AUDIT REPORT

Tennessee Board of Regents
Nashville State Community College

For the Years Ended
June 30, 2013, and June 30, 2012

STATE OF TENNESSEE

COMPTROLLER OF THE TREASURY

Department of Audit

Division of State Audit

Tennessee Comptroller of the Treasury

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January 5, 2015

The Honorable Bill Haslam, Governor
Members of the General Assembly
The Honorable John G. Morgan, Chancellor
Dr. George H. Van Allen, President

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, 2013, and June 30, 2012. You will note from the independent auditor's report that unmodified opinions were given on the fairness of the presentation of the financial statements.

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

Sincerely,

Deborah V. Loveless

Deborah V. Loveless, CPA
Director

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Audit Report
Tennessee Board of Regents
Nashville State Community College
For the Years Ended June 30, 2013, and June 30, 2012

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Tennessee Board of Regents

Nashville State Community College

For the Years Ended June 30, 2013, and June 30, 2012

Opinions on the Financial Statements

The opinions on the financial statements are unmodified.

Audit Findings

The college needs to improve its system of internal control for the preparation of the financial statements*

In the current audit, we again found that controls were not adequate to ensure that the financial statements were accurate and information was properly classified (page 43).

The college did not provide adequate internal controls in four specific areas

Management did not design and monitor adequate internal controls over four specific areas (page 44).

* This finding is repeated from prior audits.

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

The Honorable Bill Haslam, Governor
Members of the General Assembly
The Honorable John G. Morgan, Chancellor
Dr. George H. Van Allen, President

Report on the Financial Statements

We have audited the accompanying 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, 2013, and June 30, 2012, and the related notes to the financial statements, which collectively comprise the basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements, based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

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

Opinions

In our opinion, 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, 2013, and June 30, 2012, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

As discussed in Note 1, the financial statements of 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, 2013, and June 30, 2012, and the changes in financial position and cash flows thereof for the years then ended, in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 through 14 and the schedule of funding progress on page 39 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during the audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the college's basic financial statements. The schedules of cash flows – component unit on page 40 are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 31, 2014, on our consideration of the college's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the college's internal control over financial reporting and compliance.

Deborah V. Loveless

Deborah V. Loveless, CPA
Director
October 31, 2014

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

Introduction

This section of Nashville State Community College's financial report presents a discussion and analysis of the financial performance of the college during the years ended June 30, 2013, and June 30, 2012, with comparative information presented for the year ended June 30, 2011. This discussion has been prepared by management along with the basic financial statements and related note disclosures and should be read in conjunction with the independent auditor's report, the basic financial statements, and the notes to the basic financial statements.

The college has one discretely presented component unit, the Nashville State Community College Foundation. More detailed information about the foundation is presented in Note 16 to the financial statements. This discussion and analysis focuses on the college and does not include the foundation.

Overview of the Financial Statements

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

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

The Statement of Net Position

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

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

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

The following table summarizes the college's assets, liabilities, and net position at June 30, 2013; June 30, 2012; and June 30, 2011.

Summary of Net Position
(in thousands of dollars)

	2013	2012	2011
Assets:			
Current assets	$ 23,322	$ 22,144	$20,337
Capital assets, net	51,584	48,597	37,628
Other assets	35,530	36,011	34,041
Total Assets	**110,436**	**106,752**	**92,006**
Liabilities:			
Current liabilities	9,642	9,776	9,592
Noncurrent liabilities	3,632	3,469	3,261
Total Liabilities	**13,274**	**13,245**	**12,853**
Net Position:			
Net investment in capital assets	51,584	48,597	37,616
Restricted – nonexpendable	5	5	5
Restricted – expendable	766	633	642
Unrestricted	44,807	44,272	40,890
Total Net Position	**$ 97,162**	**$ 93,507**	**$79,153**

Comparison of FY 2013 to FY 2012

- Total net position increased in FY 2013 due to an increase in capital assets related to the completion and opening of the Clarksville campus in August 2012, as well as the conservation of funds for off-campus development and for renewal and replacement of equipment.

Comparison of FY 2012 to FY 2011

- Total assets increased in FY 2012 due to the purchase of land and buildings for the Clarksville and Southeast campus sites.
- Noncurrent liabilities increased primarily due to increases in the net OPEB obligation.
- Total net position increased in FY 2012 due to the purchase of land and buildings for the Clarksville and Southeast campus sites, along with the conservation of funds for renewal and replacement of equipment.

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

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

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

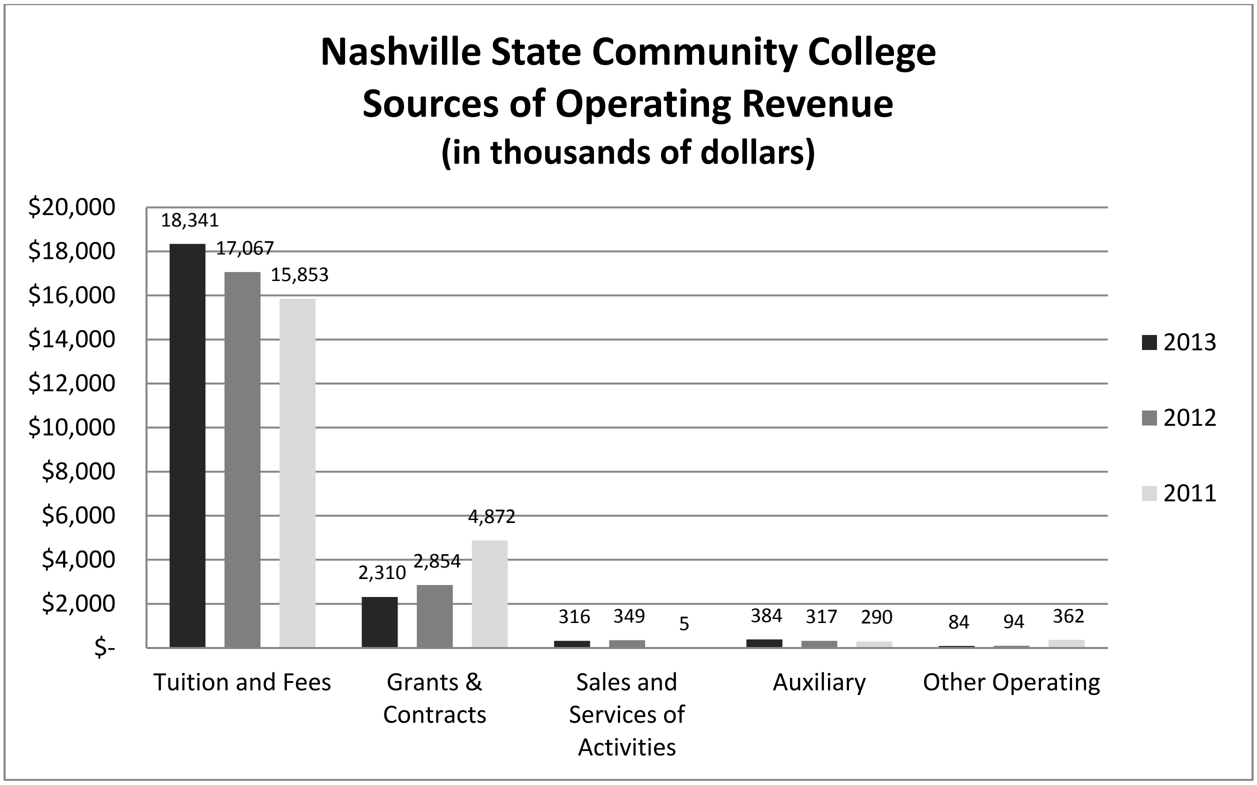
The following table summarizes the college's revenues, expenses, and changes in net position for the years ended June 30, 2013; June 30, 2012; and June 30, 2011.

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

	2013	2012	2011
Operating revenues:			
Net tuition and fees	$18,341	$17,067	$15,853
Grants and contracts	2,310	2,854	4,872
Auxiliary	384	317	290
Other	400	443	367
Total operating revenues	**21,435**	**20,681**	**21,382**
Operating expenses	56,933	52,347	50,499
Operating loss	**(35,498)**	**(31,666)**	**(29,117)**
Nonoperating revenues and expenses:			
State appropriations	14,684	14,056	16,550
Gifts	295	1,432	159
Grants and contracts	23,202	23,044	22,554
Investment income	45	43	64
Other revenues and expenses	(18)	(26)	(28)
Net nonoperating revenues and expenses	**38,208**	**38,549**	**39,299**
Income before other revenues, expenses, gains, or losses	**2,710**	**6,883**	**10,182**
Other revenues, expenses, gains, or losses:			
Capital appropriations	945	7,474	1,197
Other	-	(3)	-
Total other revenues, expenses, gains, or losses	**945**	**7,471**	**1,197**
Increase in net position	**3,655**	**14,354**	**11,379**
Net position at beginning of year	**93,507**	**79,153**	**67,774**
Net position at end of year	**$97,162**	**$93,507**	**$79,153**

Operating Revenues

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



<u>Comparison of FY 2013 to FY 2012</u>

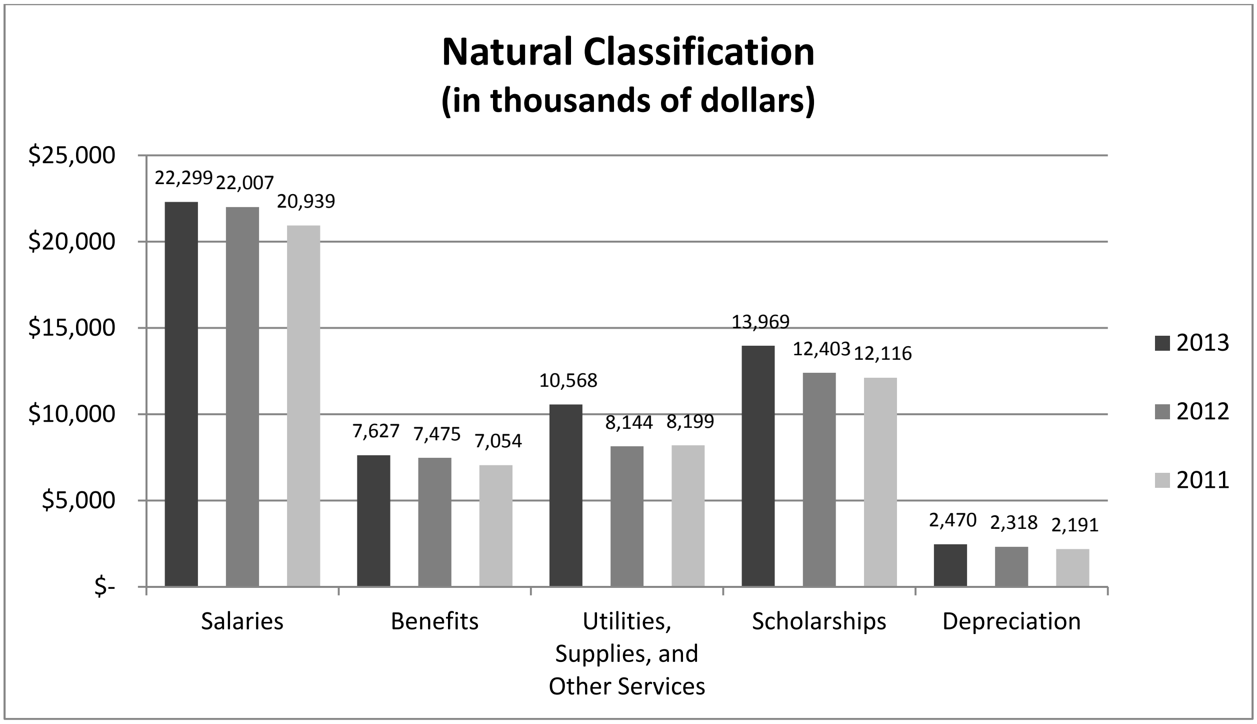
- Tuition and fees increased due to a rate increase of 5% and an enrollment increase of 3%.
- Grants and contracts decreased due to the slow economic recovery.

<u>Comparison of FY 2012 to FY 2011</u>

- Tuition and fees increased due to a rate increase of 9% and an enrollment increase of 2%.
- Operating gifts, grants, and contracts decreased due to the impact of the slow economic recovery.

Operating Expenses

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



<u>Comparison of FY 2013 to FY 2012</u>

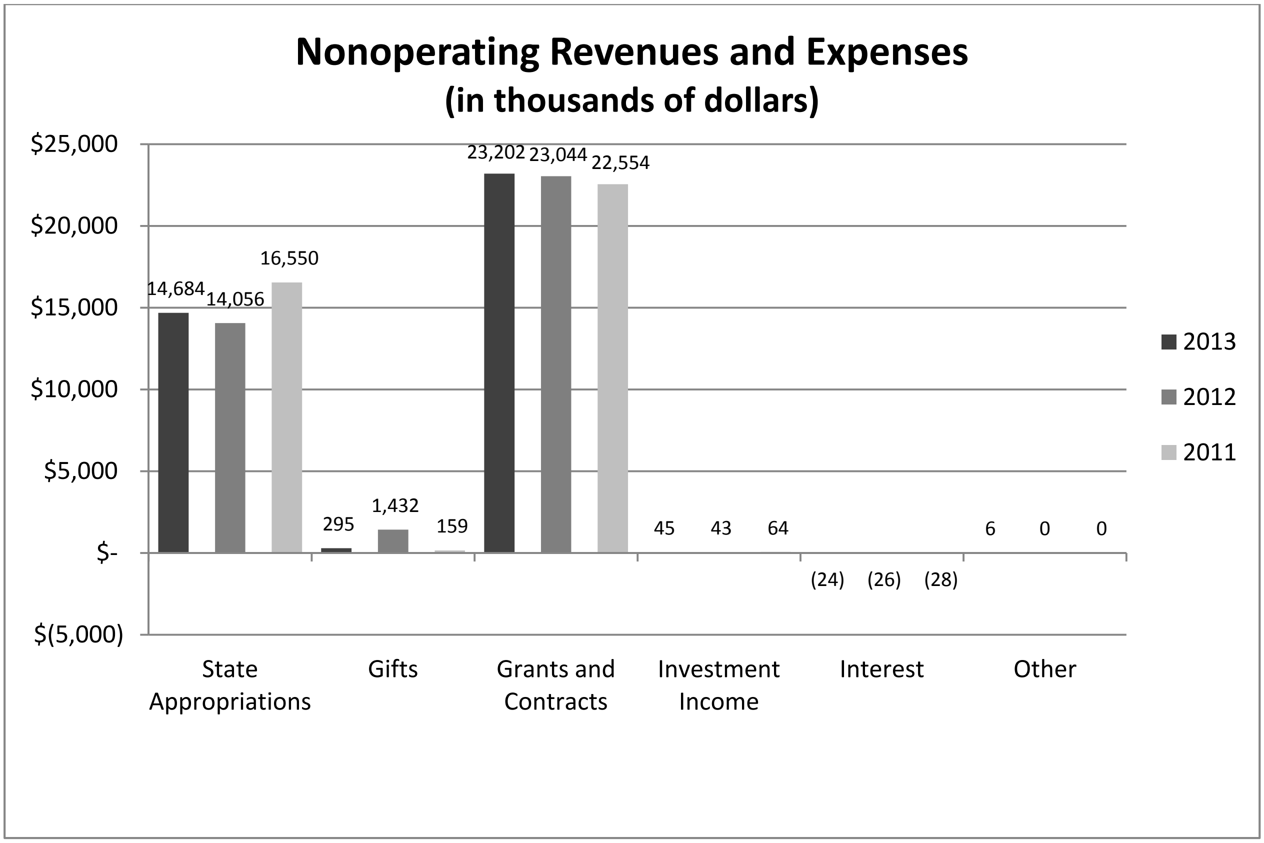
- Salaries increased due to the 2.5% cost-of-living adjustment (COLA) approved by the Board of Regents, along with an equity plan adjustment per the college's approved compensation plan.
- Benefits increased due to higher premiums for insurance.
- Utilities, supplies, and other services increased due to the opening of the Southeast and Clarksville campus sites.
- Scholarships increased due to students' growing dependence on Pell and other third-party sources for student loans as a means to pay for education.

<u>Comparison of FY 2012 to FY 2011</u>

- Salaries and benefits increased due to the 3.0% COLA approved by the Board of Regents, along with an equity plan adjustment per the college's approved compensation plan.

Nonoperating Revenues and Expenses

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



<u>Comparison of FY 2013 to FY 2012</u>

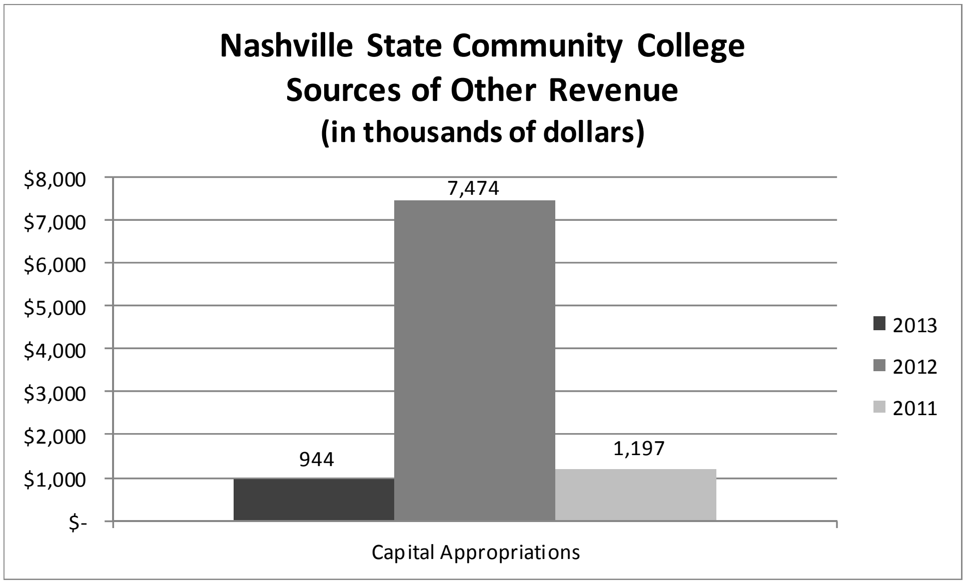
- In FY 2013, gifts decreased due to a non-reoccurring gift of $1,000,000 received in FY 2012 for the purchase and renovation of the Southeast campus site.
- State appropriations increased due to changes in the funding formula.

<u>Comparison of FY 2012 to FY 2011</u>

- State appropriations decreased as there was no Maintenance of Effort funding in FY 2012.
- Nonoperating gifts increased due to the $1,250,000 received from the foundation for the purchase and renovation of the new Southeast campus site.

<u>Other Revenues</u>

This category is composed of state appropriations for capital purposes. These amounts were as follows for the last three fiscal years:



<u>Comparison of FY 2013 to FY 2012</u>

- Capital appropriations decreased due to the completion of the Southeast and Clarksville campus sites.

<u>Comparison of FY 2012 to FY 2011</u>

- Capital appropriations increased related to acquisition and expansion of the Southeast and Clarksville campus sites and front entrance, roadway, and parking improvement projects for the main campus.

Capital Assets and Debt Administration

<u>Capital Assets</u>

Nashville State Community College had $51,583,930.82 invested in capital assets, net of accumulated depreciation of $24,039,498.62 at June 30, 2013; $48,596,944.21 invested in capital assets, net of accumulated depreciation of $21,726,152.50 at June 30, 2012; and $37,627,935.91 invested in capital assets, net of accumulated depreciation of $20,159,460.16 at June 30, 2011. Depreciation charges totaled $2,469,887.63, $2,317,796.57, and $2,191,432.38 for the years ended June 30, 2013; June 30, 2012; and June 30, 2011, respectively. Details of these assets are shown below.

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

	2013	2012	2011
Land	$ 5,706	$ 5,706	$ 1,340
Land improvements & infrastructure	3,854	3,480	2,769
Buildings	32,698	29,987	31,453
Equipment	1,230	1,481	1,461
Library holdings	194	181	266
Intangible assets	123	185	247
Projects in progress	7,779	7,577	92
Total	**$51,584**	**$48,597**	**$37,628**

Significant additions to capital assets in FY 2013 were from the completion and opening of the Clarksville campus in August 2012. The increase in land and projects in progress in FY 2012 was due to the purchase and renovation of the Clarksville and Antioch properties for development of the Clarksville and Southeast campuses.

At June 30, 2013, outstanding commitments under construction contracts totaled $5,525,084.36 for front entrance renovation, ADA, and campus security, of which $1,225,535.94 will be funded by future state capital outlay appropriations.

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

Debt

The college had $539,873.00, $588,665.40, and $647,949.38 in debt outstanding at June 30, 2013; June 30, 2012; and June 30, 2011, respectively. The Tennessee State School Bond Authority (TSSBA) issued bonds with interest rates ranging from 3.25% to 5% due May 2022 on behalf of Nashville State Community College. The college is responsible for the debt service of these bonds. The college has $50,597.70, $48,792.40, and $59,283.98 in current portion debt outstanding at June 30, 2013; June 30, 2012; and June 30, 2011.

The ratings on debt issued by the TSSBA at June 30, 2013, were as follows:

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

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

Economic Factors That Will Affect the Future

A recent report by Prosper Insights and Analytics reveals that money was the number-one issue facing Americans heading into 2013, followed by employment and the economy. Adding to money concerns is the employment environment, with a large portion of Americans worrying about unemployment, underemployment, and job security. The official unemployment rate at the end of 2012 was 7.8%, and the number of Americans currently looking for work remains well over prerecession-era levels. The actual unemployment rate at the end of 2012 would be closer to 14.4% if the underemployed, part-time employed, and discouraged job seekers were included in the numbers. Given Americans' concerns over their personal financial situation and the employment environment, it is not surprising that college and university enrollment is starting to decline.

According to the 2013 Economic Report to the Governor of the State of Tennessee issued in February, Tennessee can expect slow growth in 2013, followed by stronger growth in 2014. The state's annual unemployment rate for 2013 is expected to be 7.9%. The rate should improve to 7.5% in 2014. With this anemic recovery, it is expected that the college's enrollment will remain flat while operating costs are expected to rise. Actions are being taken by the college to control costs through more efficient equipment operations, outsourcing, and resource management. As state appropriations decline, the college will continue to rely upon tuition increases to meet the increased expenditures that are driven by the rising costs of energy, salaries, health care, and other benefits.

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 Position
June 30, 2013, and June 30, 2012

	Nashville State Community College		Component Unit - Nashville State Community College Foundation	
	June 30, 2013	June 30, 2012	June 30, 2013	June 30, 2012
ASSETS				
Current assets:				
Cash and cash equivalents (Notes 2, 3, and 16)	$20,956,163.10	$19,465,043.24	$348,605.78	$304,735.12
Short-term investments (Note 16)	-	-	30,328.81	-
Accounts, notes, and grants receivable (net) (Note 4)	2,280,063.61	2,496,766.94	-	-
Due from primary government	-	43,900.00	-	-
Prepaid expenses	86,224.75	138,773.18	1,046.30	-
Total current assets	23,322,451.46	22,144,483.36	379,980.89	304,735.12
Noncurrent assets:				
Cash and cash equivalents (Notes 2, 3, and 16)	35,529,685.65	36,011,186.48	131,271.84	36,586.10
Investments (Note 16)	-	-	201,672.61	231,375.83
Capital assets (net) (Note 5)	51,583,930.82	48,596,944.21	-	-
Total noncurrent assets	87,113,616.47	84,608,130.69	332,944.45	267,961.93
Total assets	110,436,067.93	106,752,614.05	712,925.34	572,697.05
LIABILITIES				
Current liabilities:				
Accounts payable (Note 6)	445,842.53	1,023,331.68	1,281.60	24,606.10
Accrued liabilities	2,932,247.35	2,064,589.02	1,221.51	-
Student deposits	1,152.50	1,500.00	-	-
Unearned revenue	1,950,183.48	1,922,026.08	-	-
Compensated absences (Note 7)	317,924.49	326,185.95	-	-
Accrued interest payable	3,862.50	4,186.38	-	-
Long-term liabilities, current portion (Note 7)	50,597.70	48,792.40	-	-
Deposits held in custody for others	3,940,040.91	4,385,645.00	-	-
Total current liabilities	9,641,851.46	9,776,256.51	2,503.11	24,606.10
Noncurrent liabilities:				
Net OPEB obligation (Note 10)	2,570,227.39	2,382,784.06	-	-
Compensated absences (Note 7)	573,101.28	546,707.04	-	-
Long-term liabilities (Note 7)	489,275.30	539,873.00	-	-
Total noncurrent liabilities	3,632,603.97	3,469,364.10	-	-
Total liabilities	13,274,455.43	13,245,620.61	2,503.11	24,606.10
NET POSITION				
Net investment in capital assets	51,583,930.82	48,596,944.21	-	-
Restricted for:				
Nonexpendable:				
Scholarships and fellowships	4,739.67	4,739.67	296,582.59	241,625.77
Expendable:				
Scholarships and fellowships	88,928.10	172,155.33	170,482.59	151,985.72
Instructional department uses	189,856.25	54,066.82	1,135.00	1,135.00
Other	487,635.86	406,871.08	64,306.56	29,417.68
Unrestricted	44,806,521.80	44,272,216.33	177,915.49	123,926.78
Total net position	$97,161,612.50	$93,506,993.44	$710,422.23	$548,090.95

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 Position
For the Years Ended June 30, 2013, and June 30, 2012

	Nashville State Community College		Component Unit - Nashville State Community College Foundation	
	Year Ended June 30, 2013	Year Ended June 30, 2012	Year Ended June 30, 2013	Year Ended June 30, 2012
REVENUES				
Operating revenues:				
Student tuition and fees (net of scholarship allowances of $10,368,033.08 for the year ended June 30, 2013, and $11,278,013.44 for the year ended June 30, 2012)	$18,340,546.32	$17,067,207.85	$ -	$ -
Gifts and contributions	-	-	241,645.58	1,162,646.56
Governmental grants and contracts	1,784,362.33	2,279,688.70	-	-
Nongovernmental grants and contracts	526,382.05	574,499.58	-	-
Sales and services of educational activities	5,056.10	9,182.97	-	-
Sales and services of other activities	310,691.73	340,193.78	-	-
Auxiliary enterprises:				
Bookstore	383,556.07	317,026.18	-	-
Other operating revenues	84,242.76	93,556.14	-	32,847.86
Total operating revenues	21,434,837.36	20,681,355.20	241,645.58	1,195,494.42
EXPENSES				
Operating expenses (Note 13):				
Salaries and wages	22,298,704.57	22,007,069.02	-	-
Benefits	7,626,825.88	7,475,177.36	-	-
Utilities, supplies, and other services	10,568,454.30	8,144,322.49	69,744.40	54,617.79
Scholarships and fellowships	13,969,425.68	12,403,034.46	110,298.11	115,951.43
Depreciation expense	2,469,887.63	2,317,796.57	-	-
Payments to or on behalf of Nashville State Community College (Note 16)	-	-	31,866.24	1,265,495.98
Total operating expenses	56,933,298.06	52,347,399.90	211,908.75	1,436,065.20
Operating income (loss)	(35,498,460.70)	(31,666,044.70)	29,736.83	(240,570.78)
NONOPERATING REVENUES (EXPENSES)				
State appropriations	14,684,192.00	14,056,254.09	-	-
Gifts (including $31,866.24 from component unit for the year ended June 30, 2013, and $1,265,495.98 for the year ended June 30, 2012)	295,330.12	1,431,580.50	-	-
Grants and contracts	23,202,428.02	23,043,772.24	-	-
Investment income (expense) (net of investment expense of $2,413.31 for the component unit for the year ended June 30, 2013, and $4,708.88 for the year ended June 30, 2012)	44,862.17	43,472.46	9,603.78	(10,736.70)
Interest on capital asset-related debt	(23,682.01)	(25,741.02)	-	-
Other nonoperating revenues	5,500.00	-	-	-
Net nonoperating revenues (expenses)	38,208,630.30	38,549,338.27	9,603.78	(10,736.70)
Income (loss) before other revenues, expenses, gains, or losses	2,710,169.60	6,883,293.57	39,340.61	(251,307.48)
Capital appropriations	944,449.46	7,474,300.57	-	-
Other capital	-	(3,819.47)	-	-
Additions to permanent endowments	-	-	122,990.67	13,928.83
Total other revenues	944,449.46	7,470,481.10	122,990.67	13,928.83
Increase (decrease) in net position	3,654,619.06	14,353,774.67	162,331.28	(237,378.65)
NET POSITION				
Net position - beginning of year	93,506,993.44	79,153,218.77	548,090.95	785,469.60
Net position - end of year	$97,161,612.50	$93,506,993.44	$710,422.23	$ 548,090.95

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, 2013, and June 30, 2012

	Year Ended June 30, 2013	Year Ended June 30, 2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Tuition and fees	$18,336,148.76	$16,568,433.97
Grants and contracts	2,386,237.63	3,696,755.71
Sales and services of educational activities	5,056.10	9,182.97
Sales and services of other activities	310,691.73	340,193.78
Payments to suppliers and vendors	(10,916,210.13)	(7,455,782.10)
Payments to employees	(22,146,903.77)	(22,067,792.25)
Payments for benefits	(7,452,372.80)	(7,223,425.48)
Payments for scholarships and fellowships	(13,969,425.68)	(12,403,034.46)
Auxiliary enterprise charges:		
Bookstore	383,556.07	317,026.18
Other receipts	84,242.76	93,556.14
Net cash used by operating activities	(32,978,979.33)	(28,124,885.54)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State appropriations	14,712,000.00	14,036,350.00
Gifts and grants received for other than capital or endowment purposes, including $31,866.24 from Nashville State Community College Foundation for the year ended June 30, 2013, and $1,265,495.98 for the year ended June 30, 2012	23,497,758.14	24,475,352.74
Federal student loan receipts	25,442,697.00	24,196,550.00
Federal student loan disbursements	(25,442,697.00)	(24,196,550.00)
Principal paid on noncapital debt	(48,792.40)	(59,283.98)
Interest paid on noncapital debt	(24,005.84)	(26,144.64)
Changes in deposits held for others	(445,604.09)	(216,621.19)
Net cash provided by noncapital financing activities	37,691,355.81	38,209,652.93
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital appropriations	2,301,928.34	6,073,028.57
Proceeds from sale of capital asset	5,500.00	-
Purchase of capital assets and construction	(6,055,047.96)	(11,504,572.41)
Net cash used by capital and related financing activities	(3,747,619.62)	(5,431,543.84)
CASH FLOWS FROM INVESTING ACTIVITIES		
Income on investments	44,862.17	43,472.46
Net cash provided by investing activities	44,862.17	43,472.46
Net increase in cash	1,009,619.03	4,696,696.01
Cash - beginning of year	55,476,229.72	50,779,533.71
Cash - end of year	$56,485,848.75	$55,476,229.72

Tennessee Board of Regents
NASHVILLE STATE COMMUNITY COLLEGE
Statements of Cash Flows (Continued)
For the Years Ended June 30, 2013, and June 30, 2012

	Year Ended June 30, 2013	Year Ended June 30, 2012
Reconciliation of operating loss to net cash used by operating activities:		
Operating loss	$ (35,498,460.70)	$ (31,666,044.70)
Adjustments to reconcile operating loss to net cash used by operating activities:		
Depreciation expense	2,469,887.63	2,317,796.57
Other adjustments	16,092.00	17,404.09
Change in assets, liabilities, and deferrals:		
Receivables, net	463,712.11	1,178,956.70
Prepaid expenses	52,548.43	(9,703.73)
Accounts payable	(824,497.93)	341,281.30
Accrued liabilities	295,448.95	128,227.16
Unearned revenue	28,157.40	(540,793.03)
Compensated absences	18,132.78	107,990.10
Net cash used by operating activities	$ (32,978,979.33)	$ (28,124,885.54)

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 its donors. Because these restricted resources held by the foundation can only be used by, or for the benefit of, the college, the foundation is considered a component unit of the college and is discretely presented in the college's financial statements. See Note 16 for more detailed information about the component unit and how to obtain the report.

Basis of Presentation

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

Basis of Accounting

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

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

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

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

Compensated Absences

The college's employees accrue annual and sick leave at varying rates, depending on length of service or classification. Some employees also earn compensatory time.

The amount of the liabilities for annual leave and compensatory time and their related benefits are reported in the statement of net position. There is no liability for unpaid accumulated sick leave since the college's policy is to pay this only if the employee dies or is absent because of illness, injury, or related family death.

Capital Assets

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

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

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

Net Position

The college's net position is classified as follows:

Net investment in capital assets – This represents the college's total investment in capital assets, net of accumulated depreciation and net of outstanding debt obligations and deferred outflows/inflows of resources 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 net investment in capital assets.

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

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

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

Scholarship Discounts and Allowances

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

Accounting Change

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

Note 2. Cash

This classification includes demand deposits and petty cash on hand. At June 30, 2013, cash consisted of $8,048,726.96 in bank accounts, $1,300.00 of petty cash on hand, $42,394,283.75 in the State of Tennessee Local Government Investment Pool (LGIP) administered by the State

Treasurer, and $6,041,538.04 in LGIP deposits for capital projects. At June 30, 2012, cash consisted of $2,458,169.61 in bank accounts, $1,600.00 of petty cash on hand, $49,203,023.44 in the State of Tennessee Local Government Investment Pool (LGIP) administered by the State Treasurer, and $3,813,436.67 in LGIP deposits for capital projects.

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

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

Note 3. Investments

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The college is authorized by statute to invest funds in accordance with Tennessee Board of Regents policies. Under the current policy, funds other than endowments may be invested only in obligations of the United States or its agencies which are backed by the full faith and credit of the United States; repurchase agreements for United States securities; certificates of deposit in banks and savings and loan associations; bankers' acceptances; commercial paper; money market mutual funds; and the State of Tennessee Local Government Investment Pool. 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 bankers' acceptances and commercial paper. The policy requires that prime bankers' acceptances must be issued by domestic banks with a minimum AA rating or foreign banks with a AAA long-term debt rating by a majority of the rating services that have rated the issuer. Prime bankers' acceptances are required to be eligible for purchase by the Federal Reserve System. To be eligible, the original maturity must not be more than 270 days, and it must 1) arise out of the current shipment of goods between countries or with the United States, or 2) arise out of storage within the United States of goods that are under contract of sale or are expected to move into the channel of trade within a reasonable time and that are secured throughout their life by a warehouse receipt or similar document conveying title to the underlying goods.

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

As of June 30, 2013, and June 30, 2012, the college's investments consisted entirely of investments in the Local Government Investment Pool. The fair value of these investments was $48,435,821.79 at June 30, 2013, and $53,016,460.11 at June 30, 2012. LGIP investments are not rated by nationally recognized statistical ratings organizations. The LGIP is part of the State Pooled Investment Fund. The fund's required risk disclosures are presented in the *State of Tennessee 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, 2013	June 30, 2012
Student accounts receivable	$2,491,685.90	$2,486,566.60
Grants receivable	398,818.55	474,311.80
Other receivables	101,559.16	61,888.54
Subtotal	2,992,063.61	3,022,766.94
Less allowance for doubtful accounts	(712,000.00)	(526,000.00)
Total receivables	$2,280,063.61	$2,496,766.94

Note 5. Capital Assets

Capital asset activity for the year ended June 30, 2013, was as follows:

	Beginning Balance	Additions	Transfers	Reductions	Ending Balance
Land	$ 5,706,387.00	$ -	$ -	$ -	$ 5,706,387.00

Land improvements and infrastructure	5,180,128.51	592,733.69	37,203.50	-	5,810,065.70
Buildings	46,316,494.65	1,341,553.49	3,055,681.65	-	50,713,729.79
Equipment	4,573,828.52	173,505.95	-	(103,085.70)	4,644,248.77
Library holdings	352,428.03	54,763.40	-	(53,455.81)	353,735.62
Intangible assets	616,682.59	-	-	-	616,682.59
Projects in progress	7,577,147.41	3,294,317.71	(3,092,885.15)	-	7,778,579.97
Total	70,323,096.71	5,456,874.24		(156,541.51)	75,623,429.44
Less accumulated depreciation /amortization:					
Land improvements and infrastructure	1,700,026.97	256,514.48	-	-	1,956,541.45
Buildings	16,329,556.60	1,686,385.88	-		18,015,942.48
Equipment	3,092,680.73	424,599.85	-	(103,085.70)	3,414,194.88
Library holdings	172,210.38	40,719.16	-	(53,455.81)	159,473.73
Intangible assets	431,677.82	61,668.26	-	-	493,346.08
Total	21,726,152.50	2,469,887.63	-	(156,541.51)	24,039,498.62
Capital assets, net	$48,596,944.21	$ 2,986,986.61	$ -	$ -	$51,583,930.82

Capital asset activity for the year ended June 30, 2012, was as follows:

	Beginning Balance	Additions	Transfers	Reductions	Ending Balance
Land	$ 1,340,140.00	$ 4,366,247.00	$ -	$ -	$ 5,706,387.00
Land improvements and infrastructure	4,243,638.20	847,569.71	88,920.60	-	5,180,128.51
Buildings	46,316,494.65	-	-	-	46,316,494.65
Equipment	4,622,445.91	451,183.83	-	(499,801.22)	4,573,828.52
Library holdings	555,579.12	51,971.39	-	(255,122.48)	352,428.03
Intangible assets	616,682.59	-	-	-	616,682.59
Projects in progress	92,415.60	7,573,652.41	(88,920.60)	-	7,577,147.41
Total	57,787,396.07	13,290,624.34	-	(754,923.70)	70,323,096.71
Less accumulated depreciation /amortization:					
Land improvements and infrastructure	1,475,009.34	225,017.63	-	-	1,700,026.97
Buildings	14,863,032.45	1,466,524.15	-	-	16,329,556.60
Equipment	3,161,444.64	427,217.84	-	(495,981.75)	3,092,680.73
Library holdings	289,964.17	137,368.69	-	(255,122.48)	172,210.38
Intangible assets	370,009.56	61,668.26	-		431,677.82
Total	20,159,460.16	2,317,796.57	-	(751,104.23)	21,726,152.50
Capital assets, net	$37,627,935.91	$10,972,827.77	$ -	$(3,819.47)	$48,596,944.21

Note 6. Accounts Payable

Accounts payable included the following:

	June 30, 2013	June 30, 2012
Vendors payable	$417,426.34	$995,664.35
Other payables	28,416.19	27,667.33
Total accounts payable	$445,842.53	$1,023,331.68

Note 7. Long-term Liabilities

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

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Payables:					
TSSBA debt:					
Bonds	$ 588,665.40	$ -	$ 48,792.40	$ 539,873.00	$ 50,597.70
Other liabilities:					
Compensated absences	872,892.99	627,336.85	609,204.07	891,025.77	317,924.49
Total long-term liabilities	$1,461,558.39	$627,336.85	$657,996.47	$1,430,898.77	$368,522.19

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

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Payables:					
TSSBA debt:					
Bonds	$ 647,949.38	$ -	$ 59,283.98	$ 588,665.40	$ 48,792.40
Other liabilities:					
Compensated absences	764,902.89	682,730.48	574,740.38	872,892.99	326,185.95
Total long-term liabilities	$1,412,852.27	$682,730.48	$634,024.36	$1,461,558.39	$374,978.35

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 and certain other revenues and fees of the college, including state appropriations; see Note 8 for further details.

Debt service requirements to maturity for the college's portion of TSSBA bonds at June 30, 2013, are as follows:

Year Ending June 30	Principal	Interest	Total
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	57,244.50	15,967.80	73,212.30
2018	59,648.80	13,678.02	73,326.82
2019 – 2022	264,722.00	29,829.22	294,551.22
Total	$539,873.00	$120,212.62	$660,085.62

Note 8. Pledged Revenues

The college has pledged certain revenues and fees, including state appropriations, to repay $539,873.00 in revenue bonds issued in January 2008 (see Note 7 for further detail). Proceeds from the bonds provided financing for Energy Savings and Performance Contract 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, 2013, is $660,085.62. Principal and interest paid for fiscal year 2013 and total available revenues were $72,474.41 and $44,786,207.80, respectively. Principal and interest paid for fiscal year 2012 and total available revenues were $85,025.00 and $43,857,260.71, respectively.

Note 9. Pension Plans

Defined Benefit Plans

Tennessee Consolidated Retirement System

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

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

Funding Policy – Plan members are noncontributory. The college is required to contribute an actuarially determined rate. The current rate is 15.03% 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, 2013; June 30, 2012; and June 30, 2011, were $1,699,230.00, $1,719,887.55, and $1,498,285.10, respectively. Contributions met the requirements for each year.

Defined Contribution Plans

Optional Retirement Plans

Plan Description – The college contributes to three defined contribution plans: Teachers Insurance and Annuity Association–College Retirement Equities Fund, ING Life Insurance and Annuity Company, and Variable Annuity Life Insurance Company. These plans are administered by the Tennessee Department of the Treasury. Each plan provides retirement benefits to faculty and staff who are exempt from the overtime provisions of the Fair Labor Standards Act and who waive membership in 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 $648,080.10 for the year ended June 30, 2013, and $650,208.02 for the year ended June 30, 2012. Contributions met the requirements for each year.

Note 10. Other Postemployment Benefits

Health care is the only "other postemployment benefit" (OPEB) provided to employees. The State of Tennessee administers a group health insurance program which provides postemployment health insurance benefits to eligible college retirees. This program includes two plans available to higher education employees—the State Employee Group Plan and the Medicare Supplement Plan. For accounting purposes, the plans are agent multiple-employer defined benefit OPEB plans. Benefits are established and amended by an insurance committee created by Section 8-27-101, *Tennessee Code Annotated*. Prior to reaching age 65, all members have the option of choosing between the standard or partnership preferred provider organization plan for health care benefits. Subsequent to age 65, members who are also in the state's retirement system may participate in a state-administered Medicare supplement that does not include pharmacy. The state makes on-behalf payments to the Medicare Supplement Plan for the college's eligible retirees; see Note 15. The plans are reported in the *Tennessee Comprehensive Annual Financial Report* (CAFR). The CAFR is available on the state's website at www.tn.gov/finance/act/cafr.shtml.

Special Funding Situation

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

Funding Policy

The premium requirements of members of the State Employee Group Plan are established and may be amended by the insurance committee. The plan is self-insured and financed on a pay-as-you-go basis with the risk shared equally among the participants. The plan's claims liabilities are periodically computed using actuarial and statistical techniques to establish premium rates. The plan's administrative costs are allocated to plan participants. In accordance with Section 8-27-205(b), *Tennessee Code Annotated*, retirees in the State Employee Group Plan pay the same base premium, adjusted for years of service, as active employees. Retirees with 30 years of service are subsidized 80%; retirees with 20 years of service but less than 30 years of service, 70%; and retirees with less than 20 years of service, 60%. Retirees in the Medicare Supplement Plan have flat-rate premium subsidies based on years of service. Retirees with 30 years of service receive $50 per month; retirees with 20 years of service but less than 30 years of service, $37.50; and retirees with 15 years of service but less than 20 years of service, $25.

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

	2013	2012
Annual required contribution (ARC)	$577,000.00	$572,000.00
Interest on the net OPEB obligation	95,311.36	88,696.79
Adjustment to the ARC	(101,171.19)	(94,149.96)
Annual OPEB cost	571,140.17	566,546.83
Amount of contribution	(383,696.84)	(401,182.59)
Increase in net OPEB obligation	187,443.33	165,364.24
Net OPEB obligation – beginning of year	2,382,784.06	2,217,419.82
Net OPEB obligation – end of year	$2,570,227.39	$2,382,784.06

Year-end	Plan	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation at Year-end
June 30, 2013	State Employee Group Plan	$571,140.17	67.2%	$2,570,227.39
June 30, 2012	State Employee Group Plan	$566,546.83	70.8%	$2,382,784.06
June 30, 2011	State Employee Group Plan	$671,510.03	52.4%	$2,217,419.82

Funded Status and Funding Progress

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

	State Employee Group Plan
Actuarial valuation date	July 1, 2011
Actuarial accrued liability (AAL)	$4,296,000.00
Actuarial value of plan assets	-
Unfunded actuarial accrued liability (UAAL)	$4,296,000.00
Actuarial value of assets as a percentage of the AAL	0.00%
Covered payroll (active plan members)	$17,738,452.48
UAAL as percentage of covered payroll	24.2%

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, 2011, actuarial valuation, the Projected Unit Credit actuarial cost method was used. The actuarial assumptions included a 4% investment rate of return (net of administrative expenses) and an annual health care cost trend rate of 9.25% initially. The rate decreased to 8.75% in fiscal year 2013 and then reduces by decrements to an ultimate rate of 5% in fiscal year 2021. All rates include a 2.5% inflation assumption, which also represents the projected salary increase. 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 11. Insurance-related Activities

It is the policy of the state not to purchase commercial insurance for the risks associated with casualty losses for general liability, automobile liability, professional medical malpractice, and workers' compensation. The state's management believes it is more economical to manage these risks internally and set aside assets for claim settlement in its internal service fund, the Risk Management Fund. The state purchases commercial insurance for real property, builder's risk (for construction projects starting prior to July 1, 2012), and crime and fidelity coverage on the state's officials and employees. The contractor is responsible for acquiring builder's risk insurance for all construction projects after June 30, 2012; thus, builder's risk is no longer covered by the Risk Management Fund. For property coverage, the deductible for an individual state agency is the first $25,000 of losses. The Risk Management Fund is responsible for property losses for the annual aggregate deductible of $10 million for perils other than earthquakes and flood. Purchased insurance coverage is responsible for losses exceeding the $10 million annual aggregate deductible. For earthquake and flood, there is a deductible of $10 million per occurrence. The maximum insurance coverage is $750 million per year for perils other than earthquake and flood. The maximum flood insurance coverage is $50 million per occurrence, except there is only $25 million of coverage in flood zones A and V. The maximum earthquake insurance coverage is $50 million per occurrence. The amounts of settlements have not exceeded insurance coverage for each of the three past fiscal years.

The college participates in the Risk Management Fund. The fund allocates the cost of providing claims servicing and claims payment by charging a premium to the college based on a percentage of the college's expected loss costs, which include both experience and exposures. This charge considers recent trends in actual claims experience of the state as a whole. An actuarial valuation is performed as of fiscal year-end to determine the fund liability and premium allocation. Information regarding the determination of the claims liabilities and the changes in the balances of the claims liabilities for the year ended June 30, 2013, is presented in the *Tennessee Comprehensive Annual Financial Report* (CAFR). The CAFR is available on the state's website at www.tn.gov/finance/act/cafr.shtml. Since the college participates in the Risk Management Fund, it is subject to the liability limitations under the provisions of the Tennessee Claims Commission Act, Section 9-8-101 et seq., *Tennessee Code Annotated*. Liability for negligence of the college for bodily injury and property damage is limited to $300,000 per person and $1,000,000 per occurrence. The limits of liability under workers' compensation are set forth in Section 50-6-101 et seq., *Tennessee Code Annotated.*Claims are paid through the state's Risk Management Fund. At June 30, 2013, the Risk Management Fund held $108.5 million in cash designated for payment of claims. At June 30, 2012, the Risk Management Fund held $97.2 million in cash designated for payment of claims.

At June 30, 2013, the scheduled coverage for the college was $115,104,600.00 for buildings and $29,937,000.00 for contents. At June 30, 2012, the scheduled coverage for the college was $121,888,900.00 for buildings and $29,187,000.00 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 12. Commitments and Contingencies

Sick Leave

The college records the cost of sick leave when paid. The dollar amount of unused sick leave was $6,639,829.67 at June 30, 2013, and $6,266,376.18 at June 30, 2012.

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 $26,000 and expenses for personal property were $68,899.05 for the year ended June 30, 2013. The amounts for the year ended June 30, 2012, were $104,000.04 and $66,363.81. All operating leases are cancelable at the lessee's option.

Construction in Progress

At June 30, 2013, outstanding commitments under construction contracts totaled $5,525,084.36 for front entrance renovation, ADA, and campus security, of which $1,225,535.94 will be funded by future state capital outlay appropriations.

Note 13. Natural Classification with Functional Classifications

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

	Natural Classification					
Functional Classification	Salaries	Benefits	Other Operating	Scholarships	Depreciation	Total
Instruction	$13,058,601.81	$3,933,299.77	$ 6,093,769.02	$ 79,695.00	$ -	$ 23,165,365.60
Public service	431,609.05	111,328.75	183,320.88	-	-	726,258.68
Academic support	3,807,433.01	1,431,778.60	(583,393.92)	29,452.50	-	4,685,270.19
Student services	1,876,588.07	835,133.46	598,212.74	22,995.00	-	3,332,929.27
Institutional support	2,620,840.35	1,090,070.98	1,290,987.41	17,325.00	-	5,019,223.74
Maintenance & operation	503,632.28	225,214.32	2,976,501.11	-	-	3,705,347.71
Scholarships & fellowships	-	-	4,365.00	13,819,958.18	-	13,824,323.18
Auxiliary	-	-	4,692.06	-	-	4,692.06
Depreciation	-	-	-	-	2,469,887.63	2,469,887.63
Total	$22,298,704.57	$7,626,825.88	$10,568,454.30	$13,969,425.68	$2,469,887.63	$ 56,933,298.06

The college's operating expenses for the year ended June 30, 2012, are as follows:

	Natural Classification					
Functional Classification	Salaries	Benefits	Other Operating	Scholarships	Depreciation	Total
Instruction	$12,750,054.41	$3,871,015.13	$3,583,662.70	$ 24,907.50	$ -	$ 20,229,639.74
Public service	622,169.33	216,460.89	260,560.13	-	-	1,099,190.35
Academic support	3,858,001.88	1,328,517.08	(706,774.43)	26,568.00	-	4,506,312.53
Student services	1,779,309.46	770,188.51	509,873.54	89,515.12	-	3,148,886.63
Institutional support	2,495,036.32	1,053,371.19	995,420.80	9,963.00	-	4,553,791.31
Maintenance & operation	502,497.62	235,624.56	3,497,016.42		-	4,235,138.60
Scholarships & fellowships	-	-	-	12,252,080.84	-	12,252,080.84
Auxiliary	-	-	4,563.33	-	-	4,563.33
Depreciation	-	-	-	-	2,317,796.57	2,317,796.57
Total	$22,007,069.02	$7,475,177.36	$8,144,322.49	$12,403,034.46	$2,317,796.57	$ 52,347,399.90

Expenses initially incurred by the academic support function as a result of providing internal services to the other functional classifications were allocated to the other functional areas by reducing the academic support function's operating expenses by the total amount of salaries, benefits, and operating expenses incurred in the provision of these services, and allocating this amount to the other functional areas' operating expenses on the basis of usage. As a result of this process, expenses totaling $2,107,730.84 for the year ended June 30, 2013, and $2,058,412.19 for the year ended June 30, 2012, were reallocated from academic support to the other functional areas and caused academic support operating expenses to appear as a negative amount in the schedule above.

Note 14. Affiliated Entity Not Included

The Upper Cumberland Educational Foundation is a private, nonprofit foundation with 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 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, 2013, the assets of the Upper Cumberland Educational Foundation totaled $160,407.89, liabilities were $0.00, and the net position was $160,407.89. At June 30, 2012, the assets of the Upper Cumberland Educational Foundation totaled $154,922.40, liabilities were $0.00, and the net position was $154,922.40.

Note 15. On-behalf Payments

During the year ended June 30, 2013, the State of Tennessee made payments of $16,092.00 on behalf of the college for retirees participating in the Medicare Supplement Plan. The amount for the year ended June 30, 2012, was $17,404.09. The Medicare Supplement Plan is a postemployment benefit health care plan and is discussed further in Note 10. The plan is reported in the *Tennessee Comprehensive Annual Financial Report*. That report is available on the state's website at www.tn.gov/finance/act/cafr.shtml.

Note 16. 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 25-member board of the foundation is self-perpetuating and consists of graduates and friends of the college. Trustees may be nominated and elected for a three-year term at each board meeting. Members may be nominated and elected for one additional three-year term. Elected officers whose terms exceed the three-year limit are excluded from this requirement. Members may be renominated to return to board service after being off the board for a one-year period. 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, 2013, the foundation made distributions of $31,866.24 to or on behalf of the college for both restricted and unrestricted purposes. During the year ended June 30, 2012, the foundation made distributions of $1,265,495.98 to or on behalf of the college for both restricted and unrestricted purposes. Complete financial statements for the foundation can be obtained from Mary M. 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 and liabilities at fair value. Fair value has been determined using quoted prices in active markets for identical assets and liabilities that are accessible at the measurement date (Level 1), inputs other than quoted market prices included in Level 1 that are directly or indirectly observable for the asset or liability (Level 2), or significant unobservable inputs (Level 3). The following table categorizes the recurring fair-value measurements for assets and liabilities at June 30, 2013, and at June 30, 2012.

	Total Fair Value at June 30, 2013	Quoted Prices Level 1	Significant Other Inputs Level 2	Significant Unobservable Inputs Level 3
Assets:				
Mutual bond funds	$ 80,160.54	$ 80,160.54	$ -	$ -
Mutual equity funds	151,840.88	151,840.88	-	-
Total assets	$232,001.42	$232,001.42	$ -	$ -

	Total Fair Value at June 30, 2012	Quoted Prices Level 1	Significant Other Inputs Level 2	Significant Unobservable Inputs Level 3
Assets:				
Mutual bond funds	$ 52,558.80	$ 52,558.80	$ -	$ -
Mutual equity funds	178,817.03	178,817.03	-	-
Total assets	$231,375.83	$231,375.83	$ -	$ -

Cash and Cash Equivalents

Cash and cash equivalents consist of demand deposit accounts, money market funds, and Local Government Investment Pool funds. The bank balances of deposits at June 30, 2013, and June 30, 2012, 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, 2013, were as follows*:*

	Cost	Fair Value
Mutual bond funds	$ 82,383.44	$ 80,160.54
Mutual equity funds	142,024.50	151,840.88
Total investments	$224,407.94	$232,001.42

Investments held at June 30, 2012, were as follows*:*

	Cost	Fair Value
Mutual bond funds	$ 50,811.06	$ 52,558.80
Mutual equity funds	163,407.49	178,817.03
Total investments	$214,218.55	$231,375.83

Endowments

The Nashville State Community College Foundation's endowment consists of approximately 11 individual funds established for a variety of purposes. Its endowment includes both donor-restricted endowment funds and funds designated by the Board of Trustees to function as an endowment. As required by accounting principles generally accepted in the United States of America, net position 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 position (1) the original value of gifts donated to the permanent endowment; (2) the original value of subsequent gifts to the permanent endowment; and (3) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net position is classified as temporarily restricted net position until the foundation appropriates those amounts for expenditure in a manner consistent with the standard of prudence prescribed by the Act. In accordance with the Act, the foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the fund; (2) the purposes of the foundation and the endowment fund; (3) general economic conditions; (4) the possible effect of inflation or deflation; (5) the expected total return from income and the appreciation of investments; (6) other resources of the foundation; and (7) the investment policies of the foundation.

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

	Permanently Restricted	Temporarily Restricted	Unrestricted	Total
Donor-restricted endowment funds	$296,582.59	$7,292.44	$(1,448.55)	$302,426.48
Board-designated endowment funds	-	-	30,602.00	30,602.00
Total funds	$296,582.59	$7,292.44	$ 29,153.45	$333,028.48

Composition of Endowment by Net Position Class
as of June 30, 2012

	Permanently Restricted	Temporarily Restricted	Unrestricted	Total
Donor-restricted endowment funds	$241,625.77	$16,755.49	$(8,617.11)	$249,764.15
Board-designated endowment funds	-	-	2,976.20	2,976.20
Total funds	$241,625.77	$16,755.49	$(5,640.91)	$252,740.35

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

	Permanently Restricted	Temporarily Restricted	Unrestricted	Total
Endowment net position, beginning of year	$241,625.77	$16,755.49	$(5,640.91)	$252,740.35
Investment return:				
Investment income	-	(104.36)	(286.52)	(390.88)
Net appreciation (realized and unrealized)	-	3,033.62	6,658.22	9,691.84
Total investment return		2,929.26	6,371.70	9,300.96
Contributions	122,990.67	-	-	122,990.67
Transfers	(41,638.92)	(12,392.31)	2,027.73	(52,003.50)
Other changes				
Reclassify from endowment	(26,394.93)	-	26,394.93	-
Endowment net position, end of year	$296,582.59	$ 7,292.44	$ 29,153.45	$333,028.48

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

	Permanently Restricted	Temporarily Restricted	Unrestricted	Total
Endowment net position, beginning of year	$220,942.84	$53,806.46	$ 445.65	$275,194.95
Net position adjustment	(3,972.63)	(22,889.75)	1,616.17	(25,246.21)
Endowment net position, after adjustment	216,970.21	30,916.71	2,061.82	249,948.74
Investment return:				
Investment income	312.54	1,057.22	535.60	1,905.36
Net appreciation (realized and unrealized)		(2,299.55)	(8,238.33)	(10,537.88)
Total investment return	312.54	(1,242.33)	(7,702.73)	(8,632.52)
Contributions	10,079.64	-	-	10,079.64
Transfers	3,849.19	(2,504.70)	-	1,344.49
Other changes				
Reclassification	10,414.19	(10,414.19)	-	-
Endowment net position, end of year	$241,625.77	$16,755.49	$(5,640.91)	$252,740.35

Funds With Deficiencies – From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the foundation is required to retain in a fund of perpetual duration. In accordance with accounting principles generally accepted in the United States of America, deficiencies of this nature are reported in unrestricted net position. These deficiencies resulted from unfavorable market fluctuations that occurred after the investment of permanently restricted contributions and/or continued appropriation for fees and previously approved budgeted expenditures. At June 30, 2012, deficiencies of this nature totaled $7,160.33.

Return Objectives and Risk Parameters – The foundation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the organization must hold in perpetuity or for a donor-specified period(s) 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 or principal, current income, liquidity, and growth. The foundation expects its endowment funds, over time, to provide an average rate of return of approximately 5% annually, or 4% plus the current 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 with a base of more than $10,000, 95% of investment earnings, on endowments not otherwise specifying a specific spending plan, are available for allocation. The remaining amount, if any, is added to the endowment base. On endowments with a balance of less than $10,000, all earnings are added to the base endowment. In establishing this policy, the foundation considered the long-term expected return on its endowment. Accordingly, over the long-term, the foundation expects the current spending policy to allow its endowment to grow at an average of 5% annually, or 4% plus the current inflation rate. This is consistent with the foundation's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term, as well as to provide additional real growth through new gifts and investment return.

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

Actuarial Valuation Date	Plan	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b-a)/c)]
July 1, 2011	State Employee Group Plan	$ -	$4,296,000	$4,296,000	0%	$17,738,452	24.2%
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%

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

Supplementary Information
NASHVILLE STATE COMMUNITY COLLEGE FOUNDATION
Supplementary Schedules of Cash Flows - Component Unit
For the Years Ended June 30, 2013, and June 30, 2012

	June 30, 2013	June 30, 2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Gifts and contributions	$240,599.28	$1,170,146.56
Payments to suppliers and vendors	(91,847.41)	(106,820.39)
Payments for scholarships and fellowships	(86,198.97)	(150,859.52)
Payments to Nashville State Community College	(31,866.24)	(1,265,495.98)
Other receipts	-	32,847.86
Net cash provided (used) by operating activities	30,686.66	(320,181.47)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Private gifts for endowment purposes	122,990.67	13,928.83
Net cash provided by noncapital financing activities	122,990.67	13,928.83
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of investments	240,314.18	233,868.82
Income on investments	2,332.11	7,646.50
Purchases of investments	(255,353.89)	(19,085.71)
Other investing payments	(2,413.33)	(4,708.88)
Net cash provided (used) by investing activities	(15,120.93)	217,720.73
Net increase (decrease) in cash	138,556.40	(88,531.91)
Cash - beginning of year	341,321.22	429,853.13
Cash - end of year	$479,877.62	$ 341,321.22
Reconciliation of operating income to net cash provided by operating activities:		
Operating income (loss)	$29,736.83	$ (240,570.78)
Adjustments to reconcile operating income to net cash provided by operating activities:		
Change in assets and liabilities:		
Accounts receivable	(1,046.30)	7,500.00
Accounts payable	1,996.13	(87,110.69)
Net cash provided (used) by operating activities	$30,686.66	$ (320,181.47)
Noncash investing, capital, and financing activities		
Unrealized gain (loss) on investments	$15,565.32	$ (17,231.98)

STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
DEPARTMENT OF AUDIT
DIVISION OF STATE AUDIT
SUITE 1500, JAMES K. POLK STATE OFFICE BUILDING
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Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

The Honorable Bill Haslam, Governor
Members of the General Assembly
The Honorable John G. Morgan, Chancellor
Dr. George H. Van Allen, President

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, 2013, and June 30, 2012, and the related notes to the financial statements, which collectively comprise the college's basic financial statements, and have issued our report thereon dated October 31, 2014. We conducted our audit in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

- The college needs to improve its system of internal control for the preparation of the financial statements.
- The college did not provide adequate internal controls in four specific areas.

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

Compliance and Other Matters

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

Nashville State Community College's Responses to Findings

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

Purpose of This Report

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

Deborah V. Loveless

Deborah V. Loveless, CPA
Director
October 31, 2014

Findings and Recommendations

1. The college needs to improve its system of internal control for the preparation of the financial statements

Finding

As noted in the prior three audits, Nashville State Community College's procedures for financial statement preparation should be improved to ensure the accuracy and proper classification of information in its financial statements. Control deficiencies resulted in the following significant reporting errors:

- An error in calculating the 2012 scholarship allowance resulted in an overstatement of tuition and fees revenue of $2,948,557.01, and an overstatement of scholarship and fellowship expense by the same amount.
- Current cash on the 2012 unaudited statement of net position was overstated by $1,380,397.19, and noncurrent cash was understated by the same amount because college staff had used an incorrect report when compiling the financial statements.
- Net position – net investment in capital assets was understated by $539,873.00 at June 30, 2013, and $653,008.25 at June 30, 2012, on the unaudited statements of net position. This error was caused by staff who incorrectly netted outstanding debt that was not related to capital assets.
- The fiscal year 2013 fair value of the college's investments reported in the Investments note was understated by $1,988,817.14 because staff did not include the Colleges of Applied Technology at Dickson and Nashville's Local Government Investment Pool amounts.
- The fiscal year 2013 beginning cash balance on the unaudited statement of cash flows did not match the fiscal year 2012 ending balance primarily because staff at the college did not include $4,314,449.26 in College of Applied Technology Centers' cash. Additionally, the amount reported as changes in deposits held for others was understated by $444,722.55, and the ending cash balance was understated by $3,869,726.71.

The above reporting errors were corrected in the audited financial statements. The reporting errors show the need to improve the preparation and review process to minimize the risk of material misstatements in the college's financial statements and accompanying notes. Management is responsible for the fair presentation of the financial statements and accompanying notes to the financial statements. Not preventing or detecting and correcting material misstatements in the financial statements could adversely affect decisions of the users of the 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 and notes. Specifically, the Vice President of Finance and Administrative Services should ensure thorough reviews are conducted of the financial statements and accompanying notes.

Management's Comment

Management concurs with the finding and recommendation. Management has corrected the items noted by the auditors. Corrective actions to improve and strengthen internal controls include 1) training in the areas noted as problems for the accounting staff; 2) recruitment of additional qualified personnel for certain key positions within our finance and accounting department; 3) improvement of standard documentation requirements for the assessment of critical, significant, and judgmental accounting matters; and 4) identification and reassignment of certain accounting and review duties to ensure that controls over processes are monitored and to ensure that accounting for transactions is appropriate.

Management believes that these corrective actions, taken as a whole, will remediate the finding identified. Certain of the remedial actions mentioned above were planned for implementation in FY2014. Management has already provided training to key staff by completing the Tennessee Board of Regents' Financial Statement Preparation Training Class at Tennessee Technological University in late May 2014. Management will continue to monitor the effectiveness of these actions and will make any other changes or take such other actions deemed appropriate given the circumstances.

2. The college did not provide adequate internal controls in four specific areas

Finding

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

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

Recommendation

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

Management's Comment

Management concurs with the finding and recommendation. Management's action plans for the four specific areas have been implemented or actions will have been scheduled. Management believes that these corrective actions, taken as a whole, will remediate the finding identified. The details of this finding are confidential pursuant to Section 10-7-504(i), *Tennessee Code Annotated*.

Observations and Comments

Colleges of Applied Technology

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