

**Tennessee Board of Regents
Northeast State Technical Community College**

**For the Years Ended
June 30, 1999, and June 30, 1998**

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STATE OF TENNESSEE
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John G. Morgan
Comptroller

March 31, 2000

The Honorable Don Sundquist, Governor

and

Members of the General Assembly

State Capitol

Nashville, Tennessee 37243

and

The Honorable Charles Manning, Chancellor

Tennessee Board of Regents

1415 Murfreesboro Road, Suite 350

Nashville, Tennessee 37217

and

Dr. William W. Locke, President

Northeast State Technical Community College

P. O. Box 246

Blountville, Tennessee 37617

Ladies and Gentlemen:

Transmitted herewith is the financial and compliance audit of the Tennessee Board of Regents, Northeast State Technical Community College, for the years ended June 30, 1999, and June 30, 1998. You will note from the independent auditor's report that an unqualified opinion was 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,

John G. Morgan
Comptroller of the Treasury

JGM/sdr
00/028

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
Northeast State Technical Community College
For the Years Ended June 30, 1999, and June 30, 1998

AUDIT OBJECTIVES

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

AUDIT FINDINGS

The audit report contains no findings.

OPINION ON THE FINANCIAL STATEMENTS

The opinion on the financial statements is unqualified.

"Audit Highlights" is a summary of the audit report. To obtain the complete audit report which contains all findings, recommendations, and management comments, please contact

Comptroller of the Treasury, Division of State Audit
1500 James K. Polk Building, Nashville, TN 37243-0264
(615) 741-3697

Audit Report
Tennessee Board of Regents
Northeast State Technical Community College
For the Years Ended June 30, 1999, and June 30, 1998

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**Tennessee Board of Regents
Northeast State Technical Community College
For the Years Ended June 30, 1999, and June 30, 1998**

INTRODUCTION

POST-AUDIT AUTHORITY

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

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

BACKGROUND

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

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

Effective July 1, 1990, the General Assembly granted community college status to Tri-Cities State Technical Institute and changed its name to Northeast State Technical Community College. An articulation agreement with four-year institutions was obtained allowing students at Northeast State Technical Community College to transfer credits earned toward a four-year degree. Northeast State Technical Community College also offers two-year, college-level programs to prepare adults for employment as technicians in engineering, physical science, and computer science. These two-year programs lead to an associate of engineering, associate of science, or associate of applied science degree. Also, the institute offers special programs and courses to meet the needs of industry, business, and government.

ORGANIZATION

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

AUDIT SCOPE

The audit was limited to the period July 1, 1997, through June 30, 1999, and was conducted in accordance with generally accepted government auditing standards. Financial statements are presented for the years ended June 30, 1999, and June 30, 1998. Northeast State Technical Community College is an institution of the Tennessee Board of Regents, which is an integral part of state government. As such, the Tennessee Board of Regents has been included as a component unit in the *Tennessee Comprehensive Annual Financial Report*.

OBJECTIVES OF THE AUDIT

The objectives of the audit were

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

PRIOR AUDIT FINDINGS

There were no findings in the prior audit report.

OBSERVATIONS AND COMMENTS

TITLE IX OF THE EDUCATION AMENDMENTS OF 1972

Tennessee Code Annotated, Section 4-4-123, requires each state governmental entity subject to the requirements of Title IX of the Education Amendments of 1972 to submit an annual Title IX compliance report and implementation plan to the Department of Audit by June 30, 1999, and each June 30 thereafter. The college did not file its compliance report and implementation plan by June 30, 1999, in violation of this statutory requirement.

Title IX of the Education Amendments of 1972 is a federal law. The act requires all state agencies receiving federal money to develop and implement plans to ensure that no one receiving benefits under a federally funded education program and activity is discriminated against on the basis of gender. The untimely filing of the compliance report and implementation plan required by state law does not necessarily mean that the college is not in compliance with the federal law.

RESULTS OF THE AUDIT

AUDIT CONCLUSIONS

Internal Control

As part of the audit of the college's financial statements for the years ended June 30, 1999, and June 30, 1998, we considered internal control over financial reporting to determine auditing procedures for the purpose of expressing an opinion on the financial statements, as required by generally accepted government auditing standards. Consideration of internal control over financial reporting disclosed no material weaknesses.

Compliance

The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Fairness of Financial Statement Presentation

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



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

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

March 27, 2000

The Honorable John G. Morgan
Comptroller of the Treasury
State Capitol
Nashville, Tennessee 37243

Dear Mr. Morgan:

We have audited the financial statements of Northeast State Technical Community College, an institution of the Tennessee Board of Regents, which is a component unit of the State of Tennessee, as of and for the years ended June 30, 1999, and June 30, 1998, and have issued our report thereon dated March 27, 2000. Our report was unqualified. We conducted our audit in accordance with generally accepted government auditing standards.

Compliance

As part of obtaining reasonable assurance about whether the college's financial statements are free of material misstatement, we performed tests of the college's compliance with certain provisions of laws, regulations, contracts, and grants, 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 that are required to be reported under *Government Auditing Standards*.

The Honorable John G. Morgan
March 27, 2000
Page Two

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the college's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

However, we noted certain matters involving the internal control over financial reporting, which we have reported to the college's management in a separate letter.

This report is intended solely for the information and use of the General Assembly of the State of Tennessee and management and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record.

Sincerely,

A handwritten signature in black ink that reads "Arthur A. Hayes, Jr." with a stylized, cursive script.

Arthur A. Hayes, Jr., CPA, Director
Division of State Audit

AAH/sdr



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

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Independent Auditor's Report

March 27, 2000

The Honorable John G. Morgan
Comptroller of the Treasury
State Capitol
Nashville, Tennessee 37243

Dear Mr. Morgan:

We have audited the accompanying balance sheets of Northeast State Technical Community College, an institution of the Tennessee Board of Regents, which is a component unit of the State of Tennessee, as of June 30, 1999, and June 30, 1998, and the related statements of changes in fund balances and current funds revenues, expenditures, and other changes for the years then ended. These financial statements are the responsibility of the college's management. Our responsibility is to express an opinion on these financial statements, based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Tennessee Board of Regents, Northeast State Technical Community College, as of June 30, 1999, and June 30, 1998, and the changes in fund balances and the current funds revenues, expenditures, and other changes for the years then ended in conformity with generally accepted accounting principles.

The Honorable John G. Morgan
March 27, 2000
Page Two

As discussed in Notes 12 and 13 to the financial statements, the college implemented GASB 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, and GASB 16, *Accounting for Compensated Absences*, in conformity with generally accepted accounting principles. Also, as discussed in Note 12, the college changed the threshold for capitalizing equipment.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 27, 2000, on our consideration of the college's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants.

Sincerely,

A handwritten signature in black ink that reads "Arthur A. Hayes, Jr." with a stylized flourish at the end.

Arthur A. Hayes, Jr., CPA, Director
Division of State Audit

AAH/sdr

TENNESSEE BOARD OF REGENTS
NORTHEAST STATE TECHNICAL COMMUNITY COLLEGE
BALANCE SHEETS
JUNE 30, 1999, AND JUNE 30, 1998

<u>ASSETS</u>	June 30, 1999	June 30, 1998	<u>LIABILITIES AND FUND BALANCES</u>	June 30, 1999	June 30, 1998
Current funds:			Current funds:		
Unrestricted:			Unrestricted:		
General:			General:		
Cash and cash equivalents (Notes 2 and 3)	\$ 2,081,436.02	\$ 1,890,407.40	Liabilities:		
Accounts receivable (net of allowance of \$4,178.32 at June 30, 1999, and \$9,586.12 at June 30, 1998)	129,600.91	156,259.95	Accounts payable	\$ 269,187.78	\$ 152,408.42
Inventories	16,385.50	16,212.65	Accrued liabilities	813,528.64	784,760.39
Prepaid expenses	52,663.94	19,905.84	Deferred revenue	447,478.00	357,708.19
Due from restricted current funds	168,324.89	190,134.68	Compensated absences	400,368.50	391,652.61
			Other liabilities	-	3,103.95
			Total liabilities	1,930,562.92	1,689,633.56
			Fund balances:		
			Nondiscretionary allocations:		
			Allocation for working capital	88,937.72	79,129.99
			Allocation for encumbrances	265,015.82	352,817.90
			Allocation for designated state appropriations	10,666.79	9,826.54
			Discretionary allocation:		
			Allocation for subsequent budget	294,538.85	248,303.41
			Allocation for compensated absences	(400,368.50)	(391,652.61)
			Unallocated	259,057.66	284,861.73
			Total fund balances	517,848.34	583,286.96
Total general	2,448,411.26	2,272,920.52	Total general	2,448,411.26	2,272,920.52
Auxiliary enterprises:			Auxiliary enterprises:		
Cash and cash equivalents (Notes 2 and 3)	412,471.33	282,932.06	Fund balances:		
Accounts receivable	6,237.44	18,748.00	Nondiscretionary allocation:		
			Allocation for working capital	6,237.44	18,748.00
			Discretionary allocation:		
			Allocation for contingencies	6,159.40	5,211.85
			Unallocated	406,311.93	277,720.21
Total auxiliary enterprises	418,708.77	301,680.06	Total auxiliary enterprises	418,708.77	301,680.06
Total unrestricted	2,867,120.03	2,574,600.58	Total unrestricted	2,867,120.03	2,574,600.58
Restricted:			Restricted:		
Accounts and grants receivable	201,032.43	219,668.60	Liabilities:		
			Accounts payable	15,001.16	14,027.53
			Accrued liabilities	-	2,675.19
			Due to unrestricted current funds	168,324.89	190,134.68
			Total liabilities	183,326.05	206,837.40
			Fund balance	17,706.38	12,831.20
Total restricted	201,032.43	219,668.60	Total restricted	201,032.43	219,668.60
Total current funds	\$ 3,068,152.46	\$ 2,794,269.18	Total current funds	\$ 3,068,152.46	\$ 2,794,269.18
Plant funds:			Plant funds:		
Unexpended plant:			Unexpended plant:		
Cash and cash equivalents (Notes 2 and 3)	\$ 952,725.44	\$ 837,798.70	Liabilities:		
LGIP deposit - capital projects	73,522.95	55,016.49	Accounts payable	\$ 63,623.00	\$ 45,055.37
			Fund balance:		
			Unrestricted (Note 5)	962,625.39	847,759.82
Total unexpended plant	1,026,248.39	892,815.19	Total unexpended plant	1,026,248.39	892,815.19
Renewals and replacements:			Renewals and replacements:		
Cash and cash equivalents (Notes 2 and 3)	577,772.38	546,165.31	Liabilities:		
			Accounts payable	-	41,303.00
			Fund balance:		
			Unrestricted (Note 5)	577,772.38	504,862.31
Total renewals and replacements	577,772.38	546,165.31	Total renewals and replacements	577,772.38	546,165.31
Retirement of Indebtedness:			Retirement of Indebtedness:		
Cash and cash equivalents (Notes 2 and 3)	72,031.34	53,396.34	Liabilities:		
			Accrued interest payable	1,295.00	1,615.00
			Fund balance:		
			Unrestricted	70,736.34	51,781.34
Total retirement of indebtedness	72,031.34	53,396.34	Total retirement of indebtedness	72,031.34	53,396.34
Investment in plant:			Investment in plant:		
Land	1,936,571.79	1,936,571.79	Liabilities:		
Buildings	14,325,907.65	13,093,215.66	Loan payable (Note 6)	72,160.00	-
Improvements other than buildings	491,338.78	287,077.95	Notes payable (Note 6)	60,000.00	75,000.00
Equipment	6,988,062.68	6,137,766.33	Total liabilities	132,160.00	75,000.00
Library books	1,246,272.00	1,171,008.00	Fund balance:		
Other library holdings	1,044,394.00	825,377.00	Net investment in plant	26,293,183.12	24,171,521.15
Construction in progress	392,796.22	795,504.42	Total investment in plant	26,425,343.12	24,246,521.15
Total investment in plant	26,425,343.12	24,246,521.15	Total investment in plant	26,425,343.12	24,246,521.15
Total plant funds	\$ 28,101,395.23	\$ 25,738,897.99	Total plant funds	\$ 28,101,395.23	\$ 25,738,897.99

TENNESSEE BOARD OF REGENTS
NORTHEAST STATE TECHNICAL COMMUNITY COLLEGE
BALANCE SHEETS
JUNE 30, 1999, AND JUNE 30, 1998

	June 30, 1999	June 30, 1998		June 30, 1999	June 30, 1998
<u>ASSETS</u>			<u>LIABILITIES AND FUND BALANCES</u>		
Agency funds:			Agency funds:		
Foundation:			Foundation:		
Cash and cash equivalents (Notes 2 and 3)	\$ 136,299.65	\$ 143,006.65	Liabilities:		
Investments (Note 4)	2,053,514.91	1,888,584.52	Accounts payable	\$ -	\$ 6,709.40
Accrued interest receivable	-	189.44	Deposits held in custody for foundation	2,191,062.56	2,025,071.21
Accounts receivable	1,248.00	-			
Total foundation	<u>2,191,062.56</u>	<u>2,031,780.61</u>	Total foundation	<u>2,191,062.56</u>	<u>2,031,780.61</u>
Nonfoundation:			Nonfoundation:		
Cash and cash equivalents (Notes 2 and 3)	197,833.31	170,746.64	Liabilities:		
Accounts receivable	40.00	-	Accounts payable	\$ 1,559.32	\$ 1,428.00
Total nonfoundation	<u>197,873.31</u>	<u>170,746.64</u>	Deposits held in custody for others	196,313.99	169,318.64
Total agency funds	<u>\$ 2,388,935.87</u>	<u>\$ 2,202,527.25</u>	Total non-foundation	<u>197,873.31</u>	<u>170,746.64</u>
			Total agency funds	<u>\$ 2,388,935.87</u>	<u>\$ 2,202,527.25</u>

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

TENNESSEE BOARD OF REGENTS
NORTHEAST STATE TECHNICAL COMMUNITY COLLEGE
STATEMENT OF CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 1999

	Current Funds		Plant Funds			
	Unrestricted	Restricted	Unexpended	Renewals and Replacements	Retirement of Indebtedness	Investment in Plant
REVENUES AND OTHER ADDITIONS						
Unrestricted current fund revenues	\$ 13,269,293.93	\$ -	\$ -	\$ -	\$ -	\$ -
Auxiliary enterprise revenues	123,188.11	-	-	-	-	-
State appropriations	-	90,200.00	569,007.40	-	-	-
Federal grants and contracts	-	2,626,883.63	-	-	-	-
State grants and contracts	-	572,593.95	-	-	-	-
Local grants and contracts	-	39,629.00	-	-	-	-
Private gifts, grants, and contracts	-	285,049.02	-	-	-	-
Investment income	-	-	41,026.92	33,520.93	2,147.72	-
Equipment use charges	-	-	-	68,000.00	-	-
Expended for plant facilities (including \$1,167,119.27 charged to current fund expenditures)	-	-	-	-	-	2,238,125.03
Retirement of indebtedness	-	-	-	-	-	15,000.00
Library holdings revaluation	-	-	-	-	-	119,396.53
Energy management loan proceeds	-	-	72,160.00	-	-	-
Total revenues and other additions	13,392,482.04	3,614,355.60	682,194.32	101,520.93	2,147.72	2,372,521.56
EXPENDITURES AND OTHER DEDUCTIONS						
Educational and general expenditures	12,777,791.51	3,584,787.80	-	-	-	-
Refunded to grantors	-	8,353.00	-	-	-	-
Indirect costs recovered	-	16,339.62	-	-	-	-
Expended for plant facilities	-	-	739,799.79	331,205.97	-	-
Expended for noncapital items	-	-	40,238.65	11,943.36	-	-
Retirement of indebtedness	-	-	-	-	15,000.00	-
Interest on indebtedness	-	-	-	-	4,045.00	-
Disposal of plant facilities	-	-	-	-	-	178,699.59
Increase in indebtedness	-	-	-	-	-	72,160.00
Total expenditures and other deductions	12,777,791.51	3,609,480.42	780,038.44	343,149.33	19,045.00	250,859.59
TRANSFERS BETWEEN FUNDS-ADDITIONS (DEDUCTIONS)						
Mandatory:						
Principal and interest	(19,400.00)	-	-	-	19,400.00	-
Nonmandatory:						
Unexpended plant	(212,709.69)	-	212,709.69	-	-	-
Renewals and replacements	(314,538.47)	-	-	314,538.47	-	-
Retirement of indebtedness	(16,452.28)	-	-	-	16,452.28	-
Total transfers	(563,100.44)	-	212,709.69	314,538.47	35,852.28	-
Net increases for the year	51,590.09	4,875.18	114,865.57	72,910.07	18,955.00	2,121,661.97
Fund balances at beginning of year	884,967.02	12,831.20	847,759.82	504,862.31	51,781.34	24,171,521.15
Fund balances at end of year	\$ 936,557.11	\$ 17,706.38	\$ 962,625.39	\$ 577,772.38	\$ 70,736.34	\$ 26,293,183.12

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

TENNESSEE BOARD OF REGENTS
NORTHEAST STATE TECHNICAL COMMUNITY COLLEGE
STATEMENT OF CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 1998

	Current Funds		Plant Funds			
	Unrestricted	Restricted	Unexpended	Renewals and Replacements	Retirement of Indebtedness	Investment in Plant
REVENUES AND OTHER ADDITIONS						
Unrestricted current fund revenues	\$ 12,350,930.67	\$ -	\$ -	\$ -	\$ -	\$ -
Auxiliary enterprise revenues	104,237.01	-	-	-	-	-
State appropriations	-	88,300.00	688,428.24	-	-	-
Federal grants and contracts	-	2,530,620.06	-	-	-	-
State grants and contracts	-	549,420.20	-	-	-	-
Local grants and contracts	-	22,385.00	-	-	-	-
Private gifts, grants, and contracts	-	43,450.73	-	-	-	-
Investment income	-	-	41,032.61	14,692.61	3,121.03	-
Equipment use charges	-	-	-	68,000.00	-	-
Expended for plant facilities (including \$767,892.55 charged to current fund expenditures)	-	-	-	-	-	1,394,224.30
Retirement of indebtedness	-	-	-	-	-	15,000.00
Total revenues and other additions	12,455,167.68	3,234,175.99	729,460.85	82,692.61	3,121.03	1,409,224.30
EXPENDITURES AND OTHER DEDUCTIONS						
Educational and general expenditures	11,434,594.60	3,218,534.44	-	-	-	-
Refunded to grantors	-	15,451.71	-	-	-	-
Indirect costs recovered	-	14,154.29	-	-	-	-
Expended for plant facilities	-	-	549,428.04	76,903.71	-	-
Expended for noncapital items	-	-	206,257.48	18,995.67	-	-
Retirement of indebtedness	-	-	-	-	15,000.00	-
Interest on indebtedness	-	-	-	-	5,005.00	-
Disposal of plant facilities	-	-	-	-	-	416,651.31
Library holdings revaluation	-	-	-	-	-	13,625.62
Total expenditures and other deductions	11,434,594.60	3,248,140.44	755,685.52	95,899.38	20,005.00	430,276.93
TRANSFERS BETWEEN FUNDS-ADDITIONS (DEDUCTIONS)						
Nonmandatory:						
Unrestricted current funds	3,121.03	-	-	-	(3,121.03)	-
Unexpended plant	(298,983.88)	-	298,983.88	-	-	-
Renewals and replacements	(303,719.24)	-	-	303,719.24	-	-
Total transfers	(599,582.09)	-	298,983.88	303,719.24	(3,121.03)	-
Net increases (decreases) for the year	420,990.99	(13,964.45)	272,759.21	290,512.47	(20,005.00)	978,947.37
Fund balances at beginning of year (Note 13)	463,976.03	26,795.65	575,000.61	214,349.84	71,786.34	23,905,501.55
Cumulative effect of change in accounting principle (Note 12)	-	-	-	-	-	(712,927.77)
Fund balances at beginning of year, as restated	463,976.03	26,795.65	575,000.61	214,349.84	71,786.34	23,192,573.78
Fund balances at end of year	\$ 884,967.02	\$ 12,831.20	\$ 847,759.82	\$ 504,862.31	\$ 51,781.34	\$ 24,171,521.15

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

TENNESSEE BOARD OF REGENTS
NORTHEAST STATE TECHNICAL COMMUNITY COLLEGE
STATEMENT OF CURRENT FUNDS REVENUES, EXPENDITURES, AND OTHER CHANGES
FOR THE YEAR ENDED JUNE 30, 1999

	<u>Unrestricted</u>	<u>Restricted</u>	<u>Total</u>
<u>REVENUES</u>			
Tuition and fees	\$ 3,909,588.29	\$ -	\$ 3,909,588.29
State appropriations	8,628,600.00	84,230.81	8,712,830.81
Federal grants and contracts	31,810.62	2,611,152.80	2,642,963.42
State grants and contracts	-	564,726.20	564,726.20
Local grants and contracts	-	39,629.00	39,629.00
Private gifts, grants, and contracts	432,651.44	285,048.99	717,700.43
Sales and services of auxiliary enterprises	123,188.11	-	123,188.11
Investment income	137,808.81	-	137,808.81
Other sources	128,834.77	-	128,834.77
Total current revenues	<u>13,392,482.04</u>	<u>3,584,787.80</u>	<u>16,977,269.84</u>
<u>EXPENDITURES AND TRANSFERS</u>			
Educational and general:			
Expenditures:			
Instruction	6,624,453.01	490,672.62	7,115,125.63
Public service	-	657.59	657.59
Academic support	1,160,991.62	11,039.18	1,172,030.80
Student services	1,796,973.94	325,385.48	2,122,359.42
Institutional support	1,599,108.59	1,101.59	1,600,210.18
Operation and maintenance of plant	1,495,404.43	-	1,495,404.43
Scholarships and fellowships	100,859.92	2,755,931.34	2,856,791.26
Total educational and general expenditures	<u>12,777,791.51</u>	<u>3,584,787.80</u>	<u>16,362,579.31</u>
Mandatory transfer for:			
Principal and interest	19,400.00	-	19,400.00
Nonmandatory transfers for:			
Unexpended plant	212,709.69	-	212,709.69
Renewals and replacements	308,379.07	-	308,379.07
Retirement of indebtedness	16,452.28	-	16,452.28
Total educational and general	<u>13,334,732.55</u>	<u>3,584,787.80</u>	<u>16,919,520.35</u>
Auxiliary enterprises:			
Nonmandatory transfer for:			
Renewals and replacements	6,159.40	-	6,159.40
Total auxiliary enterprises	<u>6,159.40</u>	<u>-</u>	<u>6,159.40</u>
Total expenditures and transfers	<u>13,340,891.95</u>	<u>3,584,787.80</u>	<u>16,925,679.75</u>
<u>OTHER ADDITION (DEDUCTIONS)</u>			
Excess of restricted receipts over transfers to revenues	-	29,567.80	29,567.80
Refunded to grantors	-	(8,353.00)	(8,353.00)
Indirect costs recovered	-	(16,339.62)	(16,339.62)
Net increase in fund balances	<u>\$ 51,590.09</u>	<u>\$ 4,875.18</u>	<u>\$ 56,465.27</u>

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

TENNESSEE BOARD OF REGENTS
NORTHEAST STATE TECHNICAL COMMUNITY COLLEGE
STATEMENT OF CURRENT FUNDS REVENUES, EXPENDITURES, AND OTHER CHANGES
FOR THE YEAR ENDED JUNE 30, 1998

	<u>Unrestricted</u>	<u>Restricted</u>	<u>Total</u>
<u>REVENUES</u>			
Tuition and fees	\$ 3,493,593.38	\$ -	\$ 3,493,593.38
State appropriations	8,082,000.00	83,979.59	8,165,979.59
Federal grants and contracts	18,674.29	2,525,680.24	2,544,354.53
State grants and contracts	-	549,655.97	549,655.97
Local grants and contracts	-	22,385.00	22,385.00
Private gifts, grants, and contracts	521,462.00	36,833.64	558,295.64
Sales and services of auxiliary enterprises	104,237.01	-	104,237.01
Investment income	127,811.12	-	127,811.12
Other sources	107,389.88	-	107,389.88
Total current revenues	<u>12,455,167.68</u>	<u>3,218,534.44</u>	<u>15,673,702.12</u>
<u>EXPENDITURES AND TRANSFERS</u>			
Educational and general:			
Expenditures:			
Instruction	6,414,204.66	474,829.62	6,889,034.28
Public service	-	533.15	533.15
Academic support	780,548.04	4,714.52	785,262.56
Student services	1,448,635.34	340,587.30	1,789,222.64
Institutional support	1,439,574.01	2,492.44	1,442,066.45
Operation and maintenance of plant	1,259,916.18	-	1,259,916.18
Scholarships and fellowships	91,716.37	2,395,377.41	2,487,093.78
Total educational and general expenditures	<u>11,434,594.60</u>	<u>3,218,534.44</u>	<u>14,653,129.04</u>
Nonmandatory transfers for:			
Unexpended plant	298,983.88	-	298,983.88
Renewals and replacements	298,507.39	-	298,507.39
Retirement of indebtedness	(3,121.03)	-	(3,121.03)
Total educational and general	<u>12,028,964.84</u>	<u>3,218,534.44</u>	<u>15,247,499.28</u>
Auxiliary enterprises:			
Nonmandatory transfer for:			
Renewals and replacements	5,211.85	-	5,211.85
Total auxiliary enterprises	<u>5,211.85</u>	<u>-</u>	<u>5,211.85</u>
Total expenditures and transfers	<u>12,034,176.69</u>	<u>3,218,534.44</u>	<u>15,252,711.13</u>
<u>OTHER ADDITION (DEDUCTIONS)</u>			
Excess of restricted receipts over transfers to revenues	-	15,641.55	15,641.55
Refunded to grantors	-	(15,451.71)	(15,451.71)
Indirect costs recovered	-	(14,154.29)	(14,154.29)
Net increase (decrease) in fund balances	<u>\$ 420,990.99</u>	<u>\$ (13,964.45)</u>	<u>\$ 407,026.54</u>

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

**Tennessee Board of Regents
Northeast State Technical Community College
Notes to the Financial Statements
June 30, 1999, and June 30, 1998**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The college is 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 financial support; the system is discretely presented in the *Tennessee Comprehensive Annual Financial Report*.

Basis of Presentation

The financial statements of the college have been prepared in conformity with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB). The college uses the AICPA College Guide model for accounting and financial reporting.

Basis of Accounting

The financial statements of the college have been prepared on the accrual basis, except that depreciation on plant assets is not recorded and revenues and expenditures of an academic term encompassing more than one fiscal year are reported solely in the fiscal year in which the term is predominantly conducted. All restricted resources are recorded as additions to the fund balances of the appropriate fund groups. Restricted current resources are then recorded as revenues during the period in which they are expended. The statement of current funds revenues, expenditures, and other changes is a statement of financial activities of current funds related to the current reporting period. It does not purport to present the results of operations or the net income or loss for the period, as would a statement of income or a statement of revenues and expenses.

To the extent that current funds are used to finance plant assets, the funds are accounted for as (1) expenditures, for normal replacement of movable equipment and library holdings; (2) mandatory transfers, for required debt amortization and interest; and (3) nonmandatory transfers, for all other cases.

Fund Accounting

To ensure observance of limitations and restrictions placed on the use of the resources available, the college maintains accounts in accordance with the principles of fund accounting. With this procedure, resources for various purposes are classified for accounting and reporting purposes into funds for specified activities or

Tennessee Board of Regents
Northeast State Technical Community College
Notes to the Financial Statements (Cont.)
June 30, 1999, and June 30, 1998

objectives. Separate accounts are maintained for each fund; however, in the accompanying financial statements, funds with similar characteristics have been combined into fund groups. Accordingly, all financial transactions have been recorded and reported by fund group.

Within each fund group, fund balances restricted by outside sources are so indicated and are distinguished from unrestricted funds which are allocated to specific purposes by the governing board. Externally restricted funds may be used only in accordance with the purposes established by the source of such funds and contrast with unrestricted funds over which the governing board retains full control to use in achieving any of its institutional purposes.

All gains and losses arising from the sale, collection, or other disposition of investments and other noncash assets are accounted for in the fund that owned such assets. Ordinary income derived from investments, receivables, and the like is accounted for in the fund owning such assets. All other unrestricted revenue is accounted for in the unrestricted current funds. Restricted gifts, grants, appropriations, and other restricted resources are accounted for in the appropriate restricted funds. Restricted current funds are reported as revenues and expenditures when expended for current operating purposes.

Current Funds

Unrestricted current funds consist of those funds over which the college retains full control for use in achieving any of its authorized institutional purposes. Auxiliary enterprises activities are included in unrestricted current funds and include food services and the bookstore. Restricted current funds are externally restricted and may be used only in accordance with the purposes established by their source.

Plant Funds

The plant funds group consists of (1) funds set aside for the acquisition of physical properties for institutional purposes; (2) funds set aside for the renewal and replacement of institutional properties; (3) funds set aside for debt service charges and for the retirement of the indebtedness on institutional properties; and (4) funds expended for, and thus invested in, institutional properties.

Agency Funds

In handling these funds, the college acts solely as an agent; consequently, transactions of these funds do not affect the college's operating statements.

Tennessee Board of Regents
Northeast State Technical Community College
Notes to the Financial Statements (Cont.)
June 30, 1999, and June 30, 1998

LGIP Deposit – 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 Local Government Investment Pool (LGIP) account. As expenditures are incurred, funds are withdrawn from the LGIP account by the Tennessee Board of Regents and transferred to the Department of Finance and Administration. The funds in the account are not available to the college for any other purpose until the project is completed and any remaining funds are released by the Tennessee Board of Regents.

Inventories

Inventories are valued at the lower of cost or market on a first-in, first-out basis.

Compensated Absences

The college's employees accrue annual leave at varying rates, depending on length of service or classification. The amount of this liability and the related benefits are recorded in the current funds. Since the liability is expected to be funded primarily from future unrestricted and restricted revenue sources, a related allocation has been made to the current fund balances so that these fund balances reflect current available funds.

Allocation for Working Capital

The unrestricted fund balance is allocated for the amount of working capital. "Working capital" is defined as the total of all petty cash, accounts receivable, inventories, and prepaid expenses in the unrestricted fund at the balance sheet date, except for student receivables credited to deferred revenue, accrued interest, and amounts due on federal letters of credit, less the accrued benefits on accrued faculty salaries.

Plant Assets

The physical plant and equipment are stated at cost at date of purchase or at fair value at date of donation. Library books are valued at \$48 per volume, and other library holdings are valued at various standardized values which approximate current costs. Depreciation on the physical plant and equipment is not recorded.

Tennessee Board of Regents
Northeast State Technical Community College
Notes to the Financial Statements (Cont.)
June 30, 1999, and June 30, 1998

In the case of service departments, the college charges renewal and replacement of plant assets to current expenditures; these charges are also reported as additions to funds for renewals and replacements.

Northeast State Technical Community College Foundation

The college is the sole beneficiary of the Northeast State Technical Community College Foundation. This private, nonprofit foundation is controlled by a board independent of the college. The financial records, investments, and other financial transactions are handled by the college, and the assets and liabilities of the foundation are included in the agency funds on the college's balance sheet.

NOTE 2. CASH AND CASH EQUIVALENTS

In addition to demand deposits and petty cash on hand, this classification includes instruments which are readily convertible to known amounts of cash and which have original maturities of three months or less. Additionally, the college maintains custodial accounts at First Tennessee Bank and First American Bank for funds managed by those banks. In accordance with the respective agreements, cash and cash equivalents are placed in the banks' money market mutual funds. At June 30, 1999, cash and cash equivalents consisted of \$181,836.79 in bank accounts, \$665.00 of petty cash on hand, \$28,661.54 of money market mutual funds, and \$4,219,406.14 in the State of Tennessee Local Government Investment Pool administered by the State Treasurer. At June 30, 1998, cash and cash equivalents consisted of \$226,254.69 in bank accounts, \$815.00 of petty cash on hand, \$1,486.37 of money market mutual funds, and \$3,695,897.04 in the State of Tennessee Local Government Investment Pool.

NOTE 3. DEPOSITS

The bank balances of certain deposits as of the balance sheet dates were entirely insured. The college's remaining deposits are in financial institutions which participate in the bank collateral pool administered by the State Treasurer. The securities pledged to protect these accounts are pledged in the aggregate rather than against each individual account. The members of the pool may be required by agreement to pay an assessment to cover any deficiency. Under this additional assessment agreement, public fund accounts covered by the pool are considered to be insured for purposes of credit risk disclosure.

Tennessee Board of Regents
Northeast State Technical Community College
Notes to the Financial Statements (Cont.)
June 30, 1999, and June 30, 1998

The college also has deposits in the Local Government Investment Pool (LGIP) administered by the State Treasurer. The LGIP is part of the Pooled Investment Fund. The fund's investment policy and custodial credit risk are presented in the *Tennessee Comprehensive Annual Financial Report*.

NOTE 4. INVESTMENTS

The Northeast State Technical Community College Foundation is authorized to invest funds in accordance with its board of directors' policies. All investments permitted to be reported at fair value under GASB Statement 31 are reported at fair value, including those with a maturity date of one year or less at the time of purchase.

The foundation's investments are categorized below to indicate the level of risk assumed by the foundation at year-end. Category 1 consists of insured or registered investments or investments for which the securities are held by the foundation or its agent in the foundation's name. Category 2 consists of uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the foundation's name. Category 3 consists of uninsured and unregistered investments for which the securities are held by the counterparty or by its trust department or agent but not in the foundation's name.

June 30, 1999

	<u>Fair Value</u>
Category 3:	
U.S. government securities	\$ 83,554.39
Corporate bonds	69,007.00
Investments not susceptible to credit risk categorization:	
Mutual funds	1,929,615.06
Amount classified as cash equivalents	<u>(28,661.54)</u>
Total investments on the balance sheet	<u><u>\$2,053,514.91</u></u>

**Tennessee Board of Regents
 Northeast State Technical Community College
 Notes to the Financial Statements (Cont.)
 June 30, 1999, and June 30, 1998**

<u>June 30, 1998</u>	<u>Fair Value</u>
Category 3:	
U.S. government securities	\$ 124,828.75
Corporate bonds	71,386.00
Investments not susceptible to credit risk categorization:	
Mutual funds	1,693,856.14
Amount classified as cash equivalents	<u>(1,486.37)</u>
Total investments on the balance sheet	<u><u>\$1,888,584.52</u></u>

NOTE 5. PLANT FUND ENCUMBRANCES

Plant fund encumbrances outstanding at June 30, 1999, amounted to \$18,380.00 for unexpended plant and \$10,600.00 for renewals and replacements. Plant fund encumbrances outstanding at June 30, 1998, amounted to \$25,837.00 for unexpended plant and \$9,338.00 for renewals and replacements.

NOTE 6. LOAN PAYABLE AND NOTES PAYABLE

The Tennessee Board of Regents, on behalf of the college, borrowed funds from the State of Tennessee's Energy Management Loan Program to upgrade lighting in the general studies building. The loan bears no interest, has a principal amount of \$72,160, a minimum annual debt service of \$18,040, and a due date of October 1, 2002. The loan balance owed by the college at June 30, 1999, was \$72,160.

The Tennessee Board of Regents, on behalf of the college, also borrowed funds to purchase computer equipment. The notes bear an annually adjusted interest rate not to exceed 6.9%, face amounts of \$130,000, a minimum annual debt service of \$15,000, and are due serially to September 2002. The balance owed by the college was \$60,000 at June 30, 1999, and \$75,000 at June 30, 1998.

The debt service requirements to maturity at June 30, 1999, for the loan payable and all notes payable are as follows:

**Tennessee Board of Regents
 Northeast State Technical Community College
 Notes to the Financial Statements (Cont.)
 June 30, 1999, and June 30, 1998**

Year Ending <u>June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2000	\$ 33,040.00	\$3,405.00	\$ 36,445.00
2001	33,040.00	2,445.00	35,485.00
2002	33,040.00	1,477.50	34,517.50
2003	<u>33,040.00</u>	<u>495.00</u>	<u>33,535.00</u>
	<u>\$132,160.00</u>	<u>\$7,822.50</u>	<u>\$139,982.50</u>

NOTE 7. PENSION PLANS

A. Defined Benefit Plan

Tennessee Consolidated Retirement System

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

The TCRS issues a publicly available financial report that includes financial statements and required supplementary information for SETHEEPP. That report may be obtained by writing to the Tennessee Department of the Treasury, Consolidated Retirement System, 10th Floor Andrew Jackson Building, Nashville, Tennessee 37243-0230, or by calling (615) 741-8202.

Funding Policy - Plan members are noncontributory. The college is required to contribute an actuarially determined rate. The current rate is 5.43% 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, 1999, 1998, and 1997, were \$225,691.54, \$142,579.32, and \$285,077.82. Contributions met the requirements for each year.

Tennessee Board of Regents
Northeast State Technical Community College
Notes to the Financial Statements (Cont.)
June 30, 1999, and June 30, 1998

B. Defined Contribution Plans

Optional Retirement Plans (ORP)

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

Funding Policy - Plan members are noncontributory. The college contributes an amount equal to 10% of the employee's base salary up to the social security wage base and 11% above the social security wage base. Contribution requirements are established and amended by state statute. The contribution made by the college to the plans for the year ended June 30, 1999, was \$253,112.43, and for the year ended June 30, 1998, was \$234,143.54. Contributions met the requirements for each year.

NOTE 8. OTHER POST-EMPLOYMENT BENEFITS

The State of Tennessee administers a group health insurance program which provides post-employment health insurance benefits to eligible college retirees. This benefit is provided and administered by the State of Tennessee. The college assumes no liability for retiree health care programs. Information related to this plan is available at the statewide level in the *Tennessee Comprehensive Annual Financial Report*.

NOTE 9. INSURANCE-RELATED ACTIVITIES

The state purchases commercial insurance for real property losses above \$5 million per year and surety bond coverage on the state's officials and employees. During the year ended June 30, 1999, the state incurred losses in Clarksville and Jackson

Tennessee Board of Regents
Northeast State Technical Community College
Notes to the Financial Statements (Cont.)
June 30, 1999, and June 30, 1998

due to damage from tornadoes. Final settlement has not been made but is expected to be approximately \$6 million. In the prior two fiscal years, the state had not had any claims filed with the commercial insurer. A designation for casualty losses in the amount of \$8.219 million has been established in the state's general fund to provide for any property losses not covered by the commercial insurance.

At June 30, 1999, the scheduled coverage for the college was \$14,506,900 for buildings and \$4,814,400 for contents. At June 30, 1998, the scheduled coverage was \$13,818,600 for buildings and \$4,814,400 for contents.

The state has set aside assets for claim settlement in an internal service fund, the Claims Award Fund. This fund services all claims for risk of loss to which the state is exposed, including general liability, automotive liability, professional malpractice, and workers' compensation. The college participates in the Claims Award 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. Since the college participates in the Claims Award 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 Claims Award Fund.

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 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.

**Tennessee Board of Regents
 Northeast State Technical Community College
 Notes to the Financial Statements (Cont.)
 June 30, 1999, and June 30, 1998**

NOTE 10. COMMITMENTS AND CONTINGENCIES

Sick Leave - The college records the cost of sick leave when paid. Generally, since sick leave (earned one day per month with unlimited accumulation) is paid only when an employee dies or is absent because of illness, injury, or related family death, there is no liability for sick leave at June 30. The dollar amount of unused sick leave was \$1,860,220.89 at June 30, 1999, and \$2,054,965.06 at June 30, 1998.

Operating Leases - The college has entered into various operating leases for buildings and equipment. Such leases will probably continue to be required. Expenditures under operating leases for real property were \$137,681.76 and for personal property were \$56,779.17 for the year ended June 30, 1999. The amounts for the year ended June 30, 1998, were \$119,717.02 and \$58,908.85. All operating leases are cancelable at the lessee's option.

Construction in Progress - At June 30, 1999, outstanding commitments under construction contracts totaled \$266,133.00 for construction of a library building, of which \$266,133.00 will be funded by future state capital outlay appropriations.

NOTE 11. PLEDGES

At June 30, 1999, unrecorded pledges of the Northeast State Technical Community College Foundation totaled \$125,370.54 and were restricted to be used for scholarships. These pledges are due to be collected over the next several fiscal years as follows:

Year Ending June 30	Amount
2000	\$ 33,504.93
2001	32,493.59
2002	28,338.32
2003 and beyond	<u>31,033.70</u>
Total	<u><u>\$125,370.54</u></u>

It is not practicable to estimate the net realizable value of such pledges; therefore, they are not reflected in the accompanying financial statements.

Tennessee Board of Regents
Northeast State Technical Community College
Notes to the Financial Statements (Cont.)
June 30, 1999, and June 30, 1998

NOTE 12. CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE

During the year ended June 30, 1998, the college implemented GASB Statement 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, which requires reporting at fair value certain investments with a remaining maturity of more than one year at the time of purchase. The cumulative effect of applying this statement is reported in the accompanying balance sheets as a restatement of the June 30, 1998, balance of deposits held in custody for the foundation.

During the year ended June 30, 1998, the threshold for capitalizing equipment increased from \$500 to \$1,000. As a result of the change, equipment decreased by \$712,927.77. The cumulative effect of this change in accounting principle is reported in the accompanying financial statements as a restatement of the beginning fund balance.

NOTE 13. PRIOR-YEAR RESTATEMENT

The college implemented GASB Statement 16, *Accounting for Compensated Absences*. As a result, the beginning fund balance for unrestricted current funds on Exhibit C was decreased by \$371,649.52.