



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, 2015, and June 30, 2014

Justin P. Wilson, Comptroller



**Division of State Audit
Financial and Compliance Section**

Deborah V. Loveless, CPA, CGFM, CGMA
Director

FINANCIAL AND COMPLIANCE

Edward Burr, CPA, CGFM
Assistant Director

Bob Hunter, CPA, CGFM
Audit Manager

Jeffrey Lafever, CFE
In-Charge Auditor

Amy Brown
Jesse Gaylor
Taryn Hodge
Staff Auditors

Gerry Boaz, CPA, CGFM, CGMA
Technical Manager

Amy Brack
Editor

Amanda Adams
Assistant Editor

INFORMATION SYSTEMS

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

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

Jeff White
In-Charge Auditor

Laurel Gruber
Staff Auditor

Comptroller of the Treasury, Division of State Audit
Suite 1500, James K. Polk State Office Building
505 Deaderick Street
Nashville, TN 37243-1402
(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 improve the quality of life
for all Tennesseans by making government work better.

Comptroller Website
www.comptroller.tn.gov



STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
DEPARTMENT OF AUDIT
DIVISION OF STATE AUDIT
SUITE 1500, JAMES K. POLK STATE OFFICE BUILDING
505 DEADERICK STREET
NASHVILLE, TENNESSEE 37243-1402

PHONE (615) 401-7897
FAX (615) 532-2765

August 18, 2016

The Honorable Bill Haslam, Governor
Members of the General Assembly
The Honorable David Gregory, Acting Chancellor
Dr. Janice H. Gilliam, 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, 2015, and June 30, 2014. 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, CPA
Director

Audit Report
Tennessee Board of Regents
Northeast State Community College
For the Years Ended June 30, 2015, and June 30, 2014

TABLE OF CONTENTS

	<u>Page</u>
Audit Highlights	1
Financial Section	
Independent Auditor's Report	2
Management's Discussion and Analysis	6
Basic Financial Statements	
Statements of Net Position	17
Statements of Revenues, Expenses, and Changes in Net Position	18
Statements of Cash Flows	19
Notes to the Financial Statements	21
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	51
Schedule of Northeast State Community College's Contributions – Closed State and Higher Education Employee Pension Plan Within TCRS	52
Schedule of Northeast State Community College's Contributions – State and Higher Education Employee Retirement Plan Within TCRS	53
OPEB Schedule of Funding Progress	54
Supplementary Information	
Schedules of Cash Flows – Component Unit	55

TABLE OF CONTENTS (Continued)

	<u>Page</u>
Internal Control, Compliance, and Other Matters	
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 <i>Government Auditing Standards</i>	56
Findings and Recommendations	
Finding 1 - As noted in the prior audit, Northeast State Community College did not provide adequate internal controls in four specific areas	59
Finding 2 - As reported in the previous two audits, management needs to improve financial statement preparation and review procedures to prevent errors in its financial statements	59
Observations and Comments	
College of Applied Technology	62

State of Tennessee

Audit Highlights

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, 2015, and June 30, 2014

Opinions on the Financial Statements

The opinions on the financial statements are unmodified.

Audit Findings

As Noted in the Prior Audit, Northeast State Community College Did Not Provide Adequate Internal Controls in Four Specific Areas *

The college did not design and monitor internal controls in four specific areas. The details of this finding are confidential pursuant to Section 10-7-504(i), *Tennessee Code Annotated* (page 59).

As Reported in the Previous Two 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 two significant reporting errors (page 59).

* This finding is repeated from the prior audit.

** This finding is repeated from prior audits.



STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
DEPARTMENT OF AUDIT
DIVISION OF STATE AUDIT

SUITE 1500, JAMES K. POLK STATE OFFICE BUILDING
505 DEADERICK STREET
NASHVILLE, TENNESSEE 37243-1402

PHONE (615) 401-7897
FAX (615) 532-2765

Independent Auditor's Report

The Honorable Bill Haslam, Governor
Members of the General Assembly
The Honorable David Gregory, Acting Chancellor
Dr. Janice H. Gilliam, President

Report on the Financial Statements

We have audited the accompanying financial statements of Northeast State Community College, an institution of the Tennessee Board of Regents, which is a component unit of the State of Tennessee, and its discretely presented component unit as of and for the years ended June 30, 2015, and June 30, 2014, 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 of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor

considers internal control relevant to the 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 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, 2015, and June 30, 2014, 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 Tennessee Board of Regents, are intended to present the financial position, the changes in financial position, and the cash flows of only Northeast State Community College. They do not purport to, and do not, present fairly the financial position of the Tennessee Board of Regents, as of June 30, 2015, and June 30, 2014, 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 15, the college implemented Governmental Accounting Standards Board Statement 68, *Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement No. 27*; and Statement 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*, during the year ended June 30, 2015. 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 16, 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 51, the schedule of Northeast State Community College's contributions – Closed State and Higher Education Employee Pension Plan within TCRS on page 52, the schedule of Northeast State Community College's contributions – State and Higher Education Employee Retirement Plan within TCRS on page 53, and the other postemployment benefits schedule of funding progress on page 54 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

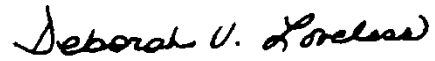
Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the college's basic financial statements. The supplementary schedules of cash flows – component unit on page 55 are presented for purposes of additional analysis and are not a required part 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, 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 July 7, 2016, 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.

A handwritten signature in black ink that reads "Deborah V. Loveless". The signature is written in a cursive style with a large, stylized 'D' and 'L'.

Deborah V. Loveless, CPA

Director

July 7, 2016

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

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, 2015, and June 30, 2014, with comparative information presented for the year ended June 30, 2013. 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 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 16 to the financial statements. This discussion and analysis focuses on the college and does not include the foundation.

Overview of the Financial Statements

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

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

The Statement of Net Position

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

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

The statement of net position also indicates the availability of net position for expenditure by the college. Net position is divided into three major categories. The first category, net investment in capital assets, represents the college's total investment in property, plant, and equipment, net of outstanding debt obligations and deferred outflows/inflows of resources related to these capital assets. To the extent debt or deferred inflows of resources has 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, 2015; June 30, 2014; and June 30, 2013.

Summary of Net Position
(in thousands of dollars)

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Assets:			
Current assets	\$10,931	\$ 13,642	\$ 12,259
Capital assets, net	41,557	38,172	38,160
Other assets	6,171	9,235	12,174
Total assets	58,659	61,049	62,593
Deferred outflows of resources:			
Deferred amount on debt refunding	13	17	20
Deferred outflows related to pensions	1,721	-	-
Total deferred outflows	1,734	17	20
Liabilities:			
Current liabilities	5,719	7,067	5,710
Noncurrent liabilities	5,905	2,853	2,783
Total liabilities	11,624	9,920	8,493

Deferred inflows of resources:

Deferred inflows related to pensions	4,124	-	-
Total deferred inflows	4,124	-	-

Net position:

Net investment in capital assets	41,336	37,919	37,872
Restricted – expendable	216	448	79
Unrestricted	3,093	12,779	16,169
Total net position	\$44,645	\$51,146	\$54,120

Comparison of Fiscal Year 2015 to Fiscal Year 2014

- Northeast State Community College's current assets decreased by \$2.7 million in fiscal year 2015, as compared to fiscal year 2014, primarily due to renovation payments for the Northeast State Johnson City campus construction project.
- Other assets decreased by \$3 million in fiscal year 2015, as compared to fiscal year 2014. This decrease is primarily due to equipment purchases and improvements made throughout the year to prepare for increased enrollment in fiscal year 2016 due to Tennessee Promise.
- Deferred outflows of resources and deferred inflows of resources related to pensions are the result of implementation of GASB Statement 68. See Note 1 and Note 9 to the financial statements for more details.
- Current liabilities decreased by \$1.3 million in fiscal year 2015, as compared to fiscal year 2014, primarily due to a decrease in deposits held in custody for the Tennessee College of Applied Technology at Elizabethton.
- Noncurrent liabilities increased by \$3 million in fiscal year 2015, as compared to fiscal year 2014, due primarily to recording of the net pension liability of \$2.8 million with the implementation of GASB Statement 68.
- Unrestricted net position decreased \$9.7 million in fiscal year 2015, as compared to fiscal year 2014, primarily due to implementation of GASB Statement 68.
- Significant increases to capital assets and net investment in capital assets occurred because the Regional Center for Applied Manufacturing Building was transferred from the foundation to the college. Also, projects in progress increased due to ongoing projects for the Johnson City campus, Amphitheater, and Elizabethton Biology Lab.

Comparison of Fiscal Year 2014 to Fiscal Year 2013

- Northeast State Community College's current assets increased by \$1.4 million in fiscal year 2014, as compared to fiscal year 2013, primarily due to new grants and contracts in fiscal year 2014. The accounts receivable balances at June 30, 2014, increased by \$841,000 for a new contract with the Johnson City Development Authority for the

downtown Johnson City Center renovations. Additionally, the grants receivable increased by \$180,000 for the Clean Tennessee Energy grant for an HVAC system at the downtown Johnson City Center. Student receivables also increased in fiscal year 2014 by \$308,000 for unpaid student tuition and fees.

- Noncurrent assets decreased \$2.9 million in cash in fiscal year 2014, as compared to fiscal year 2013, primarily due to a transfer of plant funds of \$1.2 million to the current fund for current operating activities. Other decreases in noncurrent cash include plant purchases of \$585,000 for renewal and replacement of college equipment and \$105,000 of excess cash held in the retirement of indebtedness account from prior debt retirement that was transferred to the current fund. Noncurrent cash also decreased in fiscal year 2014 as a result of the increases in accounts receivable. The expenses related to these invoices of \$841,000 with Johnson City Development Authority and the \$180,000 due from the Clean Tennessee Energy grant have both been paid from plant fund projects.
- Current liabilities increased \$1.4 million primarily due to an increase in unearned revenue in fiscal year 2014, as compared to fiscal year 2013, due to an advance on a new grant from the State of Tennessee Department of Economic and Community Development.
- Unrestricted net position decreased \$3.4 million in fiscal year 2014, as compared to fiscal year 2013, primarily due to a temporary decline in enrollment.

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, 2015, and the two previous years follows.

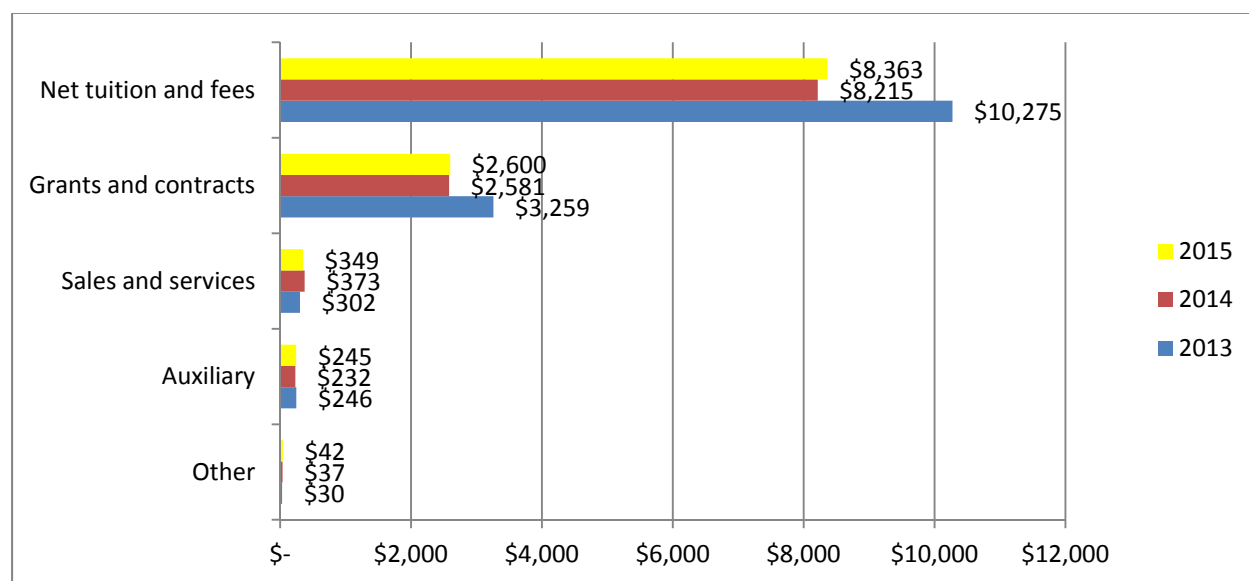
Summary of Revenues, Expenses, and Changes in Net Position
(in thousands of dollars)

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Operating revenues	\$11,600	\$11,439	\$14,110
Operating expenses	44,253	44,854	47,924
Operating loss	(32,653)	(33,415)	(33,814)
Nonoperating revenues and expenses	29,275	29,701	30,279
Income (loss) before other revenues, expenses, gains, or losses	(3,378)	(3,714)	(3,535)
Other revenues, expenses, gains, or losses	3,437	740	328
Increase (decrease) in net position	59	(2,974)	(3,207)
Net position at beginning of year	51,146	54,120	57,327
Cumulative effect of change in accounting principle	(6,560)	-	-
Net position at beginning of year - restated	44,586	54,120	57,327
Net position at end of year	\$44,645	\$51,146	\$54,120

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 2015 to Fiscal Year 2014

- Sales and services revenues decreased by \$24,000 in fiscal year 2015, as compared to fiscal year 2014, primarily due to Kingsport Center for Higher Education membership dues collection responsibilities being transferred to the City of Kingsport.

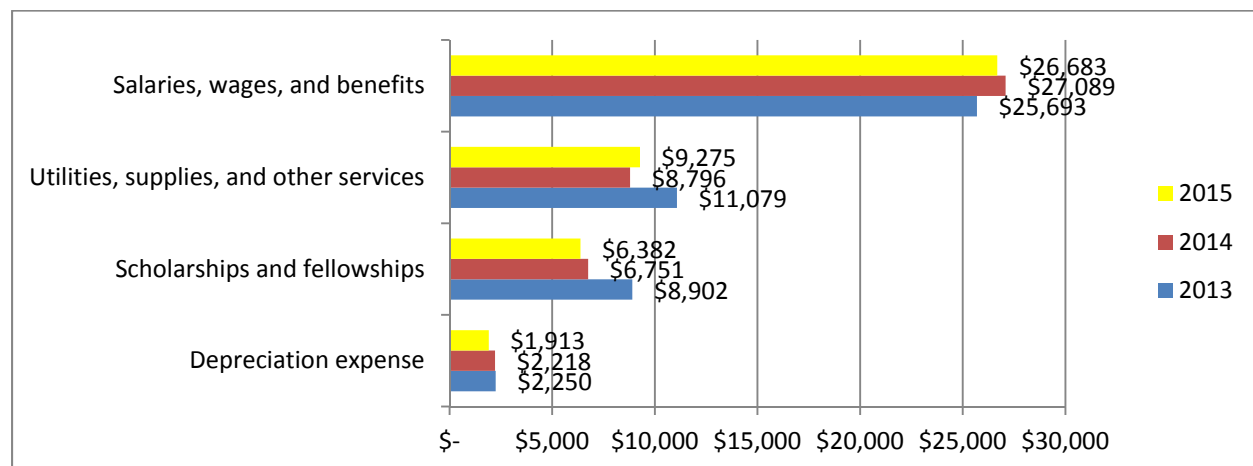
Comparison of Fiscal Year 2014 to Fiscal Year 2013

- Net tuition and fees decreased in fiscal year 2014, as compared to fiscal year 2013, by \$2.1 million due to an average annual decrease in enrollment of approximately 10%.
- Nongovernmental grants and contracts increased \$163,000 in fiscal year 2014, as compared to fiscal year 2013, primarily due to a one-time grant of \$150,000 (a Lumina grant for student retention). Governmental grants and contracts decreased \$841,000, yielding a net decrease in grant and contract revenue of \$678,000.

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 2015 to Fiscal Year 2014

- Northeast State's salaries and wages increased \$748,000 in fiscal year 2015, as compared to fiscal year 2014, due to filling vacant positions.

- Benefit expenses decreased by \$1.15 million in fiscal year 2015, as compared to fiscal year 2014. This decrease is primarily due to the implementation of GASB 68, which changed the reporting of pension contributions from benefit expense to deferred outflows of resources.

Comparison of Fiscal Year 2014 to Fiscal Year 2013

- Northeast State's salaries, wages, and benefits increased \$1.4 million in fiscal year 2014, as compared to fiscal year 2013, due to implementation of the college's first phase of a compensation plan of approximately \$500,000; a 1.5% across-the-board salary increase; the filling of vacant positions; and other benefit increases.
- Utilities, supplies, and other services decreased \$2.3 million in fiscal year 2014, as compared to fiscal year 2013, primarily due to across-the-board decreases in operating budgets and a reallocation of resources. Additionally, a grant with \$2 million in expenditures for utilities, supplies, and other services from the Tennessee Department of Economic and Community Development ended in fiscal year 2013.
- Scholarships and fellowships decreased \$2.2 million in fiscal year 2014, as compared to fiscal year 2013, due to the 10% decline in enrollment in fiscal year 2014.

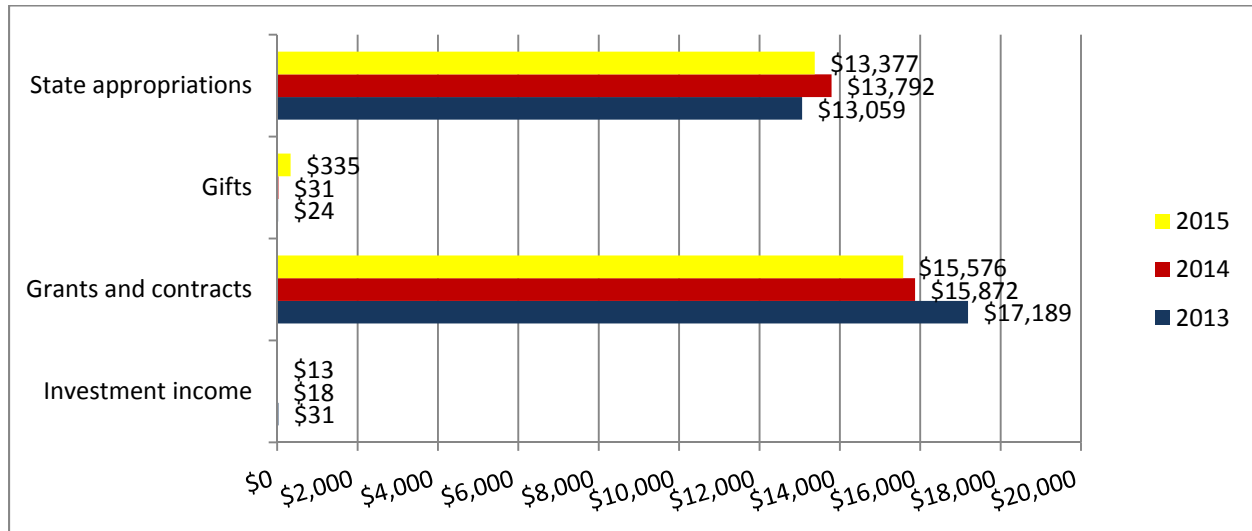
Nonoperating Revenues and Expenses

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)

	<u>2015</u>	<u>2014</u>	<u>2013</u>
State appropriations	\$13,377	\$13,792	\$13,059
Gifts	335	31	24
Grants and contracts	15,576	15,872	17,189
Investment income	13	18	31
Interest on capital asset-related debt	(8)	(9)	(9)
Bond issuance costs	-	-	(1)
Other nonoperating revenues (expenses)	(18)	(3)	(14)
Total nonoperating revenues (expenses)	\$29,275	\$29,701	\$30,279

Nonoperating Revenues (in thousands of dollars)



Comparison of Fiscal Year 2015 to Fiscal Year 2014

- Nonoperating revenues decreased \$296,000 in grants and contracts in fiscal year 2015, as compared to fiscal year 2014, primarily due to the slight decrease in student financial aid associated with the approximate 2% enrollment decline in fiscal year 2015.
- Gift revenues increased by \$303,000 in fiscal year 2015, as compared to fiscal year 2014, primarily due to a foundation gift for the college's iPad Initiative.

Comparison of Fiscal Year 2014 to Fiscal Year 2013

- The college's state appropriations increased \$733,000 in fiscal year 2014, as compared to fiscal year 2013, due to increased funding of \$579,000 for performance outcomes and \$240,000 for a state funded 1.5% across-the-board salary increase.
- Nonoperating revenues decreased \$1.3 million in grants and contracts in fiscal year 2014, as compared to fiscal year 2013, primarily due to the decrease in student financial aid associated with the approximate 10% enrollment decline in fiscal year 2014.

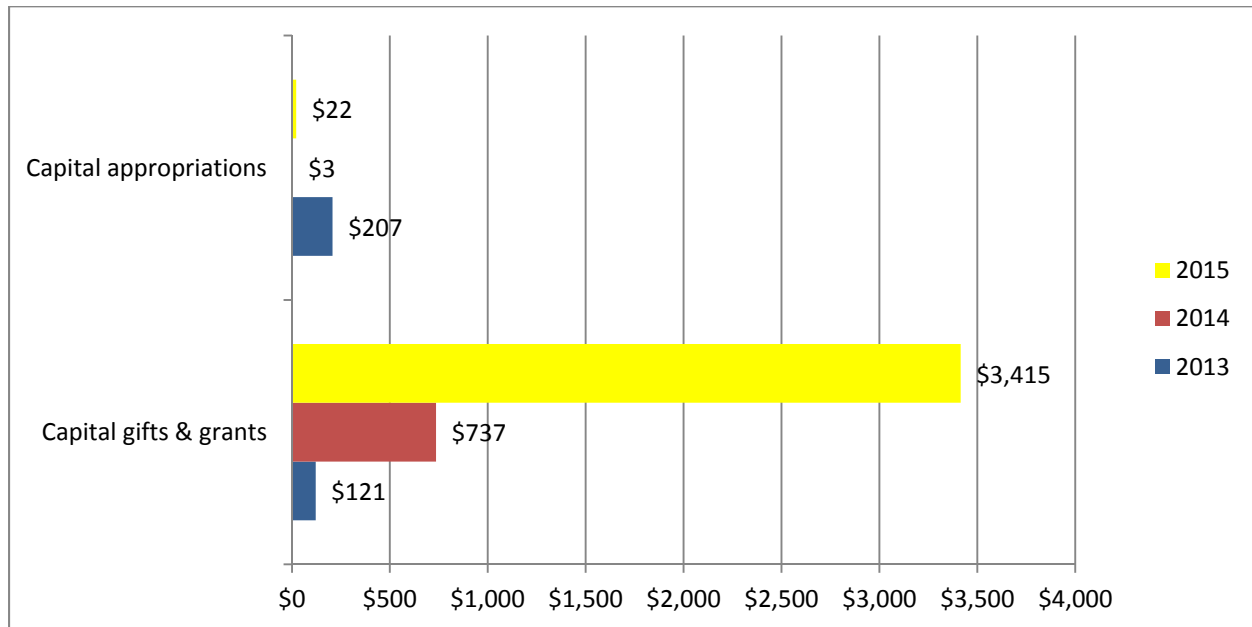
Other Revenues

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)

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Capital appropriations	\$ 22	\$ 3	\$207
Capital grants and gifts	3,415	737	121
Total other revenues	\$3,437	\$740	\$328

Other Revenues
(in thousands of dollars)



Comparison of Fiscal Year 2015 to Fiscal Year 2014

- Capital grants and gift revenues increased by \$2.7 million in fiscal year 2015, as compared to fiscal year 2014, primarily due to the foundation's gift to the college of the Regional Center for Applied Manufacturing building and land.

Comparison of Fiscal Year 2014 to Fiscal Year 2013

- Capital grants and gifts increased \$615,000 in fiscal year 2014, as compared to fiscal year 2013, due to new grants in fiscal year 2014 for capital purposes, including the Governor's Competitive Grant for Advanced Manufacturing of \$494,000 and the Clean Tennessee Energy grant of \$180,000.
- Capital appropriations decreased \$204,000 in fiscal year 2014, as compared to fiscal year 2013, due to completion of several projects in fiscal year 2013, including the Auditorium Update (\$155,000), Faculty General Studies Roof Replacement (\$44,000), and ADA Adaptations (\$6,000).

Capital Assets and Debt Administration

Capital Assets

Northeast State Community College had \$41,557,287.17 invested in capital assets, net of accumulated depreciation of \$24,762,785.32 at June 30, 2015; \$38,171,918.37 invested in capital assets, net of accumulated depreciation of \$22,981,181.46 at June 30, 2014; and \$38,159,601.91 invested in capital assets, net of accumulated depreciation of \$21,071,322.47 at June 30, 2013. Depreciation charges totaled \$1,912,657.51, \$2,218,198.78, and \$2,249,979.05 for the years ended June 30, 2015; June 30, 2014; and June 30, 2013, respectively.

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

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Land	\$ 2,175	\$ 2,029	\$ 2,029
Land improvements and infrastructure	2,229	2,417	2,606
Buildings	28,945	27,131	28,119
Equipment	5,220	4,783	4,442
Library holdings	395	417	418
Intangible assets	23	198	373
Projects in progress	2,570	1,197	173
Total	\$41,557	\$38,172	\$38,160

Significant additions to capital assets occurred in fiscal year 2015. These additions were from the transfer of the Regional Center for Applied Manufacturing Building from the foundation to the college.

Significant increases to projects in progress increased in fiscal year 2015. These increases were due to ongoing projects for the Johnson City campus, Amphitheater, and Elizabethton Biology Lab.

Significant additions to capital assets occurred in fiscal year 2014. These additions were from new construction in progress for the new Emerging Technology Complex and the Amphitheater.

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

Debt

The college had \$234,000, \$270,000, and \$308,000 in debt outstanding at June 30, 2015; June 30, 2014; and June 30, 2013, respectively. The table below summarizes these amounts by type of debt instrument.

Schedule of Outstanding Debt
(in thousands of dollars)

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Bonds payable	\$207	\$236	\$267
Unamortized bond premium	27	34	41
Total	\$234	\$270	\$308

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 \$206,814 outstanding at June 30, 2015, is \$28,687.

The ratings on debt issued by the Tennessee State School Bond Authority at June 30, 2015, 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

Northeast State Community College continues to pursue its long-range plan to expand facilities through new construction, renovation construction, and leased facilities at all teaching sites. State and local capital appropriations have been allocated to support the construction costs.

The college is committed to implementing a salary study adjustment at a cost of approximately \$1.5 million. Past cost containment measures and prudent use of recurring resources will provide funding to implement this plan.

Tennessee Board of Regents
NORTHEAST STATE COMMUNITY COLLEGE
Statements of Net Position
June 30, 2015, and June 30, 2014

	Northeast State Community College		Component Unit - Northeast State Community College Foundation	
	June 30, 2015	June 30, 2014	June 30, 2015	June 30, 2014
Assets				
Current assets:				
Cash (Notes 2, 3, and 16)	\$ 5,174,158.81	\$ 8,475,484.12	\$ 1,440,244.00	\$ 1,470,567.00
Accounts and grants receivable (net) (Note 4)	5,630,066.79	5,121,966.02	-	-
Due from primary government	-	18,400.00	-	-
Due from the college	-	-	-	2,997.00
Due from component unit	105,449.00	1,089.25	-	-
Pledges receivable (net) (Note 16)	-	-	73,478.00	54,657.00
Inventories	13,927.09	12,532.75	-	-
Prepaid expenses	7,526.88	13,393.75	-	-
Total current assets	10,931,128.57	13,642,865.89	1,513,722.00	1,528,221.00
Noncurrent assets:				
Cash (Notes 2, 3, and 16)	6,170,535.20	9,234,664.06	-	-
Investments (Note 16)	-	-	9,961,247.00	9,559,678.00
Pledges receivable (net) (Note 16)	-	-	58,571.00	41,645.00
Capital assets (net) (Notes 5 and 16)	41,557,287.17	38,171,918.37	623,164.00	2,915,053.00
Other assets	-	-	25,056.00	26,691.00
Total noncurrent assets	47,727,822.37	47,406,582.43	10,668,038.00	12,543,067.00
Total assets	58,658,950.94	61,049,448.32	12,181,760.00	14,071,288.00
Deferred outflows of resources				
Deferred amount on debt refunding	13,397.16	16,746.46	-	-
Deferred outflows related to pensions (Note 9)	1,720,153.28	-	-	-
Total deferred outflows of resources	1,733,550.44	16,746.46	-	-
Liabilities				
Current liabilities:				
Accounts payable (Note 6)	1,081,425.16	1,003,579.02	2,875.00	-
Accrued liabilities	1,894,913.62	1,744,256.07	-	-
Due to grantors	5,718.74	3,627.17	-	-
Due to the college	-	-	105,449.00	1,089.00
Due to component unit	-	2,997.40	-	-
Unearned revenue	1,848,274.50	2,256,661.38	-	-
Compensated absences (Note 7)	189,121.40	340,367.07	-	-
Long-term liabilities, current portion (Note 7)	28,687.00	28,687.00	-	-
Deposits held in custody for others	670,565.71	1,368,787.13	-	-
Other liabilities	-	317,852.12	-	-
Total current liabilities	5,718,706.13	7,066,814.36	108,324.00	1,089.00
Noncurrent liabilities:				
Net OPEB obligation (Note 10)	1,827,501.92	1,779,740.78	-	-
Net pension liability (Note 9)	2,862,375.00	-	-	-
Compensated absences (Note 7)	1,009,271.85	832,593.58	-	-
Long-term liabilities (Note 7)	205,532.74	241,071.17	-	-
Total noncurrent liabilities	5,904,681.51	2,853,405.53	-	-
Total liabilities	11,623,387.64	9,920,219.89	108,324.00	1,089.00
Deferred inflows of resources				
Deferred inflows related to pensions (Note 9)	4,124,238.00	-	-	-
Total deferred inflows of resources	4,124,238.00	-	-	-
Net position				
Net investment in capital assets	41,336,464.59	37,918,906.66	623,164.00	2,915,053.00
Restricted for:				
Nonexpendable:				
Scholarships and fellowships	-	-	4,973,014.00	4,090,931.00
Expendable:				
Scholarships and fellowships	38,143.31	43,746.99	4,082,302.00	5,802,924.00
Research	-	-	204,741.00	-
Instructional department uses	68,944.61	399,965.00	5,056.00	150,937.00
Loans	-	-	-	6,251.00
Other	108,475.45	4,711.45	1,058,650.00	938,291.00
Unrestricted	3,092,847.78	12,778,644.79	1,126,509.00	165,812.00
Total net position	\$ 44,644,875.74	\$ 51,145,974.89	\$ 12,073,436.00	\$ 14,070,199.00

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

Tennessee Board of Regents
NORTHEAST STATE COMMUNITY COLLEGE
Statements of Revenues, Expenses, and Changes in Net Position
For the Years Ended June 30, 2015, and June 30, 2014

	Northeast State Community College		Component Unit - Northeast State Community College Foundation	
	Year Ended June 30, 2015	Year Ended June 30, 2014	Year Ended June 30, 2015	Year Ended June 30, 2014
Revenues				
Operating revenues:				
Student tuition and fees (net of scholarship allowances of \$9,502,700.34 for the year ended June 30, 2015, and \$9,091,189.84 for the year ended June 30, 2014)	\$ 8,362,619.94	\$ 8,215,483.46	\$ -	\$ -
Gifts and contributions	-	-	455,112.00	422,730.00
Endowment income (per spending plan)	-	-	238,029.00	318,812.00
Governmental grants and contracts	2,544,287.36	2,416,240.37	-	1,347.00
Nongovernmental grants and contracts	55,764.04	164,724.28	-	-
Sales and services of educational activities	26,824.01	41,293.00	2,482.00	2,450.00
Sales and services of other activities	322,828.00	332,383.05	-	-
Auxiliary enterprises:				
Bookstore	235,573.76	222,110.91	-	-
Food service	9,908.53	9,738.32	-	-
Other operating revenues	42,028.67	37,224.52	-	-
Total operating revenues	11,599,834.31	11,439,197.91	695,623.00	745,339.00
Expenses				
Operating expenses (Note 13):				
Salaries and wages	20,021,593.54	19,273,552.75	193,142.00	192,571.00
Benefits	6,661,183.44	7,815,230.12	51,128.00	48,928.00
Utilities, supplies, and other services	9,274,704.02	8,796,178.43	59,069.00	57,453.00
Scholarships and fellowships	6,382,358.94	6,750,738.09	413,792.00	427,759.00
Depreciation expense	1,912,657.51	2,218,198.78	74,587.00	74,587.00
Gifts of capital assets and payments to or on behalf of Northeast State Community College (Note 16)	-	-	2,557,567.00	28,928.00
Total operating expenses	44,252,497.45	44,853,898.17	3,349,285.00	830,226.00
Operating loss	(32,652,663.14)	(33,414,700.26)	(2,653,662.00)	(84,887.00)
Nonoperating revenues (expenses)				
State appropriations	13,377,262.50	13,791,961.00	-	-
Gifts (including \$328,765.11 from component unit for the year ended June 30, 2015, and \$18,927.89 for the year ended June 30, 2014)	334,540.47	30,927.89	-	-
Grants and contracts	15,575,488.10	15,871,712.31	-	-
Investment income (net of investment expense of \$34,741.00 for the component unit for the year ended June 30, 2015, and \$31,850.00 for the year ended June 30, 2014)	12,956.41	18,386.09	244,464.00	1,152,326.00
Interest on capital asset-related debt	(7,898.43)	(9,346.91)	-	-
College support (Note 16)	-	-	244,270.00	241,500.00
Other nonoperating revenues (expenses)	(17,625.23)	(3,101.77)	-	-
Total nonoperating revenues (expenses)	29,274,723.82	29,700,538.61	488,734.00	1,393,826.00
Income (loss) before other revenues, expenses, gains, or losses	(3,377,939.32)	(3,714,161.65)	(2,164,928.00)	1,308,939.00
Capital appropriations	22,042.27	3,101.77	-	-
Capital grants and gifts (including \$2,594,297.00 from the component unit for the year ended June 30, 2015, and \$10,000.00 for the year ended June 30, 2014)	3,414,953.90	736,466.72	-	-
Additions to permanent endowments	-	-	168,165.00	56,607.00
Total other revenues	3,436,996.17	739,568.49	168,165.00	56,607.00
Increase (decrease) in net position	59,056.85	(2,974,593.16)	(1,996,763.00)	1,365,546.00
Net position - beginning of year, as originally reported	51,145,974.89	54,120,568.05	14,070,199.00	12,704,653.00
Cumulative effect of change in accounting principle (Note 15)	(6,560,156.00)	-	-	-
Net position - beginning of year, restated	44,585,818.89	54,120,568.05	14,070,199.00	12,704,653.00
Net position - end of year	\$ 44,644,875.74	\$ 51,145,974.89	\$ 12,073,436.00	\$ 14,070,199.00

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, 2015, and June 30, 2014

	Year Ended June 30, 2015	Year Ended June 30, 2014
Cash flows from operating activities		
Tuition and fees	\$ 7,961,672.67	\$ 7,576,045.55
Grants and contracts	2,257,187.90	3,337,057.83
Sales and services of educational activities	26,824.01	41,293.00
Sales and services of other activities	322,828.00	332,383.05
Payments to suppliers and vendors	(9,549,224.68)	(9,226,496.64)
Payments to employees	(20,013,131.04)	(19,266,291.76)
Payments for benefits	(7,731,556.65)	(7,345,221.75)
Payments for scholarships and fellowships	(6,382,954.69)	(6,733,189.34)
Auxiliary enterprise charges:		
Bookstore	235,573.76	223,420.50
Food services	9,917.36	10,200.98
Other receipts	41,725.67	51,004.02
Net cash used by operating activities	(32,821,137.69)	(30,999,794.56)
Cash flows from noncapital financing activities		
State appropriations	13,384,000.00	13,764,300.00
Gifts and grants received for other than capital or endowment purposes	15,629,998.34	15,763,247.95
Federal student loan receipts	-	382,787.00
Federal student loan disbursements	-	(298,925.00)
Changes in deposits held for others	(693,352.50)	190,359.64
Other noncapital financing receipts (payments)	-	(3,101.77)
Net cash provided by noncapital financing activities	28,320,645.84	29,798,667.82
Cash flows from capital and related financing activities		
Capital appropriations	18,277.00	3,101.77
Capital grants and gifts received	820,656.90	726,466.72
Purchases of capital assets and construction	(2,676,749.17)	(2,381,976.64)
Principal paid on capital debt	(28,687.00)	(31,217.50)
Interest paid on capital debt	(11,416.46)	(13,023.76)
Net cash used by capital and related financing activities	(1,877,918.73)	(1,696,649.41)
Cash flows from investing activities		
Income on investments	12,956.41	18,386.09
Net cash provided by investing activities	12,956.41	18,386.09
Net decrease in cash	(6,365,454.17)	(2,879,390.06)
Cash - beginning of year	17,710,148.18	20,589,538.24
Cash - end of year	\$ 11,344,694.01	\$ 17,710,148.18

Tennessee Board of Regents
NORTHEAST STATE COMMUNITY COLLEGE
Statements of Cash Flows (Continued)
For the Years Ended June 30, 2015, and June 30, 2014

	Year Ended June 30, 2015	Year Ended June 30, 2014
Reconciliation of operating loss to net cash used by operating activities:		
Operating loss	\$ (32,652,663.14)	\$ (33,414,700.26)
Adjustments to reconcile operating loss to net cash used by operating activities:		
Depreciation expense	1,912,657.51	2,218,198.78
Gifts in-kind	3,658.35	18,222.89
Pension expense	426,457.00	-
Other adjustments	11,662.50	9,261.00
Change in assets, liabilities, and deferred outflows:		
Receivables, net	(341,062.64)	(1,252,572.95)
Inventories	(1,394.34)	1,388.97
Prepaid expenses	5,866.87	625.16
Deferred outflows related to pensions	(1,720,153.28)	-
Accounts payable	(283,738.40)	(453,359.73)
Accrued liabilities	150,673.45	322,020.06
Net OPEB obligation	47,761.14	67,984.27
Unearned revenue	(408,386.88)	1,400,566.60
Compensated absences	25,432.60	80,519.48
Due to grantors	2,091.57	2,051.17
Net cash used by operating activities	\$ (32,821,137.69)	\$ (30,999,794.56)
Noncash investing, capital, or financing transactions		
Gifts of capital assets	\$ 2,594,297.00	\$ 10,000.00

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

Tennessee Board of Regents
NORTHEAST STATE COMMUNITY COLLEGE
Notes to the Financial Statements
June 30, 2015, and June 30, 2014

Note 1. Summary of Significant Accounting Policies

Reporting Entity

The college is a part of the State University and Community College System of Tennessee (Tennessee Board of Regents). This system is a component unit of the State of Tennessee because the state appoints a majority of the system's governing body and provides significant financial support; the system is discretely presented in the *Tennessee Comprehensive Annual Financial Report*.

The financial statements present only that portion of the Tennessee Board of Regents' activities that is attributable to the transactions of Northeast State Community College.

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

Basis of Presentation

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

Basis of Accounting

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

Notes to the Financial Statements (Continued)

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 and contributions, and other activities that are defined as nonoperating by GASB Statement 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities that Use Proprietary Fund Accounting*, and GASB Statement 34, such as state appropriations and investment income.

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

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

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

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

Notes to the Financial Statements (Continued)

Pensions

For purposes of measuring the net pension liability, 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

Notes to the Financial Statements (Continued)

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, 2015, cash consisted of \$3,217,645.57 in bank accounts, \$1,850.00 of petty cash on hand, \$3,144,725.11 in the Local Government Investment Pool (LGIP) administered by the State Treasurer, and \$4,980,473.33 in LGIP deposits for capital projects. At June 30, 2014, cash consisted of \$908,187.94 in bank accounts, \$1,850.00 of petty cash on hand, \$10,533,433.27 in the LGIP, and \$6,266,676.97 in LGIP deposits for capital projects. The carrying amount of the operating bank account at June 30, 2014, is \$(317,852.12) and has been reported as other liabilities.

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

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

Note 3. Investments

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The college is authorized by statute to invest funds in accordance with Tennessee Board of Regents policies. Under the current policy, funds other than endowments may be invested only in obligations of the United States or its agencies which are backed by the full faith and credit of the United States; repurchase agreements for United States securities; certificates of deposit in banks and savings and loan associations; bankers' acceptances; commercial paper; money market mutual funds; and the State of Tennessee Local Government Investment Pool.

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

Notes to the Financial Statements (Continued)

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, 2015, and June 30, 2014, the college's investments consisted entirely of investments in the Local Government Investment Pool. The fair value of these investments was \$8,125,198.44 at June 30, 2015, and \$16,800,110.24 at June 30, 2014. LGIP investments are not rated by nationally recognized statistical ratings organizations.

Note 4. Receivables

Receivables included the following:

	<u>June 30, 2015</u>	<u>June 30, 2014</u>
Student accounts receivable	\$4,090,359.09	\$3,778,610.12
Grants receivable	768,597.21	487,652.13
Other receivables	792,180.18	874,818.99
Subtotal	5,651,136.48	5,141,081.24
Less allowance for doubtful accounts	(21,069.69)	(19,115.22)
Total receivables	\$5,630,066.79	\$5,121,966.02

Note 5. Capital Assets

Capital asset activity for the year ended June 30, 2015, was as follows:

Notes to the Financial Statements (Continued)

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Transfers</u>	<u>Reductions</u>	<u>Ending Balance</u>
Land	\$ 2,028,771.64	\$ 146,160.00	\$ -	\$ -	\$ 2,174,931.64
Land improvements and infrastructure	4,041,129.59	-	-	-	4,041,129.59
Buildings	42,021,315.34	2,436,637.00	-	-	44,457,952.34
Equipment	9,305,877.72	1,287,235.30	-	55,343.11	10,537,769.91
Library holdings	935,603.97	69,300.49	-	89,570.50	915,333.96
Intangible assets	1,623,453.29	-	-	-	1,623,453.29
Projects in progress	1,196,948.28	1,372,553.48	-	-	2,569,501.76
Total	61,153,099.83	5,311,886.27	-	144,913.61	66,320,072.49
Less accumulated depreciation/amortization:					
Land improvements and infrastructure	1,624,052.62	188,087.02	-	-	1,812,139.64
Buildings	14,890,095.97	622,484.42	-	-	15,512,580.39
Equipment	4,523,298.65	835,493.10	-	41,483.15	5,317,308.60
Library holdings	518,140.50	91,533.40	-	89,570.50	520,103.40
Intangible assets	1,425,593.72	175,059.57	-	-	1,600,653.29
Total	22,981,181.46	1,912,657.51	-	131,053.65	24,762,785.32
Capital assets, net	\$38,171,918.37	\$3,399,228.76	\$ -	\$ 13,859.96	\$41,557,287.17

The decrease in building depreciation expense for the current period is due to a change in accounting estimate. During fiscal year 2015, it was determined that buildings were more appropriately depreciated over a period of 60 years, instead of the 40 years previously used. This change resulted in a reduction of depreciation expense of \$461,159.14.

Capital asset activity for the year ended June 30, 2014, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Transfers</u>	<u>Reductions</u>	<u>Ending Balance</u>
Land	\$ 2,028,771.64	\$ -	\$ -	\$ -	\$ 2,028,771.64
Land improvements and infrastructure	4,041,129.59	-	-	-	4,041,129.59
Buildings	41,958,740.40	62,574.94	-	-	42,021,315.34
Equipment	8,470,468.36	1,051,487.98	-	216,078.62	9,305,877.72
Library holdings	934,983.23	92,881.91	-	92,261.17	935,603.97
Intangible assets	1,623,453.29	-	-	-	1,623,453.29
Projects in progress	173,377.87	1,023,570.41	-	-	1,196,948.28
Total	59,230,924.38	2,230,515.24	-	308,339.79	61,153,099.83
Less accumulated depreciation/amortization:					
Land improvements and infrastructure	1,435,965.60	188,087.02	-	-	1,624,052.62
Buildings	13,839,826.70	1,050,269.27	-	-	14,890,095.97

Notes to the Financial Statements (Continued)

Equipment	4,028,154.77	711,222.50	-	216,078.62	4,523,298.65
Library holdings	516,841.27	93,560.40	-	92,261.17	518,140.50
Intangible assets	1,250,534.13	175,059.59	-	-	1,425,593.72
Total	21,071,322.47	2,218,198.78	-	308,339.79	22,981,181.46
Capital assets, net	\$38,159,601.91	\$ 12,316.46	\$ -	\$ -	\$38,171,918.37

Note 6. Accounts Payable

Accounts payable included the following:

	<u>June 30, 2015</u>	<u>June 30, 2014</u>
Vendors payable	\$1,033,207.19	\$ 817,222.44
Unapplied student payments	39,416.07	32,289.93
Other payables	8,801.90	154,066.65
Total accounts payable	<u>\$1,081,425.16</u>	<u>\$1,003,579.02</u>

Note 7. Long-term Liabilities

Long-term liabilities activity for the year ended June 30, 2015, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Current Portion</u>
TSSBA debt:					
Bonds	\$ 235,501.00	\$ -	\$ 28,687.00	\$ 206,814.00	\$ 28,687.00
Unamortized bond premium	34,257.17	-	6,851.43	27,405.74	-
Subtotal	269,758.17	-	35,538.43	234,219.74	28,687.00
Other liabilities:					
Compensated absences	1,172,960.65	808,328.88	782,896.28	1,198,393.25	189,121.40
Subtotal	1,172,960.65	808,328.88	782,896.28	1,198,393.25	189,121.40
Total long-term liabilities	<u>\$1,442,718.82</u>	<u>\$808,328.88</u>	<u>\$818,434.71</u>	<u>\$1,432,612.99</u>	<u>\$217,808.40</u>

Long-term liabilities activity for the year ended June 30, 2014, was as follows:

Notes to the Financial Statements (Continued)

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Current Portion</u>
TSSBA debt:					
Bonds	\$ 266,718.50	\$ -	\$ 31,217.50	\$ 235,501.00	\$ 28,687.00
Unamortized bond premium	41,108.60	-	6,851.43	34,257.17	-
Subtotal	307,827.10	-	38,068.93	269,758.17	28,687.00
Other liabilities:					
Compensated absences	1,092,441.17	739,869.07	659,349.59	1,172,960.65	340,367.07
Subtotal	1,092,441.17	739,869.07	659,349.59	1,172,960.65	340,367.07
Total long-term liabilities	\$1,400,268.27	\$739,869.07	\$697,418.52	\$1,442,718.82	\$369,054.07

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, 2015, are as follows:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 30,199.00	\$9,963.23	\$ 40,162.23
2017	31,792.00	8,433.36	40,225.36
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	\$206,814.00	\$35,153.46	\$241,967.46

Note 8. Pledged Revenues

The college has pledged certain revenues and fees, including state appropriations, to repay \$206,814 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 .12% of available revenues. The total principal and interest remaining to be paid on the bonds at June 30, 2015, is \$241,967.46. Principal and interest paid for fiscal year

Notes to the Financial Statements (Continued)

2015 and total available revenues were \$40,103.46 and \$32,218,422.22, respectively. Principal and interest paid for fiscal year 2014 and total available revenues were \$44,241.25 and \$31,789,112.93, 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:

Notes to the Financial Statements (Continued)

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 university'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 year ended June 30, 2015, to the Closed State and Higher Education Employee Pension Plan were \$1,707,243, which is 15.03% of covered payroll. The employer rate 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.

Annual pension cost – For the years ended June 30, 2014, and June 30, 2013, the college's contributions equaled the annual pension cost of \$1,703,478.00 and \$1,589,301.97, respectively.

Notes to the Financial Statements (Continued)

<u>Year Ended</u>	Trend Information		<u>Net Pension Obligation</u>
	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	
June 30, 2014	\$1,703,478.00	100%	\$0
June 30, 2013	\$1,589,301.97	100%	\$0
June 30, 2012	\$1,452,310.61	100%	\$0

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

Pension liability – At June 30, 2015, the college reported a liability of \$2,862,375 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2014, 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, 2014, to the pension plan relative to the contributions of all participating state and higher education agencies. At the June 30, 2014, measurement date, the college's proportion was 0.414868%, representing the first-time presentation of this proportion.

Pension expense – For the year ended June 30, 2015, the college recognized a pension expense of \$426,457.

Deferred outflows of resources and deferred inflows of resources – For the year ended June 30, 2015, the college reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ -	\$ 617,494.00
Net difference between projected and actual earnings on pension plan investments	-	3,506,744.00
College's contributions subsequent to the measurement date of June 30, 2014	1,707,243.00	-
Total	\$1,707,243.00	\$4,124,238.00

Deferred outflows of resources, resulting from the college's employer contributions of \$1,707,243 subsequent to the measurement date, will be recognized as a decrease in net pension liability in the year ending June 30, 2016. Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Notes to the Financial Statements (Continued)

Year Ended June 30

2016	\$(1,031,059.50)
2017	(1,031,059.50)
2018	(1,031,059.50)
2019	(1,031,059.50)

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

Actuarial assumptions – The total pension liability as of June 30, 2014, actuarial valuation was determined 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 June 30, 2014, actuarial valuation 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:

Notes to the Financial Statements (Continued)

<u>Asset Class</u>	<u>Long-term Expected Real Rate of Return</u>	<u>Target Allocation</u>
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 net pension liability (asset) to changes in the discount rate – The following presents the college's proportionate share of the net pension liability (asset) calculated using the discount rate of 7.5%, as well as what the college's proportionate share of the net pension liability (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 net pension liability (asset)	\$9,817,615	\$2,862,375	\$(2,992,123)

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, 2015, the college reported a payable of \$144,134.81 for the outstanding amount of legally required contributions to the pension plan required for the year ended June 30, 2015.

Notes to the Financial Statements (Continued)

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 Employee 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 using the member's highest five consecutive year average compensation and the member's 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. Under the State and Higher Education Employee Retirement Plan, benefit terms and conditions, including COLA, can be adjusted on a prospective basis. Moreover, there are defined cost controls and unfunded liability controls that provide for the adjustment of benefit terms and conditions on an automatic basis.

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. The higher education institutions make employer contributions at the rate set by the Board of Trustees as determined by an actuarial valuation. Per the statutory provisions governing the TCRS, the employer contribution rate cannot be less than 4% for all aggregate employee groups, except in years when the maximum funded level, approved by the TCRS Board of Trustees, is reached. By law, employer contributions for the State and Higher Education Employee Retirement Plan are required to be paid. Employer

Notes to the Financial Statements (Continued)

contributions by the college for the year ended June 30, 2015, to the State and Higher Education Employee Retirement Plan were \$12,910.28, which is 3.87% of covered payroll. 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 (Assets), Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

Pension liabilities – Since the measurement date is June 30, 2014, which is prior to the July 1, 2014, inception of the State and Higher Education Employee Retirement Plan, there is not a net pension liability to report at June 30, 2015.

Pension expense – Since the measurement date is June 30, 2014, the college did not recognize a pension expense at June 30, 2015.

Deferred outflows of resources and deferred inflows of resources – For the year ended June 30, 2015, the college reported deferred outflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
College's contributions subsequent to the measurement date of June 30, 2014	\$12,910.28	\$ -

The college's employer contributions of \$12,910.28 reported as pension-related deferred outflows of resources, subsequent to the measurement date, will be recognized as a reduction in net pension liability in the year ending June 30, 2016.

Payable to the Pension Plan

At June 30, 2015, the college reported a payable of \$1,967.21 for the outstanding amount of legally required contributions to the pension plan required for the year ended June 30, 2015.

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.

Notes to the Financial Statements (Continued)

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. The required contributions made to the ORP were \$541,910.13 for the year ended June 30, 2015, and \$510,445.86 for the year ended June 30, 2014. 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 in which 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. IRC 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 are 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.

Notes to the Financial Statements (Continued)

During the year ended June 30, 2015, contributions totaling \$298,998.56 were made by employees participating in the 401(k) plan, and the college recognized pension expense of \$185,066.13 for employer contributions. During the year ended June 30, 2014, contributions totaling \$268,016.00 were made by employees participating in the 401(k) plan, with contributions of \$163,870.00 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 Section 8-27-701, *Tennessee Code Annotated*, for the Medicare Supplement Plan. Prior to reaching age 65, all members have the option of choosing between the standard or partnership preferred provider organization plan for health care benefits. Subsequent to age 65, members who are also in the state’s retirement system may participate in a state-administered Medicare supplement that does not include pharmacy. The state makes on-behalf payments to the Medicare Supplement Plan for the college’s eligible retirees; see Note 14. The plans are reported in the *Tennessee Comprehensive Annual Financial Report (CAFR)*. The CAFR is available on the state’s website at www.tn.gov/finance/act/cafr.shtml.

Special Funding Situation

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

Funding Policy

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

Notes to the Financial Statements (Continued)

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

	<u>2015</u>	<u>2014</u>
Annual required contribution (ARC)	\$ 503,000.00	\$ 485,000.00
Interest on the net OPEB obligation	71,189.40	68,470.26
Adjustment to the ARC	(69,355.86)	(66,706.54)
Annual OPEB cost	504,833.54	486,763.72
Amount of contribution	(457,072.40)	(418,779.45)
Increase in net OPEB obligation	47,761.14	67,984.27
Net OPEB obligation – beginning of year	1,779,740.78	1,711,756.51
Net OPEB obligation – end of year	\$1,827,501.92	\$1,779,740.78

<u>Year-end</u>	<u>Plan</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation at Year-end</u>
June 30, 2015	State Employee Group Plan	\$504,833.54	90.5%	\$1,827,501.92
June 30, 2014	State Employee Group Plan	\$486,763.72	86.0%	\$1,779,740.78
June 30, 2013	State Employee Group Plan	\$490,012.47	81.6%	\$1,711,756.51

Funded Status and Funding Progress

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

Notes to the Financial Statements (Continued)

State Employee Group Plan

Actuarial valuation date	July 1, 2013
Actuarial accrued liability (AAL)	\$3,683,000.00
Actuarial value of plan assets	-
Unfunded actuarial accrued liability (UAAL)	\$3,683,000.00
Actuarial value of assets as a percentage of the AAL	0%
Covered payroll (active plan members)	\$14,448,465.88
UAAL as percentage of covered payroll	25.5%

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, 2013, actuarial valuation, the Projected Unit Credit actuarial cost method was used. The actuarial assumptions included a 4% investment rate of return (net of administrative expenses) and an annual healthcare cost trend rate of 7.5% initially. The rate decreased to 7.0% in fiscal year 2015 and then reduces by decrements to an ultimate rate of 4.19% in fiscal year 2044. All rates include a 2.5% inflation assumption. The unfunded actuarial accrued liability is being amortized as a level percentage of payroll on a closed basis over a 30-year period beginning with July 1, 2007. Payroll is assumed to grow at a rate of 3.0%.

Note 11. Insurance-related Activities

It is the policy of the state not to purchase commercial insurance for the risks associated with casualty losses for general liability, automobile liability, professional medical malpractice, and workers' compensation. The state's management believes it is more economical to manage these risks internally and set aside assets for claim settlement in its internal service fund, the Risk Management Fund (RMF). The state purchases commercial insurance for real property, builder's risk (for construction projects starting prior to July 1, 2012), and crime and fidelity coverage on the state's officials and employees. The contractor is responsible for acquiring builder's risk insurance

Notes to the Financial Statements (Continued)

for all construction projects after June 30, 2012; thus, builder's risk is no longer covered by the RMF. 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 \$10 million for perils other than earthquakes and flood. Purchased insurance coverage is responsible for losses exceeding the \$10 million annual aggregate deductible. For earthquake and flood, there is a deductible of \$10 million per occurrence. The maximum insurance coverage is \$750 million per year for perils other than earthquake and flood. The maximum flood insurance coverage is \$50 million per occurrence, except there is only \$25 million of coverage in flood zones A and V. The maximum earthquake insurance coverage is \$50 million per occurrence. The amounts of settlements have not exceeded insurance coverage for each of the three past fiscal years.

The college participates in the 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. An actuarial valuation is performed as of fiscal year-end to determine the fund liability and premium allocation. Information regarding the determination of the claims liabilities and the changes in the balances of the claims liabilities for the year ended June 30, 2015, is presented in the *Tennessee Comprehensive Annual Financial Report* (CAFR). The CAFR is available on the state's website at www.tn.gov/finance/act/cafr.shtml. Since the college participates in the Risk Management Fund, it is subject to the liability limitations under the provisions of the Tennessee Claims Commission Act, Section 9-8-101 et seq., *Tennessee Code Annotated*. Liability for negligence of the college for bodily injury and property damage is limited to \$300,000 per person and \$1,000,000 per occurrence. The limits of liability under workers' compensation are set forth in Section 50-6-101 et seq., *Tennessee Code Annotated*. Claims are paid through the state's Risk Management Fund. At June 30, 2015, the Risk Management Fund held \$127.9 million in cash designated for payment of claims. At June 30, 2014, the Risk Management Fund held \$116.3 million in cash designated for payment of claims.

At June 30, 2015, the scheduled coverage for the college was \$72,515,700 for buildings and \$32,890,900 for contents. At June 30, 2014, the scheduled coverage for the college was \$72,256,100 for buildings and \$32,170,900 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.

Notes to the Financial Statements (Continued)

Note 12. Commitments and Contingencies

Sick Leave

The college records the cost of sick leave when paid. The dollar amount of unused sick leave was \$5,172,584.77 at June 30, 2015, and \$4,922,758.20 at June 30, 2014.

Operating Leases

The college has entered into various operating leases for buildings and equipment. Such leases will probably continue to be required. Expenses under operating leases for real property were \$848,948.36 and expenses for personal property were \$291,590.22 for the year ended June 30, 2015. The amounts for the year ended June 30, 2014, were \$670,164.69 and \$38,706.42. All operating leases are cancelable at the lessee's option.

Construction in Progress

At June 30, 2015, outstanding commitments under construction contracts totaled \$2,091,431.22 for the Outdoor Amphitheater, Emerging Technologies Complex, Johnson City Downtown Renovations, and the Elizabethton Biology Lab projects, of which \$1,887,466.02 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 13. Natural Classification With Functional Classifications

The college's operating expenses for the year ended June 30, 2015, are as follows:

<u>Natural Classification</u>						
<u>Functional Classification</u>	<u>Salaries</u>	<u>Benefits</u>	<u>Other Operating</u>	<u>Scholarships</u>	<u>Depreciation</u>	<u>Total</u>
Instruction	\$10,478,977.56	\$3,259,893.95	\$3,306,453.27	\$ -	\$ -	\$17,045,324.78
Public service	28,673.34	6,379.97	158,191.17	-	-	193,244.48
Academic support	2,536,648.44	935,276.34	48,536.45	-	-	3,520,461.23
Student services	2,432,776.88	866,055.03	1,246,374.88	-	-	4,545,206.79
Institutional support	3,323,217.51	1,005,286.57	1,183,465.28	-	-	5,511,969.36
Maintenance & operation	1,221,299.81	588,291.58	3,331,682.97	-	-	5,141,274.36
Scholarships & fellowships	-	-	-	6,382,358.94	-	6,382,358.94
Depreciation	-	-	-	-	1,912,657.51	1,912,657.51
Total	\$20,021,593.54	\$6,661,183.44	\$9,274,704.02	\$6,382,358.94	\$1,912,657.51	\$44,252,497.45

Notes to the Financial Statements (Continued)

The college's operating expenses for the year ended June 30, 2014, are as follows:

<u>Natural Classification</u>						
<u>Functional Classification</u>	<u>Salaries</u>	<u>Benefits</u>	<u>Other Operating</u>	<u>Scholarships</u>	<u>Depreciation</u>	<u>Total</u>
Instruction	\$9,917,342.46	\$3,517,892.27	\$2,843,164.18	\$ -	\$ -	\$16,278,398.91
Public service	33,155.04	16,396.85	168,041.60	-	-	217,593.49
Academic support	2,672,537.91	1,229,749.80	(76,327.76)	-	-	3,825,959.95
Student services	2,454,393.98	1,107,103.28	1,633,838.49	-	-	5,195,335.75
Institutional support	2,955,187.88	1,206,813.33	997,867.24	-	-	5,159,868.45
Maintenance & operation	1,240,935.48	737,274.59	3,229,594.68	-	-	5,207,804.75
Scholarships & fellowships	-	-	-	6,750,738.09	-	6,750,738.09
Depreciation	-	-	-	-	2,218,198.78	2,218,198.78
Total	\$19,273,552.75	\$7,815,230.12	\$8,796,178.43	\$6,750,738.09	\$2,218,198.78	\$44,853,898.17

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 \$1,292,667.66 for the year ended June 30, 2015, and \$1,140,803.62 for the year ended June 30, 2014, were reallocated from academic support to the other functional areas and caused academic support operating expenses to appear as a negative amount in the 2014 schedule above.

Note 14. On-behalf Payments

During the year ended June 30, 2015, the State of Tennessee made payments of \$11,662.50 on behalf of the college for retirees participating in the Medicare Supplement Plan. The amount for the year ended June 30, 2014, was \$9,261.00. The Medicare Supplement Plan is a postemployment benefit healthcare plan and is discussed further in Note 10. The plan is reported in the *Tennessee Comprehensive Annual Financial Report*. That report is available on the state's website at www.tn.gov/finance/act/cafr.shtml.

Note 15. Cumulative Effect of a Change in Accounting Principle

During fiscal year 2015, the college implemented GASB Statement 68, *Accounting and Financial Reporting for Pensions*, and GASB Statement 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. These statements establish standards for the measurement, recognition, and display of the net pension liability and related expenses, deferred outflows of

Notes to the Financial Statements (Continued)

resources, deferred inflows of resources, note disclosures, and required supplementary information. The implementation of these statements resulted in a cumulative adjustment to beginning net position of \$(6,560,156). This cumulative adjustment does not include related deferred outflows and deferred inflows of resources.

Note 16. 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 52-member board of the foundation is self-perpetuating and consists of graduates and friends of the college. Although the college does not control the timing or amount of receipts from the foundation, the majority of resources, or income thereon, that the foundation holds and invests are restricted to the activities of the college by the donors. Because these restricted resources held by the foundation can only be used by, or for the benefit of, the college, the foundation is considered a component unit of the college and is discretely presented in the college's financial statements.

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

During the year ended June 30, 2015, the foundation made distributions of \$2,557,567 to or on behalf of the college for both restricted and unrestricted purposes. During the year ended June 30, 2014, the foundation made distributions of \$28,928 to or on behalf of the college for both restricted and unrestricted purposes. Complete financial statements for the foundation can be obtained from Dr. Stephen R. Campbell, Chief Financial Officer, Northeast State Community College, P.O. Box 246, Blountville, TN 37617-0246

Fair-value Measurements

The foundation reports certain assets at fair value. Fair value has been determined using quoted prices in active markets for identical assets that are accessible at the measurement date (Level 1), inputs other than quoted market prices included in Level 1 that are directly or indirectly observable for the asset (Level 2), or significant unobservable inputs (Level 3). The following table categorizes the recurring fair-value measurements for assets at June 30, 2015, and at June 30, 2014.

Notes to the Financial Statements (Continued)

	Total Fair Value at <u>June 30, 2015</u>	Quoted Prices <u>Level 1</u>	Significant Other Inputs <u>Level 2</u>	Significant Unobservable Inputs <u>Level 3</u>
Assets:				
Investments	\$9,961,247	\$ -	\$ -	\$9,961,247
Total assets	\$9,961,247	\$ -	\$ -	\$9,961,247

	Total Fair Value at <u>June 30, 2014</u>	Quoted Prices <u>Level 1</u>	Significant Other Inputs <u>Level 2</u>	Significant Unobservable Inputs <u>Level 3</u>
Assets:				
Investments	\$9,559,678	\$ -	\$ -	\$9,559,678
Total assets	\$9,559,678	\$ -	\$ -	\$9,559,678

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

Fiscal Year Ending June 30, 2015	Beginning <u>Balance</u>	Total Gains/ (Losses), Realized and <u>Unrealized</u>	<u>Dividends</u>	<u>Purchases</u>	<u>Sales</u>	Ending <u>Balance</u>
Assets:						
Investments	\$9,559,678	\$222,721	\$213,370	\$ -	\$34,522	\$9,961,247
Total assets	\$9,559,678	\$222,721	\$213,370	\$ -	\$34,522	\$9,961,247

Fiscal Year Ending June 30, 2014	Beginning <u>Balance</u>	Total Gains/ (Losses), Realized and <u>Unrealized</u>	<u>Dividends</u>	<u>Purchases</u>	<u>Sales</u>	Ending <u>Balance</u>
Assets:						
Investments	\$8,208,620	\$1,181,935	\$200,973	\$418,457	\$450,307	\$9,559,678
Total assets	\$8,208,620	\$1,181,935	\$200,973	\$418,457	\$450,307	\$9,559,678

All gains and losses, both realized and unrealized, have been reported on the statement of revenues, expenses, and changes in net position as investment income. Of this total, \$214,975.00 is attributable to the change in unrealized gains or losses relating to those assets and liabilities still held at June 30, 2015, and \$1,090,019.41 is attributable to the change in unrealized gains or losses relating to those assets still held at June 30, 2014.

Notes to the Financial Statements (Continued)

Cash

Cash consists of demand deposit accounts and Tennessee Local Government Investment Pool (LGIP) deposits. Uninsured bank balances at June 30, 2015, totaled \$107,552. The bank balances of deposits at June 30, 2014, 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, 2015, were as follows:

	<u>Cost</u>	<u>Fair Value</u>
Pooled investment funds:		
Multi-strategy equity fund	\$2,994,798	\$4,534,769
Multi-strategy bond fund	3,695,917	3,744,364
Global multi-asset fund	50,950	50,810
CFI core equity fund	1,147,434	1,631,304
Total investments	\$7,889,099	\$9,961,247

Investments held at June 30, 2014, were as follows:

	<u>Cost</u>	<u>Fair Value</u>
Pooled investment funds:		
Multi-strategy equity fund	\$2,951,628	\$4,309,074
Multi-strategy bond fund	3,578,271	3,699,431
Global multi-asset fund	50,261	50,709
CFI core equity fund	1,122,345	1,500,464
Total investments	\$7,702,505	\$9,559,678

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.

Notes to the Financial Statements (Continued)

	2015	2014
Dividends, interest, and rental income (net of expenses of \$34,741 in 2015 and \$31,850 in 2014)	\$259,772	\$ 289,203
Net realized and unrealized gains	222,721	1,181,935
Total return on investments	482,493	1,471,138
Endowment income per spending plan	238,029	318,812
Investment return in excess of amounts designated for current operations	\$244,464	\$1,152,326

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.

Pledges Receivable

Pledges receivable are summarized below:

	June 30, 2015	June 30, 2014
Current pledges	\$ 73,478	\$ 52,475
Pledges due in one to five years	70,071	55,327
Subtotal	143,549	107,802
Less allowance for doubtful accounts	11,500	11,500
Total pledges receivable, net	\$132,049	\$ 96,302

Capital Assets

Capital assets were as follows:

Notes to the Financial Statements (Continued)

	<u>June 30, 2015</u>	<u>June 30, 2014</u>
Land	\$172,000	\$ 318,160
Buildings	522,951	2,959,588
Total	694,951	3,277,748
Less accumulated depreciation:		
Buildings	71,787	362,695
Total	71,787	362,695
Capital assets, net	\$623,164	\$2,915,053

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 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 explicit 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) general economic conditions; (4) the possible effect of inflation or deflation; (5) the expected total return from income and the appreciation of investments; (6) other resources of the foundation; and (7) the investment policies of the foundation.

Notes to the Financial Statements (Continued)

Composition of Endowment by Net Position Class As of June 30, 2015

	<u>Permanently Restricted</u>	<u>Temporarily Restricted</u>	<u>Unrestricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$4,973,014	\$3,947,712	\$ -	\$8,920,726
Total funds	\$4,973,014	\$3,947,712	\$ -	\$8,920,726

Composition of Endowment by Net Position Class As of June 30, 2014

	<u>Permanently Restricted</u>	<u>Temporarily Restricted</u>	<u>Unrestricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$4,090,931	\$5,671,056	\$ -	\$9,761,987
Total funds	\$4,090,931	\$5,671,056	\$ -	\$9,761,987

Changes in Endowment Net Position for the Fiscal Year Ended June 30, 2015

	<u>Permanently Restricted</u>	<u>Temporarily Restricted</u>	<u>Unrestricted</u>	<u>Total</u>
Endowment net position, beginning of year	\$4,090,931	\$5,671,056	\$ -	\$9,761,987
Investment return:				
Investment income	-	437,144	-	437,144
Total investment return	-	437,144	-	437,144
Contributions	168,165	2,860	-	171,025
Appropriations of endowment assets for expenditure	-	(2,086,773)	-	(2,086,773)
Transfers	713,918	(76,575)	-	637,343
Endowment net position, end of year	\$4,973,014	\$3,947,712	\$ -	\$8,920,726

Notes to the Financial Statements (Continued)

Changes in Endowment Net Position for the Fiscal Year Ended June 30, 2014

	<u>Permanently Restricted</u>	<u>Temporarily Restricted</u>	<u>Unrestricted</u>	<u>Total</u>
Endowment net position, beginning of year	\$4,031,624	\$4,571,464	\$ -	\$8,603,088
Investment return:				
Investment income	-	1,383,819	-	1,383,819
Total investment return	-	1,383,819	-	1,383,819
Contributions	56,607	4,792	-	61,399
Appropriations of endowment assets for expenditure	-	(133,259)	-	(133,259)
Transfers	2,700	(155,760)	-	(153,060)
Endowment net position, end of year	\$4,090,931	\$5,671,056	\$ -	\$9,761,987

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. In

Notes to the Financial Statements (Continued)

establishing this policy, the foundation considered the long-term expected return on its endowment. Accordingly, over the long-term, the foundation expects the current spending policy to allow its endowment to grow at an average of 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 \$244,270 in fiscal year 2015 and \$241,500 in fiscal year 2014. 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.

Leases Between the College and Foundation

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 Northeast State Community College at a lease rate of \$80,000 per year. The lease is from year to year and may be canceled with 90 days' notice.

The foundation owned another building, the Regional Center for Advanced Manufacturing (RCAM). The RCAM was gifted to the foundation in September 2009. The foundation leased the RCAM to Northeast State Community College at a lease rate of \$39,000 per year through the year ended June 30, 2014. During fiscal year 2015, the foundation gifted the RCAM to the Tennessee Board of Regents, and the lease was canceled.

Rental income under leases totaled \$80,000 and \$119,000 for the years ended June 30, 2015, and June 30, 2014, respectively.

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

	2014
College's proportion of the net pension liability	0.414868%
College's proportionate share of the net pension liability	\$2,862,375
College's covered payroll	\$11,333,853
College's proportionate share of the net pension liability as a percentage of its covered payroll	25.26%
Plan fiduciary net position as a percentage of the total pension liability	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 ten-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 ten 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

	2015	2014
Contractually determined contribution	\$ 1,707,243	\$ 1,703,478
Contributions in relation to the contractually determined contribution	1,707,243	1,703,478
Contribution deficiency (excess)	\$ -	\$ -
Covered payroll	\$11,358,902	\$11,333,853
Contributions as a percentage of covered payroll	15.03%	15.03%

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

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

	2015
Contractually determined contribution	\$12,910.28
Contributions in relation to the contractually determined contribution	12,910.28
Contribution deficiency (excess)	\$ -
Covered payroll	\$333,598.90
Contributions as a percentage of covered payroll	3.87%

This is a ten-year schedule; however, the information in this schedule is not required to be presented retroactively. Years will be added to this schedule in future fiscal years until ten 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, 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%
July 1, 2010	State Employee Group Plan	\$ -	\$4,408,000.00	\$4,408,000.00	0%	\$11,158,761.99	39.5%

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
Supplementary Schedules of Cash Flows - Component Unit
For the Years Ended June 30, 2015, and June 30, 2014

	Year Ended June 30, 2015	Year Ended June 30, 2014
Cash flows from operating activities		
Gifts and contributions	\$ 393,336.00	\$ 394,970.00
Grants and contracts	-	658,738.00
Sales and services of educational activities	2,482.00	2,450.00
Payments to suppliers and vendors	(50,901.00)	(66,754.00)
Payments for scholarships and fellowships	(413,792.00)	(427,759.00)
Payments to Northeast State Community College	(224,405.00)	(35,777.00)
Net cash provided by (used by) operating activities	(293,280.00)	525,868.00
Cash flows from noncapital financing activities		
Private gifts for endowment purposes	182,033.00	24,421.00
Net cash provided by noncapital financing activities	182,033.00	24,421.00
Cash flows from investing activities		
Proceeds from sales and maturities of investments	34,521.00	451,118.00
Income on investments	259,772.00	289,203.00
Purchases of investments	(213,369.00)	(620,241.00)
Net cash provided by investing activities	80,924.00	120,080.00
Net increase (decrease) in cash	(30,323.00)	670,369.00
Cash - beginning of year	1,470,567.00	800,198.00
Cash - end of year	\$ 1,440,244.00	\$ 1,470,567.00
Reconciliation of operating loss to net cash provided (used) by operating activities:		
Operating loss	\$ (2,653,662.00)	\$ (84,887.00)
Adjustments to reconcile operating loss to net cash provided (used) by operating activities:		
Depreciation expense	74,587.00	74,587.00
Endowment income per spending plan	(238,029.00)	(318,812.00)
In-kind support from the college	244,270.00	241,500.00
Gifts of capital assets	(11,500.00)	(10,000.00)
Gifts of capital assets to the college	2,228,801.00	10,000.00
Change in assets and liabilities:		
Receivables, net	(46,618.00)	639,630.00
Accounts payable	2,875.00	(140.00)
Due to the college	104,360.00	(16,849.00)
Other assets	1,636.00	(9,161.00)
Net cash provided (used) by operating activities	\$ (293,280.00)	\$ 525,868.00
Noncash investing, capital, and financing activities		
Gifts of capital assets	\$ 11,500.00	\$ 10,000.00
Unrealized gains on investments	\$ 208,323.00	\$ 1,085,474.00
Transfer of capital assets to the college	\$ (2,228,801.00)	\$ (10,000.00)



STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
DEPARTMENT OF AUDIT
DIVISION OF STATE AUDIT

SUITE 1500, JAMES K. POLK STATE OFFICE BUILDING
505 DEADERICK STREET
NASHVILLE, TENNESSEE 37243-1402

PHONE (615) 401-7897
FAX (615) 532-2765

**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 David Gregory, Acting Chancellor
Dr. Janice H. Gilliam, President

We have audited the financial statements of Northeast State Community College, an institution of the Tennessee Board of Regents, which is a component unit of the State of Tennessee, and its discretely presented component unit as of and for the years ended June 30, 2015, and June 30, 2014, and the related notes to the financial statements, which collectively comprise the college's basic financial statements, and have issued our report thereon dated July 7, 2016. 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 a material weakness 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 deficiency to be a material weakness:

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

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 deficiency to be a significant deficiency:

- As noted in the prior audit, Northeast State Community College did not provide adequate internal controls in four specific areas.

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

Compliance and Other Matters

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

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.

A handwritten signature in black ink that reads "Deborah V. Loveless". The signature is written in a cursive, flowing style.

Deborah V. Loveless, CPA
Director
July 7, 2016

Findings and Recommendations

1. As noted in the prior audit, Northeast State Community College did not provide adequate internal controls in four specific areas

Finding

Northeast State Community College did not design and monitor internal controls in specific areas. We observed four conditions in violation of college policies and/or industry-accepted best practices. These conditions are repeated from the prior audit. Inconsistent implementation of internal controls increases the risk of fraud or error.

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

Recommendation

Management should ensure that these conditions are remedied by the prompt development and consistent implementation of internal controls. 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 with the finding and recommendation. Management will take steps to implement effective controls to ensure compliance with requirements and will assign responsibility for ongoing monitoring of the risks and controls over the four specific areas. Implementation timetable will be immediately.

2. As reported in the previous two 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 information. A similar finding was reported in the previous two audits. The results of our current audit of the financial statements have indicated that, despite overall improvement, additional training, and management's assurances in the prior audit, the controls over financial reporting for the college have not operated effectively.

Cause

The former Chief Financial Analyst prepared the college's 2014 financial statements with assistance from other staff members, and the Director of Fiscal Services prepared the college's

2015 financial statements with assistance from other staff members. The statements were reviewed by the college's Chief Financial Officer. The reporting errors described below were oversights by the Chief Financial Analyst and the Director of Fiscal Services. In addition, the review process was not thorough enough to detect these errors. Turnover among staff members also took place during the audit period. The lack of continuity in the college's accounting staff during the audit period was a contributing factor to the depreciation calculation error described below.

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.

Effect

The current weakness resulted in the following significant reporting errors:

- The preparers of the cash flow statements for the fiscal years 2015 and 2014 made several errors. For both fiscal years, the preparers did not include the Tennessee College of Applied Technology at Elizabethton cash balances in the beginning cash balances of the statements. This error also affected the changes in deposits held for others amounts on the statements for both fiscal years. Due to these errors, the beginning cash balance for fiscal year 2014 was understated by \$1,088,141.62, and the beginning cash balance for fiscal year 2015 was understated by \$1,294,310.99. In addition, on the 2015 statement, in noncash investing, capital, or financing transactions, \$2,594,297.00 of noncash gifts of capital assets were not reported. Also, for both years, principal and interest paid on capital debt were classified as principal and interest paid on noncapital debt. The audited statements were corrected.
- In the college's 2015 statement of revenues, expenses, and changes in net position and on the June 30, 2015, statement of net position, depreciation expense and accumulated depreciation, respectively, were overstated by \$256,302.41 due to the exclusion of seven buildings from a change in estimated useful life calculation, totaling \$166,941.83, and another calculation error, totaling \$89,360.58. The estimated useful life of college buildings was extended from 40 to 60 years, a change in accounting estimate. Current college personnel were not aware of the reason for this exclusion or the other error. The audited statements and related capital asset note were corrected.

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.

Management's Comment

We concur with the finding and recommendation. Personnel turnover has exhibited a large disturbance to our division during the past two years. On May 10, 2016, our new finance directors attended the TBR Financial Reporting Training in Cookeville, Tennessee. Our plan includes more time devoted to the review and analysis of our financial statement preparation and presentation.

The Chief Financial Officer will ensure that staff members accounting for college transactions and financial statements have adequate knowledge of reporting requirements, and that they perform their duties with appropriate care and attention. In the future, the Chief Financial Officer will schedule more time for the financial statement review process in order to detect any misstatements.

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. Prior to July 1, 2013, these workforce training schools were named Tennessee Technology Centers.