

AUDIT REPORT

Tennessee Board of Regents
Pellissippi 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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**STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
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July 24, 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. Anthony Wise, President

Pellissippi State Community College

P. O. Box 22990

Knoxville, Tennessee 37933-0990

Ladies and Gentlemen:

Transmitted herewith is the financial and compliance audit of the Tennessee Board of Regents, Pellissippi State Community College, for the years ended June 30, 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 resulted in no audit findings.

Sincerely,

Arthur A. Hayes, Jr., CPA
Director

AAH/sds
12/063

State of Tennessee

A u d i t H i g h l i g h t s

Comptroller of the Treasury

Division of State Audit

Financial and Compliance Audit
Pellissippi 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.

AUDIT FINDINGS

The audit report contains no findings.

OPINIONS ON THE FINANCIAL STATEMENTS

The opinions on the financial statements are unqualified.

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

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

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

BACKGROUND

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

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

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

ORGANIZATION

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

AUDIT SCOPE

The audit was limited to the period July 1, 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. Pellissippi State Community College is an institution of the Tennessee Board of Regents, which is an integral part of state government. As such, the Tennessee Board of Regents has been included as a component unit in the *Tennessee Comprehensive Annual Financial Report*.

OBJECTIVES OF THE AUDIT

The objectives of the audit were

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

PRIOR AUDIT FINDING

Section 8-4-109, *Tennessee Code Annotated*, requires that each state department, agency, or institution report to the Comptroller of the Treasury the action taken to implement the recommendations in the prior audit report. The college filed its report with the Department of Audit on March 9, 2011. A follow-up of the prior audit finding was conducted as part of the current audit.

The current audit disclosed that the college has corrected a previous audit finding concerning the need for improved review procedures in the preparation of the college's financial statements.

OBSERVATIONS AND COMMENTS

MANAGEMENT'S RESPONSIBILITY FOR RISK ASSESSMENT

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

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

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

FRAUD CONSIDERATIONS

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

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

TECHNOLOGY CENTER

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

RESULTS OF THE AUDIT

AUDIT CONCLUSIONS

Internal Control

As part of the audit of the college's financial statements for the years ended June 30, 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 no material weaknesses.

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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DIVISION OF STATE AUDIT

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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***

July 8, 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. Anthony Wise, President
Pellissippi State Community College
P. O. Box 22990
Knoxville, Tennessee 37933-0990

Ladies and Gentlemen:

We have audited the financial statements of Pellissippi State Community College, an institution of the Tennessee Board of Regents, which is a component unit of the State of Tennessee, and its discretely presented component unit as of and for the years ended June 30, 2011, and June 30, 2010, and have issued our report thereon dated July 8, 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.

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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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 Pellissippi State Community College in a separate letter.

July 8, 2012
Page Three

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, prominent initial "A".

Arthur A. Hayes, Jr., CPA
Director

AAH/sds



STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
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DIVISION OF STATE AUDIT

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Independent Auditor's Report

July 8, 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. Anthony Wise, President
Pellissippi State Community College
P. O. Box 22990
Knoxville, Tennessee 37933-0990

Ladies and Gentlemen:

We have audited the accompanying basic financial statements of Pellissippi State Community College, an institution of the Tennessee Board of Regents, which is a component unit of the State of Tennessee, and its discretely presented component unit as of and for the years ended June 30, 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.

July 8, 2012

Page Two

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

As discussed in Note 1, the financial statements of Pellissippi State Community College, an institution of the Tennessee Board of Regents, are intended to present the financial position, the changes in financial position, and the cash flows of only Pellissippi State Community College. They do not purport to, and do not, present fairly the financial position of the Tennessee Board of Regents, as of June 30, 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 Pellissippi 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 12 through 36 and the schedule of funding progress on page 66 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 67 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

July 8, 2012
Page Three

In accordance with generally accepted government auditing standards, we have also issued our report dated July 8, 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 that reads "Arthur A. Hayes, Jr." The signature is written in a cursive style with a large initial "A" and a distinct "H".

Arthur A. Hayes, Jr., CPA
Director

AAH/sds

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

This section of Pellissippi State Community College's financial report presents a discussion and analysis of the financial performance of the college during the fiscal 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 Pellissippi State Community College Foundation. More detailed information about the college's component unit is presented in note 16 to the financial statements. Information regarding the component unit is also included in this section.

Using This Report

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

The Statement of Net Assets

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

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

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

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

	2011	2010	2009
Assets:			
Current assets	\$16,725	\$15,972	\$12,517
Capital assets, net	60,587	55,530	44,493
Other assets	8,597	10,190	10,126
Total assets	85,909	81,692	67,136
Liabilities:			
Current liabilities	8,799	8,152	8,149
Noncurrent liabilities	4,721	4,472	4,053
Total liabilities	13,520	12,624	12,202
Net assets:			
Invested in capital assets, net of related debt	60,587	55,530	44,302
Restricted – expendable	477	482	463
Unrestricted	11,325	13,056	10,169
Total net assets	\$72,389	\$69,068	\$54,934

Comparison of fiscal year 2011 to fiscal year 2010

- Total assets increased \$4,217,000 (5%). This increase was a result of an increase of \$753,000 in current assets, an increase of \$5,057,000 in capital assets, and a decrease of \$1,593,000 in other assets.
- The current asset increase was the result of an increase in Pellissippi State cash of \$139,000, technology center cash of \$355,000, and accounts receivable of \$241,000. These increases were due to normal operational cash and receivables growth.
- The capital asset increase was the result of increases in equipment, land, the new Blount County campus, various renovations projects, and parking lots. (These increases are explained further in the Capital Assets section.)

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

- Other assets decreased by \$1,593,000. These were from unexpended plant funds for project expenditures.
- Liabilities remained fairly constant with an increase of \$896,000. This was due to increases in the college's net OPEB obligation, compensated absences, and agency funds held for others.
- The current ratio at June 30, 2011, is 1.90 to 1.

Comparison of fiscal year 2010 to fiscal year 2009

- Total assets increased \$14,556,000 (22%). The majority of this increase was in capital assets \$11,037,000 (25%) and current assets \$3,455,000 (28%). The majority of the increase in capital assets was projects in progress. (See Capital Assets section.) There were some minor increases in other capital assets categories, but the Blount County campus, Goins Building, and Magnolia campus projects account for most of the increase.
- The current asset increase was the result of an increase in cash of \$2,912,000 (27%). An increase in unrestricted cash of \$2,119,000 and an increase in plant and renewal and replacement reserves of \$1,852,000 offset by a decrease in restricted cash of \$1,027,000 account for most of this change. Most of the decrease in cash was a return payment for American Recovery and Reinvestment Act (ARRA) stimulus funds. There was also an increase of \$271,000 in operational accounts receivable and a "due from" receivable for ARRA stimulus funds for \$277,000.
- Liabilities remained fairly constant with small operational increases of \$422,000 (3%). This resulted in an increase in total net assets of \$14,134,000 (26%).
- The current ratio at June 30, 2010, increased to 1.96 to 1.

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

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

	2011	2010	2009
Assets:			
Current assets	\$2,713	\$2,272	\$1,465
Other assets	7,279	6,293	6,039
Total assets	9,992	8,565	7,504
Liabilities:			
Current liabilities	-	1	3
Total liabilities	-	1	3
Net assets:			
Restricted – nonexpendable	2,531	2,509	2,359
Restricted – expendable	7,492	6,190	6,022
Unrestricted	(31)	(135)	(880)
Total net assets	\$9,992	\$8,564	\$7,501

Comparison of fiscal year 2011 to fiscal year 2010

- For the Pellissippi State Community College Foundation, total assets increased \$1,427,000 (17%).
- Current assets increased \$441,000 (19%) due to an increase in cash gifts and short-term pledges from donors. Cash accounted for approximately \$400,000 of this increase.
- Noncurrent assets increased \$986,000 (16%) due to an increase in the value of investments because of the stock market recovery.

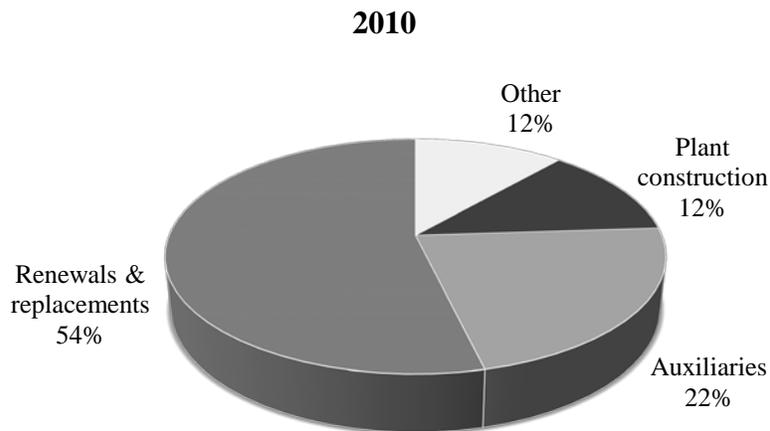
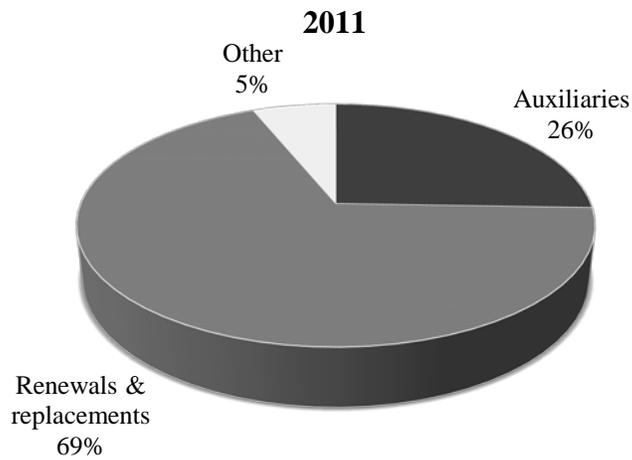
Comparison of fiscal year 2010 to fiscal year 2009

- For the Pellissippi State Community College Foundation, total assets increased \$1,061,000 (14%), the majority of which is in current assets. Cash grew by \$731,000 due to cash gifts and pledge payments. Investments increased by \$497,000, but this was offset by a decrease in pledge receivables of \$174,000.

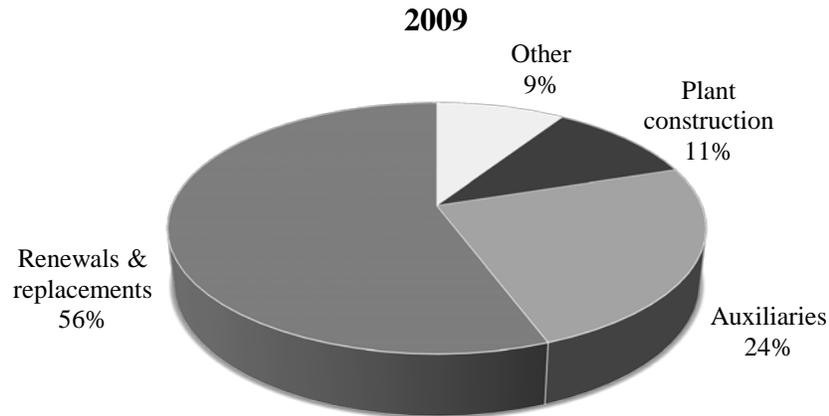
**Tennessee Board of Regents
Pellissippi State Community College
Management's Discussion and Analysis (Cont.)**

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

Allocation of Unrestricted Net Assets



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



All of the foundation's unrestricted net assets were undesignated at June 30, 2011; June 30, 2010; and June 30, 2009.

Comparison of fiscal year 2011 to fiscal year 2010

- The unrestricted net assets decreased \$1,731,000. The majority of this decrease was the designated funds for construction projects and renewals and replacements. These funds decreased \$1,596,000 due to project completions and closures. The undesignated funds decreased \$115,000, and the auxiliaries remained constant.

Comparison of fiscal year 2010 to fiscal year 2009

- The unrestricted net assets increased \$2,887,000. The majority of this increase has been designated for plant projects and replacements (\$1,884,000). Auxiliary reserves increased \$438,000, and undesignated funds increased \$565,000.

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

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

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

	2011	2010	2009
Operating revenues:			
Net tuition and fees	\$21,555	\$18,612	\$17,560
Grants and contracts	1,326	361	721
Auxiliary	694	640	514
Other	284	311	324
Total operating revenues	23,859	19,924	19,119
Operating expenses	72,083	62,291	55,392
Operating loss	(48,224)	(42,367)	(36,273)
Nonoperating revenues and expenses:			
State appropriations	22,177	19,183	21,060
Gifts	368	134	432
Grants and contracts	26,470	24,899	13,885
Investment income	52	79	309
Other nonoperating revenues (expenses)	(37)	100	(89)
Total nonoperating revenues (expenses)	49,030	44,395	35,597
Income (loss) before other revenues, expenses, gains, or losses	806	2,028	(676)
Other revenues, expenses, gains, or losses:			
Capital appropriations	2,514	12,033	5,880
Capital grants and gifts	1	73	-
Other	-	-	(120)
Total other revenues, expenses, gains, or losses	2,515	12,106	5,760
Increase in net assets	3,321	14,134	5,084
Net assets at beginning of year	69,068	54,934	49,850
Net assets at end of year	\$72,389	\$69,068	\$54,934

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

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

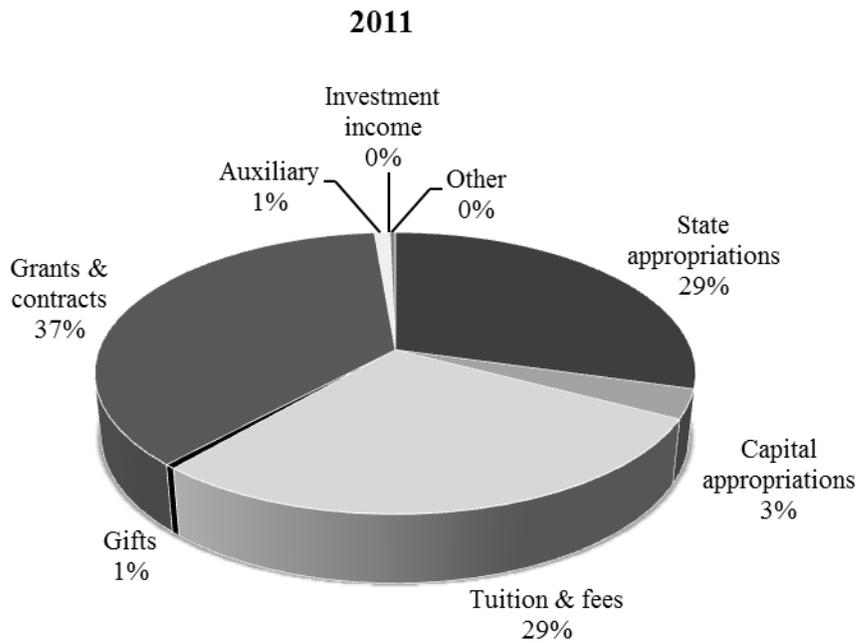
	2011	2010	2009
Operating revenues:			
Gifts	\$ 862	\$694	\$804
Endowment income	91	57	65
Other	2	-	-
Total operating revenues	955	751	869
Operating expenses	496	422	448
Operating income	459	329	421
Nonoperating revenues and expenses:			
Investment income	975	444	(1,142)
Other nonoperating revenues (expenses)	(6)	-	-
Total nonoperating revenues (expenses)	969	444	(1,142)
Income (loss) before other revenues, expenses, gains, or losses	1,428	773	(721)
Other revenues, expenses, gains, or losses:			
Capital grants and gifts	-	73	-
Additions to permanent endowments	-	146	60
Total other revenues, expenses, gains, or losses	-	219	60
Increase (decrease) in net assets	1,428	992	(661)
Net assets at beginning of year	8,564	7,501	8,162
Prior-period adjustment	-	71	-
Net assets at end of year	\$9,992	\$8,564	\$7,501

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

Revenues

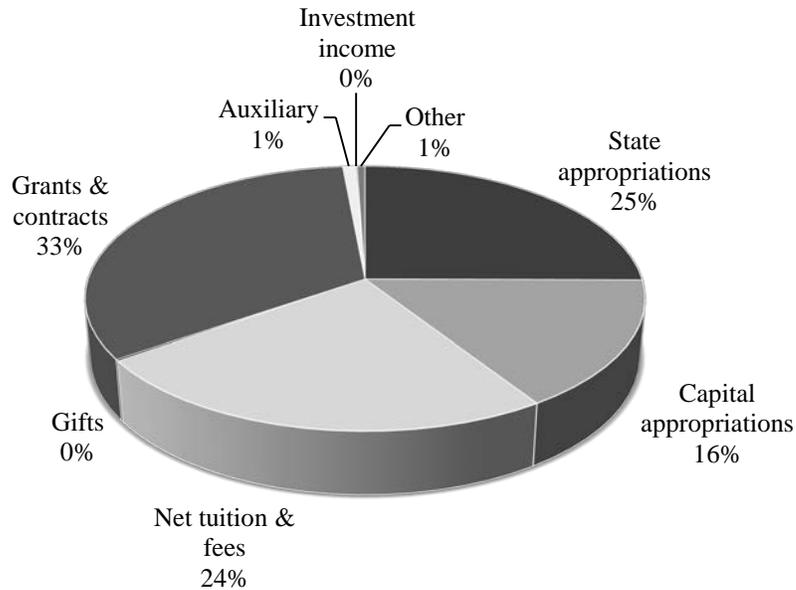
The following is a graphic illustration of revenues by source (both operating and nonoperating), which are used to fund the college's operating activities for the years ended June 30, 2011; June 30, 2010; and June 30, 2009.

**Revenues by Source
Pellissippi State Community College**

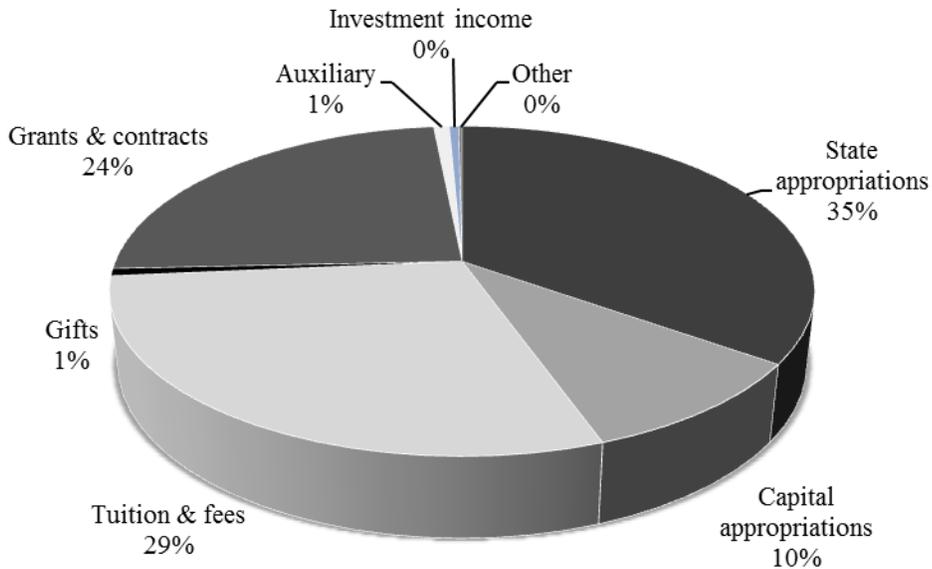


**Tennessee Board of Regents
Pellissippi State Community College
Management's Discussion and Analysis (Cont.)**

2010



2009



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

Comparison of fiscal year 2011 to fiscal year 2010

- Total operating revenues increased by \$3,935,000 (20%). The majority of this increase was for net tuition and fees – \$2,943,000 – a result of a 6.3% increase in maintenance fee tuition and an enrollment increase of 8%.
- Operating grants and contracts increased by \$965,000 due to the private contracts for the EBS license (\$760,000), state-UT contract (\$101,000), various federal grants and contracts (\$75,000), and local contract training classes (\$28,000).
- Other operating revenues remained constant.
- The state appropriations increased \$2,994,000 due to state appropriations received in lieu of ARRA stimulus funding.
- Nonoperating grants and contracts increased \$1,571,000 due to a net reduction of ARRA stimulus funds of \$2,003,000 and increases in various student aid programs – \$3,574,000.
- Capital appropriations decreased \$9,519,000 due to a decrease in funds for Blount County campus of \$9,095,000, a decrease in funds for Goins Building renovations of \$369,000, and other minor project changes of \$55,000.
- Other revenue categories remained constant.

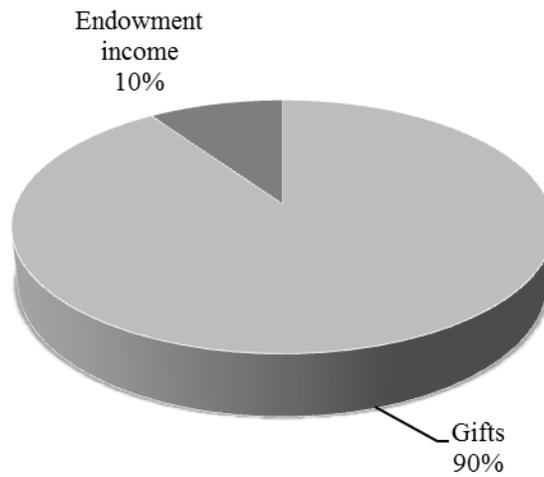
Comparison of fiscal year 2010 to fiscal year 2009

- Total revenues increased by \$15,740,000 (26%). Grants and contracts revenues accounted for \$10,654,000 of this total. The increase in grants and contracts revenue was due to increases in federal, state, and local financial aid revenues (Pell, SEOG, TSAC, Lottery, Dual Enrollment, and Academic Competitiveness) and an increase in ARRA stimulus revenue.
- Capital appropriations increased \$6,153,000. This was state funding for the new Blount County campus.
- State appropriations for higher education decreased \$1,877,000 (9%). Net student tuition and fees increased \$1,052,000 due to a 3.7% maintenance fee increase.

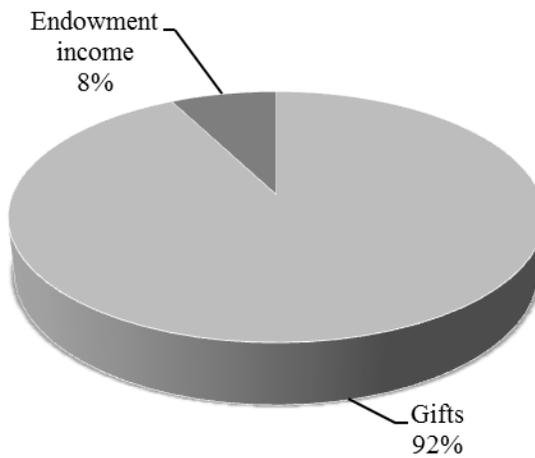
**Tennessee Board of Regents
Pellissippi State Community College
Management's Discussion and Analysis (Cont.)**

**Operating Revenues by Source
Pellissippi State Community College Foundation**

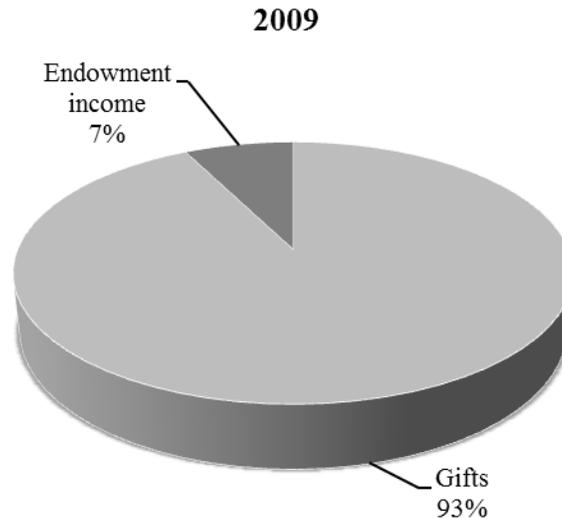
2011



2010



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



Comparison of fiscal year 2011 to fiscal year 2010

- For the Pellissippi State Community College Foundation, total operating revenues increased \$204,000 (27%).
- Gifts, pledges, and donations accounted for \$168,000 of the increase, while realized endowment investment income accounted for \$34,000.
- Total nonoperating revenues increased by \$531,000 in the investment income category. This was due to the stock market recovery.

Comparison of fiscal year 2010 to fiscal year 2009

- For the Pellissippi State Community College Foundation, total revenues increased \$1,627,000. Operating gifts were down by \$110,000, while investment income increased by \$1,586,000, and additions to permanent endowments increased by \$86,000.

Expenses

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

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

**Natural Classification
Pellissippi State Community College**

Functional Classification	Natural Classification					
			Other			
2011	<u>Salaries</u>	<u>Benefits</u>	<u>Operating</u>	<u>Scholarships</u>	<u>Depreciation</u>	<u>Total</u>
Instruction	\$17,961	\$5,523	\$ 5,567	\$ 168	\$ -	\$29,219
Public service	451	129	319	7	-	906
Academic support	3,598	1,260	(266)	68	-	4,660
Student services	3,072	1,195	2,006	68	-	6,341
Institutional support	3,044	1,283	2,471	11	-	6,809
Maintenance & operation	727	425	5,068	3	-	6,223
Scholarships	-	-	-	14,086	-	14,086
Depreciation	-	-	-	-	3,656	3,656
Auxiliaries	-	-	183	-	-	183
Total expenses	<u>\$28,853</u>	<u>\$9,815</u>	<u>\$15,348</u>	<u>\$14,411</u>	<u>\$3,656</u>	<u>\$72,083</u>

Functional Classification	Natural Classification					
			Other			
2010	<u>Salaries</u>	<u>Benefits</u>	<u>Operating</u>	<u>Scholarships</u>	<u>Depreciation</u>	<u>Total</u>
Instruction	\$16,704	\$4,764	\$ 4,498	\$ 260	\$ -	\$26,226
Public service	477	110	211	129	-	927
Academic support	3,411	1,110	(359)	24	-	4,186
Student services	2,975	1,068	1,846	105	-	5,994
Institutional support	2,925	1,133	2,201	19	-	6,278
Maintenance & operation	726	371	3,188	3	-	4,288
Scholarships	-	-	2	11,745	-	11,747
Depreciation	-	-	-	-	2,475	2,475
Auxiliaries	-	-	170	-	-	170
Total expenses	<u>\$27,218</u>	<u>\$8,556</u>	<u>\$11,757</u>	<u>\$12,285</u>	<u>\$2,475</u>	<u>\$62,291</u>

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

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

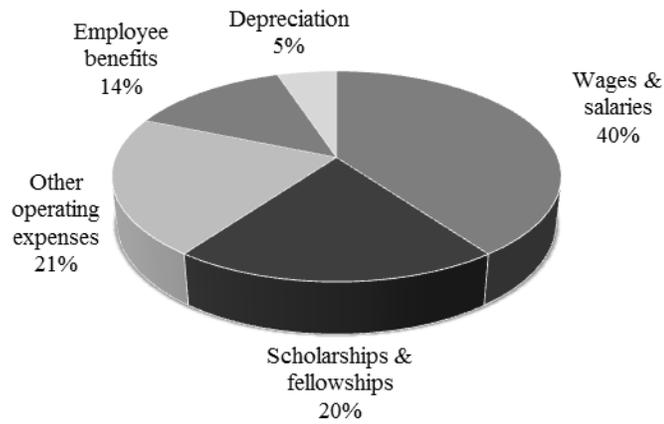
**Pellissippi State Community College
Foundation**

Natural Classification	<u>2011</u>	<u>2010</u>	<u>2009</u>
Other operating	\$ 14	\$110	\$ 80
Scholarships	117	109	104
Capital gifts and payments to college	365	203	264
Total expenses	\$496	\$422	\$448

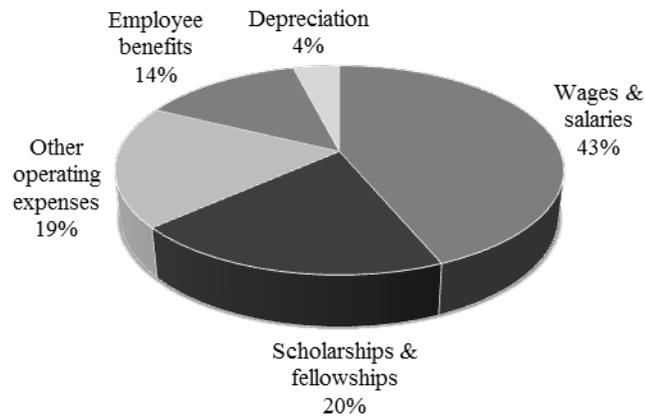
**Tennessee Board of Regents
Pellissippi State Community College
Management's Discussion and Analysis (Cont.)**

**Operating Expenses by Natural Classification
Pellissippi State Community College**

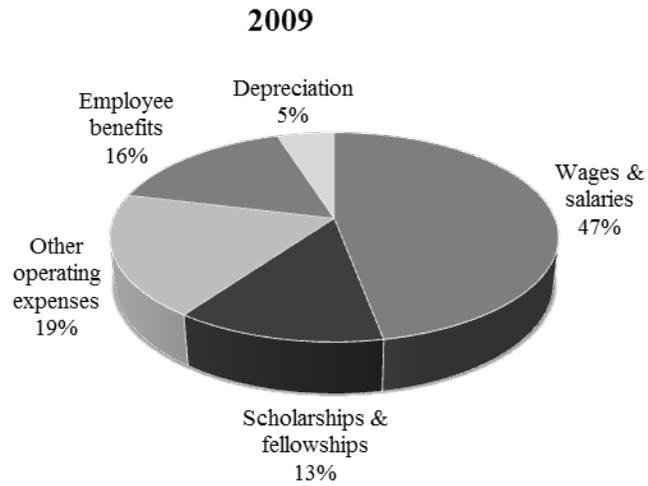
2011



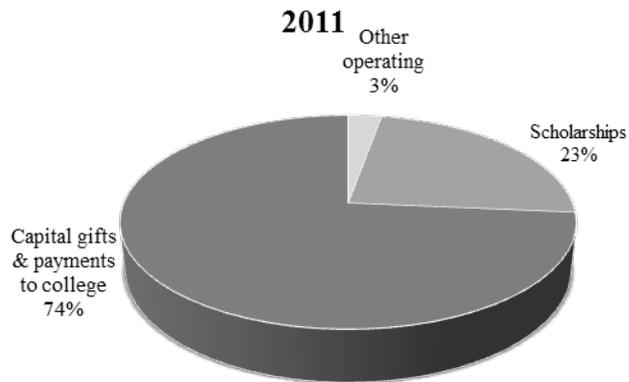
2010



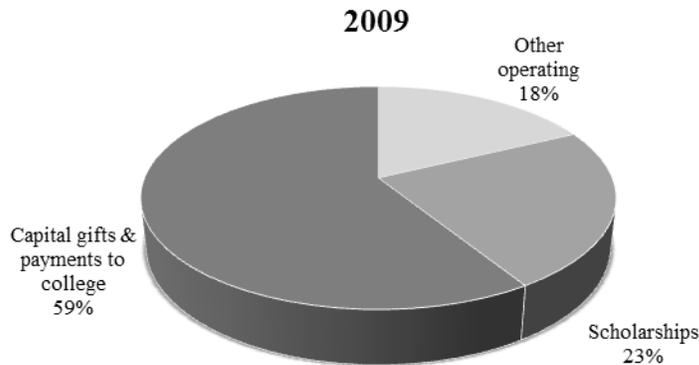
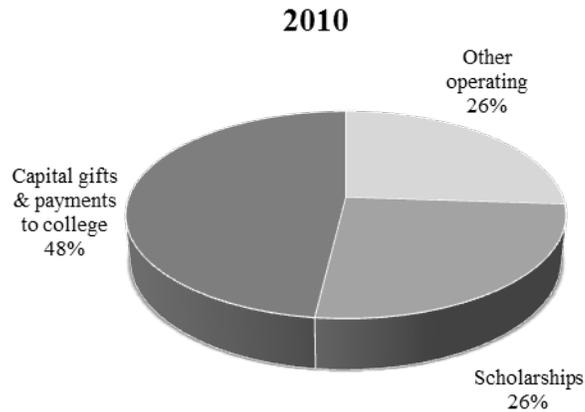
**Tennessee Board of Regents
Pellissippi State Community College
Management's Discussion and Analysis (Cont.)**



**Operating Expenses by Natural Classification
Foundation**



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



Comparison of fiscal year 2011 to fiscal year 2010

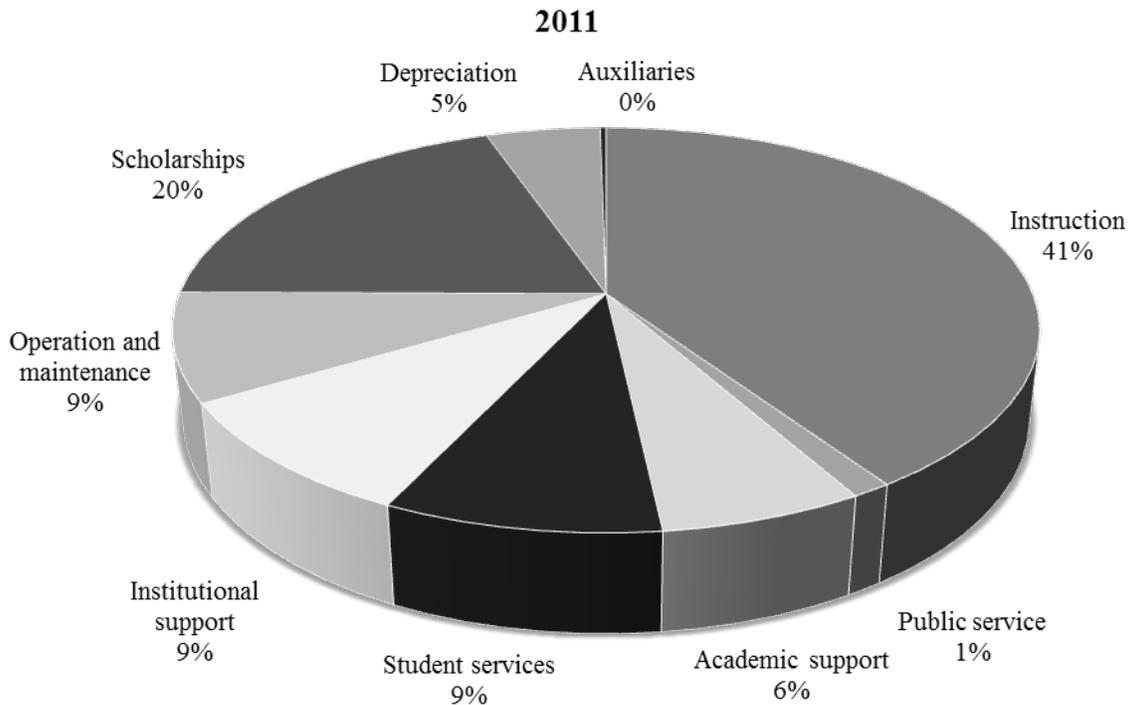
- Total operating expenses for the college increased by \$9,792,000 (11%). Salaries and benefits accounted for \$2,894,000. This was due to increased enrollment. Depreciation expenses increased \$1,181,000. Scholarship expenses increased \$2,126,000 due to increased enrollment and higher levels of state and federal financial aid. Other operating expenses increased \$3,591,000 due to increased enrollment and the opening of the new Blount County campus.
- For the foundation, expenses increased by \$74,000. The increase was mainly in the category of payments to or on behalf of the college. This support was mainly for the nursing and music programs.

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

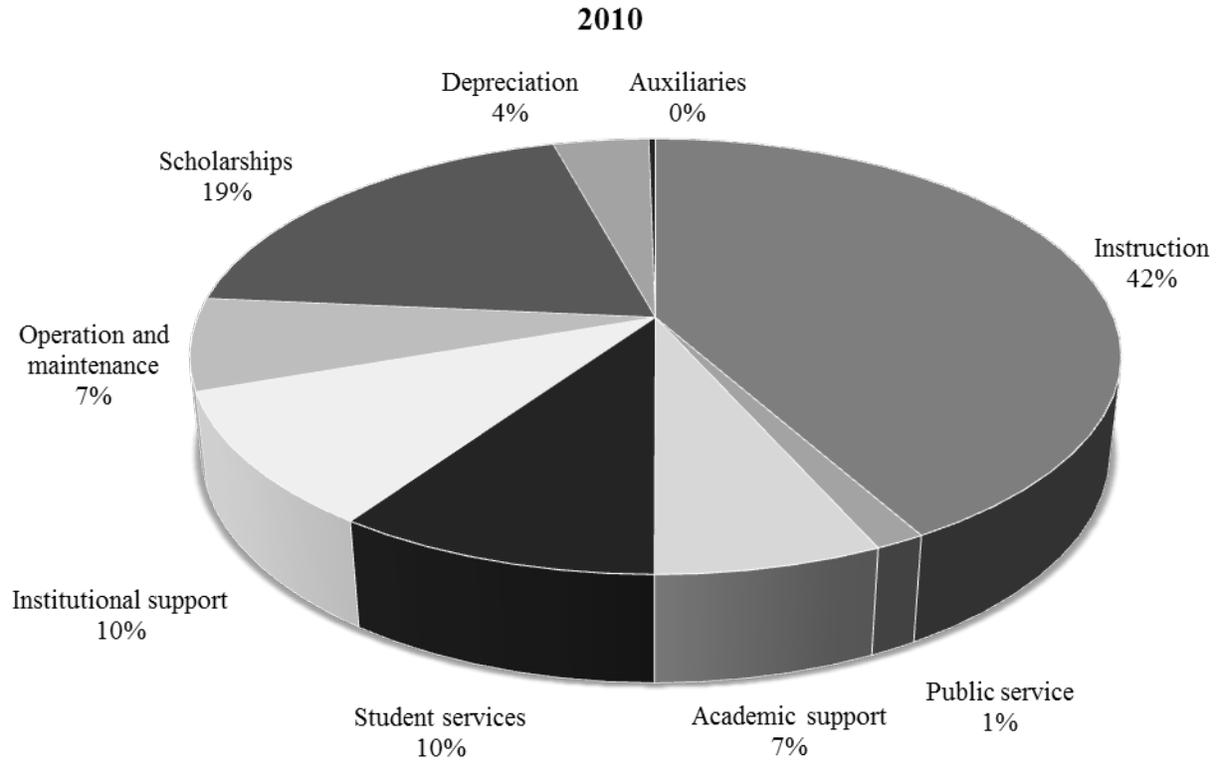
Comparison of fiscal year 2010 to fiscal year 2009

- Total operating expenses for the college increased by \$6,899,000 (12%). The majority of this increase, \$5,181,000, was in scholarship expenses due to higher levels of financial aid funding (Pell, TSAC, SEOG, Lottery). Salaries and benefits and other operating expenses increased slightly, \$698,000 and \$1,263,000, respectively.
- The Pellissippi State Community College Foundation expenses were reduced by \$26,000 in the operational areas. This was a result of other operating expenses increasing \$30,000, scholarship expenses increasing \$5,000, and capital gifts and payments to the college decreasing \$61,000.

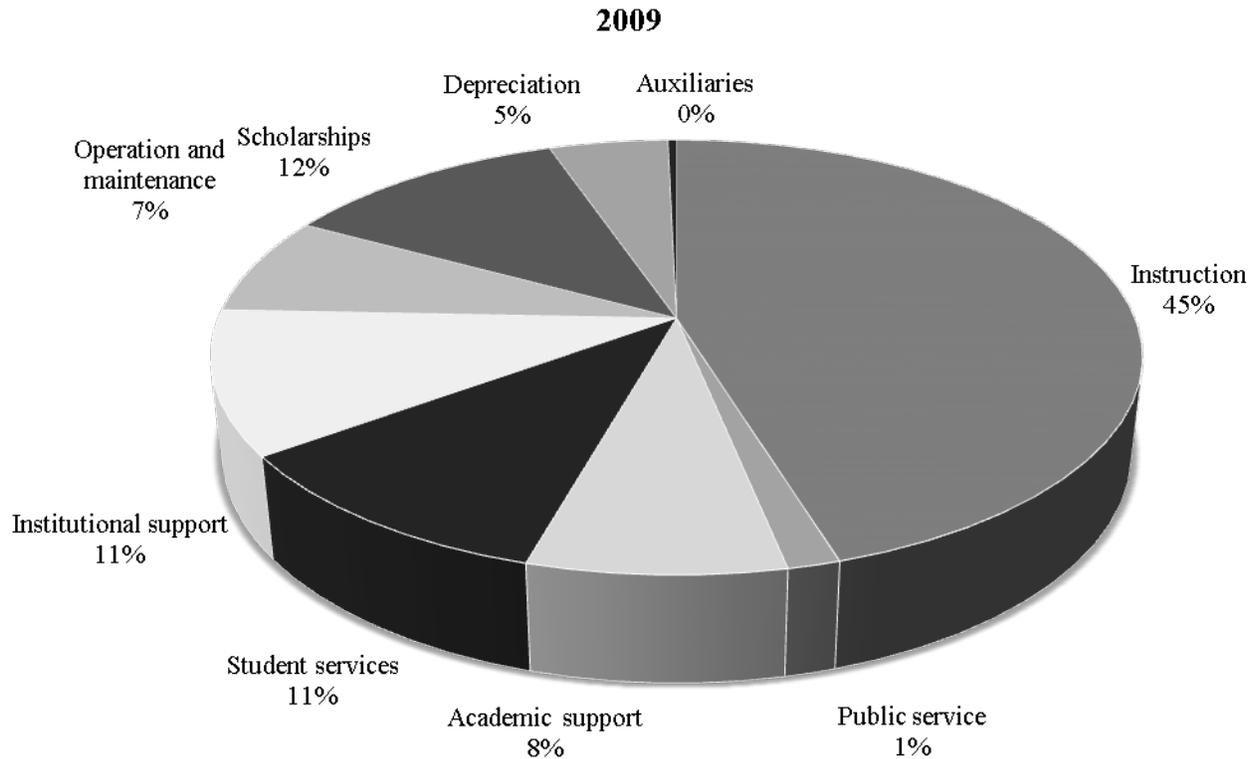
Operating Expenses by Function



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



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



Comparison of fiscal year 2011 to fiscal year 2010

- Expenses by functional classification increased by \$9,792,000. The instructional function increased by \$2,993,000 due to increased enrollment and the new Blount County campus. The next large increase was in operation and maintenance of \$1,935,000. This was due to increased utilities and the new Blount County campus. The scholarship increase of \$2,339,000 was due to increased enrollment and higher levels of state and federal financial aid. Depreciation increased by \$1,181,000. The other increases were across various functions and were a result of the operational increases due to enrollment increases, employee increases, campus square footage increases, and other various support services.

Comparison of fiscal year 2010 to fiscal year 2009

- Expenses by functional classification increased by \$6,899,000. The only significant change was an increase in scholarship expenses from 12% to 19% of the total. This was due to large increases in federal, state, and local financial aid funding.

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

Capital Assets and Debt Administration

Capital Assets

Pellissippi State Community College had \$60,586,582.35 invested in capital assets, net of accumulated depreciation of \$35,884,205.62, at June 30, 2011; \$55,530,233.56 invested in capital assets, net of accumulated depreciation of \$32,408,645.46, at June 30, 2010; and \$44,493,155.92 invested in capital assets, net of accumulated depreciation of \$30,479,077.93, at June 30, 2009. Depreciation charges totaled \$3,655,921.58, \$2,474,692.21, and \$2,718,444.31 for the years ended June 30, 2011; June 30, 2010; and June 30, 2009, respectively. Details of these assets are shown below.

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

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Land	\$5,008	\$ 3,552	\$ 3,263
Land improvements and infrastructure	5,174	1,308	1,448
Buildings	43,541	25,582	26,928
Equipment	4,409	3,416	2,810
Library holdings	749	755	776
Intangible assets	1,308	1,449	1,643
Projects in progress	398	19,468	7,625
Total	\$60,587	\$55,530	\$44,493

Comparison of fiscal year 2011 to fiscal year 2010

Capital assets, net of depreciation, increased \$5,057,000. This increase is the result of the following transactions:

- Equipment and library holdings - \$1,831,000.
- Land at the Division Street and Magnolia campuses - \$199,000.
- Additional work at the new Blount County campus - \$2,805,000.
- Various minor renovation projects and parking lots at the Magnolia, Division Street, and Hardin Valley campuses - \$2,708,000.
- Depreciation – total annual depreciation charge was \$3,656,000.

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

Comparison of fiscal year 2010 to fiscal year 2009

Capital assets, net of depreciation, increased \$11,037,000. This increase is the result of the following transactions:

- Land – increase of \$289,000 for Master Plan land acquisitions at the Division Street and Magnolia campuses.
- Equipment and library holdings – increase of \$864,000 and decrease of \$78,000, respectively. These were normal college purchases with no major expenditures.
- Software – increase of \$48,000 for purchase of Banner software.
- Projects in Progress – increase of \$11,843,000. The state-funded projects are the new Blount County campus, the Goins Building renovations, and the Magnolia campus renovations. The locally funded projects are parking lots, signage, a portable building, and minor renovation projects. There are several ARRA stimulus-funded projects including classroom and lab renovations, re-roofing buildings, HVAC upgrades, and lighting and security upgrades.
- Depreciation – total annual depreciation charge was \$2,475,000.

The Pellissippi State Community College Foundation did not have any capital assets in fiscal year 2011, fiscal year 2010, or fiscal year 2009.

The state projects will continue to fiscal year 2012. The local and ARRA stimulus projects were completed in fiscal year 2011. There are no major projects that are scheduled to begin in fiscal year 2012. More detailed information about the college's capital assets is presented in Note 5 to the financial statements.

Debt

The college had \$1,549,469.70, \$1,659,320.40, and \$1,955,578.20 in debt outstanding at June 30, 2011; June 30, 2010; and June 30, 2009, respectively. The component unit had no debt outstanding at June 30, 2011; June 30, 2010; or June 30, 2009. The table below summarizes these amounts by type of debt instrument.

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

**Pellissippi State Community College
Outstanding Debt
(in thousands of dollars)**

TSSBA debt:	<u>2011</u>	<u>2010</u>	<u>2009</u>
Bonds payable	\$1,549	\$1,659	\$1,956
Total	\$1,549	\$1,659	\$1,956

- The outstanding debt for Pellissippi State represents bonds that were issued to implement two energy management projects. The debt currently totals \$1,549,470. The debt was reduced by \$109,850 in fiscal year 2011 and will be reduced by \$114,464 in fiscal year 2012.

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

For fiscal year 2012, the following significant changes will affect the financial position of the college:

- Student maintenance fee tuition will increase by an average of 9.5% in fiscal year 2012.
- State appropriation funding will be reduced in fiscal year 2012 by approximately \$271,000, and ARRA stimulus funding of \$2,986,800 will be eliminated.

**Tennessee Board of Regents
Pellissippi 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. L. Anthony Wise, Jr., President, 10915 Hardin Valley Road, Knoxville, TN 37933.

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

	Pellissippi State Community College		Component Unit - Pellissippi State Community College Foundation	
	<u>June 30, 2011</u>	<u>June 30, 2010</u>	<u>June 30, 2011</u>	<u>June 30, 2010</u>
ASSETS				
Current assets:				
Cash (Notes 2, 3, and 16)	\$ 14,130,502.92	\$ 13,636,518.33	\$ 2,100,462.10	\$ 1,702,593.68
Accounts and grants receivable (net) (Note 4)	2,518,126.52	2,000,013.21	44,196.97	18,248.99
Due from primary government	-	277,005.90	-	-
Pledges receivable (net) (Note 16)	-	-	568,282.40	550,185.97
Inventories	5,817.30	8,686.88	-	-
Prepaid expenses and deferred charges	71,028.10	49,978.36	445.00	700.00
Total current assets	<u>16,725,474.84</u>	<u>15,972,202.68</u>	<u>2,713,386.47</u>	<u>2,271,728.64</u>
Noncurrent assets:				
Cash (Notes 2, 3, and 16)	8,597,356.37	10,189,755.69	-	-
Investments (Note 16)	-	-	6,422,014.75	5,159,545.72
Pledges receivable (net) (Note 16)	-	-	857,123.06	1,133,408.76
Capital assets (net) (Note 5)	60,586,582.35	55,530,233.56	-	-
Total noncurrent assets	<u>69,183,938.72</u>	<u>65,719,989.25</u>	<u>7,279,137.81</u>	<u>6,292,954.48</u>
Total assets	<u>85,909,413.56</u>	<u>81,692,191.93</u>	<u>9,992,524.28</u>	<u>8,564,683.12</u>
LIABILITIES				
Current liabilities:				
Accounts payable (Note 6)	819,531.76	551,498.90	340.00	713.94
Accrued liabilities	1,889,047.85	1,986,568.38	-	-
Deferred revenue	1,701,383.81	1,775,357.00	-	-
Compensated absences (Note 7)	375,048.19	353,365.80	-	-
Long-term liabilities, current portion (Note 7)	114,464.30	109,850.70	-	-
Deposits held in custody for others	3,878,248.70	3,350,389.90	-	-
Other liabilities	21,762.04	25,125.40	-	-
Total current liabilities	<u>8,799,486.65</u>	<u>8,152,156.08</u>	<u>340.00</u>	<u>713.94</u>
Noncurrent liabilities:				
Net OPEB obligation (Note 11)	2,528,023.68	2,198,582.12	-	-
Compensated absences (Note 7)	758,027.92	723,968.95	-	-
Long-term liabilities (Note 7)	1,435,005.40	1,549,469.70	-	-
Total noncurrent liabilities	<u>4,721,057.00</u>	<u>4,472,020.77</u>	<u>-</u>	<u>-</u>
Total liabilities	<u>13,520,543.65</u>	<u>12,624,176.85</u>	<u>340.00</u>	<u>713.94</u>
NET ASSETS				
Invested in capital assets, net of related debt	60,586,582.35	55,530,233.56	-	-
Restricted for:				
Nonexpendable:				
Scholarships and fellowships	-	-	1,880,936.85	1,864,122.99
Instructional department uses	-	-	56,431.78	56,151.09
Other	-	-	594,095.14	589,017.46
Expendable:				
Scholarships and fellowships	-	-	4,184,396.74	3,266,278.36
Instructional department uses	-	-	1,061,246.15	1,100,211.15
Loans	1,005.61	1,005.61	74,623.19	77,777.67
Capital projects	-	-	1,899,722.48	1,718,024.90
Other	476,568.53	481,276.40	271,670.15	27,969.44
Unrestricted (Note 8)	<u>11,324,713.42</u>	<u>13,055,499.51</u>	<u>(30,938.20)</u>	<u>(135,583.88)</u>
Total net assets	<u>\$ 72,388,869.91</u>	<u>\$ 69,068,015.08</u>	<u>\$ 9,992,184.28</u>	<u>\$ 8,563,969.18</u>

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

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

	Pellissippi State Community College		Component Unit - Pellissippi 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 \$11,557,362.12 for the year ended June 30, 2011, and \$9,609,135.24 for the year ended June 30, 2010)	\$ 21,554,822.68	\$ 18,611,839.83	\$ -	\$ -
Gifts and contributions	-	-	862,376.94	694,347.37
Endowment income per spending plan	-	-	90,880.10	57,274.70
Governmental grants and contracts	372,195.08	184,568.03	-	-
Nongovernmental grants and contracts	954,100.89	176,899.08	-	-
Auxiliary enterprises:				
Bookstore	623,072.47	572,957.12	-	-
Food service	70,544.33	67,132.28	-	-
Other operating revenues	284,493.43	311,050.35	1,486.39	-
Total operating revenues	<u>23,859,228.88</u>	<u>19,924,446.69</u>	<u>954,743.43</u>	<u>751,622.07</u>
EXPENSES				
Operating expenses (Note 14):				
Salaries and wages	28,852,798.78	27,217,916.21	-	-
Benefits	9,814,975.12	8,555,955.73	-	-
Utilities, supplies, and other services	15,347,625.35	11,757,766.99	14,433.17	109,742.58
Scholarships and fellowships	14,411,333.98	12,284,892.59	116,466.79	109,148.75
Depreciation expense	3,655,921.58	2,474,692.21	-	-
Gifts of capital assets and payments to or on behalf of Pellissippi State Community College	-	-	365,043.06	203,129.00
Total operating expenses	<u>72,082,654.81</u>	<u>62,291,223.73</u>	<u>495,943.02</u>	<u>422,020.33</u>
Operating income (loss)	<u>(48,223,425.93)</u>	<u>(42,366,777.04)</u>	<u>458,800.41</u>	<u>329,601.74</u>
NONOPERATING REVENUES (EXPENSES)				
State appropriations	22,177,282.00	19,183,431.50	-	-
Gifts (college gifts include \$364,361.52 from component unit in 2011 and \$130,345.05 in 2010)	368,361.52	134,345.05	-	-
Grants and contracts	26,469,637.46	24,898,839.88	-	-
Investment income (for component unit, net of investment expense of \$22,132.22 in 2011 and \$19,115.62 in 2010)	51,460.21	78,992.93	974,922.04	443,597.19
Interest on capital asset-related debt	(67,037.68)	(77,647.86)	-	-
Other nonoperating revenues (expenses)	29,816.46	177,269.08	(6,188.89)	-
Net nonoperating revenues	<u>49,029,519.97</u>	<u>44,395,230.58</u>	<u>968,733.15</u>	<u>443,597.19</u>
Income before other revenues, expenses, gains, or losses	<u>806,094.04</u>	<u>2,028,453.54</u>	<u>1,427,533.56</u>	<u>773,198.93</u>
Capital appropriations	2,514,079.25	12,032,640.21	-	-
Additions to permanent endowments	-	-	-	146,312.36
Capital gifts and grants (college gifts include \$681.54 from component unit in 2011 and \$72,783.95 in 2010)	681.54	72,783.95	681.54	72,783.95
Total other revenues	<u>2,514,760.79</u>	<u>12,105,424.16</u>	<u>681.54</u>	<u>219,096.31</u>
Increase in net assets	<u>3,320,854.83</u>	<u>14,133,877.70</u>	<u>1,428,215.10</u>	<u>992,295.24</u>
NET ASSETS				
Net assets - beginning of year	69,068,015.08	54,934,137.38	8,563,969.18	7,500,843.22
Prior period adjustment	-	-	-	70,830.72
Net assets - end of year	<u>\$ 72,388,869.91</u>	<u>\$ 69,068,015.08</u>	<u>\$ 9,992,184.28</u>	<u>\$ 8,563,969.18</u>

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

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

	Year Ended June 30, 2011	Year Ended June 30, 2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Tuition and fees	\$ 20,900,787.86	\$ 19,075,095.37
Grants and contracts	1,297,984.42	335,493.63
Payments to suppliers and vendors	(14,920,237.71)	(11,554,623.90)
Payments to employees	(28,999,958.81)	(26,988,495.91)
Payments for benefits	(9,386,806.07)	(8,029,699.21)
Payments for scholarships and fellowships	(14,408,114.63)	(12,285,747.33)
Auxiliary enterprise charges:		
Bookstore	610,588.55	569,314.74
Food services	72,682.33	64,497.76
Other receipts	284,493.43	311,050.35
Net cash used by operating activities	<u>(44,548,580.63)</u>	<u>(38,503,114.50)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State appropriations	22,166,900.00	19,177,300.00
Gifts and grants received for other than capital or endowment purposes	26,988,754.12	23,805,033.70
Federal student loan receipts	18,271,234.34	15,404,412.95
Federal student loan disbursements	(18,150,247.34)	(15,541,740.95)
Changes in deposits held for others	467,403.09	31,879.18
Other noncapital financing receipts	31,364.45	28,239.76
Net cash provided by noncapital financing activities	<u>49,775,408.66</u>	<u>42,905,124.64</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from sale of capital assets	-	309,050.00
Capital appropriations	2,514,079.25	12,159,803.65
Purchases of capital assets and construction	(8,713,136.82)	(13,599,097.46)
Principal paid on capital debt	(109,850.70)	(296,257.80)
Interest paid on capital debt	(67,794.70)	(79,554.12)
Net cash used by capital and related financing activities	<u>(6,376,702.97)</u>	<u>(1,506,055.73)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Income on investments	51,460.21	78,992.93
Net cash provided by investing activities	<u>51,460.21</u>	<u>78,992.93</u>
Net increase (decrease) in cash	(1,098,414.73)	2,974,947.34
Cash at beginning of year	23,826,274.02	20,851,326.68
Cash at end of year	<u>\$ 22,727,859.29</u>	<u>\$ 23,826,274.02</u>

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

	Year Ended June 30, 2011	Year Ended June 30, 2010
Reconciliation of operating loss to net cash used by operating activities:		
Operating loss	\$ (48,223,425.93)	\$ (42,366,777.04)
Adjustments to reconcile operating loss to net cash used by operating activities:		
Depreciation expense	3,655,921.58	2,474,692.21
Gifts in-kind	194,700.32	130,345.05
Other adjustments	11,882.00	8,031.50
Change in assets and liabilities:		
Receivables, net	(642,722.51)	(197,034.40)
Inventories	2,869.58	(5,951.80)
Prepaid/deferred items	(21,049.74)	10,550.26
Accounts payable	270,071.15	5,366.48
Accrued liabilities	(108,036.81)	176,160.47
Net OPEB obligation	329,441.56	516,796.44
Deferred revenue	(73,973.19)	694,859.39
Compensated absences	55,741.36	49,846.94
Net cash used by operating activities	<u>\$ (44,548,580.63)</u>	<u>\$ (38,503,114.50)</u>
Noncash investing, capital, and financing transactions		
Gifts of capital assets	\$ 681.54	\$ 72,783.95
Loss on disposal of capital assets	\$ (1,547.99)	\$ (160,111.56)

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

**Tennessee Board of Regents
Pellissippi 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 Pellissippi State Community College.

The Pellissippi 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 16 for more detailed information about the component unit and how to obtain the report.

Basis of Presentation

The college's financial statements have been prepared in 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
Pellissippi 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

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

normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's useful life are not capitalized.

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

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

Net Assets

The college's net assets are classified as follows:

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

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

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

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

**Tennessee Board of Regents
Pellissippi 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 \$2,192,393.86 in bank accounts, \$3,830.00 of petty cash on hand, \$18,307,960.64 in the State of Tennessee Local Government Investment Pool (LGIP) administered by the State Treasurer, and \$2,223,674.79 in LGIP deposits for capital projects. At June 30, 2010, cash consisted of \$981,282.32 in bank accounts, \$3,830.00 of petty cash on hand, \$21,601,540.13 in LGIP, \$930,571.57 in LGIP deposits for capital projects, and \$309,050.00 on deposit with the Tennessee Board of Regents.

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.

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

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 \$20,531,635.43 at June 30, 2011, and \$22,532,111.70 at June 30,

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

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	\$1,723,254.31	\$ 940,653.77
Grants receivable	258,709.55	404,827.67
State appropriation receivable	33,900.00	35,400.00
Other receivables	<u>827,262.66</u>	<u>839,131.77</u>
Subtotal	2,843,126.52	2,220,013.21
Less allowance for doubtful accounts	<u>325,000.00</u>	<u>220,000.00</u>
Total receivables	<u><u>\$2,518,126.52</u></u>	<u><u>\$2,000,013.21</u></u>

NOTE 5. CAPITAL ASSETS

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

**Tennessee Board of Regents
Pellissippi State Community College
Notes to the Financial Statements (Cont.)
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	\$ 3,552,470.31	\$ 198,681.19	\$ 1,256,591.00	\$ -	\$ 5,007,742.50
Land improvements and infrastructure	2,809,477.73	3,185,054.33	1,032,107.54	-	7,026,639.60
Buildings	49,095,088.09	2,805,242.01	17,172,572.87	-	69,072,902.97
Equipment	9,142,165.95	1,850,277.96	-	181,909.41	10,810,534.50
Library holdings	1,524,607.10	162,866.73	-	-	1,687,473.83
Intangible assets	2,346,702.38	121,294.68	-	-	2,467,997.06
Projects in progress	<u>19,468,367.46</u>	<u>390,401.46</u>	<u>(19,461,271.41)</u>	-	<u>397,497.51</u>
Total	<u>87,938,879.02</u>	<u>8,713,818.36</u>	<u>-</u>	<u>181,909.41</u>	<u>96,470,787.97</u>
Less accumulated depreciation/amortization:					
Land improvements and infrastructure	1,501,762.15	351,331.98	-	-	1,853,094.13
Buildings	23,512,590.27	2,019,227.56	-	-	25,531,817.83
Equipment	5,726,570.62	854,943.88	-	180,361.42	6,401,153.08
Library holdings	769,749.98	168,747.39	-	-	938,497.37
Intangible assets	<u>897,972.44</u>	<u>261,670.77</u>	<u>-</u>	<u>-</u>	<u>1,159,643.21</u>
Total	<u>32,408,645.46</u>	<u>3,655,921.58</u>	<u>-</u>	<u>180,361.42</u>	<u>35,884,205.62</u>
Capital assets, net	<u>\$55,530,233.56</u>	<u>\$5,057,896.78</u>	<u>\$ -</u>	<u>\$ 1,547.99</u>	<u>\$60,586,582.35</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	\$ 3,263,141.81	\$ 244,145.78	\$88,573.90	\$ 43,391.18	\$ 3,552,470.31
Land improvements and infrastructure	2,809,477.73	-	-	-	2,809,477.73
Buildings	49,095,088.09	-	-	-	49,095,088.09
Equipment	8,277,960.94	1,250,080.58	-	385,875.57	9,142,165.95
Library holdings	1,602,531.80	154,834.81	-	232,759.51	1,524,607.10
Intangible assets	2,298,987.28	47,715.10	-	-	2,346,702.38
Projects in progress	<u>7,625,046.20</u>	<u>11,975,105.14</u>	<u>(88,573.90)</u>	<u>43,209.98</u>	<u>19,468,367.46</u>
Total	<u>74,972,233.85</u>	<u>13,671,881.41</u>	<u>-</u>	<u>705,236.24</u>	<u>87,938,879.02</u>

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

Less accumulated depreciation/amortization:

Land improvements and infrastructure	1,361,288.26	140,473.89	-	-	1,501,762.15
Buildings	22,166,535.09	1,346,055.18	-	-	23,512,590.27
Equipment	5,467,964.29	570,971.50	-	312,365.17	5,726,570.62
Library holdings	826,772.84	175,736.65	-	232,759.51	769,749.98
Intangible assets	<u>656,517.45</u>	<u>241,454.99</u>	-	-	<u>897,972.44</u>
Total	<u>30,479,077.93</u>	<u>2,474,692.21</u>	-	<u>545,124.68</u>	<u>32,408,645.46</u>
Capital assets, net	<u>\$44,493,155.92</u>	<u>\$11,197,189.20</u>	<u>\$ -</u>	<u>\$160,111.56</u>	<u>\$55,530,233.56</u>

NOTE 6. ACCOUNTS PAYABLE

Accounts payable included the following:

	<u>June 30, 2011</u>	<u>June 30, 2010</u>
Vendors payable	\$808,717.83	\$548,142.29
Unapplied student payments	<u>10,813.93</u>	<u>3,356.61</u>
Total accounts payable	<u>\$819,531.76</u>	<u>\$551,498.90</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	\$1,659,320.40	\$ -	\$109,850.70	\$1,549,469.70	\$114,464.30
Subtotal	<u>1,659,320.40</u>	<u>-</u>	<u>109,850.70</u>	<u>1,549,469.70</u>	<u>114,464.30</u>
Other liabilities:					
Compensated absences	<u>1,077,334.75</u>	<u>122,737.81</u>	<u>66,996.45</u>	<u>1,133,076.11</u>	<u>375,048.19</u>
Subtotal	<u>1,077,334.75</u>	<u>122,737.81</u>	<u>66,996.45</u>	<u>1,133,076.11</u>	<u>375,048.19</u>
Total long-term liabilities	<u>\$2,736,655.15</u>	<u>\$122,737.81</u>	<u>\$176,847.15</u>	<u>\$2,682,545.81</u>	<u>\$489,512.49</u>

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

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	\$1,955,578.20	\$ -	\$296,257.80	\$1,659,320.40	\$109,850.70
Subtotal	<u>1,955,578.20</u>	<u>-</u>	<u>296,257.80</u>	<u>1,659,320.40</u>	<u>109,850.70</u>
Other liabilities:					
Compensated absences	<u>1,027,487.81</u>	<u>114,465.49</u>	<u>64,618.55</u>	<u>1,077,334.75</u>	<u>353,365.80</u>
Subtotal	<u>1,027,487.81</u>	<u>114,465.49</u>	<u>64,618.55</u>	<u>1,077,334.75</u>	<u>353,365.80</u>
Total long-term liabilities	<u>\$2,983,066.01</u>	<u>\$114,465.49</u>	<u>\$360,876.35</u>	<u>\$2,736,655.15</u>	<u>\$463,216.50</u>

TSSBA Debt - Bonds

Bonds, with interest rates ranging from 3.25% to 5%, were issued by the Tennessee State School Bond Authority (TSSBA). The bonds are due serially to 2023 and are secured by pledges of the facilities' revenues to which they relate and certain other revenues and fees of the college, including state appropriations. See Note 9 for further detail.

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	\$ 114,464.30	\$ 63,400.69	\$ 177,864.99
2013	118,860.40	59,233.43	178,093.83
2014	123,569.10	54,762.69	178,331.79
2015	128,758.60	49,819.93	178,578.53
2016	134,166.40	44,669.59	178,835.99
2017 – 2021	761,867.90	136,573.35	898,441.25
2022 – 2023	<u>167,783.00</u>	<u>10,969.68</u>	<u>178,752.68</u>
Total	<u>\$1,549,469.70</u>	<u>\$419,429.36</u>	<u>\$1,968,899.06</u>

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

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	\$ 1,309,484.53	\$ 656,564.44
Encumbrances	1,199,681.91	2,015,941.93
Auxiliaries	2,893,639.64	2,912,860.63
Plant construction	-	1,629,137.31
Renewal and replacement of equipment	7,732,239.30	7,015,069.63
Undesignated	<u>(1,810,331.96)</u>	<u>(1,174,074.43)</u>
Total	<u>\$11,324,713.42</u>	<u>\$13,055,499.51</u>

NOTE 9. PLEDGED REVENUES

The college has pledged certain revenues and fees, including state appropriations, to repay \$1,549,469.70 in revenue bonds issued from July 2006 to January 2008. Proceeds from the bonds provided financing for two Energy Management projects. The bonds are payable through May 2023. Annual principal and interest payments on the bonds are expected to require .3% of available revenues. The total principal and interest remaining to be paid on the bonds at June 30, 2011, is \$1,968,899.06. Principal and interest paid for fiscal year 2011 and total available revenues in that year were \$177,645.40 and \$57,403,978.77, respectively. Principal and interest paid for fiscal year 2010 and total available revenues in that year were \$375,902.80 and \$48,701,273.75, respectively. See Note 7 for further details.

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,

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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 \$1,599,845.74, \$1,318,976.71, and \$1,275,086.93. Contributions met the requirements for each year.

B. Defined Contribution Plans

Optional Retirement Plans

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

Funding Policy - Plan members are noncontributory. The college contributes an amount equal to 10% of the employee's base salary up to the social security wage base and 11% above the social security wage base. Contribution requirements are established and amended by state statute. The contributions made by

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the college to the plans were \$1,192,401.17 for the year ended June 30, 2011, and \$1,133,208.04 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 15. 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 Pellissippi State Community College. The state is the sole contributor for the college retirees that participate in the Medicare Supplement Plan and, therefore, is acting as the employer.

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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)	\$ 812,000.00	\$ 894,000.00
Interest on the net OPEB obligation	98,936.20	75,680.36
Adjustment to the ARC	<u>(93,712.21)</u>	<u>(71,684.31)</u>
Annual OPEB cost	817,223.99	897,996.05
Amount of contribution	<u>(487,782.43)</u>	<u>(381,199.61)</u>
Increase (decrease) in net OPEB obligation	329,441.56	516,796.44
Net OPEB obligation – beginning of year	<u>2,198,582.12</u>	<u>1,681,785.68</u>
Net OPEB obligation – end of year	<u><u>\$2,528,023.68</u></u>	<u><u>\$2,198,582.12</u></u>

<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	\$817,223.99	59.7%	\$2,528,023.68

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June 30, 2010	State Employee Group Plan	\$897,996.05	42.5%	\$2,198,582.12
June 30, 2009	State Employee Group Plan	\$1,229,039.90	33.6%	\$1,681,785.68

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)	\$7,671,000.00	\$8,451,000.00
Actuarial value of plan assets	-	-
Unfunded actuarial accrued liability (UAAL)	\$7,671,000.00	\$8,451,000.00
Actuarial value of assets as a percentage of the AAL	0%	0%
Covered payroll (active plan members)	\$19,584,467.75	\$18,707,798.29
UAAL as percentage of covered payroll	39.2%	45.2%

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

Actuarial Methods and Assumptions

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

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

NOTE 12. INSURANCE-RELATED ACTIVITIES

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

The college participates in the Risk Management Fund. The fund allocates the cost of providing claims servicing and claims payment by charging a premium to the college based on a percentage of the college's expected loss costs, which include both experience and exposures. This charge considers recent trends in actual claims experience of the state as a whole. An actuarial valuation is performed as of fiscal year-end to determine the fund liability and premium allocation. Information regarding the determination of the claims liabilities and the changes in the balances of the claims liabilities for the years ended June 30, 2011, and June 30, 2010, are presented in the *Tennessee Comprehensive Annual Financial Report*. The CAFR is available on the state's website at <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

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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 \$98,522,600 for buildings and \$21,580,300 for contents. At June 30, 2010, the scheduled coverage for the college was \$96,298,200 for buildings and \$18,267,700 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 \$7,914,190.11 at June 30, 2011, and \$7,765,120.20 at June 30, 2010.

Construction in Progress

At June 30, 2011, outstanding commitments under construction contracts totaled \$1,057,021.99 for the Hardin Valley Parking, Magnolia Campus Systems, Magnolia Center Improvements, Strawberry Plains Campus, ADA Adaptations, Red Brick Renovations, Division Street Parking, Blount County Campus, Portable Building, Roof Replacement and Exterior, Hardin Valley HVAC, Magnolia Campus

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Renovations, McWherter HVAC, McWherter Lab Renovations, and Campus Lighting and Security System Modernization projects, of which \$554,998.74 will be funded by future state capital outlay appropriations.

Litigation

The college is not involved in any lawsuits.

NOTE 14. NATURAL CLASSIFICATIONS WITH FUNCTIONAL CLASSIFICATIONS

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

<u>Functional Classification</u>	<u>Natural Classification</u>					<u>Total</u>
	<u>Salaries</u>	<u>Benefits</u>	<u>Other Operating</u>	<u>Scholarships</u>	<u>Depreciation</u>	
Instruction	\$17,960,505.90	\$5,523,409.31	\$ 5,567,017.55	\$ 168,025.15	\$ -	\$29,218,957.91
Public service	451,072.28	129,392.73	319,022.84	6,977.34	-	906,465.19
Academic support	3,598,603.00	1,259,712.70	(266,243.34)	68,192.61	-	4,660,264.97
Student services	3,071,932.28	1,194,748.21	2,005,986.98	67,837.03	-	6,340,504.50
Institutional support	3,043,837.33	1,282,321.26	2,471,125.01	11,208.95	-	6,808,492.55
Maintenance & operation	726,847.99	425,390.91	5,067,579.36	3,337.06	-	6,223,155.32
Scholarships & fellowships	-	-	-	14,085,755.84	-	14,085,755.84
Auxiliary	-	-	183,136.95	-	-	183,136.95
Depreciation	-	-	-	-	3,655,921.58	3,655,921.58
Total	<u>\$28,852,798.78</u>	<u>\$9,814,975.12</u>	<u>\$15,347,625.35</u>	<u>\$14,411,333.98</u>	<u>\$3,655,921.58</u>	<u>\$72,082,654.81</u>

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

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<u>Functional Classification</u>	<u>Natural Classification</u>					<u>Total</u>
	<u>Salaries</u>	<u>Benefits</u>	<u>Other Operating</u>	<u>Scholarships</u>	<u>Depreciation</u>	
Instruction	\$16,703,426.58	\$4,763,946.75	\$ 4,497,583.37	\$ 260,371.68	\$ -	\$26,225,328.38
Public service	477,223.60	109,683.82	211,453.71	128,914.28	-	927,275.41
Academic support	3,410,836.28	1,109,659.36	(358,519.36)	23,709.00	-	4,185,685.28
Student services	2,975,260.86	1,068,373.87	1,846,320.23	105,042.47	-	5,994,997.43
Institutional support	2,924,765.20	1,132,825.57	2,200,791.77	19,340.50	-	6,277,723.04
Maintenance & operation	726,403.69	371,466.36	3,188,018.94	2,624.00	-	4,288,512.99
Scholarships & fellowships	-	-	2,062.25	11,744,890.66	-	11,746,952.91
Auxiliary	-	-	170,056.08	-	-	170,056.08
Depreciation	-	-	-	-	<u>2,474,692.21</u>	<u>2,474,692.21</u>
Total	<u>\$27,217,916.21</u>	<u>\$8,555,955.73</u>	<u>\$11,757,766.99</u>	<u>\$12,284,892.59</u>	<u>\$2,474,692.21</u>	<u>\$62,291,223.73</u>

NOTE 15. ON-BEHALF PAYMENTS

During the year ended June 30, 2011, the State of Tennessee made payments of \$11,882.00 on behalf of the college for retirees participating in the Medicare Supplement Plan. The amount for the year ended June 30, 2010, was \$8,031.50. The Medicare Supplement Plan is a postemployment benefit healthcare plan and is discussed further in Note 11. The plan is reported in the *Tennessee Comprehensive Annual Financial Report*. That report is available on the state's website at <http://tennessee.gov/finance/act/cafr.html>.

NOTE 16. COMPONENT UNIT

The Pellissippi State Community College Foundation is a legally separate, tax-exempt organization supporting Pellissippi State Community College. The foundation acts primarily as a fund-raising organization to supplement the resources that are available to the college in support of its programs. The 35-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

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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 \$365,043.06 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 \$203,129.00 to or on behalf of the college for both restricted and unrestricted purposes. Complete financial statements for the foundation can be obtained from Mr. Ron Kesterson, Pellissippi State Community College, P. O. Box 22990, Knoxville, TN 37933-0990.

Fair Value Measurements

The foundation reports certain assets 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 at 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	\$4,357,914.51	\$4,357,914.51	\$ -	\$ -
Mutual bond funds	1,973,222.07	1,973,222.07	-	-
Money market funds	88,678.38	88,678.38	-	-
Realty investment fund	2,199.79	-	2,199.79	-
Pledges receivable	<u>1,425,405.46</u>	<u>-</u>	<u>-</u>	<u>1,425,405.46</u>
Total assets	<u>\$7,847,420.21</u>	<u>\$6,419,814.96</u>	<u>\$2,199.79</u>	<u>\$1,425,405.46</u>

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	Total Fair Value at <u>June 30, 2010</u>	Quoted Prices <u>Level 1</u>	Significant Other Inputs <u>Level 2</u>	Significant Unobservable Inputs <u>Level 3</u>
Assets:				
Mutual equity funds	\$3,509,291.56	\$3,509,291.56	\$ -	\$ -
Mutual bond funds	1,640,193.88	1,640,193.88	-	-
Money market funds	97.64	97.64	-	-
Realty investment fund	9,962.64	-	9,962.64	-
Pledges receivable	<u>1,683,594.73</u>	<u>-</u>	<u>-</u>	<u>1,683,594.73</u>
Total assets	<u>\$6,843,140.45</u>	<u>\$5,149,583.08</u>	<u>\$9,962.64</u>	<u>\$1,683,594.73</u>

Cash

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

Investments

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

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

	<u>Cost</u>	<u>Fair Value</u>
Mutual equity funds	\$2,852,563.39	\$4,357,914.51
Mutual bond funds	1,055,636.87	1,973,222.07
Money market funds	88,678.38	88,678.38
Realty investment fund	<u>247,771.02</u>	<u>2,199.79</u>
Total investments	<u>\$4,244,649.66</u>	<u>\$6,422,014.75</u>

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

	<u>Cost</u>	<u>Fair Value</u>
Mutual equity funds	\$2,715,706.83	\$3,509,291.56
Mutual bond funds	962,133.89	1,640,193.88
Money market funds	97.64	97.64
Realty investment fund	<u>250,345.72</u>	<u>9,962.64</u>
 Total investments	 <u>\$3,928,284.08</u>	 <u>\$5,159,545.72</u>

Pledges Receivable

Pledges receivable are summarized below net of the estimated uncollectible allowance of \$61,355.01 at June 30, 2011, and \$180,976.75 at June 30, 2010.

	<u>June 30, 2011</u>	<u>June 30, 2010</u>
Current pledges	\$ 572,699.26	\$ 553,706.51
Pledges due in one to five years	881,250.76	1,064,422.01
Pledges due after five years	<u>-</u>	<u>98,128.08</u>
Subtotal	1,453,950.02	1,716,256.60
Less discount to net present value	<u>(28,544.56)</u>	<u>(32,661.87)</u>
 Total pledges receivable, net	 <u>\$1,425,405.46</u>	 <u>\$1,683,594.73</u>

Endowments

The Pellissippi State Community College Foundation's endowment consists of approximately 120 individual funds established for a variety of purposes. Its endowment includes both donor-restricted endowment funds and funds designated by the Board of Trustees to function as endowments. As required by GAAP, net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

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

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

	<u>Permanently Restricted</u>	<u>Temporarily Restricted</u>	<u>Unrestricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$2,531,463.77	\$3,308,972.89	\$ -	\$5,840,436.66
Board-designated endowment funds	-	26,921.89	-	26,921.89
Total funds	<u>\$2,531,463.77</u>	<u>\$3,335,894.78</u>	<u>\$ -</u>	<u>\$5,867,358.55</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	\$2,509,291.54	\$2,377,726.57	\$ -	\$4,887,018.11
Board-designated endowment funds	-	21,098.32	-	21,098.32
Total funds	<u>\$2,509,291.54</u>	<u>\$2,398,824.89</u>	<u>\$ -</u>	<u>\$4,908,116.43</u>

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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	\$2,509,291.54	\$2,398,824.89	\$ -	\$4,908,116.43
Investment return:				
Investment income	-	116,265.58	-	116,265.58
Net appreciation (realized and unrealized)	<u>-</u>	<u>946,203.45</u>	<u>-</u>	<u>946,203.45</u>
Total investment return	<u>-</u>	<u>1,062,469.03</u>	<u>-</u>	<u>1,062,469.03</u>
Contributions	-	1,246.50	-	1,246.50
Appropriations of endowment assets for expenditure	-	(90,880.10)	-	(90,880.10)
Transfers	-	(35,765.54)	-	(35,765.54)
Change in allowance and discounts on pledges	<u>22,172.23</u>	<u>-</u>	<u>-</u>	<u>22,172.23</u>
Endowment net assets, end of year	<u>\$2,531,463.77</u>	<u>\$3,335,894.78</u>	<u>\$ -</u>	<u>\$5,867,358.55</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	\$2,359,161.17	\$1,989,936.46	\$ -	\$4,349,097.63
Investment return:				
Investment income	-	77,023.36	-	77,023.36
Net appreciation (realized and unrealized)	<u>-</u>	<u>420,300.00</u>	<u>-</u>	<u>420,300.00</u>
Total investment return	<u>-</u>	<u>497,323.36</u>	<u>-</u>	<u>497,323.36</u>
Contributions	146,312.36	1,696.00	-	148,008.36
Appropriations of endowment assets for expenditure	-	(57,274.70)	-	(57,274.70)
Transfers	688.89	(32,856.23)	-	(32,167.34)
Change in allowance and discounts on pledges	<u>3,129.12</u>	<u>-</u>	<u>-</u>	<u>3,129.12</u>

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

Endowment net assets, end of year	<u>\$2,509,291.54</u>	<u>\$2,398,824.89</u>	\$ _____ -	<u>\$4,908,116.43</u>
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Return objectives and risk parameters - The foundation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the organization must hold in perpetuity or for donor-specified periods as well as board-designated funds. Under this policy, as approved by the Board of Trustees, the endowment assets are invested in a manner that is intended to produce results that will maximize the benefit intended by the donor, to produce current income to support donor objectives and the programs of Pellissippi State Community College, and to achieve growth of both principal value and income over time. The foundation expects its endowment funds, over time, to provide an average rate of return of approximately 10 percent annually, including interest, dividends, and capital appreciation (realized and unrealized gains). Actual returns in any given year may vary from this amount.

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

Spending policy and how the investment objectives relate - The foundation has a policy of appropriating for distribution each year all realized investment earnings (interest, dividends, and realized gains) for regular endowment funds and one-half of realized investment earnings for Challenge grant-related endowment funds. In establishing this policy, the foundation considered the long-term expected return on its endowment. Accordingly, over the long-term, the foundation expects the current spending policy to allow its endowment to grow at an average of 5 percent annually. This is consistent with the foundation's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.

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

Prior-Period Adjustment

The foundation discovered that pledges, totaling \$75,000.00, received prior to July 1, 2009, were omitted from the financial statements. These pledges, net of discounts and allowances, resulted in a prior-period adjustment of \$70,830.72.

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

Actuarial Valuation Date	Plan	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b-a)/c]
July 1, 2010	State Employee Group Plan	\$ -	\$7,671,000.00	\$7,671,000.00	0%	\$19,584,467.75	39.2%
July 1, 2009	State Employee Group Plan	\$ -	\$8,451,000.00	\$8,451,000.00	0%	\$18,707,798.29	45.2%
July 1, 2007	State Employee Group Plan	\$ -	\$10,296,000.00	\$10,296,000.00	0%	\$17,539,723.65	58.7%

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

**TENNESSEE BOARD OF REGENTS
PELLISSIPPI 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	\$ 763,948.64	\$ 762,836.62
Payments to suppliers and vendors	(14,552.11)	(111,489.89)
Payments for scholarships and fellowships	(116,466.79)	(109,148.75)
Payments to Pellissippi State Community College	(169,661.20)	-
Loans issued to students	(25,947.98)	(6,688.97)
Collection of loans from students	1,486.39	-
Net cash provided by operating activities	<u>438,806.95</u>	<u>535,509.01</u>
CASH FLOWS NONCAPITAL FINANCING ACTIVITIES		
Private gifts for endowment purposes	<u>155,728.36</u>	<u>192,169.18</u>
Net cash provided by noncapital financing activities	<u>155,728.36</u>	<u>192,169.18</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Income on investments	119,598.69	80,571.89
Purchases of investments	<u>(316,265.58)</u>	<u>(77,023.36)</u>
Net cash provided (used) by investing activities	<u>(196,666.89)</u>	<u>3,548.53</u>
Net increase in cash	397,868.42	731,226.72
Cash at beginning of year	1,702,593.68	971,366.96
Cash at end of year	<u>\$ 2,100,462.10</u>	<u>\$ 1,702,593.68</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 458,800.41	\$ 329,601.74
Adjustments to reconcile operating income to net cash provided by operating activities:		
Endowment income per spending plan	(90,880.10)	(57,274.70)
Gift of capital assets to the college	681.54	72,783.95
Change in assets and liabilities:		
Receivables, net	70,324.04	192,145.33
Prepaid/deferred items	255.00	266.66
Accounts payable	<u>(373.94)</u>	<u>(2,013.97)</u>
Net cash provided by operating activities	<u>\$ 438,806.95</u>	<u>\$ 535,509.01</u>
Noncash investing, capital, and financing transactions		
Gifts of capital assets	\$ 681.54	\$ 72,783.95
Unrealized gains on investments	\$ 946,203.45	\$ 420,300.00
Gifts of capital assets to the college	\$ (681.54)	\$ (72,783.95)