Tennessee Board of Regents
Pellissippi State Technical Community College

For the Years Ended
June 30, 2003, and June 30, 2002

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

Charles K. Bridges, CPA
Assistant Director

Robert D. Hunter, Jr., CPA
Audit Manager

Alicia Reed
In-Charge Auditor

John Gullett
Ben Johnson
Karen Phillips, 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

Financial/compliance audits of colleges and universities are available on-line at
www.comptroller.state.tn.us/sa/reports/index.html.
For more information about the Comptroller of the Treasury, please visit our Web site at
www.comptroller.state.tn.us.

STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
State Capitol
Nashville, Tennessee 37243-0260
(615) 741-2501

John G. Morgan
Comptroller

October 28, 2004

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. Allen G. Edwards, President
Pellissippi State Technical Community College
P. O. Box 22990
Knoxville, Tennessee 37933-0990

Ladies and Gentlemen:

Transmitted herewith is the financial and compliance audit of the Tennessee Board of Regents, Pellissippi State Technical Community College, for the years ended June 30, 2003, and June 30, 2002. 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
04/077

State of Tennessee

Audit Highlights

Comptroller of the Treasury — Division of State Audit

Financial and Compliance Audit
Pellissippi State Technical Community College
For the Years Ended June 30, 2003, and June 30, 2002

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 Report
Tennessee Board of Regents
Pellissippi State Technical Community College
For the Years Ended June 30, 2003, and June 30, 2002

TABLE OF CONTENTS

Tennessee Board of Regents
Pellissippi State Technical Community College
For the Years Ended June 30, 2003, and June 30, 2002

INTRODUCTION

POST-AUDIT AUTHORITY

This is a report on the financial and compliance audit of the Tennessee Board of Regents, Pellissippi 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

Pellissippi State Technical Community College began operation as State Technical Institute at Knoxville. The institute was established by the General Assembly in 1963. In 1988, the General Assembly combined the campuses of State Technical Institute at Knoxville and the Oak Ridge branch of Roane State Community College in Knoxville to form Pellissippi State Technical Community College.

The college awards the Associate of Applied Science, the Associate of Arts, and the Associate of Science degrees and certain certificates.

ORGANIZATION

The governance of Pellissippi 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, 2001, through June 30, 2003, 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, 2003, and June 30, 2002. Pellissippi 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 FINDING

Section 8-4-109, *Tennessee Code Annotated*, requires that each state department, agency, or institution report to the Comptroller of the Treasury the action taken to implement the recommendations in the prior audit report. The college filed its report with the Department of Audit on January 27, 2003. A follow-up of the prior audit finding was conducted as part of the current audit.

RESOLVED AUDIT FINDING

The current audit disclosed that the college has corrected a previous audit finding concerning the failure to report Pell disbursements on a timely basis.

OBSERVATIONS AND COMMENTS

Pellissippi State Technical Community College serves as the lead institution under an agreement with the Tennessee Technology Center at Knoxville. Under this agreement, Pellissippi State Technical Community College performs the accounting and reporting functions for the center. The chief administrative officer of the center is the director, who is assisted and advised by members of the faculty and administrative staff. Each director is responsible to the Chancellor of the Tennessee Board of Regents.

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, 2003, and June 30, 2002, 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*

July 20, 2004

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

Dear Mr. Morgan:

We have audited the financial statements of Pellissippi 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, 2003, and June 30, 2002, and have issued our report thereon dated July 20, 2004. 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 11, 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*.

<u>Compliance</u>

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 certain other less significant instances of noncompliance, which 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.

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,

Arthur A. Hayes, Jr.

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

July 20, 2004

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

Dear Mr. Morgan:

We have audited the accompanying statements of net assets of Pellissippi 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, 2003, and June 30, 2002, and the related statements of revenues, expenses, and changes in net assets and cash flows 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 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, Pellissippi State Technical Community College, as of June 30, 2003, and June 30, 2002, and the revenues, expenses, and changes in net assets and the cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 11, 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*.

The management's discussion and analysis on pages 8 through 21 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. 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 July 20, 2004, 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,

Arthur A. Hayes, Jr.

Arthur A. Hayes, Jr., CPA,
Director

AAH/sds

Management's Discussion and Analysis

This section of Pellissippi 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, 2003, with comparative information presented for 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 the financial statements and notes. The financial statements, notes, and this discussion are the responsibility of management.

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 Pellissippi 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 is expendable restricted net assets. 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.

Statements of Net Assets
(in thousands of dollars)

	2003	2002
Assets:		
Current assets	$9,537	$7,734
Capital assets, net	32,780	33,631
Other assets	3,089	2,130
Total assets	45,406	43,495
Liabilities:		
Current liabilities	7,683	7,089
Noncurrent liabilities	526	477
Total liabilities	8,209	7,566
Net assets:		
Invested in capital assets, net of related debt	32,780	33,631
Restricted – expendable	150	109
Unrestricted	4,267	2,189
Total net assets	$37,197	$35,929

- At June 30, 2003, net capital assets represent 74% of the total assets of the college and 88% of the total net assets. Net capital assets include buildings (25.1 million), land and infrastructure (4.4 million), and equipment, library holdings, and projects in progress (3.2 million).

- Liabilities consist of accounts payable, accrued liabilities, accrued employee annual leave, deferred revenue, and funds held in custody for others.

- Current assets include cash, short-term investments, accounts receivable, inventories, and prepaid expenses.

- Other assets are noncurrent cash used for plant construction and renewal and replacement of plant and noncurrent accounts receivable.

- Current cash increased by 55% or $1,843,000 — 85% of this increase (1.3 m) was in the unrestricted funds due to increases in the unreserved/undesignated fund balance.

- Total assets increased by 4.4% or $1,911,000 — much of the increase is due to an increase in cash.

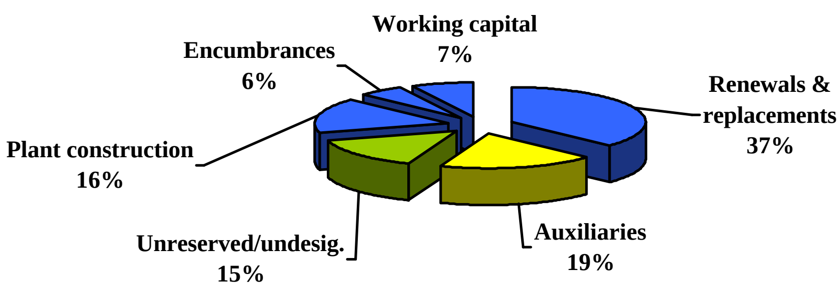
- Total liabilities increased by 8.4% — the majority of the increase (77%) is due to an increase in deposits held in custody for others, and 12% of the increase is due to an increase in deferred revenue.

- Total net capital assets decreased by 2.5% — due to depreciation.

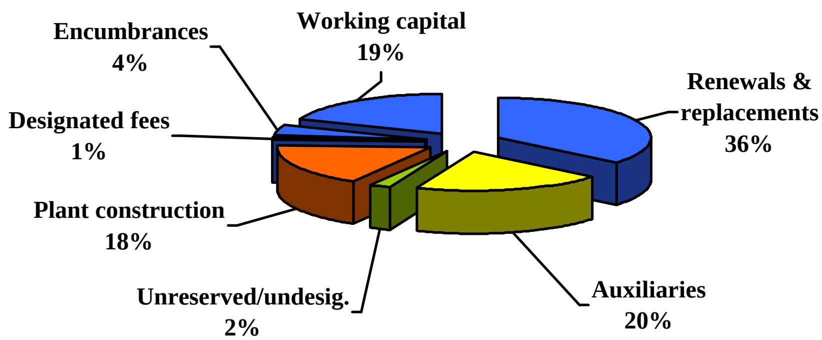
- Total net assets increased by 3.5% or $1,268,000 — a net result of increased current cash (1.8 m) and increased current liabilities (.6 m).

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

Unrestricted Net Asset Allocation 2003



Unrestricted Net Asset Allocation 2002



Unrestricted net assets increased $2,078,000 — an increase of 95%. The majority of the increase was due to increases in renewal & replacement of plant allocations and increases in the unreserved/undesignated fund balances.

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

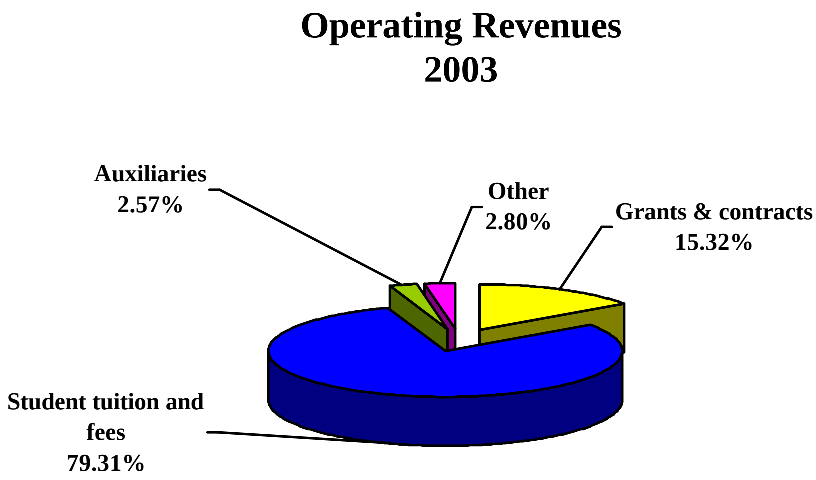
The statement of revenues, expenses, and changes in net assets presents the operating results of the college, as well as the nonoperating revenues and expenses. Annual state appropriations, while budgeted for operations, are considered nonoperating revenues according to generally accepted accounting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

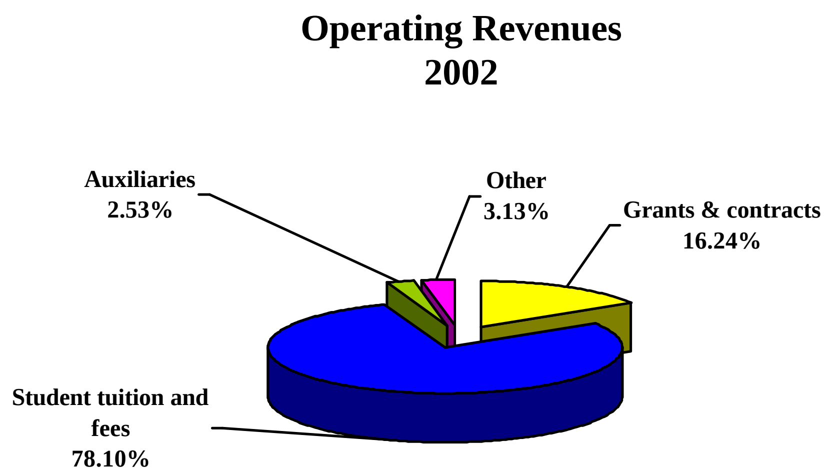
Statements of Revenues, Expenses, and Changes in Net Assets
(in thousands of dollars)

	2003	2002
Operating revenues:		
Net tuition and fees	$ 10,856	$ 10,365
Grants and contracts	2,097	2,155
Auxiliary enterprises	352	336
Other	383	416
Total operating revenues	13,688	13,272
Operating expenses	(38,438)	(38,289)
Operating loss	(24,750)	(25,017)
Nonoperating revenues and expenses:		
State appropriations	18,353	18,185
Gifts	98	321
Investment income	20	22
Grants and contracts	6,350	5,651
Total nonoperating revenues and expenses	24,821	24,179
Income (loss) before other revenues, expenses, gains, or losses	71	(838)
Other revenues, expenses, gains or losses:		
Capital appropriations	543	539
Capital grants and gifts	-	2,381
Other	654	-
Total other revenues, expenses, gains, or losses	1,197	2,920
Increase (decrease) in net assets	1,268	2,082
Net assets at beginning of year	35,929	55,540
Cumulative effects of changes in accounting principle	-	(21,693)
Net assets at beginning of period, restated	35,929	33,847
Net assets at end of year	$ 37,197	$ 35,929

Revenues

The following is a graphic illustration of operating revenues by source, which are used to fund the college's operating activities for the year ended June 30, 2003, and the year ended June 30, 2002.





- Student tuition and fees represent 79% of the total operating revenue of the college for 2003. In fiscal year 2003, student tuition and fees increased $491,000 or 4.7%. This increase in fees was due to a 7.5% student maintenance fee increase and a 1% increase in student enrollment. These increases were offset by a 10% decrease in out-of-state tuition/fees and a 15% decrease in Continuing Education Units (CEU) student fees.

- Grants and contracts consist of federal and state student financial aid and various restricted grants to the college. The grants and contracts account for 15% of the total operating revenue in 2003.

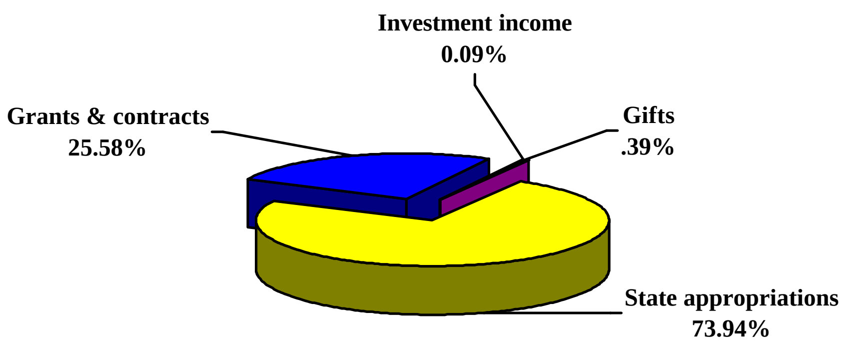
- Auxiliary operations include the bookstore and cafeteria—both are outsourced and their commissions represent 3% of the total operating revenue in 2003.

- Other revenues include interest income, rental of facilities, and testing services and account for 3% of the total operating revenue in 2003.

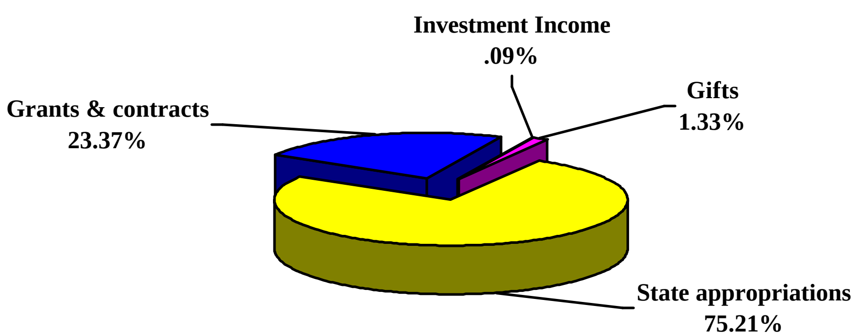
- Total operating revenues increased 3.1% or 13.7 million.

- Revenues other than student tuition and fees remained constant between the 2002 and 2003 fiscal years.

Nonoperating Revenues
2003



Nonoperating Revenues
2002



- Total nonoperating revenues increased $642,000 or 2.7%.

- State appropriations of 18.3 million in 2003 increased .9%. The appropriations are classified as nonoperating revenues, and they represent the largest single portion of total revenues.

- Grants and contracts consist of federal and state student financial aid and various restricted grants to the college. Grants and contracts account for 26% of nonoperating revenue in 2003 and increased in 2003 by $699,000 or 12.4%.

- Gifts to the college decreased $223,000 in 2003.

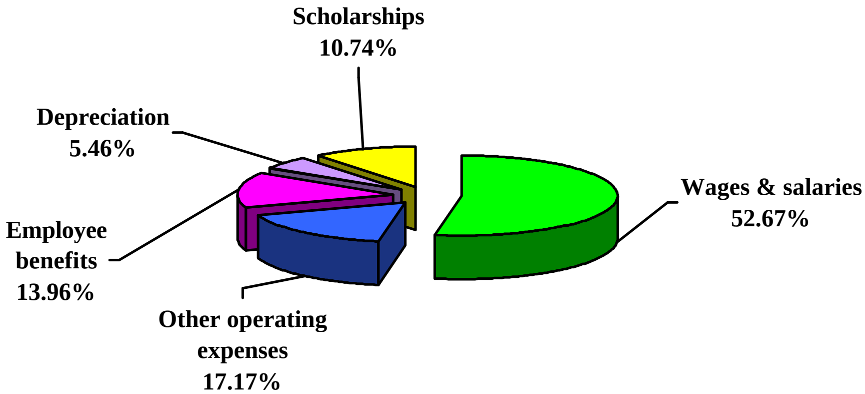
Expenses

Operating expenses can be displayed in two formats, natural classification and functional classification. Both formats are displayed below (in thousands of dollars).

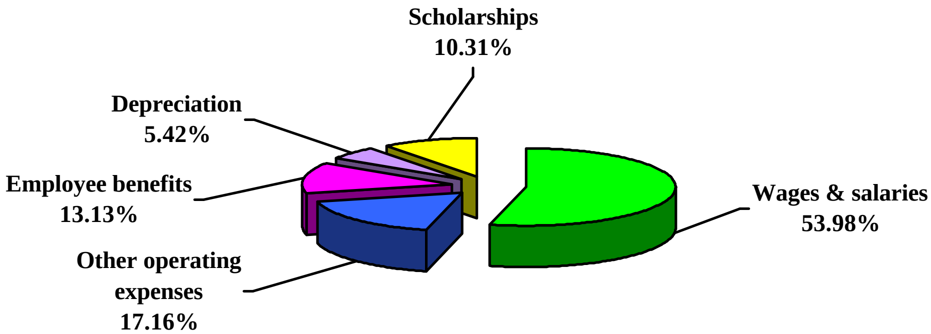
2003 Functional Classification	**2003 Natural Classification** Salaries	Benefits	Other Operating	Scholarships	Depreciation	Total
Instruction	$ 12,635	$ 3,084	$ 2,794	$ 35	$ -	$ 18,548
Public service	549	135	464	-	-	1,148
Academic support	2,408	675	(512)	8	-	2,579
Student services	2,062	620	951	45	-	3,678
Institutional support	2,054	652	1,009	-	-	3,715
Operation & maintenance of plant	529	200	1,766	-	-	2,495
Scholarships	6	1	-	4,049	-	4,056
Depreciation	-	-	-	-	2,098	2,098
Auxiliaries	-	-	121	-	-	121
Total expenses	$ 20,243	$ 5,367	$ 6,593	$ 4,137	$ 2,098	$ 38,438

2002 Functional Classification	2002 Natural Classification					
	Salaries	Benefits	Other Operating	Scholarships	Depreciation	Total
Instruction	$ 12,924	$ 2,965	$ 2,597	$ 79	$ -	$ 18,565
Public service	603	137	367	-	-	1,107
Academic support	2,446	610	(83)	25	-	2,998
Student services	2,065	559	1,213	45	-	3,882
Institutional support	2,037	576	830	-	-	3,443
Operation & maintenance of plant	585	181	1,525	-	-	2,291
Scholarships	7	-	1	3,798	-	3,806
Depreciation	-	-	-	-	2,075	2,075
Auxiliaries	-	-	122	-	-	122
Total expenses	$ 20,667	$ 5,028	$ 6,572	$ 3,947	$ 2,075	$ 38,289

Operating Expenses by Natural Classification 2003



Operating Expenses by Natural Classification
2002



- Employee salaries and benefits account for about 67% of the budget in both fiscal year 2002 and fiscal year 2003. This category includes any payment to any college employee and any associated benefits. The benefits category includes retirement, health insurance, social security, unemployment, and any other related employee benefits.

- Total expenses remained fairly constant from the previous year, as did expenses by natural category. There were no significant changes.

- Scholarship payments are primarily for fees and books, and they represent about 10% of the total operating expenses in both years.

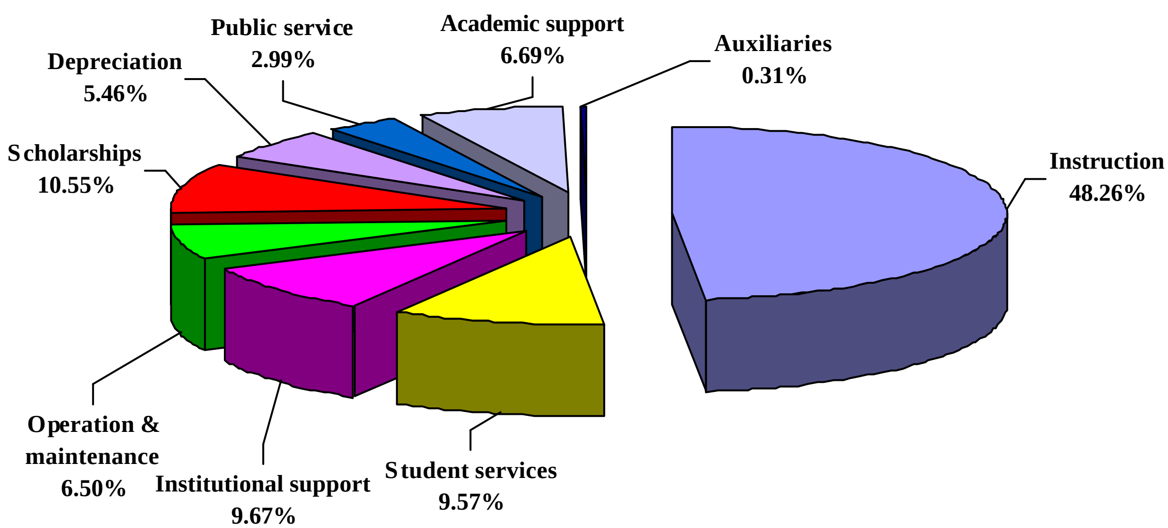
- Other operating expenses include travel, supplies, utilities, maintenance and repairs, contracted labor, and other general business expenses. These expenses represent about 17% of the total operating expenses in both years.

The college's functional expense percentages are as follows:

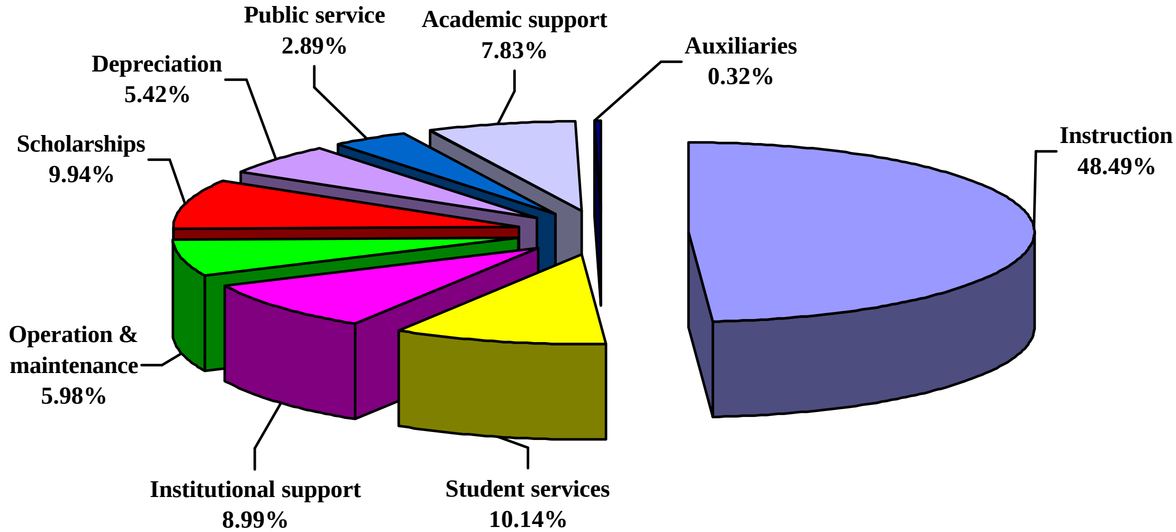
Operating Expenses by Function

	2003	2002
Instruction	48.26%	48.49%
Public service	2.99%	2.89%
Academic support	6.69%	7.83%
Subtotal	**57.94%**	**59.21%**
Student services	9.57%	10.14%
Institutional support	9.67%	8.99%
Operation and maintenance	6.50%	5.98%
Scholarships	10.55%	9.94%
Depreciation	5.46%	5.42%
Auxiliaries	.31%	.32%
Total	**100%**	**100%**

Operating Expenses by Function 2003



Operating Expenses by Function 2002



- Expenses by functional classification did not significantly change from the previous year.

- Instruction is the largest functional expense of the college (48% in both years). This category consists of faculty salaries and benefits, travel, instructional supplies, and instructional equipment.

- The academic support function (7% in both years) includes library, media services, computer services, and academic administration.

- The student affairs function (10% in both years) includes student records, admissions, recruitment, financial aid, and advisement.

- The institutional support function (9% in both years) includes the administrative cost of the college.

- The operation and maintenance of plant function (6% in both years) includes the cost of maintaining the campus facilities and grounds and utility costs.

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.

Statements of Cash Flows
(in thousands of dollars)

	2003	2002
Cash provided (used) by:		
Operating activities	$ (22,504)	$ (22,861)
Noncapital financing activities	25,474	24,419
Capital and related financing activities	(50)	(941)
Investing activities	20	21
Net increase (decrease) in cash	**2,940**	**638**
Cash, beginning of year	**5,241**	**4,603**
Cash, end of year	**$ 8,181**	**$ 5,241**

- Pellissippi State Technical Community College's liquidity improved during the year by $2,940,000, an increase of 56%.

- The primary sources of cash from current operations are maintenance fees, grants and contracts, and other student fees.

- The primary uses of cash for current operations are for salaries, benefits, supplies, travel, and scholarships.

- The current operating uses of cash decreased by 1.6%. This was not considered a significant variance.

- Cash flows from noncapital financing activities are primarily from state appropriations (73%). Gifts, grants, and contracts account for most of the remaining balance (25%).

- Noncapital sources of cash increased by 4.3% - $1,055,000.

- Capital and related financing cash is the measure of incoming and outgoing cash used for the acquisition or disposition of capital assets. The cash position for capital financing improved in 2003 by $891,000.

Capital Assets and Debt Administration

Capital Assets

At June 30, 2003, Pellissippi State Technical Community College had $32,780,081.81 invested in capital assets, net of accumulated depreciation of $21,266,597.97. Depreciation charges totaled $2,097,745.91 for the 2003 fiscal year. Details of these assets are shown below.

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

	2003	**2002**
Land	$2,592	$2,592
Land improvements & infrastructure	1,834	1,089
Buildings	25,146	25,686
Equipment	2,183	2,624
Library holdings	912	934
Projects in progress	113	706
Total	$32,780	$33,631

- There were no major capital additions during the year.

- Pellissippi State Technical Community College has capital expenditures planned in fiscal year 2004 in the areas of operating and instructional equipment. These funds will be funded from current reserves. More detailed information about the college's capital assets is presented in Note 6 to the financial statements.

Debt

- At June 30, 2002, and at June 30, 2003, the college had no debt outstanding.

- Pellissippi State Technical Community College has no plans for any debt issuances in fiscal year 2004. More detailed information about the college's long-term liabilities is presented in Note 7 to the financial statements.

Economic Factors That Will Affect the Future

For fiscal year 2004, significant changes that will affect the financial position of the college are as follows:

- State funding will decrease by 9%.
- Student tuition will increase by 14%.
- There are currently no significant changes in expense projections.

Requests for Information

This financial report is designed to provide a general overview of the institution's finances for all those with an interest in the college's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be directed to Allen G. Edwards, President, 10915 Hardin Valley Road, Knoxville, TN 37932.

Exhibit A

PELLISSIPPI STATE TECHNICAL COMMUNITY COLLEGE
STATEMENTS OF NET ASSETS
JUNE 30, 2003, AND JUNE 30, 2002

	June 30, 2003	June 30, 2002
ASSETS		
Current assets:		
Cash (Notes 2 and 3)	$ 5,220,250.17	$ 3,377,266.91
Short-term investments (Notes 3 and 4)	2,898,430.83	2,789,914.46
Accounts, notes, and grants receivable (net) (Note 5)	1,389,882.19	1,540,239.13
Inventories (at lower of cost or market)	2,677.08	8,982.20
Prepaid expenses and deferred charges	25,615.36	17,967.25
Total current assets	9,536,855.63	7,734,369.95
Noncurrent assets:		
Cash (Notes 2 and 3)	2,960,504.75	1,863,286.94
Accounts, notes, and grants receivable (net) (Note 5)	128,594.31	266,552.20
Capital assets (net) (Note 6)	32,780,081.81	33,631,192.35
Total noncurrent assets	35,869,180.87	35,761,031.49
Total assets	45,406,036.50	43,495,401.44
LIABILITIES		
Current liabilities:		
Accounts payable	173,498.72	103,172.94
Accrued liabilities	1,410,732.56	1,351,658.78
Deferred revenue	765,913.75	689,467.50
Compensated absences (Note 7)	267,229.02	374,820.97
Deposits held in custody for others	5,033,271.44	4,539,307.24
Other liabilities	32,633.45	30,705.05
Total current liabilities	7,683,278.94	7,089,132.48
Noncurrent liabilities:		
Compensated absences (Note 7)	525,735.44	477,044.86
Total noncurrent liabilities	525,735.44	477,044.86
Total liabilities	8,209,014.38	7,566,177.34
NET ASSETS		
Invested in capital assets, net of related debt	32,780,081.81	33,631,192.35
Restricted for:		
Expendable:		
Instructional department uses	20,753.30	31,158.05
Loans	1,005.61	1,005.61
Other	128,587.85	77,181.29
Unrestricted (Note 8)	4,266,593.55	2,188,686.80
Total net assets	$ 37,197,022.12	$ 35,929,224.10

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

Exhibit B

PELLISSIPPI STATE TECHNICAL COMMUNITY COLLEGE
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2003, AND JUNE 30, 2002

	Year Ended June 30, 2003	Year Ended June 30, 2002
REVENUES		
Operating revenues:		
Student tuition and fees (net of scholarship allowances of $2,662,798.52 for the year ended June 30, 2003, and $2,304,509.79 for the year ended June 30, 2002)	$ 10,856,429.65	$ 10,365,170.41
Governmental grants and contracts	1,822,964.41	1,786,794.36
Non-governmental grants and contracts	274,155.58	368,559.63
Auxiliary enterprises:		
Bookstore	310,432.00	294,434.50
Food service	41,267.33	41,710.39
Other operating revenues	383,150.03	415,750.76
Total operating revenues	13,688,399.00	13,272,420.05
EXPENSES		
Operating expenses (Note 14):		
Salaries and wages	20,242,531.76	20,667,335.56
Benefits	5,367,303.27	5,027,444.65
Utilities, supplies, and other services	6,593,657.82	6,572,609.46
Scholarships and fellowships	4,136,977.48	3,946,785.32
Depreciation expense	2,097,745.91	2,074,930.50
Total operating expenses	38,438,216.24	38,289,105.49
Operating loss	(24,749,817.24)	(25,016,685.44)
NONOPERATING REVENUES (EXPENSES)		
State appropriations	18,353,170.00	18,185,370.00
Gifts	97,862.57	320,965.25
Grants and contracts	6,349,504.98	5,650,733.96
Investment income	20,392.88	21,692.16
Net nonoperating revenues	24,820,930.43	24,178,761.37
Income (loss) before other revenues, expenses, gains, or losses	71,113.19	(837,924.07)
Capital appropriations	542,411.39	538,531.33
Capital grants and gifts	-	2,380,784.31
Other	654,273.44	-
Total other revenues	1,196,684.83	2,919,315.64
Increase (decrease) in net assets	1,267,798.02	2,081,391.57
NET ASSETS		
Net assets - beginning of year	35,929,224.10	55,539,681.65
Cumulative effects of changes in accounting principle (Note 11)		
Adoption of capitalization criteria for buildings and additions	-	(976,610.93)
Change in method of capitalizing library holdings	-	(1,439,665.56)
Adoption of depreciation on capital assets	-	(19,338,167.55)
Deferred revenue recognition	-	467,466.60
Deferred charges recognition	-	(404,871.68)
Net assets - beginning of year, as restated	35,929,224.10	33,847,832.53
Net assets - end of year	$ 37,197,022.12	$ 35,929,224.10

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

PELLISSIPPI STATE TECHNICAL COMMUNITY COLLEGE
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2003, AND JUNE 30, 2002

	Year Ended June 30, 2003	Year Ended June 30, 2002
CASH FLOWS FROM OPERATING ACTIVITIES		
Tuition and fees	$ 10,845,492.33	$ 10,350,270.95
Grants and contracts	2,211,692.75	2,239,212.47
Payments to suppliers and vendors	(6,533,040.02)	(6,788,091.06)
Payments to employees	(20,212,084.78)	(20,454,267.50)
Payments for benefits	(5,367,303.27)	(5,027,444.65)
Payments for scholarships and fellowships	(4,138,351.20)	(3,935,942.34)
Auxiliary enterprise charges:		
Bookstore	262,541.49	292,210.72
Food services	43,858.57	46,475.79
Other receipts (payments)	383,150.03	415,750.76
Net cash provided (used) by operating activities	(22,504,044.10)	(22,861,824.86)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State appropriations	18,500,770.00	17,994,870.00
Gifts and grants received for other than capital or endowment purposes	6,447,367.55	5,971,699.21
Federal student loan receipts	3,135,242.59	2,834,260.61
Federal student loan disbursements	(3,135,242.59)	(2,834,260.61)
Changes in deposits held for others	525,665.28	452,697.36
Net cash provided (used) by noncapital financing activities	25,473,802.83	24,419,266.57
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital appropriations	542,411.39	538,531.33
Capital grants and gifts received	-	154,301.38
Purchases of capital assets and construction	(622,861.93)	(1,633,978.56)
Proceeds from sale of capital assets	(4,442.97)	-
Other capital and related financing receipts (payments)	34,942.97	-
Net cash provided (used) by capital and related financing activities	(49,950.54)	(941,145.85)
CASH FLOWS FROM INVESTING ACTIVITIES		
Income on investments	20,392.88	21,692.16
Net cash provided (used) by investing activities	20,392.88	21,692.16
Net increase (decrease) in cash	2,940,201.07	637,988.02
Cash - beginning of year	5,240,553.85	4,602,565.83
Cash - end of year	$ 8,180,754.92	$ 5,240,553.85

PELLISSIPPI STATE TECHNICAL COMMUNITY COLLEGE
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2003, AND JUNE 30, 2002

	Year Ended June 30, 2003	Year Ended June 30, 2002
Reconciliation of operating loss to net cash used by operating activities:		
Operating loss	$ (24,749,817.24)	$ (25,016,685.44)
Adjustments to reconcile operating loss to net cash provided (used) by operating activities:		
Depreciation expense	2,097,745.91	2,074,930.50
Other adjustments	-	62,594.92
Change in assets and liabilities:		
Receivables, net	497.38	36,251.71
Inventories	6,305.12	(3,576.60)
Prepaid expenses and deferred charges	(7,648.11)	281,367.12
Accounts payable	70,325.78	(235,533.82)
Accrued liabilities	61,002.18	329,755.07
Deferred revenue	76,446.25	(424,586.76)
Compensated absences	(58,901.37)	33,658.44
Net cash used by operating activities	$ (22,504,044.10)	$ (22,861,824.86)

Non-Cash Transactions

	Year Ended June 30, 2003	Year Ended June 30, 2002
Donations from Pellissippi State Technical Community College Foundation		
Land	$ -	$ 577,970.00
Building	-	1,648,512.93

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The college is a part of the State University and Community College System of Tennessee (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 statement 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.

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, local, 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) nonoperating grants and contracts; 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 on a first-in, first-out basis. Related expenses are based on consumption.

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.

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

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.

Pellissippi State Technical Community College Foundation

The college is the sole beneficiary of the Pellissippi State Technical Community College Foundation. A board independent of the college controls this private, nonprofit foundation. The college handles the financial records, investments, and other financial transactions, and the assets and liabilities of the foundation are included on the college's statement of net assets.

Net Assets

The college's net assets are classified as follows:

<u>Invested in capital assets, net of related debt</u> – 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.

<u>Expendable restricted net assets</u> – 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.

<u>Unrestricted net assets</u> – 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.

NOTE 2. CASH

This classification includes demand deposits and petty cash on hand. At June 30, 2003, cash consisted of $395,531.18 in bank accounts, $3,900.00 of petty cash on hand, $7,733,135.28 in the State of Tennessee Local Government Investment Pool administered by the State Treasurer, and $48,188.46 in LGIP deposits for capital projects. At June 30, 2002, cash consisted of $554,513.49 in bank accounts, $4,100.00 of petty cash on hand, $4,630,334.83 in the State of Tennessee Local Government Investment Pool administered by the State Treasurer, and $51,605.53 in LGIP deposits for capital projects.

LGIP deposits for capital projects - Payments related to the college's capital projects are made by the State of Tennessee's Department of Finance and Administration. The college's estimated local share of the cost of each project is held in a separate Local Government Investment Pool (LGIP) account. As expenses 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 the Tennessee Board of Regents releases any remaining funds.

NOTE 3. DEPOSITS

The college's deposits are in financial institutions that 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.

At June 30, 2003, the carrying amount of the college's deposits was $395,531.18, and the bank balance was $946,440.59. The bank balance was insured. At June 30, 2002, the carrying amount of the college's deposits was $554,513.49, and the bank balance was $1,200,791.29. The bank balance was insured.

The laws of the State of Tennessee require that collateral be pledged to secure all uninsured deposits. Tennessee Board of Regents policies require that the market value of collateral pledged equal 115%, 100%, or 90% of the uninsured deposits at financial institutions participating in the collateral pool. The pledge level is based on financial criteria set by the Collateral Pool Board with the financially strongest institutions being eligible for the lowest pledge level.

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. INVESTMENTS

The college is authorized by statute to invest funds in accordance with Tennessee Board of Regents policies. Under the current policy, funds other than endowments may be invested only in obligations of the United States or its agencies backed by the full faith and credit of the United States; repurchase agreements for United States securities; certificates of deposit in banks and savings and loan associations; bankers' acceptances; commercial paper; money market mutual funds; and the State of Tennessee Local Government Investment Pool. The policy requires that investments of endowments in equity securities be limited to funds from private gifts or other sources external to the college and that endowment investments be prudently diversified. The Pellissippi 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 college's investments at June 30, 2003, and June 30, 2002, consisted solely of funds in the State of Tennessee Local Government Investment Pool which have been reported as cash.

The investments of the Pellissippi State Technical Community College Foundation are included on the college's statement of net assets. The foundation's investments in mutual funds at June 30, 2003, and June 30, 2002, are listed below and are not susceptible to credit risk categorization.

June 30, 2003	Fair Value
Commonfund, Inc.:	
Equity fund	$1,810,331.02
Bond fund	1,088,099.81
Total investments on the statement of net assets	$2,898,430.83

June 30, 2002	Fair Value
Commonfund, Inc.:	
Intermediate fund - unendowed	$ 76,838.78
Equity fund	1,624,104.00
Bond fund	1,088,971.68
Total investments on the statement of net assets	$2,789,914.46

NOTE 5. RECEIVABLES

Receivables included the following:

	June 30, 2003	June 30, 2002
Student accounts receivable	$ 680,741.83	$ 584,202.71
Grants receivable	313,684.03	362,998.29
Pledges receivable	305,963.76	474,103.60
State appropriation receivable	42,900.00	190,500.00
Other receivables	330,325.40	346,675.89
Subtotal	1,673,615.02	1,958,480.49
Less allowance for doubtful accounts	155,138.52	151,689.16
Total receivables	$1,518,476.50	$1,806,791.33

Pledges receivable are promises of private donations that are reported as accounts receivable and revenue, net of the estimated uncollectible allowance of $12,238.52 at June 30, 2003, and $18,964.16 at June 30, 2002.

NOTE 6. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2003, was as follows:

	Beginning Balance	Additions	Transfers	Reductions	Ending Balance
Land	$2,592,127.74	$ -	$ -	$ -	$2,592,127.74
Buildings	39,465,130.89	-	-	-	39,465,130.89
Land improvements and infrastructure	1,958,921.36	-	887,611.31	-	2,846,532.67
Equipment	7,066,699.56	153,977.68	-	28,661.42	7,192,015.82
Library holdings	1,840,546.90	180,177.06	-	183,105.25	1,837,618.71
Projects in progress	706,058.07	294,807.19	(887,611.31)	-	113,253.95
Total	53,629,484.52	628,961.93	-	211,766.67	54,046,679.78

Less accumulated depreciation:					
Buildings	13,779,270.73	1,169,868.63	-	629,830.09	14,319,309.27
Land improvements and infrastructure	870,313.67	142,326.63	-	-	1,012,640.30
Equipment	4,442,442.08	583,478.30	-	16,504.77	5,009,415.61
Library holdings	906,265.69	202,072.35	-	183,105.25	925,232.79
Total accum. depreciation	19,998,292.17	2,097,745.91	-	829,440.11	21,266,597.97
Capital assets, net	$33,631,192.35	($1,468,783.98)	$ -	($617,673.44)	$32,780,081.81

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

	Beginning Balance	Additions	Transfers	Reductions	Ending Balance
Land	$ 2,013,657.74	$578,470.00	$ -	$ -	$2,592,127.74
Buildings	37,613,235.03	1,580,000.00	1,070,226.94	798,331.08	39,465,130.89
Land improvements and infrastructure	1,919,727.56	-	39,193.80	-	1,958,921.36
Equipment	7,323,183.07	170,412.66	-	426,896.17	7,066,699.56
Library holdings	1,870,479.44	160,146.09	-	190,078.63	1,840,546.90
Projects in progress	443,546.07	1,371,932.74	(1,109,420.74)	-	706,058.07
Total	51,183,828.91	3,860,961.49	-	1,415,305.88	53,629,484.52
Less accumulated depreciation:					
Buildings	13,568,726.51	1,145,970.33	-	935,426.11	13,779,270.73
Land improvements and infrastructure	772,367.61	137,904.95	-	39,958.89	870,313.67
Equipment	4,103,791.69	587,992.64	-	249,342.25	4,442,442.08
Library holdings	893,281.74	203,062.58	-	190,078.63	906,265.69
Total accum. depreciation	19,338,167.55	2,074,930.50	-	1,414,805.88	19,998,292.17
Capital assets, net	$31,845,661.36	$1,786,030.99	$ -	$ 500.00	$33,631,192.35

NOTE 7. LONG-TERM LIABILITIES

Long-term liabilities activity for the year ended June 30, 2003, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Compensated absences	$851,865.83	$18,788.51	$77,689.88	$792,964.46	$267,229.02

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

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Compensated absences	$818,207.39	$88,950.77	$55,292.33	$851,865.83	$374,820.97

NOTE 8. UNRESTRICTED NET ASSETS

Unrestricted net assets include funds that have been designated or reserved for specific purposes. The unrestricted net assets are composed of the following:

	June 30, 2003	June 30, 2002
Working capital	$315,229.99	$415,030.92
Encumbrances	247,223.07	94,921.58
Designated fees	-	19,779.00
Auxiliaries	806,842.02	443,584.39
Plant construction	691,863.73	384,550.05
Renewal and replacement of equipment	1,571,570.41	781,716.15
Unreserved/undesignated	633,864.33	49,104.71
Total	$4,266,593.55	$2,188,686.80

NOTE 9. 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 7.29% 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, 2003, 2002, and 2001 were $506,612.56, $448,012.12, and $423,209.10. 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 $1,005,382.01 for the year ended June 30, 2003, and $996,182.32 for the year ended June 30, 2002. Contributions met the requirements for each year.

NOTE 10. 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 11. 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 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	($976,610.93)
Change in method of capitalizing library holdings	($1,439,665.56)
Adoption of depreciation on capital assets	($19,338,167.55)
Deferred revenue recognition	$467,466.60
Deferred charges recognition	($404,871.68)

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.*

NOTE 12. 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 had no claims filed with the commercial insurer. Designations for casualty losses in the amount of $3.271 million for incurred losses at June 30, 2003, and $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, 2003, the scheduled coverage for the college was $51,658,100 for buildings and $12,641,200 for contents. At June 30, 2002, the scheduled coverage for the college was $47,922,100 for buildings and $13,456,300 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.

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 13. 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 $5,245,199.71 at June 30, 2003, and $5,035,276.28 at June 30, 2002.

Construction in Progress - At June 30, 2003, outstanding commitments under construction contracts totaled $256,903.49 for the Goins Building Renovation and Roofing Repair projects, of which $256,903.49 will be funded by future state capital outlay appropriations.

NOTE 14. NATURAL CLASSIFICATIONS WITH FUNCTIONAL CLASSIFICATIONS

The college's operating expenses by functional classification for the year ended June 30, 2003, are as follows:

	Natural Classification					
Functional Classification	Salaries	Benefits	Other Operating	Scholarships	Depreciation	Total
Instruction	$12,634,476.83	$3,084,006.84	$2,793,948.76	$35,298.00	$ -	$18,547,730.43
Public service	548,947.10	134,600.41	464,069.92	-	-	1,147,617.43
Academic support	2,408,264.38	675,169.79	(512,534.16)	8,191.00	-	2,579,091.01
Student services	2,061,944.80	620,294.26	950,988.03	44,606.25	-	3,677,833.34
Institutional support	2,053,749.02	652,547.91	1,009,209.47	-	-	3,715,506.40
Operation & maintenance of plant	528,842.13	199,964.53	1,766,578.28	-	-	2,495,384.94
Scholarships & fellowships	6,307.50	719.53	540.79	4,048,882.23	-	4,056,450.05
Auxiliary	-	-	120,856.73	-	-	120,856.73
Depreciation	-	-	-	-	2,097,745.91	2,097,745.91
Total	$20,242,531.76	$5,367,303.27	$6,593,657.82	$4,136,977.48	$2,097,745.91	$38,438,216.24

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

	Natural Classification					
Functional Classification	Salaries	Benefits	Other Operating	Scholarships	Depreciation	Total
Instruction	$12,924,328.62	$2,964,923.54	$2,596,094.05	$78,933.00	$ -	$18,564,279.21
Public service	603,335.98	136,843.79	366,978.06	-	-	1,107,157.83
Academic support	2,445,567.12	609,744.55	(83,943.48)	25,116.00	-	2,996,484.19
Student services	2,064,647.32	558,900.09	1,212,533.29	44,669.88	-	3,880,750.58
Institutional support	2,037,325.56	575,650.58	829,574.80	457.00	-	3,443,007.94
Operation & maintenance of plant	585,410.96	180,908.04	1,524,576.04	-	-	2,290,895.04
Scholarships & fellowships	6,720.00	474.06	4,732.20	3,797,609.44	-	3,809,535.70
Auxiliary	-	-	122,064.50	-	-	122,064.50
Depreciation	-	-	-	-	2,074,930.50	2,074,930.50
Total	$20,667,335.56	$5,027,444.65	$6,572,609.46	$3,946,785.32	$2,074,930.50	$38,289,105.49