STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY

TENNESSEE BOARD OF REGENTS
NORTHEAST STATE COMMUNITY COLLEGE

Financial and Compliance Audit Report

For the Years Ended June 30, 2017, and June 30, 2016

Justin P. Wilson, Comptroller

Division of State Audit

Deborah V. Loveless, CPA, CGFM, CGMA
Director

Edward Burr, CPA, CGFM
Assistant Director

Bob Hunter, CPA, CGFM
Audit Manager

Walter Bond, CPA, CFE
In-Charge Auditor

Jeb House
Jeff Kelly, CPA
Luke Konkle
Heaven Muncy
Staff Auditors

Information Systems

Daniel V. Willis, CPA, CISA, CGFM
Assistant Director

Brent L. Rumbley, CPA, CISA, CFE
Audit Manager

Sam Osborn, CISA
In-Charge Auditor

Eric Crawford, CPA
Landon Legate
Malik M. Moughrabi
Timothy F. Powers II
Staff Auditors

Gerry Boaz, CPA, CGFM, CGMA
Technical Manager

Amy Brack
Editor

Amanda Adams
Assistant Editor

Comptroller of the Treasury, Division of State Audit
Cordell Hull Building
425 Fifth Avenue North
Nashville, TN 37243
(615) 401-7897

Reports are available at
www.comptroller.tn.gov/sa/AuditReportCategories.asp

Mission Statement
The mission of the Comptroller's Office is
to make government work better.

Comptroller Website
www.comptroller.tn.gov

TENNESSEE COMPTROLLER OF THE TREASURY

JUSTIN P. WILSON
Comptroller

JASON E. MUMPOWER
Chief of Staff

November 12, 2018

The Honorable Bill Haslam, Governor
Members of the General Assembly
The Honorable Flora W. Tydings, Chancellor
Mr. James King, Interim President

Ladies and Gentlemen:

Transmitted herewith is the financial and compliance audit of the Tennessee Board of Regents, Northeast State Community College, for the years ended June 30, 2017, and June 30, 2016. You will note from the independent auditor's report that unmodified opinions were given on the fairness of the presentation of the financial statements.

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

Sincerely,

Deborah V. Loveless

Deborah V. Loveless, CPA, Director
Division of State Audit

18/037

CORDELL HULL BUILDING | 425 Fifth Avenue North | Nashville, Tennessee 37243

Audit Report
Tennessee Board of Regents
Northeast State Community College
For the Years Ended June 30, 2017, and June 30, 2016

TABLE OF CONTENTS (Continued)

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

Tennessee Board of Regents

Northeast State Community College

For the Years Ended June 30, 2017, and June 30, 2016

Opinions on the Financial Statements

The opinions on the financial statements are unmodified.

Audit Findings

Northeast State Community College Did Not Provide Adequate Internal Controls in Two Areas, Including One Area Noted in the Prior Two Audits **

The college did not design and monitor internal controls in two areas. The details of this finding are confidential pursuant to Section 10-7-504(i), *Tennessee Code Annotated* (page 64).

As Reported in the Previous Three Audits, Management Needs to Improve Financial Statement Preparation and Review Procedures to Prevent Errors in Its Financial Statements **

Northeast State Community College's procedures for preparation of its financial statements should be improved to ensure the accuracy of the information presented in its financial statements. This deficiency resulted in significant reporting errors (page 64).

College Staff Did Not Conduct Proper Collection Procedures on Accounts Receivable and Properly Estimate and Report an Allowance for Doubtful Accounts at Each Year-End

Prior to the 2017 fiscal year, management did not ensure that required collection procedures were being performed by Bursar's Office personnel. Further, the reported allowance for doubtful accounts receivable was inadequate at June 30, 2016, and June 30, 2017 (page 69).

College Staff Did Not Prepare Timely Bank Reconciliations

Business office staff did not always complete the operating and payroll bank account reconciliations on a timely basis (page 72).

** This finding is repeated from prior audits.

Independent Auditor's Report

The Honorable Bill Haslam, Governor
Members of the General Assembly
The Honorable Flora W. Tydings, Chancellor
Mr. James King, Interim President

Report on the Financial Statements

We have audited the accompanying financial statements of Northeast State Community College, an institution of the State University and Community College System of Tennessee, 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, 2017, and June 30, 2016, and the related notes to the financial statements, which collectively comprise the basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements, based on our audit. We did not audit the financial statements of the Northeast State Community College Foundation, a discretely presented component unit. Those statements were audited by other auditors, whose report has been furnished to us. Our opinion, insofar as it relates to the amounts included for the foundation, is based solely on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, based on our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of Northeast State Community College, and its discretely presented component unit as of June 30, 2017, and June 30, 2016; and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

As discussed in Note 1, the financial statements of Northeast State Community College, an institution of the State University and Community College System of Tennessee, are intended to present the financial position, the changes in financial position, and the cash flows of only Northeast State Community College. They do not purport to, and do not, present fairly the financial position of the State University and Community College System of Tennessee as of June 30, 2017, and June 30, 2016, and the changes in financial position and cash flows thereof for the years then ended, in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

As discussed in Note 17, the financial statements of Northeast State Community College Foundation, a discretely presented component unit of Northeast State Community College, include investments valued at $11,216,077 at June 30, 2017 (82.1% of net position of the foundation), and $10,018,479 at June 30, 2016 (81% of net position of the foundation), whose fair values have been estimated by management in the absence of readily determinable fair values. Management's estimates are based on information provided by the fund managers. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 6 through 17; the schedule of Northeast State Community College's proportionate share of the net pension liability – Closed State and Higher

Education Employee Pension Plan within TCRS on page 55; the schedule of Northeast State Community College's proportionate share of the net pension asset – State and Higher Education Employee Retirement Plan within TCRS on page 56; the schedule of Northeast State Community College's contributions – Closed State and Higher Education Employee Pension Plan within TCRS on page 57; the schedule of Northeast State Community College's Contributions – State and Higher Education Employee Retirement Plan within TCRS on page 58; and the other postemployment benefits schedule of funding progress on page 59 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during the audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the college's basic financial statements. The supplementary schedules of cash flows – component unit on page 60 are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 10, 2018, on our consideration of the college's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the college's internal control over financial reporting and compliance.

Deborah V. Loveless

Deborah V. Loveless, CPA, Director
Division of State Audit
October 10, 2018

Introduction

This section of Northeast State Community College's financial report presents a discussion and analysis of the financial performance of the college during the years ended June 30, 2017, and June 30, 2016, with comparative information presented for the year ended June 30, 2015. 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 notes to the financial statements. The financial statements, notes, and this discussion are the responsibility of management.

The college has one discretely presented component unit, the Northeast State Community College Foundation. More detailed information about the foundation is presented in Note 17 to the financial statements. This discussion and analysis focuses on the college and does not include the foundation.

Overview of the Financial Statements

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

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

The Statement of Net Position

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

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

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

The following table summarizes the college's assets, liabilities, deferred outflows/inflows of resources, and net position at June 30, 2017; June 30, 2016; and June 30, 2015.

Summary of Net Position
(in thousands of dollars)

	2017	2016	2015
Assets:			
Current assets	$ 6,021	$ 6,028	$10,931
Capital assets, net	44,492	41,630	41,557
Other assets	2,169	2,154	6,171
Total assets	**52,682**	**49,812**	**58,659**
Deferred outflows of resources:			
Deferred amount on debt refunding	7	10	13
Deferred outflows related to pensions	5,136	2,779	1,721
Total deferred outflows	**5,143**	**2,789**	**1,734**
Liabilities:			
Current liabilities	9,004	6,960	5,719
Noncurrent liabilities	11,697	8,826	5,905
Total liabilities	**20,701**	**15,786**	**11,624**
Deferred inflows of resources:			

Deferred inflows related to pensions	473	1,227	4,124
Total deferred inflows	**473**	**1,227**	**4,124**
Net position:			
Net investment in capital assets	44,340	41,443	41,336
Restricted – expendable	3,917	3,998	216
Unrestricted	(11,606)	(9,853)	3,093
Total net position	**$36,651**	**$35,588**	**$44,645**

Comparison of Fiscal Year 2017 to Fiscal Year 2016

- Capital assets, net, increased in 2017 due mainly to a $4.3 million increase in projects in progress, netted with depreciation expense of $1.7 million.
- Deferred outflows of resources increased and deferred inflows of resources decreased during the year due primarily to actual earnings from pension plan investments being lower than projected.
- Current liabilities increased by $2 million in fiscal year 2017, as compared to fiscal year 2016, primarily due to a $900,000 operating loan from the Tennessee Board of Regents and a $1.1 million increase in accounts payable.
- Noncurrent liabilities increased by $2.9 million in fiscal year 2017, as compared to fiscal year 2016, due primarily to an increase of $3.1 million in the net pension liability.
- Unrestricted net position decreased $1.75 million in fiscal year 2017, as compared to fiscal year 2016, primarily due to an increase of $1 million in defined benefit pension expense.

Comparison of Fiscal Year 2016 to Fiscal Year 2015

- Current assets decreased $4.9 million in 2017, primarily due to $4.2 million of adjustments increasing the school's allowance for doubtful accounts receivable.
- Other assets decreased by $4 million in fiscal year 2016, as compared to fiscal year 2015. This decrease is primarily due to equipment purchases and improvements made throughout the year to prepare for increased enrollment in fiscal year 2017 due to Tennessee Promise.
- Deferred inflows related to pensions decreased during the year primarily due to actual earnings from pension plan investments being lower than projected.
- Current liabilities increased by $1.2 million in fiscal year 2016, as compared to fiscal year 2015, primarily due to an increase in deposits held in custody for TCAT-Elizabethton and a $680,000 increase in unearned revenue at June 30, 2016.
- Noncurrent liabilities increased by $2.9 million in fiscal year 2016, as compared to fiscal year 2015, due primarily to an increase of $47,677 in net OPEB obligation, an increase of $2.8 million in net pension liability, and an increase of $83,850 in noncurrent compensated absences liability.

- Restricted expendable net position increased by $3.8 million in 2017 as $3.9 million of deposits in LGIP – capital project accounts were correctly reclassified from unrestricted net position assets to restricted expendable – capital project assets.

Unrestricted net position decreased by $12.9 million in 2016 for the following reasons:

- the reclassification of the $3.9 million to restricted expendable net position described directly above;
- the increase in the allowance for doubtful accounts of $4.2 million, described above;
- the increase in pension expense for defined benefit plans totaling $281,000;
- the $48,000 increase in the net OPEB obligation;
- a $110,000 increase in the total compensated absences liability;
- the expenditure of $3.55 million of unrestricted unexpended plant funds; and
- the expenditure of $476,000 of unrestricted renewal and replacement plant funds.

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

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

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

A summary of the college's revenues, expenses, and changes in net position for the year ended June 30, 2017, and the two previous years follows.

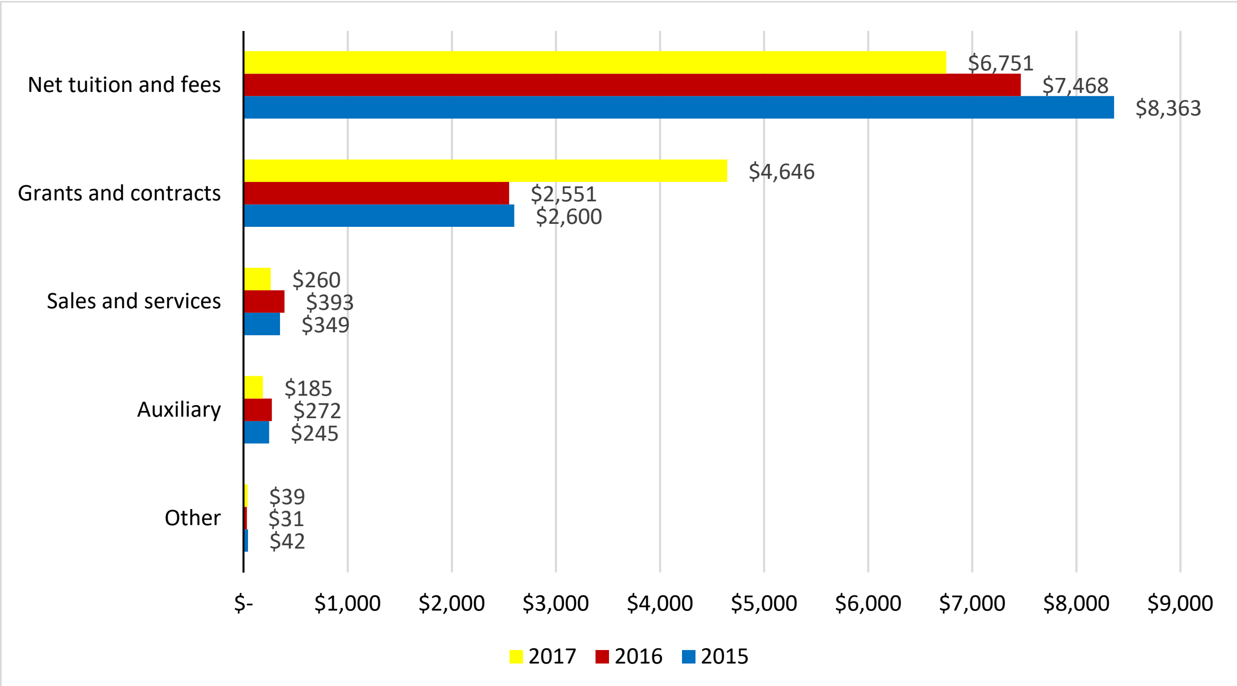
Summary of Revenues, Expenses, and Changes in Net Position
(in thousands of dollars)

	2017	2016	2015
Operating revenues	$11,881	$10,715	$11,600
Operating expenses	48,093	49,079	44,253
Operating loss	(36,212)	(38,364)	(32,653)
Nonoperating revenues and expenses	34,211	32,322	29,275
Income (loss) before other revenues, expenses, gains, or losses	(2,001)	(6,042)	(3,378)
Other revenues, expenses, gains, or losses	3,064	667	3,437
Increase (decrease) in net position	1,063	(5,375)	59
Net position at beginning of year	35,588	44,645	51,146
Cumulative effect of change in accounting principle	-	-	(6,560)
Prior period adjustment	-	(3,682)	-
Net position at beginning of year - restated	35,588	40,963	44,586
Net position at end of year	**$36,651**	**$35,588**	**$44,645**

Operating Revenues

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

Operating Revenues by Source
(in thousands of dollars)



Comparison of Fiscal Year 2017 to Fiscal Year 2016

- Net tuition and fees decreased $717,000 in fiscal year 2017, as compared to fiscal year 2016. Scholarship allowances increased from $11,245,003.69 in 2016 to $12,209,006.74 in 2017, which provided a decrease to the net tuition and fees.
- Grant and contract revenues increased $2.09 million in fiscal year 2017, as compared to fiscal year 2016, primarily due to the increase of $1.5 million from the Project Inspire Grant.

Comparison of Fiscal Year 2016 to Fiscal Year 2015

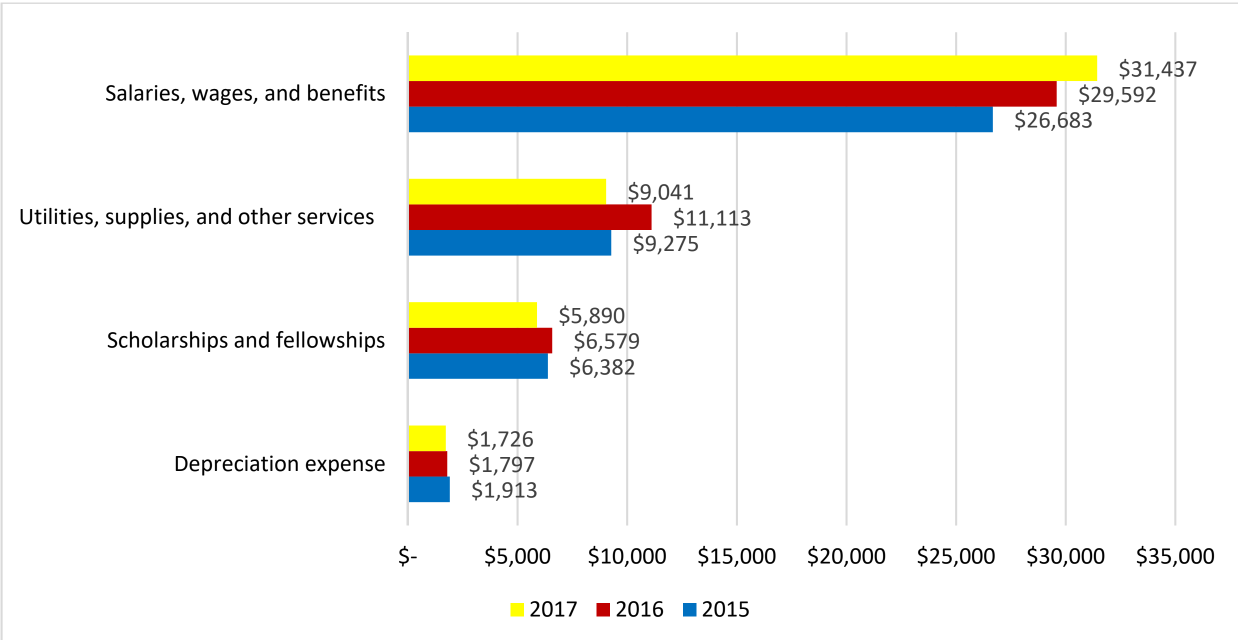
- Net tuition and fees decreased $895,000 in fiscal year 2016, as compared to fiscal year 2015. There was a slight increase in enrollment and an addition of the Health Science Lab/Clinical Fee and the Nursing Specialized Academic Course Fee. Additionally, scholarship allowances increased from $9,502,700.34 in 2015 to $11,245,003.69 in 2016, which provided a decrease to the net tuition and fees.

Operating Expenses

Operating expenses may be reported by nature or function. The college has chosen to report the expenses in their natural classification on the statement of revenues, expenses, and changes in net position and has displayed the functional classification in the notes to the financial statements.

The following summarizes the operating expenses by natural classifications for the last three fiscal years:

Operating Expenses - Natural Classification
(in thousands of dollars)



Comparison of Fiscal Year 2017 to Fiscal Year 2016

- Salaries and wages increased by $617,000 in fiscal year 2017, as compared to fiscal year 2016. This increase is due to the implementation of the school's Salary Plan.
- Benefits increased $1.2 million due to the increase in pension costs and an increase in insurance premiums.
- Utilities, supplies, and other services decreased $2.07 million in fiscal year 2017, as compared to fiscal year 2016, primarily due to decreases in professional services, travel, and supplies.

Comparison of Fiscal Year 2016 to Fiscal Year 2015

- Salaries and wages increased by $2.1 million in fiscal year 2016, as compared to fiscal year 2015. This increase is due to the implementation of the school's Salary Plan plus the addition of the personnel in anticipation of the enrollment growth from Tennessee Promise.
- Benefits increased $768,000 due to the increased personnel costs.
- Utilities, supplies, and other services increased $1.8 million in fiscal year 2016, as compared to fiscal year 2015, primarily due to increases in travel, supplies, and the costs of operating the off-campus sites.

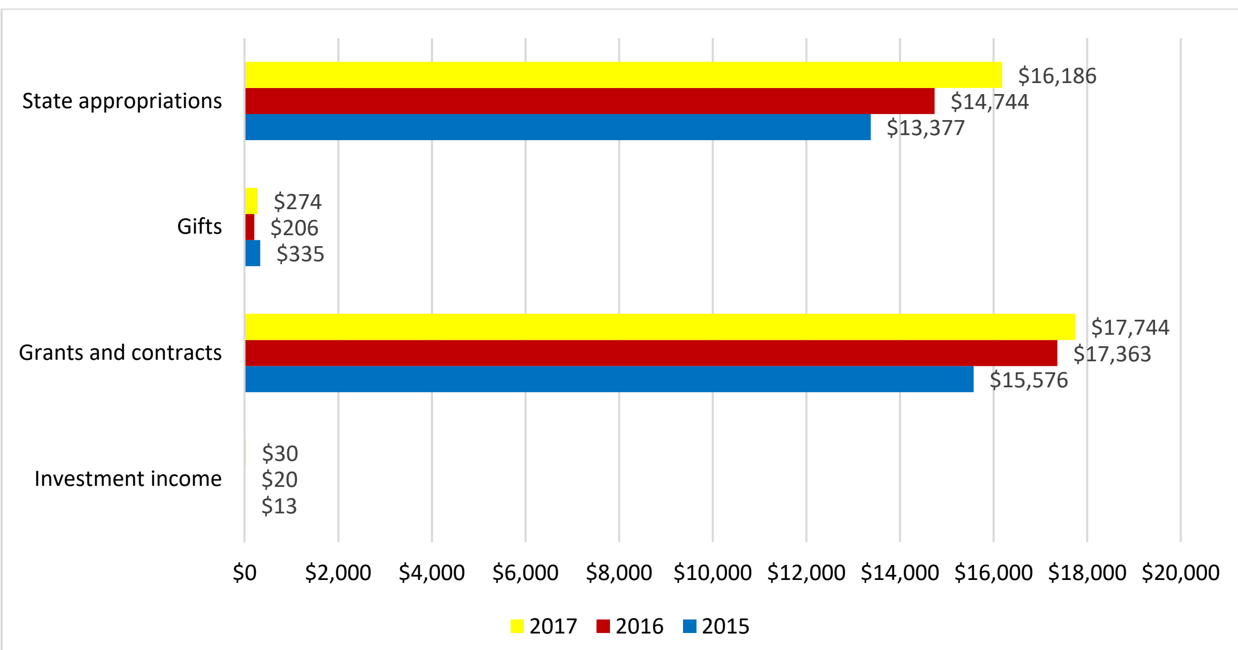
Nonoperating Revenues and Expenses

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

Nonoperating Revenues (Expenses)
(in thousands of dollars)

	2017	2016	2015
State appropriations	$16,186	$14,744	$13,377
Gifts	274	206	335
Grants and contracts	17,744	17,363	15,576
Investment income	30	20	13
Interest on capital asset-related debt	(5)	(6)	(8)
Other nonoperating revenues (expenses)	(18)	(5)	(18)
Total nonoperating revenues (expenses)	$34,211	$32,322	$29,275

Nonoperating Revenues
(in thousands of dollars)



Comparison of Fiscal Year 2017 to Fiscal Year 2016

- The college's state appropriations increased $1.4 million in fiscal year 2017, as compared to fiscal year 2016, primarily due to formula outcomes.

Comparison of Fiscal Year 2016 to Fiscal Year 2015

- The college's state appropriations increased $1.4 million in fiscal year 2016, as compared to fiscal year 2015, due to the final year hold-harmless phase-in of the new funding formula, new appropriations due to the new formula outcomes, and to fund the state "across the board" salary increase of 2.5% and increases in insurance premiums.
- Grants and contracts increased $1.8 million in fiscal year 2016, as compared to fiscal year 2015, due to an increase in the Tennessee Educational Lottery Hope Scholarship of $1.1 million. Additionally, the Tennessee Promise Scholarship brought in $1.0 million in grant revenue.

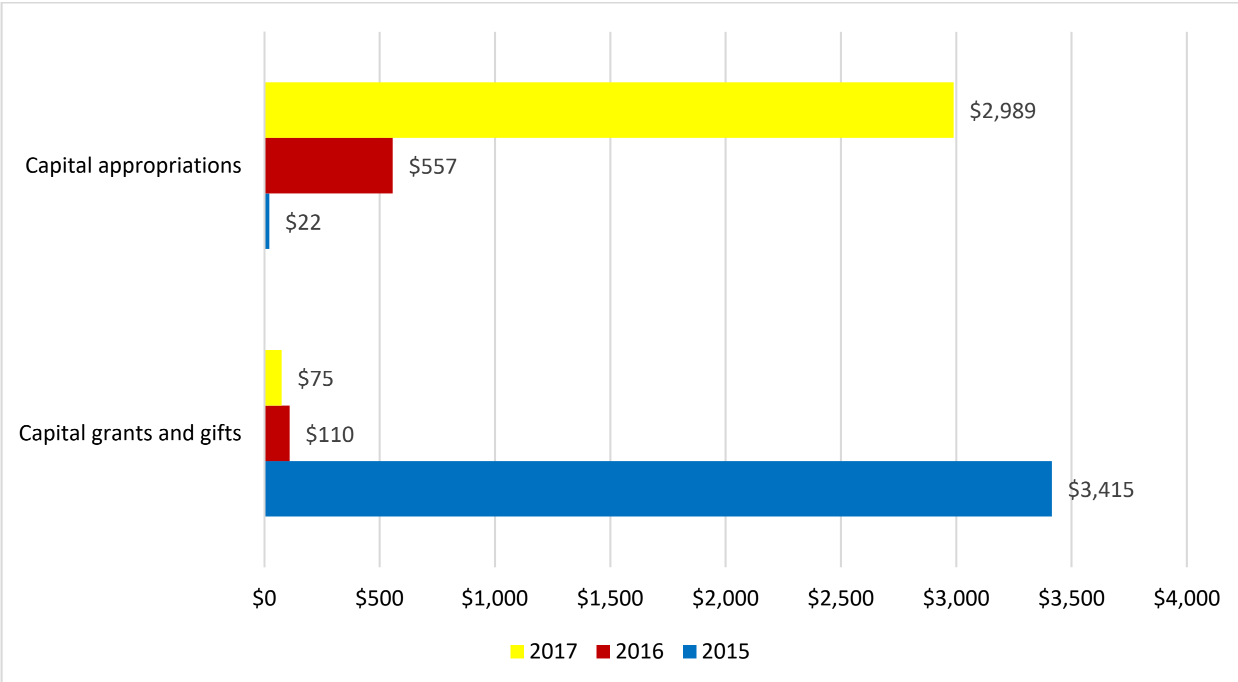
Other Revenues

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

Other Revenues
(in thousands of dollars)

	2017	**2016**	**2015**
Capital appropriations	$2,989	$557	$ 22
Capital grants and gifts	75	110	3,415
Total other revenues	$3,064	$667	$3,437

Other Revenues
(in thousands of dollars)



<u>Comparison of Fiscal Year 2017 to Fiscal Year 2016</u>

- Capital appropriations increased by $2.4 million in fiscal year 2017, as compared to fiscal year 2016, primarily due to the capital expansion of the Technical Education Building on the Blountville Campus.

<u>Comparison of Fiscal Year 2016 to Fiscal Year 2015</u>

- Capital grants and gift revenues decreased by $3.3 million in fiscal year 2016, as compared to fiscal year 2015, primarily due to the foundation's $2.6 million gift to the college of the Regional Center for Advanced Manufacturing building and land in 2015.

Capital Assets and Debt Administration

<u>Capital Assets</u>

Northeast State Community College had $44,492,149.33 invested in capital assets, net of accumulated depreciation of $28,104,176.34 at June 30, 2017; $41,630,576.73 invested in capital assets, net of accumulated depreciation of $26,469,478.12 at June 30, 2016; and $41,557,287.17 invested in capital assets, net of accumulated depreciation of $24,762,785.32 at June 30, 2015. Depreciation charges totaled $1,725,780.15, $1,796,678.30, and $1,912,657.61 for the years ended June 30, 2017; June 30, 2016; and June 30, 2015, respectively.

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

	2017	2016	2015
Land	$ 2,175	$ 2,175	$ 2,175
Land improvements and infrastructure	1,853	2,041	2,229
Buildings	27,700	28,323	28,945
Equipment	4,004	4,583	5,220
Library holdings	353	386	395
Intangible assets	-	-	23
Projects in progress	8,407	4,122	2,570
Total	**$44,492**	**$41,630**	**$41,557**

Significant additions to projects in progress occurred in fiscal year 2017. These additions were made to the Technical Education Building project, the RCAM-Kingsport Campus Building project, and several other projects.

Significant additions to projects in progress occurred in fiscal year 2016. These additions were made to the Johnson City Campus projects and several other projects.

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

Debt

The college had $159,000, $197,000, and $234,000 in debt outstanding at June 30, 2017; June 30, 2016; and June 30, 2015, respectively. The table below summarizes these amounts by type of debt instrument.

Schedule of Outstanding Debt
(in thousands of dollars)

	2017	2016	2015
Bonds payable	$145	$177	$207
Unamortized bond premium	14	20	27
Total	**$159**	**$197**	**$234**

The Tennessee State School Bond Authority (TSSBA) issued bonds with interest rates ranging from 4% to 5% due serially to 2021 on behalf of Northeast State Community College. The college is responsible for the debt service of these bonds. The current portion of the $144,823 outstanding at June 30, 2017, is $31,792.

The ratings on debt issued by the Tennessee State School Bond Authority at June 30, 2017, were as follows:

Fitch	AA+
Moody's Investor Service	Aa1
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

During the 2017 fiscal year, NESCC's financial situation was a concern, as expenses were projected to exceed projected revenues. Lacking adequate reserves, there were no funds to cover the shortfall. During the 2017 fiscal year, several corrective actions were initiated to begin addressing this shortfall. These include the following corrective actions:

- all purchase requisitions had to be approved by the VP/Division Head, the CFO, and the President;
- budgets were cut for travel and other miscellaneous expenses.

Beginning with the 2018 fiscal year (July 1, 2017), other corrective actions have been initiated to cut $5 million in spending.

These include but are not limited to:

- reduction in work force;
- reduction in base budgets across the board;
- renegotiation of certain leases; and
- continuing the approval process for purchase requisitions.

We believe that these steps and other actions that are currently ongoing will realign NESCC's financial position so that revenues will exceed expenses in the current year. Going forward, this should place NESCC on a firm financial footing.

Northeast State Community College continues to evaluate the feasibility of the college's long-term facilities plan. This includes when to continue the construction of the Technical Education Building and the construction of the RCAM–Kingsport Campus building project. In addition, certain off-site campus locations will be closed and/or lease agreements renegotiated. State and local capital appropriations have been allocated to support the construction costs.

Tennessee Board of Regents
NORTHEAST STATE COMMUNITY COLLEGE
Statements of Net Position
June 30, 2017, and June 30, 2016

	Northeast State Community College		Component Unit - Northeast State Community College Foundation	
	June 30, 2017	June 30, 2016	June 30, 2017	June 30, 2016
Assets				
Current assets:				
Cash (Notes 2, 3, and 17)	$ 3,197,438.91	$ 4,693,804.42	$ 1,213,393.00	$ 1,201,328.00
Accounts and grants receivable (net) (Note 4)	1,633,509.70	1,109,641.39	-	-
Due from NESCC	-	-	45,173.00	-
Due from State of Tennessee	1,168,831.05	200,550.63	-	-
Pledges receivable (net) (Note 17)	-	-	147,352.00	133,333.00
Inventories	10,344.96	14,308.97	-	-
Prepaid expenses	10,870.55	9,521.07	-	-
Total current assets	6,020,995.17	6,027,826.48	1,405,918.00	1,334,661.00
Noncurrent assets:				
Cash (Notes 2, 3, and 17)	2,136,700.87	2,145,683.08	-	-
Investments (Note 17)	-	-	11,216,077.00	10,018,479.00
Net pension asset (Note 9)	33,167.00	8,539.00	-	-
Pledges receivable (net) (Note 17)	-	-	411,992.00	369,143.00
Capital assets (net) (Notes 5 and 17)	44,492,149.33	41,630,576.73	595,820.00	609,492.00
Other assets	-	-	32,921.00	32,440.00
Total noncurrent assets	46,662,017.20	43,784,798.81	12,256,810.00	11,029,554.00
Total assets	52,683,012.37	49,812,625.29	13,662,728.00	12,364,215.00
Deferred outflows of resources				
Deferred amount on debt refunding	6,698.56	10,047.86	-	-
Deferred outflows related to pensions (Note 9)	5,136,158.00	2,779,254.28	-	-
Total deferred outflows of resources	5,142,856.56	2,789,302.14	-	-
Liabilities				
Current liabilities:				
Accounts payable (Note 6)	1,979,832.44	881,376.91	-	1,287.00
Accrued liabilities	1,594,230.56	1,891,737.39	-	-
Due to grantors	6,508.69	7,035.74	-	-
Due to State of Tennessee	184,754.98	169,739.58	-	-
Due to NESCC Foundation	45,173.48	-	-	-
Due to Tennessee Board of Regents	900,000.00	-	-	-
Unearned revenue	2,024,875.51	2,529,101.63	-	-
Compensated absences (Note 7)	408,486.30	215,229.48	-	-
Long-term liabilities, current portion (Note 7)	31,792.00	30,199.00	-	-
Deposits held in custody for others	1,643,589.47	1,000,309.51	-	-
Other liabilities (Note 2)	185,042.80	235,043.50	-	-
Total current liabilities	9,004,286.23	6,959,772.74	-	1,287.00
Noncurrent liabilities:				
Net OPEB obligation (Note 10)	1,882,178.37	1,875,178.58	-	-
Net pension liability (Note 9)	8,812,863.00	5,690,808.00	-	-
Compensated absences (Note 7)	875,606.37	1,093,125.49	-	-
Long-term liabilities (Note 7)	126,733.88	166,970.31	-	-
Total noncurrent liabilities	11,697,381.62	8,826,082.38	-	-
Total liabilities	20,701,667.85	15,785,855.12	-	1,287.00
Deferred inflows of resources				
Deferred inflows related to pensions (Note 9)	473,336.00	1,227,477.00	-	-
Total deferred inflows of resources	473,336.00	1,227,477.00	-	-
Net position				
Net investment in capital assets	44,340,322.01	41,443,455.28	595,821.00	609,492.00
Restricted for:				
Nonexpendable:				
Scholarships and fellowships	-	-	5,631,323.00	5,093,458.00
Expendable:				
Scholarships and fellowships	35,666.31	19,723.37	5,589,754.00	4,865,057.00
Instructional department uses	107,210.16	89,244.15	-	-
Capital projects	3,735,043.92	3,875,086.83	-	-
Pensions	33,167.00	8,539.00	-	-
Other	5,738.53	5,339.48	769,770.00	730,831.00
Unrestricted	(11,606,282.85)	(9,852,792.80)	1,076,060.00	1,064,090.00
Total net position	$ 36,650,865.08	$ 35,588,595.31	$ 13,662,728.00	$ 12,362,928.00

Tennessee Board of Regents
NORTHEAST STATE COMMUNITY COLLEGE
Statements of Revenues, Expenses, and Changes in Net Position
For the Years Ended June 30, 2017, and June 30, 2016

	Northeast State Community College		Component Unit - Northeast State Community College Foundation	
	Year Ended June 30, 2017	Year Ended June 30, 2016	Year Ended June 30, 2017	Year Ended June 30, 2016
Revenues				
Operating revenues:				
Student tuition and fees (Note 11)	$ 6,750,987.31	$ 7,468,286.02	$ -	$ -
Gifts and contributions	-	-	780,998.00	773,889.00
Endowment income (per spending plan)	-	-	159,041.00	240,009.00
Governmental grants and contracts	4,568,470.21	2,489,450.79	-	-
Nongovernmental grants and contracts	77,799.26	62,023.77	-	-
Sales and services of educational activities	39,066.01	64,040.00	5,209.00	4,185.00
Sales and services of other activities	220,657.00	328,574.00	-	-
Auxiliary enterprises:				
Bookstore	175,000.05	262,006.60	-	-
Food service	9,641.91	10,027.12	-	-
Other operating revenues	39,224.29	31,107.44	-	-
Total operating revenues	11,880,846.04	10,715,515.74	945,248.00	1,018,083.00
Expenses				
Operating expenses (Note 14):				
Salaries and wages	22,779,908.07	22,162,972.18	182,106.00	185,638.00
Benefits	8,656,822.75	7,428,747.73	51,172.00	49,823.00
Utilities, supplies, and other services	9,040,590.04	11,112,581.43	89,048.00	104,962.00
Scholarships and fellowships	5,890,442.65	6,578,710.45	353,655.00	330,701.00
Depreciation expense	1,725,780.15	1,796,678.30	13,672.00	13,672.00
Gifts of capital assets and payments to or on behalf of Northeast State Community College (Note 17)	-	-	318,332.00	209,150.00
Total operating expenses	48,093,543.66	49,079,690.09	1,007,985.00	893,946.00
Operating income (loss)	(36,212,697.62)	(38,364,174.35)	(62,737.00)	124,137.00
Nonoperating revenues (expenses)				
State appropriations	16,185,575.00	14,743,762.50	-	-
Gifts (including $272,932.00 from component unit for the year ended June 30, 2017, and $203,150.00 for the year ended June 30, 2016)	274,931.78	205,748.05	-	-
Grants and contracts	17,743,542.51	17,363,117.10	-	-
Investment income (net of investment expense of $36,850.00 for the component unit for the year ended June 30, 2017, and $34,429.00 for the year ended June 30, 2016)	29,611.82	20,481.88	1,044,162.00	(100,246.00)
Interest on capital asset-related debt	(4,666.30)	(6,209.40)	-	-
College support (Note 17)	-	-	233,278.00	235,462.00
Other nonoperating revenues (expenses)	(18,056.68)	(5,131.19)	-	-
Total nonoperating revenues (expenses)	34,210,938.13	32,321,768.94	1,277,440.00	135,216.00
Income (loss) before other revenues, expenses, gains, or losses	(2,001,759.49)	(6,042,405.41)	1,214,703.00	259,353.00
Capital appropriations	2,988,936.60	557,926.90	-	-
Capital grants and gifts (including $45,400.00 from the component unit for the year ended June 30, 2017, and $6,000.00 for the year ended June 30, 2016)	75,092.66	109,872.68	45,400.00	6,000.00
Additions to permanent endowments	-	-	39,696.00	24,140.00
Total other revenues	3,064,029.26	667,799.58	85,096.00	30,140.00
Increase (decrease) in net position	1,062,269.77	(5,374,605.83)	1,299,799.00	289,493.00
Net position - beginning of year, as originally reported	35,588,595.31	44,644,875.85	12,362,928.00	12,073,436.00
Prior period adjustment (Note 15)	-	(3,681,674.71)	-	-
Net position - beginning of year, restated	35,588,595.31	40,963,201.14	12,362,928.00	12,073,436.00
Net position - end of year	$ 36,650,865.08	$ 35,588,595.31	$ 13,662,728.00	$ 12,362,928.00

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

Tennessee Board of Regents
NORTHEAST STATE COMMUNITY COLLEGE
Statements of Cash Flows
For the Years Ended June 30, 2017, and June 30, 2016

	Year Ended June 30, 2017	Year Ended June 30, 2016
Cash flows from operating activities		
Tuition and fees	$ 6,883,968.39	$ 7,423,636.99
Grants and contracts	4,563,810.45	3,766,233.39
Sales and services of educational activities	39,066.01	64,040.00
Sales and services of other activities	226,023.00	328,574.00
Payments to suppliers and vendors	(8,648,233.48)	(11,021,661.52)
Payments to employees	(23,251,801.26)	(22,147,709.68)
Payments for benefits	(8,861,637.86)	(8,252,233.83)
Payments for scholarships and fellowships	(5,890,442.65)	(6,473,261.45)
Auxiliary enterprise charges:		
Bookstore	174,999.96	218,256.61
Food services	9,714.51	10,024.97
Other receipts	33,914.31	27,093.44
Net cash used by operating activities	(34,720,618.62)	(36,057,007.08)
Cash flows from noncapital financing activities		
State appropriations	15,878,363.42	14,731,100.00
Gifts and grants received for other than capital or endowment purposes	16,791,675.81	17,763,394.01
Loan from Tennessee Board of Regents	900,000.00	-
Net cash balance implicitly financed (repaid)	(50,000.70)	235,043.50
Changes in deposits held for others	633,086.00	338,371.85
Net cash provided by noncapital financing activities	34,153,124.53	33,067,909.36
Cash flows from capital and related financing activities		
Capital grants and gifts received	29,692.66	109,872.68
Purchases of capital assets and construction	(957,197.68)	(1,601,421.84)
Principal paid on capital debt	(31,792.00)	(30,199.00)
Interest paid on capital debt	(8,168.43)	(9,711.53)
Other capital and related financing receipts (payments)	-	(5,131.19)
Net cash used by capital and related financing activities	(967,465.45)	(1,536,590.88)
Cash flows from investing activities		
Income on investments	29,611.82	20,482.09
Net cash provided by investing activities	29,611.82	20,482.09
Net decrease in cash	(1,505,347.72)	(4,505,206.51)
Cash - beginning of year	6,839,487.50	11,344,694.01
Cash - end of year	$ 5,334,139.78	$ 6,839,487.50

Tennessee Board of Regents
NORTHEAST STATE COMMUNITY COLLEGE
Statements of Cash Flows (Continued)
For the Years Ended June 30, 2017, and June 30, 2016

	Year Ended June 30, 2017	Year Ended June 30, 2016
Reconciliation of operating loss to net cash used by operating activities:		
Operating loss	$ (36,212,697.62)	$ (38,364,174.35)
Adjustments to reconcile operating loss to net cash used by operating activities:		
Noncash operating expenses	1,893,919.06	2,245,074.55
Change in assets, liabilities, deferred outflows, and deferred inflows:		
Receivables, net	550,674.26	551,151.06
Inventories	3,964.01	(381.88)
Prepaid expenses	(1,349.48)	(1,994.19)
Due to NESCC Foundation	45,173.48	-
Due to State of Tennessee	24,346.26	160,408.72
Accounts payable	192,804.64	(347,729.27)
Accrued liabilities	(681,819.83)	(3,176.23)
Net pension asset	(24,628.00)	(8,539.00)
Deferred outflows related to pensions	(2,356,903.72)	(1,059,101.00)
Net pension liability	3,122,055.00	2,828,433.00
Deferred inflows related to pensions	(754,141.00)	(2,896,761.00)
Net OPEB obligation	6,999.79	47,676.66
Unearned revenue	(504,226.12)	680,827.13
Compensated absences	(24,262.30)	109,961.72
Due to grantors	(527.05)	1,317.00
Net cash used by operating activities	$ (34,720,618.62)	$ (36,057,007.08)
Noncash investing, capital, or financing transactions		
Gifts of capital assets	$ 45,400.00	$ 6,000.00
Purchase of capital assets and construction with capital appropriations	$ 2,293,436.08	$ 129,493.15

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

Note 1. Summary of Significant Accounting Policies

Reporting Entity

The college is a part of the State University and Community College System of Tennessee. 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 system's activities that is attributable to the transactions of Northeast State Community College.

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

Basis of Presentation

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

Basis of Accounting

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

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

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

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

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 and sick leave at varying rates, depending on length of service or classification. Some employees also earn compensatory time.

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

Capital Assets

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

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

These assets, with the exception of land, are depreciated/amortized using the straight-line method over their estimated useful lives, which range from 5 to 60 years.

Pensions

For purposes of measuring the net pension liability (asset), deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Closed State and Higher Education Employee Pension Plan and the State and Higher Education Employee Retirement Plan in the Tennessee Consolidated Retirement System (TCRS) and additions to/deductions from the plans' fiduciary net positions have been determined on the same basis as they are reported by the TCRS. For this purpose, benefits (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms of the Closed State and Higher Education Employee Pension Plan and the State and Higher Education Employee Retirement Plan. Investments are reported at fair value.

Net Position

The college's net position is classified as follows:

Net investment in capital assets – This represents the college's total investment in capital assets, net of accumulated depreciation and net of outstanding debt obligations and deferred outflows/inflows of resources related to those capital assets. To the extent debt has been incurred but not yet expended for capital assets, such amounts are not included as a component of net investment in capital assets.

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

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

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

Scholarship Discounts and Allowances

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

Note 2. Cash

This classification includes demand deposits and petty cash on hand. At June 30, 2017, cash consisted of $1,205,948.83 in bank accounts; $1,600.00 of petty cash on hand; $391,547.03 in the Local Government Investment Pool (LGIP) administered by the State Treasurer; and $3,735,043.92 in LGIP deposits for capital projects. At June 30, 2016, cash consisted of $516,339.15 in bank accounts; $1,600.00 of petty cash on hand; $2,446,461.46 in the LGIP; and $3,875,086.89 in LGIP deposits for capital projects. At June 30, 2017, the carrying amount per ledger of the college's LGIP investment account was $(185,042.80) and was reported as other liabilities. The college spent $185,042.80 of funds held for the Tennessee College of Applied Technology at Elizabethton and owed that college this amount. At June 30, 2016, the carrying amount per ledger of the operating bank account was $(235,043.50) and was reported as other liabilities.

The LGIP, which is part of the State Pooled Investment Fund, is administered by the State Treasurer and is measured at amortized cost. There are no minimum or maximum limitations on withdrawals with the exception of a 24-hour notification period for withdrawals of $5 million or more. The fund's required risk disclosures are presented in the *State of Tennessee Treasurer's Report*. That report is available on the state's website at www.treasury.tn.gov.

LGIP deposits for capital projects – Payments related to the college's capital projects are made by the State of Tennessee's Department of Finance and Administration. The college's estimated local share of the cost of each project is held in a separate LGIP account. As expenses are incurred, funds are withdrawn from the LGIP account by the system 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 system releases any remaining funds.

Note 3. Investments

Credit Risk

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

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

As of June 30, 2017, and June 30, 2016, the college's investments consisted entirely of investments in the Local Government Investment Pool, which are valued at amortized cost. The value of these investments was $4,126,590.95 at June 30, 2017, and $6,321,548.35 at June 30, 2016. LGIP investments are not rated by nationally recognized statistical ratings organizations.

Note 4. Receivables

Receivables included the following:

	June 30, 2017	June 30, 2016
Student accounts receivable	$3,370,888.12	$4,913,090.14
Grants receivable	1,184,754.61	374,608.29
Other receivables	31,126.98	38,840.68
Subtotal	4,586,769.71	5,326,539.11
Less allowance for doubtful accounts	2,953,260.01	4,216,897.72
Total receivables	$1,633,509.70	$1,109,641.39

Note 5. Capital Assets

Capital asset activity for the year ended June 30, 2017, was as follows:

	Beginning Balance	Additions	Transfers	Reductions	Ending Balance
Land	$ 2,174,931.64	$ -	$ -	$ -	$ 2,174,931.64
Land improvements and infrastructure	4,041,129.59	-	-	-	4,041,129.59
Buildings	44,457,952.34	-	-	-	44,457,952.34
Equipment	10,773,279.27	248,696.47	-	-	11,021,975.74
Library holdings	907,332.18	53,397.99	-	91,081.93	869,648.24
Intangible assets	1,623,453.29	-	-	-	1,623,453.29
Projects in progress	4,121,976.54	4,285,258.29	-	-	8,407,234.83
Total	68,100,054.85	4,587,352.75	-	91,081.93	72,596,325.67
Less accumulated depreciation/amortization:					
Land improvements and infrastructure	2,000,226.66	188,087.02	-	-	2,188,313.68
Buildings	16,135,064.81	622,484.42	-	-	16,757,549.23
Equipment	6,189,882.24	828,243.89	-	-	7,018,126.13
Library holdings	520,851.12	86,964.82	-	91,081.93	516,734.01
Intangible assets	1,623,453.29	-	-	-	1,623,453.29
Total	26,469,478.12	1,725,780.15	-	91,081.93	28,104,176.34
Capital assets, net	$41,630,576.73	$2,861,572.60	$ -	$ -	$44,492,149.33

Capital asset activity for the year ended June 30, 2016, was as follows:

	Beginning Balance	Additions	Transfers	Reductions	Ending Balance
Land	$ 2,174,931.64	$ -	$ -	$ -	$ 2,174,931.64
Land improvements and infrastructure	4,041,129.59	-	-	-	4,041,129.59
Buildings	44,457,952.34	-	-	-	44,457,952.34
Equipment	10,537,769.91	235,509.36	-	-	10,773,279.27
Library holdings	915,333.96	81,983.72	-	89,985.50	907,332.18
Intangible assets	1,623,453.29	-	-	-	1,623,453.29
Projects in progress	2,569,501.76	1,552,474.78	-	-	4,121,976.54
Total	66,320,072.49	1,869,967.86	-	89,985.50	68,100,054.85

Less accumulated depreciation/amortization:					
Land improvements and infrastructure	1,812,139.64	188,087.02	-	-	2,000,226.66
Buildings	15,512,580.39	622,484.42	-	-	16,135,064.81
Equipment	5,317,308.60	872,573.64	-	-	6,189,882.24
Library holdings	520,103.40	90,733.22	-	89,985.50	520,851.12
Intangible assets	1,600,653.29	22,800.00	-	-	1,623,453.29
Total	24,762,785.32	1,796,678.30	-	89,985.50	26,469,478.12
Capital assets, net	$41,557,287.17	$ 73,289.56	$ -	$ -	$41,630,576.73

Note 6. Accounts Payable

Accounts payable included the following:

	June 30, 2017	June 30, 2016
Vendors payable	$1,979,327.44	$866,257.82
Unapplied student payments	505.00	9,000.00
Other payables	-	6,119.09
Total accounts payable	$1,979,832.44	$881,376.91

Note 7. Long-term Liabilities

Long-term liabilities activity for the year ended June 30, 2017, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
TSSBA debt:					
Bonds	$ 176,615.00	$ -	$ 31,792.00	$ 144,823.00	$ 31,792.00
Unamortized bond premium	20,554.31	-	6,851.43	13,702.88	-
Subtotal	197,169.31	-	38,643.43	158,525.88	31,792.00
Other liabilities:					
Compensated absences	1,308,354.97	868,724.27	892,986.57	1,284,092.67	408,486.30
Subtotal	1,308,354.97	868,724.27	892,986.57	1,284,092.67	408,486.30
Total long-term liabilities	$1,505,524.28	$868,724.27	$931,630.00	$1,442,618.55	$440,278.30

Long-term liabilities activity for the year ended June 30, 2016, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
TSSBA debt:					
Bonds	$ 206,814.00	$ -	$ 30,199.00	$ 176,615.00	$ 30,199.00
Unamortized bond premium	27,405.74	-	6,851.43	20,554.31	-
Subtotal	234,219.74	-	37,050.43	197,169.31	30,199.00
Other liabilities:					
Compensated absences	1,198,393.25	876,884.49	766,922.77	1,308,354.97	215,229.48
Subtotal	1,198,393.25	876,884.49	766,922.77	1,308,354.97	215,229.48
Total long-term liabilities	$1,432,612.99	$876,884.49	$803,973.20	$1,505,524.28	$245,428.48

TSSBA Debt – Bonds

Bonds, with interest rates ranging from 4% to 5%, were issued by the Tennessee State School Bond Authority (TSSBA). The bonds are due serially to 2021 and are secured by pledges of the facilities' revenues to which they relate and certain other revenues and fees of the college, including state appropriations; see Note 8 for further details.

Debt service requirements to maturity for the college's portion of TSSBA bonds at June 30, 2017, are as follows:

Year Ending June 30	Principal	Interest	Total
2018	$ 33,467.00	$ 6,822.83	$ 40,289.83
2019	35,231.00	5,127.40	40,358.40
2020	37,086.00	3,342.68	40,428.68
2021	39,039.00	1,463.96	40,502.96
Total	$144,823.00	$16,756.87	$161,579.87

Note 8. Pledged Revenues

The college has pledged certain revenues and fees, including state appropriations, to repay $144,823.00 in revenue bonds issued from June 2006 to August 2012 (see Note 7 for further detail). Proceeds from the bonds provided financing for Energy Savings and Performance Contracts. The bonds are payable through 2021. Annual principal and interest payments on the bonds are expected to require .11% of available revenues. The total principal and interest remaining to be paid on the bonds at June 30, 2017, is $161,579.87. Principal and interest paid for fiscal year 2017 and total available revenues were $40,225.36 and $35,271,216.21, respectively. Principal and interest paid for fiscal year 2016 and total available revenues were $40,162.33 and $34,894,935.94, respectively.

Note 9. Pension Plans

Defined Benefit Plans

Closed State and Higher Education Employee Pension Plan

General Information About the Pension Plan

Plan description – State employees and higher education employees with membership in the Tennessee Consolidated Retirement System (TCRS) before July 1, 2014, are provided with pensions through the Closed State and Higher Education Employee Pension Plan. This plan is a component of the Public Employee Retirement Plan, an agent, multiple-employer defined benefit pension plan. The Closed State and Higher Education Employee Pension Plan stopped accepting new membership on June 30, 2014, but will continue providing benefits to existing members and retirees. Beginning July 1, 2014, a new agent defined benefit retirement plan, the State and Higher Education Employee Retirement Plan, became effective for state employees and higher education employees hired on or after July 1, 2014.

The TCRS was created by state statute under Title 8, Chapters 34-37, *Tennessee Code Annotated*. The TCRS Board of Trustees is responsible for the proper operation and administration of all employer pension plans in the TCRS. The Tennessee Treasury Department, an agency in the legislative branch of state government, administers the plans of the TCRS. The TCRS issues a publicly available financial report that can be obtained at www.treasury.tn.gov/tcrs.

Benefits provided – Title 8, Chapters 34-37, *Tennessee Code Annotated*, establishes the benefit terms and can be amended only by the Tennessee General Assembly. Members of the Closed State and Higher Education Employee Pension Plan are eligible to retire with an unreduced benefit at age 60 with 5 years of service credit or after 30 years of service credit regardless of age. Benefits are determined using the following formula:

Average of member's highest compensation for 5 consecutive years (up to Social Security integration level)	x	1.50%	x	Years of Service Credit	x	105%

Plus:

Average of member's highest compensation for 5 consecutive years (over the Social Security integration level)	x	1.75%	x	Years of Service Credit	x	105%

A reduced early retirement benefit is available at age 55 and vested. Members are vested with five years of service credit. Service-related disability benefits are provided regardless of length of service. Five years of service is required for non-service-related disability eligibility. The service-related and non-service-related disability benefits are determined in the same manner as a service retirement benefit but are reduced 10% and include projected service credits. A variety of death benefits are available under various eligibility criteria. Member and beneficiary annuitants are entitled to automatic cost-of-living adjustments (COLAs) after retirement. A COLA is granted each July for annuitants retired prior to July 2 of the previous year. The COLA is based on the change in the consumer price index (CPI) during the prior calendar year, capped at 3%, and applied to the current benefit. No COLA is granted if the change in the CPI is less than 0.5%. A 1% COLA is granted if the CPI change is between 0.5% and 1%. A member who leaves employment may withdraw employee contributions, plus any accumulated interest.

Contributions – Contributions for state employees and higher education employees are established in the statutes governing the TCRS and may only be changed by the Tennessee General Assembly. The college's employees are non-contributory, as are most members in the Closed State and Higher Education Employee Pension Plan. State and higher education agencies make employer contributions at the rate set by the Board of Trustees as determined by an actuarial valuation. By law, employer contributions for the Closed State and Higher Education Employee Pension Plan are required to be paid. Employer contributions by the college for the years ended June 30, 2017, and June 30, 2016, to the Closed State and Higher Education Employee Pension Plan were $1,707,807 and $1,771,591, respectively, which is 15.02% and 15.03% of covered payroll, respectively. The employer rate, when combined with member contributions, is expected to finance the costs of benefits earned by members during the year and the cost of administration, as well as an amortized portion of any unfunded liability.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

Pension liability – At June 30, 2017, the college reported a liability of $8,812,863 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The college's proportion of the net pension liability was based on a projection of the college's contributions during the year ended June 30, 2016, to the pension plan relative to the contributions of all participating state and higher education agencies. At the June 30, 2016, measurement date, the college's proportion was 0.48301%.

At June 30, 2016, the college reported a liability of $5,690,808 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The college's proportion of the net pension liability was based on a projection of the college's contributions during the year ended June 30, 2015, to the pension plan relative to the contributions of all participating state and higher education agencies. At the June 30, 2015, measurement date, the college's proportion was 0.44139%. At the June 30, 2014, measurement date, the college's proportion was 0.414868%.

Pension expense – For the years ended June 30, 2017, and June 30, 2016, the college recognized pension expense of $1,758,007 and $701,272, respectively.

Deferred outflows of resources and deferred inflows of resources – For the years ended June 30, 2017, and June 30, 2016, the college reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

Fiscal Year 2017	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 494,218	$468,302
Net difference between projected and actual earnings on pension plan investments	2,131,362	-
Changes in proportion of net pension liability	714,467	-
College's contributions subsequent to the measurement date of June 30, 2016	1,707,807	-
Total	$5,047,854	$468,302

Fiscal Year 2016	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 602,181	$492,731
Net difference between projected and actual earnings on pension plan investments	-	731,569
Changes in proportion of net pension liability	357,365	-
College's contributions subsequent to the measurement date of June 30, 2015	1,771,591	-
Total	$2,731,137	$1,224,300

Deferred outflows of resources, resulting from the college's employer contributions of $1,707,807 subsequent to the measurement date, will be recognized as a decrease in net pension liability in the year ending June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending June 30	
2018	$ 350,735
2019	350,735
2020	1,551,146
2021	619,129

In the table above, positive amounts will increase pension expense, while negative amounts will decrease pension expense.

Actuarial assumptions – The total pension liability was determined by actuarial valuations using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.0%
Salary increases	Graded salary ranges from 8.97% to 3.71% based on age, including inflation, averaging 4.25%
Investment rate of return	7.5%, net of pension plan investment expenses, including inflation
Cost-of-living adjustment	2.5%

Mortality rates were based on actual experience from the June 30, 2012, actuarial experience study adjusted for some of the expected future improvement in life expectancy.

The actuarial assumptions used in the actuarial valuations were based on the results of an actuarial experience study performed for the period July 1, 2008, through June 30, 2012. The demographic assumptions were adjusted to more closely reflect actual and expected future experience.

The long-term expected rate of return on pension plan investments was established by the TCRS Board of Trustees in conjunction with the June 30, 2012, actuarial experience study by considering the following three techniques: 1) the 25-year historical return of the TCRS at June 30, 2012; 2) the historical market returns of asset classes from 1926 to 2012 using the TCRS investment policy asset allocation; and 3) capital market projections that were utilized as a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. Four sources of capital market projections were blended and utilized in the third technique. The blended capital market projection established the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding inflation of 3%. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Long-term Expected Real Rate of Return	Target Allocation
U.S. equity	6.46%	33%
Developed market international equity	6.26%	17%
Emerging market international equity	6.40%	5%
Private equity and strategic lending	4.61%	8%
U.S. fixed income	0.98%	29%
Real estate	4.73%	7%
Short-term securities	0.00%	1%
		100%

The long-term expected rate of return on pension plan investments was established by the TCRS Board of Trustees as 7.5% based on a blending of the three factors described above.

Discount rate – The discount rate used to measure the total pension liability was 7.5%. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current rate and that contributions from all state and higher education agencies will be made at the actuarially determined contribution rate in accordance with the funding policy of the TCRS Board of Trustees and as required to be paid by state statute. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make projected future benefit payments of current active and inactive members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the proportionate share of net pension liability to changes in the discount rate – The following presents the college's proportionate share of the net pension liability calculated using the discount rate of 7.5%, as well as what the college's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (6.5%) or 1 percentage point higher (8.5%) than the current rate:

	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
College's proportionate share of net pension liability	$17,318,994	$8,812,863	$1,640,184

Pension plan fiduciary net position – Detailed information about the pension plan's fiduciary net position is available in a separately issued TCRS financial report at www.treasury.tn.gov/tcrs.

Payable to the Pension Plan

At June 30, 2017, and June 30, 2016, the college reported a payable of $138,023 and $154,446, respectively, for the outstanding amount of legally required contributions to the pension plan required for the years then ended.

State and Higher Education Employee Retirement Plan

General Information About the Pension Plan

Plan description – State employees and higher education employees with membership in the Tennessee Consolidated Retirement System (TCRS) before July 1, 2014, are provided with pensions through the Closed State and Higher Education Employee Pension Plan, an agent plan within the Public Employee Retirement Plan administered by the TCRS. TCRS is a multiple-employer pension plan. The Closed State and Higher Education Pension Plan was closed effective June 30, 2014, and covers employees hired before July 1, 2014. Employees hired after June 30, 2014, are provided with pensions through a legally separate plan referred to as the State and Higher Education Employee Retirement Plan, an agent plan within the Public Employee Retirement Plan administered by the TCRS. The TCRS was created by state statute under Title 8, Chapters 34-37, *Tennessee Code Annotated*.

Benefits provided – Title 8, Chapters 34-37, *Tennessee Code Annotated,* establishes the benefit terms and can be amended only by the Tennessee General Assembly. Members of the State and Higher Education Employee Retirement Plan are eligible to retire at age 65 with 5 years of service credit or pursuant to the rule of 90 in which the member's age and service credit total 90. Members are entitled to receive unreduced service retirement benefits, which are determined by a formula multiplying the member's highest 5 consecutive year average compensation by 1% multiplied by the member's years of service credit. A reduced early retirement is available at age 60 with 5 years of service credit or pursuant to the rule of 80 in which a member's age and service credit total 80. Service-related disability benefits are provided regardless of length of service. Five years of service is required for non-service-related disability eligibility. The service-related and non-service-related disability benefits are determined in the same manner as a service retirement benefit but are reduced 10% and include projected service credit. A variety of death benefits are available under various eligibility criteria.

Member and beneficiary annuitants are entitled to automatic cost-of-living adjustments (COLAs) after retirement. A COLA is granted each July for annuitants retired prior to July 2 of the previous year. The COLA is based on the change in the consumer price index (CPI) during the prior calendar year, capped at 3%, and applied to the current benefit. No COLA is granted if the change in the CPI is less than 0.5%. A 1% COLA is granted if the CPI change is between 0.5% and 1%. A member who leaves employment may withdraw employee contributions, plus any accumulated interest.

Contributions – Contributions for state and higher education employees are established in the statutes governing the TCRS and may only be changed by the Tennessee General Assembly. Employees contribute 5% of their salary to the State and Higher Education Employee Retirement Plan. By law, employer contributions for the State and Higher Education Employee Retirement Plan are required to be paid. Employer contributions by the college for the years ended June 30, 2017, and June 30, 2016, to the State and Higher Education Employee Retirement Plan were $82,023.00 and $47,622.28, respectively, which is 3.87% and 3.87% of covered payroll, respectively. The employer rate, when combined with member contributions, is expected to finance the costs of benefits earned by members during the year and the cost of administration, as well as an amortized portion of any unfunded liability.

Pension Assets, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

Pension asset – At June 30, 2017, the college reported an asset of $33,167 for its proportionate share of the net pension asset. The net pension asset was measured as of June 30, 2016, and the total pension asset used to calculate the net pension asset was determined by an actuarial valuation as of that date. The college's proportion of the net pension asset was based on a projection of the college's contributions during the year ended June 30, 2016, to the pension plan relative to the contributions of all participating state and higher education agencies. At the June 30, 2016, measurement date, the college's proportion was 0.393685%.

At June 30, 2016, the college reported an asset of $8,539 for its proportionate share of the net pension asset. The net pension asset was measured as of June 30, 2015, and the total pension asset used to calculate the net pension asset was determined by an actuarial valuation as of that date. The college's proportion of the net pension asset was based on a projection of the college's contributions during the year ended June 30, 2015, to the pension plan relative to the contributions of all participating state and higher education agencies. At the June 30, 2015, measurement date, the college's proportion was 0.307036%, representing the first-time presentation of this proportion.

Pension expense – For the years ended June 30, 2017, and June 30, 2016, the college recognized a pension expense of $18,384 and $7,082, respectively.

Deferred outflows of resources and deferred inflows of resources – For the years ended June 30, 2017, and June 30, 2016, the college reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

Fiscal Year 2017	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 2,413	$3,565
Net difference between projected and actual earnings on pension plan investments	3,868	-
Changes in proportion of net pension asset	-	1,469
College's contributions subsequent to the measurement date of June 30, 2016	82,023	-
Total	$88,304	$5,034

Fiscal Year 2016	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ -	$3,177.00
Net difference between projected and actual earnings on pension plan investments	495.00	-
College's contributions subsequent to the measurement date of June 30, 2015	47,622.28	-
Total	$48,117.28	$3,177.00

Deferred outflows of resources, resulting from the college's employer contributions of $82,023 subsequent to the measurement date, will be recognized as a decrease in net pension liability in the year ending June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending June 30	
2018	$ 615.00
2019	$ 615.00
2020	$ 615.00
2021	$ 456.00
2022	$(392.00)
Thereafter	$(662.00)

In the table above, positive amounts will increase pension expense, while negative amounts will decrease pension expense.

Actuarial assumptions – The total pension asset was determined by actuarial valuations using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.0%
Salary increases	Graded salary ranges from 8.97% to 3.71% based on age, including inflation, averaging 4.25%
Investment rate of return	7.5%, net of pension plan investment expenses, including inflation
Cost-of-living adjustment	2.5%

Mortality rates were based on actual experience from the June 30, 2012, actuarial experience study adjusted for some of the expected future improvement in life expectancy.

The actuarial assumptions used in the actuarial valuations were based on the results of an actuarial experience study performed for the period July 1, 2008, through June 30, 2012. The demographic assumptions were adjusted to more closely reflect actual and expected future experience.

The long-term expected rate of return on pension plan investments was established by the TCRS Board of Trustees in conjunction with the June 30, 2012, actuarial experience study by considering the following three techniques: 1) the 25-year historical return of the TCRS at June 30, 2012; 2) the historical market returns of asset classes from 1926 to 2012 using the TCRS investment policy asset allocation; and 3) capital market projections that were utilized as a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. Four sources of capital market projections were blended and utilized in the third technique. The blended capital market projection established the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding inflation of 3%. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Long-term Expected Real Rate of Return	Target Allocation
U.S. equity	6.46%	33%
Developed market international equity	6.26%	17%
Emerging market international equity	6.40%	5%
Private equity and strategic lending	4.61%	8%
U.S. fixed income	0.98%	29%
Real estate	4.73%	7%
Short-term securities	0.00%	1%
		100%

The long-term expected rate of return on pension plan investments was established by the TCRS Board of Trustees as 7.5% based on a blending of the three factors described above.

Discount rate – The discount rate used to measure the total pension asset was 7.5%. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current rate and that contributions from all state and higher education agencies will be made at the actuarially determined contribution rate in accordance with the funding policy of the TCRS Board of Trustees and as required to be paid by state statute. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make projected future benefit payments of current active and inactive members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension asset.

Sensitivity of the proportionate share of net pension asset to changes in the discount rate – The following presents the college's proportionate share of the net pension asset calculated using the discount rate of 7.5%, as well as what the college's proportionate share of the net pension asset would be if it were calculated using a discount rate that is 1 percentage point lower (6.5%) or 1 percentage point higher (8.5%) than the current rate:

	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
College's proportionate share of net pension asset	$3,966	$33,167	$55,041

Pension plan fiduciary net position – Detailed information about the pension plan's fiduciary net position is available in a separately issued TCRS financial report at www.treasury.tn.gov/tcrs.

Payable to the Pension Plan

At June 30, 2017, and at June 30, 2016, the college reported a payable of $15,107.91 and $2,453.44, respectively, for the outstanding amount of legally required contributions to the pension plan required for the years then ended.

Total Defined Benefit Pension Expense

The total pension expense for the year ended June 30, 2017, for all state defined benefit pension plans was $1,776,391. The total pension expense for the year ended June 30, 2016, for all state defined benefit pension plans was $708,354.

Defined Contribution Plans

Optional Retirement Plans

Plan description – The college contributes to the Optional Retirement Plan (ORP). The ORP, administered by the Tennessee Treasury Department, is a defined contribution plan. The ORP was established by state statute in Title 8, Chapter 35, Part 4, *Tennessee Code Annotated*. This statute also sets out the plan provisions. The plan provisions are amended by the Tennessee General Assembly. The ORP was designed to provide benefits at retirement to faculty and staff who are exempt from the overtime provision of the Fair Labor Standards Act and who waive membership in the TCRS. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings.

Funding policy – For employees employed prior to July 1, 2014, 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. For employees hired after June 30, 2014, plan members will contribute 5% to the ORP and the college will contribute 9% of the employee's base salary. Pension expense equaled the required contributions made to the ORP and was $550,368.99 for the year ended June 30, 2017; $576,082.40 for the year ended June 30, 2016; and $541,910.13 for the year ended June 30, 2015. Contributions met the requirements for each year.

Members are immediately 100% vested in the employer contributions made pursuant to the ORP. The Treasury Department has selected three investment vendors who offer a variety of investment products, and members are responsible for selecting how the contributions are invested. Each member makes the decision when to reallocate future contributions or when to transfer funds from one investment product to another. Funds are held by the investment vendor in the name of the member, not in the name of the State of Tennessee. The State of Tennessee has no discretion over these funds other than to make the initial contributions. Accordingly, the State of Tennessee is not acting in a trustee capacity, nor does it have a fiduciary responsibility for the funds held by the investment vendors.

Deferred Compensation Plans

Employees are offered three deferred compensation plans. The college, through the State of Tennessee, provides two plans, one established pursuant to the Internal Revenue Code (IRC), Section 457, and the other pursuant to IRC, Section 401(k). The third plan is administered by the college and was established in accordance with IRC, Section 403(b). The plans are outsourced to third-party vendors, and the administrative costs assessed by the vendors of these plans are the responsibility of plan participants. Section 401(k), Section 403(b), and Section 457 plan assets remain the property of the contributing employees; therefore, they are not presented in the accompanying financial statements. Sections 401(k), 403(b), and 457 establish participation, contribution, and withdrawal provisions for the plans. Participation in the 403(b) and the 457 plans is voluntary for employees. The college provides up to a $50 monthly employer match for employees who participate in the state's 401(k) plan. Employees hired before July 1, 2014, voluntarily participate in the state's 401(k) plan. Pursuant to Public Chapter No. 259 of Public Acts of 2013*,* employees hired after June 30, 2014, are automatically enrolled in the state's 401(k) plan and contribute 2% of their salary, with the employer contributing an additional non-matching 5%. Employees may opt out of the 2% auto enrollment. Such contribution rates may only be amended by the Tennessee General Assembly. There are certain automatic cost controls and unfunded liability controls in the defined benefit plan where the employees participate that may impact the non-matching 5% employer contribution to the 401(k) plan.

Employees are immediately vested in both the employee and employer contributions in all plans. The IRC establishes maximum limits that an employee can contribute to these plans. The employee may increase, decrease, or stop contributions at any time for all three plans.

During the year ended June 30, 2017, contributions totaling $413,230.25 were made by employees participating in the 401(k) plan, and the college recognized pension expense of $284,164.42 for employer contributions. During the year ended June 30, 2016, contributions totaling $383,259.74 were made by employees participating in the 401(k) plan, with contributions of $239,594.46 made by the college. During the year ended June 30, 2015, contributions totaling $298,998.56 were made by employees participating in the 401(k) plan, with contributions of $185,066.13 made by the college.

Note 10. Other Postemployment Benefits

Healthcare is the only "other postemployment benefit" (OPEB) provided to employees. The State of Tennessee administers a group health insurance program that 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 8-27-201, *Tennessee Code Annotated,* for the State Employee Group Plan and for the Medicare Supplement Plan. The State Employee Group Plan covers retirees until they reach the age of 65. Members have the option of choosing between the standard or partnership preferred provider organization plan for healthcare benefits. Subsequent to age 65, members who are also in the state's retirement system may participate in a state-administered Medicare supplement that does not include pharmacy. Employees hired on or after July 1, 2015, are not eligible to continue insurance coverage at retirement in either the State Employee Group Plan or the Medicare Supplement Plan. The state makes on-behalf payments to the Medicare Supplement Plan for the college's eligible retirees; see Note 16. The plans are reported in the *Tennessee Comprehensive Annual Financial Report* (CAFR). The CAFR is available on the state's website at www.tn.gov/finance/article/fa-accfin-cafr.

Special Funding Situation

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

Funding Policy

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

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

	2017	2016
Annual required contribution (ARC)	$ 530,000.00	$ 512,000.00
Interest on the net OPEB obligation	70,319.20	68,531.33
Adjustment to the ARC	(70,601.61)	(68,806.56)
Annual OPEB cost	529,717.59	511,724.77
Amount of contribution	(522,717.80)	(464,048.11)
Increase in net OPEB obligation	6,999.79	47,676.66
Net OPEB obligation – beginning of year	1,875,178.58	1,827,501.92
Net OPEB obligation – end of year	$1,882,178.37	$1,875,178.58

Year-end	Plan	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation at Year-end
June 30, 2017	State Employee Group Plan	$529,717.59	98.7%	$1,882,178.37
June 30, 2016	State Employee Group Plan	$511,724.77	90.7%	$1,875,178.58
June 30, 2015	State Employee Group Plan	$504,833.77	90.5%	$1,827,501.92

Funded Status and Funding Progress

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

State Employee Group Plan

Actuarial valuation date	July 1, 2015
Actuarial accrued liability (AAL)	$3,853,000.00
Actuarial value of plan assets	-
Unfunded actuarial accrued liability (UAAL)	$3,853,000.00
Actuarial value of assets as a percentage of the AAL	0.00%
Covered payroll (active plan members)	$15,675,921.63
UAAL as percentage of covered payroll	24.6%

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

Actuarial Methods and Assumptions

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

In the July 1, 2015, actuarial valuation, the Projected Unit Credit actuarial cost method was used. The actuarial assumptions included a 3.75% investment rate of return (net of administrative expenses) and an annual healthcare cost trend rate of 6.5% initially. The rate decreased to 6% in fiscal year 2016 and then reduces by decrements to an ultimate rate of 4.7% in fiscal year 2050. All rates include a 2.5% inflation assumption. Premium subsidies in the Medicare Supplement Plan are projected to remain unchanged, and, consequently, trend rates are not applicable. 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. Payroll is assumed to grow at a rate of 3%.

Note 11. Revenues

A summary of adjustments and allowances by revenue classification is presented as follows:

Fiscal Year 2017 Revenue Source	Gross Revenue	Less Scholarship Allowances	Less Uncollectible Debts	Net Revenue
Operating revenues:				
Tuition and fees	$19,237,501.58	$12,209,006.74	$277,507.53	$6,750,987.31
Total	**$19,237,501.58**	**$12,209,006.74**	**$277,507.53**	**$6,750,987.31**

Fiscal Year 2016 Revenue Source	Gross Revenue	Less Scholarship Allowances	Less Uncollectible Debts	Net Revenue
Operating revenues:				
Tuition and fees	$19,225,929.18	$11,245,003.69	$512,639.47	$7,468,286.02
Total	**$19,225,929.18**	**$11,245,003.69**	**$512,639.47**	**$7,468,286.02**

Note 12. Insurance-related Activities

It is the policy of the state not to purchase commercial insurance for the risks associated with casualty losses for general liability, automobile liability, professional medical malpractice liability, and workers' compensation. By statute, the maximum liability for general liability, automobile liability, and professional medical malpractice liability is $300,000 per person and $1,000,000 per occurrence. 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 (RMF). The state purchases commercial insurance for real property; crime and fidelity coverage on the state's officials and employees; and cyber liability coverage. For property coverage, the deductible for an individual state agency is the first $25,000 of losses. The RMF is responsible for property losses for the annual aggregate deductible of $7.5 million for perils other than earthquake and flood. Purchased insurance coverage is responsible for losses exceeding the $7.5 million annual aggregate deductible. For earthquake and flood, there is a deductible of $10 million per occurrence. The maximum insurance coverage is $750 million per year for perils other than earthquake and flood. The maximum flood insurance coverage is $50 million per occurrence, except there is only $25 million of coverage in flood zones A and V. The maximum earthquake insurance coverage is $50 million per occurrence. The amounts of settlements have not exceeded insurance coverage for each of the three past fiscal years.

The college participates in the RMF. 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. Information regarding the determination of the claims liabilities and the changes in the balances of the claims liabilities for the year ended June 30, 2017, is presented in the *Tennessee Comprehensive Annual Financial Report* (CAFR). The CAFR is available on the state's website at www.tn.gov/finance/article/fa-accfin-cafr. At June 30, 2017, the Risk Management Fund held $167 million in cash designated for payment of claims. At June 30, 2016, the Risk Management Fund held $142.9 million in cash designated for payment of claims.

At June 30, 2017, the scheduled coverage for the college was $77,730,700 for buildings and $33,755,900 for contents. At June 30, 2016, the scheduled coverage for the college was $76,430,700 for buildings and $33,755,900 for contents.

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

Note 13. Commitments and Contingencies

Sick Leave

The college records the cost of sick leave when paid. The dollar amount of unused sick leave was $5,856,225.06 at June 30, 2017, and $5,674,736.27 at June 30, 2016.

Operating Leases - The college has entered into various operating leases for buildings and equipment. Such leases will probably continue to be required. Expenses under operating leases for personal property were $235,710.10 for the year ended June 30, 2017. The amounts for the year ended June 30, 2016, were $80,000 for real property and $316,496.52 for personal property. At June 30, 2017, all leases are cancelable at the lessee's option.

Construction in Progress

At June 30, 2017, outstanding commitments under construction contracts totaled $37,083,520.05 for the Faculty Building Glass Replacement project, the Regional Center for Advanced Manufacturing project, the Gray Campus HVAC project, the Student Services Building Roof project, the Johnson City Downtown Center project, the Technical Education Complex project, the Foundation Stabilization project, the ADA Adaptations project, and the Building Control Updates project, of which $31,704,859.77 will be funded by future state capital outlay appropriations.

Litigation

The college is involved in several lawsuits, none of which are expected to have a material effect on the accompanying financial statements.

Note 14. Natural Classification With Functional Classifications

The college's operating expenses for the year ended June 30, 2017, are as follows:

	Natural Classification					
Functional Classification	Salaries	Benefits	Other Operating	Scholarships	Depreciation	Total
Instruction	$12,333,343.73	$4,037,948.72	$2,997,637.36	$ 30,460.00	$ -	$19,399,389.81
Public service	19,420.00	1,490.23	149,112.42	-	-	170,022.65
Academic support	2,769,528.72	1,237,774.90	457,804.95	3,000.00	-	4,468,108.57
Student services	2,656,800.85	1,192,250.88	1,101,518.94	30,185.00	-	4,980,755.67
Institutional support	3,214,018.62	1,228,494.15	1,189,379.13	9,000.00	-	5,640,891.90
Maintenance & operation	1,786,796.15	958,863.87	3,143,352.87	-	-	5,889,012.89
Scholarships & fellowships	-	-	1,784.37	5,817,797.65	-	5,819,582.02
Depreciation	-	-	-	-	1,725,780.15	1,725,780.15
Total	$22,779,908.07	$8,656,822.75	$9,040,590.04	$5,890,442.65	$1,725,780.15	$48,093,543.66

The college's operating expenses for the year ended June 30, 2016, are as follows:

Functional Classification	Natural Classification Salaries	Benefits	Other Operating	Scholarships	Depreciation	Total
Instruction	$11,608,952.34	$3,502,238.91	$ 2,862,150.37	$ -	$ -	$17,973,341.62
Public service	24,544.02	12,927.26	271,365.43	-	-	308,836.71
Academic support	2,770,474.35	1,066,917.65	606,060.09	-	-	4,443,452.09
Student services	2,661,857.10	982,911.10	1,227,203.31	-	-	4,871,971.51
Institutional support	3,804,993.68	1,222,430.97	1,479,717.18	-	-	6,507,141.83
Maintenance & operation	1,292,150.69	641,321.84	4,666,085.05	-	-	6,599,557.58
Scholarships & fellowships	-	-	-	6,578,710.45	-	6,578,710.45
Depreciation	-	-	-	-	1,796,678.30	1,796,678.30
Total	$22,162,972.18	$7,428,747.73	$11,112,581.43	$6,578,710.45	$1,796,678.30	$49,079,690.09

Expenses initially incurred by the academic support function as a result of providing internal services to the other functional classifications were allocated to the other functional areas by reducing the academic support function's operating expenses by the total amount of salaries, benefits, and operating expenses incurred in the provision of these services, and allocating this amount to the other functional areas' operating expenses on the basis of usage. As a result of this process, expenses totaling $813,198.25 for the year ended June 30, 2017, and $562,681.07 for the year ended June 30, 2016, were reallocated from academic support to the other functional areas.

Note 15. Prior-year Adjustment

The college's allowance for doubtful accounts was understated by $3,681,674.71 at June 30, 2015. The allowance for doubtful accounts was estimated at only $21,069.69 when student accounts dating back to 2005 were not collectible.

Note 16. On-behalf Payments

During the year ended June 30, 2017, the State of Tennessee made payments of $16,375.00 on behalf of the college for retirees participating in the Medicare Supplement Plan. The amount for the year ended June 30, 2016, was $12,662.50. The Medicare Supplement Plan is a postemployment benefit healthcare plan and is discussed further in Note 10.

Note 17. Component Unit

The Northeast State Community College Foundation is a legally separate, tax-exempt organization supporting Northeast State Community College. The foundation acts primarily as a fund-raising organization to supplement the resources that are available to the college in support of its programs. The 65-member board of the foundation is self-perpetuating and consists of graduates and friends of the college. Although the college does not control the timing or amount of receipts from the foundation, the majority of resources, or income thereon, that the foundation holds and invests are restricted to the activities of the college by the donors. Because these restricted resources held by the foundation can only be used by, or for the benefit of, the college, the foundation is considered a component unit of the college and is discretely presented in the college's financial statements.

The foundation is a nonprofit organization that reports under Financial Accounting Standards Board standards. As such, certain revenue recognition criteria and presentation features are different from Governmental Accounting Standards Board 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, 2017, the foundation made distributions of $318,332 to or on behalf of the college for both restricted and unrestricted purposes. During the year ended June 30, 2016, the foundation made distributions of $209,150 to or on behalf of the college for both restricted and unrestricted purposes. Complete financial statements for the foundation can be obtained from Chad Bailey, Chief Financial Officer, Northeast State Community College, P.O. Box 246, Blountville, TN 37617.

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 or liability (Level 2), or significant unobservable inputs (Level 3). The following table categorizes the recurring fair-value measurements for assets at June 30, 2017, and at June 30, 2016.

	June 30, 2017	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Investments	$11,216,077	$ -	$ -	$11,216,077
Total assets	$11,216,077	$ -	$ -	$11,216,077

	June 30, 2016	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Investments	$10,018,479	$ -	$ -	$10,018,479
Total assets	$10,018,479	$ -	$ -	$10,018,479

The following table reconciles beginning and ending balances of all assets valued using Level 3 inputs.

Fiscal Year Ending June 30, 2017	Beginning Balance	Total Gains/ (Losses), Realized and Unrealized	Dividends	Purchases	Sales	Ending Balance
Assets:						
Investments	$10,018,479	$1,027,538	$206,910	$50,385	$87,235	$11,216,077
Total assets	$10,018,479	$1,027,538	$206,910	$50,385	$87,235	$11,216,077

Fiscal Year Ending June 30, 2016	Beginning Balance	Total Gains/ (Losses), Realized and Unrealized	Dividends	Purchases	Sales	Ending Balance
Assets:						
Investments	$9,961,247	$(120,705)	$212,366	$ -	$34,429	$10,018,479
Total assets	$9,961,247	$(120,705)	$212,366	$ -	$34,429	$10,018,479

All gains and losses, both realized and unrealized, have been reported on the statement of revenues, expenses, and changes in net position as endowment income per spending plan and investment income. Of this total, $1,027,538 is attributable to the change in unrealized gains or losses relating to those assets still held at June 30, 2017, and $(120,705) is attributable to the change in unrealized gains or losses relating to those assets still held at June 30, 2016.

Cash

Cash consists of demand deposit accounts and Tennessee Local Government Investment Pool (LGIP) deposits. The bank balances at June 30, 2017, and June 30, 2016, 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, 2017, were as follows:

	Cost	Fair Value
Pooled investment funds:		
Multi-strategy equity fund	$3,113,825	$ 5,286,128
Multi-strategy bond fund	3,933,658	3,988,252
CFI core equity fund	1,204,408	1,941,697
Total investments	$8,251,891	$11,216,077

Investments held at June 30, 2016, were as follows:

	Cost	Fair Value
Pooled investment funds:		
Multi-strategy equity fund	$3,042,742	$ 4,409,196
Multi-strategy bond fund	3,807,471	3,909,930
Global multi-asset fund	51,637	49,515
CFI core equity fund	1,172,125	1,649,838
Total investments	$8,073,975	$10,018,479

Investment return – The following schedule summarizes the total investment return and its classification on the foundation's statement of revenues, expenses, and changes in net position.

	2017	2016
Dividends, interest, and rental income (net of expenses of $36,850 in 2017 and $34,429 in 2016)	$ 175,665	$ 260,468
Net realized and unrealized gains	1,027,538	(120,705)
Total return on investments	1,203,203	139,763
Endowment income per spending plan	159,041	240,009
Investment return in excess of (less than) amounts designated for current operations	$1,044,162	$(100,246)

Operating return – The Board of Directors designates only a portion of the foundation's cumulative investment return for support of current operations; the remainder is retained to support operations of future years and to offset potential market declines. The amount computed under the endowment spending policy of the investment pool is used to support current operations.

Alternative investments – The foundation had investments in pooled investment funds. The estimated fair value of these assets was $11,216,077 at June 30, 2017, and $10,018,479 at June 30, 2016.

The foundation believes the carrying amount of its alternative investments is a reasonable estimate of fair value as of June 30, 2017, and as of June 30, 2016. Because these investments are not readily marketable, the estimated value is subject to uncertainty and, therefore, may differ from the value that would have been used had a ready market for the investments existed, and such differences could be material. These investments are made in accordance with the foundation's investment policy that approves the allocation of funds to various asset classes in order to ensure the proper level of diversification. These investments are designed to enhance diversification and provide reductions in overall portfolio volatility. These fair values are estimated using various valuation techniques.

While the pooled investment funds are not traded in active markets, the securities that the pooled investment funds owned are traded. The value of the underlying securities can be used to accurately estimate the fair value of the pooled investments.

Pledges Receivable

Pledges receivable are summarized below:

	June 30, 2017	June 30, 2016
Current pledges	$147,352	$133,333
Pledges due in one to five years	352,452	171,565
Pledges due after five years	83,952	209,078
Subtotal	583,756	513,976
Less allowance for doubtful accounts	24,412	11,500
Total pledges receivable, net	$559,344	$502,476

Capital Assets

Capital assets were as follows:

	June 30, 2017	June 30, 2016
Land	$172,000	$172,000
Buildings	522,951	522,951
Total	694,951	694,951
Less accumulated depreciation:		
Buildings	99,131	85,459
Total	99,131	85,459
Capital assets, net	$595,820	$609,492

Endowments

The Northeast State Community College Foundation's endowments consist of approximately 90 individual funds established for a variety of purposes. Its endowment includes only donor-restricted endowment funds and no funds designated by the Board of Directors to function as endowments. As required by accounting principles generally accepted in the United States of America, net position associated with endowment funds, including funds designated by the Board of Directors to function as endowments, is classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of relevant law – The Board of Directors of the Northeast State Community College Foundation has interpreted the Uniform Prudent Management of Institutional Funds Act (the Act) as adopted by Tennessee as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent donor stipulations to the contrary. As a result of this interpretation, the Northeast State Community College Foundation classifies as permanently restricted net position 1) the original value of gifts donated to the permanent endowment; 2) the original value of subsequent gifts to the permanent endowment; and 3) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net position is classified as temporarily restricted net position until the foundation appropriates those amounts for expenditure in a manner consistent with the standard of prudence prescribed by the Act. In accordance with the Act, the foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: 1) the duration and preservation of the fund; 2) the purposes of the foundation and the endowment fund; 3) the general economic conditions; 4) the possible effect of inflation or deflation; 5) the expected total return from income and the appreciation of investments; 6) the other resources of the foundation; and 7) the investment policies of the foundation.

Composition of Endowment by Net Position Class
As of June 30, 2017

	Permanently Restricted	Temporarily Restricted	Unrestricted	Total
Donor-restricted endowment funds	$5,631,323	$4,164,065	$ -	$9,795,388
Total funds	$5,631,323	$4,164,065	$ -	$9,795,388

Composition of Endowment by Net Position Class
As of June 30, 2016

	Permanently Restricted	Temporarily Restricted	Unrestricted	Total
Donor-restricted endowment funds	$5,093,458	$3,824,967	$ -	$8,918,425
Total funds	$5,093,458	$3,824,967	$ -	$8,918,425

Changes in Endowment Net Position
for the Fiscal Year Ended June 30, 2017

	Permanently Restricted	Temporarily Restricted	Unrestricted	Total
Endowment net position, beginning of year	$5,093,458	$3,824,967	$ -	$8,918,425
Investment income	-	1,240,052	-	1,240,052
Contributions	39,696	4,307	-	44,003
Appropriations of endowment assets for expenditure	-	(151,212)	-	(151,212)
Transfers	498,169	(754,049)	-	(255,880)
Endowment net position, end of year	$5,631,323	$4,164,065	$ -	$9,795,388

Changes in Endowment Net Position
for the Fiscal Year Ended June 30, 2016

	Permanently Restricted	Temporarily Restricted	Unrestricted	Total
Endowment net position, beginning of year	$4,973,014	$3,947,712	$ -	$8,920,726
Investment income	-	94,191	-	94,191
Contributions	24,140	2,995	-	27,135
Appropriations of endowment assets for expenditure	-	(148,129)	-	(148,129)
Transfers	96,304	(71,802)	-	24,502
Endowment net position, end of year	$5,093,458	$3,824,967	$ -	$8,918,425

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. Under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner that is intended to produce results that achieve a balanced return of current income and growth of principal; emphasize long-term growth of principal, while avoiding excessive risk; and strive to achieve returns in excess of the rate of inflation, as defined by the Consumer Price Index. The foundation expects its endowment funds, over time, to equal or better the appropriate benchmark for the equity portion of the fund (such as the Standard & Poor's 500 Index) net of fees and to equal or better the appropriate benchmark for the fixed income portion (such as Lehman Brothers Government/Corporate Bond Index and the Morgan Stanley Capital International EAFE Index) net of fees, annually. Actual returns in any given year may vary from this amount.

Strategies employed for achieving objectives – To satisfy its long-term rate-of-return objectives, the foundation relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The foundation targets a diversified asset allocation that places an emphasis on equity-based and fixed-income investments to provide a balance that will enhance total return, while avoiding undue risk concentration in any single asset class or investment category.

Spending policy and how the investment objectives relate – The foundation has a policy of appropriating for distribution only a portion of investment income each year. Under the spending plan established by the foundation, 80% of the investment income has been authorized for expenditures. The remaining amount, if any, is retained to be used in future years. Accordingly, over the long-term, the foundation expects the current spending policy to allow its endowment to grow at an average of 20% of the current annual earnings. In establishing this policy, the foundation considered the long-term expected return on its endowment. This is consistent with the foundation's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.

Support From Northeast State Community College

The college paid certain payroll costs for college personnel who also performed services supporting the foundation amounting to $233,278 in fiscal year 2017 and $235,462 in fiscal year 2016. These supporting costs paid by the college are reflected in the statement of revenues, expenses, and changes in net position as college support, with a like amount included in expenses. The college provides office space and the use of certain common facilities and services to the foundation at no cost. These costs have not been recorded as college support because they are not considered to be significant to the operations of the foundation.

Related Party Transactions

The Northeast State Community College Foundation owns a building in the Kingsport Academic Village, the Pal Barger Regional Center for Automotive Programs (RCAP). In December 2008, the RCAP was purchased by the foundation using a donor-restricted gift for that purpose. The foundation leases the facility to the college at a lease rate of $80,000 per year. The lease provides for annual rent to be applied to offset the cost for insurance, repairs, and other costs incurred by the foundation. Annual rent in excess of these costs is to be returned to the college. For the year ended June 30, 2016, the college paid rent of $80,000. For the year ended June 30, 2017, the college did not pay rent as accumulated excess rental payments exceeded current and expected future maintenance costs.

Tennessee Board of Regents

Northeast State Community College

Required Supplementary Information

Schedule of Northeast State Community College's Proportionate Share of the Net Pension Liability

Closed State and Higher Education Employee Pension Plan Within TCRS

	Proportion of the Net Pension Liability	Proportionate Share of the Net Pension Liability	Covered Payroll	Proportionate Share of the Net Pension Liability as a Percentage of Its Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2017	0.48301%	$8,812,863.00	$11,787,033.00	74.77%	87.96%
2016	0.44139%	5,690,808.00	11,525,760.00	49.37%	91.26%
2015	0.41487%	2,862,375.00	11,333,853.00	25.26%	95.11%

1) To correspond with the measurement date, the amounts presented were determined as of June 30 of the prior fiscal year.

2) This is a 10-year schedule; however, the information in this schedule is not required to be presented retroactively. Years will be added to this schedule in future years until 10 years of information are available.

Tennessee Board of Regents

Northeast State Community College

Required Supplementary Information

Schedule of Northeast State Community College's Proportionate Share of the Net Pension Asset

State and Higher Education Employee Retirement Plan Within TCRS

	2017	2016
College's proportion of the net pension asset	0.39365%	0.307036%
College's proportionate share of the net pension asset	$33,167.00	$8,539.00
College's covered payroll	$1,230,828.85	$333,598.90
College's proportionate share of the net pension asset as a percentage of its covered payroll	2.69%	2.55%
Plan fiduciary net position as a percentage of the total pension liability	130.56%	142.55%

1) To correspond with the measurement date, the amounts presented were determined as of June 30 of the prior fiscal year.

2) This is a 10-year schedule; however, the information in this schedule is not required to be presented retroactively. Years will be added to this schedule in future years until 10 years of information are available.

Tennessee Board of Regents
Northeast State Community College
Required Supplementary Information
Schedule of Northeast State Community College's Contributions
Closed State and Higher Education Employee Pension Plan Within TCRS

	Contractually Determined Contributions	Contributions in Relation to Contractually Determined Contributions	Contribution Deficiency (Excess)	Covered Payroll	Contributions as a Percentage of Covered Payroll
2017	$1,707,807.00	$1,707,807.00	$ -	$11,370,219.71	15.02%
2016	1,771,591.00	1,771,591.00	-	11,787,033.00	15.03%
2015	1,732,322.00	1,732,322.00	-	11,525,760.00	15.03%
2014	1,703,478.00	1,703,478.00	-	11,333,853.00	15.03%
2013	1,589,301.00	1,589,301.00	-	10,574,198.00	15.03%
2012	1,452,310.00	1,452,310.00	-	9,740,514.00	14.91%
2011	1,283,426.00	1,283,426.00	-	8,607,818.00	14.91%
2010	1,015,720.00	1,015,720.00	-	7,801,231.00	13.02%
2009	1,045,180.00	1,045,180.00	-	8,027,493.00	13.02%
2008	1,032,665.00	1,032,665.00	-	7,581,972.00	13.62%

Tennessee Board of Regents

Northeast State Community College

Required Supplementary Information

Schedule of Northeast State Community College's Contributions

State and Higher Education Employee Retirement Plan Within TCRS

	2017	2016	2015
Contractually determined contributions	$ 82,023.00	$ 47,622.28	$ 12,910.28
Contributions in relation to the contractually determined contributions	82,023.00	47,622.28	12,910.28
Contribution deficiency (excess)	$ -	$ -	$ -
Covered payroll	$2,119,457.00	$1,230,828.85	$333,598.90
Contributions as a percentage of covered payroll	3.87%	3.87%	3.87%

This is a 10-year schedule; however, contributions to this plan began in 2015. Years will be added to this schedule in future years until 10 years of information are available.

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

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, 2015	State Employee Group Plan	$ -	$3,853,000.00	$3,853,000.00	0%	$15,675,921.63	24.6%
July 1, 2013	State Employee Group Plan	$ -	$3,683,000.00	$3,683,000.00	0%	$14,448,465.88	25.5%
July 1, 2011	State Employee Group Plan	$ -	$3,627,000.00	$3,627,000.00	0%	$12,968,901.99	28.0%

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

Supplementary Information
NORTHEAST STATE COMMUNITY COLLEGE FOUNDATION
Schedules of Cash Flows - Component Unit
For the Years Ended June 30, 2017, and June 30, 2016

	Year Ended June 30, 2017	Year Ended June 30, 2016
Cash flows from operating activities		
Gifts and contributions	$ 595,927.00	$ 399,724.00
Sales and services of educational activities	5,209.00	4,185.00
Payments to suppliers and vendors	(90,815.00)	(103,370.00)
Payments for scholarships and fellowships	(353,655.00)	(332,386.00)
Payments to Northeast State Community College	(192,418.00)	(307,907.00)
Net cash used by operating activities	(35,752.00)	(339,754.00)
Cash flows from noncapital financing activities		
Private gifts for endowment purposes	42,212.00	18,308.00
Net cash provided by noncapital financing activities	42,212.00	18,308.00
Cash flows from investing activities		
Proceeds from sales and maturities of investments	87,235.00	34,428.00
Income on investments	175,665.00	260,468.00
Purchases of investments	(257,295.00)	(212,366.00)
Net cash provided by investing activities	5,605.00	82,530.00
Net increase (decrease) in cash	12,065.00	(238,916.00)
Cash - beginning of year	1,201,328.00	1,440,244.00
Cash - end of year	$ 1,213,393.00	$ 1,201,328.00
Reconciliation of operating gain (loss) to net cash used by operating activities:		
Operating income (loss)	$ (62,737.00)	$ 124,137.00
Adjustments to reconcile operating gain (loss) to net cash used by operating activities:		
Noncash operating expenses	292,352.00	255,133.00
Endowment income per spending plan	(159,041.00)	(240,009.00)
Change in assets and liabilities:		
Receivables, net	(104,558.00)	(364,593.00)
Accounts payable	(1,288.00)	(107,037.00)
Other assets	(480.00)	(7,385.00)
Net cash used by operating activities	$ (35,752.00)	$ (339,754.00)
Noncash investing, capital, or financing transactions		
Gifts of capital assets	$ 45,400.00	$ 6,000.00
Unrealized gains (losses) on investments	$ 1,013,120.00	$ (120,705.00)

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

The Honorable Bill Haslam, Governor
Members of the General Assembly
The Honorable Flora W. Tydings, Chancellor
Mr. James King, Interim President

We have audited the financial statements of Northeast State Community College, an institution of the State University and Community College System of Tennessee, 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, 2017, and June 30, 2016, and the related notes to the financial statements, which collectively comprise the college's basic financial statements, and have issued our report thereon dated October 10, 2018. We conducted our audit in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Our report includes a reference to other auditors who audited the financial statements of Northeast State Community College Foundation, as described in our report on Northeast State Community College's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies; therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described below, we identified certain deficiencies in internal control that we consider to be material weaknesses and a significant deficiency.

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

- As reported in the previous three audits, management needs to improve financial statement preparation and review procedures to prevent errors in its financial statements.
- College staff did not conduct proper collection procedures on accounts receivable and properly estimate and report an allowance for doubtful accounts at each year-end.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the following deficiencies to be significant deficiencies:

- Northeast State Community College did not provide adequate internal controls in two areas, including one area noted in the prior two audits.
- College staff did not prepare timely bank reconciliations.

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

Compliance and Other Matters

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

Northeast State Community College's Responses to Findings

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

Purpose of This Report

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

Deborah V. Loveless

Deborah V. Loveless, CPA, Director
Division of State Audit
October 10, 2018

Findings and Recommendations

1. Northeast State Community College did not provide adequate internal controls in two areas, including one area noted in the two prior audits

Northeast State Community College did not design and monitor effective internal controls in two areas. We found multiple internal control deficiencies in these areas related to three of the college's systems because management did not implement controls that were sufficient. One of these deficiencies is repeated from the two prior audits because management did not take effective corrective action. Management stated that they have either corrected these internal control deficiencies or have implemented a corrective action plan to address them.

Ineffective implementation of internal controls increases the likelihood of errors, data loss, and unauthorized access to college information. The details of this finding are confidential pursuant to Section 10-7-504(i), *Tennessee Code Annotated.* We provided the college with detailed information regarding the specific conditions we identified, as well as the related criteria, causes, and our specific recommendations for improvement.

Recommendation

Management should ensure that these conditions are corrected by promptly developing and consistently implementing internal controls in these areas. Management should implement effective controls to ensure compliance with applicable requirements; assign staff to be responsible for ongoing monitoring of the risks and mitigating controls; and take action if deficiencies occur.

Management's Comment

We concur. Management has already begun to address the specific areas noted in the finding.

2. As reported in the previous three audits, management needs to improve financial statement preparation and review procedures to prevent errors in its financial statements

Condition

Northeast State Community College's procedures for preparation of its financial statements are not adequate to ensure the accuracy of the information. A similar finding was reported in the previous three audits. The results of our current audit of the financial statements indicated that, despite training and a stated commitment to devote more time to statement preparation, review, and presentation, the controls over financial reporting for the college did not operate effectively.

Criteria

Management is responsible for the preparation and fair presentation of the college's financial statements and accompanying notes in accordance with accounting principles generally accepted in the United States of America. This includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free of material misstatement.

Cause

The Director of Fiscal Services prepared the college's 2016 and 2017 financial statements with assistance from other staff members. The 2016 statements were reviewed by the college's Chief Financial Officer at that time. He moved to a teaching position at the school in January of 2017. There was an acting Chief Financial Officer from March through June 2017. A newly hired Chief Financial Officer with little experience in college and university accounting began working in July of 2017, and he reviewed the 2017 statements. When the 2017 statements were being prepared, the college was experiencing significant financial difficulties, which commanded the attention of the college's accounting staff and management. The lack of continuity in the college's management during the audit period and the staff's need to deal with day-to-day financial difficulties were probably contributing factors to the errors described below.

Effect

The current weaknesses resulted in the following significant reporting errors:

- The preparers of the college's statements of cash flows made numerous errors, and supporting documentation was incorrect and incomplete. For the fiscal year ended June 30, 2017, management understated net cash used for operating activities by $3,629,323.49, understated net cash provided by noncapital financing activities by $3,689,460.23, and understated net cash used by capital financing activities by $60,136.74. For the fiscal year ended June 30, 2016, college management overstated net cash used by operating activities by $1,063,316.92, understated net cash provided by noncapital financing activities by $230,558.31, and understated net cash used by capital financing activities by $1,293,875.44. The audited statements were corrected.

- Accrued liabilities and amounts due to primary government were misclassified at June 30, 2016, and June 30, 2017. In 2016, $160,408.72 of amounts due to the Tennessee Consolidated Retirement System for pension contributions was classified as accrued liabilities but should instead have been classified as due to primary government. In 2017, $384,313 owed at the end of June for capital projects was classified as due to primary government but should have instead been classified as an accrued liability, since the debt belongs to the school. The audited statements were corrected.

- On the college's 2017 statement of net position, a $900,000 amount due to the Tennessee Board of Regents (TBR) was classified as due to primary government. Only amounts due to the State of Tennessee should be classified as due to primary government. The

Tennessee Board of Regents is a component unit of the State of Tennessee. The audited statement was corrected.

- On the college's 2017 statement of net position, $3,735,043.92 of funds in the college's LGIP capital projects accounts should have been classified as restricted expendable net position – capital projects as opposed to unrestricted net position. This was included in the 2017 TBR instructions. The audited statement was corrected.

- On the June 30, 2016, and June 30, 2017, statements of net position, capital assets (net) were overstated by $111,167.61. This was because college staff incorrectly included equipment purchases for three funds in additions to projects in progress and also counted the purchases as additions to equipment. The audited statements and related notes to the financial statements were corrected.

- On the college's 2016 statement of revenues, expenses, and changes in net position, reported capital grants and gifts exceeded those recorded on the general ledger by $61,143.34. Management could not explain this discrepancy. In addition, on the college's 2017 statement of revenues, expenses, and changes in net position, reported operating governmental grants and contracts were $86,615.83 less than the amount recorded in the general ledger. Management was unable to explain this discrepancy. The statements were not corrected, as the Director of Fiscal Services deemed the amounts immaterial.

- In Note 4 in the college's 2017 financial report, grants receivable were understated by $748,436.87, and other receivables were overstated by the same amount. The amount was classified incorrectly by the Director of Fiscal Services. The amount in account number 91-13420 was misclassified. The audited note was corrected.

- In Note 5 in the college's 2016 financial report, depreciation expense and accumulated depreciation were overstated by $70,438.01 due to a continuing miscalculation of a change in estimated useful life. In 2015, the estimated useful life of college buildings was extended from 40 to 60 years, a change in accounting estimate. College personnel have depreciated gross building values at July 1, 2014, rather than correctly depreciating net values beginning in 2015. The note and the statement of net position and statement of revenues, expenses, and changes in net position were corrected.

- In Note 5 in the college's 2017 financial report, depreciation expense and accumulated depreciation were overstated by $48,434.94 and $118,872.95, respectively, due to a continuing miscalculation of a change in estimated useful life. In fiscal year 2015, the estimated useful life of college buildings was extended from 40 to 60 years, a change in accounting estimate. College personnel have depreciated gross building values at July 1, 2014, rather than correctly depreciating net values beginning in 2015. The note and the statement of net position and statement of revenues, expenses, and changes in net position were corrected.

- In Note 5 in the college's 2016 financial report, library holdings were overstated by $89,985.50 and related accumulated depreciation was overstated by $89,985.50. Also, in

Note 5 in the college's 2017 financial report, library holdings were overstated by $181,067.43 and related accumulated depreciation was also overstated by $181,067.43. Reductions to library holdings and additions and reductions to related depreciation for the years ended June 30, 2016, and June 30, 2017, were also misstated. The audited notes were corrected.

- In Note 5 in the college's 2016 financial report, depreciation and accumulated depreciation for intangible assets were understated by $22,800. The beginning accumulated depreciation amount was therefore incorrectly carried forward to Note 5 in the college's 2017 financial report. At each year-end, the college's capital assets (net) were also overstated by $22,800 on the statement of net position. The audited statements and notes were corrected.

- In Note 5 in the college's 2016 financial report, at June 30, 2016, the university reported equipment of $10,773,279.27. The college's equipment listing totaled $10,685,682.97. College accounting staff could not reconcile the difference. At each year-end, college accounting staff should reconcile the general ledger equipment balance to the supporting equipment listing to ensure fair statement of equipment balances. The note and statement of net position were not corrected, as the Director of Fiscal Services deemed the amount immaterial.

- In Note 5 in the college's 2017 financial report, at June 30, 2017, the university reported equipment of $10,958,947.27. The college's equipment listing totaled $10,916,844.57. College accounting staff could not reconcile the difference. At each year-end, college accounting staff should reconcile the general ledger equipment balance to the supporting equipment listing to ensure fair statement of equipment balances. The note and statement of net position were not corrected, as the Director of Fiscal Services deemed the amount immaterial.

- In Note 5 in the college's 2017 financial report, equipment additions were understated by $63,028.47. Several transactions dated June 30, 2017, were not taken into account. The audited note and the June 30, 2017, statement of net position were corrected.

- In Note 9 in the college's 2017 financial report, the college's required 2017 contributions to the state's optional retirement plans were reported incorrectly at $521,496.51, rather than $550,368.99. In addition, the college's required 2016 contributions were reported incorrectly at $541,910.13, rather than $576,082.40. In Note 9 in the college's 2016 financial report, the college's required 2016 contributions to the state's optional retirement plans were reported incorrectly at $521,496.51, rather than $576,082.40. The audited notes were corrected.

- In Note 9 in the college's 2017 financial report, for 2017, 401k employee contributions were incorrectly reported at $353,715 instead of $413,230.25. For 2016, 401k employee contributions were incorrectly reported at $333,319.62 instead of $383,259.74. The 2016 financial report also misstated the 2016 employee contributions in a similar manner. The audited notes were corrected.

- Due to a worksheet calculation error, in Note 11 in the 2017 financial report, scholarship discounts and allowances were understated by $210,414.96. As a result, on the college's 2017 statement of revenues, expenses, and changes in net position, student tuition and fees were overstated by $210,414.96, and scholarships and fellowships were overstated by $210,414.96. The statement and related notes were not corrected, as the Director of Fiscal Services deemed the amount immaterial.

- In Note 13 in the college's 2017 financial report, college personnel did not disclose operating lease expenses for personal property. This is a required disclosure.

- In Note 13 in the college's 2017 financial report, unused sick leave was reported at $5,710,815,96, rather than $5,856,225.06. The audited note was corrected.

- On the college's 2016 and 2017 financial statements, college personnel failed to properly record on the ledger and report a capital lease to purchase a wireless network at the college. The unreported capital lease obligation at June 30, 2016, was $317,818.75 and at June 30, 2017, was $165,265.75. Unreported capital assets (net) totaled $366,127.20 at June 30, 2016, and $274,595.40 at June 30, 2017. Capital lease payments were recorded as operating lease payments on the general ledger. Required note disclosures were not made. The financial statements and notes were not corrected, as the Director of Fiscal Services considered the amounts to be immaterial.

Recommendation

The Chief Financial Officer should ensure that staff members accounting for college transactions and preparing the college statements have adequate knowledge of reporting requirements to perform their responsibilities, and that they perform their duties with appropriate care and attention. The financial statement review process should be thorough enough to detect misstatements such as the ones described above.

As to the cash flow statements, the accounting staff should prepare complete, well-conceived, and properly documented worksheets showing the conversion of the statement of revenues, expenses, and changes in net position categories prepared on the accrual basis of accounting to the cash flow statement categories.

Management's Comment

We concur that financial statement errors were not prevented or detected by the college's internal control system for the audited financial statements. We believe there are multiple root causes for this deficiency. As discussed in the finding, the college has grappled with significant financial difficulties over the last several years. This contributed to an atmosphere in which there was significant turnover at both the employee and leadership levels of the college's finance function. In addition, during the time in which significant cuts were being made throughout the organization due to financial difficulties, sufficient resources were not available to provide reasonable assurance that financial statement errors would be prevented or detected.

In order to prevent significant errors in the future, management will take the following actions.

- All significant adjustments noted by the auditors have been recorded.

- Management will provide the accounting staff access to appropriate resources, such as the National Association of College and University Business Officers (NACUBO) Financial Accounting and Reporting Manual (FARM) so that necessary research can be performed.

- Appropriate training will be provided to the accounting staff related to the preparation of financial statements.

- Additional staff will be added to assist with the preparation of financial statements.

- Financial statements, related schedules and notes, and calculations will be reviewed by the Chief Financial Officer.

3. College staff did not conduct proper collection procedures on accounts receivable and properly estimate and report an allowance for doubtful accounts at each year-end

Condition

Prior to the arrival of a new acting Chief Financial Officer in March of 2017, management did not ensure that required collection procedures for accounts receivable were being performed by Bursar's Office personnel. Management could not provide documentation that three required billings or letters of contact were sent at 30-day intervals as required, or that accounts were turned over to collection agencies in a timely manner. For 25 randomly selected student accounts receivable at June 30, 2016, and 25 randomly selected student accounts receivable at June 30, 2017, there was no documentation of collection procedures. Some of the tested accounts originated as early as the 2008 fiscal year.

In addition, prior to the 2017 fiscal year, accounts receivable write-offs were very small, apparently only due to death or bankruptcy. Small library and parking fines were also written off. Write-offs were $8,672.89, $22,791.48, $20,181.93, $11,150.04, and $11,798.05 for the 2012 through 2016 fiscal years. Based on available evidence, these write-offs were inadequate.

Collection procedures were instituted late in the 2017 fiscal year by the acting Chief Financial Officer and continued by the newly hired Chief Financial Officer who began in July of 2017. An initial significant write-off was requested from the Tennessee Board of Regents (TBR) on June 12, 2017. This write-off was reported in the 2017 fiscal year and totaled $1,565,509.39. It included $1,441,897.84 of accounts receivable more than 5 years old, some originating as early as the 2005 fiscal year. Another write-off, totaling $1,128,245.40, was requested in February 2018 with accounts more than 5 years old totaling $1,090,948.24. Additional write-offs are expected.

The June 30, 2016, reported allowance for doubtful accounts was only $22,583.54. This was based on the school's average percentage write-off for the prior three fiscal years (.51%). The June 30, 2017, reported allowance for doubtful accounts was $790,147.00. This represented 25% of related accounts receivable. The 25% represented the average allowance for all TBR community colleges. Because of the failure to perform collection procedures over the years and resulting collectibility of accounts receivable, these allowance estimates were inadequate.

Criteria

Management is responsible for ensuring that adequate collection procedures are in place and being consistently performed. Management is also responsible for calculating and reporting at each year-end a reasonable estimate of uncollectible accounts receivable (an allowance for doubtful accounts). Once all collection procedures are completed, specific accounts that are deemed uncollectible should be written off.

TBR Business and Finance Guideline B-010 requires that ". . . collection efforts should begin no later than 30 days after the obligation has been incurred . . .", and, furthermore, that "a minimum of three billings or letters of contact shall be sent by the institution at thirty-day intervals once an account becomes delinquent." It further requires that "accounts of $100 or more shall be referred to a collection agency if the institution's collection efforts are unsuccessful." According to the Chief Financial Officer, Northeast State's policies and procedures further require reassignment of a debt to a second collection agency if the first agency's efforts do not result in collection within nine months. If the second agency does not collect the debt within an additional nine months, the account is considered uncollectible, and is to be written off.

Cause

Management did not adhere to TBR Business and Finance Guideline B-010 and to its own guidelines for collection of accounts receivable and write-offs of bad debts. In addition, allowance for doubtful account estimates were not based on the actual age and collectibility of reported accounts receivable.

Effect

Because management did not follow the TBR Guideline and the institution's policies and procedures, the following material misstatements occurred.

On the college's June 30, 2017, and June 30, 2016, statements of net position, reported accounts and grants receivable and unrestricted net position were overstated by an estimated $2,163,113 and $4,194,314, respectively. Business office staff estimated the allowance for doubtful accounts at $790,147.00 at June 30, 2017. However, our review of subsequent receivable write-offs and the age of the accounts showed that the allowance amount should have been approximately $3 million. Staff estimated the allowance for doubtful accounts at $22,583.54 at June 30, 2016, when our review of subsequent receivable write-offs and the age of the accounts showed that the allowance amount should have been approximately $4 million. A fiscal year 2016 prior period adjustment of $3,681,674.71 was considered necessary to report apparently worthless accounts that existed prior to June 30, 2015. The audited statements and notes were corrected.

Recommendation

The current Chief Financial Officer should ensure that staff members charged with monitoring and collecting accounts receivable adhere to TBR Guideline B-010 and any additional procedures adopted by the college on an ongoing basis and submit necessary write-off requests in accordance with such guidelines. At each year end, documented entries should be made to reflect a reasonable estimate of uncollectible accounts receivable. This estimate should be based on historic collectibility, an aging of accounts receivable, and the particular account's stage in the collection process.

Management's Comment

We concur that appropriate procedures were not in place to collect past due accounts and establish appropriate reserves for uncollectible debt. Previously, the college recorded a reserve for uncollectible debt based on an average of recent write-offs. However, as mentioned in the finding, older past due accounts were not written off in a timely manner. As a result, a significant amount of older, uncollectible accounts that dated back as far as 2004 continued to be carried on the college's books without an adequate reserve each year through 2017.

During 2017, management identified the error and began working to collect these debts, write off uncollectible accounts, and establish reserves for reasonable estimates of what would not be collected. Since then, the college has collected approximately $275 thousand of the old outstanding receivables. This was accomplished by beginning collection procedures such as communications with the former students in accordance with the TBR policy B-010: Collection of Accounts Receivable. Once accounts are identified as being in default, three letters are sent in 30-day intervals explaining that the balance is still owed. The final letter also informs the debtor that the account will be sent to a collection agency if payment is not received within 30 days. If payment is not received within 30 days of this final letter, the account is turned over to a collection agency.

As of the June 2018, financial statements, the college has written off the majority of the delinquent receivables. Those accounts not written off are currently held by a collection agency and will be written off during the 2019 fiscal year if payment is not received. In addition, the college has recorded a reserve within the allowance for doubtful accounts for 100% of the delinquent accounts from prior years. Each month, the Chief Financial Officer also receives a status report from the accounting staff and meets to discuss any additional actions that need to be taken.

Finally, the college has established internal documented procedures to guide business office staff in the future by effectively communicating management's expectations regarding the collection of outstanding accounts receivable. We believe these procedures are now adequate and comply with TBR policy.

4. College staff did not prepare timely bank reconciliations

Condition

At Northeast State Community College, Business Office staff did not always complete the operating and payroll bank account reconciliations on a timely basis. A combined reconciliation was prepared addressing both account balances.

Criteria

Best practices require bank reconciliations to be prepared within 30 days after the end of the month and a documented review to be performed shortly thereafter. Performing bank reconciliations timely is necessary in order to detect fraudulent transactions and promptly notify the bank of errors.

Cause

The college did not have written policies and procedures for preparing and reviewing bank reconciliations. According to management, staffing changes in the payroll department also contributed to delays, as information regarding payroll account reconciling items was not always readily available.

Effect

Twelve of the 24 monthly bank reconciliations performed for the college's operating and payroll accounts during the audit period (50%) were not prepared timely (within 30 days of month-end). The reconciliations were completed between 6 and 64 days late.

Recommendation

Management should develop written policies and procedures to ensure that bank account reconciliations are prepared and reviewed timely, as they are an important internal control for cash. The reviewer should ensure timely preparation and conduct timely reviews.

Management's Comment

We concur that the timely reconciliation of accounts is a necessary internal control to prevent and detect financial statement errors and fraud. This deficiency was identified by and corrected by management in September 2017 by confirming management's expectations to the accounting staff and making staffing changes. Since then, the bank reconciliations have been completed in a timely manner. In addition, written procedures have been developed to better communicate expectations about the timeliness of, and process for, completing and reviewing bank reconciliations.

Observations and Comments

College of Applied Technology

Northeast State Community College serves as the lead institution under an agreement with the Tennessee College of Applied Technology at Elizabethton. Under this agreement, Northeast State Community College performs the accounting and reporting functions for the college. The chief administrative officer of the college 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.