

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

**For the Years Ended
June 30, 2002, and June 30, 2001**

Arthur A. Hayes, Jr., CPA, JD, CFE

Director

Charles K. Bridges, CPA

Assistant Director

Robert D. Hunter, Jr., CPA

Audit Manager

Helen J. Vose, CFE

In-Charge Auditor

LaToya Y. Hampton, CFE

Eric Hyder, CPA, CFE

William S. Johnson

Stephen Velie, CPA

Staff Auditors

Gerry Boaz, CPA

Technical Analyst

Amy Brack

Editor

Comptroller of the Treasury, Division of State Audit
1500 James K. Polk Building, Nashville, TN 37243-0264
(615) 401-7897

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**STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY**

State Capitol
Nashville, Tennessee 37243-0260
(615) 741-2501

John G. Morgan
Comptroller

September 12, 2003

The Honorable Phil Bredesen, Governor
and

Members of the General Assembly
State Capitol
Nashville, Tennessee 37243

and

The Honorable Charles W. Manning, Chancellor
Tennessee Board of Regents
1415 Murfreesboro Road, Suite 350
Nashville, Tennessee 37217

and

Dr. James L. Catanzaro, President
Chattanooga State Technical Community College
4501 Amnicola Highway
Chattanooga, Tennessee 37406

Ladies and Gentlemen:

Transmitted herewith is the financial and compliance audit of the Tennessee Board of Regents, Chattanooga State Technical Community College, for the years ended June 30, 2002, and June 30, 2001. 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/sds
03/030

State of Tennessee

Audit Highlights

Comptroller of the Treasury

Division of State Audit

Financial and Compliance Audit
Chattanooga State Technical Community College
For the Years Ended June 30, 2002, and June 30, 2001

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, please contact

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Audit Report
Tennessee Board of Regents
Chattanooga State Technical Community College
For the Years Ended June 30, 2002, and June 30, 2001

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**Tennessee Board of Regents
Chattanooga State Technical Community College
For the Years Ended June 30, 2002, and June 30, 2001**

INTRODUCTION

POST-AUDIT AUTHORITY

This is a report on the financial and compliance audit of the Tennessee Board of Regents, Chattanooga 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 governmental entity that handles public funds when the Comptroller considers an audit to be necessary or appropriate.

BACKGROUND

Chattanooga State Technical Community College began operation as Chattanooga State Technical Institute, which was established by the General Assembly in 1963. In 1973, the General Assembly granted community college status to the institute and changed its name to Chattanooga State Technical Community College. The purpose of the college is to offer highly diversified and comprehensive programs that serve the educational needs of the community; the college’s primary goal is to offer post-secondary occupational and technical training and to provide academic preparation for transfer to four-year institutions.

Pursuant to Chapter 244 of the Public Acts of 1981, Chattanooga State Technical Community College and Chattanooga State Area Vocational-Technical School were consolidated as one institution effective July 1, 1981. Established as a pilot program, the consolidation was to remain in effect for three years, after which designated legislative committees would consider continuation, modification, or termination of the program. Legislation was enacted, effective July 1, 1983, permanently merging Chattanooga State Technical Community College and Chattanooga State Area Vocational-Technical School. The Chattanooga State Area Vocational-Technical School changed its name to the Tennessee Technology Center at Chattanooga effective July 1, 1994.

ORGANIZATION

The governance of Chattanooga 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, 2000, through June 30, 2002, and was conducted in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Financial statements are presented for the years ended June 30, 2002, and June 30, 2001. The financial statements for the year ended June 30, 2002, are presented on an entity-wide perspective as required by the implementation of Governmental Accounting Standards Board Statements 34 and 35. The financial statements for the year ended June 30, 2001, are presented on the fund-group perspective that was previously required. Chattanooga 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

In addition to the matters addressed in this audit, reviews of the activities of the former athletics director and the former women's basketball coach are ongoing. Any findings resulting from these reviews may be addressed in the community college's next audit report.

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, 2002, and June 30, 2001, 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 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. 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**

**SUITE 1500
JAMES K. POLK STATE OFFICE BUILDING
NASHVILLE, TENNESSEE 37243-0264
PHONE (615) 401-7897
FAX (615) 532-2765**

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

May 30, 2003

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

Dear Mr. Morgan:

We have audited the financial statements of Chattanooga 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, 2002, and June 30, 2001, and have issued our report thereon dated May 30, 2003. 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. As discussed in Note 10, during the year ended June 30, 2002, the college implemented GASB Statement 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, and GASB Statement 35, *Basic Financial Statements—and Management's Discussion and Analysis—for Public Colleges and Universities*. The college also implemented GASB Statement 37, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments: Omnibus*, and GASB Statement 38, *Certain Financial Statement Note Disclosures*. During the year ended June 30, 2001, the college implemented GASB Statement 33, *Accounting and Financial Reporting for Nonexchange Transactions*.

The Honorable John G. Morgan
May 30, 2003
Page Two

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*.

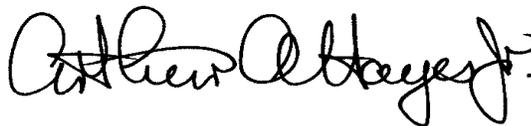
We did, however, note an immaterial instance of noncompliance that we have reported to the college's management in a separate letter.

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.

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." in a cursive style.

Arthur A. Hayes, Jr., CPA,
Director

AAH/sds



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

**SUITE 1500
JAMES K. POLK STATE OFFICE BUILDING
NASHVILLE, TENNESSEE 37243-0264
PHONE (615) 401-7897
FAX (615) 532-2765**

Independent Auditor's Report

May 30, 2003

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

Dear Mr. Morgan:

We have audited the accompanying statement of net assets of Chattanooga 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, 2002, and the related statements of revenues, expenses, and changes in net assets and cash flows for the year 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 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 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, Chattanooga State Technical Community College, as of June 30, 2002, and the revenues, expenses, and changes in net assets and the cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Honorable John G. Morgan
May 30, 2003
Page Two

As discussed in Note 10, the college implemented GASB Statement 34, *Basic Financial Statements—and Management’s Discussion and Analysis—for State and Local Governments*, and GASB Statement 35, *Basic Financial Statements—and Management’s Discussion and Analysis—for Public Colleges and Universities*. The college also implemented GASB Statement 37, *Basic Financial Statements—and Management’s Discussion and Analysis—for State and Local Governments: Omnibus*, and GASB Statement 38, *Certain Financial Statement Note Disclosures*.

The management’s discussion and analysis on pages 8 through 17 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 30, 2003, 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. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Sincerely,

A handwritten signature in black ink that reads "Arthur A. Hayes, Jr." The signature is written in a cursive style with a large, prominent initial "A".

Arthur A. Hayes, Jr., CPA,
Director

AAH/sds

Management's Discussion and Analysis

This section of Chattanooga State Technical Community College's annual financial report presents a discussion and analysis of the financial performance of the college during the fiscal year ended June 30, 2002. This discussion has been prepared by management along with the financial statements and related note disclosures and should be read in conjunction with them. The financial statements, notes, and this discussion are the responsibility of management.

Since this is a transition year for the new financial reporting format required by the Governmental Accounting Standards Board's Statement 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments* and No. 35, *Basic Financial Statements—and Management's Discussion and Analysis—for Public Colleges and Universities*, only one year of information is presented in the financial statements and this discussion. Comparative information will be presented in future years.

Using This Annual Report

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

The Statement of Net Assets

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

Net assets are divided into three major categories. The first category, invested in capital assets, net of related debt, provides the college's equity in property, plant, and equipment owned by the college. The next asset category, expendable restricted net assets, are available for expenditure by the college but must be spent for purposes as determined by donors and/or external entities that have placed time or purpose restrictions on the use of the assets. The final category is unrestricted net assets. Unrestricted net assets are available to the institution for any lawful purpose of the institution.

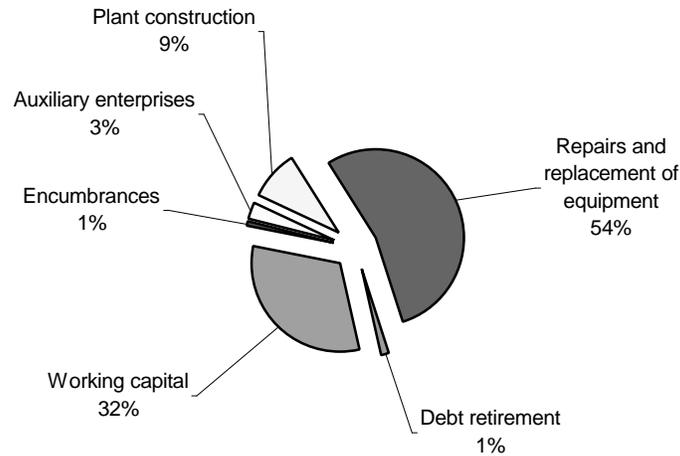
**Statement of Net Assets
(in thousands of dollars)**

	<u>2002</u>
Assets:	
Current assets	\$ 5,325
Capital assets, net	24,693
Other assets	<u>2,136</u>
Total assets	<u>32,154</u>
 Liabilities:	
Current liabilities	2,875
Noncurrent liabilities	<u>1,429</u>
Total liabilities	<u>4,304</u>
 Net assets:	
Invested in capital assets, net of related debt	23,882
Restricted – expendable	87
Unrestricted	<u>3,881</u>
Total net assets	<u>\$ 27,850</u>

- Current assets include \$3.5 million in cash and \$1.7 million in accounts receivable.
- Capital assets, net of accumulated depreciation, include \$20 million in buildings and \$3.5 million in land, equipment, and library holdings.
- Liabilities include \$1.4 million for compensated absences. This is the value of all vacation time accrued by employees. Liabilities also include \$1 million in accrued salary, wages, and benefits, \$0.7 million in deferred revenue, and \$0.8 million in long-term debt.

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

**Unrestricted Net Assets
June 30, 2002**



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

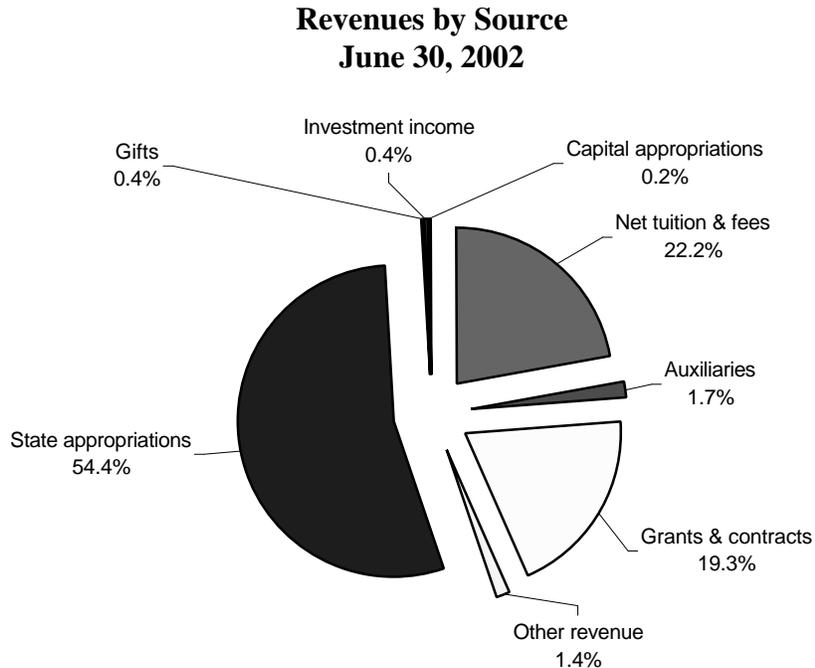
The statement of revenues, expenses, and changes in net assets presents the operating results of the college, as well as the nonoperating revenues and expenses. Annual state appropriations, while budgeted for operations, are considered nonoperating revenues according to generally accepted accounting principles.

Statement of Revenues, Expenses, and Changes in Net Assets
(in thousands of dollars)

	<u>2002</u>
Operating revenues:	
Net tuition and fees	\$ 9,707
Auxiliary enterprises	725
Grants and contracts	8,424
Other	<u>670</u>
Total operating revenues	<u>19,526</u>
Operating expenses	<u>43,597</u>
Operating loss	<u>(24,071)</u>
Nonoperating revenues and expenses:	
State appropriations	23,822
Gifts	161
Investment income	171
Other revenues and expenses	<u>(48)</u>
Total nonoperating revenues and expenses	<u>24,106</u>
Income (loss) before other revenues, expenses, gains, or losses	<u>35</u>
Other revenues, expenses, gains, or losses:	
Capital appropriations	<u>67</u>
Total other revenues, expenses, gains, or losses	<u>67</u>
Increase (decrease) in net assets	<u>102</u>
Net assets at beginning of year, as originally reported	51,481
Cumulative effects of changes in accounting principle	<u>(23,733)</u>
Net assets at beginning of year, restated	<u>27,748</u>
Net assets at end of year	<u>\$ 27,850</u>

Revenues

The following is a graphic illustration of revenues by source (both operating and nonoperating), which were used to fund the college's operating activities for the year ended June 30, 2002.



- State appropriations make the largest contribution, at 54.4%, to the total revenue of the college. Tuition and fees, net of scholarship allowances, is the next largest at 22.2%, and grants and contracts contribute 19.3%. These three sources provide for the majority of the operating expenses.

Expenses

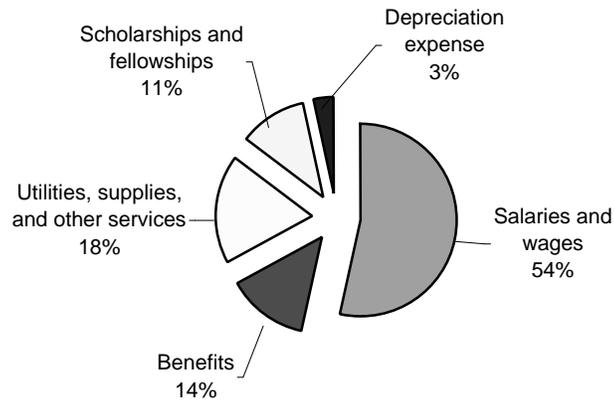
Operating expenses can be displayed in two formats, natural classification and program classification. Both formats are displayed below.

**Natural Classification
June 30, 2002**

Operating Expenses (in thousands of dollars)

	<u>2002</u>
Salaries and wages	\$ 23,251
Benefits	5,991
Utilities, supplies, and other services	7,963
Scholarships and fellowships	4,887
Depreciation expense	<u>1,505</u>
Total operating expenses	<u>\$ 43,597</u>

**Operating Expenses by Natural Classification
June 30, 2002**



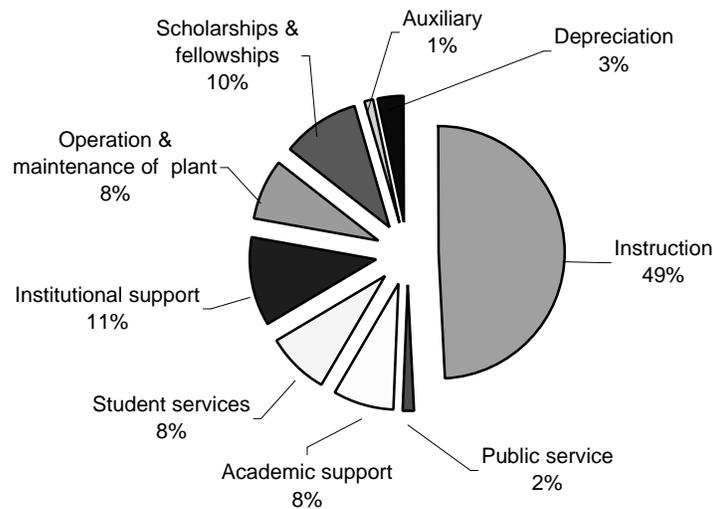
- Salaries and wages and employee benefits, at 68%, account for the majority of the college's operating expenses.
- Scholarships and fellowships also account for 11% of operating expenses.

Program Classification

Operating Expenses (in thousands of dollars)

	<u>2002</u>
Instruction	\$ 21,435
Public service	662
Academic support	3,292
Student services	3,572
Institutional support	4,980
Operation & maintenance of plant	3,340
Scholarships & fellowships	4,319
Auxiliary	492
Depreciation	1,505
Total operating expenses	<u>\$ 43,597</u>

Operating Expenses by Program Classification June 30, 2002



- Instruction accounted for 49% of operating expenses.
- Scholarships and fellowships accounted for 10% of operating expenses.

The Statement of Cash Flows

The statement of cash flows provides information about cash receipts and cash payments during the year. This statement also assists users in assessing the college's ability to generate net cash flows, its ability to meet its obligations as they come due, and its need for external financing.

Statement of Cash Flows (in thousands of dollars)		<u>2002</u>
Cash provided (used) by:		
Operating activities		\$ (22,210)
Noncapital financing activities		23,736
Investing activities		171
Capital and related financing activities		<u>(841)</u>
Net increase (decrease) in cash		\$ 856
Cash, beginning of year		<u>4,779</u>
Cash, end of year		<u><u>\$ 5,635</u></u>

- Tuition and fees provided \$9.7 million, and grants and contracts provided \$8.5 million for the operating activities of the college.
- Salaries, wages, and benefits to employees used \$28.7 million, payments to suppliers and vendors used \$8 million, and scholarships and fellowships used \$4.9 million of the college's operating cash.
- State appropriations provided for a majority of cash in noncapital financing at \$23.5 million.
- The \$856 thousand increase in cash improves the liquidity of the college and its ability to meet its obligations as they come due.

Capital Asset and Debt Administration

Capital Assets

At June 30, 2002, Chattanooga State Technical Community College had \$24,692,672 invested in capital assets, net of accumulated depreciation of \$21,439,927. Depreciation charges totaled \$1,505,063 for the current fiscal year. Details of these assets are shown below.

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

	<u>2002</u>
Land	\$ 1,329
Land improvements & infrastructure	1,232
Buildings	20,000
Equipment	1,606
Library holdings	526

The college spent \$772,728 on capital additions during fiscal year 2002 which included:

- An upgrade to the college's computer network, an investment of \$395,000 in equipment and infrastructure improvements.
- An investment of \$80,000 in equipment for the dental program.
- A purchase of two tractors at \$37,000 for the commercial truck driving program.
- An investment of \$33,000 in equipment to upgrade the technology center's computer network.
- An injected molding machine at \$31,000 for the machinist program.

These capital additions were funded by the college's net assets designated for plant construction and repairs and replacements of equipment.

In fiscal year 2003, the technology center plans to purchase \$108,500 in instructional equipment to be funded from the Technology Access Fee. The college will also continue to make campus improvements, replace equipment, and add to the library holdings as needed. More detailed information about the college's capital assets is presented in Note 5 to the financial statements.

Debt

At June 30, 2002, the college had \$810,477 in debt outstanding. The table below summarizes these amounts by type of debt instrument.

Schedule of Outstanding Debt (in thousands of dollars)

Notes	\$	<u>125</u>
Bonds		685

The college has incurred no new debt this year. The Tennessee State School Bond Authority (TSSBA) must authorize all capital long-term debt on behalf of the university. TSSBA is currently rated as AA- by Standard and Poor. More detailed information about the college's long-term liabilities is presented in Note 6 to the financial statements.

Economic Factors That Will Affect the Future

The economic position of Chattanooga State Technical Community College is closely tied to that of the State of Tennessee. State appropriations constitute 54.4% of total revenues and are thus the largest source of funding. The appropriations for the upcoming fiscal year have been finalized and will result in no increase in state appropriations for the college. The specific impact on the college is uncertain.

TENNESSEE BOARD OF REGENTS
 CHATTANOOGA STATE TECHNICAL COMMUNITY COLLEGE
 STATEMENT OF NET ASSETS
 June 30, 2002

ASSETS

Current assets:	
Cash (Notes 2 and 3)	\$ 3,520,341.85
Accounts, notes, and grants receivable (net) (Note 4)	1,736,394.99
Inventories	45,308.43
Prepaid expenses and deferred charges	<u>22,935.60</u>
Total current assets	<u>5,324,980.87</u>
Noncurrent assets:	
Cash (Notes 2 and 3)	2,114,816.21
Accounts, notes, and grants receivable (net) (Note 4)	22,064.00
Capital assets (net) (Note 5)	<u>24,692,671.95</u>
Total noncurrent assets	<u>26,829,552.16</u>
Total assets	<u>32,154,533.03</u>

LIABILITIES

Current liabilities:	
Accounts payable	299,074.88
Accrued liabilities	994,699.61
Accrued interest payable	6,084.86
Student deposits	1,704.00
Deferred revenue	685,139.77
Compensated absences (Note 6)	694,058.16
Long-term liabilities - current portion (Note 6)	98,278.08
Deposits held in custody for others	<u>96,400.28</u>
Total current liabilities	<u>2,875,439.64</u>
Noncurrent liabilities:	
Compensated absences (Note 6)	716,527.72
Long-term liabilities (Note 6)	<u>712,198.50</u>
Total noncurrent liabilities	<u>1,428,726.22</u>
Total liabilities	<u>4,304,165.86</u>

NET ASSETS

Invested in capital assets, net of related debt	23,882,195.37
Restricted:	
Expendable:	
Scholarships and fellowships	1,170.37
Instructional departments	6,957.69
Loans	20,361.48
Other	58,533.88
Unrestricted (Note 7)	<u>3,881,148.38</u>
Total net assets	<u>\$ 27,850,367.17</u>

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

TENNESSEE BOARD OF REGENTS
 CHATTANOOGA STATE TECHNICAL COMMUNITY COLLEGE
 STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
 FOR THE YEAR ENDED JUNE 30, 2002

REVENUES

Operating revenues	
Student tuition and fees (net of scholarship allowances of \$3,200,650.00)	\$ 9,707,209.89
Governmental grants and contracts	8,398,394.22
Non-governmental grants and contracts	26,128.00
Sales and services of educational departments	425,558.92
Auxiliary enterprises:	
Bookstore	298,787.00
Food service	426,010.21
Other operating revenues	<u>243,770.30</u>
Total operating revenue	<u>19,525,858.54</u>

EXPENSES

Operating expenses	
Salaries and wages	23,250,976.11
Fringe benefits	5,991,608.89
Utilities, supplies, and other services	7,963,087.01
Scholarships and fellowships	4,886,739.81
Depreciation expense	<u>1,505,062.84</u>
Total operating expenses	<u>43,597,474.66</u>
Operating income (loss)	<u>(24,071,616.12)</u>

NONOPERATING REVENUES (EXPENSES)

State appropriations	23,822,270.00
Gifts	160,964.98
Investment income	170,916.62
Interest on capital asset - related debt	(44,994.77)
Other nonoperating expenses	<u>(2,639.33)</u>
Net nonoperating revenues	<u>24,106,517.50</u>
Income (loss) before other revenues, expenses, gains, or losses	<u>34,901.38</u>
Capital appropriations	<u>67,716.90</u>
Total other revenues	<u>67,716.90</u>
Increase in net assets	<u>102,618.28</u>

NET ASSETS

Net assets at beginning of year	51,481,277.21
Cumulative effects of changes in accounting principle (Note 10)	<u>(23,733,528.32)</u>
Net assets at beginning of year, restated	<u>27,747,748.89</u>
Net assets at end of year	<u>\$ 27,850,367.17</u>

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

TENNESSEE BOARD OF REGENTS
 CHATTANOOGA STATE TECHNICAL COMMUNITY COLLEGE
 STATEMENT OF CASH FLOWS
 FOR THE YEAR ENDED JUNE 30, 2002

**RECONCILIATION OF NET OPERATING LOSS TO NET CASH
 PROVIDED (USED) BY OPERATING ACTIVITIES:**

Operating loss	\$ (24,071,616.12)
Adjustments to reconcile operating loss to net cash provided (used) by operating activities:	
Depreciation expense	1,505,062.84
Other adjustments	22,100.00
Changes in assets and liabilities:	
Receivables, net	(109,210.89)
Inventories	22,368.39
Prepaid expenses and deferred charges	(10,956.97)
Accounts payable	(132,821.28)
Accrued liabilities	299,614.55
Deferred revenue	63,330.41
Deposits	1,288.00
Compensated absences	201,188.46
	<hr/>
Net cash provided (used) by operations	<u>\$ (22,209,652.61)</u>

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

Tennessee Board of Regents
Chattanooga State Technical Community College
Notes to the Financial Statements
June 30, 2002

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

Basis of Presentation

The financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB). In June 1999, the GASB issued Statement 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*. This was followed in November 1999 by GASB Statement 35, *Basic Financial Statements—and Management's Discussion and Analysis—for Public Colleges and Universities*. The financial presentation required by those statements provides a comprehensive, entity-wide perspective of the college's assets, liabilities, net assets, revenues, expenses, changes in net assets, and cash flows, and replaces the fund-group perspective previously required.

Significant accounting changes made in order to comply with the new requirements include (1) adoption of depreciation on capital assets and (2) reporting summer school revenues and expenses between fiscal years rather than in one fiscal year.

Basis of Accounting

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

Tennessee Board of Regents
Chattanooga State Technical Community College
Notes to the Financial Statements (Cont.)
June 30, 2002

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. The college has the option of following private-sector guidance issued subsequent to November 30, 1989, subject to the above limitation. The college has elected not to follow private-sector guidance issued subsequent to November 30, 1989.

Amounts reported as operating revenues include (1) tuition and fees, net of waivers and discounts; (2) federal, state, and private grants and contracts; (3) sales and services of auxiliary enterprises; and (4) other sources of revenue. Operating expenses for the college include (1) salaries and wages; (2) employee benefits; (3) scholarships and fellowships; (4) depreciation; and (5) utilities, supplies, and other services.

All other activity is nonoperating in nature and includes (1) state appropriations for operations; (2) investment income; (3) interest on capital asset-related debt; and (4) gifts.

When both restricted and unrestricted resources are available for use, generally it is the college's policy to use the restricted resources first.

Inventories

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

Compensated Absences

The college's employees accrue annual leave at varying rates, depending on length of service or classification. Some employees also earn compensatory time. The amount of these liabilities and their related benefits are reported in the statement of net assets.

Capital Assets

Capital assets, which include property, plant, equipment, and library holdings, are reported in the statement of net assets at historical cost or at fair value at date of donation, less accumulated depreciation. 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.

Tennessee Board of Regents
Chattanooga State Technical Community College
Notes to the Financial Statements (Cont.)
June 30, 2002

A capitalization threshold of \$100,000 is used for buildings; \$50,000 for additions and improvements to land, buildings, or infrastructure; and \$5,000 for equipment.

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

Net Assets

The college's net assets are classified as follows:

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

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

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

Scholarship Discounts and Allowances

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

Tennessee Board of Regents
Chattanooga State Technical Community College
Notes to the Financial Statements (Cont.)
June 30, 2002

Comparative Data

Comparative financial statements are not presented as the college implemented GASB Statements 34, 35, 37, and 38, and comparative statements are not required. Certain amounts presented in prior years' data have been reclassified to be consistent with the current year's presentation.

NOTE 2. CASH

This classification includes demand deposits and petty cash on hand. At June 30, 2002, cash consisted of \$1,371,335.28 in bank accounts, \$3,820.00 of petty cash on hand, and \$4,260,002.78 in the State of Tennessee Local Government Investment Pool administered by the State Treasurer.

NOTE 3. DEPOSITS

Three of the college's bank accounts are in a financial institution which participates 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. Two other small depository accounts are covered by FDIC insurance.

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*. That report may be obtained by writing to the Tennessee Department of Finance and Administration, Division of Accounts, 14th Floor William R. Snodgrass Tennessee Tower, 312 Eighth Avenue North, Nashville, Tennessee 37243-0298, or by calling (615) 741-2140.

**Tennessee Board of Regents
Chattanooga State Technical Community College
Notes to the Financial Statements (Cont.)
June 30, 2002**

NOTE 4. RECEIVABLES

Receivables at June 30, 2002, included the following:

Student accounts receivable	\$955,712.59
Grants receivable	344,560.46
Other receivables	<u>740,945.31</u>
Subtotal	<u>2,041,218.36</u>
Less allowance for doubtful accounts	<u>(282,759.37)</u>
Total receivables	<u><u>\$1,758,458.99</u></u>

NOTE 5. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2002, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Transfers</u>	<u>Reductions</u>	<u>Ending Balance</u>
Land	\$1,329,000.00	\$ -	\$ -	\$ -	\$1,329,000.00
Land improvements and infrastructure	2,304,608.51	160,709.77	-	-	2,465,318.28
Buildings	33,026,929.74	-	-	-	33,026,929.74
Equipment	7,793,144.13	529,495.22	-	258,714.29	8,063,925.06
Library holdings	<u>1,343,479.71</u>	<u>82,522.66</u>	<u>-</u>	<u>178,576.83</u>	<u>1,247,425.54</u>
Total	<u>45,797,162.09</u>	<u>772,727.65</u>	<u>-</u>	<u>437,291.12</u>	<u>46,132,598.62</u>
Less accumulated depreciation:					
Land improvements and infrastructure	1,140,002.95	93,606.19	-	-	1,233,609.14
Buildings	12,271,998.55	754,913.41	-	-	13,026,911.96
Equipment	6,185,926.90	513,942.99	-	242,124.46	6,457,745.43
Library holdings	<u>757,636.72</u>	<u>142,600.25</u>	<u>-</u>	<u>178,576.83</u>	<u>721,660.14</u>
Total accumulated depreciation	<u>20,355,565.12</u>	<u>1,505,062.84</u>	<u>-</u>	<u>420,701.29</u>	<u>21,439,926.67</u>
Capital assets, net	<u><u>\$25,441,596.97</u></u>	<u><u>\$(732,335.19)</u></u>	<u><u>\$ -</u></u>	<u><u>\$(16,589.83)</u></u>	<u><u>\$24,692,671.95</u></u>

**Tennessee Board of Regents
Chattanooga State Technical Community College
Notes to the Financial Statements (Cont.)
June 30, 2002**

NOTE 6. LONG-TERM LIABILITIES

Long-term liabilities activity for the year ended June 30, 2002, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Current Portion</u>
Payables:					
Notes	\$ 185,000.00	\$ -	\$ 60,000.00	\$ 125,000.00	\$60,000.00
Bonds	<u>721,862.58</u>	<u>-</u>	<u>36,386.00</u>	<u>685,476.58</u>	<u>38,278.08</u>
Subtotal	<u>906,862.58</u>	<u>-</u>	<u>96,386.00</u>	<u>810,476.58</u>	<u>98,278.08</u>
Other liabilities:					
Compensated absences	<u>1,209,397.42</u>	<u>279,204.22</u>	<u>78,015.76</u>	<u>1,410,585.88</u>	<u>694,058.16</u>
Total long-term liabilities	<u>\$2,116,260.00</u>	<u>\$279,204.22</u>	<u>\$174,401.76</u>	<u>\$2,221,062.46</u>	<u>\$792,336.24</u>

Notes Payable

The Tennessee Board of Regents, on behalf of the college, borrowed funds to purchase a building for instructional use. The notes, with interest rates ranging from 6.2% to 6.6%, are due serially to 2004. The balance owed by the college was \$125,000.00 at June 30, 2002.

Debt service requirements to maturity for notes payable at June 30, 2002, are as follows:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2003	\$ 60,000.00	\$6,210.00	\$ 66,210.00
2004	<u>65,000.00</u>	<u>2,145.00</u>	<u>67,145.00</u>
	<u>\$125,000.00</u>	<u>\$8,355.00</u>	<u>\$133,355.00</u>

**Tennessee Board of Regents
Chattanooga State Technical Community College
Notes to the Financial Statements (Cont.)
June 30, 2002**

Bonds Payable

Bond issues, with interest rates ranging from 4.6% to 5.4% for Tennessee State School Bond Authority bonds, are due serially to 2015 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.

Debt service requirements to maturity for bonds payable at June 30, 2002, are as follows:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2003	\$38,278.08	\$34,652.38	\$72,930.46
2004	40,364.23	32,642.78	73,007.01
2005	42,463.17	30,624.56	73,087.73
2006	44,671.26	28,501.42	73,172.68
2007	46,994.16	26,267.84	73,262.00
2008-2012	272,148.66	95,665.78	367,814.44
2013-2015	<u>200,557.02</u>	<u>21,530.62</u>	<u>222,087.64</u>
	<u>\$685,476.58</u>	<u>\$269,885.38</u>	<u>\$955,361.96</u>

NOTE 7. UNRESTRICTED NET ASSETS

Unrestricted net assets include funds that have been designated or reserved for specific purposes. These purposes include the following:

	<u>Amount</u>
Working capital	\$1,159,598.83
Encumbrances	27,697.83
Auxiliaries	114,053.08
Plant construction	334,324.22
Renewal and replacement of equipment	1,977,094.06
Debt retirement	<u>48,603.11</u>
Total	<u>\$3,661,371.13</u>

Tennessee Board of Regents
Chattanooga State Technical Community College
Notes to the Financial Statements (Cont.)
June 30, 2002

NOTE 8. 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 6.19% 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, 2002, 2001, and 2000, were \$661,653, \$640,760, and \$543,471. Contributions met the requirements for each year.

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.

Tennessee Board of Regents
Chattanooga State Technical Community College
Notes to the Financial Statements (Cont.)
June 30, 2002

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 was \$899,486 for the year ended June 30, 2002, and \$794,336 for the year ended June 30, 2001. Contributions met the requirements for each year.

NOTE 9. 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*. That report may be obtained by writing to the Tennessee Department of Finance and Administration, Division of Accounts, 14th Floor William R. Snodgrass Tennessee Tower, 312 Eighth Avenue North, Nashville, Tennessee 37243-0298, or by calling (615) 741-2140.

NOTE 10. CUMULATIVE EFFECTS OF CHANGES IN ACCOUNTING PRINCIPLE

During the year ended June 30, 2002, the college implemented GASB Statement 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, and GASB Statement 35, *Basic Financial Statements—and Management's Discussion and Analysis—for Public Colleges and Universities*. As a result of this implementation, the college was required to make changes in certain accounting principles, specifically the (1) adoption of capitalization criteria of \$100,000 and \$50,000 for buildings and additions, respectively; (2) change in the method of capitalizing library holdings; (3) adoption of depreciation on capital assets; and (4) recording of certain summer semester revenues between fiscal years rather

Tennessee Board of Regents
Chattanooga State Technical Community College
Notes to the Financial Statements (Cont.)
June 30, 2002

than in the fiscal year in which the semester was predominantly conducted. The cumulative effects of these changes on net assets are shown below:

Adoption of capitalization criteria for buildings and additions	\$ (247,127.18)
Change in method of capitalizing library holdings	\$ (3,287,062.29)
Adoption of depreciation on capital assets	\$ (20,355,565.12)
Deferred revenue recognition	\$ 156,226.27

NOTE 11. 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. In the past three fiscal years, the state has not had any claims filed with the commercial insurer. Designations for casualty losses in the amount of \$5 million for deductibles and \$1.356 million for incurred losses at June 30, 2002, were established in the state's general fund to provide for any property losses not covered by the commercial insurance.

At June 30, 2002, the scheduled coverage for the college was \$52,234,100 for buildings and \$22,294,400 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, automobile 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.

Tennessee Board of Regents
Chattanooga State Technical Community College
Notes to the Financial Statements (Cont.)
June 30, 2002

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.

NOTE 12. 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 \$6,099,778.80 at June 30, 2002.

Operating Leases - The college has entered into various operating leases for buildings and equipment. Such leases will probably continue to be required. Expenses under operating leases for real property were \$332,926.40 and for personal property were \$152,766.68 for the year ended June 30, 2002. All operating leases are cancelable at the lessee's option.

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

NOTE 13. AFFILIATED ENTITY NOT INCLUDED

The Chattanooga State Technical Community College Foundation is a private, nonprofit foundation with the college as the sole beneficiary. The foundation is controlled by a board independent of the college. The financial records, investments, and other financial transactions are not handled by the college, and these amounts are not included in the college's financial statements. As reported in the foundation's most recently audited financial report, at June 30, 2002, the foundation's assets

**Tennessee Board of Regents
Chattanooga State Technical Community College
Notes to the Financial Statements (Cont.)
June 30, 2002**

totalled \$4,526,374.00, liabilities were \$230,594.52, and the net assets amounted to \$4,295,779.48.

NOTE 14. NATURAL CLASSIFICATIONS WITH FUNCTIONAL CLASSIFICATIONS

The university's operating expenses by functional classification for the year ended June 30, 2002, are as follows:

Functional Classification	<u>Natural Classification</u>					
	<u>Salaries</u>	<u>Benefits</u>	<u>Operating</u>	<u>Scholarships</u>	<u>Depreciation</u>	<u>Total</u>
Instruction	\$14,536,731.01	\$3,362,927.05	\$3,365,106.38	\$170,392.50	\$ -	\$21,435,156.94
Public service	302,443.03	84,325.90	241,158.05	34,643.55	-	662,570.53
Academic support	2,478,355.96	707,047.29	33,572.95	73,329.93	-	3,292,306.13
Student services	1,877,192.05	571,326.63	821,070.27	302,363.28	-	3,571,952.23
Institutional support	2,972,352.46	895,272.54	1,093,827.48	18,317.85	-	4,979,770.33
Operation & maintenance of plant	910,035.23	295,974.44	2,134,219.30	-	-	3,340,228.97
Scholarships & fellowships	21,283.88	9,163.44	500.42	4,287,692.70	-	4,318,640.44
Auxiliary	152,582.49	65,571.60	273,632.16	-	-	491,786.25
Depreciation	-	-	-	-	<u>1,505,062.84</u>	<u>1,505,062.84</u>
Total	<u>\$23,250,976.11</u>	<u>\$5,991,608.89</u>	<u>\$7,963,087.01</u>	<u>\$4,886,739.81</u>	<u>\$1,505,062.84</u>	<u>\$43,597,474.66</u>



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

**SUITE 1500
JAMES K. POLK STATE OFFICE BUILDING
NASHVILLE, TENNESSEE 37243-0264
PHONE (615) 401-7897
FAX (615) 532-2765**

Independent Auditor's Report

May 30, 2003

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

Dear Mr. Morgan:

We have audited the accompanying balance sheet of Chattanooga 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, 2001, and the related statements of changes in fund balances and current funds revenues, expenditures, and other changes for the year 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 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 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, Chattanooga State Technical Community College, as of June 30, 2001, and the changes in fund balances and the current funds revenues, expenditures, and other changes for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Honorable John G. Morgan
May 30, 2003
Page Two

As discussed in Note 12, the college implemented GASB Statement 33, *Accounting and Financial Reporting for Nonexchange Transactions*.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 30, 2003, 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. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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

AAH/sds

TENNESSEE BOARD OF REGENTS
CHATTANOOGA STATE TECHNICAL COMMUNITY COLLEGE
BALANCE SHEET
June 30, 2001

	<u>June 30, 2001</u>		<u>June 30, 2001</u>
<u>ASSETS</u>		<u>LIABILITIES AND FUND BALANCES</u>	
Current funds:		Current funds:	
Unrestricted:		Unrestricted:	
General:		General:	
Cash (Notes 2 and 3)	\$ 3,034,082.79	Liabilities:	
Accounts receivable (net of allowance of \$252,260.38 at June 30, 2001)	751,323.34	Accounts payable	\$ 387,240.29
Inventories	59,447.49	Accrued liabilities	665,573.91
Due from restricted current funds	401,590.86	Student deposits	416.00
Prepaid expenses and deferred charges	<u>470,907.95</u>	Deferred revenue	1,175,841.66
		Compensated absences	<u>1,206,268.32</u>
		Total liabilities	<u>3,435,340.18</u>
		Fund balances:	
		Nondiscretionary allocations:	
		Allocation for working capital	721,887.77
		Allocation for encumbrances	138,458.72
		Allocation for designated appropriations	2,773.47
		Discretionary allocation:	
		Allocation for subsequent budget	931,550.00
		Allocation for compensated absences	(1,206,268.32)
		Unallocated	<u>693,610.61</u>
		Total fund balances	<u>1,282,012.25</u>
Total general	<u>4,717,352.43</u>	Total general	<u>4,717,352.43</u>
Auxiliary enterprises:		Auxiliary enterprises:	
Cash (Notes 2 and 3)	24,733.75	Liabilities:	
Accounts receivable	72,355.12	Accounts payable	4,533.33
Inventories	<u>8,229.33</u>	Accrued liabilities	1,090.96
		Compensated absences	<u>3,129.10</u>
		Total liabilities	<u>8,753.39</u>
		Fund balances:	
		Nondiscretionary allocation:	
		Allocation for working capital	80,584.45
		Discretionary allocation:	
		Allocation for contingencies	19,109.46
		Allocation for compensated absences	<u>(3,129.10)</u>
		Total fund balances	<u>96,564.81</u>
Total auxiliary enterprises	<u>105,318.20</u>	Total auxiliary enterprises	<u>105,318.20</u>
Total unrestricted	<u>4,822,670.63</u>	Total unrestricted	<u>4,822,670.63</u>
Restricted:		Restricted:	
Accounts and grants receivable	<u>585,006.22</u>	Liabilities:	
		Accounts payable	40,002.59
		Accrued liabilities	28,420.19
		Due to unrestricted current funds	401,590.86
		Deferred revenue	<u>61,123.29</u>
		Total liabilities	<u>531,136.93</u>
		Fund balance	<u>53,869.29</u>
Total restricted	<u>585,006.22</u>	Total restricted	<u>585,006.22</u>
Total current funds	<u>\$ 5,407,676.85</u>	Total current funds	<u>\$ 5,407,676.85</u>
Loan funds:		Loan funds:	
Cash (Notes 2 and 3)	<u>\$ 20,361.48</u>	Fund balance:	
		Institutional funds:	
		Restricted	<u>\$ 20,361.48</u>
Total loan funds	<u>\$ 20,361.48</u>	Total loan funds	<u>\$ 20,361.48</u>

TENNESSEE BOARD OF REGENTS
CHATTANOOGA STATE TECHNICAL COMMUNITY COLLEGE
BALANCE SHEET
June 30, 2001

	<u>June 30, 2001</u>		<u>June 30, 2001</u>
<u>ASSETS</u>		<u>LIABILITIES AND FUND BALANCES</u>	
Plant funds:		Plant funds:	
Unexpended plant:		Unexpended plant:	
Cash (Notes 2 and 3)	\$ 91,780.22	Fund balance:	
Accounts receivable	<u>9,780.00</u>	Unrestricted	\$ <u>101,560.22</u>
Total unexpended plant	<u>101,560.22</u>	Total unexpended plant	<u>101,560.22</u>
Renewals and replacements:		Renewals and replacements:	
Cash (Notes 2 and 3)	<u>1,385,444.37</u>	Liabilities:	
		Accounts payable	<u>1,572.76</u>
		Fund balance:	
		Unrestricted (Note 4)	<u>1,383,871.61</u>
Total renewals and replacements	<u>1,385,444.37</u>	Total renewals and replacements	<u>1,385,444.37</u>
Retirement of indebtedness:		Retirement of indebtedness:	
Cash (Notes 2 and 3)	<u>127,022.08</u>	Liabilities:	
		Accrued liabilities	2,074.14
		Accrued interest payable	<u>6,399.37</u>
		Total liabilities	<u>8,473.51</u>
		Fund balance:	
		Unrestricted	<u>118,548.57</u>
Total retirement of indebtedness	<u>127,022.08</u>	Total retirement of indebtedness	<u>127,022.08</u>
Investment in plant:		Investment in plant:	
Land	1,329,000.00	Liabilities:	
Buildings	33,026,929.74	Notes payable (Note 5)	185,000.00
Improvements other than buildings	2,551,735.69	Bonds payable (Note 5)	<u>721,862.58</u>
Equipment	7,793,144.13	Total liabilities	<u>906,862.58</u>
Library books	4,224,110.00	Fund balance:	
Other library holdings	<u>406,432.00</u>	Net investment in plant	<u>48,424,488.98</u>
Total investment in plant	<u>49,331,351.56</u>	Total investment in plant	<u>49,331,351.56</u>
Total plant funds	\$ <u>50,945,378.23</u>	Total plant funds	\$ <u>50,945,378.23</u>
Agency funds:		Agency funds:	
Cash (Notes 2 and 3)	\$ <u>95,090.01</u>	Liabilities:	
		Accounts payable	\$ 4,632.05
		Deposits held in custody for others	<u>90,457.96</u>
Total agency funds	\$ <u>95,090.01</u>	Total agency funds	\$ <u>95,090.01</u>

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

TENNESSEE BOARD OF REGENTS
CHATTANOOGA STATE TECHNICAL COMMUNITY COLLEGE
STATEMENT OF CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2001

	Current Funds			Plant Funds			
	Unrestricted	Restricted	Loan Funds	Unexpended	Renewals and Replacements	Retirement of Indebtedness	Investment In Plant
REVENUES AND OTHER ADDITIONS							
Unrestricted current fund revenues	\$ 34,507,301.06	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Auxiliary enterprise revenues	647,343.21	-	-	-	-	-	-
State appropriations	-	84,970.00	-	332,019.02	-	-	-
Federal grants and contracts	-	5,758,026.00	-	-	-	-	-
State grants and contracts	-	449,467.42	-	-	-	-	-
Private gifts, grants, and contracts	-	394,402.96	-	-	-	-	-
Investment income	-	-	-	5,582.51	64,372.42	8,995.82	-
Equipment use charges	-	-	-	-	101,814.00	-	-
Expended for plant facilities (including \$468,377.54 charged to current fund expenditures)	-	-	-	-	-	-	474,659.60
Retirement of indebtedness	-	-	-	-	-	-	76,807.43
Other	-	11,718.25	-	-	-	71.31	33,145.74
Total revenues and other additions	35,154,644.27	6,698,584.63	-	337,601.53	166,186.42	9,067.13	584,612.77
EXPENDITURES AND OTHER DEDUCTIONS							
Educational and general expenditures	34,509,794.70	6,599,003.54	-	-	-	-	-
Auxiliary enterprise expenditures	413,477.54	-	-	-	-	-	-
Indirect costs recovered	-	21,460.70	-	-	-	-	-
Refunded to grantors	-	90,062.23	-	-	-	-	-
Expended for plant facilities	-	-	-	4,022.29	2,259.77	-	-
Expended for noncapital items	-	-	-	332,019.02	5,906.58	-	-
Retirement of indebtedness	-	-	-	-	-	76,807.43	-
Interest on indebtedness	-	-	-	-	-	58,714.91	-
Library holdings revaluation	-	-	-	-	-	-	679,708.32
Disposal of plant facilities	-	-	-	-	-	-	295,002.88
Increase in indebtedness	-	-	-	-	-	-	8,670.01
Other	3,310.38	-	-	-	-	-	-
Total expenditures and other deductions	34,926,582.62	6,710,526.47	-	336,041.31	8,166.35	135,522.34	983,381.21
TRANSFERS BETWEEN FUNDS - ADDITIONS (DEDUCTIONS)							
Mandatory:							
Principal and interest	(75,901.72)	-	-	-	-	75,901.72	-
Nonmandatory:							
Renewals and replacements	(72,789.56)	-	-	-	72,789.56	-	-
Total transfers	(148,691.28)	-	-	-	72,789.56	75,901.72	-
Net increases (decreases) for the year	79,370.37	(11,941.84)	-	1,560.22	230,809.63	(50,553.49)	(398,768.44)
Fund balances at beginning of year	1,299,206.69	102,567.50	20,361.48	100,000.00	1,153,061.98	169,102.06	48,823,257.42
Cumulative effect of change in accounting principle (Note 12)	-	(36,756.37)	-	-	-	-	-
Fund balances at beginning of year, as restated	1,299,206.69	65,811.13	20,361.48	100,000.00	1,153,061.98	169,102.06	48,823,257.42
Fund balances at end of year	\$ 1,378,577.06	\$ 53,869.29	\$ 20,361.48	\$ 101,560.22	\$ 1,383,871.61	\$ 118,548.57	\$ 48,424,488.98

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

TENNESSEE BOARD OF REGENTS
 CHATTANOOGA STATE TECHNICAL COMMUNITY COLLEGE
 STATEMENT OF CURRENT FUNDS REVENUES, EXPENDITURES, AND OTHER CHANGES
 FOR THE YEAR ENDED JUNE 30, 2001

	<u>Unrestricted</u>	<u>Restricted</u>	<u>Total</u>
<u>REVENUES</u>			
Tuition and fees	\$ 10,440,580.73	\$ -	\$ 10,440,580.73
State appropriations	23,022,700.00	84,970.00	23,107,670.00
Federal grants and contracts	24,104.38	5,758,026.00	5,782,130.38
State grants and contracts	7,115.72	449,467.42	456,583.14
Private gifts, grants, and contracts	101,543.60	394,402.96	495,946.56
Sales and services of educational activities	406,977.78	-	406,977.78
Sales and services of auxiliary enterprises	647,343.21	-	647,343.21
Investment income	277,986.68	-	277,986.68
Other sources	226,292.17	11,718.25	238,010.42
Total current revenues	<u>35,154,644.27</u>	<u>6,698,584.63</u>	<u>41,853,228.90</u>
<u>EXPENDITURES AND TRANSFERS</u>			
Educational and general:			
Expenditures:			
Instruction	20,050,012.35	608,980.05	20,658,992.40
Public service	116,416.08	446,894.64	563,310.72
Academic support	3,150,736.69	346,075.65	3,496,812.34
Student services	3,016,205.49	135,069.22	3,151,274.71
Institutional support	4,624,445.22	-	4,624,445.22
Operation and maintenance of plant	3,251,551.51	-	3,251,551.51
Scholarships and fellowships	300,427.36	5,061,983.98	5,362,411.34
Total educational and general expenditures	<u>34,509,794.70</u>	<u>6,599,003.54</u>	<u>41,108,798.24</u>
Mandatory transfer for:			
Principal and interest	75,901.72	-	75,901.72
Nonmandatory transfer for:			
Renewals and replacements	50,000.00	-	50,000.00
Total educational and general	<u>34,635,696.42</u>	<u>6,599,003.54</u>	<u>41,234,699.96</u>
Auxiliary enterprises:			
Expenditures			
Nonmandatory transfer for:			
Renewals and replacements	22,789.56	-	22,789.56
Total auxiliary enterprises	<u>436,267.10</u>	<u>-</u>	<u>436,267.10</u>
Total expenditures and transfers	<u>35,071,963.52</u>	<u>6,599,003.54</u>	<u>41,670,967.06</u>
<u>OTHER DEDUCTIONS</u>			
Refunded to grantors	-	(90,062.23)	(90,062.23)
Indirect costs recovered	-	(21,460.70)	(21,460.70)
Other deductions	(3,310.38)	-	(3,310.38)
Net increase (decrease) in fund balances	<u>\$ 79,370.37</u>	<u>\$ (11,941.84)</u>	<u>\$ 67,428.53</u>

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

Tennessee Board of Regents
Chattanooga State Technical Community College
Notes to the Financial Statements
June 30, 2001

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

Basis of Presentation

The financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America 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 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 or all eligibility requirements have been met. 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

Tennessee Board of Regents
Chattanooga State Technical Community College
Notes to the Financial Statements (Cont.)
June 30, 2001

accounting. With this procedure, resources for various purposes are classified for accounting and reporting purposes into funds for specified activities or 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 when expended or all eligibility requirements have been met 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 its authorized institutional purposes. Auxiliary enterprises activities are included in unrestricted current funds and include the cafeteria and bookstore. Restricted current funds are externally restricted and may be used only in accordance with the purposes established by their source.

Loan Funds

Loan funds consist of resources made available for student loans.

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 replace-

Tennessee Board of Regents
Chattanooga State Technical Community College
Notes to the Financial Statements (Cont.)
June 30, 2001

ment 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.

Inventories

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

Compensated Absences

The college's employees accrue annual leave at varying rates, depending on length of service or classification. Some employees also earn compensatory time. The amount of these liabilities and their related benefits are recorded in the current funds. Since the liability is expected to be funded primarily from future unrestricted 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
Chattanooga State Technical Community College
Notes to the Financial Statements (Cont.)
June 30, 2001

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.

Interest Costs

The college has adopted a policy of capitalizing all construction-related interest costs for capital projects funded by Tennessee State School Bond Authority indebtedness. All other interest costs are expensed.

NOTE 2. CASH

This classification includes demand deposits and petty cash on hand. At June 30, 2001, cash consisted of \$2,341,145.58 in bank accounts, \$4,320.00 of petty cash on hand, and \$2,433,049.12 in the State of Tennessee Local Government Investment Pool administered by the State Treasurer.

Excess balances in the college's operating account, a "sweep" account, were automatically invested in overnight repurchase agreements during the year ended June 30, 2001. No excess funds were invested in overnight repurchase agreements at June 30, 2001.

Investments are categorized to indicate the level of risk assumed by the college. Category 1 consists of insured or registered investments or investments for which the securities are held by the college or its agent in the college's name. Category 2 consists of uninsured or unregistered investments for which the securities are held by the counterparty's trust department or agent in the college'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 college's name.

The college's investments in overnight repurchase agreements were Category 1 as to the level of risk assumed by the college. These amounts were insured via the bank collateral pool administered by the State Treasurer.

Tennessee Board of Regents
Chattanooga State Technical Community College
Notes to the Financial Statements (Cont.)
June 30, 2001

NOTE 3. DEPOSITS

Three of the college's bank accounts are in a financial institution which participates 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. Two other small depository accounts are covered by FDIC insurance.

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*. That report may be obtained by writing to the Tennessee Department of Finance and Administration, Division of Accounts, 14th Floor William R. Snodgrass Tennessee Tower, 312 Eighth Avenue North, Nashville, Tennessee 37243-0298, or by calling (615) 741-2140.

NOTE 4. PLANT FUND ENCUMBRANCES

Plant fund encumbrances outstanding at June 30, 2001, amounted to \$88,640.77 for renewals and replacements.

NOTE 5. NOTES PAYABLE AND TSSBA INDEBTEDNESS

The Tennessee Board of Regents, on behalf of the college, borrowed funds to purchase a building for instructional use. The notes, with interest rates ranging from 6.2% to 6.6%, are due serially to 2004. The balance owed by the college was \$185,000 at June 30, 2001.

Bond issues, with interest rates ranging from 4.6% to 5.4% for Tennessee State School Bond Authority bonds, are due serially to 2015 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. The balance owed by the college was \$721,862.58 at June 30, 2001.

**Tennessee Board of Regents
Chattanooga State Technical Community College
Notes to the Financial Statements (Cont.)
June 30, 2001**

The college's debt service requirements to maturity for all notes and bonds payable at June 30, 2001, are as follows:

<u>Year Ending</u> <u>June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2002	\$96,386.00	\$46,491.68	\$142,877.68
2003	98,278.08	40,862.38	139,140.46
2004	105,364.23	34,787.78	140,152.01
2005	42,463.17	30,624.56	73,087.73
2006	44,671.26	28,501.42	73,172.68
2007 – 2015	<u>519,699.84</u>	<u>143,464.24</u>	<u>663,164.08</u>
	<u>\$906,862.58</u>	<u>\$324,732.06</u>	<u>\$1,231,594.64</u>

NOTE 6. 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 6.19% of annual covered payroll. Contribution requirements for the college are established and

Tennessee Board of Regents
Chattanooga State Technical Community College
Notes to the Financial Statements (Cont.)
June 30, 2001

may be amended by the TCRS' Board of Trustees. The college's contributions to TCRS for the years ended June 30, 2001, 2000, and 1999, were \$640,760, \$543,471, and \$555,426. Contributions met the requirements for each year.

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 was \$794,336 for the year ended June 30, 2001, and \$734,893 for the year ended June 30, 2000. Contributions met the requirements for each year.

NOTE 7. 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*. That report may be obtained by writing to the Tennessee Department of Finance and Administration, Division of Accounts, 14th Floor William R. Snodgrass Tennessee

Tennessee Board of Regents
Chattanooga State Technical Community College
Notes to the Financial Statements (Cont.)
June 30, 2001

Tower, 312 Eighth Avenue North, Nashville, Tennessee 37243-0298, or by calling (615) 741-2140.

NOTE 8. 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 due to damage from tornadoes. The final settlement of \$8.96 million for the tornado damage in Clarksville was made during the year ended June 30, 2001. In the years ended June 30, 2000, and June 30, 1998, the state did not have any claims filed with the commercial insurer. A designation for casualty losses in the amount of \$8.731 million at June 30, 2001, and \$7.256 million at June 30, 2000, was established in the state's general fund to provide for any property losses not covered by the commercial insurance.

At June 30, 2001, the scheduled coverage for the college was \$52,234,100 for buildings and \$23,113,800 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, automobile 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.

Tennessee Board of Regents
Chattanooga State Technical Community College
Notes to the Financial Statements (Cont.)
June 30, 2001

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.

NOTE 9. FEDERAL STUDENT FINANCIAL ASSISTANCE

The restricted expenditure function scholarships and fellowships includes \$4,787,432.04 of federal financial assistance for students. These programs include, but are not limited to, Federal Pell Grants and Federal Supplemental Educational Opportunity Grants.

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 \$5,380,263.38 at June 30, 2001.

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 \$331,169.00 and for personal property were \$133,773.19 for the year ended June 30, 2001. All operating leases are cancelable at the lessee's option.

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

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NOTE 11. AFFILIATED ENTITY NOT INCLUDED

The college is the sole beneficiary of the Chattanooga 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 not handled by the college, and these amounts are not included in the college's financial statements. As reported in the foundation's most recently audited financial report, at June 30, 2001, the foundation's assets totaled \$4,650,521.42, liabilities were \$218,939.06, and the net assets amounted to \$4,431,582.36.

NOTE 12. CUMULATIVE EFFECT OF A CHANGE IN ACCOUNTING PRINCIPLE

During the year ended June 30, 2001, the university implemented GASB Statement 33, *Accounting and Financial Reporting for Nonexchange Transactions*. As a result, the beginning restricted fund balance was decreased by \$36,756.37

NOTE 13. NEW ACCOUNTING PRONOUNCEMENTS

In November 1999, the Governmental Accounting Standards Board (GASB) issued Statement 35, *Basic Financial Statements—and Management's Discussion and Analysis—for Public Colleges and Universities, an amendment of GASB Statement No. 34*. As originally issued, Statement 34, *Basic Financial Statements—and Management's Discussion and Analysis—for States and Local Governments* was not applicable to public institutions. Rather than issuing separate standards, GASB decided to provide financial reporting guidance for public institutions by amending Statement 34 to extend its applicability to them. Statement 35 supersedes GASB Statement 15, which currently allows public institutions to choose one of two models when preparing their financial statements—the AICPA College Guide model or the governmental model. As component units of a state government, most public institutions will implement GASB Statement 35 at the same time as the state government implements GASB Statement 34.

Under the provisions of the GASB standards, the college is permitted to report as a special purpose government engaged only in business-type activities (BTA). BTA reporting will require the college to present only the basic financial statements and required supplementary information (RSI) for an enterprise fund that includes

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management's discussion and analysis; a statement of net assets or a balance sheet; a statement of revenues, expenses, and changes in net assets; a statement of cash flows; notes to the financial statements; and other applicable RSI. The required basic financial statements described above are prepared using the economic resources measurement focus and the accrual basis of accounting. Fund financial statements are not required for BTA reporting.

Statement 34 will also require the college to retroactively and prospectively report all capital assets, net of accumulated depreciation, including infrastructure assets (long-lived capital assets such as roads and bridges) in the statement of net assets and report depreciation expense in the statement of revenues, expenses, and changes in net assets. Retroactive reporting of capital assets will require a prior-period adjustment to net assets. Management has not yet determined the effect of the implementation of this statement on the college's financial statements.