AUDIT REPORT

Tennessee Board of Regents

Pellissippi State Community College

For the Years Ended
June 30, 2013, and June 30, 2012

STATE OF TENNESSEE

COMPTROLLER OF THE TREASURY

Department of Audit

Division of State Audit

Tennessee Comptroller of the Treasury

Deborah V. Loveless, CPA, CGFM
Director

Edward Burr, CPA, CGFM
Assistant Director

Robert D. Hunter, Jr., CPA, CGFM
Audit Manager

Emily Uptain
In-Charge Auditor

Amy Brown
Jessica Byrd
Staff Auditors

Gerry C. Boaz, CPA, CGFM
Technical Manager

Amy Brack
Editor

Amanda Adams
Assistant Editor

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

Financial/compliance audits of colleges and universities are available online at
www.comptroller.tn.gov/sa/AuditReportCategories.asp.
For more information about the Comptroller of the Treasury, please visit our website at
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 25, 2014

The Honorable Bill Haslam, Governor
Members of the General Assembly
The Honorable John G. Morgan, Chancellor
Dr. Anthony Wise, President

Ladies and Gentlemen:

Transmitted herewith is the financial and compliance audit of the Tennessee Board of Regents, Pellissippi State Community College, for the years ended June 30, 2013, and June 30, 2012. 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 internal control over financial reporting and tests of compliance resulted in no audit findings.

Sincerely,

Deborah V. Loveless

Deborah V. Loveless, CPA
Director

14/044

Audit Report
Tennessee Board of Regents
Pellissippi State Community College
For the Years Ended June 30, 2013, and June 30, 2012

TABLE OF CONTENTS

State of Tennessee

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

Comptroller of the Treasury — Division of State Audit

Financial and Compliance Audit

Tennessee Board of Regents

Pellissippi State Community College

For the Years Ended June 30, 2013, and June 30, 2012

Opinions on the Financial Statements

The opinions on the financial statements are unmodified.

Audit Findings

The audit report contains no findings.

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 John G. Morgan, Chancellor
Dr. Anthony Wise, President

Report on the Financial Statements

We have audited the accompanying financial statements of Pellissippi State Community College, an institution of the Tennessee Board of Regents, which is a component unit of the State of Tennessee, and its discretely presented component unit as of and for the years ended June 30, 2013, and June 30, 2012, 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 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 entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of Pellissippi State Community College, and its discretely presented component unit as of June 30, 2013, and June 30, 2012, 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 Pellissippi State Community College, an institution of the Tennessee Board of Regents, are intended to present the financial position, the changes in financial position, and the cash flows of only Pellissippi State Community College. They do not purport to, and do not, present fairly the financial position of the Tennessee Board of Regents, as of June 30, 2013, and June 30, 2012, 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 1, the college implemented GASB Statement 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, during the year ended June 30, 2013. 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 5 through 17 and the schedule of funding progress on page 43 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 schedules of cash flows – component unit on page 44 are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The 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. In our opinion, the schedules of cash flows – component unit are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated July 24, 2014, on our consideration of the college's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the college's internal control over financial reporting and compliance.

Deborah V. Loveless

Deborah V. Loveless, CPA
Director
July 24, 2014

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

Introduction

This section of Pellissippi State Community College's financial report presents a discussion and analysis of the financial performance of the college during the years ended June 30, 2013, and June 30, 2012, with comparative information presented for the year ended June 30, 2011. 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 college has one discretely presented component unit, the Pellissippi State Community College Foundation. More detailed information about the foundation is presented in Note 15 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, 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, 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, and net position at June 30, 2013; June 30, 2012; and June 30, 2011.

Summary of Net Position
(in thousands of dollars)

	2013	2012	2011
Assets:			
Current assets	$17,546	$16,387	$16,725
Capital assets, net	68,611	69,398	60,587
Other assets	6,786	8,453	8,597
Total assets	**92,943**	**94,238**	**85,909**
Deferred outflows of resources:			
Deferred amount on debt refunding	43	-	-
Liabilities:			
Current liabilities	8,464	8,290	8,799
Noncurrent liabilities	4,897	4,691	4,721
Total liabilities	**13,361**	**12,981**	**13,520**
Net position:			
Net investment in capital assets	68,611	69,398	60,587
Restricted – expendable	417	440	477
Unrestricted	10,597	11,419	11,325
Total net position	**$79,625**	**$81,257**	**$72,389**

Comparison of Fiscal Year 2013 to Fiscal Year 2012

- Total assets decreased $1,295,000 (1%) due to a decrease in capital assets of $787,000, a decrease in other assets of $1,667,000, and an increase in current assets of $1,159,000.

- Current assets increased $1,159,000 due to increases in Pellissippi State Community College cash of $1,647,000 and prepaid expenses of $12,000 and decreases in Tennessee College of Applied Technology at Knoxville cash of $98,000 and college amounts receivable of $400,000.

- The Tennessee College of Applied Technology's cash decrease was due to equipment expenses and truck driving renovation project expenses.

- The Pellissippi State Community College's current cash increase of $1,647,000 was from an increase in normal college operations ($1,567,000), less a decrease in auxiliary sales ($115,000), plus an increase in agency cash of $195,000 due to Tennessee Consortium for International Studies student trips.

- The receivable decrease of $400,000 was due to a decrease in student receivables of $53,000, a decrease in grants receivable of $23,000, a decrease in other receivables of $142,000, a decrease in amounts due from the State of Tennessee of $32,000, and a $150,000 increase in the allowance for doubtful accounts.

- The decrease in other assets of $1,667,000 was the result of lower net cash and lower project Local Government Investment Pool (LGIP) balances in various Pellissippi State plant accounts. Most significant expenses occurred in renewals and replacements and campus renovations.

- The increase in deferred outflows of resources of $43,000 is due to a deferred amount on debt refunding.

- Total liabilities increased by $380,000 (3%). The increase is due to the current liability increase of $174,000, which includes increases in accounts payable and accrued liabilities of $147,000. The increase in noncurrent liabilities of $206,000 includes an increase in the college's net OPEB obligation of $150,000, a compensated absences increase of $141,000, and a decrease in bonds payable of $85,000.

- The current ratio at June 30, 2013, improved to 2.07 to 1.

Comparison of Fiscal Year 2012 to Fiscal Year 2011

- Total assets increased $8,329,000 (10%). This increase came from an increase in capital assets of $8,811,000, a decrease of $338,000 in current assets, and a decrease of $144,000 in other assets.

- The current asset decrease of $338,000 was mainly the result of a decrease in Tennessee College of Applied Technology cash of $540,000, a decrease in Pellissippi State Community College cash of $29,000, and an increase of $243,000 in amounts receivable.

- The Tennessee College of Applied Technology's cash decrease was from auxiliary transfers and renewal and replacement expenditures for plant fund renovations and project expenditures.

- The $243,000 receivable increase was mainly due to an increase in receivables from the various Tennessee Consortium for International Studies student trips (agency accounts) and the addition of $32,000 due from the State of Tennessee at June 30, 2012.

- The decrease of $144,000 in other assets was the result of lower net cash and lower project LGIP balances in various Pellissippi State accounts. Most significant expenditures occurred with the Strawberry Plains campus renovation project.

- The increase in capital assets was the result of increases in equipment, land, the new Strawberry Plains campus, parking lots, and other various renovation projects. (These increases are explained further in the capital asset section.)

- Liabilities decreased by $539,000 (4%). The majority of this change was for agency funds held for others. Small changes occurred in deferred revenue, accounts payable, the net OPEB obligation, and long-term liabilities.

- The current ratio at June 30, 2012, improved to 1.98 to 1.

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 Pellissippi 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, 2013, and the two previous years follows:

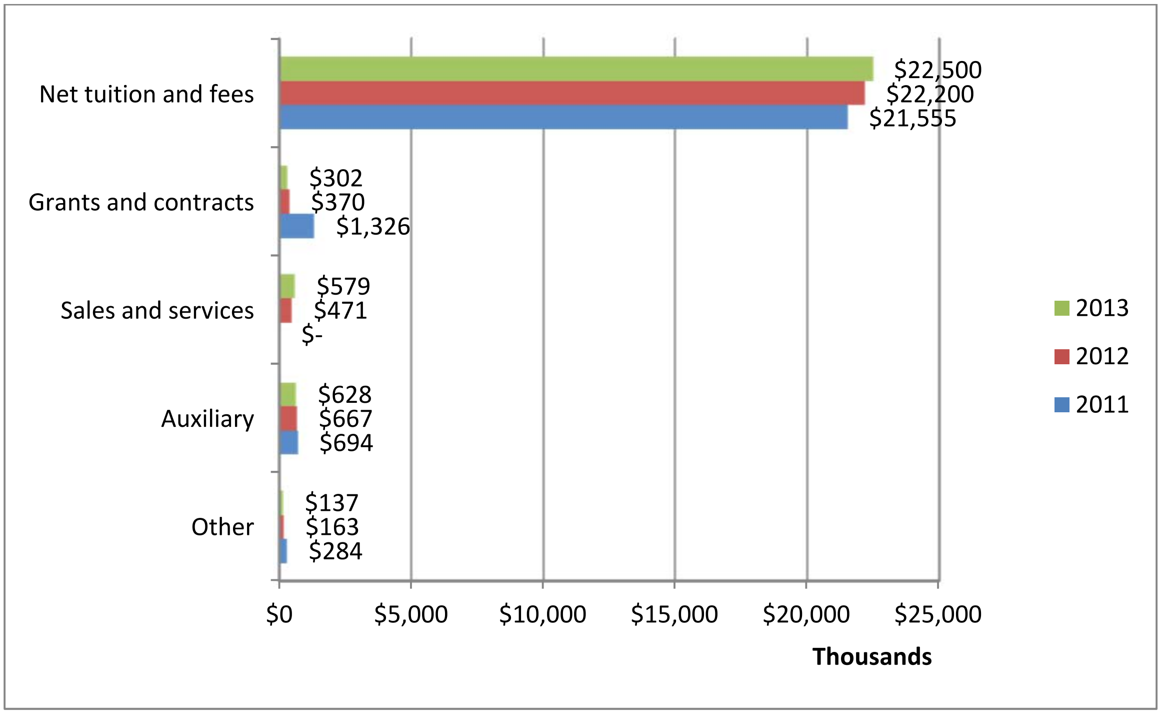
Summary of Revenues, Expenses, and Changes in Net Position
(in thousands of dollars)

	2013	2012	2011
Operating revenues	$24,145	$23,870	$23,859
Operating expenses	73,450	72,366	72,083
Operating loss	(49,305)	(48,496)	(48,224)
Nonoperating revenues and expenses	46,939	45,806	49,030
Income (loss) before other revenues, expenses, gains, or losses	(2,366)	(2,690)	806
Other revenues, expenses, gains, or losses	734	11,558	2,515
Increase (decrease) in net position	(1,632)	8,868	3,321
Net position at beginning of year	81,257	72,389	69,068
Net position at end of year	$79,625	$81,257	$72,389

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



Comparison of Fiscal Year 2013 to Fiscal Year 2012

- Total operating revenues increased by $275,000. This is mainly due to student tuition and fees increasing by $300,000 (1%) due to a 5% maintenance fee increase offset by a small enrollment decline (2%).

- Remaining operating revenues were fairly constant, decreasing only $25,000.

Comparison of Fiscal Year 2012 to Fiscal Year 2011

- Total operating revenues remained constant, increasing by $11,000.

- The student tuition and fees increased $645,000 (3%) due to a 9.5% maintenance fee increase offset by a small enrollment decline (4%).

- Operating grants and contracts decreased $956,000 due to two one-time payments in fiscal year 2011 for an Instructional Television Fixed Services (ITFS) contract ($603,000) and other minor changes. There was also a monthly radio payment amounting to $247,000 in fiscal year 2011 that was reclassified to the sales and service category in fiscal year 2012.

- Reported sales and services increased $471,000. This is a new classification in fiscal year 2012. These were all reclassified from other revenues and grants and contracts.

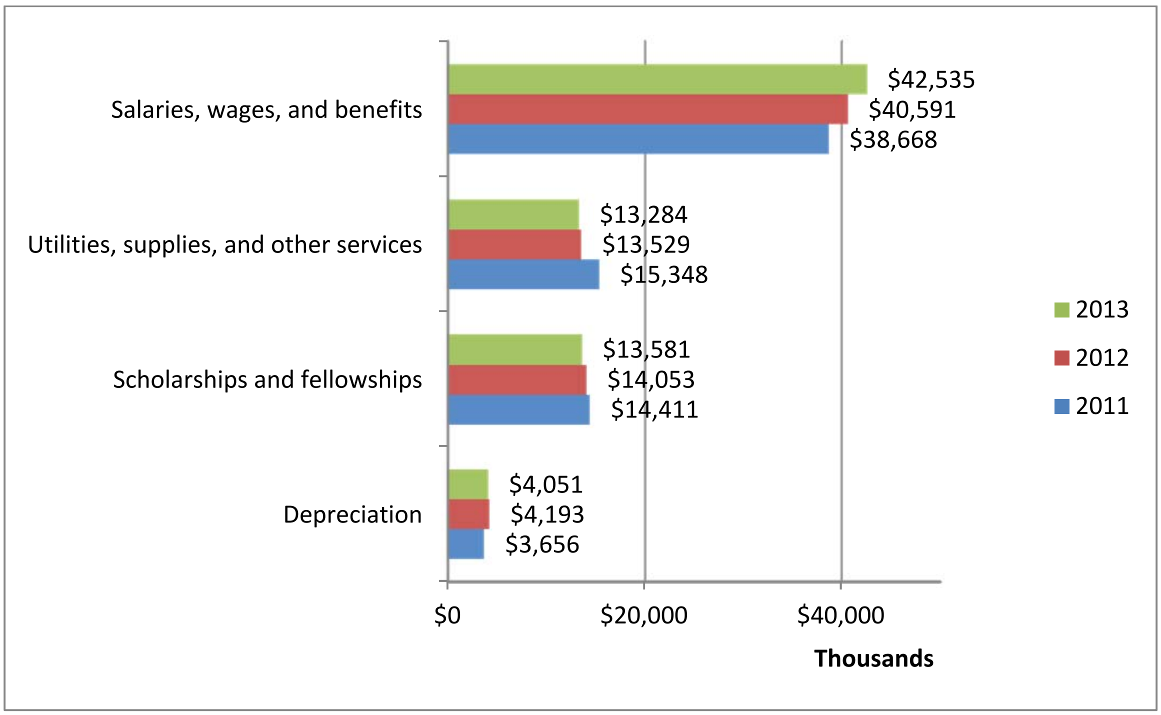
- Auxiliary revenues declined $27,000 due to lower enrollment.

- Other revenues decreased $121,000 due to decreases for reclassifications to sales and services, increases for reclassifications from tuition and fees, and other minor changes.

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 by Natural Classification



Comparison of Fiscal Year 2013 to Fiscal Year 2012

- Total operating expenses increased by $1,084,000.

- Salary and benefit expense increased by $1,944,000 due to a 2.5% salary increase, a bonus, implementation of a compensation plan, and increased benefit costs.

- Scholarship expenses decreased by $472,000 due to federal regulation changes and a small enrollment decline.

- Other operating expenses (utilities, supplies, and other services) decreased by $245,000. General operating expenses increased slightly and unexpended plant fund expenses decreased due to opening of the Strawberry Plains campus in fiscal year 2012.

- Depreciation expenses decreased by $142,000.

Comparison of Fiscal Year 2012 to Fiscal Year 2011

- Total operating expenses for the college remained fairly constant, increasing only $283,000.

- Salaries and benefits increased $1,923,000. This was due to a 3% state salary increase and increased benefit costs.

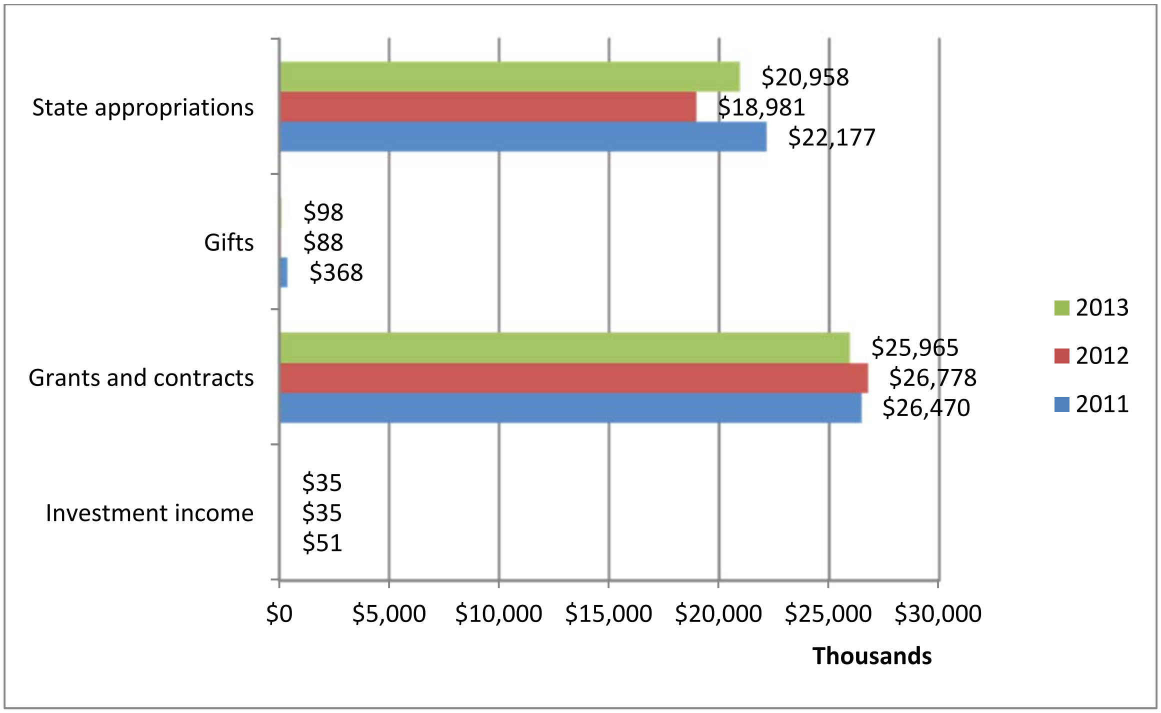
- Other operating and scholarship costs decreased by $2,177,000 due to lower enrollments and operational cost containment programs.

- Depreciation expenses increased by $537,000.

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 and Expenses



<u>Comparison of Fiscal Year 2013 to Fiscal Year 2012</u>

- Total nonoperating revenues and expenses increased by $1,133,000.
- State appropriations increased by $1,977,000 due to changes in the funding formula.
- Grants and contracts decreased by $813,000 due to federal regulation changes and a small enrollment decline.

<u>Comparison of Fiscal Year 2012 to Fiscal Year 2011</u>

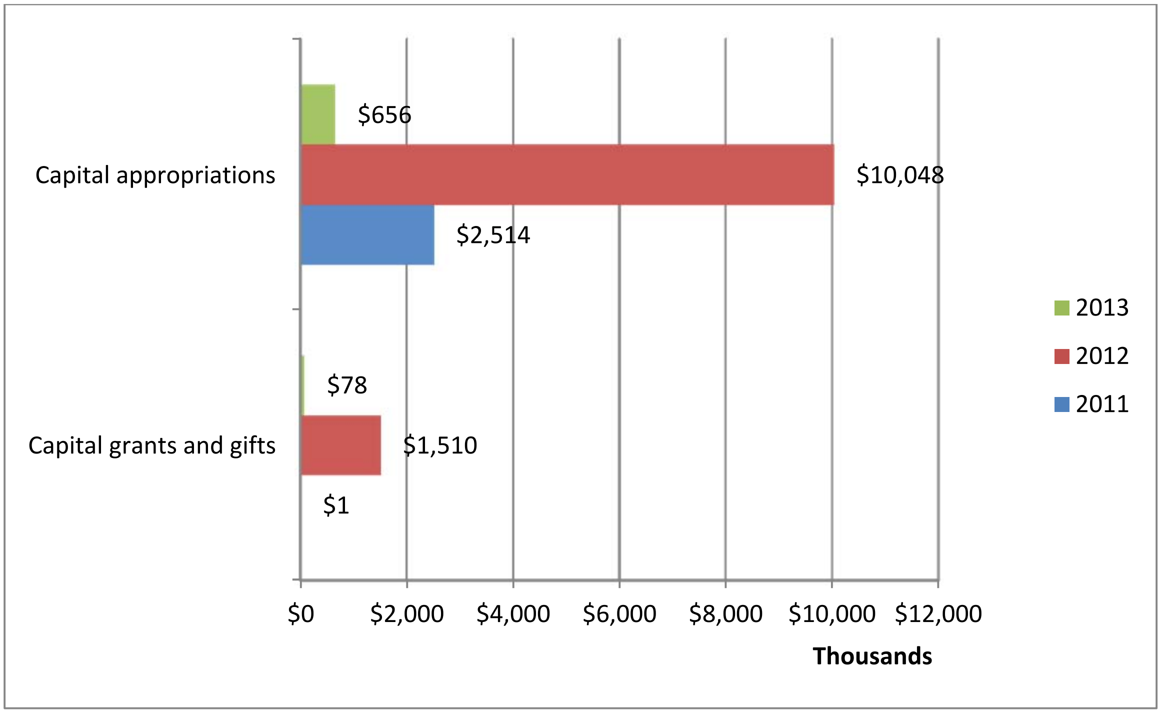
- Total nonoperating revenues and expenses decreased $3,224,000.
- The state appropriations decreased $3,196,000 due to the expiration of state appropriations received in lieu of American Recovery and Reinvestment Act (ARRA) stimulus funding.
- Nonoperating grants and contracts increased $308,000. This increase is due to increases in federal funding of $224,000 (Pell, SEOG, Perkins, National Science Foundation, Trio, other Title IV), state funding increases of $745,000 (Access & Diversity, Lottery, TnCIS, TSAC), private funding increases of $325,000 (Tennessee Achieves) offset by reductions in ARRA stimulus funding of $986,000.

- Gifts to the college declined by $280,000. This is due to reductions in in-kind gifts and donations.

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



Comparison of Fiscal Year 2013 to Fiscal Year 2012

- Capital appropriations and capital gifts decreased by $10,824,000 due to large appropriations in fiscal year 2012 for physical plant expansion ($718,000) and acquisition of the Strawberry Plains campus ($8,500,000), and a fiscal year 2012 foundation gift for the acquisition of the Strawberry Plains campus ($1,500,000).

Comparison of Fiscal Year 2012 to Fiscal Year 2011

- Capital appropriations and capital gifts increased by $9,043,000. The majority of this change was due to the acquisition of the Strawberry Plains campus from state appropriations ($8,500,000) and foundation donations ($1,500,000).

Capital Assets and Debt Administration

Capital Assets

Pellissippi State Community College had $68,610,977.27 invested in capital assets, net of accumulated depreciation of $42,470,607.20 at June 30, 2013; and $69,398,289.59 invested in capital assets, net of accumulated depreciation of $39,042,367.34 at June 30, 2012. Depreciation charges totaled $4,050,509.75 and $4,192,855.17 for the years ended June 30, 2013, and June 30, 2012, respectively.

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

	2013	2012	2011
Land	$ 6,541	$ 6,306	$ 5,008
Land improvements & infrastructure	6,359	6,766	5,174
Buildings	48,424	50,327	43,541
Equipment	3,724	4,169	4,409
Library holdings	549	568	749
Intangible assets	936	1,074	1,308
Projects in progress	2,078	188	398
Total	$68,611	$69,398	$60,587

Comparison of Fiscal Year 2013 to Fiscal Year 2012

Capital assets, net of depreciation, decreased $787,000 in fiscal year 2013. The net reduction was a result of the following:

- Purchases of equipment and library holdings - $714,000.
- Renovations at the Strawberry Plains campus - $1,459,000.
- Addition of a new portable building - $304,000.
- Goins/Alexander renovation project - $739,000.
- Various improvement projects including enhancements at the Magnolia campus, land acquisitions, SciQuest purchasing software system, and several minor renovation and improvement projects - $116,000.
- Depreciation and equipment disposals - ($4,119,000).

At June 30, 2013, outstanding commitments under construction contracts totaled $543,209.05 for various renovations and repairs of buildings and infrastructure. Future state capital outlay appropriations will fund $22,218.00 of these costs.

Comparison of Fiscal Year 2012 to Fiscal Year 2011

Capital assets, net of depreciation, increased $8,811,000 in fiscal year 2012. The net increase was a result of the following:

- Purchases of equipment & library holdings - $888,000.
- Additions of land at Blount County, Division Street, and Magnolia campuses - $609,000.
- Acquisition of new Strawberry Plains campus (includes land, building, equipment, and other improvements) - $10,023,000.
- Various improvement projects including enhancements at the Magnolia and Strawberry Plains campuses, renovations of the physical plant, modernization of security systems, parking lots at multiple campuses, and several minor renovations and improvement projects - $1,497,000.
- Depreciation and equipment disposals - ($4,206,000).
- The Strawberry Plains campus was funded by the state ($8,500,000) and the Pellissippi State Community College Foundation ($1,500,000). The majority of the other transactions were funded by the college.

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

Debt

The college had $1,355,266.36 and $1,435,005.40 in debt outstanding at June 30, 2013, and June 30, 2012, respectively. The table below summarizes these amounts by type of debt instrument.

Schedule of Outstanding Debt
(in thousands of dollars)

	2013	2012	2011
Bonds payable	$1,267	$1,435	$1,549
Unamortized bond premium	88	-	-
Total	$1,355	$1,435	$1,549

The Tennessee State School Bond Authority (TSSBA) issued bonds with interest rates ranging from 4% to 5% due serially until 2023, on behalf of Pellissippi State Community College. The college is responsible for the debt service on these bonds. The current portion of the $1,266,862.00 of bonds outstanding at June 30, 2013, is $123,569.10.

The ratings on debt issued by the TSSBA at June 30, 2013, 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

For fiscal year 2014, significant changes that will affect the financial position of the college are:

- Student maintenance fee tuition will increase by 3% in fiscal year 2014.

- State appropriation funding will be increased in fiscal year 2014 by approximately $2,045,000 (9.8%).

Tennessee Board of Regents
PELLISSIPPI STATE COMMUNITY COLLEGE
Statements of Net Position
June 30, 2013, and June 30, 2012

	Pellissippi State Community College		Component Unit - Pellissippi State Community College Foundation	
	June 30, 2013	June 30, 2012	June 30, 2013	June 30, 2012
ASSETS				
Current assets:				
Cash (Notes 2, 3, and 15)	$ 15,110,430.60	$ 13,561,388.56	$ 2,747,007.69	$ 2,495,338.00
Accounts and grants receivable (net) (Note 4)	2,361,261.23	2,729,619.70	14,053.67	25,473.14
Due from primary government	-	32,100.00	-	-
Pledges receivable (net) (Note 15)	-	-	298,413.67	368,846.68
Inventories	-	1,673.35	-	-
Prepaid expenses	74,479.38	61,765.56	-	2,500.00
Total current assets	17,546,171.21	16,386,547.17	3,059,475.03	2,892,157.82
Noncurrent assets:				
Cash (Notes 2, 3, and 15)	6,786,438.12	8,452,977.15	477.85	-
Investments (Note 15)	-	-	7,614,347.79	6,620,611.20
Pledges receivable (net) (Note 15)	-	-	1,194,989.72	1,489,424.86
Capital assets (net) (Note 5)	68,610,977.27	69,398,289.59	-	-
Total noncurrent assets	75,397,415.39	77,851,266.74	8,809,815.36	8,110,036.06
Total assets	92,943,586.60	94,237,813.91	11,869,290.39	11,002,193.88
DEFERRED OUTFLOWS OF RESOURCES				
Deferred amount on debt refunding	43,215.69	-	-	-
Total deferred outflows of resources	43,215.69	-	-	-
LIABILITIES				
Current liabilities:				
Accounts payable (Note 6)	754,347.21	697,415.48	1,800.50	2,148.55
Accrued liabilities	2,023,765.70	1,934,093.72	-	-
Unearned revenue	1,671,667.67	1,584,503.98	-	-
Compensated absences (Note 7)	468,272.30	443,477.80	-	-
Accrued interest payable	9,075.91	10,298.11	6,862.50	7,625.00
Long-term liabilities, current portion (Notes 7 and 15)	123,569.10	118,860.40	100,000.00	100,000.00
Deposits held in custody for others	3,392,456.51	3,487,787.48	-	-
Other liabilities	21,050.04	13,901.34	-	-
Total current liabilities	8,464,204.44	8,290,338.31	108,663.00	109,773.55
Noncurrent liabilities:				
Net OPEB obligation (Note 10)	2,786,192.43	2,636,403.77	-	-
Compensated absences (Note 7)	879,494.18	738,127.60	-	-
Long-term liabilities (Notes 7 and 15)	1,231,697.26	1,316,145.00	800,000.00	900,000.00
Total noncurrent liabilities	4,897,383.87	4,690,676.37	800,000.00	900,000.00
Total liabilities	13,361,588.31	12,981,014.68	908,663.00	1,009,773.55
NET POSITION				
Net investment in capital assets	68,610,977.27	69,398,289.59	-	-
Restricted for:				
Nonexpendable:				
Scholarships and fellowships	-	-	1,958,048.16	1,933,204.43
Instructional department uses	-	-	57,028.03	56,717.78
Other	-	-	599,127.15	599,025.30
Expendable:				
Scholarships and fellowships	-	-	5,062,576.37	4,209,493.14
Instructional department uses	-	-	1,149,633.92	1,123,924.78
Loans	1,005.61	1,005.61	60,564.31	67,033.59
Capital projects	-	-	1,938,996.91	1,922,042.47
Other	416,392.30	438,431.16	310,551.09	294,915.23
Unrestricted	10,596,838.80	11,419,072.87	(175,898.55)	(213,936.39)
Total net position	$ 79,625,213.98	$ 81,256,799.23	$ 10,960,627.39	$ 9,992,420.33

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

Tennessee Board of Regents
PELLISSIPPI STATE COMMUNITY COLLEGE
Statements of Revenues, Expenses, and Changes in Net Position
For the Years Ended June 30, 2013, and June 30, 2012

	Pellissippi State Community College		Component Unit - Pellissippi State Community College Foundation	
	Year Ended June 30, 2013	Year Ended June 30, 2012	Year Ended June 30, 2013	Year Ended June 30, 2012
REVENUES				
Operating revenues:				
Student tuition and fees (net of scholarship allowances of $12,504,345.10 for the year ended June 30, 2013, and $12,555,472.93 for the year ended June 30, 2012)	$ 22,500,085.80	$ 22,199,707.20	$ -	$ -
Gifts and contributions	-	-	349,713.90	1,695,502.38
Endowment income per spending plan	-	-	6,294.64	86,348.98
Governmental grants and contracts	127,753.14	159,658.88	-	-
Nongovernmental grants and contracts	173,882.76	210,291.72	-	-
Sales and services of educational departments	51,074.61	38,530.51	-	-
Sales and services of other activities	528,084.72	432,633.66	-	-
Auxiliary enterprises:				
Bookstore	596,600.34	599,737.71	-	-
Food service	31,371.84	67,048.05	-	-
Other operating revenues	136,765.26	162,794.90	27,684.69	742.46
Total operating revenues	24,145,618.47	23,870,402.63	383,693.23	1,782,593.82
EXPENSES				
Operating expenses (Note 13):				
Salaries and wages	31,847,999.74	30,368,868.92	-	-
Benefits	10,686,615.32	10,221,861.02	-	-
Utilities, supplies, and other services	13,284,140.91	13,529,069.52	66,084.29	101,558.14
Scholarships and fellowships	13,581,103.73	14,053,421.01	159,493.02	140,025.22
Depreciation expense	4,050,509.75	4,192,855.17	-	-
Payments to or on behalf of Pellissippi State Community College (Note 15)	-	-	172,572.30	1,584,361.82
Total operating expenses	73,450,369.45	72,366,075.64	398,149.61	1,825,945.18
Operating loss	(49,304,750.98)	(48,495,673.01)	(14,456.38)	(43,351.36)
NONOPERATING REVENUES (EXPENSES)				
State appropriations	20,957,837.00	18,980,774.64	-	-
Gifts (college gifts include $94,463.21 from component unit in 2013 and $84,361.82 in 2012)	98,463.21	88,361.82	-	-
Grants and contracts	25,965,490.86	26,777,546.42	-	-
Investment income (for component unit, net of investment expense of $27,316.63 in 2013 and $24,363.43 in 2012)	35,260.90	34,712.96	999,817.59	14,805.45
Interest on capital asset-related debt	(47,871.22)	(62,640.05)	(41,375.00)	(21,125.00)
Bond issuance costs	(1,455.94)	-	-	-
Other nonoperating revenues (expenses)	(68,656.90)	(12,948.50)	-	-
Net nonoperating revenues (expenses)	46,939,067.91	45,805,807.29	958,442.59	(6,319.55)
Income (loss) before other revenues, expenses, gains, or losses	(2,365,683.07)	(2,689,865.72)	943,986.21	(49,670.91)
Capital appropriations	655,988.73	10,047,795.04	-	-
Capital grants and gifts (college gifts include $78,109.09 from component unit in 2013 and $1,500,000.00 in 2012)	78,109.09	1,510,000.00	-	-
Additions to permanent endowments	-	-	24,220.85	49,906.96
Total other revenues	734,097.82	11,557,795.04	24,220.85	49,906.96
Increase (decrease) in net position	(1,631,585.25)	8,867,929.32	968,207.06	236.05
NET POSITION				
Net position - beginning of year	81,256,799.23	72,388,869.91	9,992,420.33	9,992,184.28
Net position - end of year	$ 79,625,213.98	$ 81,256,799.23	$ 10,960,627.39	$ 9,992,420.33

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

Tennessee Board of Regents
PELLISSIPPI STATE COMMUNITY COLLEGE
Statements of Cash Flows
For the Years Ended June 30, 2013, and June 30, 2012

	Year Ended June 30, 2013	Year Ended June 30, 2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Tuition and fees	$ 22,830,493.67	$ 22,017,839.70
Grants and contracts	275,987.46	409,413.17
Sales and services of educational activities	51,222.61	38,016.51
Sales and services of other activities	398,781.64	432,633.66
Payments to suppliers and vendors	(13,198,528.55)	(13,518,282.02)
Payments to employees	(31,813,014.63)	(30,368,554.75)
Payments for benefits	(10,304,734.45)	(10,008,291.77)
Payments for scholarships and fellowships	(13,568,400.52)	(14,055,435.57)
Auxiliary enterprise charges:		
Bookstore	597,435.54	617,084.82
Food services	37,695.47	59,178.13
Other receipts	142,454.35	145,976.06
Net cash used by operating activities	(44,550,607.41)	(44,230,422.06)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State appropriations	20,979,700.00	18,971,164.91
Gifts and grants received for other than capital or endowment purposes	26,035,735.73	26,877,470.66
Federal student loan receipts	18,253,814.00	20,520,277.00
Federal student loan disbursements	(18,249,104.00)	(20,506,022.00)
Changes in deposits held for others	96,721.07	(690,850.88)
Other noncapital financing receipts	163.39	321.77
Net cash provided by noncapital financing activities	47,117,030.19	45,172,361.46
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from capital debt	586,255.65	-
Capital appropriations	708,232.05	9,995,551.72
Capital grants and gifts received	78,109.09	1,500,000.00
Purchases of capital assets and construction	(3,332,017.72)	(13,007,832.68)
Principal paid on capital debt	(705,116.05)	(114,464.30)
Interest paid on capital debt	(54,643.69)	(63,400.68)
Net cash used by capital and related financing activities	(2,719,180.67)	(1,690,145.94)
CASH FLOWS FROM INVESTING ACTIVITIES		
Income on investments	35,260.90	34,712.96
Net cash provided by investing activities	35,260.90	34,712.96
Net decrease in cash	(117,496.99)	(713,493.58)
Cash - beginning of year	22,014,365.71	22,727,859.29
Cash - end of year	$ 21,896,868.72	$ 22,014,365.71

Tennessee Board of Regents
PELLISSIPPI STATE COMMUNITY COLLEGE
Statements of Cash Flows (Continued)
For the Years Ended June 30, 2013, and June 30, 2012

	Year Ended June 30, 2013	Year Ended June 30, 2012
Reconciliation of operating loss to net cash used by operating activities:		
Operating loss	$ (49,304,750.98)	$ (48,495,673.01)
Adjustments to reconcile operating loss to net cash used by operating activities:		
Depreciation expense	4,050,509.75	4,192,855.17
Gifts in-kind	85,262.68	74,361.82
Other adjustments	10,237.00	11,409.73
Change in assets and liabilities:		
Receivables, net	19,965.09	72,140.93
Inventories	1,673.35	4,143.95
Prepaid items	(12,713.82)	9,262.54
Accounts payable	71,379.73	(110,578.67)
Accrued liabilities	95,680.68	35,931.34
Unearned revenue	116,199.37	(181,185.24)
Compensated absences	166,161.08	48,529.29
Net OPEB obligation	149,788.66	108,380.09
Net cash used by operating activities	$ (44,550,607.41)	$ (44,230,422.06)
Noncash investing, capital, or financing transactions		
Gifts of capital assets	$ -	$ 10,000.00
Loss on disposal of capital assets	$ (68,820.29)	$ (13,270.27)

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

Note 1. Summary of Significant Accounting Policies

Reporting Entity

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

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

The Pellissippi State 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 15 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 interfund transactions have been eliminated.

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

Nonoperating revenues and expenses include activities that have the characteristics of nonexchange transactions, such as gifts 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 40 years.

Net Position

The college's net position is classified as follows:

<u>Net investment in capital assets</u> – 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 and other activities; and auxiliary enterprises. These resources are used for transactions relating to the educational and general operations of the college and may be used at the college's discretion to meet current expenses for any purpose. The auxiliary enterprises are substantially self-supporting activities that provide services for students, faculty, and staff.

Scholarship Discounts and Allowances

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

Accounting Change

The college implemented GASB Statement 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, during the year ended June 30, 2013. The effect on the college was the renaming of the residual of all other elements in the statement of financial position as net position, rather than net assets. Amounts on the statement of net position and statement of revenues, expenses, and changes in net position, have been restated for comparative purposes for the year ended June 30, 2012.

Early Implementation of Accounting Pronouncement

In March 2012, GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities; it also recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. The provisions of this statement are effective for financial statements for periods beginning after December 15, 2012. However, the college has elected to implement the provisions of this statement for fiscal year 2013. Amounts on the statement of net position and statement of revenues, expenses, and changes in net position, have been restated for comparative purposes for the year ended June 30, 2012.

Note 2. Cash

This classification includes demand deposits and petty cash on hand. At June 30, 2013, cash consisted of $1,732,408.29 in bank accounts, $3,930.00 of petty cash on hand, $18,507,506.50 in the State of Tennessee Local Government Investment Pool (LGIP) administered by the State Treasurer, and $1,653,023.93 in LGIP deposits for capital projects. At June 30, 2012, cash consisted of $1,714,785.64 in bank accounts, $3,830.00 of petty cash on hand, $18,268,575.56 in the State of Tennessee Local Government Investment Pool (LGIP) administered by the State Treasurer, and $2,027,174.51 in LGIP deposits for capital projects.

The college has deposits in the LGIP, which is administered by the State Treasurer. 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 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 shall be limited to that of corporations that meet the following criteria: 1) Senior long-term debt, if any, should have a minimum rating of A1 or equivalent, and short-term debt should have a minimum rating of A1 or equivalent, as provided by a majority of the rating services that rate the issuer. If there is no long-term debt rating, the short-term debt rating must be A1 by all rating services (minimum of two). 2) The rating should be based on the merits of the issuer or 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, 2013, and June 30, 2012, the college's investments consisted entirely of investments in the Local Government Investment Pool. The fair value of these investments was $20,160,530.43 at June 30, 2013, and $20,295,750.07 at June 30, 2012. LGIP investments are not rated by nationally recognized statistical ratings organizations. The LGIP is part of the State Pooled Investment Fund. The fund's required 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.

Note 4. Receivables

Receivables included the following:

	June 30, 2013	June 30, 2012
Student accounts receivable	$1,696,117.23	$1,749,426.74
Grants receivable	202,441.04	258,070.79
Other receivables	1,022,702.96	1,132,122.17
Subtotal	2,921,261.23	3,139,619.70
Less allowance for doubtful accounts	560,000.00	410,000.00
Total receivables	$2,361,261.23	$2,729,619.70

Note 5. Capital Assets

Capital asset activity for the year ended June 30, 2013, was as follows:

	Beginning Balance	Additions	Transfers	Reductions	Ending Balance
Land	$ 6,306,413.49	$ 234,806.96	$ -	$ -	$ 6,541,220.45
Land improvements and infrastructure	9,049,460.91	21,413.36	-	-	9,070,874.27
Buildings	78,057,091.50	300,627.16	25,569.33	-	78,383,287.99
Equipment	11,001,720.99	603,379.76	-	539,587.25	11,065,513.50
Library holdings	1,335,906.52	110,946.60	-	151,502.93	1,295,350.19
Intangible assets	2,501,820.84	145,104.91	-	-	2,646,925.75
Projects in progress	188,242.68	1,915,738.97	(25,569.33)	-	2,078,412.32
Total	108,440,656.93	3,332,017.72	-	691,090.18	111,081,584.47
Less accumulated depreciation/amortization:					
Land improvements and infrastructure	2,283,490.69	428,664.85	-	-	2,712,155.54
Buildings	27,729,662.61	2,230,122.73	-	-	29,959,785.34
Equipment	6,832,742.41	979,241.13	-	470,766.96	7,341,216.58
Library holdings	768,392.89	129,535.02	-	151,502.93	746,424.98
Intangible assets	1,428,078.74	282,946.02	-	-	1,711,024.76
Total	39,042,367.34	4,050,509.75	-	622,269.89	42,470,607.20
Capital assets, net	$ 69,398,289.59	$ (718,492.03)	$ -	$ 68,820.29	$68,610,977.27

Capital asset activity for the year ended June 30, 2012, was as follows:

	Beginning Balance	Additions	Transfers	Reductions	Ending Balance
Land	$ 5,007,742.50	$1,298,670.99	$ -	$ -	$ 6,306,413.49
Land improvements and infrastructure	7,026,639.60	1,665,936.63	356,884.68	-	9,049,460.91
Buildings	69,072,902.97	8,952,671.75	31,516.78	-	78,057,091.50
Equipment	10,810,534.50	752,543.38	-	561,356.89	11,001,720.99
Library holdings	1,687,473.83	135,039.52	-	486,606.83	1,335,906.52
Intangible assets	2,467,997.06	33,823.78	-	-	2,501,820.84
Projects in progress	397,497.51	179,146.63	(388,401.46)	-	188,242.68
Total	96,470,787.97	13,017,832.68	-	1,047,963.72	108,440,656.93
Less accumulated depreciation/amortization:					
Land improvements and infrastructure	1,853,094.13	430,396.56	-	-	2,283,490.69
Buildings	25,531,817.83	2,197,844.78	-	-	27,729,662.61
Equipment	6,401,153.08	979,675.95	-	548,086.62	6,832,742.41
Library holdings	938,497.37	316,502.35	-	486,606.83	768,392.89

Intangible assets	1,159,643.21	268,435.53	-	-	1,428,078.74
Total	35,884,205.62	4,192,855.17	-	1,034,693.45	39,042,367.34
Capital assets, net	$60,586,582.35	$8,824,977.51	$ -	$ 13,270.27	$69,398,289.59

The fiscal year 2012 decrease in library holdings is partly due to a change in accounting estimate. During fiscal year 2012, it was determined that periodicals are more appropriately expensed. The estimated useful life of periodicals was decreased from ten years to zero years, resulting in an adjustment of $326,460.74.

Note 6. Accounts Payable

Accounts payable included the following:

	June 30, 2013	June 30, 2012
Vendors payable	$701,897.44	$688,349.72
Unapplied student payments	52,449.77	9,065.76
Total accounts payable	$754,347.21	$697,415.48

Note 7. Long-term Liabilities

Long-term liabilities activity for the year ended June 30, 2013, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
TSSBA debt:					
Bonds	$1,435,005.40	$488,355.00	$656,498.40	$1,266,862.00	$123,569.10
Unamortized bond premium	-	99,454.90	11,050.54	88,404.36	-
Subtotal	1,435,005.40	587,809.90	667,548.94	1,355,266.36	123,569.10
Other liabilities:					
Compensated absences	1,181,605.40	203,157.19	36,996.11	1,347,766.48	468,272.30
Subtotal	1,181,605.40	203,157.19	36,996.11	1,347,766.48	468,272.30
Total long-term liabilities	$2,616,610.80	$790,967.09	$704,545.05	$2,703,032.84	$591,841.40

Long-term liabilities activity for the year ended June 30, 2012, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
TSSBA debt:					
Bonds	$1,549,469.70	$ -	$114,464.30	$1,435,005.40	$118,860.40
Subtotal	1,549,469.70	-	114,464.30	1,435,005.40	118,860.40
Other liabilities:					
Compensated absences	1,133,076.11	104,566.67	56,037.38	1,181,605.40	443,477.80
Subtotal	1,133,076.11	104,566.67	56,037.38	1,181,605.40	443,477.80
Total long-term liabilities	$2,682,545.81	$104,566.67	$170,501.68	$2,616,610.80	$562,338.20

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 2023 and are secured by pledges of the facilities' revenues to which they relate and certain other revenues and fees of the college, including state appropriations; see Note 8 for further details.

Debt service requirements to maturity for the college's portion of TSSBA bonds at June 30, 2013, are as follows:

Year Ending June 30	Principal	Interest	Total
2014	$ 123,569.10	$ 56,375.68	$ 179,944.78
2015	120,791.10	50,689.35	171,480.45
2016	126,503.90	45,223.62	171,727.52
2017	132,488.90	39,495.95	171,984.85
2018	138,759.50	33,493.70	172,253.20
2019 – 2023	624,749.50	72,488.57	697,238.07
Total	$1,266,862.00	$297,766.87	$1,564,628.87

Refunding of Debt

On August 1, 2012, the state issued $488,355.00 in revenue bonds with an average interest rate of 5% to advance refund $537,638.00 of outstanding 2006 Series A bonds with an average interest rate of 4.225%. The net proceeds of $586,255.65 (including a premium of $99,454.90 and after payment of $1,554.25 in underwriter's fees and issuance costs) were deposited with an escrow agent to provide for all future debt service payments on the 2006 Series A bonds. As a result, the 2006 Series A bonds are considered to be defeased, and the liability for those bonds has been removed from the college's long-term liabilities.

Although the advance refunding resulted in the recognition of a deferred outflow on debt refunding of $48,617.65 to be amortized over the next nine years, the college in effect reduced its aggregate debt service payments by $52,802.75 over the next nine years and obtained an economic gain (difference between the present values of the old and new debt service payments) of $42,743.96.

Note 8. Pledged Revenues

The college has pledged certain revenues and fees, including state appropriations, to repay $1,266,862.00 in revenue bonds issued from July 2006 to August 2012 (see Note 7 for further detail). Proceeds from the bonds provided financing for energy management projects. The bonds are payable through 2023. Annual principal and interest payments on the bonds are expected to require .3% of available revenues. The total principal and interest remaining to be paid on the bonds at June 30, 2013, is $1,564,628.87. Principal and interest paid for fiscal year 2013 and total available revenues were $173,602.40 and $57,496,441.22, respectively. Principal and interest paid for fiscal year 2012 and total available revenues were $177,864.98 and $55,222,252.17, respectively.

Note 9. Pension Plans

Defined Benefit Plans

Tennessee Consolidated Retirement System

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

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

Funding Policy – Plan members are noncontributory. The college is required to contribute an actuarially determined rate. The current rate is 15.03% of annual covered payroll. Contribution requirements for the college are established and may be amended by the TCRS' Board of Trustees. The college's contributions to TCRS for the years ended June 30, 2013; June 30, 2012; and June 30, 2011, were $1,879,240.77, $1,749,847.71, and $1,599,845.74, respectively. Contributions met the requirements for each year.

Defined Contribution Plans

Optional Retirement Plans

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

Funding Policy – Plan members are noncontributory. The college contributes an amount equal to 10% of the employee's base salary up to the social security wage base and 11% above the social security wage base. Contribution requirements are established and amended by state statute. The contributions made by the college to the plans were $1,271,050.51 for the year ended June 30, 2013, and $1,244,658.93 for the year ended June 30, 2012. Contributions met the requirements for each year.

Note 10. Other Postemployment Benefits

Health care is the only "other postemployment benefit" (OPEB) provided to employees. The State of Tennessee administers a group health insurance program which provides postemployment health insurance benefits to eligible college retirees. This program includes two plans available to higher education employees—the State Employee Group Plan and the Medicare Supplement Plan. For accounting purposes, the plans are agent multiple-employer defined benefit OPEB plans. Benefits are established and amended by an insurance committee created by Section 8-27-101, *Tennessee Code Annotated*. Prior to reaching age 65, 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 Pellissippi 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. In accordance with Section 8-27-205(b), *Tennessee Code Annotated*, 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 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

	2013	2012
Annual required contribution (ARC)	$ 694,000.00	$ 687,000.00
Interest on the net OPEB obligation	105,456.15	101,120.95
Adjustment to the ARC	(111,939.70)	(107,337.96)
Annual OPEB cost	687,516.45	680,782.99
Amount of contribution	(537,727.79)	(572,402.90)
Increase in net OPEB obligation	149,788.66	108,380.09
Net OPEB obligation – beginning of year	2,636,403.77	2,528,023.68
Net OPEB obligation – end of year	$2,786,192.43	$2,636,403.77

Year-end	Plan	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation at Year-end
June 30, 2013	State Employee Group Plan	$687,516.45	78.2%	$2,786,192.43
June 30, 2012	State Employee Group Plan	$680,782.99	84.1%	$2,636,403.77
June 30, 2011	State Employee Group Plan	$817,223.99	59.7%	$2,528,023.68

Funded Status and Funding Progress

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

State Employee Group Plan	
Actuarial valuation date	July 1, 2011
Actuarial accrued liability (AAL)	$5,479,000.00
Actuarial value of plan assets	-
Unfunded actuarial accrued liability (UAAL)	$5,479,000.00
Actuarial value of assets as a percentage of the AAL	0.00%
Covered payroll (active plan members)	$19,584,467.95
UAAL as percentage of covered payroll	28.0%

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future, and actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. The schedule of funding progress, presented as 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, 2011, 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 health care cost trend rate of 9.25% initially. The rate decreased to 8.75% in fiscal year 2013 and then reduces by decrements to an ultimate rate of 5% in fiscal year 2021. All rates include a 2.5% inflation assumption, which also represents the projected salary increase. The unfunded actuarial accrued liability is being amortized as a level percentage of payroll on a closed basis over a 30-year period beginning with July 1, 2007.

Note 11. Insurance-related Activities

It is the policy of the state not to purchase commercial insurance for the risks 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. 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 for all construction projects after June 30, 2012; thus, builder's risk is no longer covered by the Risk Management Fund. For property coverage, the deductible for an individual state agency is the first $25,000 of losses. The Risk Management Fund 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 Risk Management Fund. The fund allocates the cost of providing claims servicing and claims payment by charging a premium to the college based on a percentage of the college's expected loss costs, which include both experience and exposures. This charge considers recent trends in actual claims experience of the state as a whole. An actuarial valuation is performed as of fiscal year-end to determine the fund liability and premium allocation. Information regarding the determination of the claims liabilities and the changes in the balances of the claims liabilities for the year ended June 30, 2013, 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, *Tennessee Code Annotated*, Section 9-8-101 et seq. Liability for negligence of the college for bodily injury and property damage is limited to $300,000 per person and $1,000,000 per occurrence. The limits of liability under workers' compensation are set forth in *Tennessee Code Annotated,* Section 50-6-101 et seq. Claims are paid through the state's Risk Management Fund. At June 30, 2013, the Risk Management Fund held $108.5 million in cash designated for payment of claims. At June 30, 2012, the Risk Management Fund held $97.2 million in cash designated for payment of claims.

At June 30, 2013, the scheduled coverage for the college was $150,623,400 for buildings and $22,335,800 for contents. At June 30, 2012, the scheduled coverage for the college was $147,157,200 for buildings and $22,653,618 for contents.

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

Note 12. Commitments and Contingencies

Sick Leave

The college records the cost of sick leave when paid. The dollar amount of unused sick leave was $9,030,851.36 at June 30, 2013, and $8,482,179.74 at June 30, 2012.

Construction in Progress

At June 30, 2013, outstanding commitments under construction contracts totaled $543,209.05 for the Strawberry Plains/Knox County CTE Program project, the Strawberry Plains Campus Renovations project, the Security System Modernization project, the Chiller Energy Conservation project, the Strawberry Plains HVAC Replacement project, and the Blount County Fitness Trail project, of which $22,218.00 will be funded by future state capital outlay appropriations.

Note 13. Natural Classification With Functional Classifications

The college's operating expenses for the year ended June 30, 2013, are as follows:

	Natural Classification					
Functional Classification	Salaries	Benefits	Other Operating	Scholarships	Depreciation	Total
Instruction	$19,896,852.10	$ 6,033,651.69	$ 4,691,447.22	$ 190,422.00	$ -	$30,812,373.01
Public service	304,651.27	71,274.82	165,835.72	4,028.00	-	545,789.81
Academic support	4,184,398.70	1,517,061.87	(470,811.14)	48,377.11	-	5,279,026.54
Student services	3,457,326.77	1,311,876.00	2,052,680.66	147,576.50	-	6,969,459.93
Institutional support	3,240,847.79	1,335,350.56	2,798,267.97	3,198.00	-	7,377,664.32
Maintenance & operation	763,923.11	417,400.38	3,811,943.32	50.00	-	4,993,316.81
Scholarships & fellowships	-	-	-	13,185,646.12	-	13,185,646.12
Auxiliary	-	-	234,777.16	1,806.00	-	236,583.16
Depreciation	-	-	-	-	4,050,509.75	4,050,509.75
Total	$31,847,999.74	$10,686,615.32	$13,284,140.91	$13,581,103.73	$4,050,509.75	$73,450,369.45

The college's operating expenses for the year ended June 30, 2012, are as follows:

	Natural Classification					
Functional Classification	Salaries	Benefits	Other Operating	Scholarships	Depreciation	Total
Instruction	$18,908,551.94	$ 5,866,721.88	$ 4,391,068.08	$ 191,202.18	$ -	$29,357,544.08
Public service	318,304.18	96,637.18	225,036.22	-	-	639,977.58
Academic support	3,882,189.74	1,361,028.68	116,817.86	28,930.00	-	5,388,966.28
Student services	3,332,644.07	1,250,750.56	1,794,817.72	72,140.75	-	6,450,353.10
Institutional support	3,136,824.84	1,233,299.07	2,219,781.49	11,225.00	-	6,601,130.40
Maintenance & operation	790,354.15	413,423.65	4,564,967.53	702.00	-	5,769,447.33
Scholarships & fellowships	-	-	3,945.00	13,748,708.33	-	13,752,653.33
Auxiliary	-	-	212,635.62	512.75	-	213,148.37
Depreciation	-	-	-	-	4,192,855.17	4,192,855.17
Total	$30,368,868.92	$10,221,861.02	$13,529,069.52	$14,053,421.01	$4,192,855.17	$72,366,075.64

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 $3,490,000.00 for the year ended June 30, 2013, and $3,139,000.00 for the year ended June 30, 2012, were reallocated from academic support to the other functional areas and caused some academic support operating expenses to appear as a negative amount in the schedule above.

Note 14. On-behalf Payments

During the year ended June 30, 2013, the State of Tennessee made payments of $10,237.00 on behalf of the college for retirees participating in the Medicare Supplement Plan. The amount for the year ended June 30, 2012, was $11,409.73. The Medicare Supplement Plan is a postemployment benefit health care 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. Component Unit

The Pellissippi State Community College Foundation is a legally separate, tax-exempt organization supporting Pellissippi State Community College. The foundation acts primarily as a fund-raising organization to supplement the resources that are available to the college in support of its programs. The 26-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, 2013, the foundation made distributions of $172,572.30 to or on behalf of the college for both restricted and unrestricted purposes. During the year ended June 30, 2012, the foundation made distributions of $1,584,361.82 to or on behalf of the college for both restricted and unrestricted purposes. Complete financial statements for the foundation can be obtained from Mr. Ron Kesterson, Pellissippi State Community College, P. O. Box 22990, Knoxville, TN 37933-0990.

Fair-value Measurements

The foundation reports certain assets at fair value. Fair value has been determined using quoted prices in active markets for identical assets that are accessible at the measurement date (Level 1), inputs other than quoted market prices included in Level 1 that are directly or indirectly observable for the asset (Level 2), or significant unobservable inputs (Level 3). The following table categorizes the recurring fair-value measurements for assets at June 30, 2013, and at June 30, 2012.

	Total Fair Value at June 30, 2013	Quoted Prices Level 1	Significant Other Inputs Level 2	Significant Unobservable Inputs Level 3
Assets:				
Mutual equity funds	$5,205,718.91	$5,205,718.91	$ -	$ -
Mutual bond funds	2,341,624.50	2,341,624.50	-	-
Realty investment fund	2,213.06	-	2,213.06	-
Money market funds	64,791.32	64,791.32	-	-
Pledges receivable	1,493,403.39	-	-	1,493,403.39
Total assets	$9,107,751.18	$7,612,134.73	$2,213.06	$1,493,403.39

	Total Fair Value at June 30, 2012	Quoted Prices Level 1	Significant Other Inputs Level 2	Significant Unobservable Inputs Level 3
Assets:				
Mutual equity funds	$4,539,735.08	$4,539,735.08	$ -	$ -
Mutual bond funds	1,973,061.05	1,973,061.05	-	-
Realty investment fund	29,276.99	-	29,276.99	-
Money market funds	78,538.08	78,538.08	-	-
Pledges receivable	1,858,271.54	-	-	1,858,271.54
Total assets	$8,478,882.74	$6,591,334.21	$29,276.99	$1,858,271.54

Cash

Cash consists of demand deposit accounts and Local Government Investment Pool (LGIP) deposits. The bank balances of deposits at June 30, 2013, and June 30, 2012, 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, 2013, were as follows:

	Cost	Fair Value
Mutual equity funds	$2,969,151.97	$5,205,718.91
Mutual bond funds	1,335,081.12	2,341,624.50
Realty investment fund	77,650.00	2,213.06
Money market funds	64,791.32	64,791.32
Total investments	$4,446,674.41	$7,614,347.79

Investments held at June 30, 2012, were as follows:

	Cost	Fair Value
Mutual equity funds	$2,995,118.32	$4,539,735.08
Mutual bond funds	1,141,695.77	1,973,061.05
Realty investment fund	239,424.34	29,276.99
Money market funds	78,538.08	78,538.08
Total investments	$4,454,776.51	$6,620,611.20

Pledges Receivable

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

	June 30, 2013	June 30, 2012
Current pledges	$ 300,731.09	$ 371,711.06
Pledges due in one to five years	949,032.76	1,161,306.63
Pledges due after five years	288,696.00	384,984.00
Subtotal	1,538,459.85	1,918,001.69
Less discount to net present value	45,056.46	59,730.15
Total pledges receivable, net	$1,493,403.39	$1,858,271.54

Long-term Liabilities

Long-term liabilities at June 30, 2013, consisted of the following:

	Ending Balance	Current Portion
Loans	$900,000.00	$100,000.00
Total long-term liabilities	$900,000.00	$100,000.00

Long-term liabilities at June 30, 2012, consisted of the following:

	Ending Balance	Current Portion
Loans	$1,000,000.00	$100,000.00
Total long-term liabilities	$1,000,000.00	$100,000.00

Loans payable – The foundation borrowed funds from Clayton Bank and Trust to purchase the Strawberry Plains campus. The loan bears an interest rate at prime plus 1% with a floor of 4.5%, and has a principal amount of $1,000,000.00, a minimum annual debt service of $100,000.00 plus interest, and a due date of July 31, 2021. The balance owed by the foundation was $900,000.00 at June 30, 2013, and $1,000,000.00 at June 30, 2012.

Minimum debt service requirements to maturity for loans payable at June 30, 2013, are as follows:

Year Ending June 30	Principal	Interest	Total
2014	$100,000.00	$ 37,650.00	$ 137,650.00
2015	100,000.00	33,087.50	133,087.50
2016	100,000.00	28,600.00	128,600.00
2017	100,000.00	23,962.50	123,962.50
2018	100,000.00	19,400.00	119,400.00
2019 – 2022	400,000.00	32,000.00	432,000.00
Total	$900,000.00	$174,700.00	$1,074,700.00

Endowments

The Pellissippi State Community College Foundation's endowment consists of approximately 123 individual funds established for a variety of purposes. Its endowment includes both donor-restricted endowment funds and funds designated by the Board of Trustees to function as endowments. As required by accounting principles generally accepted in the United States of America, net position associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of relevant law – The Board of Trustees of the Pellissippi State Community College Foundation has interpreted the Uniform Prudent Management of Institutional Funds Act (the Act) as adopted by Tennessee as requiring the preservation of the fair value of the original gift as of the gift date of the donor restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Pellissippi State Community College Foundation classifies as permanently restricted net position (1) the original value of gifts donated to the permanent endowment and (2) the original value of subsequent gifts to the permanent endowment. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net 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.

Composition of Endowment by Net Position Class
As of June 30, 2013

	Permanently Restricted	Temporarily Restricted	Unrestricted	Total
Donor-restricted endowment funds	$2,614,203.34	$4,310,561.39	$ -	$6,924,764.73
Board-designated endowment funds	-	33,484.47	-	33,484.47
Total funds	$2,614,203.34	$4,344,045.86	$ -	$6,958,249.20

Composition of Endowment by Net Position Class
As of June 30, 2012

	Permanently Restricted	Temporarily Restricted	Unrestricted	Total
Donor-restricted endowment funds	$2,588,947.51	$3,319,768.43	$(637.82)	$5,908,078.12
Board-designated endowment funds	-	27,754.40	-	27,754.40
Total funds	$2,588,947.51	$3,347,522.83	$(637.82)	$5,935,832.52

Changes in Endowment Net Position
for the Fiscal Year Ended June 30, 2013

	Permanently Restricted	Temporarily Restricted	Unrestricted	Total
Endowment net position, beginning of year	$2,588,947.51	$3,347,522.83	$(637.82)	$5,935,832.52
Investment return:				
Investment income	-	120,891.29	-	120,891.29
Net appreciation (realized and unrealized)	-	881,904.20	-	881,904.20
Total investment return	-	1,002,795.49	-	1,002,795.49
Contributions	24,220.85	660.00	-	24,880.85
Appropriations of endowment assets for expenditure	-	(6,294.64)	-	(6,294.64)
Transfers	-	(637.82)	637.82	-

Change in allowance and discounts on pledges	1,034.98	-	-	1,034.98
Endowment net position, end of year	$2,614,203.34	$4,344,045.86	$ -	$6,958,249.20

Changes in Endowment Net Position
for the Fiscal Year Ended June 30, 2012

	Permanently Restricted	Temporarily Restricted	Unrestricted	Total
Endowment net position, beginning of year	$2,531,463.77	$3,335,894.78	$ -	$5,867,358.55
Investment return:				
Investment income	-	110,226.85	-	110,226.85
Net appreciation (realized and unrealized)	-	(11,630.40)	-	(11,630.40)
Total investment return	-	98,596.45	-	98,596.45
Contributions	49,906.96	930.00	-	50,836.96
Appropriations of endowment assets for expenditure	-	(86,348.98)	-	(86,348.98)
Transfers	-	(1,549.42)	(637.82)	(2,187.24)
Change in allowance and discounts on pledges	7,576.78	-	-	7,576.78
Endowment net position, end of year	$2,588,947.51	$3,347,522.83	$(637.82)	$5,935,832.52

Funds with deficiencies – From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the foundation is required to retain in a fund of perpetual duration. In accordance with accounting principles generally accepted in the United States of America, deficiencies of this nature are reported in unrestricted net position. These deficiencies resulted from unfavorable market fluctuations that occurred after the investment of permanently restricted contributions and/or continued appropriation for fees and previously approved budgeted expenditures. At June 30, 2012, deficiencies of this nature totaled $637.82.

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 a donor-specified period as well as board-designated funds. Under this policy, as approved by the Board of Trustees, the endowment assets are invested in a manner that is intended to produce results that will maximize the benefit intended by the donor, to produce current income to support donor objectives and the programs at Pellissippi State Community College, and to achieve growth of both principal value and income over time. The foundation expects its endowment funds, over time, to provide an average rate of return of approximately 10% annually, including interest, dividends, and capital appreciation (realized and unrealized gains). Actual returns in any given year may vary from this amount.

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

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

Tennessee Board of Regents
PELLISSIPPI 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, 2011	State Employee Group Plan	$ -	$5,479,000.00	$5,479,000.00	0%	$19,584,467.95	28.0%
July 1, 2010	State Employee Group Plan	$ -	$7,671,000.00	$7,671,000.00	0%	$18,707,798.00	41.0%
July 1, 2009	State Employee Group Plan	$ -	$8,451,000.00	$8,451,000.00	0%	$18,315,968.92	46.1%

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

Tennessee Board of Regents
PELLISSIPPI STATE COMMUNITY COLLEGE
Supplementary Information
Schedules of Cash Flows - Component Unit
For the Years Ended June 30, 2013, and June 30, 2012

	Year Ended June 30, 2013	Year Ended June 30, 2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Gifts and contributions	$ 668,941.39	$ 1,018,049.01
Payments to suppliers and vendors	(111,118.11)	(84,521.72)
Payments for scholarships and fellowships	(159,493.02)	(140,025.22)
Payments to Pellissippi State Community College	(87,309.62)	(1,510,000.00)
Loans issued to students	(135,489.16)	(112,840.07)
Collection of loans from students	137,683.35	126,037.30
Other receipts	27,018.95	-
Net cash provided (used) by operating activities	340,233.78	(703,300.70)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Private gifts for endowment purposes	41,675.62	209,118.62
Net cash provided by noncapital financing activities	41,675.62	209,118.62
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from capital debt	-	1,000,000.00
Principal paid on capital debt	(100,000.00)	-
Interest paid on capital debt	(42,137.50)	(13,500.00)
Net cash provided (used) by capital and related financial activities	(142,137.50)	986,500.00
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of investments	33,272.22	-
Income on investments	124,208.03	112,784.83
Purchases of investments	(145,104.61)	(210,226.85)
Net cash provided (used) by investing activities	12,375.64	(97,442.02)
Net increase in cash	252,147.54	394,875.90
Cash - beginning of year	2,495,338.00	2,100,462.10
Cash - end of year	$ 2,747,485.54	$ 2,495,338.00
Reconciliation of operating loss to net cash provided (used) by operating activities:		
Operating loss	$ (14,456.38)	$ (43,351.36)
Adjustments to reconcile operating loss to net cash provided (used) by operating activities:		
Endowment income per spending plan	(6,294.64)	(86,348.98)
Change in assets and liabilities:		
Receivables, net	349,831.38	(594,495.74)
Prepaid expenses	2,500.00	(2,055.00)
Accounts payable	(348.05)	1,808.55
Loans to students	9,001.47	21,141.83
Net cash provided (used) by operating activities	$ 340,233.78	$ (703,300.70)
Noncash investing, capital, or financing transactions		
Unrealized gains (losses) on investments	$ 1,001,838.69	$ (11,630.40)

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 John G. Morgan, Chancellor
Dr. Anthony Wise, President

We have audited the financial statements of Pellissippi State Community College, an institution of the Tennessee Board of Regents, which is a component unit of the State of Tennessee, and its discretely presented component unit as of and for the years ended June 30, 2013, and June 30, 2012, 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 24, 2014. 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.

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.

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. 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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*.

Purpose of This Report

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

Deborah V. Loveless

Deborah V. Loveless, CPA
Director
July 24, 2014

Observations and Comments

College of Applied Technology

Pellissippi State Community College serves as the lead institution under an agreement with the Tennessee College of Applied Technology at Knoxville. Under this agreement, Pellissippi 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.