AUDIT REPORT

Tennessee Board of Regents
Pellissippi State Community College

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

STATE OF TENNESSEE

COMPTROLLER OF THE TREASURY

Department of Audit

Division of State Audit

Tennessee Comptroller of the Treasury

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Audit Manager

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In-Charge Auditor

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Alicia Reed
Emily Uptain
Michael Wilbanks
Staff Auditors

Gerry Boaz, CPA
Technical Manager

Amy Brack
Editor

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

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

August 5, 2010

The Honorable Phil Bredesen, Governor
and
Members of the General Assembly
State Capitol
Nashville, Tennessee 37243
and
The Honorable Charles W. Manning, Chancellor
Tennessee Board of Regents
1415 Murfreesboro Road, Suite 350
Nashville, Tennessee 37217
and
Dr. Allen G. Edwards, President
Pellissippi State Community College
P. O. Box 22990
Knoxville, Tennessee 37933-0990

Ladies and Gentlemen:

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

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

Sincerely,

Arthur A. Hayes, Jr., CPA
Director

AAH/sds
09/092

State of Tennessee

Audit Highlights

Comptroller of the Treasury   Division of State Audit

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

AUDIT OBJECTIVES

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

INTERNAL CONTROL FINDING

The College Needs Improved Review Procedures to Prevent Errors in the Preparation of the College's Financial Statements
Our audit found that Pellissippi State Community College's procedures for financial statement preparation should be improved to ensure the accuracy of the information presented in the financial statements. This deficiency resulted in several significant reporting errors (page 9).

The significant deficiency described above was considered a material weakness. A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the college's internal control (page 6).

OPINIONS ON THE FINANCIAL STATEMENTS

The opinions on the financial statements are unqualified.

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

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

INTRODUCTION

POST-AUDIT AUTHORITY

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

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

BACKGROUND

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

Pellissippi State Community College began operation as the State Technical Institute at Knoxville, which was established by the General Assembly in 1963. In 1988, the General Assembly combined the campuses of State Technical Institute at Knoxville and the Oak Ridge branch of Roane State Community College in Knoxville to form Pellissippi State Technical Community College. In May 2009, the General Assembly changed the name of the college to Pellissippi State Community College, effective July 1, 2009.

The college awards the Associate of Applied Science, the Associate of Arts, the Associate of Science, and the Associate of Science in Teaching (AST) degrees and certain certificates.

ORGANIZATION

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

AUDIT SCOPE

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

OBJECTIVES OF THE AUDIT

The objectives of the audit were

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

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

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

4. to recommend appropriate actions to correct any deficiencies.

PRIOR AUDIT FINDING

Section 8-4-109, *Tennessee Code Annotated*, requires that each state department, agency, or institution report to the Comptroller of the Treasury the action taken to implement the recommendations in the prior audit report. The college filed its report with the Department of Audit on March 6, 2009. A follow-up of the prior audit finding was conducted as part of the current audit.

The current audit disclosed that the college has corrected the previous audit finding concerning the accuracy of its foundation's endowment accounting and financial reporting.

OBSERVATIONS AND COMMENTS

MANAGEMENT'S RESPONSIBILITY FOR RISK ASSESSMENT

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

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

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

FRAUD CONSIDERATIONS

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

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

TECHNOLOGY CENTER

Pellissippi State Community College serves as the lead institution under an agreement with the Tennessee Technology Center at Knoxville. Under this agreement, Pellissippi State Community College performs the accounting and reporting functions for the center. The chief administrative officer of the center is the director, who is assisted and advised by members of the faculty and administrative staff. The director is responsible to the Chancellor of the Tennessee Board of Regents.

RESULTS OF THE AUDIT

AUDIT CONCLUSIONS

Internal Control

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

Compliance and Other Matters

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

Fairness of Financial Statement Presentation

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

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

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

June 30, 2010

The Honorable Phil Bredesen, Governor
and
Members of the General Assembly
State Capitol
Nashville, Tennessee 37243
and
The Honorable Charles W. Manning, Chancellor
Tennessee Board of Regents
1415 Murfreesboro Road, Suite 350
Nashville, Tennessee 37217
and
Dr. Allen G. Edwards, President
Pellissippi State Community College
P. O. Box 22990
Knoxville, Tennessee 37933-0990

Ladies and Gentlemen:

We have audited the financial statements of Pellissippi State Community College, an institution of the Tennessee Board of Regents, which is a component unit of the State of Tennessee, and its discretely presented component unit as of and for the years ended June 30, 2009, and June 30, 2008, and have issued our report thereon dated June 30, 2010. During the year ended June 30, 2008, the college implemented GASB Statement 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions.* We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in generally accepted government auditing standards.

Internal Control Over Financial Reporting

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

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

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

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

- The college needs improved review procedures to prevent errors in the preparation of the college's financial statements.

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

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

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

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

Compliance and Other Matters

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

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

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

Sincerely,

Arthur A. Hayes, Jr., CPA
Director

AAH/sds

FINDING AND RECOMMENDATION

<u>The college needs improved review procedures to prevent errors in the preparation of the college's financial statements</u>

Finding

Our audit found that Pellissippi State Community College's procedures for financial statement preparation should be improved to ensure the accuracy of the information presented in the financial statements. This deficiency resulted in several significant reporting errors:

- On the college's June 30, 2009, statement of net assets, net assets were not properly classified. Invested in capital assets, net of related debt, was understated by $1,764,743.20, and unrestricted net assets were overstated by $1,764,743.20. The Assistant Vice President of Business and Finance inadvertently subtracted debt not associated with capital assets from the amount reported as invested in capital assets, net of related debt. According to GASB statement 34, *Basic Financial Statements - and Management's Discussion and Analysis – for State and Local Governments*, paragraph 33, "this component of net assets consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets." The error was corrected on the audited statement.

- On the college's statement of cash flows for the year ended June 30, 2009, the Assistant Vice President of Business and Finance failed to report $9,499,426.23 of federal student loan receipts and federal student loan disbursements in the noncapital financing activities section. On the college's statement of cash flows for the year ended June 30, 2008, the Assistant Vice President of Business and Finance failed to report $6,754,148.55 of federal student loan receipts and federal student loan disbursements in the noncapital financing activities section. The errors were corrected on the audited statements.

- On the college's statement of cash flows for the year ended June 30, 2009, payments to employees were understated by $816,518.80, and payments for benefits were overstated by $816,518.80. On the college's statement of cash flows for the year ended June 30, 2008, payments to employees were understated by $865,266.88, and payments for benefits were overstated by $865,266.88. Increases in the college's net OPEB obligation should have been deducted from accrued benefits expense instead of accrued salaries to yield cash payments for benefits. The errors were corrected on the audited statements.

- On the college’s statement of cash flows for the year ended June 30, 2009, payments to suppliers and vendors (cash flows for operating activities) were understated by $851,700.77, and other noncapital financing receipts (cash flows from noncapital financing activities) were understated by $851,700.77. An adjustment related to an amount due to the primary government was placed in the wrong category by the Assistant Vice President of Business and Finance. The error was corrected on the audited statement.

- On the college’s statement of cash flows for the year ended June 30, 2008, the Assistant Vice President of Business and Finance reported a cash inflow of $769,426.38 labeled as “principal paid on capital debt.” The amount should have been reclassified and reported as proceeds from capital debt of $1,976,967.50 (a cash inflow) and principal paid on capital debt of ($1,207,541.12) (a cash outflow). The error was corrected on the audited statement.

- On the foundation’s statement of cash flows for the year ended June 30, 2009, cash flows from gifts and contributions were understated by $180,077.66, and cash flows representing payments for scholarships and fellowships were understated by a like amount. An adjustment was placed in the wrong category by the financial analyst in charge of foundation accounting. The error was corrected on the audited statement.

- On the foundation’s June 30, 2009, statement of net assets, unrestricted net assets were overstated by $1,017,227.62, and expendable restricted net assets were understated by $1,017,227.62. On the foundation’s June 30, 2008, statement of net assets, unrestricted net assets were overstated by $1,137,796.60, and expendable restricted net assets were understated by $1,137,796.60. Negative net asset balances in expendable restricted net assets were reported in that category instead of being properly netted against unrestricted net assets. The financial analyst in charge of foundation accounting did not know the proper way to report these negative balances. The errors were corrected on the audited statements.

According to the Assistant Vice President, the first six errors were due to oversight. The last error was because the financial analyst did not know the proper way to report these negative balances. These reporting errors resulted in significant misstatements in the college’s unaudited financial statements. With an improved review process, the Assistant Vice President of Business and Finance or the Vice President of Business and Finance could have detected and corrected these errors before the financial statements were completed.

Recommendation

Invested in capital assets, net of related debt should represent capital assets net of accumulated depreciation less debt attributable to the acquisition, construction, or improvement of those assets. College personnel should not report negative restricted net assets. These amounts should be netted against unrestricted net assets. More care should be taken in preparing cash flow statements. The Vice President of Business and Finance should develop improved review procedures to ensure that errors have not been made in the report preparation process.

The Vice President of Business and Finance should ensure that risks associated with report preparation are adequately identified and assessed in the university's risk assessment activities. The Vice President of Business and Finance should also implement effective controls to adequately mitigate those assessed risks and take appropriate action if deficiencies occur.

Management's Comment

Management concurs with the finding and recommendation. The items mentioned are financial statement display issues only. The total assets and total liabilities of the college did not change. They were erroneously displayed in the wrong categories on the financial statements.

The college has already taken steps to ensure that future financial statements are displayed correctly. A new administrative position has been added to the office of the Assistant Vice President of Business and Finance. This position will allow additional time for the preparation and review of the financial statements.

New checklists and review sheets are being developed to aid in the preparation of fiscal year 2010 and future financial statements.

The work schedule calendar for the preparation of financial statements has been adjusted to allow for several days of additional review time to ensure the correctness of the statements.

Additional professional development opportunities will be provided to the financial office staff, especially in the areas of foundation accounting and cash flow statements.

The risk assessment analysis for financial reporting and accounting will be analyzed and reviewed and additional appropriate controls will be implemented. This risk assessment analysis will be completed by December 31, 2010.

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

Independent Auditor's Report

June 30, 2010

The Honorable Phil Bredesen, Governor
and
Members of the General Assembly
State Capitol
Nashville, Tennessee 37243
and
The Honorable Charles W. Manning, Chancellor
Tennessee Board of Regents
1415 Murfreesboro Road, Suite 350
Nashville, Tennessee 37217
and
Dr. Allen G. Edwards, President
Pellissippi State Community College
P. O. Box 22990
Knoxville, Tennessee 37933-0990

Ladies and Gentlemen:

We have audited the accompanying basic financial statements of Pellissippi State Community College, an institution of the Tennessee Board of Regents, which is a component unit of the State of Tennessee, and its discretely presented component unit as of and for the years ended June 30, 2009, and June 30, 2008, as listed in the table of contents. These financial statements are the responsibility of the college's management. Our responsibility is to express opinions on these financial statements, based on our audit.

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

As discussed in Note 1, the financial statements of Pellissippi 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 Pellissippi State Community College. They do not purport to, and do not, present fairly the financial position of the Tennessee Board of Regents, as of June 30, 2009, and June 30, 2008, and the changes in its financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

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

As discussed in Note 14, during the year ended June 30, 2008, the college implemented GASB Statement 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions.*

The management's discussion and analysis on pages 15 through 30 and the schedule of funding progress on page 58 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it. Pellissippi State Community College has not presented condensed financial information comparing the 2008 and 2007 fiscal years which is required by accounting principles generally accepted in the United States of America to supplement, although not be a part of, the basic financial statements.

Our audit was conducted for the purpose of forming opinions on the basic financial statements. The accompanying financial information on page 59 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with generally accepted government auditing standards, we have also issued our report dated June 30, 2010, on our consideration of the college's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with generally accepted government auditing standards and should be considered in assessing the results of our audit.

Sincerely,

Arthur A. Hayes, Jr., CPA
Director

AAH/sds

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

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

The college has one discretely presented component unit, the Pellissippi State Technical Community College Foundation. More detailed information about the college's component unit is presented in Note 16 to the financial statements. Information regarding the component unit is also included in this section.

Using This Report

This report consists of three basic financial statements. The statement of net assets; the statement of revenues, expenses, and changes in net assets; and the statement of cash flows provide information on Pellissippi State Community College as a whole and present a long-term view of the college's finances.

The Statement of Net Assets

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

Net assets are divided into three major categories. The first category, invested in capital assets, net of related debt, provides the college's equity in property, plant, and equipment owned by the college. The next asset category is restricted net assets, which is divided into two categories, nonexpendable and expendable. The college has no nonexpendable restricted net assets. Expendable restricted net assets are available for expenditure by the college but must be spent for purposes as determined by donors and/or external entities that have placed time or purpose restrictions on the use of the assets. The final category is unrestricted net assets. Unrestricted net assets are available to the institution for any lawful purpose of the institution.

Pellissippi State Community College
Condensed Statements of Net Assets
(In Thousands of Dollars)

	2009	2008
Assets:		
Current assets	$12,517	$10,941
Capital assets, net	44,493	40,051
Other assets	10,126	9,863
Total assets	**67,136**	**60,855**
Liabilities:		
Current liabilities	8,149	7,459
Noncurrent liabilities	4,053	3,546
Total liabilities	**12,202**	**11,005**
Net assets:		
Invested in capital assets, net of related debt	44,302	39,677
Restricted – expendable	463	384
Unrestricted	10,169	9,789
Total net assets	**$54,934**	**$49,850**

Comparison of fiscal year 2009 to fiscal year 2008

- Total assets increased $6,281,000 (10%). The majority of this increase ($4.4 million) was due to projects in progress (Blount County/Goins Renovation/Magnolia Renovation). There was an increase of $266,000 in agency accounts receivable due to the student international trips. The balance of the increase in assets was due to normal operational cash and receivables growth.

- There was an $852,000 increase in restricted cash due to the receipt of American Recovery and Reinvestment Act (ARRA) stimulus funds.

- Total liabilities increased $1,197,000 (11%). Of this amount, $852,000 was ARRA stimulus funds due back to the State of Tennessee. Based upon guidance provided by the Tennessee Recovery Act Management Office, the total allotment of FY 2008-09 State Fiscal Stabilization Funds ($1,215,900.00) were drawn down and receipted as of June 30, 2009. It was subsequently determined that institutions would not lose the availability of funds not drawn down at June 30, 2009, and State Fiscal Stabilization Funds of

$851,700.11 were returned on July 13, 2009, and are included on the statement of net assets as due to primary government. Funds not returned on July 13, 2009, represent SFSF disbursements made prior to June 30, 2009, for which the institution requested reimbursement.

- Total net assets increased $5,084,000 (10%).

Pellissippi State Technical Community College Foundation
Condensed Statements of Net Assets
(In Thousands of Dollars)

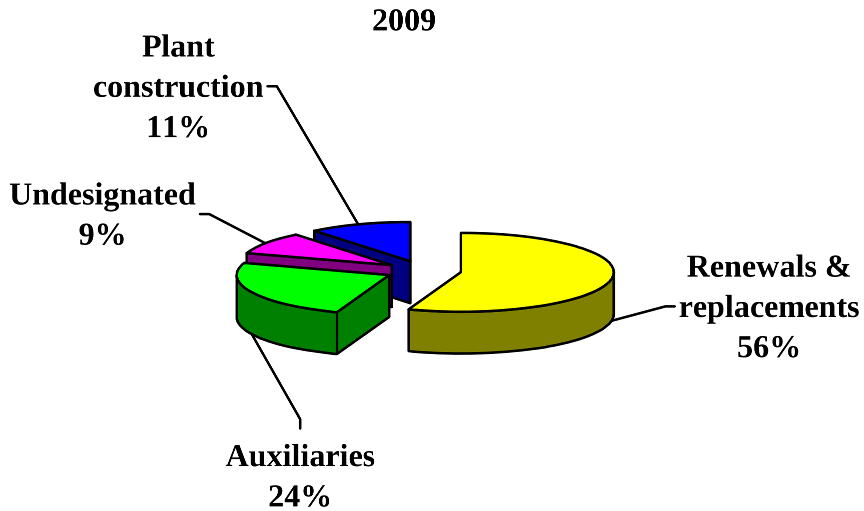
	2009	2008
Assets:		
Current assets	$1,465	$1,080
Other assets	6,039	7,126
Total assets	**7,504**	**8,206**
Liabilities:		
Current liabilities	3	44
Total liabilities	**3**	**44**
Net assets:		
Restricted – nonexpendable	2,359	2,285
Restricted – expendable	6,022	6,823
Unrestricted	(880)	(946)
Total net assets	**$7,501**	**$8,162**

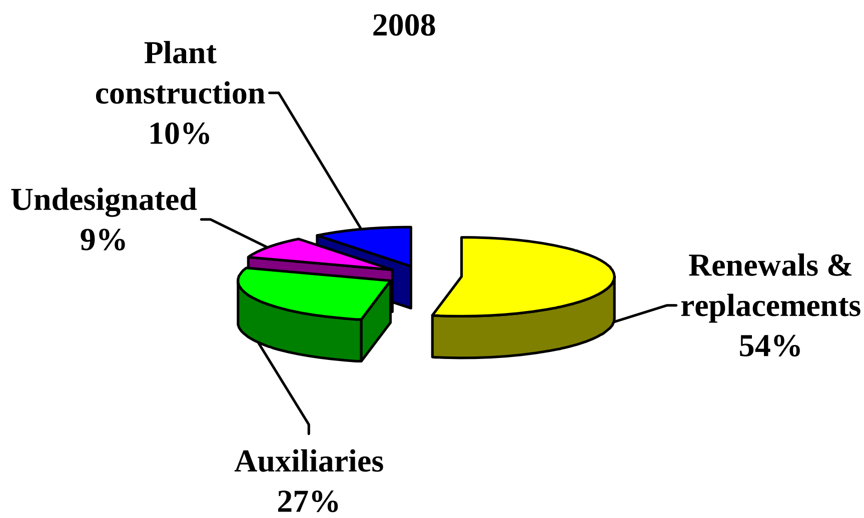
Comparison of fiscal year 2009 to fiscal year 2008

- Total assets of the foundation decreased $702,000 (9%). The investments of the foundation have decreased $785,000 (14%) due to the stock market decline and the lower interest rates. Pledges decreased by $286,000 (13%) due to decreased giving by donors. Cash increased by $365,000 (60%) because of a $360,000 increase in Local Government Investment Pool deposits. (This was considered a safer investment.)

Many of the college's unrestricted net assets have been designated for specific purposes such as for repairs and replacement of equipment and capital projects. The following graph shows the allocations:

Unrestricted Net Assets Allocation
Pellissippi State Community College





All of the foundation's unrestricted net assets were undesignated at June 30, 2009, and June 30, 2008.

Comparison of fiscal year 2009 to fiscal year 2008

- The college's unrestricted net assets increased $380,000 (4%). This increase was due in part to additional funds designated for replacement of equipment ($465,000).

- The foundation's unrestricted net assets increased an insignificant amount.

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

The statement of revenues, expenses, and changes in net assets presents the operating results of the college, as well as the nonoperating revenues and expenses. Annual state appropriations, while budgeted for operations, are considered nonoperating revenues according to accounting principles generally accepted in the United States of America.

Pellissippi State Community College
Condensed Statements of Revenues, Expenses, and Changes in Net Assets
(In Thousands of Dollars)

	2009	2008
Operating revenues:		
Net tuition and fees	$17,560	$15,625
Grants and contracts	721	338
Auxiliary	514	438
Other	324	372
Total operating revenues	**19,119**	**16,773**
Operating expenses	55,392	53,637
Operating loss	**(36,273)**	**(36,864)**
Nonoperating revenues and expenses:		
State appropriations	21,060	22,119
Gifts	432	1,209
Grants & contracts	13,885	12,065
Investment income	309	723
Other revenues and expenses	(89)	(67)
Total nonoperating revenues and expenses	**35,597**	**36,049**
Income (loss) before other revenues, expenses, gains, or losses	**(676)**	**(815)**
Other revenues, expenses, gains, or losses:		
Capital appropriations	5,880	4,793
Other	(120)	(63)
Total other revenues, expenses, gains, or losses	**5,760**	**4,730**
Increase (decrease) in net assets	**5,084**	**3,915**
Net assets at beginning of year	**49,850**	**45,935**
Net assets at end of year	**$54,934**	**$49,850**

Pellissippi State Technical Community College Foundation
Condensed Statements of Revenues, Expenses, and Changes in Net Assets
(In Thousands of Dollars)

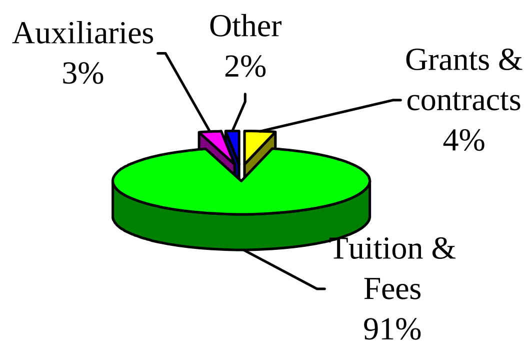
	2009	2008
Operating revenues:		
Gifts	$ 804	$1,931
Endowment income	65	77
Total operating revenues	**869**	**2,008**
Operating expenses	448	1,634
Operating gain	**421**	**374**
Nonoperating revenues and expenses:		
Investment income	(1,142)	(215)
Total nonoperating revenues and expenses	**(1,142)**	**(215)**
Income (loss) before other revenues, expenses, gains, or losses	**(721)**	**159**
Other revenues, expenses, gains, or losses:		
Additions to permanent endowments	60	608
Total other revenues, expenses, gains, or losses	**60**	**608**
Increase (decrease) in net assets	**(661)**	**767**
Net assets at beginning of year	**8,162**	**7,395**
Net assets at end of year	**$7,501**	**$8,162**

Revenues

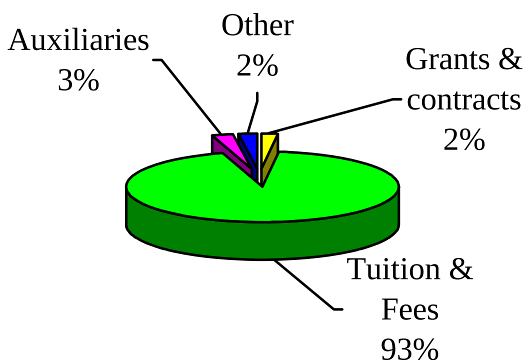
The following is a graphic illustration of operating revenues by source, which are used to fund the college's operating activities for the years ended June 30, 2009, and June 30, 2008. Amounts are presented in thousands of dollars.

Operating Revenues
Pellissippi State Community College

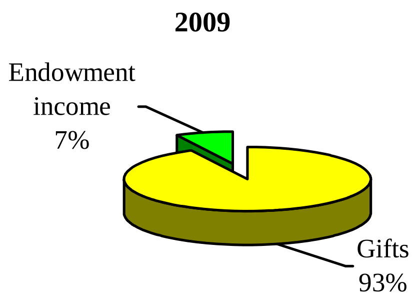
2009

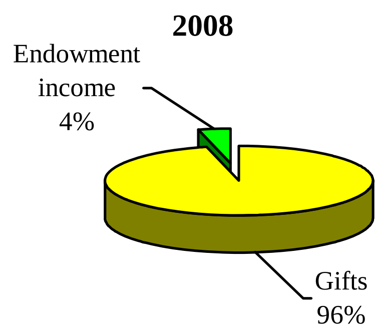


2008



Operating Revenues
Pellissippi State Technical Community College Foundation





<u>Comparison of fiscal year 2009 to fiscal year 2008</u>

- Operating revenues increased by $2,346,000 (14%). The majority of this increase was in net tuition and fees and was due to a 6% maintenance fee increase and student enrollment growth. Grants and contracts revenue increased $383,000 due to contract classes.

- Nonoperating revenues remained constant with only a $452,000 increase (less than 2%). Decreases in state appropriations, gifts, and investment income were offset by increases in grants and contracts.

- Other revenues increased by $1,030,000 from state capital appropriations for projects.

- Foundation operating revenues decreased by $1,139,000 (57%) as a result of decreased gifts from donors. The foundation nonoperating revenues decreased by $928,000. These decreases were due to the declining stock market and lower interest rates.

Expenses

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

Natural Classification
Pellissippi State Community College

Functional Classification **Natural Classification**

2009	Salaries	Benefits	Other Operating	Scholarships	Depreciation	Total
Instruction	$ 15,699	$ 4,957	$ 4,099	$ 304	$ -	$ 25,059
Public service	441	131	179	109	-	860
Academic support	3,472	1,218	(556)	68	-	4,202
Student services	2,889	1,092	1,794	88	-	5,863
Institutional support	2,845	1,221	1,829	15	-	5,910
Maintenance & operation	713	398	2,951	1	-	4,063
Scholarships	-	-	3	6,519	-	6,522
Depreciation	-	-	-	-	2,718	2,718
Auxiliaries	-	-	195	-	-	195
Total expenses	**$ 26,059**	**$ 9,017**	**$ 10,494**	**$ 7,104**	**$ 2,718**	**$ 55,392**

Functional Classification **Natural Classification**

2008	Salaries	Benefits	Other Operating	Scholarships	Depreciation	Total
Instruction	$ 15,379	$ 4,858	$ 4,910	$ 307	$ -	$ 25,454
Public service	479	132	303	26	-	940
Academic support	3,430	1,211	(1,044)	141	-	3,738
Student services	2,605	1,095	1,923	86	-	5,709
Institutional support	2,545	1,161	1,750	25	-	5,481
Maintenance & operation	710	427	3,550	-	-	4,687

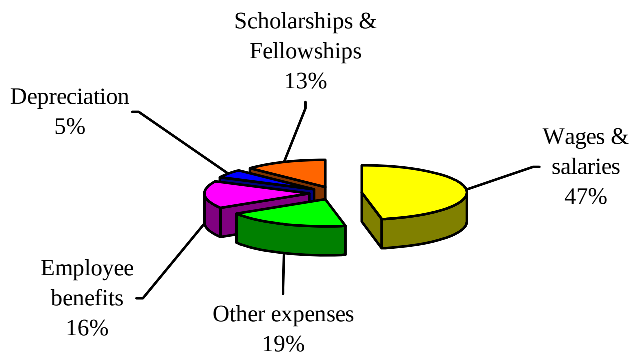
Scholarships	-	-	-	4,967	-	4,967
Depreciation	-	-	-	-	2,504	2,504
Auxiliaries	-	-	157	-	-	157
Total expenses	**$ 25,148**	**$ 8,884**	**$ 11,549**	**$ 5,552**	**$ 2,504**	**$ 53,637**

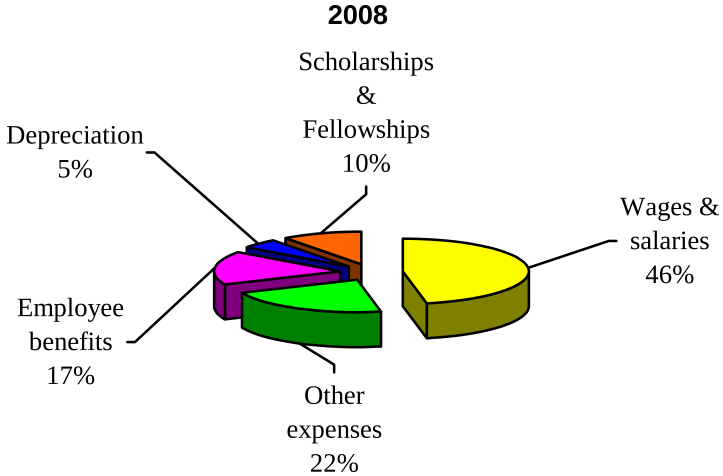
Pellissippi State Technical Community College Foundation

Natural Classification	**2009**	**2008**
Other operating	$ 80	$ 279
Scholarships	104	166
Payments to college	264	1,189
Total expenses	**$ 448**	**$ 1,634**

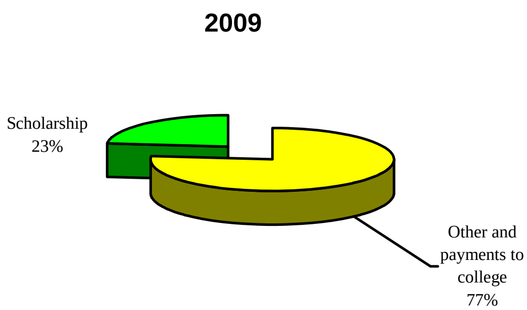
Operating Expenses by Natural Classification
Pellissippi State Community College

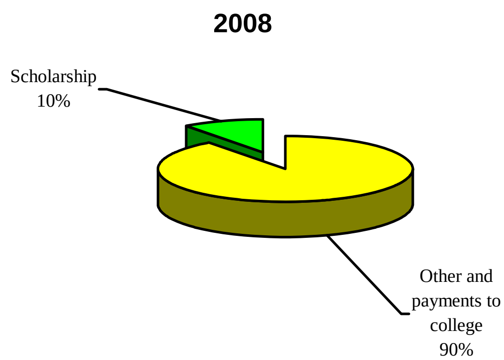
2009





Operating Expenses by Natural Classification
Foundation





<u>Comparison of fiscal year 2009 to fiscal year 2008</u>

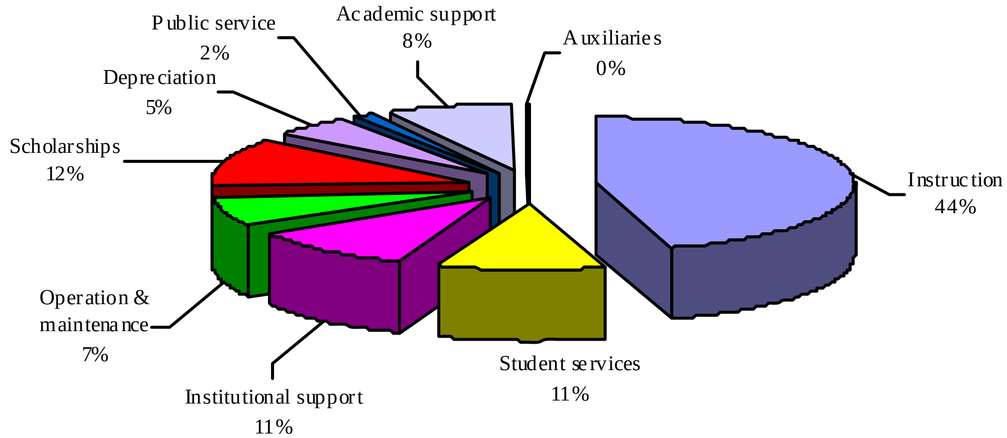
- For the college, total operating expenses increased $1,755,000 (3%). Salaries and benefits accounted for $1,044,000 of this increase, and scholarships increased by $1,552,000. There was a decrease in other operating expenses of over $1 million to offset for these increases. These changes were all of a regular operational nature.

- For the college, the only significant change in the natural classification was that scholarship expenses increased from 10% to 13%, and other operating expenses decreased from 22% to 19%. All other classifications remained constant.

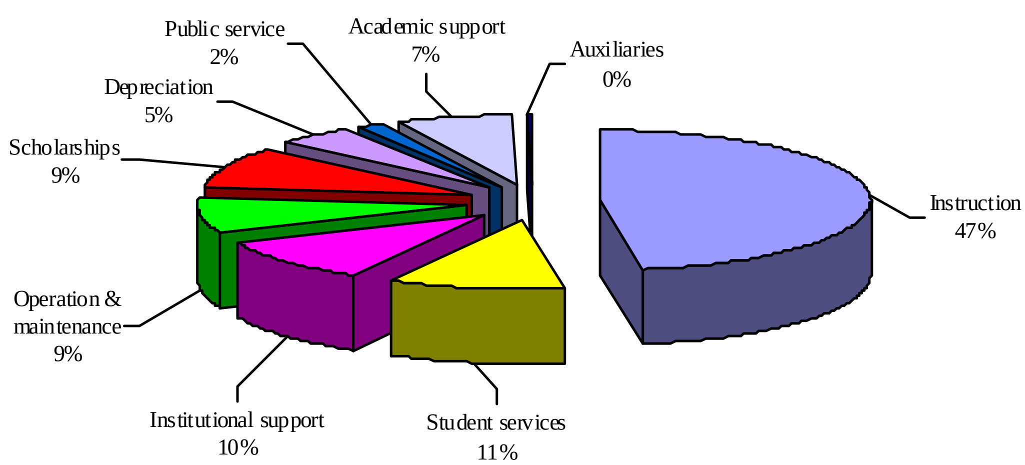
- The foundation reduced its total operating expenses by $1,186,000 (73%) due to the declines in the market value of its investments.

Operating Expenses by Function

2009



2008



Comparison of fiscal year 2009 to fiscal year 2008

- Expenses by program classification remained fairly constant for the year. The only significant change was an increase in scholarship expenditures from 9% to 12% of the total and a corresponding reduction in operations and maintenance expenditures. This was based on current economic conditions and the need for student financial aid.

The Statement of Cash Flows

The statement of cash flows provides information about cash receipts and cash payments during the year. This statement also assists users in assessing the college's ability to generate net cash flows, its ability to meet its obligations as they come due, and its need for external financing.

Capital Assets and Debt Administration

Capital Assets

Pellissippi State Community College had $44,493,155.92 invested in capital assets, net of accumulated depreciation of $30,479,077.93 at June 30, 2009; and $40,051,034.31 invested in capital assets, net of accumulated depreciation of $28,272,267.57 at June 30, 2008. Depreciation charges totaled $2,718,444.31 and $2,504,003.68 for the years ended June 30, 2009, and June 30, 2008, respectively. Details of these assets are shown below.

Pellissippi State Community College
Schedule of Capital Assets, Net of Depreciation
(In Thousands of Dollars)

	2009	2008
Land	$ 3,263	$3,109
Land improvements & infrastructure	1,448	1,588
Buildings	26,928	27,103
Equipment	2,810	2,935
Library holdings	776	781
Software	1,643	1,824
Projects in progress	7,625	2,711
Total	**$44,493**	**$40,051**

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

- For the college, net capital assets increased $4,442,000 (11%). The majority of the increase is a result of projects in progress. We currently have projects at the Blount County campus, the Goins Building renovation, and the Magnolia campus renovation, which are being funded by state funding. We have projects for parking lots, portable buildings, UPS (uninterruptible power supply) upgrades, and student recreation center upgrades, that are funded by local funds. More detailed information is available in Note 5.

- The Blount County project will continue to fiscal year 2011. The other projects will be completed in the 2010 fiscal year.

Debt

The college had $1,955,578.20 and $2,239,894.50 in debt outstanding at June 30, 2009, and June 30, 2008, respectively. The foundation had no debt outstanding at June 30, 2009, or June 30, 2008. The table below summarizes these amounts by type of debt instrument.

Pellissippi State Community College
Outstanding Debt
(In Thousands of Dollars)

TSSBA debt:	2009	2008
Bonds payable	$1,956	$2,240
Total	**$1,956**	**$2,240**

- The outstanding debt for Pellissippi State represents bonds that were issued to upgrade the college's Banner computer equipment and to implement two energy management projects. The debt currently totals $1,956,000 and was reduced by $284,000 in the 2009 fiscal year. It will be reduced by $296,000 in the 2010 fiscal year.

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

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

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

Economic Factors That Will Affect the Future

For the 2010 fiscal year, the following significant changes will affect the financial position of the college:

- Student maintenance fees will increase by an average of 3.7%.
- State funding will be reduced in the 2010 fiscal year. ARRA stimulus funding will be available for restricted expenditures in the 2010 fiscal year and the 2011 fiscal year.
- Enrollment growth is projected for fiscal year 2010.
- Other revenue and expenditure patterns are currently projected to remain constant for the 2010 fiscal year.

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. Allen G. Edwards, President, 10915 Hardin Valley Road, Knoxville, TN 37933.

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

	Pellissippi State Community College		Component Unit - Pellissippi State Technical Community College Foundation	
	June 30, 2009	June 30, 2008	June 30, 2009	June 30, 2008
ASSETS				
Current assets:				
Cash (Notes 2, 3, and 16)	$ 10,724,822.52	$ 9,616,624.18	$ 971,366.96	$ 605,764.69
Accounts, notes, and grants receivable (net) (Note 4)	1,728,679.08	1,271,623.38	11,560.02	9,361.84
Pledges receivable (net) (Note 16)	-	-	480,753.50	464,650.77
Inventories	2,735.08	10,319.82	-	-
Prepaid expenses and deferred charges	60,528.62	42,527.61	966.66	-
Total current assets	12,516,765.30	10,941,094.99	1,464,647.14	1,079,777.30
Noncurrent assets:				
Cash (Notes 2, 3, and 16)	10,126,504.16	9,862,683.27	-	-
Investments (Note 16)	-	-	4,662,222.36	5,447,448.56
Pledges receivable (net) (Note 16)	-	-	1,376,701.63	1,679,001.03
Capital assets (net) (Note 5)	44,493,155.92	40,051,034.31	-	-
Total noncurrent assets	54,619,660.08	49,913,717.58	6,038,923.99	7,126,449.59
Total assets	67,136,425.38	60,854,812.57	7,503,571.13	8,206,226.89
LIABILITIES				
Current liabilities:				
Accounts payable (Note 6)	537,130.30	750,251.63	2,727.91	43,890.56
Accrued liabilities	1,811,836.49	1,947,408.81	-	-
Due to primary government	851,700.11	-	-	-
Deferred revenue	1,080,497.61	1,171,518.28	-	-
Compensated absences (Note 7)	315,438.76	300,404.07	-	-
Long-term liabilities, current portion (Note 7)	296,257.80	284,316.30	-	-
Deposits held in custody for others	3,232,574.98	2,987,027.62	-	-
Other liabilities	23,696.82	18,759.17	-	-
Total current liabilities	8,149,132.87	7,459,685.88	2,727.91	43,890.56
Noncurrent liabilities:				
Net OPEB obligation (Notes 7 and 10)	1,681,785.68	865,266.88	-	-
Compensated absences (Note 7)	712,049.05	724,865.78	-	-
Long-term liabilities (Note 7)	1,659,320.40	1,955,578.20	-	-
Total noncurrent liabilities	4,053,155.13	3,545,710.86	-	-
Total liabilities	12,202,288.00	11,005,396.74	2,727.91	43,890.56
NET ASSETS				
Invested in capital assets, net of related debt	44,302,320.92	39,677,056.31	-	-
Restricted for:				
Nonexpendable:				
Scholarships and fellowships	-	-	2,020,942.11	2,055,877.69
Instructional department uses	-	-	55,680.80	55,306.16
Other	-	-	282,538.26	174,245.02
Expendable:				
Scholarships and fellowships	-	-	4,208,245.80	5,336,503.38
Instructional department uses	-	-	823,922.20	730,757.79
Loans	1,005.61	1,005.61	78,395.78	81,493.69
Capital projects	-	-	887,406.74	642,702.58
Other	462,089.96	382,573.57	24,322.13	31,612.72
Unrestricted (Note 8)	10,168,720.89	9,788,780.34	(880,610.60)	(946,162.70)
Total net assets	$ 54,934,137.38	$ 49,849,415.83	$ 7,500,843.22	$ 8,162,336.33

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

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

	Pellissippi State Community College		Component Unit - Pellissippi State Technical Community College Foundation	
	Year Ended June 30, 2009	Year Ended June 30, 2008	Year Ended June 30, 2009	Year Ended June 30, 2008
REVENUES				
Operating revenues:				
Student tuition and fees (net of scholarship allowances of $6,308,125.78 for the year ended June 30, 2009, and $5,642,853.21 for the year ended June 30, 2008)	$ 17,559,688.37	$ 15,625,217.48	$ -	$ -
Gifts and contributions	-	-	803,994.85	1,931,366.39
Endowment income per spending plan	-	-	65,413.43	77,099.51
Governmental grants and contracts	479,372.76	337,744.46	-	-
Nongovernmental grants and contracts	241,150.30	-	-	-
Auxiliary enterprises:				
Bookstore	459,832.58	357,080.00	-	-
Food service	54,653.48	81,197.39	-	-
Other operating revenues	323,809.75	371,493.98	-	-
Total operating revenues	19,118,507.24	16,772,733.31	869,408.28	2,008,465.90
EXPENSES				
Operating expenses (Note 13):				
Salaries and wages	26,059,101.78	25,148,525.83	-	-
Benefits	9,017,047.39	8,883,942.01	-	-
Utilities, supplies, and other services	10,493,747.21	11,549,231.39	79,482.16	278,398.59
Scholarships and fellowships	7,103,557.91	5,551,258.93	104,365.05	166,384.60
Depreciation expense	2,718,444.31	2,504,003.68	-	-
Payments to or on behalf of Pellissippi State Technical Community College	-	-	264,090.01	1,189,339.77
Total operating expenses	55,391,898.60	53,636,961.84	447,937.22	1,634,122.96
Operating income (loss)	(36,273,391.36)	(36,864,228.53)	421,471.06	374,342.94
NONOPERATING REVENUES (EXPENSES)				
State appropriations	21,060,131.50	22,119,300.00	-	-
Gifts (college gifts include $264,090.01 from component unit in 2009 and $1,189,339.77 in 2008)	432,070.33	1,209,339.77	-	-
Grants and contracts	13,885,231.71	12,064,479.41	-	-
Investment income (for component unit, net of investment expense of $15,848.05 in 2009 and $19,925.50 in 2008)	309,216.11	722,854.85	(1,142,833.18)	(214,834.37)
Interest on capital asset-related debt	(89,102.35)	(90,200.09)	-	-
Other nonoperating revenues (expenses)	-	23,318.42	-	-
Net nonoperating revenues	35,597,547.30	36,049,092.36	(1,142,833.18)	(214,834.37)
Income (loss) before other revenues, expenses, gains, or losses	(675,844.06)	(815,136.17)	(721,362.12)	159,508.57
Capital appropriations	5,880,952.87	4,792,640.14	-	-
Additions to permanent endowments	-	-	59,869.01	608,145.73
Other	(120,387.26)	(63,480.68)	-	-
Total other revenues	5,760,565.61	4,729,159.46	59,869.01	608,145.73
Increase (decrease) in net assets	5,084,721.55	3,914,023.29	(661,493.11)	767,654.30
NET ASSETS				
Net assets - beginning of year	49,849,415.83	45,935,392.54	8,162,336.33	7,394,682.03
Net assets - end of year	$ 54,934,137.38	$ 49,849,415.83	$ 7,500,843.22	$ 8,162,336.33

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

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

	Year Ended June 30, 2009	Year Ended June 30, 2008
CASH FLOWS FROM OPERATING ACTIVITIES		
Tuition and fees	$ 17,293,922.27	$ 15,864,856.01
Grants and contracts	769,259.15	596,377.77
Payments to suppliers and vendors	(10,699,118.65)	(10,915,291.93)
Payments to employees	(26,183,688.99)	(24,887,880.73)
Payments for benefits	(8,192,497.09)	(8,012,101.42)
Payments for scholarships and fellowships	(7,105,748.02)	(5,547,840.85)
Auxiliary enterprise charges:		
Bookstore	471,308.58	322,733.36
Food services	84,447.25	65,989.14
Other receipts	323,809.75	364,920.27
Net cash used by operating activities	(33,238,305.75)	(32,148,238.38)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State appropriations	21,053,400.00	22,119,800.00
Gifts and grants received for other than capital or endowment purposes	14,051,043.80	12,084,479.41
Federal student loan receipts	9,499,426.23	6,754,148.55
Federal student loan disbursements	(9,499,426.23)	(6,754,148.55)
Changes in deposits held for others	245,547.36	337,675.06
Other noncapital financing receipts	851,700.11	-
Net cash provided by noncapital financing activities	36,201,691.27	34,541,954.47
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from capital debt	-	1,976,967.50
Capital appropriations	5,753,789.43	4,792,640.14
Purchases of capital assets and construction	(7,280,953.18)	(6,811,727.69)
Principal paid on capital debt	(284,316.30)	(1,207,541.12)
Interest paid on capital debt	(89,102.35)	(90,200.09)
Other capital and related financing receipts	-	23,318.42
Net cash used by capital and related financing activities	(1,900,582.40)	(1,316,542.84)
CASH FLOWS FROM INVESTING ACTIVITIES		
Income on investments	309,216.11	722,854.85
Net cash provided by investing activities	309,216.11	722,854.85
Net increase in cash	1,372,019.23	1,800,028.10
Cash at beginning of year	19,479,307.45	17,679,279.35
Cash at end of year	$ 20,851,326.68	$ 19,479,307.45

Exhibit C (Cont.)

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

	Year Ended June 30, 2009	Year Ended June 30, 2008
Reconciliation of operating loss to net cash used by operating activities:		
Operating loss	$ (36,273,391.36)	$ (36,864,228.53)
Adjustments to reconcile operating loss to net cash used by operating activities:		
Depreciation expense	2,718,444.31	2,504,003.68
Gifts in-kind	273,070.33	1,189,339.77
Change in assets and liabilities:		
Receivables, net	(456,187.47)	227,617.72
Inventories	7,584.74	(8,341.05)
Prepaid/deferred items	(18,001.01)	(2,680.20)
Accounts payable	(213,121.33)	172,001.76
Accrued liabilities	(4,420.05)	(500,157.06)
Net OPEB obligation	816,518.80	865,266.88
Deferred revenue	(91,020.67)	162,663.79
Compensated absences	2,217.96	106,274.86
Net cash used by operating activities	$ (33,238,305.75)	$ (32,148,238.38)
Noncash investing, capital, and financing activities		
Loss on disposal of capital assets	$ -	$ (63,480.68)

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

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 Pellissippi State Community College.

The Pellissippi State Technical Community College Foundation is considered a component unit of the college. Although the college does not control the timing or amount of receipts from the foundation, the majority of resources, or income thereon, that the foundation holds and invests are restricted to the activities of the college by the donors. Because these restricted resources held by the foundation can only be used by, or for the benefit of, the college, the foundation is considered a component unit of the college and is discretely presented in the college's financial statements. See Note 16 for more detailed information about the component unit and how to obtain the report.

Basis of Presentation

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

Basis of Accounting

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

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

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

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

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

Inventories

Inventories are valued at the lower of cost or market on a first-in, first-out basis.

Compensated Absences

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

Capital Assets

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

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

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

Net Assets

The college's net assets are classified as follows:

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

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

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

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

Scholarship Discounts and Allowances

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

NOTE 2. CASH

At June 30, 2009, cash consisted of $799,530.72 in bank accounts, $3,880.00 of petty cash on hand, $19,621,727.56 in the State of Tennessee Local Government Investment Pool (LGIP) administered by the State Treasurer, and $426,188.40 in LGIP deposits for capital projects. At June 30, 2008, cash consisted of $103,382.18 in bank accounts, $3,830.00 of petty cash on hand, $18,426,401.17 in the State of Tennessee Local Government Investment Pool administered by the State Treasurer, and $945,694.10 in LGIP deposits for capital projects.

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

NOTE 3. INVESTMENTS

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The college is authorized by statute to invest funds in accordance with Tennessee Board of Regents policies. Under the current policy, funds other than endowments may be invested only in obligations of the United States or its agencies which are backed by the full faith and credit of the United States, repurchase agreements for United States securities, certificates of deposit in banks and savings and loan associations, banker's acceptances, commercial paper, money market mutual funds, and the State of Tennessee Local Government Investment Pool (LGIP). Securities are rated using Standard and Poor's, Moody's, and/or Fitch's. Tennessee Board of Regents policy restricts investments in banker's acceptances and commercial paper. The policy requires that prime banker's acceptances must be issued by domestic banks with a minimum AA rating or foreign banks with a AAA long-term debt rating by a majority of the rating services that have rated the issuer. The policy further requires that commercial paper must be issued by corporations with a minimum rating of A1 or equivalent as provided by a majority of the rating services that rate the issuer. If there is no long-term debt rating, the short-term debt must be rated A1 by all rating services (minimum of two). Commercial paper of a banking institution must not be purchased. As of June 30, 2009, and June 30, 2008, the college's investments consisted entirely of investments in the Local Government Investment Pool. The fair value of these investments was $20,047,915.96 at June 30, 2009, and $19,372,095.27 at June 30, 2008. LGIP investments are not rated by nationally recognized statistical ratings organizations.

The LGIP is part of the State Pooled Investment Fund. The fund's required risks disclosures are presented in the *State of Tennessee's Treasurer's Report*. That report is available on the state's website at http://www.tn.gov/treasury or by calling (615) 741-2956.

NOTE 4. RECEIVABLES

Receivables included the following:

	June 30, 2009	June 30, 2008
Student accounts receivable	$781,520.69	$659,437.49
Grants receivable	268,080.22	418,428.98
State appropriation receivable	37,300.00	38,600.00
Other receivables	841,778.17	360,156.91
Subtotal	1,928,679.08	1,476,623.38
Less allowance for doubtful accounts	200,000.00	205,000.00
Total receivables	$1,728,679.08	$1,271,623.38

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

NOTE 5. CAPITAL ASSETS

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

	Beginning Balance	Additions	Transfers	Reductions	Ending Balance
Land	$3,109,051.16	$154,090.65	$ -	$ -	$3,263,141.81
Land improvements and infrastructure	2,809,477.73	-	-	-	2,809,477.73
Buildings	47,810,706.40	865,923.73	418,457.96	-	49,095,088.09
Equipment	7,989,393.21	697,544.82	-	408,977.09	8,277,960.94
Library holdings	1,648,556.10	177,019.82	-	223,044.12	1,602,531.80
Software	2,245,452.39	53,534.89	-	-	2,298,987.28
Projects in progress	2,710,664.89	5,332,839.27	(418,457.96)	-	7,625,046.20
Total	68,323,301.88	7,280,953.18	-	632,021.21	74,972,233.85
Less accumulated depreciation:					
Land improvements and infrastructure	1,220,814.37	140,473.89	-	-	1,361,288.26
Buildings	20,707,699.20	1,458,835.89	-	-	22,166,535.09
Equipment	5,054,615.74	701,938.38	-	288,589.83	5,467,964.29
Library holdings	867,259.36	182,557.60	-	223,044.12	826,772.84
Software	421,878.90	234,638.55	-	-	656,517.45
Total accumulated depreciation	28,272,267.57	2,718,444.31	-	511,633.95	30,479,077.93
Capital assets, net	$40,051,034.31	$4,562,508.87	$ -	$120,387.26	$44,493,155.92

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

	Beginning Balance	Additions	Transfers	Reductions	Ending Balance
Land	$3,109,039.93	$ 11.23	$ -	$ -	$3,109,051.16
Land improvements and infrastructure	2,809,477.73	-	-	-	2,809,477.73
Buildings	40,898,912.49	2,488,139.51	4,423,654.40	-	47,810,706.40
Equipment	6,866,820.73	1,455,565.48	-	332,993.00	7,989,393.21
Library holdings	1,708,392.83	171,424.70	-	231,261.43	1,648,556.10
Software	1,939,322.14	306,130.25	-	-	2,245,452.39
Projects in progress	4,743,862.77	2,390,456.52	(4,423,654.40)	-	2,710,664.89
Total	62,075,828.62	6,811,727.69	-	564,254.43	68,323,301.88
Less accumulated depreciation:					
Land improvements and infrastructure	1,080,340.47	140,473.90	-	-	1,220,814.37
Buildings	19,265,198.10	1,442,501.10	-	-	20,707,699.20
Equipment	4,819,027.84	505,100.22	-	269,512.32	5,054,615.74
Library holdings	910,539.02	187,981.77	-	231,261.43	867,259.36
Software	193,932.21	227,946.69	-	-	421,878.90
Total accumulated depreciation	26,269,037.64	2,504,003.68	-	500,773.75	28,272,267.57
Capital assets, net	$35,806,790.98	$4,307,724.01	$ -	$ 63,480.68	$40,051,034.31

NOTE 6. ACCOUNTS PAYABLE

Accounts payable included the following:

	June 30, 2009	June 30, 2008
Vendors payable	$495,243.17	$740,651.86
Unapplied student payments	41,887.13	9,599.77
Total accounts payable	$537,130.30	$750,251.63

NOTE 7. LONG-TERM LIABILITIES

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

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
TSSBA debt:					
Bonds	$2,239,894.50	$ -	$284,316.30	$1,955,578.20	$296,257.80
Subtotal	2,239,894.50	-	284,316.30	1,955,578.20	296,257.80
Other liabilities:					
Compensated absences	1,025,269.85	100,753.66	98,535.70	1,027,487.81	315,438.76
Net OPEB obligation	865,266.88	816,518.80	-	1,681,785.68	-
Subtotal	1,890,536.73	917,272.46	98,535.70	2,709,273.49	315,438.76
Total long-term liabilities	$4,130,431.23	$917,272.46	$382,852.00	$4,664,851.69	$611,696.56

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

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
TSSBA debt:					
Bonds	$1,470,468.12	$ 976,967.50	$ 207,541.12	$2,239,894.50	$284,316.30
Commercial paper	-	1,000,000.00	1,000,000.00	-	-
Subtotal	1,470,468.12	1,976,967.50	1,207,541.12	2,239,894.50	284,316.30
Other liabilities:					
Compensated absences	918,994.99	147,997.73	41,722.87	1,025,269.85	300,404.07
Net OPEB obligation	-	865,266.88	-	865,266.88	-
Subtotal	918,994.99	1,013,264.61	41,722.87	1,890,536.73	300,404.07
Total long-term liabilities	$2,389,463.11	$2,990,232.11	$1,249,263.99	$4,130,431.23	$584,720.34

TSSBA Debt - Bonds

Bonds, with interest rates ranging from 3.25% to 5.11%, were issued by the Tennessee State School Bond Authority (TSSBA). The bonds are due serially to 2023 and are secured by pledges of the facilities' revenues to which they relate and certain other revenues and fees of the college, including state appropriations. The bonded indebtedness with the Tennessee State School Bond Authority is included in long-term liabilities on the statement of net assets. See Note 17 for information on reveunues pledged for debt repayment.

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

Year Ending June 30	Principal	Interest	Total
2010	$296,257.80	$79,645.03	$375,902.83
2011	109,850.70	67,794.71	177,645.41
2012	114,464.30	63,400.69	177,864.99
2013	118,860.40	59,233.43	178,093.83
2014	123,569.10	54,762.69	178,331.79
2015 – 2019	700,383.00	195,196.42	895,579.42
2020 – 2023	492,192.90	46,836.13	539,029.03
Total	$1,955,578.20	$566,869.10	$2,522,447.30

NOTE 8. UNRESTRICTED NET ASSETS

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

	June 30, 2009	June 30, 2008
Working capital	$ 539,677.80	$ 398,088.59
Encumbrances	1,345,324.14	1,087,057.79
Auxiliaries	2,474,831.79	2,665,896.58
Plant construction	1,098,202.46	1,021,464.39
Renewal and replacement of equipment	5,661,945.83	5,197,198.20
Undesignated	(951,261.13)	(580,925.21)
Total	$10,168,720.89	$9,788,780.34

NOTE 9. PENSION PLANS

A. Defined Benefit Plan

Tennessee Consolidated Retirement System

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

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

Funding Policy - Plan members are noncontributory. The college is required to contribute an actuarially determined rate. The current rate is 13.02% of annual covered payroll. Contribution requirements for the college are established and may be amended by the TCRS' Board of Trustees. The college's contributions to TCRS for the years ended June 30, 2009, 2008, and 2007 were \$1,275,086.93, \$1,258,569.68, and \$1,180,082.10. Contributions met the requirements for each year.

B. Defined Contribution Plans

Optional Retirement Plans (ORP)

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

Plan provisions are established by state statute in Title 8, Chapter 35, Part 4, *Tennessee Code Annotated.* State statutes are amended by the Tennessee General Assembly.

Funding Policy - Plan members are noncontributory. The college contributes an amount equal to 10% of the employee's base salary up to the social security wage base and 11% above the social security wage base. Contribution requirements are established and amended by state statute. The contribution made by the college to the plans was $1,158,860.17 for the year ended June 30, 2009, and $1,150,118.03 for the year ended June 30, 2008. Contributions met the requirements for each year.

NOTE 10. OTHER POST-EMPLOYMENT BENEFITS

Healthcare is the only "other postemployment benefit" (OPEB) provided to employees. The State of Tennessee administers a group health insurance program which provides postemployment health insurance benefits to eligible college retirees. This program includes two plans – the State Employee Group Plan and the Medicare Supplement Plan. For accounting purposes, the plans are agent multiple-employer defined benefit OPEB plans. Benefits are established and amended by an insurance committee created by Section 8-27-201, *Tennessee Code Annotated*, for the State Employee Group Plan and Section 8-27-701, *Tennessee Code Annotated,* for the Medicare Supplement Plan. Prior to reaching age 65, retirees may participate in the State Employee Group Plan. Members of this plan have the option of choosing a preferred provider organization (PPO), point of service (POS), or health maintenance organization (HMO) plan for healthcare benefits. Subsequent to age 65, retirees who are also in the state's retirement system may participate in the Medicare Supplement Plan that does not include pharmacy. The state makes on-behalf payments to the Medicare supplement plan for the college's eligible retirees; see Note 15. The plans are reported in the *Tennessee Comprehensive Annual Financial Report*. That report is available on the state's website at http://tennessee.gov/finance/act/cafr.html, or by calling (615) 741-2140.

Special Funding Situation

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

Funding Policy

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

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

	2009	2008
Annual required contribution (ARC)	$1,228,000.00	$1,215,000.00
Interest on the net OPEB obligation	38,937.01	-
Adjustment to the ARC	(37,897.11)	-
Annual OPEB cost	1,229,039.90	1,215,000.00
Amount of contribution	(412,521.10)	(349,733.12)
Increase (decrease) in net OPEB obligation	816,518.80	865,266.88
Net OPEB obligation – beginning of year	865,266.88	-
Net OPEB obligation – end of year	$1,681,785.68	$ 865,266.88

Year-end	Plan	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation at Year-end
June 30, 2009	State Employee Group Plan	$1,229,039.90	33.6%	$1,681,785.68

June 30, 2008	State Employee Group Plan	$1,215,000.00	28.8%	$865,266.88

Funded Status and Funding Progress

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

State Employee Group Plan

Actuarial valuation date	July 1, 2007
Actuarial accrued liability (AAL)	$10,296,000.00
Actuarial value of plan assets	-
Unfunded actuarial accrued liability (UAAL)	$10,296,000.00
Actuarial value of assets as a percentage of the AAL	0%
Covered payroll (active plan members)	$17,539,723.65
UAAL as percentage of covered payroll	58.7%

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

Actuarial Methods and Assumptions

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

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

NOTE 11. INSURANCE-RELATED ACTIVITIES

It is the policy of the state not to purchase commercial insurance for the risks of losses for general liability, automobile liability, professional malpractice, and workers' compensation. The state's management believes it is more economical to manage these risks internally and set aside assets for claim settlement in its internal service fund, the Risk Management Fund. The state purchases commercial insurance for real property, flood, earthquake, and builder's risk losses and surety bond coverage on the state's officials and employees. The amounts of settlements have not exceeded insurance coverage for each of the past three fiscal years. The Risk Management Fund is also responsible for claims for damages to state-owned property up to the amount of the property insurance aggregate deductible amount. The insurance policy deductibles vary from $25,000 per occurrence, depending on the type of coverage, to an aggregate of $5 million.

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

At June 30, 2009, the scheduled coverage for the college was $67,187,700 for buildings and $17,726,600 for contents. At June 30, 2008, the scheduled coverage for the college was $64,784,500 for buildings and $16,594,100 for contents.

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

NOTE 12. COMMITMENTS AND CONTINGENCIES

Sick Leave

The college records the cost of sick leave when paid. Generally, since sick leave (earned one day per month with unlimited accumulation) is paid only when an employee dies or is absent because of illness, injury, or related family death, there is no liability for sick leave at June 30. The dollar amount of unused sick leave was $7,539,839.86 at June 30, 2009, and $7,534,309.79 at June 30, 2008.

Construction in Progress

At June 30, 2009, outstanding commitments under construction contracts totaled $10,406,672.09 for the Bagwell Center project, the Goins Building Renovation project, the Magnolia Center Improvements project, the Blount County Campus project, the Accessibility Adaptations project, the SRC Expansion project, the Entrance Signs project, the UPS Center project, and the Hardin Valley Parking project, of which $10,033,977.16 will be funded by future state capital outlay appropriations.

Litigation

The college is not involved in any lawsuits.

NOTE 13. NATURAL CLASSIFICATIONS WITH FUNCTIONAL CLASSIFICATIONS

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

	Natural Classification					
Functional Classification	Salaries	Benefits	Other Operating	Scholarships	Depreciation	Total
Instruction	$15,699,294.39	$4,956,740.77	$4,099,304.56	$303,613.97	$ -	$25,058,953.69
Public service	440,600.22	130,731.95	179,563.10	109,121.79	-	860,017.06
Academic support	3,471,844.07	1,218,171.53	(556,320.73)	68,473.00	-	4,202,167.87
Student services	2,888,987.76	1,092,458.40	1,793,448.66	87,582.12	-	5,862,476.94
Institutional support	2,845,596.16	1,220,321.02	1,829,082.63	15,018.00	-	5,910,017.81
Operation & maintenance	712,779.18	398,623.72	2,950,774.68	585.00	-	4,062,762.58
Scholarships & fellowships	-	-	3,190.05	6,519,164.03	-	6,522,354.08
Auxiliary	-	-	194,704.26	-	-	194,704.26
Depreciation	-	-	-	-	2,718,444.31	2,718,444.31
Total	$26,059,101.78	$9,017,047.39	$10,493,747.21	$7,103,557.91	$2,718,444.31	$55,391,898.60

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

	Natural Classification					
Functional Classification	Salaries	Benefits	Other Operating	Scholarships	Depreciation	Total
Instruction	$15,379,328.54	$4,857,707.93	$4,909,917.73	$306,733.59	$ -	$25,453,687.79
Public service	478,614.50	131,539.09	303,313.42	25,815.92	-	939,282.93
Academic support	3,430,039.45	1,211,292.72	(1,044,460.60)	140,617.58	-	3,737,489.15
Student services	2,605,128.21	1,095,330.47	1,922,724.11	85,833.96	-	5,709,016.75
Institutional support	2,545,161.71	1,161,304.58	1,750,614.67	24,714.00	-	5,481,794.96
Operation & maintenance	710,253.42	426,767.22	3,550,000.71	180.00	-	4,687,201.35
Scholarships & fellowships	-	-	280.00	4,967,363.88	-	4,967,643.88
Auxiliary	-	-	156,841.35	-	-	156,841.35
Depreciation	-	-	-	-	2,504,003.68	2,504,003.68
Total	$25,148,525.83	$8,883,942.01	$11,549,231.39	$5,551,258.93	$2,504,003.68	$53,636,961.84

NOTE 14. CHANGE IN ACCOUNTING PRINCIPLE

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

NOTE 15. ON-BEHALF PAYMENTS

During the year ended June 30, 2009, the State of Tennessee made payments of $8,031.50 on behalf of the college for retirees participating in the Medicare Supplement Plan. The amount for the year ended June 30, 2008, was $6,573.71. The Medicare Supplement Plan is a postemployment benefit healthcare plan and is discussed further in Note 10. The plan is reported in the *Tennessee Comprehensive Annual Financial Report*. That report is available on the state's website at http://tennessee.gov/finance/act/cafr.html.

NOTE 16. COMPONENT UNIT

The Pellissippi State Technical Community College Foundation is a legally separate, tax-exempt organization supporting Pellissippi State Community College. The foundation acts primarily as a fund-raising organization to supplement the resources that are available to the college in support of its programs. The 29-member board of the foundation is self-perpetuating and consists of graduates and friends of the college. Although the college does not control the timing or amount of receipts from the foundation, the majority of resources, or income thereon, that the foundation holds and invests are restricted to the activities of the college by the donors. Because these restricted resources held by the foundation can only be used by, or for the benefit of, the college, the foundation is considered a component unit of the college and is discretely presented in the college's financial statements.

The foundation is a nonprofit organization that reports under Financial Accounting Standards Board (FASB) standards, including FASB Statement 117, *Financial Statements of Not-for-Profit Organizations*. As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features. With the exception of necessary presentation reformatting, no modifications have been made to the foundation's financial information in the college's financial statements for these differences.

During the year ended June 30, 2009, the foundation made distributions of $264,090.01 to or on behalf of the college for both restricted and unrestricted purposes. During the year ended June 30, 2008, the foundation made distributions of $1,189,339.77 to or on behalf of the college for both restricted and unrestricted purposes. Complete financial statements for the foundation can be obtained from Mr. Ron Kesterson, Pellissippi State Community College, P. O. Box 22990, Knoxville, TN 37933-0990.

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, 2009.

	Total Fair Value at June 30, 2009	Quoted Prices Level 1	Significant Other Inputs Level 2	Significant Unobservable Inputs Level 3
Assets:				
Mutual equity funds	$3,174,888.68	$3,174,888.68	$ -	$ -
Mutual bond funds	1,202,998.93	1,202,998.93	-	-
Money market funds	134,367.64	134,367.64	-	-
Realty investment fund	149,967.11	-	149,967.11	-
Pledges receivable	1,857,455.13	-	-	1,857,455.13
Total assets	$6,519,677.49	$4,512,255.25	$149,967.11	$ 1,857,455.13

Cash

At June 30, 2009, cash consisted of $28,583.19 in bank accounts and $942,783.77 in the State of Tennessee Local Government Investment Pool administered by the State Treasurer. The bank balances at June 30, 2009, were entirely insured. At June 30, 2008, cash consisted of $22,537.37 in bank accounts and $583,227.32 in the State of Tennessee Local Government Investment Pool administered by the State Treasurer. The bank balances at June 30, 2008, 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, 2009, were as follows:

	Cost	Fair Value
Mutual equity funds	$2,625,543.47	$3,174,888.68
Mutual bond funds	823,342.63	1,202,998.93
Money market funds	134,367.74	134,367.64
Realty investment fund	268,006.88	149,967.11
Total investments	$3,851,260.72	$4,662,222.36

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

	Cost	Fair Value
Mutual equity funds	$2,423,310.53	$3,734,545.00
Mutual bond funds	865,810.94	1,540,152.86
Realty investment fund	172,750.70	172,750.70
Total investments	$3,461,872.17	$5,447,448.56

Pledges Receivable

Pledges receivable are summarized below net of the allowance for doubtful accounts.

	June 30, 2009	June 30, 2008
Current pledges	$ 492,018.60	$ 475,538.55
Pledges due in one to five years	1,301,270.67	1,548,563.66
Pledges due after five years	200,476.94	297,202.95
Subtotal	1,993,766.21	2,321,305.16
Less discount to net present value	(136,311.08)	(177,653.36)
Total pledges receivable, net	$1,857,455.13	$2,143,651.80

Endowments

The Pellissippi State Technical Community College Foundation’s endowment consists of 122 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 endowments. As required by GAAP, net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of relevant law - The Board of Trustees of the Pellissippi State Technical Community College Foundation has interpreted the Uniform Prudent Management of Institutional Funds Act (the Act) as adopted by Tennessee as a statutory guideline for management, investment, and expenditure of endowment funds which applies in the absence of explicit donor stipulations about these activities.

Pellissippi State Community College records endowment funds at historic dollar value. As a result of this interpretation, the Pellissippi State Technical Community College Foundation classifies as permanently restricted net assets (1) the original value of gifts donated to the permanent endowment and (2) the original value of subsequent gifts to the permanent endowment. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the foundation in a manner consistent with the standard of prudence prescribed by the Act. In accordance with the Act, the foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the fund; (2) the purposes of the foundation and the endowment fund; (3) general economic conditions; (4) the possible effect of inflation or deflation; (5) the expected total return from income and the appreciation of investments; (6) other resources of the foundation; and (7) the investment policies of the foundation.

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

	Permanently Restricted	Temporarily Restricted	Unrestricted	Total
Donor-restricted endowment funds	$2,359,161.17	$1,972,506.34	$ -	$4,331,667.51
Board-designated endowment funds	-	17,430.12	-	17,430.12
Total funds	$2,359,161.17	$1,989,936.46	$ -	$4,349,097.63

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

	Permanently Restricted	Temporarily Restricted	Unrestricted	Total
Endowment net assets beginning of year	$2,285,428.87	$3,091,894.20	$ -	$5,377,323.07
Investment return:				
Investment income	-	87,638.55	-	87,638.55
Net depreciation (realized and unrealized)	-	(1,174,614.75)	-	(1,174,614.75)
Total investment return	-	(1,086,976.20)	-	(1,086,976.20)
Contributions	59,869.01	1,848.00	-	61,717.01

Appropriations of endowment assets for expenditure	-	(87,638.55)	-	(87,638.55)
Other:				
Transfer in to cover underwater endowment	-	70,809.01	-	70,809.01
Change in allowance and discounts on pledges	13,863.29	-	-	13,863.29
Endowment net assets, end of year	$2,359,161.17	$1,989,936.46	$ -	$4,349,097.63

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 donor-specified periods 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 will maximize the benefit intended by the donor, to produce current income to support donor objectives and the programs of Pellissippi State Community College, and to achieve growth of both principal and income over time. The foundation expects its endowment funds, over time, to provide an average rate of return of approximately 5 percent annually. Actual returns in any given year may vary from this amount.

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

Spending policy and how the investment objectives relate - The foundation has a policy of appropriating for distribution each year all realized investment earnings for regular endowment funds and one-half of all realized investment earnings for Challenge grant-related endowment funds. 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 percent annually. This is consistent with the foundation's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.

NOTE 17. PLEDGED REVENUES

The college has pledged certain revenues and fees, including state appropriations, to repay $1,955,578.20 of revenue bonds outstanding at June 30, 2009, and $2,239,894.50 of revenue bonds outstanding at June 30, 2008. The bonds were issued between July 2006 and January 2008. Proceeds from the bonds provided financing for the Energy Management project and the Administrative Computing Systems project. The bonds are payable through May 2023. Annual principal and interest payments on the bonds constituted .8% of available revenues for the 2009 fiscal year and .6% of available revenues for the 2008 fiscal year. The total principal and interest remaining to be paid on the bonds at June 30, 2009, was $2,522,447.30. Principal and interest paid for the 2009 fiscal year and total available revenues were $373,418.65 and $46,513,246.17, respectively. Principal and interest paid for the 2008 fiscal year and total available revenues were $297,741.21 and $45,954,391.27, respectively.

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

Actuarial Valuation Date	Plan	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b-a)/c)]
July 1, 2007	State Employee Group Plan	$ -	$10,296,000.00	$10,296,000.00	0%	$17,539,723.65	58.7%

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

	Year Ended June 30, 2009	Year Ended June 30, 2008
CASH FLOWS FROM OPERATING ACTIVITIES		
Gifts and contributions	$ 817,755.32	$ 812,522.42
Endowment income per spending plan	65,413.43	77,099.51
Payments to suppliers and vendors	(217,570.74)	(1,246,930.40)
Loans issued to students	(2,198.18)	-
Payments for scholarships and fellowships	(104,365.05)	(166,369.60)
Net cash provided (used) by operating activities	559,034.78	(523,678.07)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Private gifts for endowment purposes	164,174.47	229,196.50
Net cash provided by noncapital financing activities	164,174.47	229,196.50
CASH FLOWS FROM INVESTING ACTIVITIES		
Income on investments	31,781.57	83,727.77
Purchases of investments	(389,388.55)	(496,876.16)
Net cash used by investing activities	(357,606.98)	(413,148.39)
Net increase (decrease) in cash	365,602.27	(707,629.96)
Cash at beginning of year	605,764.69	1,313,394.65
Cash at end of year	$ 971,366.96	$ 605,764.69
Reconciliation of operating income to net cash provided (used) by operating activities:		
Operating income	$ 421,471.06	$ 374,342.94
Change in assets and liabilities:		
Receivables, net	181,891.21	(942,911.57)
Prepaid/deferred items	(966.66)	1,000.00
Accounts payable	(41,162.65)	43,890.56
Due to grantors	(2,198.18)	-
Net cash provided (used) by operating activities	$ 559,034.78	$ (523,678.07)
Noncash investing, capital, and financing activities		
Unrealized losses on investments	$ (1,174,614.75)	$ (298,562.14)