.77 |
| Cash and cash equivalents - beginning of year | 347,404.30 | 312,391.53 |
| Cash and cash equivalents - end of year | $ 429,853.13 | $ 347,404.30 |
| **Reconciliation of operating income to net cash provided by operating activities:** | | |
| Operating income | $ 2,351.91 | $ 31,881.14 |
| Adjustments to reconcile operating income to net cash provided by operating activities: | | |
| Change in assets and liabilities: | | |
| Receivables, net | (3,852.00) | (3,648.00) |
| Accounts payable | 83,423.65 | 3,237.20 |
| Net cash provided by operating activities | $ 81,923.56 | $ 31,470.34 |
| **Noncash investing, capital, and financing activities:** | | |
| Unrealized gain on investments | $ 26,901.50 | $ 67,971.61 |