

AUDIT REPORT

Tennessee Board of Regents
Northeast State Community College

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



STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY

Department of Audit
Division of State Audit



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October 1, 2012

The Honorable Bill Haslam, Governor
and

Members of the General Assembly
State Capitol
Nashville, Tennessee 37243

and

The Honorable John G. Morgan, Chancellor
Tennessee Board of Regents
1415 Murfreesboro Road, Suite 340
Nashville, Tennessee 37217

and

Dr. Janice H. Gilliam, President
Northeast State Community College
P. O. Box 246
Blountville, Tennessee 37617

Ladies and Gentlemen:

Transmitted herewith is the financial and compliance audit of the Tennessee Board of Regents, Northeast State Community College, for the years ended June 30, 2011, and June 30, 2010. You will note from the independent auditor's report that unqualified opinions were given on the fairness of the presentation of the financial statements.

Consideration of internal control over financial reporting and tests of compliance disclosed 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
12/056

State of Tennessee

Audit Highlights

Comptroller of the Treasury

Division of State Audit

Financial and Compliance Audit
Northeast State Community College
For the Years Ended June 30, 2011, and June 30, 2010

AUDIT OBJECTIVES

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

INTERNAL CONTROL FINDING

The College Needs to Improve Financial Statement Preparation and Review Procedures to Prevent Errors in Its Financial Statements

Northeast State Community College's procedures for financial statement preparation should be improved to ensure the completeness, accuracy, and proper classification of the information presented in its financial statements. This deficiency resulted in several significant reporting errors (page 9).

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

OPINIONS ON THE FINANCIAL STATEMENTS

The opinions on the financial statements are unqualified.

Audit Report
Tennessee Board of Regents
Northeast State Community College
For the Years Ended June 30, 2011, and June 30, 2010

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

INTRODUCTION

POST-AUDIT AUTHORITY

This is a report on the financial and compliance audit of the Tennessee Board of Regents, Northeast 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

In March 1963, the General Assembly passed House Bill 633 authorizing the establishment of a statewide system of area vocational-technical schools and regional technical schools. Tri-Cities State Area Vocational School began operations in 1966 and became a technical institute on July 1, 1978.

Until July 1, 1983, Tri-Cities State Technical Institute operated under the Tennessee State Board of Vocational Education through the Tennessee Department of Education, Division of Vocational-Technical Education. At that time, the 93rd General Assembly transferred the governance of Tri-Cities State Technical Institute to the State Board of Regents.

Effective July 1, 1990, the General Assembly granted community college status to Tri-Cities State Technical Institute and changed its name to Northeast State Technical Community College. In June 2009, the General Assembly changed the name of the college to Northeast State Community College. As a comprehensive community college, Northeast State provides university parallel programs designed for students desiring to transfer to another college or university, career programs for students planning to enter the workforce immediately upon graduation, and continuing education and community service programs for professional growth and personal enrichment. These two-year programs lead to an associate of art, associate of science, or associate of applied science degree.

ORGANIZATION

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

AUDIT SCOPE

The audit was limited to the period July 1, 2009, through June 30, 2011, and was conducted in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in generally accepted government auditing standards. Financial statements are presented for the years ended June 30, 2011, and June 30, 2010. Northeast State Community College is an institution of the Tennessee Board of Regents, which is an integral part of state government. As such, the Tennessee Board of Regents has been included as a component unit in the *Tennessee Comprehensive Annual Financial Report*.

OBJECTIVES OF THE AUDIT

The objectives of the audit were

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

PRIOR AUDIT FINDINGS

There were no findings in the prior audit report.

OBSERVATIONS AND COMMENTS

MANAGEMENT'S RESPONSIBILITY FOR RISK ASSESSMENT

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

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

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

FRAUD CONSIDERATIONS

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

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

TECHNOLOGY CENTER

Northeast State Community College serves as the lead institution under an agreement with the Tennessee Technology Center at Elizabethton. Under this agreement, Northeast 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, 2011, and June 30, 2010, we considered internal control over financial reporting as a basis for designing auditing procedures for the purpose of expressing opinions on the financial statements, as required by auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in generally accepted government auditing

standards. Consideration of internal control over financial reporting disclosed a material weakness.

Compliance and Other Matters

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

Fairness of Financial Statement Presentation

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



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

September 7, 2012

The Honorable Bill Haslam, Governor
and

Members of the General Assembly
State Capitol
Nashville, Tennessee 37243

and

The Honorable John G. Morgan, Chancellor
Tennessee Board of Regents
1415 Murfreesboro Road, Suite 340
Nashville, Tennessee 37217

and

Dr. Janice H. Gilliam, President
Northeast State Community College
P. O. Box 246
Blountville, Tennessee 37617

Ladies and Gentlemen:

We have audited the financial statements of Northeast State Community College, an institution of the Tennessee Board of Regents, which is a component unit of the State of Tennessee, and its discretely presented component unit as of and for the years ended June 30, 2011, and June 30, 2010, and have issued our report thereon dated September 7, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in generally accepted government auditing standards.

Internal Control Over Financial Reporting

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

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

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

- The college needs to improve financial statement preparation and review procedures to prevent errors in its financial statements.

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

Compliance and Other Matters

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

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

September 7, 2012
Page Three

Northeast 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,

A handwritten signature in black ink that reads "Arthur A. Hayes, Jr." The signature is written in a cursive style with a large initial 'A' and a distinct 'Jr.' at the end.

Arthur A. Hayes, Jr., CPA
Director

AAH/sds

FINDING AND RECOMMENDATION

The college needs to improve financial statement preparation and review procedures to prevent errors in its financial statements

Finding

Northeast State Community College's procedures for financial statement preparation should be improved to ensure the completeness, accuracy, and proper classification of information presented in its financial statements. The Business Manager prepares the college's financial statements with assistance from other staff members. The statements are reviewed by the college's Assistant Vice President for Business Affairs as well as the Vice President for Business Affairs. This weakness resulted in the following significant reporting errors:

- In Note 2 in the college's 2011 *Financial Report*, \$1,192,224.56 of Tennessee Technology Center at Elizabethton cash held by the college was not reported in the note. Amounts in bank accounts were understated by \$800,547.30, and Local Government Investment Pool deposits were understated by \$391,677.26. In Note 3, Local Government Investment Pool deposits were also similarly understated. The audited note was corrected.
- On the college's statement of net assets at June 30, 2010, \$419,978.30 of Tennessee Technology Center at Elizabethton cash held by the college was not reported. The \$419,978.30 consisted of \$30,826.30 in bank accounts and \$389,152.00 in Local Government Investment Pool deposits. These amounts were also omitted from the notes to the financial statements. The audited statement and notes were corrected.
- On the college's statement of net assets at June 30, 2011, \$872,697.27 of cash was incorrectly classified as current instead of noncurrent. This cash was designated for construction projects and should have been considered noncurrent cash. *Accounting Research Bulletin* 43, chapter 3A, paragraph 6, states in part that "this concept of the nature of current assets contemplates the exclusion from that classification of such resources as: (a) cash and claims to cash which are restricted as to withdrawal or use for other than current operations, are designated for expenditure in the acquisition or construction of noncurrent assets or are segregated for the liquidation of long-term debts. . . ." The audited statement was corrected.
- On the college's statement of net assets at June 30, 2010, \$2,277,000.00 of cash designated for construction projects was incorrectly classified as current instead of noncurrent. According to the Business Manager at that time, the \$2,277,000.00 was initially classified in the reporting module, used to generate the school's financial statements, as current cash. He then keyed in a journal voucher in the Banner accounting system that correctly classified the \$2,277,000.00 as noncurrent cash.

After the journal voucher was keyed in, he failed to make a reclassification entry in the reporting module to move the \$2,277,000.00 into noncurrent cash on the statement of net assets. The audited statement was corrected.

- On the college's 2010 statement of revenues, expenses, and changes in net assets, state grants received from the college's component unit totaling \$211,457.82 were shown parenthetically under nonoperating grants and contracts instead of under operating governmental grants and contracts. According to the Assistant Vice President for Business Affairs, the template provided by the Tennessee Board of Regents did not allow changes to this line item, and this change was not made on the final copy as exhibited in the college's 2010 *Financial Report*.
- In Note 13 in the college's 2011 *Financial Report*, management overstated the dollar amount of unused sick leave by \$27,000,000.00. The amount reported as sick leave on the Sick Leave Report was \$3,897,764.25. The amount reported as sick leave in Note 13 was \$30,897,764.25. This was a typographical error. The audited note was corrected.
- In Note 7 in the college's 2011 and 2010 *Financial Reports*, management reported incorrect interest amounts on the schedule of debt service requirements for each period. For the year ended June 30, 2011, total interest was understated by \$7,297.15. For the year ended June 30, 2010, total interest was understated by \$3,848.95. The audited note was corrected.
- In Note 12 in the college's 2011 *Financial Report*, management understated the scheduled insurance coverage amount for building contents by \$900,000. The amount listed in the note is \$31,270,900, while the correct amount is \$32,170,900. According to the current Business Manager, she must have transposed a number when calculating the total. The audited note was corrected.

The reporting errors described above were oversights by the Business Manager and assisting staff. In addition, the review process was not thorough enough to detect these errors. A reorganization occurred during the audit period with a new Business Manager being hired in October 2010 and the Budget Director being promoted to Assistant Vice President for Business Affairs in June 2010. Several other staffing changes also occurred.

These reporting errors resulted in significant misstatements in the college's unaudited financial statements. With an improved preparation and review process, the college's fiscal staff could have detected and corrected these errors before the financial statements were completed.

Recommendation

Cash held by the college for the Tennessee Technology Center at Elizabethton should be properly included in the college's financial statements and notes. Cash should be correctly reported in the current and noncurrent categories. The Vice President for Business Affairs and the Assistant Vice President for Business Affairs should ensure that the Business Manager and any assisting fiscal staff have adequate knowledge of reporting requirements to perform their responsibilities, and that they perform their duties with appropriate care and attention. The review process should be thorough enough to detect misstatements such as the ones described above.

Management's Comment

We concur with the finding.

In June 2010, Northeast State Community College began a reorganization of the college's organizational structure within the business affairs division that included hiring two additional positions to better manage workloads. Staffs were working many extra hours, which could potentially lead to errors. During the reorganization implementation, a Business Manager was hired in October 2010, along with other staff reassignments. For the two years included in this audit period, a different staff member prepared the financial statements for each. These changes in staff, along with the other employee reassignments, resulted in reporting errors.

These specific strategies were implemented in May 2012, to improve accuracy in financial statement preparation and review procedures:

- All staff responsible for development of the financial statements attended the year-end training sessions provided by the Tennessee Board of Regents.
- The Business Manager and the Assistant Vice President for Business Affairs have implemented development and review procedures provided at this training, as well as other processes to detect misstatements in current and future reporting periods.
- ARGOS Enterprise Reporting Solution has been implemented and will replace manual processes with automated reporting directly from the Banner Finance data.
 - Many of the errors noted were due to manual changes between Excel and Word formats to address varying reporting formats required.
 - ARGOS will be used to eliminate the potential for errors and report in various required formats.

- Paperless workflow has been implemented, including Banner Document Imaging Solutions (BDMS), as well as desktop scanners, and will provide backup documents to the financial statement reviewer to reduce time and increase accuracy during the verification process.



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Independent Auditor's Report

September 7, 2012

The Honorable Bill Haslam, Governor
and
Members of the General Assembly
State Capitol
Nashville, Tennessee 37243

and
The Honorable John G. Morgan, Chancellor
Tennessee Board of Regents
1415 Murfreesboro Road, Suite 340
Nashville, Tennessee 37217

and
Dr. Janice H. Gilliam, President
Northeast State Community College
P. O. Box 246
Blountville, Tennessee 37617

Ladies and Gentlemen:

We have audited the accompanying basic financial statements of Northeast State Community College, an institution of the Tennessee Board of Regents, which is a component unit of the State of Tennessee, and its discretely presented component unit as of and for the years ended June 30, 2011, and June 30, 2010, as listed in the table of contents. These financial statements are the responsibility of the college's management. Our responsibility is to express opinions on these financial statements, based on our audit.

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

As discussed in Note 1, the financial statements of Northeast 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 Northeast State Community College. They do not purport to, and do not, present fairly the financial position of the Tennessee Board of Regents, as of June 30, 2011, and June 30, 2010, and the changes in its financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of Northeast State Community College, and its discretely presented component unit as of June 30, 2011, and June 30, 2010, and the respective changes in financial position and cash flows thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis on pages 16 through 42 and the schedule of funding progress on page 73 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the basic financial statements. The accompanying financial information on page 74 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.

September 7, 2012

Page Three

In accordance with generally accepted government auditing standards, we have also issued our report dated September 7, 2012, on our consideration of the college's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with generally accepted government auditing standards and should be considered in assessing the results of our audit.

Sincerely,

A handwritten signature in black ink, appearing to read "Arthur A. Hayes, Jr." with a stylized flourish at the end.

Arthur A. Hayes, Jr., CPA
Director

AAH/sds

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

This section of Northeast State Community College's financial report presents a discussion and analysis of the financial performance of the college during the fiscal years ended June 30, 2011, and June 30, 2010, with comparative information presented for the fiscal year ended June 30, 2009. This discussion has been prepared by management along with the financial statements and related note disclosures and should be read in conjunction with the independent auditor's report, the audited financial statements, and the accompanying notes. The financial statements, notes, and this discussion are the responsibility of management.

The college has one discretely presented component unit, the Northeast State Community College Foundation. More detailed information about the college's component unit is presented in Note 17 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 Northeast 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. Only the foundation has nonexpendable restricted net assets, which are available only for investment purposes. Expendable restricted net assets are available for expenditure by the college but must be spent for purposes as determined by donors and/or external entities that have placed time or purpose restrictions on the use of the assets. The final category is unrestricted net assets. Unrestricted net assets are available to the institution for any lawful purpose of the institution.

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

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

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Assets:			
Current assets	\$13,446	\$10,757	\$8,549
Capital assets, net	38,553	37,831	38,107
Other assets	13,329	13,320	11,349
Total assets	65,328	61,908	58,005
Liabilities:			
Current liabilities	4,779	5,590	4,802
Noncurrent liabilities	2,699	2,353	2,008
Total liabilities	7,478	7,943	6,810
Net assets:			
Invested in capital assets, net of related debt	38,204	37,455	37,544
Restricted – expendable	69	95	48
Unrestricted	19,577	16,415	13,603
Total net assets	\$57,850	\$53,965	\$51,195

Comparison of fiscal year 2011 to fiscal year 2010

- The college's ratio of current assets to current liabilities is 2.81:1 at June 30, 2011, as compared to a current ratio of 1.92:1 at June 30, 2010. The liquidity ratio increased due to an enrollment increase of over 8% and a tuition increase of 5% in fiscal year 2011.
- The college's cash increased \$3.8 million in fiscal year 2011, as compared to 2010, primarily due to an increase of \$3.2 million in unrestricted net assets, due to increasing tuition and fees and state appropriations. (The college intended to accumulate funds to provide funding to develop new off-campus sites.)

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

- Current assets - due from primary government decreased by \$355,000 in fiscal year 2011, as compared to fiscal year 2010, because of the American Recovery and Reinvestment Act of 2009 (ARRA) State Fiscal Stabilization amount due from the state at June 30, 2010.
- The college's current liabilities increased \$147,000 in accounts payable in fiscal year 2011, as compared to fiscal year 2010, due to final year end purchases of instructional equipment of \$90,000 and student promotional purchases of \$55,000.
- Deposits held in custody for others (also a current liability) decreased \$209,000 in fiscal year 2011, as compared to fiscal year 2010, due to a decrease in funds held for the Tennessee Technology Center at Elizabethton.
- Other liabilities (also a current liability) decreased \$795,000 in fiscal year 2011, as compared to fiscal year 2010, due to a negative bank balance that was recorded as a liability at June 30, 2010.
- Total noncurrent liabilities increased by \$346,000 in fiscal year 2011, as compared to fiscal year 2010, which primarily represents an increase in the college's net other post-employment benefit (OPEB) obligation. The annual OPEB cost exceeded amounts contributed by \$188,000, as OPEB costs are financed on a pay-as-you-go basis. Noncurrent deferred revenue also increased \$94,000. This represented unearned grantor revenue.
- Noncurrent compensated absences also increased by \$92,000 in fiscal year 2011, as compared to fiscal year 2010, due to a low employee turnover rate and accumulated employee leave.
- The college's unrestricted net assets at June 30, 2011, increased by \$3.2 million over fiscal year 2010. This is due to increases in tuition and fee revenues and state appropriations. (The college intended to accumulate funds to provide funding to develop new off-campus sites.)

Comparison of fiscal year 2010 to fiscal year 2009

- The college's ratio of current assets to current liabilities is 1.92:1 at June 30, 2010, compared to a current ratio of 1.78:1 at June 30, 2009. The liquidity ratio increased due to an enrollment increase of 14% and a tuition increase of 5%.

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

- The college's cash increased \$1.8 million in fiscal year 2010, as compared to 2009. This was due to an increase in deferred revenue and deposits held for others along with a continuation of revenues available for operations exceeding operating expenses.
- The accounts receivable increased \$1.3 million in fiscal year 2010 over 2009 due to a \$1.1 million increase due to the timing of the draws from the U.S. Department of Education and a \$168,000 increase in student receivables. This increase in student receivables was due to enrollment increases and a tuition rate increase.
- Current assets - due from primary government increased by \$355,000 because of the ARRA State Fiscal Stabilization amount due from the state at June 30, 2010.
- Current liabilities increased, partially due to a \$302,000 increase of accounts payable in fiscal year 2010 over fiscal year 2009, due to Sungard invoices outstanding at June 30, 2010.
- Amounts due to the primary government decreased \$661,000 in fiscal year 2010, as compared to fiscal year 2009, because of the advance received from the state for ARRA State Fiscal Stabilization Funds in fiscal year 2009.
- Deferred revenue increased \$265,000 in fiscal year 2010, as compared to fiscal year 2009, due to the increase in tuition rate and increase in enrollment.
- Other liabilities (also a current liability) increased \$795,000 in fiscal year 2010, as compared to fiscal year 2009, due to a negative bank balance that was recorded as a liability at June 30, 2010.
- The current portion of long-term liabilities decreased by \$159,000 in fiscal year 2010, as compared to fiscal year 2009, due to the final debt payment on the Banner software system in fiscal year 2010.
- Total noncurrent liabilities increased in fiscal year 2010, as compared to fiscal year 2009, which primarily represents an increase in the OPEB obligation of \$323,000. The annual OPEB cost exceeded amounts contributed by \$323,000, as OPEB costs are financed on a pay-as-you-go basis.
- The college's unrestricted net assets at June 30, 2010, increased by \$2.8 million over June 30, 2009. This is due to an increase in grants and contracts and a continuation of revenues available for operations exceeding operating expenses.

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

**Component Unit
Northeast State Community College Foundation
Condensed Statements of Net Assets
(in thousands of dollars)**

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Assets:			
Current assets	\$5,367	\$5,755	\$4,871
Capital assets, net	2,844	2,910	394
Other assets	3,498	3,463	2,332
Total assets	11,709	12,128	7,597
Liabilities:			
Current liabilities	1,006	2,368	1,729
Total liabilities	1,006	2,368	1,729
Net assets:			
Invested in capital assets	2,844	2,910	394
Restricted – nonexpendable	3,498	3,463	2,332
Restricted – expendable	3,917	2,991	2,559
Unrestricted	444	396	583
Total net assets	\$10,703	\$9,760	\$5,868

Comparison of fiscal year 2011 to fiscal year 2010

- The Northeast State Community College Foundation's current cash decreased by \$1.9 million in fiscal year 2011, as compared to fiscal year 2010. This was primarily due to a decrease in deferred revenue of \$1,080,000 for the Tennessee Department of Economic and Community Development Eastman Partnership grant. Also, an additional \$720,000 in investment purchases were made in fiscal year 2011.
- The foundation's short-term investments (also current assets) increased \$1.5 million in fiscal year 2011, as compared to fiscal year 2010, due to additional investment purchases of \$720,000 and realized and unrealized earnings reinvested to the short term investments of \$930,000.

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

- Accounts and grants receivable (also current assets) increased by \$26,000 in fiscal year 2011, as compared to fiscal year 2010, due to an outstanding amount due for student scholarships from the Sullivan County Educate and Grow program.
- Current pledges receivable decreased by \$8,000 in fiscal year 2011, as compared to fiscal year 2010, due to a decrease in donor pledges. The foundation office experienced a temporary shortage of fundraising staff in fiscal year 2011.
- The foundation's accounts payable balance (a current liability) increased \$363,000 in fiscal year 2011, as compared to fiscal year 2010, due partially to final payments for the Tennessee Department of Economic and Community Development Eastman Partnership grant close-out at June 30, 2011.
- Amounts due to the college at June 30, 2011, a current liability, decreased primarily because \$465,000 of indirect cost recoveries were due to the school at June 30, 2010.
- The foundation's deferred revenue (a current liability) decreased by \$1,080,000 in fiscal year 2011, as compared to fiscal year 2010, due to a grant advance in 2010 for the Tennessee Department of Economic and Community Development Eastman Partnership grant ending on June 30, 2011.
- Restricted expendable net assets held for scholarships increased \$871,000 in fiscal year 2011, as compared to fiscal year 2010, primarily because of an increase in unrealized gains in the investment values of \$818,000.
- The foundation's restricted expendable net assets held for instructional department use increased by \$62,000 in fiscal year 2011, as compared to fiscal year 2010, due to earnings of \$58,000 earned on a grant advance of the Tennessee Department of Economic and Community Development Eastman Partnership grant to be used for instructional purposes.

Comparison of fiscal year 2010 to fiscal year 2009

- The Northeast State Community College Foundation's current cash increased by \$801,000 in fiscal year 2010, as compared to fiscal year 2009. This is primarily due to an increase of \$744,000 of gift, grants, and contracts revenues held in the Local Government Investment Pool at June 30, 2010.
- The foundation's short-term investments (also current assets) increased \$82,000.

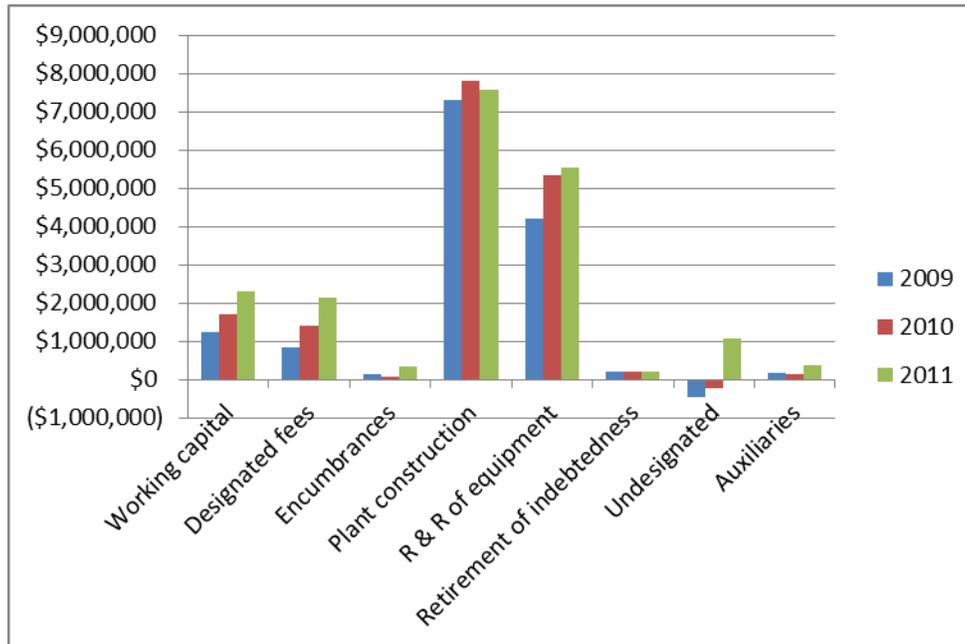
**Tennessee Board of Regents
Northeast State Community College
Management's Discussion and Analysis (Cont.)**

- Noncurrent investments (reported above as other assets) increased by \$1.1 million in fiscal year 2010, as compared to fiscal year 2009, due to additions to the Eastman Workforce Development Endowment.
- Amounts due to the college at June 30, 2010, a current liability, increased by \$719,000. This included \$465,000 of indirect cost recoveries due to the college, a \$78,000 June deposit error to the foundation's bank account that is due to the college, and an increase of \$46,000 in fiscal year 2010 scholarships due to the college.
- Nonexpendable net assets held for scholarships increased \$1.1 million in fiscal year 2010, as compared to fiscal year 2009, because of the increased additions to the Eastman Workforce Development Endowment.
- Restricted expendable net assets held for scholarships increased \$425,000 in fiscal year 2010, as compared to fiscal year 2009, primarily because of an increase in unrealized gains in the investment values of \$368,000.
- Invested in capital assets increased \$2.5 million in fiscal year 2010, as compared to fiscal year 2009, primarily due to the donation of the Regional Center for Advanced Manufacturing Building located in the Kingsport Academic Village valued at \$2.5 million.

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

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

Allocations of Unrestricted Net Assets



Comparison of fiscal year 2011 to fiscal year 2010

- Northeast State's unrestricted net assets, set aside from designated fees, increased by \$754,000 in fiscal year 2011, as compared to fiscal year 2010, due to the increase in the unspent balance of technology access fees of \$679,000 and student activity fees of \$75,000 at June 30, 2011. These funds will be used for expansion of student services on campus and at new off-campus sites.
- The allocation for encumbrances increased by \$278,000 in fiscal year 2011, as compared to fiscal year 2010, due to the number of outstanding purchases at June 30, 2011. These are made up of purchases to prepare new off-campus sites for fall classes, including a new learning support center at the Gray site and preparation of the Kingsport automotive programs. Purchases were also made for new software, including iDashboard and Degreeworks.
- The allocation for plant construction decreased \$210,000 in fiscal year 2011, as compared to fiscal year 2010, due to completion of the North Parking Lot Paving project.
- The college's renewals and replacements allocation increased \$219,000 in fiscal year 2011, as compared to fiscal year 2010, due to transfers from current fund tuition and

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

unspent salaries for positions currently funded with ARRA State Fiscal Stabilization funding.

- The college's undesignated balance increased by \$1.3 million in fiscal year 2011 due to the college carrying an unallocated fund balance increase of \$1.4 million and exceeding the 5% contingency reserve to carry into fiscal year 2012 for use in establishing off-campus sites in Johnson City and Bristol.
- The allocation for working capital increased by \$592,000 in fiscal year 2011, as compared to fiscal year 2010, primarily due to an increase in student receivables of \$624,000 caused by tuition and enrollment increases.

Comparison of fiscal year 2010 to fiscal year 2009

- The college's renewals and replacements allocation increased \$1.1 million because of an increase in tuition revenues, due to an enrollment increase of over 13% in fiscal year 2010. This amount was set aside in renewals and replacements to support replacement of instructional equipment in the new Technology Education Building scheduled for future funding on the state capital projects list.
- Northeast State's unrestricted net assets, set aside from designated fees, increased by \$576,000 due to the increase in the unspent balance of technology access fees and student activity fees at June 30, 2010.
- The allocation for plant construction increased by \$493,000 due to funds set aside for further construction.
- The allocation for working capital increased by \$484,000, primarily due to an increase in student receivables of \$225,000 caused by tuition and enrollment increases. Other increases in accounts receivable for fiscal year 2010, as compared to fiscal year 2009, that caused an increase in net assets allocated for working capital were the timing of scholarship payments to the college of \$140,000 and Kingsport consortium membership fees of \$50,000.

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,

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

while budgeted for operations, are considered nonoperating revenues according to accounting principles generally accepted in the United States of America.

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

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Operating revenues:			
Net tuition and fees	\$9,508	\$8,391	\$8,250
Grants and contracts	1,350	2,340	1,378
Auxiliary	246	245	152
Other	330	447	220
Total operating revenues	11,434	11,423	10,000
Operating expenses	42,100	38,157	32,775
Operating loss	(30,666)	(26,734)	(22,775)
Nonoperating revenues and expenses:			
State appropriations	13,387	11,645	12,718
Gifts	55	98	549
Grants and contracts	20,544	17,299	9,683
Investment income	44	61	243
Interest on capital asset - related debt	(15)	(22)	-
Other nonoperating revenues (expenses)	-	(44)	(36)
Total nonoperating revenues and expenses	34,015	29,037	23,157
Income before other revenues, expenses, gains, or losses	3,349	2,303	382
Other revenues, expenses, gains, or losses:			
Capital appropriations	34	30	308
Capital grants and gifts	502	222	92
Total other revenues, expenses, gains, or losses	536	252	400
Increase in net assets	3,885	2,555	782
Net assets at beginning of year	53,965	51,195	50,413

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

Prior-period adjustment	-	215	-
Net assets at end of year	\$57,850	\$53,965	\$51,195

**Component Unit
Northeast State Community College Foundation
Condensed Statements of Revenues, Expenses, and Changes in Net Assets
(in thousands of dollars)**

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Operating revenues:			
Gifts and contributions	\$406	\$732	\$1,228
Endowment income per spending plan	205	121	103
Grants and contracts	1,723	2,454	1,840
Sales and services of educational departments	3	3	6
Total operating revenues	2,337	3,310	3,177
Operating expenses	2,765	2,437	2,734
Operating income (loss)	(428)	873	443
Nonoperating revenues and expenses:			
Investment income	850	398	(751)
Total nonoperating revenues and expenses	850	398	(751)
Income (loss) before other revenues, expenses, gains, or losses	422	1,271	(308)
Other revenues, expenses, gains, or losses:			
Capital grants and gifts	502	2,805	92
Additions to permanent endowments	27	31	454
Other	(8)	-	-
Total other revenues, expenses, gains, or losses	521	2,836	546
Increase in net assets	943	4,107	238
Net assets at beginning of year	9,760	5,868	5,630

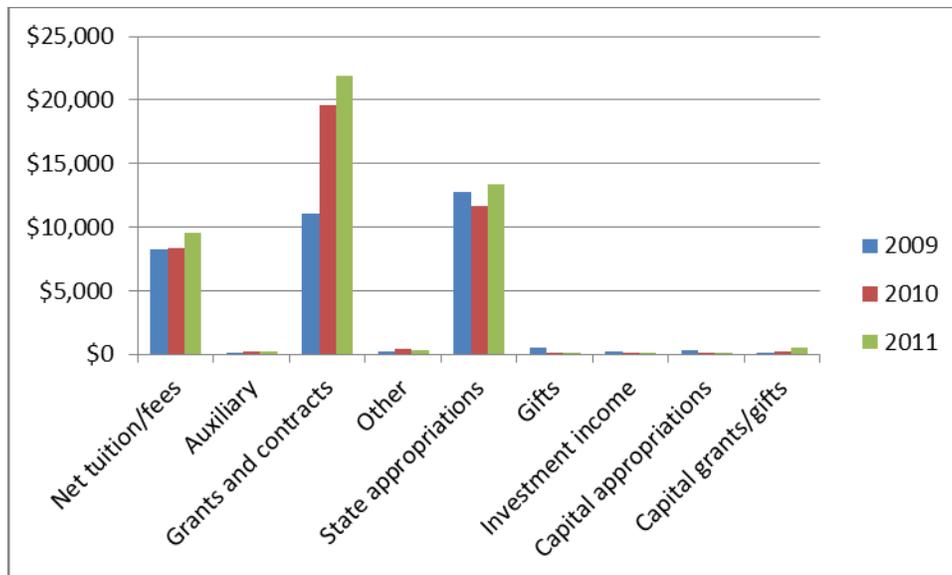
**Tennessee Board of Regents
Northeast State Community College
Management's Discussion and Analysis (Cont.)**

Prior-period adjustment	-	(215)	-
Net assets at end of year	\$10,703	\$9,760	\$5,868

Revenues

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

**Northeast State Community College
Revenues by Source**



Comparison of fiscal year 2011 to fiscal year 2010

- Northeast State's tuition and fees increased by \$1.1 million in fiscal year 2011, as compared to fiscal year 2010, due to an increase in enrollment of over 8% and a 5% tuition rate increase. There was a related increase in scholarship discounts and allowances reducing the net tuition and fees.
- Operating grants and contracts decreased by \$990,000 in fiscal year 2011, as compared to fiscal year 2010. Of this decrease, \$709,000 is represented by the decrease in the Regional Center for Advanced Manufacturing Community-based Job Training Grant in

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

fiscal year 2011. Most of this three-year award was spent in the first two years (fiscal years 2009 and 2010) purchasing the start-up equipment for the Regional Center for Advanced Manufacturing at the Kingsport Academic Village.

- Other operating revenues decreased by \$117,000 in fiscal year 2011, as compared to fiscal year 2010. One member of the Kingsport Center for Higher Education Consortium dropped their membership in fiscal year 2011 for a loss of \$50,000 in revenues; revenue for use of facilities decreased by \$50,000 due to a reduction in leased space to external agencies; and GED testing was reduced for a reduction of \$19,000 in revenue.
- The college's state appropriations increased by \$1.7 million in fiscal year 2011, as compared to fiscal year 2010, due to the state providing one-time appropriations in lieu of ARRA State Fiscal Stabilization Funds.
- Nonoperating grants and contracts increased by \$3.2 million in fiscal year 2011, as compared to fiscal year 2010. This was primarily due to an increase of \$2.8 million in Federal Pell Grant awards, which was primarily the result of an 8% increase in enrollment. Additionally, there was an increase of \$235,000 in ARRA State Fiscal Stabilization expenses in fiscal year 2011.
- Nonoperating gift revenues decreased \$43,000 due to a decrease in in-kind gifts to the college from donors.
- Nonoperating investment income decreased by \$17,000 in fiscal year 2011, as compared to fiscal year 2010, due to the reduction in the interest rate paid on funds held in the Local Government Investment Pool.
- Capital grants and gifts increased \$280,000 in fiscal year 2011 over fiscal year 2010. This was primarily due to an increase in capital grant purchases from the Tennessee Department of Economic and Community Development Eastman Partnership grant.

Comparison of fiscal year 2010 to fiscal year 2009

- Tuition and fees increased \$141,000 in fiscal year 2010, as compared to fiscal year 2009, due to an increase in enrollment of over 13% and an approximately 5% tuition rate increase. The scholarship discounts and allowances calculation for fiscal year 2010 includes approximately an 88% increase in the total Federal Pell Grant expenses in fiscal year 2010, as compared to fiscal year 2009. This increase is due to an increase of approximately 48% in the number of students eligible for the Federal Pell Grant program due to changes in recipient eligibility, an approximately 13% award increase per student,

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

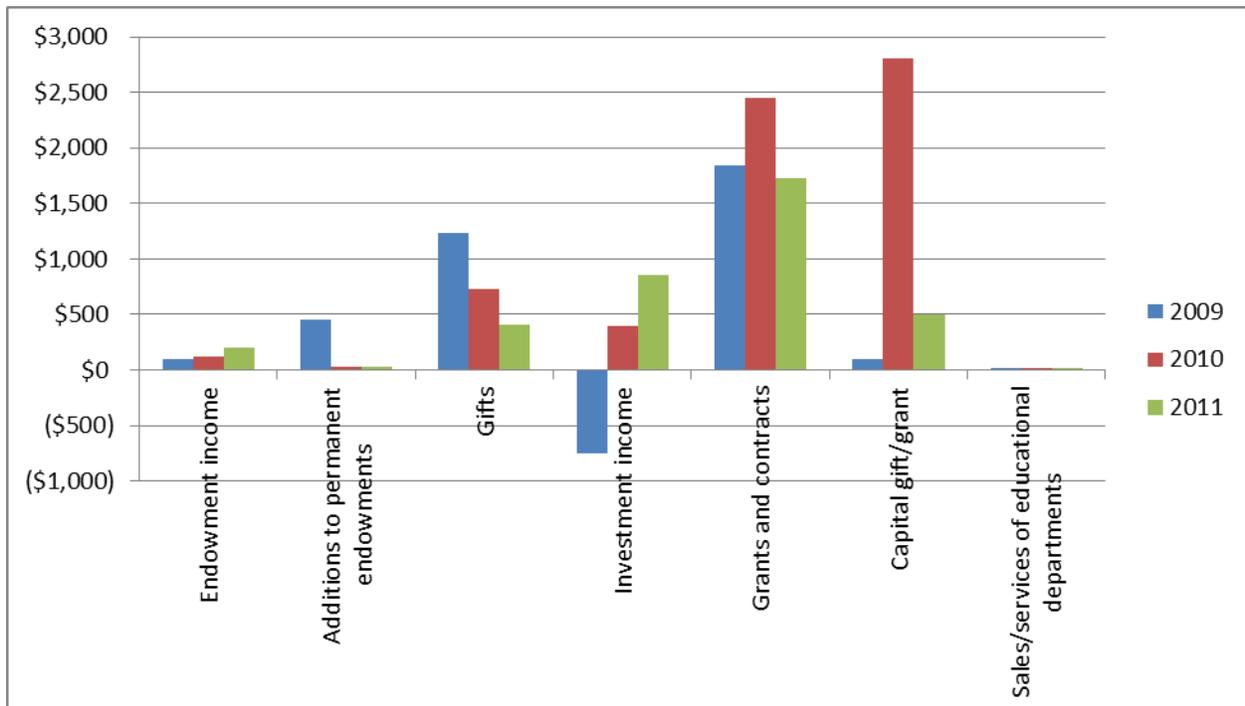
and the increase in enrollment. These changes in the Federal Pell Grant caused a disproportionate increase in the scholarship discounts and allowances for fiscal year 2010.

- Operating grants and contracts increased by \$962,000 in fiscal year 2010, compared to fiscal year 2009. The majority of this increase is represented by the increase in the Regional Center for Advanced Manufacturing Community-based Job Training Grant in fiscal year 2010.
- Other operating revenues increased by \$227,000 in fiscal year 2010, as compared to fiscal year 2009. This was primarily due to the new Kingsport Center for Higher Education Consortium membership revenues of \$200,000 that began in fiscal year 2010.
- State appropriations in nonoperating revenues decreased by \$1.1 million in fiscal year 2010, as compared to fiscal year 2009, due to reductions in state funding.
- Nonoperating grants and contracts increased by \$7.6 million in fiscal year 2010, as compared to fiscal year 2009. This was primarily due to the 48% increase in Federal Pell Grant recipients and 13% increase in the Federal Pell Grant award at an approximate increase in expenses of \$6.2 million. The nonoperating grants and contracts increased an additional \$1 million in fiscal year 2010, as compared to fiscal year 2009, for ARRA State Fiscal Stabilization Funds.
- Nonoperating investment income decreased by \$182,000 in fiscal year 2010, as compared to fiscal year 2009, due to the reduction in the interest rate paid by the Local Government Investment Pool.
- Capital appropriations decreased in fiscal year 2010 by \$278,000. Capital appropriations were received in fiscal year 2009 for the Faculty Building update that included foundation stabilization and the renovation of office spaces into two instructional labs.
- Capital grants and gifts increased by \$130,000 in fiscal year 2010 over fiscal year 2009. This was primarily due to an increase in in-kind gifts of equipment to the college.

The following graphic illustration of foundation revenues by source is also presented in thousands of dollars.

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

**Northeast State Community College Foundation
 Revenues by Source**



Comparison of fiscal year 2011 to fiscal year 2010

- The Northeast State Community College Foundation's operating gifts and contributions decreased \$326,000 in fiscal year 2011, as compared to fiscal year 2010. This was due to reductions in scholarship support for students due to student eligibility for other financial aid resources.
- The foundation's endowment income increased \$84,000 in fiscal year 2011, as compared to fiscal year 2010, due to improvements in the rate of return on investments and some restructuring of investment strategies for an increase in earnings of \$19,000. Additionally, there was an increase in rental income of \$72,800.
- The foundation's government grants and contracts decreased \$731,000 in fiscal year 2011, as compared to fiscal year 2010, primarily due to a \$1 million endowment funded with the Tennessee Department of Economic and Community Development Eastman Partnership grant in fiscal year 2010 that was not funded in fiscal year 2011.

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

- The foundation's investment income increased by \$452,000 in fiscal year 2011, as compared to fiscal year 2010, primarily due to restructuring of the investment portfolio and to improvements in the rate of return, which caused an increase in unrealized gains of \$450,000 in fiscal year 2011.
- Capital grants and gifts decreased \$2.3 million in fiscal year 2011, as compared to fiscal year 2010, primarily due to the donation of the Regional Center for Advanced Manufacturing Building of \$2.5 million in fiscal year 2010.

Comparison of fiscal year 2010 to fiscal year 2009

- The Northeast State Community College Foundation's operating gifts and contributions decreased \$496,000 in fiscal year 2010, as compared to fiscal year 2009. There were decreases in gifts from third party scholarships reclassified to the college of \$249,000 in fiscal year 2010. Other variances were a decrease of \$35,000 due to the one-time establishment of a non-charitable gift account in fiscal year 2009, a decrease of \$52,000 due to a final year capital campaign for the Center for Performing Arts seat sponsorship campaign, a decrease of \$56,000 in miscellaneous third party scholarships, and a decrease in the in-kind gifts of \$30,000.
- The foundation's government grants and contracts increased \$614,000 in fiscal year 2010, as compared to fiscal year 2009, primarily due to an increase in year 2 funding of the Tennessee Department of Economic and Community Development Eastman Partnership grant.
- The foundation's investment income increased \$1.1 million due to an increase in unrealized gains.
- Capital grants and gifts increased \$2.7 million in fiscal year 2010, as compared to fiscal year 2009, primarily due to the donation of the Regional Center for Advanced Manufacturing Building of \$2.5 million in fiscal year 2010.
- Additions to permanent endowments decreased \$423,000 in fiscal year 2010, as compared to fiscal year 2009, primarily due to a one-time gift of \$400,000 to the foundation in fiscal year 2009 to purchase the Regional Center for Automotive Programs Building.

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

Expenses

Operating expenses can be displayed in two formats, natural classification and program classification. Both formats are displayed below.

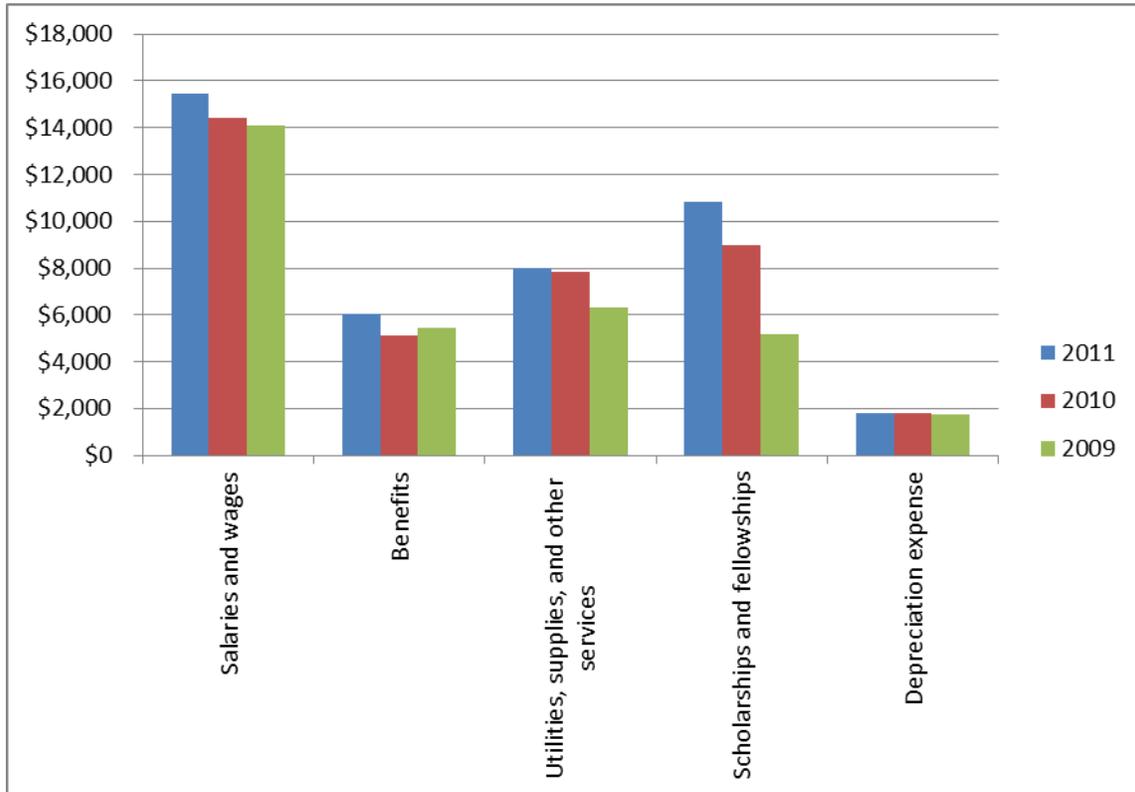
**Northeast State Community College
 Natural Classification
 (in thousands of dollars)**

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Salaries and wages	\$15,432	\$14,419	\$14,109
Benefits	6,022	5,123	5,433
Utilities, supplies, and other services	8,012	7,856	6,317
Scholarships and fellowships	10,819	8,968	5,183
Depreciation expense	1,815	1,791	1,733
Total	<u>\$42,100</u>	<u>\$38,157</u>	<u>\$32,775</u>

The following graphic illustration is also presented in thousands of dollars.

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

Operating Expenses by Natural Classification



Comparison of fiscal year 2011 to fiscal year 2010

- Northeast State's salaries and wages increased \$1 million (a 7% increase) in fiscal year 2011, as compared to fiscal year 2010, due to an addition of positions to support the increase in enrollment.
- Benefits expense increased \$899,000 (a 17.5% increase) in fiscal year 2011, as compared to fiscal year 2010, due to added positions, increases in insurance premiums, and the state insurance premium holiday in fiscal year 2010.
- Scholarships and fellowships increased \$1.9 million in fiscal year 2011, as compared to fiscal year 2010, due to the increase in Federal Pell Grant recipients in fiscal year 2011 due to the increase in enrollment of over 8% in fiscal year 2011.

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

Comparison of fiscal year 2010 to fiscal year 2009

- There was no material change in salaries, wages, and benefits in fiscal year 2010, as compared to fiscal year 2009. However, salaries increased \$310,000 in fiscal year 2010, primarily as a result of positions added using ARRA State Fiscal Stabilization Funds. Benefits expenses decreased in fiscal year 2010, as compared to fiscal year 2009, due to the state insurance premium holiday.
- Utilities, supplies, and other services increased by \$1.5 million in fiscal year 2010, as compared to fiscal year 2009. The increase resulted from a \$570,000 increase in ARRA State Fiscal Stabilization Funds and an increase of \$654,000 due to the development of off-campus sites. Additionally, there was an increase of \$114,000 in expenses for the Tennessee Department of Economic and Community Development Eastman Partnership grant.
- Scholarships and fellowships increased by \$3.8 million in fiscal year 2010, as compared to fiscal year 2009. This increase was primarily due to a 48% increase in the number of Federal Pell Grant recipients in fiscal year 2010 and a 13% increase in the award amount per recipient for a total increase of \$6.2 million. This amount was reduced by a \$2.3 million increase in the scholarship discounts and allowances in fiscal year 2010.

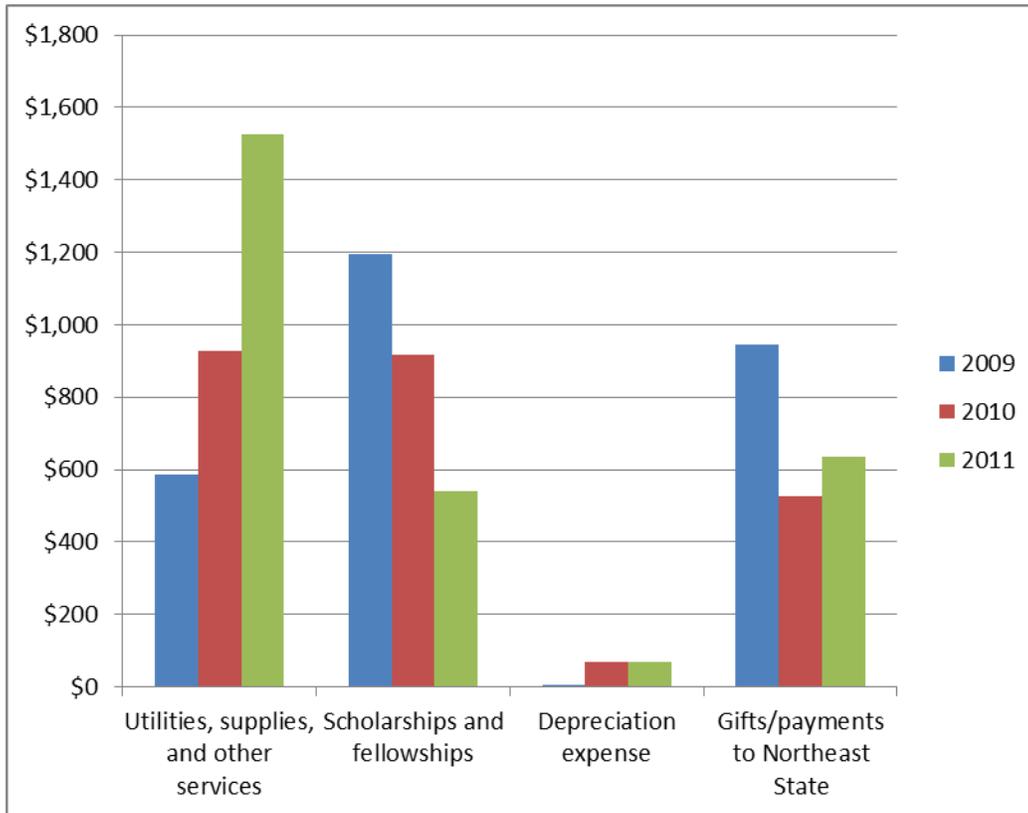
**Component Unit
Northeast State Community College Foundation
Natural Classification
(in thousands of dollars)**

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Utilities, supplies, and other services	\$1,525	\$927	\$587
Scholarships and fellowships	539	916	1,195
Depreciation expense	67	67	6
Gifts of capital assets and payments to or on behalf of Northeast State	634	527	946
Total	\$2,765	\$2,437	\$2,734

The following graphic illustration is also presented in thousands of dollars.

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

Operating Expenses by Natural Classification



Comparison of fiscal year 2011 to fiscal year 2010

- The foundation's utilities, supplies, and other services increased \$598,000 in fiscal year 2011, as compared to fiscal year 2010, due primarily to an increase in professional services expense of \$633,000. These expenses provided for curriculum development of an instructional program.
- The foundation's scholarship expense decreased by \$377,000 in fiscal year 2011, as compared to fiscal year 2010, due to decreases in scholarship awards of \$104,000 for the Workforce Development Scholarship program; \$117,000 for other general third-party scholarships; \$105,000 for nursing scholarships from the Wellmont Endowed Scholarship; and \$46,000 for the Sullivan County Educate and Grow program.
- The foundation's gifts of capital assets and payments to the college increased by \$107,000 in fiscal year 2011, as compared to fiscal year 2010, primarily due to an

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

increase of \$82,000 in grant subawards to the college from the foundation's Tennessee Department of Economic and Community Development Eastman Partnership grant.

Comparison of fiscal year 2010 to fiscal year 2009

- The foundation's utilities, supplies, and other services expense increased \$340,000 in fiscal year 2010, as compared to fiscal year 2009, primarily due to the increased funding in year 2 of the Tennessee Department of Economic and Community Development Eastman Partnership grant.
- Scholarships and fellowships decreased \$279,000, primarily because of the third party scholarship awards reclassified to the college in fiscal year 2010.
- The Northeast State Community College Foundation payments to or on behalf of Northeast State Community College decreased by \$419,000 in fiscal year 2010, as compared to fiscal year 2009, due to a \$364,000 decrease in Tennessee Department of Economic and Community Development Eastman Partnership grant funds paid to or on behalf of the college in fiscal year 2010. Additionally, there was a decrease of in-kind donations of \$55,000 to the college in fiscal year 2010.

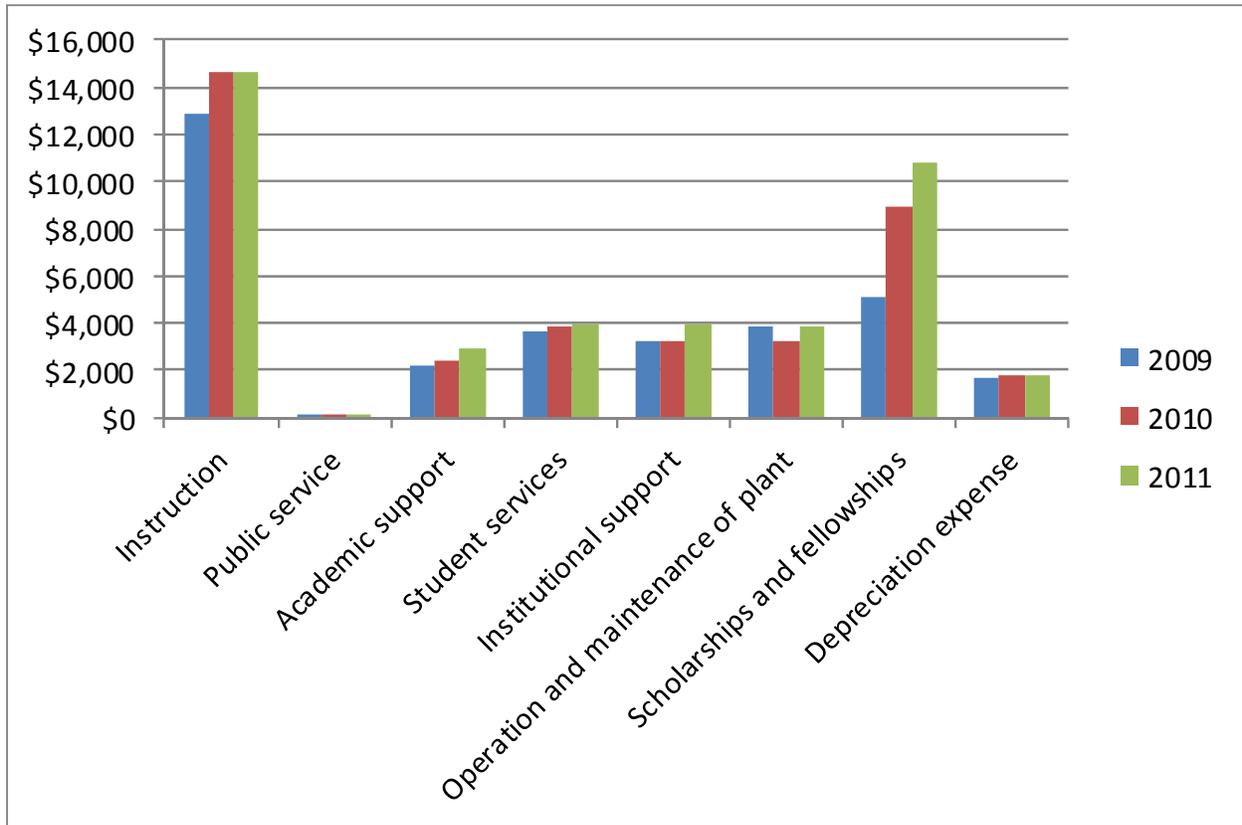
**Northeast State Community College
Program Classification
(in thousands of dollars)**

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Instruction	\$14,638	\$14,631	\$12,886
Public service	28	8	26
Academic support	2,939	2,394	2,252
Student services	3,960	3,825	3,608
Institutional support	3,996	3,278	3,277
Operation and maintenance of plant	3,905	3,262	3,852
Scholarships and fellowships	10,819	8,968	5,141
Depreciation expense	1,815	1,791	1,733
Total	\$42,100	\$38,157	\$32,775

The following graphic illustration is also presented in thousands of dollars.

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

Operating Expenses by Function



Comparison of fiscal year 2011 to fiscal year 2010

- Northeast State's expenses for public service increased \$20,000 in fiscal year 2011, as compared to fiscal year 2010, due to additional events offered to the community in fiscal year 2011.
- Academic support expenses increased \$545,000 in fiscal year 2011, as compared to fiscal year 2010, due to computer and technology upgrades of equipment and software, including iDashboard and ARGOS. Also, positions were added using ARRA State Fiscal Stabilization Funds and state appropriations received in lieu of ARRA State Fiscal Stabilization Funds.
- Institutional support expenses increased \$718,000 in fiscal year 2011, as compared to fiscal year 2010, due to the addition of positions to support increased enrollment and increases in payroll benefits.

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

- Operation and maintenance expenses increased \$643,000 in fiscal year 2011, as compared to fiscal year 2010, due to the addition of positions of \$200,000, \$143,000 for additional lease costs, and an additional \$148,000 for utilities, all to support additional teaching sites and increases in enrollment.
- Scholarships and fellowships increased \$1.9 million in fiscal year 2011, as compared to fiscal year 2010, due to the increase in Federal Pell Grant recipients in fiscal year 2011 from the increase in enrollment of over 8% in fiscal year 2011.

Comparison of fiscal year 2010 to fiscal year 2009

- Northeast State's expenses for instruction increased \$1.7 million in fiscal year 2010, as compared to fiscal year 2009, primarily as a result of expenses from plant funds for completion of the Humanities Building and for the Kingsport Academic Village campus completion. Instructional expenses also increased as a result of ARRA State Fiscal Stabilization Funds.
- Operation and maintenance expenses decreased by \$590,000 primarily as a result of reclassification of plant expenses to other functional categories.
- Scholarships and fellowships increased by \$3.8 million in fiscal year 2010, as compared to fiscal year 2009. This increase was primarily due to a 48% increase in the number of Federal Pell Grant recipients in fiscal year 2010 and a 13% increase in the award amount per recipient for a total increase of \$6.2 million. This amount was reduced by a \$2.3 million increase in the scholarship discounts and allowances in fiscal year 2010.

Capital Assets and Debt Administration

Capital Assets

Northeast State Community College had \$38,552,861 invested in capital assets, net of accumulated depreciation/amortization of \$17,828,824, at June 30, 2011; \$37,831,350 invested in capital assets, net of accumulated depreciation/amortization of \$16,193,567, at June 30, 2010; and \$38,106,913 invested in capital assets, net of accumulated depreciation/amortization of \$14,741,715, at June 30, 2009. Depreciation/amortization charges totaled \$1,815,203, \$1,791,294, and \$1,732,767 for the years ended June 30, 2011, June 30, 2010, and June 30, 2009, respectively. Details of these assets are shown below.

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

**Northeast State Community College
Condensed Schedules of Capital Assets, Net of Depreciation
(in thousands of dollars)**

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Land	\$2,029	\$ 2,029	\$ 2,029
Land improvements & infrastructure	2,222	1,353	1,461
Buildings	29,779	30,807	31,835
Equipment	3,116	2,090	1,078
Library holdings	607	624	641
Intangible assets	723	875	1,050
Projects in progress	77	53	13
Total	<u>\$38,553</u>	<u>\$37,831</u>	<u>\$38,107</u>

Comparison of fiscal year 2011 to fiscal year 2010

- Northeast State's land improvements and infrastructure increased \$869,000 in fiscal year 2011, as compared to fiscal year 2010, due to the completion of a paving project for the North Parking Lot funded with local funds.
- Equipment increased over \$1 million in fiscal year 2011 over fiscal year 2010 for furnishing the new Regional Center for Advanced Manufacturing Building at the Kingsport campus purchased with a grant awarded to the Northeast State Foundation from the Tennessee Department of Economic and Community Development Eastman Partnership grant of \$502,000. Other equipment purchases of \$585,000 were made from ARRA State Fiscal Stabilization Funds.

Comparison of fiscal year 2010 to fiscal year 2009

- Equipment increased over \$1 million in fiscal year 2010 over fiscal year 2009, primarily for furnishing the new Regional Center for Advanced Manufacturing Building at the Kingsport campus. These purchases of \$634,000 were provided by a grant from the United States Department of Labor Community-based Job Training Grant. Other equipment purchases of \$197,000 were made from ARRA State Fiscal Stabilization Funds, and \$113,000 of purchases were made from the college's plant funds to establish off-campus sites.

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

The college's planned capital expenses for the next fiscal year include renovation of the atrium and construction of the new Technical Education Complex. Additional off-campus sites are being considered for the next fiscal year, which may include additional equipment purchases for instructional use. Contingency reserves exceeded the 5% threshold from fiscal year 2011 from cost savings on positions funded through ARRA State Fiscal Stabilization Funds. This amount will be used to support start-up costs of new off-campus sites. Other projects are to be funded by state and local capital appropriations.

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

**Component Unit
 Northeast State Community College Foundation
 Condensed Schedules of Capital Assets, Net of Depreciation
 (in thousands of dollars)**

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Land	\$318	\$318	\$172
Buildings	2,526	2,592	222
Total	\$2,844	\$2,910	\$394

Comparison of fiscal year 2011 to fiscal year 2010

- The Northeast State Community College Foundation's capital assets decreased by \$67,000 of depreciation in the 2011 fiscal year.

Comparison of fiscal year 2010 to fiscal year 2009

- The Northeast State Community College Foundation's capital assets increased in fiscal year 2010, primarily due to the addition of the Regional Center for Advanced Manufacturing and the associated land. This building is in the Kingsport Academic Village and was donated by the Industrial Board of the City of Kingsport.

More detailed information about the foundation's capital assets is presented in Note 17 to the financial statements.

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

Debt

The college had \$349,195, \$376,787, and \$562,839 in debt outstanding at June 30, 2011, June 30, 2010, and June 30, 2009, respectively. The table below summarizes these amounts by type of debt instrument.

**Northeast State Community College
Schedule of Debt
(in thousands of dollars)**

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Bonds	\$349	\$377	\$563

The ratings on debt issued by the Tennessee State School Bond Authority at June 30, 2011, were as follows:

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

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

Economic Factors That Will Affect the Future

Northeast State Community College experienced another enrollment increase in fiscal year 2011 of over 8%, increasing enrollment over 25% over the last three fiscal years. While Northeast State continues to add programs, staff, and additional facilities to accommodate the enrollment increase, the college's management is unsure of this continued increase in future enrollment.

The college continues to pursue its long-range plan to expand its facilities through new construction, renovated construction, and leased facilities at off-campus sites. State and local capital appropriations have been allocated in support of the construction costs.

The college's management believes the financial position of the college remains strong. Numerous cost containment measures have been implemented, and the college continues to meet the demands placed upon it by steadily increasing enrollment. The college remains committed to providing increased access to higher education for the citizens of its service region.

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

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. Steven R. Campbell, Office of the Vice President for Business Affairs, Northeast State Community College, P. O. Box 246, Blountville, TN 37617.

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

	Northeast State Community College		Component Unit - Northeast State Community College Foundation	
	June 30, 2011	June 30, 2010	June 30, 2011	June 30, 2010
ASSETS				
Current assets:				
Cash (Notes 2, 3, and 17)	\$ 10,068,298.06	\$ 6,202,839.53	\$ 2,603,275.38	\$ 4,483,892.16
Short-term investments (Note 17)	-	-	2,719,257.88	1,244,337.64
Accounts and grants receivable (net) (Note 4)	3,279,256.12	3,446,363.81	27,335.37	1,550.00
Due from component unit	74,169.01	718,655.48	-	-
Due from primary government	-	354,530.83	-	-
Pledges receivable (net) (Note 17)	-	-	16,833.96	24,605.86
Inventories	18,509.61	16,663.92	-	-
Prepaid expenses and deferred charges	5,784.85	17,877.93	-	-
Total current assets	<u>13,446,017.65</u>	<u>10,756,931.50</u>	<u>5,366,702.59</u>	<u>5,754,385.66</u>
Noncurrent assets:				
Cash (Notes 2, 3, and 17)	13,329,055.81	13,319,406.34	-	-
Investments (Note 17)	-	-	3,479,984.39	3,443,199.52
Pledges receivable (net) (Note 17)	-	-	18,429.64	19,928.39
Capital assets (net) (Notes 5 and 17)	38,552,860.82	37,831,349.90	2,843,865.14	2,910,481.07
Total noncurrent assets	<u>51,881,916.63</u>	<u>51,150,756.24</u>	<u>6,342,279.17</u>	<u>6,373,608.98</u>
Total assets	<u>65,327,934.28</u>	<u>61,907,687.74</u>	<u>11,708,981.76</u>	<u>12,127,994.64</u>
LIABILITIES				
Current liabilities:				
Accounts payable (Note 6)	830,251.66	683,440.98	430,271.07	67,065.33
Due to the college	-	-	74,169.01	718,655.48
Accrued liabilities	1,338,677.37	1,237,462.69	-	-
Deferred revenue (Note 7)	1,212,528.50	1,257,606.33	501,879.34	1,582,346.06
Compensated absences (Note 7)	125,364.46	135,938.43	-	-
Long-term liabilities, current portion (Note 7)	28,751.50	27,592.50	-	-
Deposits held in custody for others	1,243,095.43	1,452,107.62	-	-
Other liabilities	-	795,384.95	-	-
Total current liabilities	<u>4,778,668.92</u>	<u>5,589,533.50</u>	<u>1,006,319.42</u>	<u>2,368,066.87</u>
Noncurrent liabilities:				
Net OPEB obligation (Note 11)	1,539,252.59	1,350,789.96	-	-
Deferred revenue (Note 7)	94,191.01	-	-	-
Compensated absences (Note 7)	745,145.77	653,040.33	-	-
Long-term liabilities (Note 7)	320,443.50	349,195.00	-	-
Total noncurrent liabilities	<u>2,699,032.87</u>	<u>2,353,025.29</u>	<u>-</u>	<u>-</u>
Total liabilities	<u>7,477,701.79</u>	<u>7,942,558.79</u>	<u>1,006,319.42</u>	<u>2,368,066.87</u>
NET ASSETS				
Invested in capital assets, net of related debt	38,203,665.82	37,454,562.40	2,843,865.14	2,910,481.07
Restricted for:				
Nonexpendable:				
Scholarships and fellowships	-	-	3,498,414.03	3,463,127.91
Expendable:				
Scholarships and fellowships	18,879.65	34,277.51	3,816,225.62	2,945,512.15
Instructional department uses	43,361.66	49,898.21	79,096.27	17,478.44
Loans	-	-	7,806.30	11,277.99
Other	7,384.45	10,884.45	12,852.42	16,034.32
Unrestricted (Note 8)	19,576,940.91	16,415,506.38	444,402.56	396,015.89
Total net assets	<u>\$ 57,850,232.49</u>	<u>\$ 53,965,128.95</u>	<u>\$ 10,702,662.34</u>	<u>\$ 9,759,927.77</u>

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

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

	Northeast State Community College		Component Unit - Northeast State Community College Foundation	
	Year Ended June 30, 2011	Year Ended June 30, 2010	Year Ended June 30, 2011	Year Ended June 30, 2010
REVENUES				
Operating revenues:				
Student tuition and fees (net of scholarship allowances of \$8,865,809.67 for the year ended June 30, 2011, and \$7,503,776.42 for the year ended June 30, 2010)	\$ 9,507,569.37	\$ 8,390,864.76	\$ -	\$ -
Gifts and contributions	-	-	406,250.21	732,061.92
Endowment income per spending plan	-	-	205,054.55	120,453.73
Governmental grants and contracts (college grants include \$129,166.78 from component unit in 2011 and \$211,457.82 in 2010)	1,345,739.67	2,335,068.32	1,722,573.94	2,454,292.70
Nongovernmental grants and contracts	4,615.21	5,302.81	-	-
Sales and services of educational departments	-	-	2,800.00	2,975.00
Auxiliary enterprises:				
Bookstore	229,495.70	224,675.70	-	-
Food service	16,615.63	20,248.39	-	-
Other operating revenues	330,128.16	447,399.67	-	-
Total operating revenues	<u>11,434,163.74</u>	<u>11,423,559.65</u>	<u>2,336,678.70</u>	<u>3,309,783.35</u>
EXPENSES				
Operating expenses (Note 14):				
Salaries and wages	15,431,869.33	14,419,423.35	-	-
Benefits	6,021,489.52	5,122,839.30	-	-
Utilities, supplies, and other services	8,012,086.17	7,855,677.10	1,525,242.82	927,180.76
Scholarships and fellowships	10,818,944.09	8,968,190.75	538,633.32	915,924.96
Depreciation expense	1,815,202.85	1,791,294.34	66,615.93	66,615.93
Gifts of capital assets and payments to or on behalf of Northeast State Community College (Note 17)	-	-	633,955.28	527,451.28
Total operating expenses	<u>42,099,591.96</u>	<u>38,157,424.84</u>	<u>2,764,447.35</u>	<u>2,437,172.93</u>
Operating income (loss)	<u>(30,665,428.22)</u>	<u>(26,733,865.19)</u>	<u>(427,768.65)</u>	<u>872,610.42</u>
NONOPERATING REVENUES (EXPENSES)				
State appropriations	13,386,770.00	11,645,155.00	-	-
Gifts (college gifts include \$3,040.00 from component unit in 2011 and \$93,813.38 in 2010)	55,040.00	97,813.38	-	-
Grants and contracts	20,543,877.24	17,298,717.51	-	-
Investment income (for component unit, net of investment expense of \$5,612.24 in 2011 and \$4,472.34 in 2010)	44,016.17	61,314.88	850,068.60	398,231.04
Interest on capital asset-related debt	(15,537.45)	(21,893.89)	-	-
Other	-	(44,133.47)	-	-
Net nonoperating revenues	<u>34,014,165.96</u>	<u>29,036,973.41</u>	<u>850,068.60</u>	<u>398,231.04</u>
Income before other revenues, expenses, gains, or losses	<u>3,348,737.74</u>	<u>2,303,108.22</u>	<u>422,299.95</u>	<u>1,270,841.46</u>
Capital appropriations	34,617.30	29,939.10	-	-
Capital grants and gifts (college gifts are from component unit)	501,748.50	222,180.08	501,748.50	2,804,977.08
Additions to permanent endowments	-	-	26,786.12	31,122.52
Other	-	-	(8,100.00)	-
Total other revenues	<u>536,365.80</u>	<u>252,119.18</u>	<u>520,434.62</u>	<u>2,836,099.60</u>
Increase in net assets	<u>3,885,103.54</u>	<u>2,555,227.40</u>	<u>942,734.57</u>	<u>4,106,941.06</u>
NET ASSETS				
Net assets - beginning of year	53,965,128.95	51,194,697.04	9,759,927.77	5,868,191.22
Prior-period adjustment (Note 15)	-	215,204.51	-	(215,204.51)
Net assets - end of year	<u>\$ 57,850,232.49</u>	<u>\$ 53,965,128.95</u>	<u>\$ 10,702,662.34</u>	<u>\$ 9,759,927.77</u>

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

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

	Year Ended <u>June 30, 2011</u>	Year Ended <u>June 30, 2010</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Tuition and fees	\$ 9,340,298.59	\$ 8,408,295.80
Grants and contracts	2,454,375.37	707,012.94
Payments to suppliers and vendors	(7,804,464.17)	(7,509,653.06)
Payments to employees	(15,193,425.53)	(14,437,972.08)
Payments for benefits	(5,881,236.24)	(4,683,555.39)
Payments for scholarships and fellowships	(10,874,779.70)	(8,923,341.15)
Auxiliary enterprise charges:		
Bookstore	243,753.04	224,675.70
Food services	16,563.42	20,358.68
Net cash balance implicitly financed (repaid)	(795,384.95)	795,384.95
Other receipts	373,772.73	600,451.35
Net cash used by operating activities	<u>(28,120,527.44)</u>	<u>(24,798,342.26)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State appropriations	13,377,100.00	11,639,160.00
Gifts and grants received for other than capital or endowment purposes	20,878,668.95	16,209,542.54
Federal student loan receipts	6,797,909.16	6,150,436.42
Federal student loan disbursements	(6,870,529.93)	(6,158,408.23)
Changes in deposits held for others	(209,211.77)	208,586.16
Net cash provided by noncapital financing activities	<u>33,973,936.41</u>	<u>28,049,316.89</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital appropriations	55,938.67	23,380.47
Purchases of capital assets and construction	(2,034,965.27)	(1,337,684.26)
Principal paid on capital debt	(27,592.50)	(186,052.00)
Interest paid on capital debt	(15,698.04)	(23,140.12)
Net cash used by capital and related financing activities	<u>(2,022,317.14)</u>	<u>(1,523,495.91)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Income on investments	44,016.17	61,314.88
Net cash provided by investing activities	<u>44,016.17</u>	<u>61,314.88</u>
Net increase in cash	3,875,108.00	1,788,793.60
Cash at beginning of year	19,522,245.87	17,733,452.27
Cash at end of year	<u>\$ 23,397,353.87</u>	<u>\$ 19,522,245.87</u>

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

	Year Ended <u>June 30, 2011</u>	Year Ended <u>June 30, 2010</u>
Reconciliation of operating loss to net cash used by operating activities:		
Operating loss	\$ (30,665,428.22)	\$ (26,733,865.19)
Adjustments to reconcile operating loss to net cash used by operating activities:		
Depreciation expense	1,815,202.85	1,791,294.34
Gifts in-kind	3,040.00	93,813.38
Other adjustments	8,370.00	7,355.00
Change in assets and liabilities:		
Receivables, net	953,076.76	(1,728,485.21)
Inventories	(1,845.69)	(8,615.74)
Prepaid/deferred items	12,093.08	(869.65)
Accounts payable	101,275.27	307,474.58
Accrued liabilities	(665,418.77)	835,942.97
Net OPEB obligation	188,462.63	323,339.21
Deferred revenue	49,113.18	264,822.73
Compensated absences	81,531.47	49,451.32
Net cash used by operating activities	<u>\$ (28,120,527.44)</u>	<u>\$ (24,798,342.26)</u>
Noncash investing, capital, and financing activities		
Gifts of capital assets	\$ 501,748.50	\$ 222,180.08
Gain (loss) on disposal of capital assets	\$ -	\$ (44,133.47)

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

**Tennessee Board of Regents
Northeast State Community College
Notes to the Financial Statements
June 30, 2011, and June 30, 2010**

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 Northeast State Community College.

The Northeast State Community College Foundation is considered a component unit of the college. Although the college does not control the timing or amount of receipts from the foundation, the majority of resources, or income thereon, that the foundation holds and invests are restricted to the activities of the college by the donors. Because these restricted resources held by the foundation can only be used by, or for the benefit of, the college, the foundation is considered a component unit of the college and is discretely presented in the college's financial statements. See Note 17 for more detailed information about the component unit and how to obtain the report.

Basis of Presentation

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

Basis of Accounting

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

**Tennessee Board of Regents
Northeast State Community College
Notes to the Financial Statements (Cont.)
June 30, 2011, and June 30, 2010**

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

Tennessee Board of Regents
Northeast State Community College
Notes to the Financial Statements (Cont.)
June 30, 2011, and June 30, 2010

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

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

Net Assets

The college's net assets are classified as follows:

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

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

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

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

**Tennessee Board of Regents
Northeast State Community College
Notes to the Financial Statements (Cont.)
June 30, 2011, and June 30, 2010**

Scholarship Discounts and Allowances

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

NOTE 2. CASH

This classification includes demand deposits and petty cash on hand. At June 30, 2011, cash consisted of \$2,153,202.76 in bank accounts, \$1,330.00 of petty cash on hand, \$20,370,123.84 in the State of Tennessee Local Government Investment Pool (LGIP) administered by the State Treasurer, and \$872,697.27 in LGIP deposits for capital projects. At June 30, 2010, cash consisted of \$1,015,892.16 in bank accounts, \$1,219.50 of petty cash on hand, \$17,972,821.10 in LGIP, and \$532,313.11 in LGIP deposits for capital projects. The carrying amount of the operating bank account is (\$795,384.95) at June 30, 2010, and has been reported as other liabilities.

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

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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).

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

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

As of June 30, 2011, and June 30, 2010, the college's investments consisted entirely of investments in the Local Government Investment Pool. The fair value of these investments was \$21,242,821.11 at June 30, 2011, and \$18,505,134.21 at June 30,

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2010. LGIP investments are not rated by nationally recognized statistical ratings organizations.

The LGIP is part of the State Pooled Investment Fund. The fund's required risks disclosures are presented in the *State of Tennessee'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:

	<u>June 30, 2011</u>	<u>June 30, 2010</u>
Student accounts receivable	\$2,458,765.92	\$1,834,858.08
Grants receivable	553,800.93	1,477,985.83
State appropriation receivable	18,800.00	17,500.00
Other receivables	<u>331,088.00</u>	<u>156,096.10</u>
Subtotal	3,362,454.85	3,486,440.01
Less allowance for doubtful accounts	<u>83,198.73</u>	<u>40,076.20</u>
Total receivables	<u>\$3,279,256.12</u>	<u>\$3,446,363.81</u>

NOTE 5. CAPITAL ASSETS

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

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 June 30, 2011, and June 30, 2010**

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Transfers</u>	<u>Reductions</u>	<u>Ending Balance</u>
Land	\$ 2,028,771.64	\$ -	\$ -	\$ -	\$ 2,028,771.64
Land improvements and infrastructure	2,251,839.48	945,086.05	40,428.61	-	3,237,354.14
Buildings	41,544,605.01	-	-	-	41,544,605.01
Equipment	5,045,713.27	1,372,367.95	-	35,565.23	6,382,515.99
Library holdings	1,499,914.64	131,962.45	-	144,380.26	1,487,496.83
Intangible assets	1,600,653.29	22,800.00	-	-	1,623,453.29
Projects in progress	<u>53,419.61</u>	<u>64,497.32</u>	<u>(40,428.61)</u>	<u>-</u>	<u>77,488.32</u>
Total	<u>54,024,916.94</u>	<u>2,536,713.77</u>	<u>-</u>	<u>179,945.49</u>	<u>56,381,685.22</u>
Less accumulated depreciation/amortization:					
Land improvements and infrastructure	898,162.02	117,464.39	-	-	1,015,626.41
Buildings	10,737,847.02	1,027,419.65	-	-	11,765,266.67
Equipment	2,955,793.87	346,509.54	-	35,565.23	3,266,738.18
Library holdings	876,408.77	148,749.68	-	144,380.26	880,778.19
Intangible assets	<u>725,355.36</u>	<u>175,059.59</u>	<u>-</u>	<u>-</u>	<u>900,414.95</u>
Total	<u>16,193,567.04</u>	<u>1,815,202.85</u>	<u>-</u>	<u>179,945.49</u>	<u>17,828,824.40</u>
Capital assets, net	<u>\$37,831,349.90</u>	<u>\$ 721,510.92</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$38,552,860.82</u>

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

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Transfers</u>	<u>Reductions</u>	<u>Ending Balance</u>
Land	\$ 2,028,771.64	\$ -	\$ -	\$ -	\$ 2,028,771.64
Land improvements and infrastructure	2,251,839.48	-	-	-	2,251,839.48
Buildings	41,544,605.01	-	-	-	41,544,605.01
Equipment	3,886,205.27	1,387,483.40	-	227,975.40	5,045,713.27
Library holdings	1,523,291.47	132,223.13	-	155,599.96	1,499,914.64
Intangible assets	1,600,653.29	-	-	-	1,600,653.29
Projects in progress	<u>13,261.80</u>	<u>40,157.81</u>	<u>-</u>	<u>-</u>	<u>53,419.61</u>
Total	<u>52,848,627.96</u>	<u>1,559,864.34</u>	<u>-</u>	<u>383,575.36</u>	<u>54,024,916.94</u>

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Less accumulated depreciation/amortization:					
Land improvements and infrastructure	790,508.68	107,653.34	-	-	898,162.02
Buildings	9,710,427.37	1,027,419.65	-	-	10,737,847.02
Equipment	2,808,465.50	331,170.30	-	183,841.93	2,955,793.87
Library holdings	882,017.27	149,991.46	-	155,599.96	876,408.77
Intangible assets	<u>550,295.77</u>	<u>175,059.59</u>	-	-	<u>725,355.36</u>
Total	<u>14,741,714.59</u>	<u>1,791,294.34</u>	-	<u>339,441.89</u>	<u>16,193,567.04</u>
Capital assets, net	<u>\$38,106,913.37</u>	<u>\$ (231,430.00)</u>	<u>\$ -</u>	<u>\$ 44,133.47</u>	<u>\$37,831,349.90</u>

NOTE 6. ACCOUNTS PAYABLE

Accounts payable included the following:

	<u>June 30, 2011</u>	<u>June 30, 2010</u>
Vendors payable	\$828,715.05	\$665,656.60
Unapplied student payments	-	8,823.72
Other payables	<u>1,536.61</u>	<u>8,960.66</u>
Total accounts payable	<u>\$830,251.66</u>	<u>\$683,440.98</u>

NOTE 7. LONG-TERM LIABILITIES

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

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Current Portion</u>
TSSBA debt:					
Bonds	\$ 376,787.50	\$ -	\$ 27,592.50	\$ 349,195.00	\$ 28,751.50
Subtotal	<u>376,787.50</u>	<u>-</u>	<u>27,592.50</u>	<u>349,195.00</u>	<u>28,751.50</u>
Other liabilities:					
Compensated absences	788,978.76	548,945.15	467,413.68	870,510.23	125,364.46
Deferred revenue	<u>1,257,606.33</u>	<u>1,306,719.51</u>	<u>1,257,606.33</u>	<u>1,306,719.51</u>	<u>1,212,528.50</u>
Subtotal	<u>2,046,585.09</u>	<u>1,855,664.66</u>	<u>1,725,020.01</u>	<u>2,177,229.74</u>	<u>1,337,892.96</u>
Total long-term liabilities	<u>\$2,423,372.59</u>	<u>\$1,855,664.66</u>	<u>\$1,752,612.51</u>	<u>\$2,526,424.74</u>	<u>\$1,366,644.46</u>

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

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Current Portion</u>
TSSBA debt:					
Bonds	\$ 562,839.50	\$ -	\$ 186,052.00	\$ 376,787.50	\$ 27,592.50
Subtotal	<u>562,839.50</u>	<u>-</u>	<u>186,052.00</u>	<u>376,787.50</u>	<u>27,592.50</u>
Other liabilities:					
Compensated absences	739,527.44	514,433.88	464,982.56	788,978.76	135,938.43
Deferred revenue	<u>992,783.60</u>	<u>1,257,606.33</u>	<u>992,783.60</u>	<u>1,257,606.33</u>	<u>1,257,606.33</u>
Subtotal	<u>1,732,311.04</u>	<u>1,772,040.21</u>	<u>1,457,766.16</u>	<u>2,046,585.09</u>	<u>1,393,544.76</u>
Total long-term liabilities	<u>\$2,295,150.54</u>	<u>\$1,772,040.21</u>	<u>\$1,643,818.16</u>	<u>\$2,423,372.59</u>	<u>\$1,421,137.26</u>

TSSBA Debt - Bonds

Bonds, with interest rates of 4%, were issued by the Tennessee State School Bond Authority (TSSBA). The bonds are due serially to 2021 and are secured by pledges of the facilities' revenues to which they relate and certain other revenues and fees of the college, including state appropriations. See Note 9 for further details.

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

Year Ending <u>June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 28,751.50	\$14,594.33	\$ 43,345.83
2013	29,959.00	13,444.27	43,403.27
2014	31,217.50	12,245.91	43,463.41
2015	32,528.50	10,997.21	43,525.71
2016	33,894.50	9,696.07	43,590.57
2017 – 2021	<u>192,844.00</u>	<u>26,186.03</u>	<u>219,030.03</u>
Total	<u>\$349,195.00</u>	<u>\$87,163.82</u>	<u>\$436,358.82</u>

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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:

	<u>June 30, 2011</u>	<u>June 30, 2010</u>
Working capital	\$ 2,301,031.84	\$ 1,709,136.14
Encumbrances	349,898.11	72,396.14
Designated fees	2,148,601.94	1,394,660.26
Auxiliaries	382,378.48	148,572.72
Plant construction	7,578,234.03	7,787,956.35
Renewal and replacement of equipment	5,540,177.70	5,320,975.96
Debt retirement	210,644.08	210,474.03
Undesignated	<u>1,065,974.73</u>	<u>(228,665.22)</u>
Total	<u>\$19,576,940.91</u>	<u>\$16,415,506.38</u>

NOTE 9. PLEDGED REVENUES

The college has pledged certain revenues and fees, including state appropriations, to repay \$349,195.00 in revenue bonds issued June 2006. Proceeds from the bonds provided financing for Energy Savings and Performance contracts. The bonds are payable through 2021. Annual principal and interest payments on the bonds are expected to require <1% of available revenues. The total principal and interest remaining to be paid on the bonds at June 30, 2011, is \$436,358.82. Principal and interest paid for fiscal year 2011 and total available revenues in that year were \$43,129.95 and \$32,593,274.81, respectively. Principal and interest paid for fiscal year 2010 and total available revenues in that year were \$207,945.89 and \$28,276,426.34, respectively. See Note 7 for further details.

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NOTE 10. PENSION PLANS

A. Defined Benefit Plan

Tennessee Consolidated Retirement System

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

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

Funding Policy - Plan members are noncontributory. The college is required to contribute an actuarially determined rate. The current rate is 14.91% of annual covered payroll. Contribution requirements for the college are established and may be amended by the TCRS' Board of Trustees. The college's contributions to TCRS for the years ended June 30, 2011, 2010, and 2009 were \$1,283,425.61, \$1,015,720.26, and \$1,045,179.58, respectively. Contributions met the requirements for each year.

B. Defined Contribution Plans

Optional Retirement Plans

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

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Tennessee Code Annotated. State statutes are amended by the Tennessee General Assembly.

Funding Policy - Plan members are noncontributory. The college contributes an amount equal to 10% of the employee's base salary up to the social security wage base and 11% above the social security wage base. Contribution requirements are established and amended by state statute. The contributions made by the college to the plans were \$413,469.51 for the year ended June 30, 2011, and \$418,088.73 for the year ended June 30, 2010. Contributions met the requirements for each year.

NOTE 11. OTHER POST-EMPLOYMENT BENEFITS

Healthcare is the only "other postemployment benefit" (OPEB) provided to employees. The State of Tennessee administers a group health insurance program which provides postemployment health insurance benefits to eligible college retirees. This program includes two plans available to higher education employees—the State Employee Group Plan and the Medicare Supplement Plan. For accounting purposes, the plans are agent multiple-employer defined benefit OPEB plans. Benefits are established and amended by an insurance committee created by Section 8-27-101, *Tennessee Code Annotated*. Prior to reaching age 65, retirees may participate in the State Employee Group Plan. In previous fiscal years, prior to reaching the age of 65, all members had the option of choosing a preferred provider organization (PPO), point of service (POS), or health maintenance organization (HMO) plan for healthcare benefits. However, as of January 1, 2011, the insurance plan structure was changed and as a result, all members now have the option of choosing between the standard or partnership preferred provider organization plan for healthcare benefits. Subsequent to age 65, retirees who are also in the state's retirement system may participate in a state-administered Medicare supplement that does not include pharmacy. The state makes on-behalf payments to the Medicare supplement plan for the college's eligible retirees; see Note 16. The plans are reported in the State of Tennessee's *Comprehensive Annual Financial Report* (CAFR). The CAFR is available on the state's website at <http://tennessee.gov/finance/act/cafr.html>.

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 Northeast State Community College. The state is the sole contributor for the college

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retirees that participate in the Medicare Supplement Plan and, therefore, is acting as the employer.

Funding Policy

The premium requirements of members of the State Employee Group Plan are established and may be amended by the insurance committee. The plan is self-insured and financed on a pay-as-you-go basis with the risk shared equally among the participants. Claims liabilities of the plan are periodically computed using actuarial and statistical techniques to establish premium rates. Administrative costs of the plan are allocated to plan participants. In accordance with Section 8-27-205(b), *Tennessee Code Annotated*, retirees in the State Employee Group Plan pay the same base premium as active employees in the plan adjusted for years of service. Retirees with 30 years of service are subsidized 80 percent; 20 but less than 30 years, 70 percent; and less than 20 years, 60 percent. Retired employees who are 65 years of age or older have flat rate premium subsidies based on years of service. Retirees with 30 years of service receive \$50 per month; 20 but less than 30 years, \$37.50; and 15 but less than 20 years, \$25.

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

	<u>2011</u>	<u>2010</u>
Annual required contribution (ARC)	\$ 503,000.00	\$ 554,000.00
Interest on the net OPEB obligation	60,785.55	46,235.29
Adjustment to the ARC	<u>(57,578.84)</u>	<u>(43,793.99)</u>
Annual OPEB cost	506,206.71	556,441.30
Amount of contribution	<u>(317,744.08)</u>	<u>(233,102.09)</u>
Increase in net OPEB obligation	188,462.63	323,339.21
Net OPEB obligation – beginning of year	<u>1,350,789.96</u>	<u>1,027,450.75</u>
Net OPEB obligation – end of year	<u>\$1,539,252.59</u>	<u>\$1,350,789.96</u>

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<u>Year-end</u>	<u>Plan</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation at Year-end</u>
June 30, 2011	State Employee Group Plan	\$506,206.71	62.8%	\$1,539,252.59
June 30, 2010	State Employee Group Plan	\$556,441.30	41.9%	\$1,350,789.96
June 30, 2009	State Employee Group Plan	\$763,634.24	35.0%	\$1,027,450.75

Funded Status and Funding Progress

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

State Employee Group Plan

	July 1, 2010	July 1, 2009
Actuarial valuation date		
Actuarial accrued liability (AAL)	\$4,408,000.00	\$4,725,000.00
Actuarial value of plan assets	-	-
Unfunded actuarial accrued liability (UAAL)	\$4,408,000.00	\$4,725,000.00
Actuarial value of assets as a percentage of the AAL	0%	0%
Covered payroll (active plan members)	\$11,158,761.99	\$10,052,854.52
UAAL as percentage of covered payroll	39.5%	47.0%

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.

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Actuarial Methods and Assumptions

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

In the July 1, 2010, actuarial valuation, the Projected Unit Credit actuarial cost method was used. The actuarial assumptions included a 4.5 percent investment rate of return (net of administrative expenses) and an annual healthcare cost trend rate of 10 percent in fiscal year 2011. The rate decreases to 9.5 percent in fiscal year 2012, and then is reduced by decrements of 0.5 percent per year to an ultimate rate of 5 percent in fiscal year 2021. All rates include a 3 percent inflation assumption. The unfunded actuarial accrued liability is being amortized as a level percentage of payroll on a closed basis over a 30-year period beginning with July 1, 2007.

NOTE 12. INSURANCE-RELATED ACTIVITIES

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

The college participates in the Risk Management Fund. The fund allocates the cost of providing claims servicing and claims payment by charging a premium to the college based on a percentage of the college's expected loss costs, which include both experience and exposures. This charge considers recent trends in actual claims experience of the state as a whole. An actuarial valuation is performed as of fiscal year-end to determine the fund liability and premium allocation. Information

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regarding the determination of the claims liabilities and the changes in the balances of the claims liabilities for the years ended June 30, 2011, and June 30, 2010, are presented in the *Tennessee Comprehensive Annual Financial Report*. The CAFR is available on the state's website at <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, 2011, the Risk Management Fund held \$107.6 million in cash and cash equivalents designated for payment of claims. At June 30, 2010, the Risk Management Fund held \$114.5 million in cash and cash equivalents designated for payment of claims.

At June 30, 2011, the scheduled coverage for the college was \$68,193,000 for buildings and \$32,170,900 for contents. At June 30, 2010, the scheduled coverage for the college was \$66,556,300 for buildings and \$31,705,900 for contents.

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

NOTE 13. COMMITMENTS AND CONTINGENCIES

Sick Leave

The college records the cost of sick leave when paid. Generally, since sick leave (earned one day per month with unlimited accumulation) is paid only when an employee dies or is absent because of illness, injury, or related family death, there is no liability for sick leave at June 30. The dollar amount of unused sick leave was \$3,897,764.25 at June 30, 2011, and \$3,737,273.00 at June 30, 2010.

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 June 30, 2011, and June 30, 2010**

Operating Leases

The college has entered into various operating leases for buildings and equipment. Such leases will probably continue to be required. Expenses under operating leases for personal property were \$38,336.50 for the year ended June 30, 2011, and \$30,104.39 for the year ended June 30, 2010. The college also had two operating leases for buildings with the Northeast State Community College Foundation. See Note 17 for details. All operating leases are cancelable at the lessee's option.

Construction in Progress

At June 30, 2011, outstanding commitments under construction contracts totaled \$1,379,282.63 for the Technical Education Complex project, Boiler Replacement project, and various other projects, of which \$796,493.73 will be funded by future state capital outlay appropriations.

NOTE 14. NATURAL CLASSIFICATIONS WITH FUNCTIONAL CLASSIFICATIONS

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

Functional Classification	Natural Classification					Total
	Salaries	Benefits	Other Operating	Scholarships	Depreciation	
Instruction	\$8,508,180.85	\$2,839,532.58	\$ 3,289,417.27	\$ -	\$ -	\$14,637,130.70
Public service	-	-	28,103.17	-	-	28,103.17
Academic support	1,877,474.48	858,148.92	203,614.14	-	-	2,939,237.54
Student services	1,928,171.89	872,990.69	1,158,542.15	-	-	3,959,704.73
Institutional support	2,143,089.07	848,256.07	1,004,814.10	-	-	3,996,159.24
Maintenance & operation	974,953.04	602,561.26	2,327,595.34	-	-	3,905,109.64
Scholarships & fellowships	-	-	-	10,818,944.09	-	10,818,944.09
Depreciation	-	-	-	-	1,815,202.85	1,815,202.85
Total	<u>\$15,431,869.33</u>	<u>\$6,021,489.52</u>	<u>\$8,012,086.17</u>	<u>\$10,818,944.09</u>	<u>\$1,815,202.85</u>	<u>\$42,099,591.96</u>

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

**Tennessee Board of Regents
 Northeast State Community College
 Notes to the Financial Statements (Cont.)
 June 30, 2011, and June 30, 2010**

Functional Classification	<u>Natural Classification</u>					Total
	Salaries	Benefits	Other Operating	Scholarships	Depreciation	
Instruction	\$8,023,868.15	\$2,512,428.79	\$4,094,691.91	\$ -	\$ -	\$14,630,988.85
Public service	-	-	8,063.05	-	-	8,063.05
Academic support	1,664,162.73	687,286.73	42,423.49	-	-	2,393,872.95
Student services	1,998,569.08	752,540.20	1,073,395.97	-	-	3,824,505.25
Institutional support	1,829,832.50	696,343.41	752,187.36	-	-	3,278,363.27
Maintenance & operation	902,990.89	474,240.17	1,884,915.32	-	-	3,262,146.38
Scholarships & fellowships	-	-	-	8,968,190.75	-	8,968,190.75
Depreciation	-	-	-	-	1,791,294.34	1,791,294.34
Total	<u>\$14,419,423.35</u>	<u>\$5,122,839.30</u>	<u>\$7,855,677.10</u>	<u>\$8,968,190.75</u>	<u>\$1,791,294.34</u>	<u>\$38,157,424.84</u>

NOTE 15. PRIOR-PERIOD ADJUSTMENT

As a result of an audit performed by the Tennessee Board of Regents' system-wide internal audit staff, it was determined that \$215,204.51 of indirect and administrative costs recovered under foundation grants as of June 30, 2009, were actually incurred by the college. This adjustment transfers the grant cost recoveries from the foundation to the college.

NOTE 16. ON-BEHALF PAYMENTS

During the year ended June 30, 2011, the State of Tennessee made payments of \$8,370.00 on behalf of the college for retirees participating in the Medicare Supplement Plan. The amount for the year ended June 30, 2010, was \$7,355.00. The Medicare Supplement Plan is a postemployment benefit healthcare plan and is discussed further in Note 11. The plan is reported in the *Tennessee Comprehensive Annual Financial Report*. That report is available on the state's website at <http://tennessee.gov/finance/act/cafr.html>.

Tennessee Board of Regents
Northeast State Community College
Notes to the Financial Statements (Cont.)
June 30, 2011, and June 30, 2010

NOTE 17. COMPONENT UNIT

The Northeast State Community College Foundation is a legally separate, tax-exempt organization supporting Northeast 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 46-member board of the foundation is self-perpetuating and consists of graduates and friends of the college. Although the college does not control the timing or amount of receipts from the foundation, the majority of resources, or income thereon, that the foundation holds and invests are restricted to the activities of the college by the donors. Because these restricted resources held by the foundation can only be used by, or for the benefit of, the college, the foundation is considered a component unit of the college and is discretely presented in the college's financial statements.

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

During the year ended June 30, 2011, the foundation made distributions of \$633,955.28 to or on behalf of the college for both restricted and unrestricted purposes. During the year ended June 30, 2010, the foundation made distributions of \$527,451.28 to or on behalf of the college for both restricted and unrestricted purposes. Complete financial statements for the foundation can be obtained from Dr. Steven R. Campbell, Northeast State Community College, P. O. Box 246, Blountville, TN 37617-0246.

Fair Value Measurements

The foundation reports certain assets at fair value. Fair value has been determined using quoted prices in active markets for identical assets that are accessible at the measurement date (Level 1), inputs other than quoted market prices included in Level 1 that are directly or indirectly observable for the asset (Level 2), or significant unobservable inputs (Level 3). The following tables categorize the recurring fair value measurements for assets at June 30, 2011, and June 30, 2010.

**Tennessee Board of Regents
 Northeast State Community College
 Notes to the Financial Statements (Cont.)
 June 30, 2011, and June 30, 2010**

	Total Fair Value at June 30, 2011	Quoted Prices Level 1	Significant Other Inputs Level 2	Significant Unobservable Inputs Level 3
Assets:				
Mutual equity funds	\$4,380,054.55	\$4,380,054.55	\$ -	\$ -
Mutual bond funds	<u>1,819,187.72</u>	<u>1,819,187.72</u>	<u>-</u>	<u>-</u>
Total assets	<u>\$6,199,242.27</u>	<u>\$6,199,242.27</u>	<u>\$ -</u>	<u>\$ -</u>

	Total Fair Value at June 30, 2010	Quoted Prices Level 1	Significant Other Inputs Level 2	Significant Unobservable Inputs Level 3
Assets:				
Mutual equity funds	\$2,952,842.99	\$2,952,842.99	\$ -	\$ -
Mutual bond funds	<u>1,734,694.17</u>	<u>1,734,694.17</u>	<u>-</u>	<u>-</u>
Total assets	<u>\$4,687,537.16</u>	<u>\$4,687,537.16</u>	<u>\$ -</u>	<u>\$ -</u>

Cash

Cash consists of demand deposit accounts and Local Government Investment Pool (LGIP) deposits. The bank balances at June 30, 2011, and June 30, 2010, were entirely insured.

Investments

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

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

	<u>Cost</u>	<u>Fair Value</u>
Mutual equity funds	\$4,360,289.52	\$4,380,054.55
Mutual bond funds	<u>1,760,546.46</u>	<u>1,819,187.72</u>
Total investments	<u>\$6,120,835.98</u>	<u>\$6,199,242.27</u>

**Tennessee Board of Regents
 Northeast State Community College
 Notes to the Financial Statements (Cont.)
 June 30, 2011, and June 30, 2010**

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

	<u>Cost</u>	<u>Fair Value</u>
Mutual equity funds	\$3,734,860.11	\$2,952,842.99
Mutual bond funds	<u>1,691,980.46</u>	<u>1,734,694.17</u>
Total investments	<u>\$5,426,840.57</u>	<u>\$4,687,537.16</u>

Pledges Receivable

Pledges receivable are summarized below.

	<u>June 30, 2011</u>	<u>June 30, 2010</u>
Current pledges	\$34,536.12	\$43,079.29
Pledges due in one to five years	<u>1,000.00</u>	<u>2,000.00</u>
Subtotal	35,536.12	45,079.29
Less discount to net present value	<u>(272.52)</u>	<u>(545.04)</u>
Total pledges receivable, net	<u>\$35,263.60</u>	<u>\$44,534.25</u>

Capital Assets

Capital assets at June 30, 2011, and June 30, 2010, were as follows:

	<u>June 30, 2011</u>	<u>June 30, 2010</u>
Land	\$ 318,160.00	\$ 318,160.00
Buildings	2,664,637.00	2,664,637.00
Intangible assets	<u>300,000.00</u>	<u>300,000.00</u>
Total	<u>3,282,797.00</u>	<u>3,282,797.00</u>
Less accumulated depreciation/amortization:		
Buildings	138,931.86	72,315.93
Intangible assets	<u>300,000.00</u>	<u>300,000.00</u>
Total	<u>438,931.86</u>	<u>372,315.93</u>
Capital assets, net	<u>\$2,843,865.14</u>	<u>\$2,910,481.07</u>

**Tennessee Board of Regents
Northeast State Community College
Notes to the Financial Statements (Cont.)
June 30, 2011, and June 30, 2010**

Endowments

The Northeast State Community College Foundation's endowment consists of approximately 75 individual funds established for a variety of purposes. At June 30, 2011, its endowment included only donor-restricted endowment funds and no funds designated by the Board of Trustees to function as endowments. At June 30, 2010, its endowment included both donor-restricted 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 Northeast State Community College Foundation has interpreted the Uniform Prudent Management of Institutional Funds Act (the Act) as adopted by Tennessee as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment fund absent explicit donor stipulations to the contrary. As a result of this interpretation, the Northeast State Community College Foundation classifies as permanently restricted net assets (1) the original value of gifts donated to the permanent endowment; (2) the original value of subsequent gifts to the permanent endowment; and (3) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified 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.

**Tennessee Board of Regents
 Northeast State Community College
 Notes to the Financial Statements (Cont.)
 June 30, 2011, and June 30, 2010**

Composition of Endowment by Net Asset Class
 As of June 30, 2011

	<u>Permanently Restricted</u>	<u>Temporarily Restricted</u>	<u>Unrestricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$3,881,314.03	\$3,568,357.32	\$ -	\$7,449,671.35
Board-designated endowment funds	-	-	-	-
Total funds	<u>\$3,881,314.03</u>	<u>\$3,568,357.32</u>	<u>\$ -</u>	<u>\$7,449,671.35</u>

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

	<u>Permanently Restricted</u>	<u>Temporarily Restricted</u>	<u>Unrestricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$3,851,727.91	\$2,707,048.61	\$ -	\$6,558,776.52
Board-designated endowment funds	-	-	51,100.88	51,100.88
Total funds	<u>\$3,851,727.91</u>	<u>\$2,707,048.61</u>	<u>\$51,100.88</u>	<u>\$6,609,877.40</u>

Permanently restricted funds include a building and land valued at \$382,900 at June 30, 2011, and \$388,600 at June 30, 2010, which were purchased with contributions designated for the purchase with the stipulation that if the building and land were sold later that the proceeds would be used to endow a scholarship in the donor's name.

**Tennessee Board of Regents
 Northeast State Community College
 Notes to the Financial Statements (Cont.)
 June 30, 2011, and June 30, 2010**

Changes in Endowment Net Assets for the Fiscal Year Ended June 30, 2011				
	<u>Permanently Restricted</u>	<u>Temporarily Restricted</u>	<u>Unrestricted</u>	<u>Total</u>
Endowment net assets beginning of year	\$3,851,727.91	\$2,707,048.61	\$51,100.88	\$6,609,877.40
Investment return:				
Investment income	-	87,979.25	-	87,979.25
Net appreciation (realized and unrealized)	<u>-</u>	<u>817,709.70</u>	<u>-</u>	<u>817,709.70</u>
Total investment return	<u>-</u>	<u>905,688.95</u>	<u>-</u>	<u>905,688.95</u>
Contributions	26,786.12	82,586.00	-	109,372.12
Appropriations of endowment assets for expenditure	-	(121,966.24)	-	(121,966.24)
Other:				
Transfer	8,500.00	(5,000.00)	(51,100.88)	(47,600.88)
Other	<u>(5,700.00)</u>	<u>-</u>	<u>-</u>	<u>(5,700.00)</u>
Endowment net assets, end of year	<u>\$3,881,314.03</u>	<u>\$3,568,357.32</u>	<u>\$ -</u>	<u>\$7,449,671.35</u>
Changes in Endowment Net Assets for the Fiscal Year Ended June 30, 2010				
	<u>Permanently Restricted</u>	<u>Temporarily Restricted</u>	<u>Unrestricted</u>	<u>Total</u>
Endowment net assets beginning of year	\$2,725,821.78	\$2,297,057.76	\$50,576.71	\$5,073,456.25
Investment return:				
Investment income	-	77,538.29	524.17	78,062.46
Net appreciation (realized and unrealized)	<u>-</u>	<u>367,720.06</u>	<u>-</u>	<u>367,720.06</u>
Total investment return	<u>-</u>	<u>445,258.35</u>	<u>524.17</u>	<u>445,782.52</u>
Contributions	1,101,730.52	178,463.06	-	1,280,193.58
Appropriations of endowment assets for expenditure	-	(213,730.56)	-	(213,730.56)
Other:				
Transfer	29,875.61	-	-	29,875.61
Other	<u>(5,700.00)</u>	<u>-</u>	<u>-</u>	<u>(5,700.00)</u>
Endowment net assets, end of year	<u>\$3,851,727.91</u>	<u>\$2,707,048.61</u>	<u>\$51,100.88</u>	<u>\$6,609,877.40</u>

**Tennessee Board of Regents
Northeast State Community College
Notes to the Financial Statements (Cont.)
June 30, 2011, and June 30, 2010**

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 achieve a balanced return of current income and growth of principal; emphasize long-term growth of principal, while avoiding excessive risk; and strive to achieve returns in excess of the rate of inflation, as defined by the Consumer Price Index. The foundation expects its endowment funds, over time, to equal or better the appropriate benchmark for the equity portion of the fund (such as the Standard & Poor's 500 Index) net of fees and to equal or better the appropriate benchmark for the fixed income portion of the fund (such as the Lehman Brothers Government/Corporate Bond Index and the Morgan Stanley Capital International EAFE Index) net of fees 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 and fixed-income investments to provide a balance that will enhance total return while avoiding undue risk concentration in any single asset class or investment category.

Spending policy and how the investment objectives relate - The foundation has a policy of appropriating for distribution each year only a portion of the investment income (including changes in the value of investments) each year. Under the spending plan established by the foundation, 80 percent of the investment income and realized changes in the value of the investments have been authorized for expenditure. The remaining amount, if any, is retained to be used in future years when the amount computed using the spending plan exceeds the investment income. Accordingly, over the long-term, the foundation expects the current spending policy to allow its endowment to grow at an average of 20 percent of the current annual earnings. In establishing this policy, the foundation considered the long-term expected return on its endowment. This is consistent with the foundation's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a

**Tennessee Board of Regents
Northeast State Community College
Notes to the Financial Statements (Cont.)
June 30, 2011, and June 30, 2010**

specified term as well as to provide additional real growth through new gifts and investment return.

Leases Between the Foundation and College

The Northeast State Community College Foundation owns two buildings in the Kingsport Academic Village. They are the Regional Center for Advanced Manufacturing (RCAM) at 305 West Main Street and the Pal Barger Regional Center for Automotive Programs (RCAP) at 337 West Center Street. The RCAM was gifted to the foundation in September 2009. It has been leased to Northeast State Community College for academic programs since that time at \$39,000 per year. In December 2008, the RCAP was purchased by the foundation using a donor-restricted donation for that purpose. A retail business continued to lease this space from the foundation through August 2010. When the lease with this retail business ended, the foundation entered a lease agreement with Northeast State Community College at a lease rate of \$80,000 per year. The college also uses this building for academic purposes.

Both of these leases are operating leases. For these leases, total rental expense for the college and revenue for the foundation were \$99,000.03 for the year ended June 30, 2011. For the RCAM lease, total rental expense for the college and revenue for the foundation were \$32,500.00 for the year ended June 30, 2010. These leases are cancelable at the lessee's option.

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

Actuarial Valuation Date	Plan	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b-a)/c]
July 1, 2010	State Employee Group Plan	\$ -	\$4,408,000.00	\$4,408,000.00	0%	\$11,158,761.99	39.5%
July 1, 2009	State Employee Group Plan	\$ -	\$4,725,000.00	\$4,725,000.00	0%	\$10,052,854.52	47.0%
July 1, 2007	State Employee Group Plan	\$ -	\$6,227,000.00	\$6,227,000.00	0%	\$9,999,340.93	62.3%

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

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

	<u>Year Ended June 30, 2011</u>	<u>Year Ended June 30, 2010</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Gifts and contributions	\$ 385,344.46	\$ 687,070.33
Endowment income per spending plan	205,054.55	120,453.73
Grants and contracts	642,107.22	2,743,746.70
Sales and services of educational activities	2,652.28	2,975.00
Payments to suppliers and vendors	(1,589,207.09)	(1,012,898.00)
Payments for scholarships and fellowships	(540,233.32)	(1,010,361.71)
Payments to Northeast State Community College	(695,640.10)	(71,839.10)
Other receipts (payments)	<u>(86,113.55)</u>	<u>78,013.55</u>
Net cash provided (used) by operating activities	<u>(1,676,035.55)</u>	<u>1,537,160.50</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Private gifts for endowment purposes	<u>28,284.87</u>	<u>32,448.46</u>
Net cash provided by noncapital financing activities	<u>28,284.87</u>	<u>32,448.46</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital grants and gifts received	<u>428,770.41</u>	<u>48,174.31</u>
Net cash provided by capital and related financing activities	<u>428,770.41</u>	<u>48,174.31</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of investments	26,148.23	14,964.59
Income on investments	32,358.90	30,510.98
Purchases of investments	<u>(720,143.64)</u>	<u>(862,090.55)</u>
Net cash used by investing activities	<u>(661,636.51)</u>	<u>(816,614.98)</u>
Net increase (decrease) in cash	(1,880,616.78)	801,168.29
Cash at beginning of year	<u>4,483,892.16</u>	<u>3,682,723.87</u>
Cash at end of year	<u>\$ 2,603,275.38</u>	<u>\$ 4,483,892.16</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:		
Operating income (loss)	\$ (427,768.65)	\$ 872,610.42
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Depreciation expense	66,615.93	66,615.93
Gifts in-kind	72,978.09	174,005.77
Other adjustments	(8,100.00)	-
Change in assets and liabilities:		
Receivables, net	(18,013.47)	(305.19)
Accounts payable	(281,280.73)	385,026.27
Deferred revenues	<u>(1,080,466.72)</u>	<u>39,207.30</u>
Net cash provided (used) by operating activities	<u>\$ (1,676,035.55)</u>	<u>\$ 1,537,160.50</u>
Noncash investing, capital, and financing activities		
Unrealized gains on investments	\$ 817,709.70	\$ 367,720.06
Gifts of capital assets	\$ -	\$ 2,582,797.00