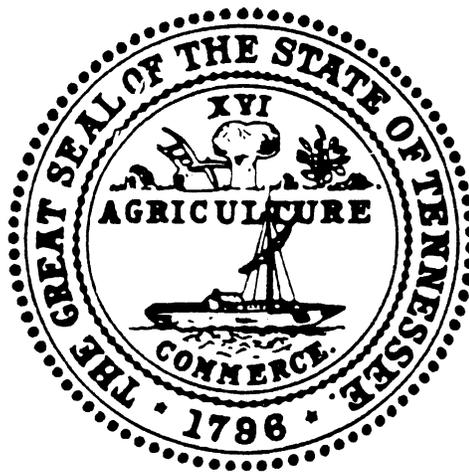


AUDIT REPORT

Tennessee Board of Regents
Chattanooga State Technical Community College

For the Years Ended
June 30, 2004, and June 30, 2003



STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY

Department of Audit
Division of State Audit



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

John I. Gullett, CFE
Richard J. Murray
Michael B. Wilbanks
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

October 25, 2005

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, 2004, and June 30, 2003. You will note from the independent auditor's report that unqualified opinions were given on the fairness of the presentation of the financial statements.

Consideration of internal control over financial reporting and tests of compliance disclosed one deficiency which is detailed in the Results of the Audit section of this report. The college's administration has responded to the audit finding; the response is included following the finding. The Division of State Audit will follow up the audit to examine the application of the procedures instituted because of the audit finding.

Sincerely,

John G. Morgan
Comptroller of the Treasury

JGM/sds
05/029

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, 2004, and June 30, 2003

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 grant agreements; to determine the fairness of the presentation of the financial statements; and to recommend appropriate actions to correct any deficiencies.

COMPLIANCE FINDING

Failure to Properly Perform Title IV Return-of-Funds Calculations

The college's financial aid office did not always properly calculate the amount of Title IV financial aid funds to be returned when a student withdrew from school. For 2 of 19 return of Title IV funds transactions tested from the 2003 and 2004 fiscal years (11%), errors were made in performing the necessary calculations. In one case, a financial aid employee performed, or at least supervised, the return-of-funds calculation for her daughter. This was contrary to the college's conflict of interest policy.

OPINION ON THE FINANCIAL STATEMENTS

The opinions on the financial statements are unqualified.

Audit Report
Tennessee Board of Regents
Chattanooga State Technical Community College
For the Years Ended June 30, 2004, and June 30, 2003

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**Tennessee Board of Regents
Chattanooga State Technical Community College
For the Years Ended June 30, 2004, and June 30, 2003**

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, 2002, through June 30, 2004, 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, 2004, and June 30, 2003. 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 opinions on the financial statements;
2. to determine compliance with certain provisions of laws, regulations, contracts, and grant agreements;
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

FRAUD CONSIDERATIONS

Statement on Auditing Standards No. 99, *Consideration of Fraud in a Financial Statement Audit*, promulgated by the American Institute of Certified Public Accountants, requires auditors to specifically assess the risk of material misstatement of an audited entity's financial statements due to fraud. The standard also restates the obvious premise that management, and not the auditors, is primarily responsible for preventing and detecting fraud in its own entity. Management's responsibility is fulfilled in part when it takes appropriate steps to assess the risk of fraud within the entity and to implement adequate internal controls to address the results of those risk assessments.

During our audit, we discussed these responsibilities with management and how management might approach meeting them. We also increased the breadth and depth of our inquiries of management and others in the entity as we deemed appropriate. We obtained formal assurances from top management that management had reviewed the entity's policies and procedures to ensure that they are properly designed to prevent and detect fraud and that management had made changes to the policies and procedures where appropriate. Top management further assured us that all staff had been advised to promptly alert management of all allegations of fraud, suspected fraud, or detected fraud and to be totally candid in all communications with the auditors. All levels of management assured us there were no known instances or allegations of fraud that were not disclosed to us.

A review of the activities of the former women's basketball coach is ongoing. Any findings resulting from that review 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, 2004, and June 30, 2003, we considered internal control over financial reporting to determine auditing procedures for the purpose of expressing opinions 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*. An immaterial instance of noncompliance, along with our recommendation and management's response, is included in the finding and recommendation.

Fairness of Financial Statement Presentation

The Division of State Audit has rendered unqualified opinions 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 Internal Control Over Financial Reporting and
on Compliance and Other Matters Based on an Audit of
Financial Statements Performed in Accordance With
*Government Auditing Standards***

May 12, 2005

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, 2004, and June 30, 2003, and have issued our report thereon dated May 12, 2005. 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. During the year ended June 30, 2004, the college implemented GASB Statement 39, *Determining Whether Certain Organizations Are Component Units*.

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 opinions on the financial statements and not to provide an opinion 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 reportable 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 caused by error or fraud 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.

The Honorable John G. Morgan
May 12, 2005
Page Two

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

Compliance and Other Matters

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 grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We did, however, note an immaterial instance of noncompliance that we have included in the Finding and Recommendation section of this report.

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." The signature is written in a cursive style with a large, stylized initial "A".

Arthur A. Hayes, Jr., CPA
Director

AAH/sds

FINDING AND RECOMMENDATION

Failure to properly perform Title IV return-of-funds calculations

The college's financial aid office did not always properly calculate the amount of Title IV funds to be returned when a student withdrew. According to the *Federal Student Aid Handbook*, volume 2, page 108:

Title IV funds are awarded to a student under the assumption that the student will attend school for the entire period for which the assistance is awarded. When a student withdraws, the student may no longer be eligible for the full amount of Title IV funds that the student was originally scheduled to receive. If a recipient of Title IV grant or loan funds withdraws from a school after beginning attendance, the amount of Title IV grant or loan assistance earned by the student must be determined. If the amount disbursed to the student is greater than the amount the student earned, unearned funds must be returned.

For 2 of 19 Title IV return-of-funds transactions tested from the 2003 and 2004 fiscal years (11%), errors were made in performing the necessary calculations. In one case, \$885.50 of tuition and fees were not included in the calculation. As a result, the school did not return \$450.72 to the lender or bill the student for \$450.72 of tuition and fees. In the other case, a Supplemental Educational Opportunity Grant disbursed to the student was not included in the calculation. This did not actually affect the amount to be returned by the student or the school.

In the second instance, a financial aid employee performed, or at least supervised, the return-of-funds calculation for her daughter. The financial aid office's conflict of interest policy states, "As an employee in the financial aid office of Chattanooga State Technical Community College, you are to avoid processing financial transactions in which you have some personal interest, including family members and personal friends." To determine if there were similar calculations supervised by the employee, we examined all transactions involving eligibility and return of Title IV funds for her children who attended the college.

As a result of concerns related to employee conflict of interest, the college's internal auditor promptly began an already-scheduled financial aid audit. Based on our review of this draft report, it appears that several discrepancies were noted. College management should take necessary action to correct any control weaknesses or compliance problems described in this audit and seek restitution where necessary. As necessary, amounts should be returned to lenders or the U.S. Department of Education. In our next audit we will follow up on any corrective actions taken.

In addition, it was noted that 15 of 19 worksheets supporting the return calculations were not signed. The worksheets should be signed to establish accountability.

According to financial aid personnel, these errors occurred due to changes in personnel and a resulting lack of training, experience, and expertise.

Recommendation

The Director of Financial Aid should ensure that departmental staff members are adequately trained and have the necessary experience and ability to perform Title IV return-of-funds calculations. Adequate, additional review procedures should also be implemented to ensure the accuracy of the calculations. Additional emphasis should be placed on conflict of interest situations, and written instructions should be developed describing exactly how to proceed in such situations. In addition, the supporting worksheets should be signed to establish accountability.

Management's Comment

We concur. Financial Aid staff has corrected the errors noted in the audit. \$450.72 was properly returned to the lender as described above. The employee who performed Return-of-Title IV fund calculations for her own daughter has been terminated. Worksheets have been revised and now require the initials of the employee completing them. Return-of-Title IV calculations are only performed by professional staff who are also required to sign the calculation sheets. Return-of-Title IV calculations are now performed via the web which allows more reporting and tracking options.

The conflict of interest policy and procedure now stipulates that the Director of Financial Aid shall perform all work on employee files and their relatives. This includes initial awards, adjustments, and any Return-of-Title IV calculations. A professional Financial Aid staff member will make awards to any relatives of the Director of Financial Aid. The names of relatives are to be turned in at the beginning of each financial aid year and updated as necessary.

New staff members are required to participate in intense in-house training as well as attend state and regional training sessions. Current staff participate in appropriate training comparable to their level of expertise. All staff are provided training manuals and updated information from the U.S. Department of Education and financial aid professional organizations.

College management will ensure that all necessary actions are taken to correct any control weaknesses or compliance issues noted in the internal audit report.



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 12, 2005

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

Dear Mr. Morgan:

We have audited the accompanying basic 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, and its discretely presented component unit as of and for the years ended June 30, 2004, and June 30, 2003, as listed in the table of contents. These financial statements are the responsibility of the college's management. Our responsibility is to express opinions on these financial statements, based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit 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 opinions. Tennessee statutes, in addition to audit responsibilities, entrust certain other responsibilities to the Comptroller of the Treasury. Those responsibilities include serving as a member of the board of directors of many agencies, commissions, and component units of the State of Tennessee; managing the state's debt; and making loans to the state's colleges and universities from debt proceeds. Some of the boards on which the Comptroller of the Treasury serves as a member per state statutes include the State Building Commission and the Tennessee Higher Education Commission.

The Honorable John G. Morgan
May 12, 2005
Page Two

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Tennessee Board of Regents, Chattanooga State Technical Community College, and its discretely presented component unit as of June 30, 2004, and June 30, 2003, and the respective changes in financial position and cash flows thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

During the year ended June 30, 2004, the college implemented GASB Statement 39, *Determining Whether Certain Organizations Are Component Units*.

The management's discussion and analysis on pages 11 through 29 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.

Our audit was conducted for the purpose of forming opinions on the basic financial statements. The accompanying financial information on page 49 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 12, 2005, 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 grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Sincerely,

A handwritten signature in black ink, appearing to read "Arthur A. Hayes, Jr.", written in a cursive style.

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, 2004, with comparative information presented for the fiscal years ended June 30, 2003, and 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.

The college has one discretely presented component unit, the Chattanooga State Technical Community College Foundation. More detailed information about the college's component unit is provided in Note 13 of the financial statements. Information and analysis related to the component unit are also included in this section.

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 is restricted net assets, which is divided into two categories, nonexpendable and expendable. The corpus of nonexpendable restricted resources is only available for investment purposes. 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.

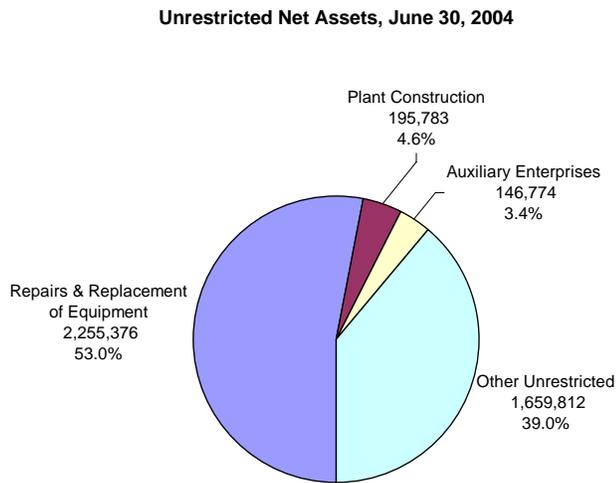
**Statements of Net Assets
(in thousands of dollars)**

	Institution			Component Unit		
	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>
Assets:						
Current assets	\$6,243	\$5,344	\$5,325	\$55	\$33	\$450
Capital assets, net	27,870	23,578	24,693	726	726	726
Other assets	1,635	1,249	2,137	4,161	4,040	3,350
Total Assets	<u>35,748</u>	<u>30,171</u>	<u>32,155</u>	<u>4,942</u>	<u>4,799</u>	<u>4,526</u>
Liabilities:						
Current liabilities	2,625	2,951	2,876	45	26	210
Noncurrent liabilities	5,970	1,670	1,429	65	45	20
Total Liabilities	<u>8,595</u>	<u>4,621</u>	<u>4,305</u>	<u>110</u>	<u>71</u>	<u>230</u>
Net Assets:						
Invested in capital assets, net of related debt	22,833	22,865	23,882	726	726	726
Restricted – nonexpendable	-	-	-	863	846	635
Restricted – expendable	62	105	87	1,826	1,727	1,397
Unrestricted	4,258	2,580	3,881	1,417	1,429	1,538
Total Net Assets	<u>\$27,153</u>	<u>\$25,550</u>	<u>\$27,850</u>	<u>\$4,832</u>	<u>\$4,728</u>	<u>\$4,296</u>

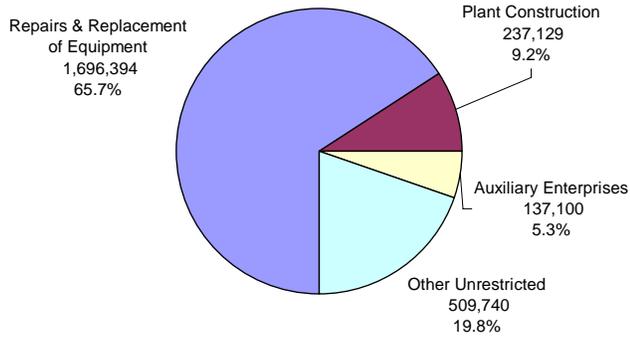
- Current assets includes an increase in current cash of \$1 million from fiscal year 2003 to fiscal year 2004 due to tuition and fee increases and due to the practice of delaying expenditures based on an uncertain allocation of appropriations from the state. Current assets also includes a decrease in grants receivable of \$384 thousand.
- Capital assets, net, increased by \$4 million from fiscal year 2003 to fiscal year 2004 due to the acquisition of a building and land.
- Capital assets, net, decreased \$1.1 million from fiscal year 2002 to fiscal year 2003 due to depreciation expense.
- Other assets includes an increase in noncurrent cash from fiscal year 2003 to fiscal year 2004 due to a transfer of \$500,000 to plant funds for the replacement of administrative software.
- Other assets decreased \$884 thousand from fiscal year 2002 to fiscal year 2003 due to upgrades to faculty and staff computers, an update to campus facilities, and an increase in accounts receivable related to Title IV financial aid grants.
- Noncurrent liabilities increased by \$4.3 million from fiscal year 2003 to fiscal year 2004 due to the commercial paper issued to finance the property acquisition

- The foundation current assets decreased from fiscal year 2002 to fiscal year 2003 due to a \$370 thousand investment of cash into a hedge fund investment.
- The foundation current liabilities decreased from fiscal year 2002 to fiscal year 2003 after a short-term note of \$162,500 was paid.

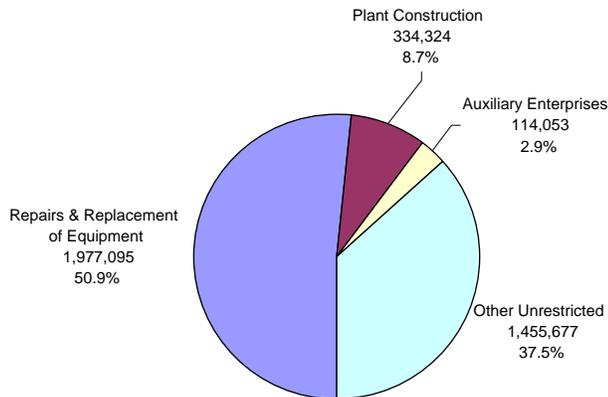
Many of the college's unrestricted net assets have been designated or reserved for specific purposes such as: repairs and replacement of equipment. For additional detail, refer to Note 7. The following graph shows the allocations:



Unrestricted Net Assets, June 30, 2003



Unrestricted Net Assets, June 30, 2002



- Other unrestricted net assets increased by \$1.15 million from fiscal year 2003 to fiscal year 2004 due to the increase in tuition and fees and due to the practice of delaying expenditures based on an uncertain allocation of appropriations from the state.

- Other unrestricted net assets decreased by \$945 thousand from fiscal year 2002 to fiscal year 2003 due to an impoundment of state appropriations by the State of Tennessee.
- Repairs and replacement of equipment increased from fiscal year 2003 to fiscal year 2004 due to a transfer of \$500,000 for the replacement of administrative software.
- Unrestricted net assets designated for repairs and replacements of equipment decreased by \$280 thousand from fiscal year 2002 to fiscal year 2003 due to equipment purchases.

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 non-operating revenues according to accounting principles generally accepted in the United States of America.

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

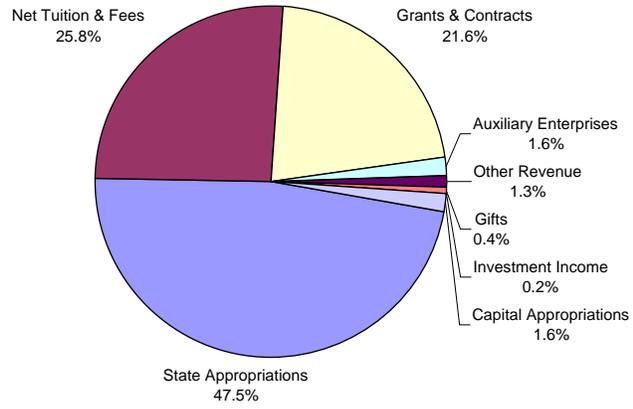
	Institution			Component Unit		
	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>
Operating revenues:						
Net tuition and fees	\$12,716	\$10,309	\$9,707	\$ -	\$ -	\$ -
Grants and contracts	2,832	2,533	8,424	-	-	-
Auxiliary	800	753	725	-	-	-
Gifts and contributions	-	-	-	224	659	250
Other	1,202	723	670	21	24	-
Total operating revenues	<u>17,550</u>	<u>14,318</u>	<u>19,526</u>	<u>245</u>	<u>683</u>	<u>250</u>
Operating expenses	48,241	47,939	43,597	462	415	363
Operating income/(loss)	<u>(30,691)</u>	<u>(33,621)</u>	<u>(24,071)</u>	<u>(217)</u>	<u>268</u>	<u>(113)</u>
Nonoperating revenues and expenses:						
State appropriations	23,439	23,792	23,822	-	-	-
Gifts	181	162	161	-	-	-
Grants and contracts	7,870	7,244	-	-	-	-
Investment income	76	108	171	308	94	(185)
Other revenues and expenses	(62)	(33)	(48)	-	-	-
Total nonoperating revenues and expenses	<u>31,504</u>	<u>31,273</u>	<u>24,106</u>	<u>308</u>	<u>94</u>	<u>(185)</u>

Income (loss) before other revenues, expenses, gains, or losses	813	(2,348)	35	91	362	(298)
Other revenues, expenses, gains, or losses:						
Capital appropriations	790	48	67	-	-	-
Additions to permanent endowments	-	-	-	12	71	162
Total other revenues, expenses, gains, or losses	790	48	67	12	71	162
Increase (decrease) in net assets	1,603	(2,300)	102	103	433	(136)
Net assets at beginning of year, as originally reported	25,550	27,850	51,481	4,729	4,296	4,432
Cumulative effects of changes in accounting principle	-	-	(23,733)	-	-	-
Net assets at beginning of period, restated	25,550	27,850	27,748	4,729	4,296	4,432
Net assets at end of year	\$27,153	\$25,550	\$27,850	\$4,832	\$4,729	\$4,296

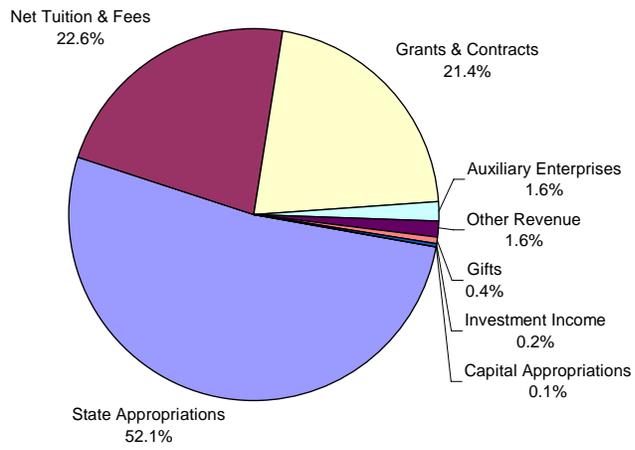
Revenues

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, 2004, the year ended June 30, 2003, and the year ended June 30, 2002. Amounts are presented in thousands of dollars.

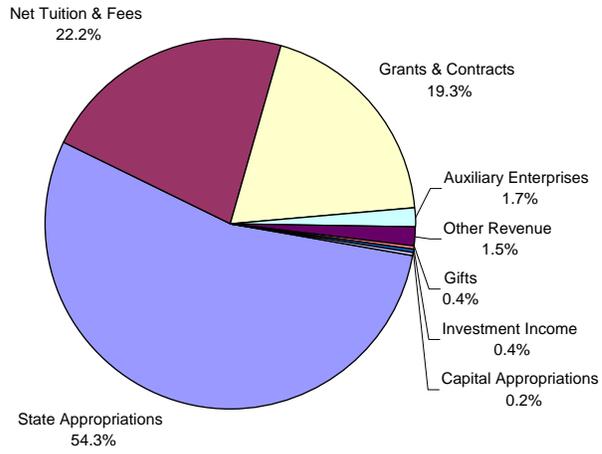
Total Revenue, June 30, 2004



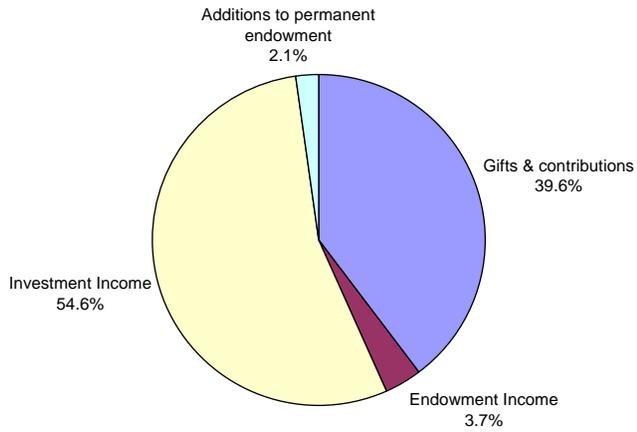
Total Revenue, June 30, 2003



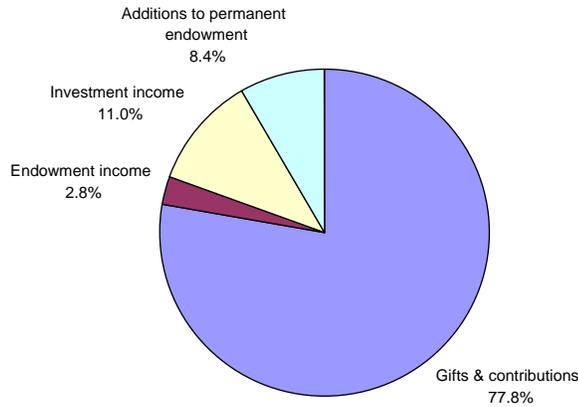
Total Revenue, June 30, 2002



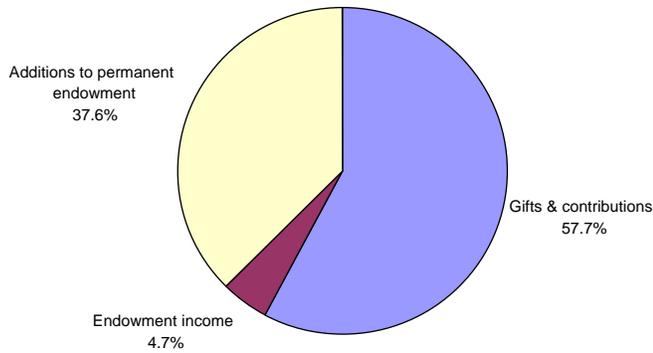
Foundation Total Revenue, June 30, 2004



Foundation Total Revenue, June 30, 2003



Foundation Total Revenue, June 30, 2002



- Net tuition and fees increased by \$2.4 million from fiscal year 2003 to fiscal year 2004 due to a 14% tuition and fee increase and an increase in the Technology Access fee.
- Net tuition and fees increased by \$602 thousand from fiscal year 2002 to fiscal year 2003 due to a 7.5% tuition and fee increase.
- Grants and contracts increased in part due to an increase in Pell awards of \$678 thousand from fiscal year 2003 to fiscal year 2004.

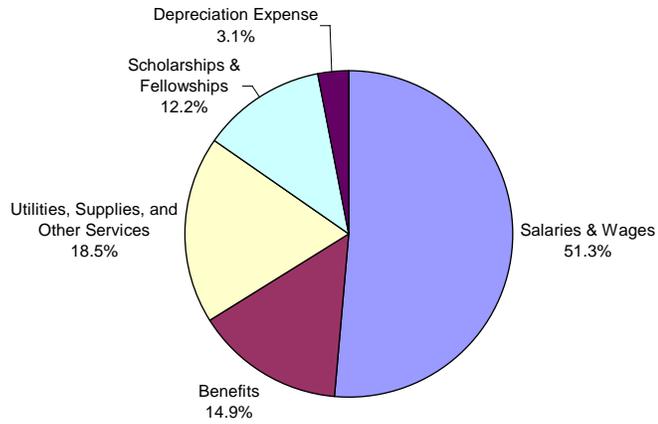
- Grants and contracts increased by \$1.3 million from fiscal year 2002 to fiscal year 2003 due to an increase in Pell awards and the receipt of a new federal grant for a Real Time Captioning Program.
- Capital appropriations increased by \$740 thousand from fiscal year 2003 to fiscal year 2004 due to capital maintenance projects which included \$638 thousand for the heating, ventilation, and air conditioning piping and \$102 thousand for the re-roofing project.
- The foundation gifts and contributions revenue decreased by \$385 thousand from fiscal year 2003 to fiscal year 2004 due to a one-time contribution that only occurred in fiscal year 2003.
- The foundation gifts and contributions revenue increased by \$385 thousand from fiscal year 2002 to fiscal year 2003 due to a one-time contribution that only occurred in fiscal year 2003.
- The foundation investment income increased by \$214 thousand from fiscal year 2003 to fiscal year 2004 due to the recovery of the investment market.
- The foundation investment income increased by \$279 thousand from fiscal year 2002 to fiscal year 2003 due to the recovery of the investment market.
- The foundation additions to permanent endowments decreased by \$91 thousand from fiscal year 2002 to fiscal year 2003 due to fewer contributors.

Expenses

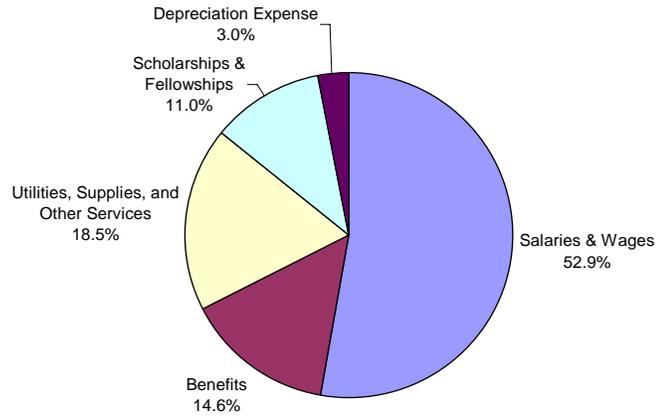
Operating expenses can be displayed in two formats, natural classification and program classification. Both formats are displayed below.

	Natural Classification			Component Unit		
	Operating Expenses					
	(in thousands of dollars)					
	Institution					
	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>
Salaries and wages	\$24,756	\$25,351	\$23,251	\$ -	\$ -	\$ -
Benefits	7,167	6,979	5,991	-	-	-
Utilities, supplies, and other services	8,944	8,882	7,963	116	118	76
Scholarships and fellowships	5,898	5,288	4,887	229	189	195
Depreciation expense	1,476	1,439	1,505	-	-	-
Payments to CSTCC	-	-	-	117	108	92
Total operating expenses	\$48,241	\$47,939	\$43,597	\$ 462	\$ 415	\$ 363

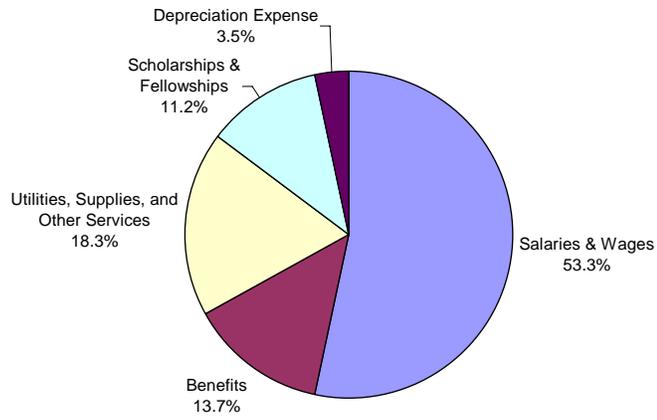
Operating Expenses (by Natural Classification), June 30, 2004



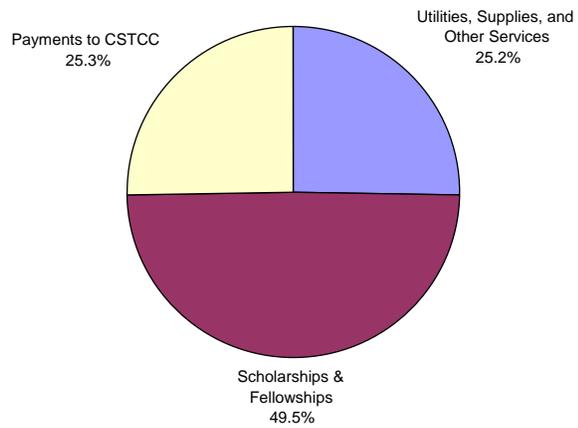
Operating Expenses (by Natural Classification), June 30, 2003



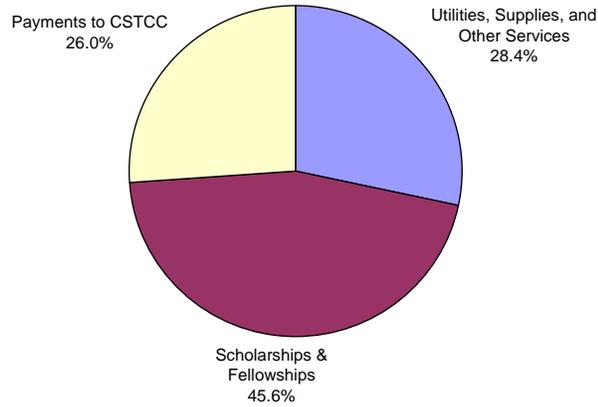
Operating Expenses (by Natural Classification), June 30, 2002



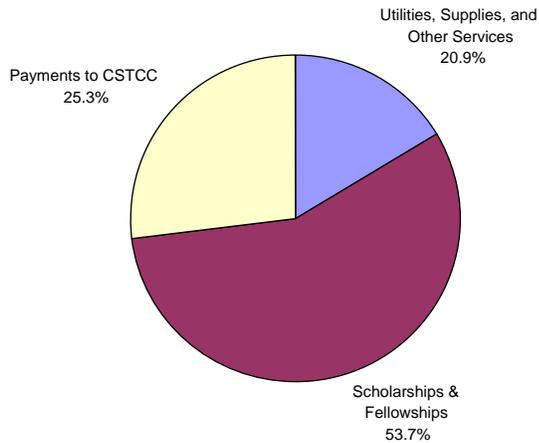
Foundation Operating Expenses (by Natural Classification), June 30, 2004



Foundation Operating Expenses (by Natural Classification), June 30, 2003



Foundation Operating Expenses (by Natural Classification), June 30, 2002



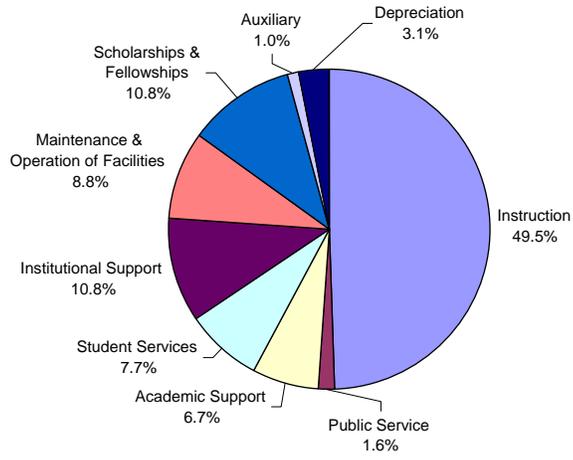
- Salaries and wages decreased from fiscal year 2003 to fiscal year 2004 due to the elimination of several vacant positions in response to reductions in state funding.
- Salaries and wages increased by \$2.1 million from fiscal year 2002 to fiscal year 2003 due to a 2% across the board raise mandated by the State of Tennessee and the implementation of Phase III of the college's salary equity study.
- Scholarships increased from fiscal year 2003 to fiscal year 2004 due to an increase in Pell awards.

- Benefits increased by \$988 thousand from fiscal year 2002 to fiscal year 2003 due to increases in salaries and wages and an increase in health insurance premiums.
- Utilities, supplies, and other services increased by \$919 thousand from fiscal year 2002 to fiscal year 2003 due to purchases of equipment and renovations to the campus.
- The increase in foundation utilities, supplies, and other services from fiscal year 2002 to fiscal year 2003 included expenses for the Outdoor Art Museum of \$22 thousand, expenses for the Sequatchie site of \$23 thousand, and expenses for the Integration of Technology into Learning faculty teacher development program of \$30 thousand.

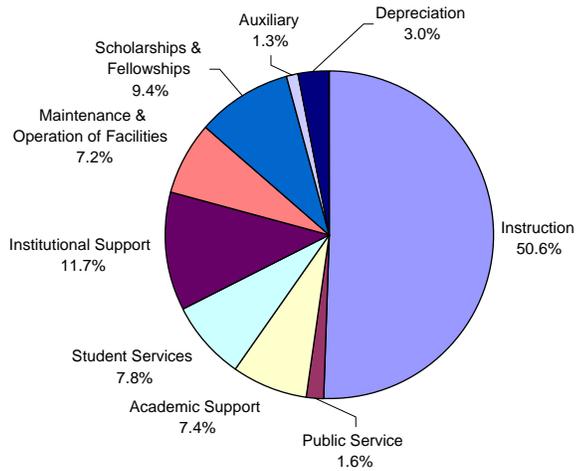
**Program Classification
Operating Expenses
(in thousands of dollars)**

	Institution		
	<u>2004</u>	<u>2003</u>	<u>2002</u>
Instruction	\$23,866	\$24,268	\$21,434
Public service	775	759	662
Academic support	3,231	3,555	3,292
Student services	3,701	3,753	3,572
Institutional support	5,202	5,632	4,980
Maintenance & operation of facilities	4,228	3,470	3,341
Scholarships & fellowships	5,212	4,504	4,319
Auxiliary	550	559	492
Depreciation	1,476	1,439	1,505
Total operating expenses	<u>\$48,241</u>	<u>\$47,939</u>	<u>\$43,597</u>

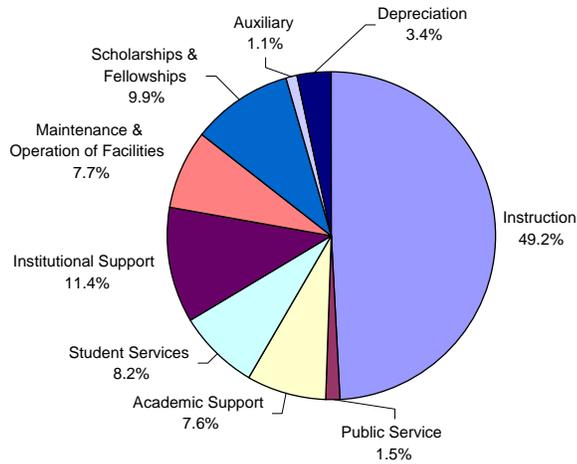
Operating Expenses (by Program Classification), June 30, 2004



Operating Expenses (by Program Classification), June 30, 2003



Operating Expenses (by Program Classification), June 30, 2002



- Instruction increased by \$2.8 million from fiscal year 2002 to fiscal year 2003 due to a 2% across the board raise mandated by the State of Tennessee and the implementation of Phase III of the college’s salary equity study.
- Academic support decreased from fiscal year 2003 to fiscal year 2004 due to the elimination of 3 professional positions.
- Institutional support decreased from fiscal year 2003 to fiscal year 2004 due to the elimination of 2 high level positions.
- Institutional support increased by \$650 thousand from fiscal year 2002 to fiscal year 2003 due to an increase in salary and wages, benefits, and uncollectible accounts receivable.
- Maintenance and operation of facilities increased from fiscal year 2003 to fiscal year 2004 due to funding of capital maintenance projects.
- Scholarships increased from fiscal year 2003 to fiscal year 2004 due to an increase in Pell awards.

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)					
	Institution			Component Unit		
	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>
Cash provided (used) by:						
Operating activities	\$(30,199)	\$(32,429)	\$(22,210)	\$(196)	\$242	\$(79)
Noncapital financing activities	31,753	31,436	23,737	32	121	158
Capital and related financing activities	(137)	(403)	(842)	-	(163)	-
Investing activities	76	108	171	(183)	(408)	(153)
Net increase (decrease) in cash	<u>1,493</u>	<u>(1,288)</u>	<u>856</u>	<u>(347)</u>	<u>(208)</u>	<u>(74)</u>
Cash, beginning of year	4,348	5,636	4,780	446	654	728
Cash, end of year	<u>\$5,841</u>	<u>\$4,348</u>	<u>\$5,636</u>	<u>\$99</u>	<u>\$446</u>	<u>\$654</u>

- Cash received from tuition and fees increased by \$2.6 million from fiscal year 2003 to fiscal year 2004 due to increases in tuition and fees.
- Cash received from grants and contracts increased by \$684 thousand from fiscal year 2003 to fiscal year 2004 due to an increase in Pell awards.
- Cash received from grants and contracts increased by \$800,000 from fiscal year 2002 to fiscal year 2003 due to an increase in Pell awards and the receipt of a new federal grant for a Real Time Captioning Program.
- Cash paid to suppliers and vendors increased by \$844,000 from fiscal year 2002 to fiscal year 2003 due to purchases of equipment and renovations to the campus.
- Cash paid to employees increased by \$1,753,000 from fiscal year 2002 to fiscal year 2003 due to a 2% across the board raise mandated by the State of Tennessee and the implementation of Phase III of the college's salary equity study.
- Cash paid for benefits increased by \$1,510,000 from fiscal year 2002 to fiscal year 2003 due to increases in salaries and wages and an increase in health insurance premiums.
- Cash paid for purchase of capital assets decreased by \$449,000 from fiscal year 2002 to fiscal year 2003 due to a decrease in purchases from the prior year.

- The liquidity of the college increased by \$1,493,000 from fiscal year 2003 to fiscal year 2004.
- The liquidity of the college declined by \$1,288,000 from fiscal year 2002 to fiscal year 2003.

Capital Assets and Debt Administration

Capital Assets

At June 30, 2004, Chattanooga State Technical Community College had \$27,870,222.90 invested in capital assets, net of accumulated depreciation of \$22,921,717.28. Depreciation charges totaled \$1,475,797.85 for the current fiscal year. Details of these assets are shown below.

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

	Institution			Component Unit		
	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>
Land	\$2,429	\$1,329	\$1,329	\$726	\$726	\$726
Land improvements & infrastructure	1,234	1,195	1,232	-	-	-
Buildings	21,859	19,245	20,000	-	-	-
Equipment	1,951	1,345	1,606	-	-	-
Library holdings	397	463	526	-	-	-

The college spent \$5,120,000 on capital additions during fiscal year 2004 which included:

- The acquisition of property for \$4,490,000.
- Equipment purchases of \$439,000.
- Infrastructure purchases of \$139,000.
- Library holding purchases of \$52,000.

The acquisition of property was funded by the issuance of commercial paper. The other capital additions were funded by the college's unrestricted net assets.

No major capital expenditures are planned at this time for the next fiscal year. The college will 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, 2004, the college had \$5,036,834.27 of debt outstanding and the component unit had no debt outstanding. The table below summarizes these amounts by type of debt instrument.

	Schedule of Outstanding Debt					
	(in thousands of dollars)					
	Institution			Component Unit		
	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>
Notes	\$ -	\$ 65	\$ 125	\$ -	\$ -	\$ -
Bonds	607	647	685	-	-	-
Commercial paper	4,430	-	-	-	-	-

The college issued commercial paper in the amount of \$4,430,000 for the acquisition of property. The college also retired its notes payable for the East Campus. The Tennessee State School Bond Authority (TSSBA) must authorize all capital long-term debt on behalf of the college. TSSBA currently is rated as AA- by Standard & 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 comprise 46% of total revenues and are thus the largest source of funding. Effective fall 2004, student fees were increased by 7%. The additional revenue will further negate the effects of reductions in state support in recent years.

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 Tammy Swenson, Vice President for Business & Finance, Chattanooga State Technical Community College, 4501 Annicola Highway, Chattanooga, Tennessee 37406-1097.

TENNESSEE BOARD OF REGENTS
CHATTANOOGA STATE TECHNICAL COMMUNITY COLLEGE
STATEMENTS OF NET ASSETS
JUNE 30, 2004, AND JUNE 30, 2003

	Chattanooga State Technical Community College		Component Unit - Chattanooga State Technical Community College Foundation	
	June 30, 2004	June 30, 2003	June 30, 2004	June 30, 2003
ASSETS				
Current assets:				
Cash and cash equivalents (Notes 2, 3, and 13)	\$ 4,248,539.01	\$ 3,137,708.02	\$ 52,248.79	\$ 28,219.62
Accounts, notes, and grants receivable (net) (Note 4)	1,870,715.79	2,142,314.28	-	-
Pledges receivable (Note 13)	-	-	-	4,500.00
Inventories	53,443.10	57,742.95	-	-
Prepaid expenses and deferred charges	70,785.92	6,460.93	3,000.00	105.00
Total current assets	<u>6,243,483.82</u>	<u>5,344,226.18</u>	<u>55,248.79</u>	<u>32,824.62</u>
Noncurrent assets:				
Cash and cash equivalents (Notes 2, 3, and 13)	1,592,788.55	1,210,002.98	46,898.42	417,711.17
Investments (Note 13)	-	-	4,114,028.00	3,623,109.46
Accounts, notes, and grants receivable (net) (Note 4)	41,966.07	38,727.55	-	-
Capital assets (net) (Notes 5 and 13)	27,870,222.90	23,577,514.04	725,603.03	725,603.03
Total noncurrent assets	<u>29,504,977.52</u>	<u>24,826,244.57</u>	<u>4,886,529.45</u>	<u>4,766,423.66</u>
Total assets	<u>35,748,461.34</u>	<u>30,170,470.75</u>	<u>4,941,778.24</u>	<u>4,799,248.28</u>
LIABILITIES				
Current liabilities:				
Accounts payable	256,925.52	303,504.02	44,839.38	25,771.65
Accrued liabilities	851,017.18	1,209,456.52	-	-
Deferred revenue	929,835.94	770,151.06	-	-
Compensated absences (Note 6)	474,728.47	451,278.15	-	-
Accrued interest payable	10,786.68	-	-	-
Long-term liabilities, current portion (Note 6)	42,463.17	105,364.23	-	-
Deposits held in custody for others	59,199.22	110,773.15	-	-
Total current liabilities	<u>2,624,956.18</u>	<u>2,950,527.13</u>	<u>44,839.38</u>	<u>25,771.65</u>
Noncurrent liabilities:				
Compensated absences (Note 6)	975,479.20	1,062,970.83	-	-
Long-term liabilities (Note 6)	4,994,371.10	606,834.27	-	-
Other liabilities	-	-	65,000.00	45,000.00
Total noncurrent liabilities	<u>5,969,850.30</u>	<u>1,669,805.10</u>	<u>65,000.00</u>	<u>45,000.00</u>
Total liabilities	<u>8,594,806.48</u>	<u>4,620,332.23</u>	<u>109,839.38</u>	<u>70,771.65</u>
NET ASSETS				
Invested in capital assets, net of related debt	22,833,388.63	22,865,315.54	725,603.03	725,603.03
Restricted for:				
Nonexpendable:				
Scholarships and fellowships	-	-	862,976.95	710,374.51
Other	-	-	-	135,685.00
Expendable:				
Scholarships and fellowships	1,157.87	1,236.89	646,779.37	576,505.82
Instructional department uses	-	32,299.39	1,152,774.88	1,116,774.79
Loans	20,361.48	20,361.48	-	-
Other	41,001.12	50,563.00	26,272.99	34,477.73
Unrestricted (Note 7)	4,257,745.76	2,580,362.22	1,417,531.64	1,429,055.75
Total net assets	<u>\$ 27,153,654.86</u>	<u>\$ 25,550,138.52</u>	<u>\$ 4,831,938.86</u>	<u>\$ 4,728,476.63</u>

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

**TENNESSEE BOARD OF REGENTS
CHATTANOOGA STATE TECHNICAL COMMUNITY COLLEGE
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2004, AND JUNE 30, 2003**

	Chattanooga State Technical Community College		Component Unit - Chattanooga State Technical Community College Foundation	
	Year Ended June 30, 2004	Year Ended June 30, 2003	Year Ended June 30, 2004	Year Ended June 30, 2003
REVENUES				
Operating revenues:				
Student tuition and fees (net of scholarship allowances of \$3,840,140.00 for the year ended June 30, 2004, and \$3,722,224.00 for the year ended June 30, 2003)	\$ 12,716,239.20	\$ 10,308,351.51	\$ -	\$ -
Gifts and contributions	-	-	224,031.93	659,268.30
Governmental grants and contracts	2,759,576.62	2,467,582.45	-	-
Nongovernmental grants and contracts	72,036.51	65,887.28	-	-
Endowment income (per spending plan)	-	-	20,800.00	23,450.00
Sales and services of educational departments	317,457.60	432,650.31	-	-
Auxiliary enterprises:				
Bookstore	327,280.00	314,875.00	-	-
Food service	473,235.34	438,552.87	-	-
Other operating revenues	884,501.55	290,635.40	-	-
Total operating revenues	<u>17,550,326.82</u>	<u>14,318,534.82</u>	<u>244,831.93</u>	<u>682,718.30</u>
EXPENSES				
Operating expenses (Note 12):				
Salaries and wages	24,756,339.14	25,350,761.62	-	-
Benefits	7,166,506.39	6,978,663.81	-	-
Utilities, supplies, and other services	8,944,818.38	8,882,055.06	116,289.18	117,650.72
Scholarships and fellowships	5,897,818.47	5,288,167.34	228,870.61	188,946.83
Depreciation expense	1,475,797.85	1,438,906.64	-	-
Payments to or on behalf of Chattanooga State Technical Community College	-	-	116,716.86	107,882.38
Total operating expenses	<u>48,241,280.23</u>	<u>47,938,554.47</u>	<u>461,876.65</u>	<u>414,479.93</u>
Operating income (loss)	<u>(30,690,953.41)</u>	<u>(33,620,019.65)</u>	<u>(217,044.72)</u>	<u>268,238.37</u>
NONOPERATING REVENUES (EXPENSES)				
State appropriations	23,438,800.00	23,791,970.00	-	-
Gifts (college gifts include \$116,716.86 from component unit in 2004 and \$107,882.38 in 2003) (Note 13)	181,152.06	162,115.09	-	-
Grants and contracts	7,870,091.54	7,244,428.10	-	-
Investment income (for component unit, net of investment expense of \$23,177.32 in 2004 and \$20,054.78 in 2003)	75,816.01	108,833.20	308,536.95	93,413.78
Interest on capital asset-related debt	(63,426.59)	(33,805.39)	-	-
Other nonoperating revenues (expenses)	2,452.71	(1,539.95)	-	-
Net nonoperating revenues	<u>31,504,885.73</u>	<u>31,272,001.05</u>	<u>308,536.95</u>	<u>93,413.78</u>
Income (loss) before other revenues, expenses, gains, or losses	<u>813,932.32</u>	<u>(2,348,018.60)</u>	<u>91,492.23</u>	<u>361,652.15</u>
Capital appropriations	789,584.02	47,789.95	-	-
Additions to permanent endowments	-	-	11,970.00	71,045.00
Total other revenues	<u>789,584.02</u>	<u>47,789.95</u>	<u>11,970.00</u>	<u>71,045.00</u>
Increase (decrease) in net assets	<u>1,603,516.34</u>	<u>(2,300,228.65)</u>	<u>103,462.23</u>	<u>432,697.15</u>
NET ASSETS				
Net assets - beginning of year	25,550,138.52	27,850,367.17	4,728,476.63	4,295,779.48
Net assets - end of year	<u>\$ 27,153,654.86</u>	<u>\$ 25,550,138.52</u>	<u>\$ 4,831,938.86</u>	<u>\$ 4,728,476.63</u>

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

**TENNESSEE BOARD OF REGENTS
CHATTANOOGA STATE TECHNICAL COMMUNITY COLLEGE
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2004, AND JUNE 30, 2003**

	Year Ended June 30, 2004	Year Ended June 30, 2003
CASH FLOWS FROM OPERATING ACTIVITIES		
Tuition and fees	\$ 12,866,756.29	\$ 10,257,655.86
Grants and contracts	2,760,908.97	2,110,481.00
Sales and services of educational activities	317,348.94	416,000.51
Payments to suppliers and vendors	(9,038,154.82)	(8,921,259.90)
Payments to employees	(24,784,092.95)	(24,942,805.92)
Payments for benefits	(7,575,858.94)	(7,072,272.00)
Payments for scholarships and fellowships	(5,887,097.78)	(5,293,575.85)
Auxiliary enterprise charges:		
Bookstore	314,875.00	313,806.23
Food services	476,097.71	422,464.87
Other receipts	350,743.60	280,681.98
Net cash used by operating activities	<u>(30,198,473.98)</u>	<u>(32,428,823.22)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State appropriations	23,435,900.00	23,972,606.45
Gifts and grants received for other than capital or endowment purposes	8,373,689.33	7,456,271.06
Federal student loan receipts	6,141,615.36	4,945,308.81
Federal student loan disbursements	(6,170,313.64)	(4,922,359.56)
Changes in deposits held for others	(27,077.86)	(16,464.86)
Net cash provided by noncapital financing activities	<u>31,753,813.19</u>	<u>31,435,361.90</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from capital debt	4,430,000.00	-
Capital appropriations	786,345.50	47,789.95
Proceeds from sale of capital assets	4,106.00	-
Purchases of capital assets and construction	(5,174,481.20)	(324,272.44)
Principal paid on capital debt and leases	(105,364.23)	(98,278.08)
Interest paid on capital debt and leases	(78,144.73)	(28,058.37)
Net cash used by capital and related financing activities	<u>(137,538.66)</u>	<u>(402,818.94)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Income on investments	75,816.01	108,833.20
Net cash provided by investing activities	<u>75,816.01</u>	<u>108,833.20</u>
Net increase in cash	1,493,616.56	(1,287,447.06)
Cash - beginning of year	4,347,711.00	5,635,158.06
Cash - end of year	<u>\$ 5,841,327.56</u>	<u>\$ 4,347,711.00</u>

**TENNESSEE BOARD OF REGENTS
CHATTANOOGA STATE TECHNICAL COMMUNITY COLLEGE
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2004, AND JUNE 30, 2003**

	Year Ended <u>June 30, 2004</u>	Year Ended <u>June 30, 2003</u>
Reconciliation of operating loss to net cash used by operating activities:		
Operating loss	\$ (30,690,953.41)	\$ (33,620,019.65)
Adjustments to reconcile operating loss to net cash used by operating activities:		
Depreciation expense	1,475,797.85	1,438,906.64
Other adjustment	(882,278.97)	(227,699.15)
Change in assets and liabilities:		
Receivables, net	268,359.97	(422,582.84)
Inventories	4,299.85	(12,434.52)
Prepaid/deferred items	(64,324.99)	16,474.67
Accounts payable	(46,578.50)	(1,655.72)
Accrued liabilities	(358,439.34)	214,756.91
Deferred revenue	159,684.88	85,011.29
Deposits	-	(1,704.00)
Compensated absences	(64,041.32)	103,663.10
Other	-	(1,539.95)
Net cash used by operating activities	<u>\$ (30,198,473.98)</u>	<u>\$ (32,428,823.22)</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, 2004, and June 30, 2003

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* and in May 2002, by GASB Statement 39, *Determining Whether Certain Organizations Are Component Units*. The financial statement presentation required by those statements provides a comprehensive, entity-wide perspective of the college's, including its component unit's, assets, liabilities, net assets, revenues, expenses, changes in net assets, and cash flows.

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

Tennessee Board of Regents
Chattanooga State Technical Community College
Notes to the Financial Statements (Cont.)
June 30, 2004, and June 30, 2003

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) nonoperating gifts and grants.

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 other 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.

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.

Tennessee Board of Regents
Chattanooga State Technical Community College
Notes to the Financial Statements (Cont.)
June 30, 2004, and June 30, 2003

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, 2004, and June 30, 2003

NOTE 2. CASH

This classification includes demand deposits and petty cash on hand. At June 30, 2004, cash consisted of \$307,884.65 in bank accounts, \$4,270.00 of petty cash on hand, \$5,518,106.21 in the State of Tennessee Local Government Investment Pool administered by the State Treasurer, and \$11,066.70 in LGIP deposits for capital projects. At June 30, 2003, cash consisted of \$1,785,710.80 in bank accounts, \$3,820.00 of petty cash on hand, and \$2,558,180.20 in the State of Tennessee Local Government Investment Pool administered by the State Treasurer.

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, 2004, the carrying amount of the college's deposits was \$307,884.64, and the bank balance was \$1,789,176.20. The bank balance was insured. At June 30, 2003, the carrying amount of the college's deposits was \$1,785,710.80, and the bank balance was \$2,817,616.75. 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

Tennessee Board of Regents
Chattanooga State Technical Community College
Notes to the Financial Statements (Cont.)
June 30, 2004, and June 30, 2003

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. RECEIVABLES

Receivables included the following:

	<u>June 30, 2004</u>	<u>June 30, 2003</u>
Student accounts receivable	\$1,180,342.75	\$1,104,562.11
Grants receivable	612,217.24	913,524.90
State appropriation receivable	39,400.00	36,500.00
Other receivables	<u>450,903.29</u>	<u>446,657.25</u>
Subtotal	<u>2,282,863.28</u>	<u>2,501,244.26</u>
Less allowance for doubtful accounts	<u>370,181.42</u>	<u>320,202.43</u>
Total receivables	<u>\$1,912,681.86</u>	<u>\$2,181,041.83</u>

NOTE 5. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2004, 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	\$1,100,000.00	\$ -	\$ -	\$2,429,000.00
Land improvements and infrastructure	2,521,922.00	138,773.55	-	-	2,660,695.55
Buildings	33,026,929.74	3,390,737.60	-	-	36,417,667.34

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Chattanooga State Technical Community College
Notes to the Financial Statements (Cont.)
June 30, 2004, and June 30, 2003**

Equipment	8,189,843.78	522,244.69	-	383,616.06	8,328,472.41
Library holdings	<u>1,130,421.78</u>	<u>52,556.31</u>	<u>-</u>	<u>226,873.21</u>	<u>956,104.88</u>
Total	<u>46,198,117.30</u>	<u>5,204,312.15</u>	<u>-</u>	<u>610,489.27</u>	<u>50,791,940.18</u>
Less accum. depreciation:					
Land improvements and infrastructure	1,326,699.05	100,028.58	-	-	1,426,727.63
Buildings	13,781,825.38	776,105.52	-	-	14,557,930.90
Equipment	6,844,313.03	481,365.94	-	947,810.62	6,377,868.35
Library holdings	<u>667,765.80</u>	<u>118,297.81</u>	<u>-</u>	<u>226,873.21</u>	<u>559,190.40</u>
Total accum. depreciation	<u>22,620,603.26</u>	<u>1,475,797.85</u>	<u>-</u>	<u>1,174,683.83</u>	<u>22,921,717.28</u>
Capital assets, net	<u>\$23,577,514.04</u>	<u>\$3,728,514.30</u>	<u>\$ -</u>	<u>\$(564,194.56)</u>	<u>\$27,870,222.90</u>

Capital asset activity for the year ended June 30, 2003, 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	2,465,318.28	56,603.72	-	-	2,521,922.00
Buildings	33,026,929.74	-	-	-	33,026,929.74
Equipment	8,063,925.06	214,369.26	-	88,450.54	8,189,843.78
Library holdings	<u>1,247,425.54</u>	<u>76,060.70</u>	<u>-</u>	<u>193,064.46</u>	<u>1,130,421.78</u>
Total	<u>46,132,598.62</u>	<u>347,033.68</u>	<u>-</u>	<u>281,515.00</u>	<u>46,198,117.30</u>
Less accum. depreciation:					
Land improvements and infrastructure	1,233,609.14	93,089.91	-	-	1,326,699.05
Buildings	13,026,911.96	754,913.42	-	-	13,781,825.38
Equipment	6,457,745.43	459,529.19	-	72,961.59	6,844,313.03
Library holdings	<u>721,660.14</u>	<u>131,374.12</u>	<u>-</u>	<u>185,268.46</u>	<u>667,765.80</u>
Total accum. depreciation	<u>21,439,926.67</u>	<u>1,438,906.64</u>	<u>-</u>	<u>258,230.05</u>	<u>22,620,603.26</u>
Capital assets, net	<u>\$24,692,671.95</u>	<u>\$(1,091,872.96)</u>	<u>\$ -</u>	<u>\$23,284.95</u>	<u>\$23,577,514.04</u>

Tennessee Board of Regents
Chattanooga State Technical Community College
Notes to the Financial Statements (Cont.)
June 30, 2004, and June 30, 2003

NOTE 6. LONG-TERM LIABILITIES

Long-term liabilities activity for the year ended June 30, 2004, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Current Portion</u>
Payables:					
Notes	\$65,000.00	\$ -	\$65,000.00	\$ -	\$ -
Bonds	647,198.50	-	40,364.23	606,834.27	42,463.17
Commercial paper	-	<u>4,430,000.00</u>	-	<u>4,430,000.00</u>	-
Subtotal	<u>712,198.50</u>	<u>4,430,000.00</u>	<u>105,364.23</u>	<u>5,036,834.27</u>	<u>42,463.17</u>
Other liabilities:					
Compensated absences	<u>1,514,248.98</u>	<u>138,737.23</u>	<u>202,778.54</u>	<u>1,450,207.67</u>	<u>474,728.47</u>
Total long-term liabilities	<u>\$2,226,447.48</u>	<u>\$4,568,737.23</u>	<u>\$308,142.77</u>	<u>\$6,487,041.94</u>	<u>\$517,191.64</u>

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

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Current Portion</u>
Payables:					
Notes	\$125,000.00	\$ -	\$60,000.00	\$ 65,000.00	\$ 65,000.00
Bonds	<u>685,476.58</u>	-	<u>38,278.08</u>	<u>647,198.50</u>	<u>40,364.23</u>
Subtotal	<u>810,476.58</u>	-	<u>98,278.08</u>	<u>712,198.50</u>	<u>105,364.23</u>
Other liabilities:					
Compensated absences	<u>1,410,585.88</u>	<u>258,960.78</u>	<u>155,297.68</u>	<u>1,514,248.98</u>	<u>451,278.15</u>
Total long-term liabilities	<u>\$2,221,062.46</u>	<u>\$258,960.78</u>	<u>\$253,575.76</u>	<u>\$2,226,447.48</u>	<u>\$556,642.38</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% were due serially to 2004. The balance owed by the college was \$65,000.00 at June 30, 2003.

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

Tennessee Board of Regents
Chattanooga State Technical Community College
Notes to the Financial Statements (Cont.)
June 30, 2004, and June 30, 2003

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, 2004, are as follows:

Year Ending <u>June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	49,249.89	24,106.12	73,356.01
2009	51,626.19	21,828.30	73,454.49
2010-2014	301,368.33	67,562.76	368,931.09
2015	<u>70,461.27</u>	<u>3,699.22</u>	<u>74,160.49</u>
	<u>\$606,834.27</u>	<u>\$202,590.22</u>	<u>\$809,424.49</u>

Commercial Paper

The Tennessee State School Bond Authority also authorized the issuance of commercial paper to finance the costs of various capital projects. The amount issued for projects at the college was \$4,430,000.00 at June 30, 2004.

For the commercial paper program, the Tennessee State School Bond Authority maintains an interest rate reserve fund. The college contributes amounts to the reserve fund based on the amounts drawn. The principal of the reserve will be contributed to pay off notes or credited back to the college when the notes are converted to bonds. The interest earned on the reserve is used to pay interest due during the month.

NOTE 7. 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:

	<u>June 30, 2004</u>	<u>June 30, 2003</u>
Working capital	\$1,049,169.71	\$1,007,153.88
Encumbrances	94,531.40	23,610.34

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Auxiliaries	146,774.34	137,100.03
Plant construction	195,783.04	237,128.81
Renewal and replacement of equipment	2,255,375.96	1,696,394.01
Unreserved/undesignated	<u>516,111.31</u>	<u>(521,024.85)</u>
 Total	 <u>\$4,257,745.76</u>	 <u>\$2,580,362.22</u>

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 7.3% 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, 2004, 2003, and 2002 were \$823,753.00, \$822,107.00, and \$661,653.00. Contributions met the requirements for each year.

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Chattanooga State Technical Community College
Notes to the Financial Statements (Cont.)
June 30, 2004, and June 30, 2003

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 \$1,021,026.00 for the year ended June 30, 2004, and \$1,026,408.00 for the year ended June 30, 2003. 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.

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Chattanooga State Technical Community College
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June 30, 2004, and June 30, 2003

NOTE 10. INSURANCE-RELATED ACTIVITIES

It is the policy of the state not to purchase commercial insurance for the risks of losses for general liability, automobile liability, professional malpractice, and workers' compensation. The state's management believes it is more economical to manage these risks internally and set aside assets for claim settlement in its internal service fund, the Risk Management Fund. The state purchases commercial insurance for real property, flood, earthquake, and builder's risk losses and surety bond coverage on the state's officials and employees. The Risk Management Fund is also responsible for claims for damage to state owned property up to the amount of the property insurance aggregate deductible amount. The insurance policy deductibles vary from \$25,000 per occurrence, depending on the type of coverage, to an aggregate of \$7.5 million.

The college participates in the Risk Management Fund. The fund allocates the cost of providing claims servicing and claims payment by charging a premium to the college based on a percentage of the college's expected loss costs, which include both experience and exposures. This charge considers recent trends in actual claims experience of the state as a whole. An actuarial valuation is performed as of fiscal year-end to determine the fund liability and premium allocation. Since the college participates in the Risk Management Fund, it is subject to the liability limitations under the provisions of the Tennessee Claims Commission Act, *Tennessee Code Annotated*, Section 9-8-101 et seq. Liability for negligence of the college for bodily injury and property damage is limited to \$300,000 per person and \$1,000,000 per occurrence. The limits of liability under workers' compensation are set forth in *Tennessee Code Annotated*, Section 50-6-101 et seq. Claims are paid through the state's Risk Management Fund. At June 30, 2004, the Risk Management Fund held \$101.1 million in cash designated for payment of claims.

During the year ended June 30, 2003, the state incurred 13 property claims which exceeded the per occurrence deductible. The gross amount of claims for the period was approximately \$7.2 million, of which the state's property insurance carrier will ultimately assume approximately \$2.2 million.

At June 30, 2004, the scheduled coverage for the college was \$54,419,200 for buildings and \$25,319,600 for contents. At June 30, 2003, the scheduled coverage for the college was \$52,789,500 for buildings and \$24,073,600 for contents.

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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 11. 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 \$6,703,102.13 at June 30, 2004, and \$6,625,766.69 at June 30, 2003.

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 \$353,669.04 and for personal property were \$105,032.62 for the year ended June 30, 2004. Amounts for the year ended June 30, 2003, were \$354,661.40 and \$68,321.79. All operating leases are cancelable at the lessee's option.

Litigation - The college is involved in several lawsuits. They are not expected to have a material effect on the accompanying financial statements.

NOTE 12. NATURAL CLASSIFICATIONS WITH FUNCTIONAL CLASSIFICATIONS

The college's operating expenses by functional classification for the year ended June 30, 2004, are as follows:

<u>Functional Classification</u>	<u>Salaries</u>	<u>Benefits</u>	<u>Natural Classification</u>			<u>Total</u>
			<u>Other Operating</u>	<u>Scholarships</u>	<u>Depreciation</u>	
Instruction	\$15,367,554.96	\$4,138,498.94	\$4,121,340.77	\$240,132.31	\$ -	\$23,867,526.98
Public service	367,885.01	125,333.97	222,277.41	59,295.42	-	774,791.81
Academic support	2,778,401.51	886,877.83	(483,628.14)	49,001.31	-	3,230,652.51
Student services	1,907,416.37	639,007.74	819,125.67	334,860.61	-	3,700,410.39

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June 30, 2004, and June 30, 2003

Institutional support	3,199,288.30	936,365.17	1,043,157.33	23,043.16	-	5,201,853.96
Operation & maint.	923,037.17	368,204.63	2,936,372.19	-	-	4,227,613.99
Scholar. & fellow.	16,306.41	4,708.32	-	5,191,485.66	-	5,212,500.39
Auxiliary	196,449.41	67,509.79	286,173.15	-	-	550,132.35
Depreciation	-	-	-	-	<u>1,475,797.85</u>	<u>1,475,797.85</u>
Total	<u>\$24,756,339.14</u>	<u>\$7,166,506.39</u>	<u>\$8,944,818.38</u>	<u>\$5,897,818.47</u>	<u>\$1,475,797.85</u>	<u>\$48,241,280.23</u>

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

<u>Functional Classification</u>	<u>Natural Classification</u>					<u>Total</u>
	<u>Salaries</u>	<u>Benefits</u>	<u>Other Operating</u>	<u>Scholarships</u>	<u>Depreciation</u>	
Instruction	\$15,731,331.21	\$3,959,969.22	\$4,310,476.21	\$265,742.19	\$-	\$24,267,518.83
Public service	365,710.19	107,696.79	209,351.99	76,711.35	-	759,470.32
Academic support	2,768,260.53	852,868.05	(151,428.26)	85,138.62	-	3,554,838.94
Student services	1,953,305.89	628,723.97	821,586.92	348,699.91	-	3,752,316.69
Institutional support	3,407,450.21	1,022,806.68	1,175,796.44	26,082.50	-	5,632,135.83
Operation & maint.	930,294.89	337,043.61	2,202,583.81	-	-	3,469,922.31
Scholar. & fellow.	16,414.26	2,212.55	-	4,485,792.77	-	4,504,419.58
Auxiliary	177,994.44	67,342.94	313,687.95	-	-	559,025.33
Depreciation	-	-	-	-	<u>1,438,906.64</u>	<u>1,438,906.64</u>
Total	<u>\$25,350,761.62</u>	<u>\$6,978,663.81</u>	<u>\$8,882,055.06</u>	<u>\$5,288,167.34</u>	<u>\$1,438,906.64</u>	<u>\$47,938,554.47</u>

NOTE 13. COMPONENT UNIT

The Chattanooga State Technical Community College Foundation is a legally separate, tax-exempt organization supporting Chattanooga State Technical Community College. The foundation acts primarily as a fund-raising organization to supplement the resources that are available to the college in support of its programs. The 12-member board of the foundation is self-perpetuating and consists of graduates and friends of the college. Although the college does not control the timing or amount of receipts from the foundation, the majority of resources, or income thereon, that the foundation holds and invests are restricted to the activities of the college by the donors. Because these restricted resources held by the foundation can only be used by, or for the benefit of, the college, the foundation is considered a component unit of the college and is discretely presented in the college's financial statements.

Tennessee Board of Regents
Chattanooga State Technical Community College
Notes to the Financial Statements (Cont.)
June 30, 2004, and June 30, 2003

The foundation is a nonprofit organization that reports under Financial Accounting Standards Board (FASB) standards, including FASB Statement 117, *Financial Statements of Not-for-Profit Organizations*. As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features. With the exception of necessary presentation reformatting, no modifications have been made to the foundation's financial information in the college's financial statements for these differences.

During the year ended June 30, 2004, the foundation made distributions of \$116,716.86 to or on behalf of the college for both restricted and unrestricted purposes. During the year ended June 30, 2003, the foundation made distributions of \$107,882.38 to or on behalf of the college for both restricted and unrestricted purposes. Complete financial statements for the foundation can be obtained from Tammy Swenson, Vice President for Business and Finance, Chattanooga State Technical Community College, 4501 Amnicola Highway, Chattanooga, TN 37406.

Cash and cash equivalents - Cash and cash equivalents consists of demand deposit accounts and money market mutual funds. The bank balances of deposits at June 30, 2004, were entirely insured. At June 30, 2003, bank balances totaling \$331,647.11 were uninsured.

Investments - Investments are stated at fair value. Unrealized gains and losses are determined by the difference between fair values at the beginning and end of the year.

Investments held at June 30, 2004, were as follows:

	<u>Cost</u>	<u>Fair Value</u>
Bonds	\$1,044,176.96	\$1,053,318.90
Common stock	2,080,686.01	2,194,049.26
Mutual funds	100,000.00	103,391.84
Investment as limited partner in hedge fund	<u>737,867.00</u>	<u>763,268.00</u>
Totals	<u>\$3,962,729.97</u>	<u>\$4,114,028.00</u>

**Tennessee Board of Regents
Chattanooga State Technical Community College
Notes to the Financial Statements (Cont.)
June 30, 2004, and June 30, 2003**

Investments held at June 30, 2003, were as follows:

	<u>Cost</u>	<u>Fair Value</u>
Bonds	\$ 1,309,175.92	\$ 1,380,967.50
Common stock	1,910,704.67	1,866,887.96
Investment as limited partner in hedge fund	<u>369,753.00</u>	<u>375,254.00</u>
Totals	<u>\$ 3,589,633.59</u>	<u>\$ 3,623,109.46</u>

Pledges Receivable – At June 30, 2003, pledges receivable totaled \$4,500. The foundation expected to collect this total amount within one year, and the amount was therefore reported at full value.

Capital assets - Capital assets at June 30, 2004, and June 30, 2003, were as follows:

	<u>June 30, 2004</u>	<u>June 30, 2003</u>
Land	\$725,603.03	\$725,603.03

**TENNESSEE BOARD OF REGENTS
CHATTANOOGA STATE TECHNICAL COMMUNITY COLLEGE
SUPPLEMENTARY INFORMATION
STATEMENTS OF CASH FLOWS - COMPONENT UNIT
FOR THE YEARS ENDED JUNE 30, 2004, AND JUNE 30, 2003**

	<u>Year Ended June 30, 2004</u>	<u>Year Ended June 30, 2003</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Gifts and contributions	\$ 228,531.93	\$ 654,768.30
Endowment income per spending plan	20,800.00	23,450.00
Payments to suppliers and vendors	(100,116.45)	(139,763.59)
Payments for scholarships and fellowships	(228,870.61)	(188,946.83)
Payments to Chattanooga State Technical Community College	<u>(116,716.86)</u>	<u>(107,882.38)</u>
Net cash provided (used) by operating activities	<u>(196,371.99)</u>	<u>241,625.50</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Private gifts for endowment purposes	<u>31,970.00</u>	<u>121,045.00</u>
Net cash provided by noncapital financing activities	<u>31,970.00</u>	<u>121,045.00</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Principal paid on capital debt and leases	<u>-</u>	<u>(162,500.00)</u>
Net cash used by capital and related financing activities	<u>-</u>	<u>(162,500.00)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of investments	121,956.13	(134,580.52)
Income on investments	68,758.66	49,148.14
Purchase of investments	<u>(373,096.38)</u>	<u>(322,538.77)</u>
Net cash used by investing activities	<u>(182,381.59)</u>	<u>(407,971.15)</u>
Net decrease in cash and cash equivalents	(346,783.58)	(207,800.65)
Cash and cash equivalents - beginning of year	445,930.79	653,731.44
Cash and cash equivalents - end of year	<u>\$ 99,147.21</u>	<u>\$ 445,930.79</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:		
Operating income (loss)	\$ (217,044.72)	\$ 268,238.37
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Change in assets and liabilities:		
Receivables, net	4,500.00	(4,500.00)
Accounts payable	19,067.73	(22,322.87)
Prepaid expenses and deferred charges	<u>(2,895.00)</u>	<u>210.00</u>
Net cash provided (used) by operating activities	<u>\$ (196,371.99)</u>	<u>\$ 241,625.50</u>
Noncash transactions		
Unrealized gain on investments	\$ 117,822.16	\$ 178,846.16