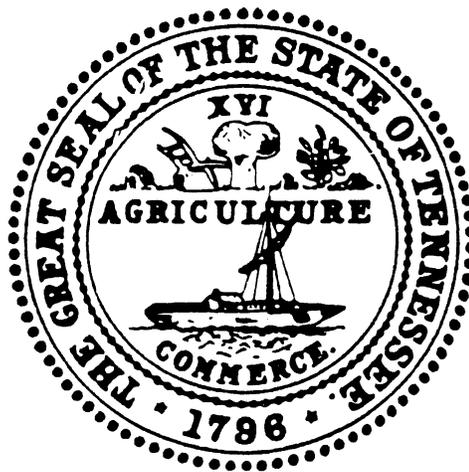


AUDIT REPORT

Tennessee Board of Regents
Northeast State Technical Community College

For the Years Ended
June 30, 2005, and June 30, 2004



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
Kandi Thomas, CPA, CFE
Assistant Directors

Robert D. Hunter, Jr., CPA
Audit Manager

Helen J. Vose, CFE
In-Charge Auditor

Dee Anders
Valerie V. English, CFE
James K. Ligon
Richard J. Murray, CFE
Staff Auditors

Gerry Boaz, CPA
Technical Analyst

Amy Brack
Editor

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

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



STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY

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

John G. Morgan
Comptroller

September 14, 2006

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. William W. Locke, President
Northeast State Technical Community College
P. O. Box 246
Blountville, Tennessee 37617

Ladies and Gentlemen:

Transmitted herewith is the financial and compliance audit of the Tennessee Board of Regents, Northeast State Technical Community College, for the years ended June 30, 2005, and June 30, 2004. 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 resulted in no audit findings.

Sincerely,

A handwritten signature in black ink that reads "John G. Morgan".

John G. Morgan
Comptroller of the Treasury

JGM/sds
06/037

State of Tennessee

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

Comptroller of the Treasury

Division of State Audit

Financial and Compliance Audit
Northeast State Technical Community College
For the Years Ended June 30, 2005, and June 30, 2004

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.

AUDIT FINDINGS

The audit report contains no findings.

OPINIONS ON THE FINANCIAL STATEMENTS

The opinions on the financial statements are unqualified.

Audit Report
Tennessee Board of Regents
Northeast State Technical Community College
For the Years Ended June 30, 2005, and June 30, 2004

TABLE OF CONTENTS

	<u>Exhibit</u>	<u>Page</u>
INTRODUCTION		1
Post-Audit Authority		1
Background		1
Organization		2
AUDIT SCOPE		2
OBJECTIVES OF THE AUDIT		2
PRIOR AUDIT FINDINGS		3
OBSERVATIONS AND COMMENTS		3
Management's Responsibility for Risk Assessment		3
Fraud Considerations		4
Technology Center		4
RESULTS OF THE AUDIT		4
Audit Conclusions		4
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i>		6
FINANCIAL SECTION		
Independent Auditor's Report		8
Management's Discussion and Analysis		10

TABLE OF CONTENTS (CONT.)

	<u>Exhibit</u>	<u>Page</u>
Financial Statements		
Statements of Net Assets	A	30
Statements of Revenues, Expenses, and Changes in Net Assets	B	31
Statements of Cash Flows	C	32
Notes to the Financial Statements		34
Supplementary Information		
Statements of Cash Flows - Component Unit		52

**Tennessee Board of Regents
Northeast State Technical Community College
For the Years Ended June 30, 2005, and June 30, 2004**

INTRODUCTION

POST-AUDIT AUTHORITY

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

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

BACKGROUND

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

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

Effective July 1, 1990, the General Assembly granted community college status to Tri-Cities State Technical Institute and changed its name to Northeast State Technical Community College. As a comprehensive community college, Northeast State provides university parallel programs designed for students desiring to transfer to another college or university, career programs for students planning to enter the workforce immediately upon graduation, and continuing education and community service programs for professional growth and personal enrichment. These two-year programs lead to an associate of art, associate of science, or associate of applied science degree.

ORGANIZATION

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

AUDIT SCOPE

The audit was limited to the period July 1, 2003, through June 30, 2005, 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, 2005, and June 30, 2004. Northeast State Technical Community College is an institution of the Tennessee Board of Regents, which is an integral part of state government. As such, the Tennessee Board of Regents has been included as a component unit in the *Tennessee Comprehensive Annual Financial Report*.

OBJECTIVES OF THE AUDIT

The objectives of the audit were

1. to consider the college's internal control over financial reporting to determine auditing procedures for the purpose of expressing 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

MANAGEMENT'S RESPONSIBILITY FOR RISK ASSESSMENT

Auditors and management are required to assess the risk of fraud in the operations of the institution. The risk assessment is based on a critical review of operations considering what frauds could be perpetrated in the absence of adequate controls. The auditors' risk assessment is limited to the period during which the audit is conducted and is limited to the transactions that the auditors are able to test during that period. The risk assessment by management is the primary method by which the institution is protected from fraud, waste, and abuse. Since new programs may be established at any time by management or older programs may be discontinued, that assessment is ongoing as part of the daily operations of the institution.

Risks of fraud, waste, and abuse are mitigated by effective internal controls. It is management's responsibility to design, implement, and monitor effective controls in the institution. Although internal and external auditors may include testing of controls as part of their audit procedures, these procedures are not a substitute for the ongoing monitoring required of management. After all, the auditor testing is limited and is usually targeted to test the effectiveness of particular controls. Even if controls appear to be operating effectively during the time of the auditor testing, they may be rendered ineffective the next day by management override or by other circumventions that, if left up to the auditor to detect, will not be noted until the next audit engagement and then only if the auditor tests the same transactions and controls. Furthermore, since staff may be seeking to avoid auditor criticisms, they may comply with the controls during the period that the auditors are on site and revert to ignoring or disregarding the control after the auditors have left the field.

The risk assessments and the actions of management in designing, implementing, and monitoring the controls should be adequately documented to provide an audit trail both for auditors and for management, in the event that there is a change in management or staff, and to maintain a record of areas that are particularly problematic.

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, 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.

TECHNOLOGY CENTER

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

RESULTS OF THE AUDIT

AUDIT CONCLUSIONS

Internal Control

As part of the audit of the college's financial statements for the years ended June 30, 2005, and June 30, 2004, 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*.

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 25, 2006

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

Dear Mr. Morgan:

We have audited the financial statements of Northeast State Technical Community College, an institution of the Tennessee Board of Regents, which is a component unit of the State of Tennessee, and its discretely presented component unit as of and for the years ended June 30, 2005, and June 30, 2004, and have issued our report thereon dated May 25, 2006. 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, 2005, the college implemented GASB Statement 40, *Deposit and Investment Risk Disclosures*. 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

The Honorable John G. Morgan
May 25, 2006
Page Two

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.

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*.

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

Sincerely,

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

Arthur A. Hayes, Jr., CPA
Director

AAH/sds



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

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

Independent Auditor's Report

May 25, 2006

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 Northeast 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, 2005, and June 30, 2004, 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 25, 2006
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, Northeast State Technical Community College, and its discretely presented component unit as of June 30, 2005, and June 30, 2004, 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, 2005, the college implemented GASB Statement 40, *Deposit and Investment Risk Disclosures*. 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 10 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 52 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 25, 2006, 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 that reads "Arthur A. Hayes, Jr." The signature is written in a cursive, flowing style.

Arthur A. Hayes, Jr., CPA
Director

AAH/sds

Management's Discussion and Analysis

This section of Northeast 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, 2005, with comparative information presented for the fiscal years ended June 30, 2004, and June 30, 2003. 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 a discretely presented component unit, the Northeast State Technical Community College Foundation. More detailed information about the college's component unit is presented in Note 13 of the financial statements. Information and analysis regarding the component unit is 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 Northeast 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.

Northeast State Technical Community College
Statements of Net Assets
(in thousands of dollars)

	2005	2004	2003
Assets:			
Current assets	\$ 4,778	\$ 4,810	\$ 4,285
Capital assets, net	24,525	23,788	24,172
Other assets	7,020	5,886	4,978
Total assets	36,323	34,484	33,435
Liabilities:			
Current liabilities	2,737	2,877	2,616
Noncurrent liabilities	1,377	352	379
Total liabilities	4,114	3,229	2,995
Net assets:			
Invested in capital assets, net of related debt	23,401	23,788	24,172
Restricted – expendable	20	17	43
Unrestricted	8,788	7,450	6,225
Total net assets	\$32,209	\$31,255	\$30,440

- The liquidity ratio of the college continues to improve. The college's ratio of current assets to current liabilities is 1.95:1 at June 30, 2005, exclusive of assets and liabilities related to deposits held in custody for others, compared to a current ratio of 1.86:1 at June 30, 2004.
- Accounts, notes, and grants receivable increased in fiscal year 2005 by \$179,000 over fiscal year 2004. This was largely due to an increase in student accounts receivable of \$140,000 related to higher tuition rates and increased refunds for federal financial aid made when students withdraw from the college prior to completing 60% of the semester.
- Prepaid expenses increased in fiscal year 2005 over fiscal year 2004 by \$57,000 primarily due to prepaid expenses related to implementation of a new Enterprise Resource Planning system.
- Noncurrent assets, exclusive of investments in capital assets, increased by \$750,000 in fiscal year 2005 compared to fiscal year 2004 as a result of funds designated for future plant construction, renewal and replacement funds set aside for the replacement of equipment, and \$258,000 designated for retirement of long-term debt.
- Deposits held in custody for others make up approximately 20% of the current liabilities in fiscal year 2005, 2004, and 2003. This liability represents the net assets held by the college for the Tennessee Technology Center at Elizabethton and various student clubs.
- A change in the beginning and ending date of nine-month faculty contracts resulted in a decrease of \$244,000 in accrued liabilities at June 30, 2005, compared to June 30, 2004.
- The college incurred \$1,125,000 of long-term debt during fiscal year 2005, of which \$169,000 will be repaid within the next fiscal year and is shown on the financial

statements as a current liability. See the debt section of this MD&A and Note 6 of the financial statements for additional information related to the college's long-term debt.

- ❑ The noncurrent liability for compensated absences increased by \$71,000 in fiscal year 2005 compared to fiscal year 2004. This increase is primarily due to an increase in employees' compensation rates and the hiring of additional staff to support the college's enrollment growth.
- ❑ Amounts invested in capital assets, net of related debt, decreased by \$387,000 in fiscal year 2005 compared to fiscal year 2004. This is primarily due to debt of \$1,125,000 incurred to finance a new Enterprise Resource Planning system and energy-saving modifications to campus facilities. Additions to capital assets, including the Enterprise Resource Planning system, increased by \$737,000, net of current year depreciation expense.
- ❑ The college's unrestricted net assets at June 30, 2005, increased by \$1,338,000 over June 30, 2004. This is primarily due to funds designated for future capital projects and retirement of indebtedness.
- ❑ Current assets, in the form of \$3,898,000 in cash, increased in fiscal year 2004 compared to fiscal year 2003 by \$527,000.
- ❑ The college's ratio of current assets to current liabilities is 1.86 to 1 at June 30, 2004, exclusive of assets and liabilities related to deposits held in custody for others. At June 30, 2003, the current ratio was 1.83 to 1, exclusive of assets and liabilities related to deposits held in custody for others.
- ❑ During fiscal year 2004, noncurrent assets, exclusive of investments in capital assets, increased by \$907,000 primarily related to cash designated for future plant construction and renewal and replacement funds set aside for the replacement of computer, printing, instructional, and motor vehicle equipment.
- ❑ Northeast State's current liabilities at the end of fiscal year 2004 were \$261,000 more than at the end of fiscal year 2003. Deferred revenues related primarily to summer semester tuition and fees increased by \$135,000. Enrollment increased by 12% in summer semester 2004 over summer semester 2003. Additionally, a 14% tuition increase effective in fall 2003 impacted tuition charges for summer semester 2004. Accounts payable increased by \$98,000 at June 30, 2004, over June 30, 2003.
- ❑ Noncurrent liabilities consist of the college's long-term liability for employees' compensated absences and deferred revenues related to restricted grants. The total noncurrent compensated absences liability, which decreased by \$36,000 during fiscal year 2004, will be funded from future state appropriations.
- ❑ Amounts invested in capital assets decreased by \$384,000 during fiscal year 2004. Obsolete equipment with a book value of \$77,000 was disposed of during fiscal year

2004. Depreciation expense for fiscal year 2004 exceeded additional investments in capital assets by \$306,000. See additional discussion related to capital assets below and in Note 5 of the financial statements.

- All of the college's restricted net assets for both fiscal years 2004 and 2003 were expendable. Restricted net assets decreased by \$25,000 in fiscal year 2004 primarily due to increased expenditures in support of technological improvements in instruction through the college's Center of Emphasis. Funding for the Center of Emphasis is provided by restricted state appropriations. At June 30, 2004, donors had designated approximately 59% of the college's restricted expendable net assets for scholarships compared to approximately 23% at year-end 2003.
- The college's unrestricted net assets at June 30, 2004, increased by \$1,225,000 from fiscal year 2003. Improved state revenues allowed the state to restore during fiscal year 2004 \$549,000 of the \$988,000 base reduction in state appropriations imposed on the college effective July 1, 2003. Increased student tuition and fee revenues resulting from enrollment increases and a 14% tuition increase that was effective with the fall semester 2003 account for the remainder of the increase.

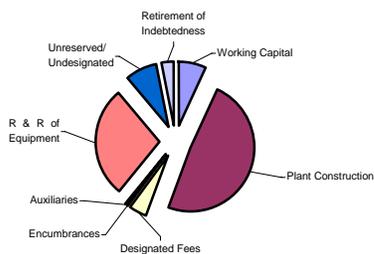
<u>Component Unit</u>			
<u>Northeast State Technical Community College Foundation</u>			
<u>Statements of Net Assets</u>			
<u>(in thousands of dollars)</u>			
	<u>2005</u>	<u>2004</u>	<u>2003</u>
Assets:			
Current assets	\$1,533	\$1,441	\$1,338
Capital assets, net	200	-	-
Other assets	1,761	1,483	1,247
Total assets	<u>3,494</u>	<u>2,924</u>	<u>2,585</u>
Liabilities:			
Current liabilities	2	-	1
Total liabilities	<u>2</u>	<u>-</u>	<u>1</u>
Net assets:			
Invested in capital assets, net of related debt	200	-	-
Restricted – nonexpendable	1,761	1,484	1,248
Restricted – expendable	1,267	1,167	1,098
Unrestricted	264	273	238
Total net assets	<u>\$3,492</u>	<u>\$2,924</u>	<u>\$2,584</u>

- The Northeast State Technical Community College Foundation's total assets increased by \$570,000 in fiscal year 2005 over fiscal year 2004 largely due to \$221,000 of additions to permanent endowments and an Appalachian Regional Commission grant that included a matching donation of \$300,000 of educational computer software. The computer software is considered a capital asset and is amortized over three years based on the estimated useful life provided by the software developer.

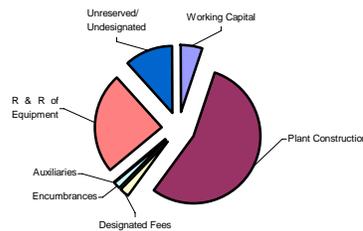
- ❑ Restricted expendable net assets represent 36% of the foundation’s assets at June 30, 2005, compared to 40% at June 30, 2004. Restricted expendable net assets have been restricted by the donors for student scholarships for Northeast State students. At June 30, 2005, unrestricted net assets represented 7.5% of the foundation’s total assets compared to 9% at June 30, 2004.
- ❑ During fiscal year 2004, the Northeast State Technical Community College Foundation’s total assets increased by \$339,000 over fiscal year 2003 largely due to an unrealized gain of \$239,000 in the market value of its investments. Additionally, the foundation experienced a \$39,000 realized loss in fiscal year 2004 compared to a realized loss of \$134,000 on the sale of investments during fiscal year 2003. See Note 13 for additional information related to the foundation’s investments and other assets.
- ❑ The foundation’s restricted nonexpendable net assets increased to 51% in fiscal year 2004 compared to 48% in fiscal year 2003. Contributions to permanent endowments of \$109,000 and \$125,000 net appreciation (realized and unrealized) of the investments make up the majority of the increase. See Note 13 for additional information about the foundation’s endowments.
- ❑ Restricted expendable net assets represent 40% of the foundation’s assets at June 30, 2004. These assets can only be expended for scholarships and fellowships in accordance with the donors’ instructions. Unrestricted net assets represent 9% of total net assets in both fiscal years 2004 and 2003.

Many of the college’s unrestricted net assets have been designated or reserved for specific purposes such as: repairs and replacement of equipment, future debt service, quasi-endowments, capital projects, and student loans. The following graphs show the allocations:

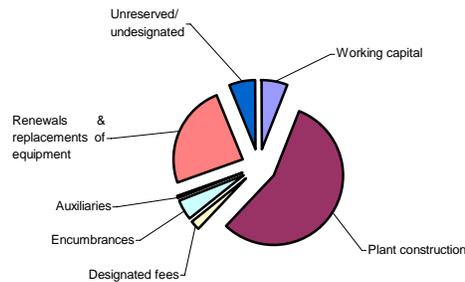
2005 Allocations of Unrestricted Net Assets



2004 Allocations of Unrestricted Net Assets



*2003 Allocations of
Unrestricted Net Assets*



- ❑ Allocation for working capital increased in fiscal year 2005 over fiscal year 2004 by \$227,000. This change is primarily due to an increase in accounts receivable of \$94,000, and an increase in prepaid expenses of \$52,000, and a decrease in accrued benefits on faculty salaries of \$81,000.
- ❑ Allocation for encumbrances decreased in fiscal year 2005 over fiscal year 2004 by \$54,000. An April 15 cut-off date was established for departments to make purchases against fiscal year 2005 budgets resulting in fewer year-end encumbrances.
- ❑ \$332,000 of technology access fees designated for technology improvement in instructional programs and \$45,000 of student activity fees designated to support student cultural and other events were unexpended at year-end June 30, 2005. This represents an increase of \$207,000 over the amount designated for these fees at June 30, 2004.
- ❑ Funds allocated for capital projects, renewal and replacement of equipment, and deferred maintenance increased at June 30, 2005, by \$849,000, compared to June 30, 2004.
- ❑ Funds allocated for retirement of indebtedness was \$258,000 at June 30, 2005. The college had no debt at June 30, 2004.
- ❑ Unreserved/undesignated funds were \$721,000 at June 30, 2005. This represents a decrease of \$155,000 from the unreserved/undesignated net assets at June 30, 2004.
- ❑ None of the Northeast State Technical Community College Foundation's unrestricted net assets were designated at June 30, 2005, and June 30, 2004.

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

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

Northeast State Technical Community College
Statements of Revenues, Expenses, and Changes in Net Assets
(in thousands of dollars)

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Operating revenues:			
Net tuition and fees	\$ 5,949	\$ 5,508	\$ 4,478
Grants and contracts	871	991	5,895
Auxiliary	202	188	172
Other	182	188	182
Total operating revenues	7,204	6,875	10,727
Operating expenses	24,671	22,149	22,077
Operating loss	(17,467)	(15,274)	(11,350)
Nonoperating revenues and expenses:			
State appropriations	11,084	10,514	10,669
Gifts	96	39	34
Grants and contracts	6,434	5,333	-
Investment income	221	98	131
Other expenses	(31)	(78)	(2)
Total nonoperating revenues and expenses	17,804	15,906	10,832
Income (loss) before other revenues, expenses, gains, or losses	337	632	(518)
Other revenues, expenses, gains, or losses:			
Capital appropriations	617	183	1,341
Capital grants and gifts	-	-	14
Other	-	-	4
Total other revenues, expenses, gains, or losses	617	183	1,359
Increase in net assets	954	815	841
Net assets at beginning of period	31,255	30,440	29,599
Net assets at end of year	\$32,209	\$ 31,255	\$ 30,440

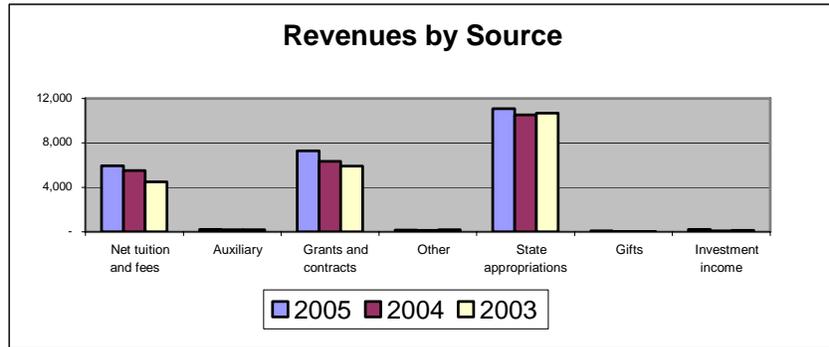
Component Unit
Northeast State Technical Community College Foundation
Statements of Revenues, Expenses, and Changes in Net Assets
(in thousands of dollars)

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Operating revenues:			
Gifts and contributions	\$ 238	\$ 328	\$ 260
Endowment income (per spending plan)	26	13	(59)
Grants and contracts	20	-	-
Sales and services of educational departments	7	-	-
Total operating revenues	<u>291</u>	<u>341</u>	<u>201</u>
Operating expenses	408	347	321
Operating loss	<u>(117)</u>	<u>(6)</u>	<u>(120)</u>
Nonoperating revenues and expenses:			
Investment income	164	238	105
Total nonoperating revenues and expenses	<u>164</u>	<u>238</u>	<u>105</u>
Income (loss) before other revenues, expenses, gains, or losses	<u>47</u>	<u>232</u>	<u>(15)</u>
Other revenues, expenses, gains, or losses:			
Capital gifts	300	-	-
Additions to permanent endowments	221	109	357
Total other revenues, expenses, gains, or losses	<u>521</u>	<u>109</u>	<u>357</u>
Increase in net assets	<u>568</u>	<u>341</u>	<u>342</u>
Net assets at beginning of period	2,924	2,583	2,241
Net assets at end of year	<u>\$ 3,492</u>	<u>\$ 2,924</u>	<u>\$2,583</u>

Revenues

The following is a graphic illustration of revenues by source (both operating and nonoperating), which were used to fund the college's operating activities for the years ended June 30, 2005, June 30, 2004, and June 30, 2003. Amounts are presented in thousands of dollars.

Northeast State Technical Community College

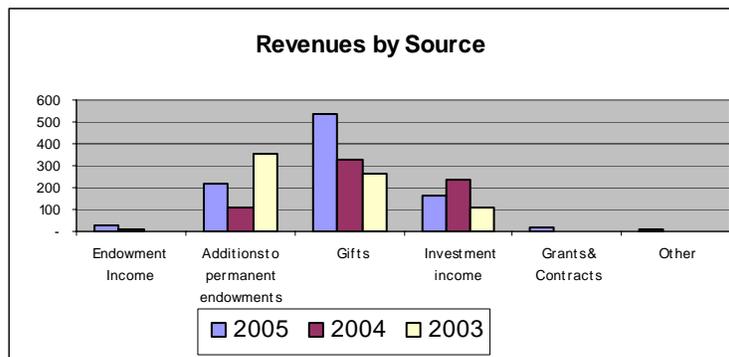


- ❑ Tuition and fees increased by \$441,000 in fiscal year 2005 compared to fiscal year 2004 primarily due to a 7% tuition increase effective fall semester 2004, an increase in student enrollment of 7% in fall semester 2004, and a 2.9% increase in spring semester 2005. Tuition and fees revenues contributed approximately 24% of the resources available to the college to support its operations in both fiscal years 2005 and 2004.
- ❑ Operating grants and contracts decreased by \$120,000 in fiscal year 2005 compared to fiscal year 2004 mainly due to the non-renewal of two grants.
- ❑ Nonoperating grants and contracts increased in fiscal year 2005 by \$1,103,000 compared to fiscal year 2004. In addition to an increase in student PELL grants of \$337,000, the Tennessee Educational Lottery Scholarship Program provided \$714,000 of student aid during fiscal year 2005. Fiscal year 2005 was the first year of funding for the Tennessee Educational Lottery Scholarship Program.
- ❑ State appropriations designated for operations increased \$570,000 over fiscal year 2004. The increase was primarily to fund 2% of the costs related to an across-the-board pay increase and a one-time bonus for faculty and staff. State appropriations were also provided to fund increases in employee retirement and health insurance benefit costs.
- ❑ Investment income increased by \$123,000 in fiscal year 2005 compared to fiscal year 2004. This is primarily related to improved market conditions and to an increase in the amount of cash available for investment.
- ❑ Capital appropriations increased in fiscal year 2005 by \$434,000. This is related primarily to funding appropriated for a new humanities/performing arts center on the college's main campus.
- ❑ Tuition and fees increased by \$1,030,000 in fiscal year 2004 compared to fiscal year 2003 primarily due to a 14% tuition increase effective fall semester 2003, an increase in student enrollment of 4.7% in fall semester 2003, and a 6.3% increase in spring semester 2004. Additionally, the technology access fee charged to each student increased from an annual

maximum of \$125 to \$225 annually for full-time students. Tuition and fees revenues represented 24% of the resources available to the college to support its operations in fiscal year 2004 compared to 21% in fiscal year 2003.

- During fiscal year 2004, a reclassification of certain grants and contracts, e.g., PELL and SEOG, from operating revenues to nonoperating resulted in a reduction of approximately \$4,904,000 in the operating revenues from grants and contracts. This is offset by an increase of like amount in the nonoperating revenues.
- State appropriations to support the operations of the college decreased by \$155,000 in fiscal year 2004 over fiscal year 2003. Revenues in the form of state appropriations represented 46% of the college’s resources, exclusive of capital appropriations and gifts for capital purposes, in fiscal year 2004 compared to 49.5% in fiscal year 2003.
- In addition to the reclassification of certain grants and contracts from operating to nonoperating revenues in fiscal year 2004, funding received for student PELL grants increased in fiscal year 2004 by \$590,000 over fiscal year 2003. This is due primarily to the increased number of students attending Northeast State and qualifying for federal financial aid.
- Disposal of obsolete equipment resulted in a loss of \$77,000 during fiscal year 2004 that is shown as other nonoperating expense.
- Capital appropriations received from the state decreased in fiscal year 2004 by \$1,158,000. Revenues from this source result primarily from the approval of long-term projects such as the construction of new buildings or major renovations to existing buildings. Due to limited state resources, no new capital construction projects for Northeast State were funded for the most recent three fiscal years. This resulted in a decrease in capital appropriations when the newly constructed library building was completed and occupied in fiscal year 2002. Capital maintenance projects in the amount of \$119,000 were funded by state capital appropriations during fiscal year 2004 compared to \$39,000 in fiscal year 2003.

Northeast State Technical Community College Foundation



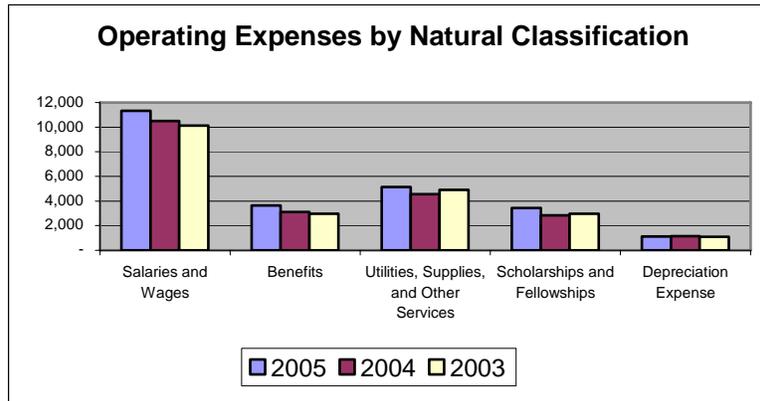
- ❑ During fiscal year 2005, the foundation entered into a grant with the Appalachian Regional Commission that provided \$20,000 in federal grant funds and \$300,000 of donated software.
- ❑ Investment income decreased in fiscal year 2005 compared to fiscal year 2004 by \$73,000. This change is primarily related to the realignment of the foundation's investment portfolio that occurred in fiscal year 2004.
- ❑ Additions to permanent endowments increased in fiscal year 2005 by \$112,000. During fiscal year 2005, Northeast State was a beneficiary of the estate of a prominent local resident. This bequest provided an endowment for scholarships for Northeast State students.
- ❑ The foundation's endowment income (per spending plan) and investment income increased in fiscal year 2004 by \$205,000 as a result of improved market conditions and a realignment of the portfolio assets. The net appreciation on investments, both realized and unrealized, was \$200,000 in fiscal year 2004 compared to a decrease of \$5,000 in fiscal year 2003.
- ❑ The foundation's additions to permanent endowments in fiscal year 2004 were \$248,000 less than in fiscal year 2003 primarily due to the completion of a fund raising drive aimed at providing fifty \$10,000 endowed scholarships to support the educational endeavors of Northeast State students.

Expenses

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

<u>Northeast State Technical Community College</u>			
<u>Natural Classification</u>			
<u>(in thousands of dollars)</u>			
	<u>2005</u>	<u>2004</u>	<u>2003</u>
Salaries and wages	\$ 11,319	\$ 10,500	\$ 10,135
Benefits	3,654	3,094	2,978
Utilities, supplies, and other services	5,142	4,558	4,896
Scholarships and fellowships	3,439	2,849	2,970
Depreciation expense	1,117	1,148	1,098
Total	<u>\$ 24,671</u>	<u>\$ 22,149</u>	<u>\$ 22,077</u>

Northeast State Technical Community College



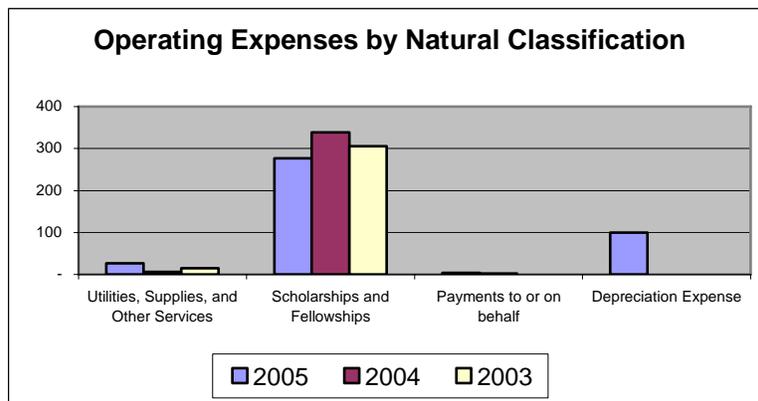
- ❑ Salaries and wage expense increased by \$819,000 or 7.8% in fiscal year 2005 compared to fiscal year 2004. An across-the-board increase of 5% was given to all full-time employees. Two percent of this increase was supported by additional state appropriations and the remaining was funded through the college’s recurring revenues.
- ❑ Benefit expense increased by \$560,000 in fiscal year 2005 compared to fiscal year 2004. The increase resulted mainly from increased costs for employee health care coverage and an increase in employer paid retirement contributions to the Tennessee Consolidated Retirement System for full-time employees. Employee health insurance coverage costs increased by 9% in fiscal year 2005. The state retirement benefits rate increased by 3.25% in fiscal year 2005 compared with fiscal year 2004. Variable cost benefits, e.g., retirement and FICA matching, also increased with the across-the-board pay increases.
- ❑ Utilities, supplies, and other services increased by \$584,000 in fiscal year 2005 compared to fiscal year 2004. Increases in costs related to classroom technology, natural gas for heating, and inflationary increases for departmental budgets make up the majority of this change.
- ❑ Scholarships and fellowships increased by \$590,000 in fiscal year 2005 compared to fiscal year 2004. This is principally due to the implementation of the new Tennessee Educational Lottery Scholarship program, grants to students from the Tennessee Student Assistance Corporation, and an increase in PELL grant awards to students.
- ❑ Salaries and wage expense increased by \$365,000 or 3.6% in fiscal year 2004 compared to fiscal year 2003. Part-time personnel, including adjunct faculty, were hired to support the increased enrollment experienced by the college.
- ❑ Benefit costs increased by \$116,000 in fiscal year 2004 compared to fiscal year 2003 primarily because of an increase in the cost of health insurance benefits provided to full-time employees. The cost of health insurance benefits for fiscal year 2004 increased 11% over fiscal year 2003.

- Expenses for utilities, supplies, and other services decreased by \$338,000 in fiscal year 2004 compared to fiscal year 2003. The opening of the new library building and the resulting domino effect on other facilities resulted in one-time noncapital expenditures in fiscal year 2003 of \$532,000 compared to similar expenditures of \$216,000 in fiscal year 2004.
- Scholarships and fellowships decreased by \$121,000 in fiscal year 2004 compared to fiscal year 2003. The increase in tuition and fees resulted in a larger allocation of student financial aid to scholarship allowances. The amount of student financial aid applied to scholarship allowances increased by 28.8% in fiscal year 2004 compared to an increase of only 11.7% in fiscal year 2003. This increased allocation was offset by a \$525,000 increase in actual dollars expended for student financial aid.

Component Unit
Northeast State Technical Community College Foundation
Natural Classification
(in thousands of dollars)

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Utilities, supplies, and other services	\$ 27	\$ 6	\$ 15
Scholarships and fellowships	277	339	306
Depreciation expense	100	-	-
Payments to or on behalf of Northeast State	4	2	-
Total	<u>\$ 408</u>	<u>\$ 347</u>	<u>\$ 321</u>

Northeast State Technical Community College Foundation

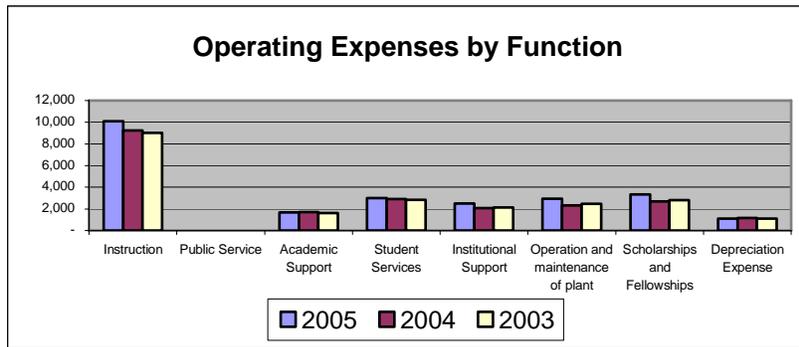


- Scholarships provided to Northeast State students by the foundation in fiscal year 2005 decreased by \$62,000 compared to fiscal year 2004. This decrease is principally due to a reduction in cash available to fund scholarships resulting from reduced investment performance in fiscal years 2003 and 2004.
- Scholarships provided to Northeast State by the foundation in fiscal year 2004 increased by \$33,000 over fiscal year 2003. The foundation provided scholarships to Northeast State students in excess of \$300,000 in both fiscal years 2004 and 2003.

Northeast State Technical Community College
Program Classification
(in thousands of dollars)

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Instruction	\$ 10,090	\$ 9,259	\$ 9,043
Public service	1	1	1
Academic support	1,679	1,706	1,627
Student services	3,011	2,914	2,858
Institutional support	2,503	2,073	2,146
Operation and maintenance of plant	2,933	2,339	2,488
Scholarships and fellowships	3,337	2,709	2,816
Depreciation expense	1,117	1,148	1,098
Total	\$ 24,671	\$ 22,149	\$ 22,077

Northeast State Technical Community College



- ❑ Expenses in the instructional function increased by \$831,000 in fiscal year 2005 over fiscal year 2004. An across-the-board pay increase for full-time faculty, and an additional one-time bonus for all full-time faculty accounts for the majority of the increase. Student enrollment at the college continued to increase in fiscal year 2005 resulting in increased costs for faculty and educational supplies to support the additional enrollments.
- ❑ Expenses in the student services function increased by \$97,000 primarily due to an across-the-board pay increase and one-time bonus for full-time employees and the related fringe benefit costs.
- ❑ Expenses in the institutional support function increased by \$430,000 in fiscal year 2005 compared to fiscal year 2004. This increase is largely due to across-the-board pay increases and related fringe benefit costs. A modification to the allocation method used to distribute computer services center costs contributed to this increase as did an increase of \$68,000 for uncollectible accounts expense.
- ❑ Expenses in the operation and maintenance of plant increased by \$594,000 in fiscal year 2005 compared to fiscal year 2004. Across-the-board pay increases and related fringe benefit

costs account for a portion of this increase. However, costs associated with utilities increased by \$71,000 largely as a result of increasing natural gas prices. The college also expended \$297,000 for minor renovation and maintenance projects on campus and \$91,000 to replace equipment type items, i.e., computers, which do not meet the criteria for capitalization.

- Expenses in the instructional function increased by \$216,000 in fiscal year 2004 over fiscal year 2003. Student enrollment at the college continued to increase in fiscal year 2004. The increased costs for adjunct faculty to support the increased enrollment account for the major portion of this increase. An increase in the costs of benefits for full-time employees makes up the majority of the balance of the increased costs.
- Expenditures for maintenance and operation of plant decreased by \$149,000 in fiscal year 2004 compared to fiscal year 2003. This decrease is primarily due to one-time, noncapital expenditures incurred in fiscal year 2003 to renovate space vacated with the opening of a new library in fiscal year 2002.
- Further explanation of the change in scholarships and fellowships is provided in the natural classification section above.

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.

<u>Northeast State Technical Community College</u>			
<u>Statements of Cash Flows</u>			
<u>(in thousands of dollars)</u>			
	<u>2005</u>	<u>2004</u>	<u>2003</u>
Cash provided (used) by:			
Operating activities	\$(16,742)	\$ (13,883)	\$ (10,213)
Noncapital financing activities	17,503	15,621	11,129
Capital and related financing activities	(118)	(622)	(793)
Investing activities	221	98	131
Net increase in cash	864	1,214	254
Cash, beginning of year	9,784	8,570	8,316
Cash, end of year	\$10,648	\$9,784	\$8,570

- Cash expended for operations exceeded cash received from operations in fiscal years 2005, 2004, and 2003. This is largely due to a significant source of cash, state appropriations, being shown as noncapital financing activities as defined by GASB 35. Additionally, certain grants and contracts were reclassified in fiscal year 2004 to nonoperating sources of cash as defined by GASB 33 and 35.

- ❑ Cash received from tuition and fees in fiscal year 2005 exceeded fiscal year 2004 by \$381,000 primarily due to a 7% increase in tuition and a 7.1% increase in full-time equivalent student enrollment in fall semester 2004.
- ❑ Cash received from operating grants and contracts decreased in fiscal year 2005 compared to fiscal year 2004 by \$233,000 primarily resulting from two grants funded in fiscal year 2004 that were not renewed in fiscal year 2005.
- ❑ Cash provided by noncapital financing activities increased in fiscal year 2005 compared to fiscal year 2004 by \$1,882,000. This increase resulted from an increase of \$570,000 in state appropriations for operations and a \$1,100,000 increase in gifts and grants, mainly student PELL awards and the Tennessee Educational Lottery System grants to students.
- ❑ The college invested an additional \$1,874,000 in capital assets during fiscal year 2005, of which \$643,000 of funding was provided by state capital appropriations and \$1,125,000 was financed through proceeds from capital debt. The balance was provided by a combination of operating funds and funds designated for plant improvements.
- ❑ The college's cash used by operating activities increased by \$2,859,000 during fiscal year 2005 while cash provided by noncapital financing activities increased by \$1,882,000. The college ended fiscal year 2005 with an increase in cash of \$864,000 compared to an increase in cash in fiscal year 2004 of \$1,214,000. The college's ability to meet its current liabilities with current assets remains strong as indicated by both the increase in cash and its current ratio of 2:1.
- ❑ Cash received from tuition and fees in fiscal year 2004 exceeded fiscal year 2003 by \$1,011,000 primarily due to a 14% increase in tuition and a 79% increase in the technology access fee charged to all students with a maximum annual charge of \$225 for a full-time student. Additionally, the college's full-time equivalent enrollment increased by 4.7% in fall semester 2003 and 6.3% in spring semester 2004.
- ❑ Cash provided by noncapital financing activities increased by \$4,492,000 primarily due to a reclassification of certain student financial aid grants from operating to nonoperating activities. Additionally, cash received to support student PELL grants and other federal grants awarded to the college increased by \$583,000 in fiscal year 2004 over fiscal year 2003.
- ❑ The college's cash used by operating activities increased by \$3,670,000 during fiscal year 2004 while cash provided by noncapital financing activities increased by \$4,492,000.
- ❑ The college invested an additional \$823,000 in capital assets during fiscal year 2004, of which \$200,000 was supported by state capital appropriations, and the balance was funded through operating funds or funds designated for plant improvements. State capital appropriations in fiscal year 2003 exceeded fiscal year 2004 by \$1,132,000 while funds expended for purchases of capital assets and construction in fiscal year 2003 exceeded those

of fiscal year 2004 by \$1,283,000, both of which are related to the completion of a new library building on the campus.

- The college’s cash and cash equivalents, exclusive of deposits held for others, increased by \$1,433,000 in fiscal year 2004 compared to fiscal year 2003. The college’s ability to meet its current liabilities with current assets remains strong as indicated by both the increase in cash and cash equivalents and its current ratio of 1.86 to 1.

Capital Assets and Debt Administration

Capital Assets

At June 30, 2005, Northeast State Technical Community College had \$24,525,000 invested in capital assets, net of accumulated depreciation of \$10,001,000. Depreciation charges totaled \$1,117,000 for the current fiscal year. Details of these assets are shown below.

<u>Northeast State Technical Community College</u> <u>Schedule of Capital Assets, Net of Depreciation</u> <u>(in thousands of dollars)</u>			
	<u>2005</u>	<u>2004</u>	<u>2003</u>
Land	\$ 1,917	\$ 1,917	\$ 1,829
Land improvements & infrastructure	1,161	1,046	701
Buildings	18,501	19,171	19,645
Equipment	1,105	906	993
Library holdings	716	748	787
Projects in progress	1,124	-	217

In fiscal year 2005, the college incurred costs of \$492,000 for the design and development phase for a new humanities/performing arts center. These costs are carried on the financial statements as projects in progress until the buildings are substantially completed. These costs were funded through state capital appropriations.

The college was appropriated state capital funds in fiscal year 2005 to begin updating its central energy and HVAC systems on campus. These costs are carried on the financial statements as projects in progress until their completion in fiscal year 2006.

Several campus improvement projects were undertaken during fiscal year 2005 including a new parking lot at a cost of \$78,000, campus signage at a cost of \$16,000, and phase 1 of the landscaping master plan at a cost of \$36,000. These projects were funded through campus funds designated for plant improvements.

The college replaced several pieces of equipment at a cost of \$191,000 during fiscal year 2005 using funds designated for renewal and replacement. The replacements included physical plant equipment, motor vehicle, printing equipment, and administrative and instructional computer

equipment. Additionally, the college began implementation of a new administrative Enterprise Resource Planning system to replace its obsolete legacy system. This project was funded through proceeds from capital debt of \$702,000 and renewal and replacements funds designated for replacement of the administrative computing system.

Approximately \$102,000 was expended during fiscal year 2005 for instructional equipment using a combination of funds from the technology access fee and other operating funds. The college continues to provide the latest technology to its students using a technology access fee charged to each student. The board members of the Tennessee Board of Regents have designated this fee exclusively for technology improvement in the instructional programs

There were no significant changes in the amount of expenditures for library holdings in fiscal year 2005 compared to fiscal year 2004. In recognition of the changing media for library resources, the college continues to expand its use of on-line and other electronic media.

In fiscal year 2004, the college moved its cardio-care and surgical technology programs to its leased facilities at Gray, Tennessee. The move required extensive renovations to the leased facility, the cost of which is capitalized over the term of the lease. The funding for this \$164,000 renovation was provided from unrestricted funds designated for plant improvements.

The college's campus master plan includes a welcome/security center to be located at the main entrance to the campus. Improvements to this site were completed in fiscal year 2004. The funds for this project, \$26,000 expended in fiscal year 2004 and \$62,000 expended in fiscal year 2003, were provided from funds designated for plant improvements. Other projects completed during fiscal year 2004 included entrance gates at the main entry to the campus, tennis courts, an electronic sign, and upgrades to the campus's central energy plant. These projects were funded through a combination of state capital maintenance appropriations and unrestricted net assets designated for capital purposes.

New equipment purchases during fiscal year 2004 totaled \$340,000 including additions to library holdings. Approximately \$142,000 was used during fiscal year 2004 for equipment purchases to be used for instruction. Additional unrestricted current operating funds of approximately \$36,000 were expended to support the instructional program through updating equipment including audiovisual and multi-media equipment.

The college maintains a renewal and replacement fund to replace equipment in its service centers, e.g., print shop, motor vehicle pool, computer services, and telephone services. During fiscal year 2004, the college replaced one motor vehicle at a cost of \$17,300.

There were no significant changes in the amount of expenditures for library holdings in fiscal year 2004 compared to fiscal year 2003.

The design and development phase of the new humanities/performing arts center was completed in early summer 2005 and construction is anticipated to begin in early 2006. It is anticipated that the building will be completed and ready for occupancy by fall 2007. State capital appropriations were allocated for fiscal year 2006 to upgrade the campus's fire alarm system and

to re-roof the administration building. The college will continue to use unrestricted net assets designated for capital projects for minor renovations and upgrades on the campus. The college plans to continue to develop its physical facilities with the addition of a walking trail and other landscaping projects. The college anticipates it will implement phase two of its landscape master plan during fiscal year 2006.

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

Debt

<u>Northeast State Technical Community College</u>			
<u>Schedule of Debt</u>			
<u>(in thousands of dollars)</u>			
	<u>2005</u>	<u>2004</u>	<u>2003</u>
Commercial Paper	\$ 1,125	\$ -	\$ -

During fiscal year 2005 the college incurred \$423,000 of long-term debt to enter into an energy savings performance contract. The debt, currently funded through commercial paper issued by the Tennessee State School Board Authority (TSSBA), will be converted to notes upon completion of the contract and will be repaid serially over 15 years. The college projects it will incur an additional \$78 thousand in long-term debt during fiscal year 2006 to complete the project. The annual interest rate on the debt will be approximately 6% over the life of the loan. It is expected that the debt will be repaid with projected annual utility allocations made possible by energy savings of an equal amount.

Additionally, the college incurred \$702,000 of long-term debt during fiscal year 2005 to purchase equipment and software to implement an Enterprise Resource Planning system. The project was funded with commercial paper issued by Tennessee State School Bond Authority and will be repaid over five years.

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 state budget for fiscal year 2006 includes an across-the-board pay increase of 3% for all full-time state employees including higher education employees. Additional state appropriations have been allocated to the college to fund 2% of the increase; the college is required to fund 1% from tuition or other sources of revenue.

The Tennessee Board of Regents members voted during June 2005 to increase tuition rates at all of its colleges and universities by 9.7% effective with the fall 2005 semester. However, taking

into consideration the tuition increase, Northeast State's student tuition and fees remain reasonable and it is expected that the fall semester 2005 student enrollment level will remain constant or experience only a slight decline.

The college continues to pursue its long-range plan to expand its facilities through new construction on the main campus and the purchase or construction of permanent facilities at off-campus sites. Construction is expected to begin in early 2006 on the new humanities/performing arts center. State capital appropriations have been allocated to support the projected cost of the building.

Utilities costs continue to be of concern to the college. An energy savings performance contract to install energy efficient lighting and water conservation devices as well as implement a number of other energy-saving measures was undertaken during fiscal year 2005 and substantial energy savings are expected during the upcoming year. Although this is a debt-financed project, the college does not expect a significant financial impact on its resources since it is projected that the debt service requirements will be met through energy savings resulting from the modifications.

The college's management believes the financial position of the college remains strong. Numerous cost containment measures have been implemented and the college continues to meet the demands placed upon it by steadily increasing enrollments. The college remains committed to providing increased access to higher education for the citizens of its service region.

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 Mr. Steve Campbell, Office of the Vice President for Business Affairs, Northeast State Technical Community College, P. O. Box 246, Blountville, TN 37617.

**TENNESSEE BOARD OF REGENTS
NORTHEAST STATE TECHNICAL COMMUNITY COLLEGE
STATEMENTS OF NET ASSETS
JUNE 30, 2005, AND JUNE 30, 2004**

	Northeast State Technical Community College		Component Unit - Northeast State Technical Community College Foundation	
	June 30, 2005	June 30, 2004	June 30, 2005	June 30, 2004
ASSETS				
Current assets:				
Cash (Notes 2, 3, and 13)	\$ 3,627,596.97	\$ 3,898,078.01	\$ 100,134.04	\$ 89,006.97
Short-term investments (Note 13)	-	-	1,424,720.03	1,347,230.55
Accounts, notes, and grants receivable (net) (Notes 4 and 13)	1,062,012.98	882,638.84	325.00	-
Pledges receivable (net) (Note 13)	-	-	7,234.46	4,699.26
Inventories	12,020.15	10,666.29	-	-
Prepaid expenses and deferred charges	75,817.65	19,008.49	-	-
Total current assets	<u>4,777,447.75</u>	<u>4,810,391.63</u>	<u>1,532,413.53</u>	<u>1,440,936.78</u>
Noncurrent assets:				
Cash (Notes 2, 3, and 13))	7,020,108.51	5,886,107.92	-	-
Investments (Note 13)	-	-	1,734,799.95	1,451,597.64
Pledges receivable (net) (Note 13)	-	-	26,574.77	31,925.78
Capital assets (net) (Notes 5 and 13)	24,525,249.78	23,787,930.44	200,000.00	-
Total noncurrent assets	<u>31,545,358.29</u>	<u>29,674,038.36</u>	<u>1,961,374.72</u>	<u>1,483,523.42</u>
Total assets	<u>36,322,806.04</u>	<u>34,484,429.99</u>	<u>3,493,788.25</u>	<u>2,924,460.20</u>
LIABILITIES				
Current liabilities:				
Accounts payable	243,026.68	282,013.59	2,000.00	384.56
Accrued liabilities	988,782.10	1,233,036.24	-	-
Deferred revenue (Note 6)	534,519.28	533,807.17	-	-
Compensated absences (Note 6)	196,435.50	204,216.33	-	-
Long-term liabilities, current portion (Note 6)	168,625.00	-	-	-
Accrued interest payable	2,762.84	-	-	-
Deposits held in custody for others	600,140.54	623,742.29	-	-
Other liabilities	2,488.91	-	-	-
Total current liabilities	<u>2,736,780.85</u>	<u>2,876,815.62</u>	<u>2,000.00</u>	<u>384.56</u>
Noncurrent liabilities:				
Deferred revenue (Note 6)	7,155.92	9,623.36	-	-
Compensated absences (Note 6)	413,970.31	342,775.89	-	-
Long-term liabilities (Note 6)	956,074.94	-	-	-
Total noncurrent liabilities	<u>1,377,201.17</u>	<u>352,399.25</u>	<u>-</u>	<u>-</u>
Total liabilities	<u>4,113,982.02</u>	<u>3,229,214.87</u>	<u>2,000.00</u>	<u>384.56</u>
NET ASSETS				
Invested in capital assets, net of related debt	23,400,549.84	23,787,930.44	200,000.00	-
Restricted for:				
Nonexpendable:				
Scholarships and fellowships	-	-	1,761,374.72	1,483,523.42
Expendable:				
Scholarships and fellowships	5,471.11	10,357.16	1,231,936.63	1,167,506.26
Instructional department uses	9,747.99	2,025.18	22,905.01	-
Loans	-	-	420.00	-
Other	4,987.28	5,176.34	11,157.11	-
Unrestricted (Note 7)	8,788,067.80	7,449,726.00	263,994.78	273,045.96
Total net assets	<u>\$ 32,208,824.02</u>	<u>\$ 31,255,215.12</u>	<u>\$ 3,491,788.25</u>	<u>\$ 2,924,075.64</u>

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

**TENNESSEE BOARD OF REGENTS
NORTHEAST STATE TECHNICAL COMMUNITY COLLEGE
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2005, AND JUNE 30, 2004**

	Northeast State Technical Community College		Component Unit - Northeast State Technical Community College Foundation	
	Year Ended June 30, 2005	Year Ended June 30, 2004	Year Ended June 30, 2005	Year Ended June 30, 2004
REVENUES				
Operating revenues:				
Student tuition and fees (net of scholarship allowances of \$3,308,779.51 for the year ended June 30, 2005, and \$2,824,005.47 for the year ended June 30, 2004)	\$ 5,949,069.08	\$ 5,508,115.75	\$ -	\$ -
Gifts and contributions	-	-	237,616.93	327,935.77
Endowment income per spending plan	-	-	25,853.52	13,364.54
Governmental grants and contracts	772,432.17	892,455.71	20,000.00	-
Nongovernmental grants and contracts	98,645.09	99,018.05	-	-
Sales and services of educational departments	-	-	7,320.00	-
Auxiliary enterprises:				
Bookstore	174,946.43	165,108.80	-	-
Food service	27,512.45	23,252.01	-	-
Other operating revenues	181,562.30	187,474.90	-	-
Total operating revenues	<u>7,204,167.52</u>	<u>6,875,425.22</u>	<u>290,790.45</u>	<u>341,300.31</u>
EXPENSES				
Operating expenses (Note 12):				
Salaries and wages	11,318,826.09	10,499,942.11	-	-
Benefits	3,653,684.72	3,093,783.45	-	-
Utilities, supplies, and other services	5,142,574.84	4,558,148.29	27,507.05	6,230.36
Scholarships and fellowships	3,438,930.21	2,849,250.34	276,715.82	338,447.29
Depreciation expense	1,117,236.53	1,148,696.25	100,000.00	-
Payments to or on behalf of Northeast State Technical Community College	-	-	4,000.00	2,250.00
Total operating expenses	<u>24,671,252.39</u>	<u>22,149,820.44</u>	<u>408,222.87</u>	<u>346,927.65</u>
Operating loss	<u>(17,467,084.87)</u>	<u>(15,274,395.22)</u>	<u>(117,432.42)</u>	<u>(5,627.34)</u>
NONOPERATING REVENUES (EXPENSES)				
State appropriations	11,083,900.00	10,513,900.00	-	-
Gifts (college gifts include \$4,000.00 from component unit in 2005 and \$2,250.00 in 2004)	96,219.00	38,800.00	-	-
Grants and contracts	6,434,184.07	5,333,359.50	-	-
Investment income (for component unit, net of investment expense of \$17,415.56 in 2005 and \$16,165.03 in 2004)	220,819.48	98,032.57	163,992.34	237,221.20
Interest on capital asset-related debt	(9,379.79)	-	-	-
Bond issuance costs	(2,488.91)	-	-	-
Other nonoperating revenues (expenses)	(19,291.95)	(77,761.47)	-	-
Net nonoperating revenues	<u>17,803,961.90</u>	<u>15,906,330.60</u>	<u>163,992.34</u>	<u>237,221.20</u>
Income before other revenues, expenses, gains, or losses	<u>336,877.03</u>	<u>631,935.38</u>	<u>46,559.92</u>	<u>231,593.86</u>
Capital appropriations	616,731.87	183,848.26	-	-
Capital gifts	-	-	300,000.00	-
Additions to permanent endowments	-	-	221,152.69	108,965.89
Total other revenues	<u>616,731.87</u>	<u>183,848.26</u>	<u>521,152.69</u>	<u>108,965.89</u>
Increase in net assets	<u>953,608.90</u>	<u>815,783.64</u>	<u>567,712.61</u>	<u>340,559.75</u>
NET ASSETS				
Net assets - beginning of year	31,255,215.12	30,439,431.48	2,924,075.64	2,583,515.89
Net assets - end of year	<u>\$ 32,208,824.02</u>	<u>\$ 31,255,215.12</u>	<u>\$ 3,491,788.25</u>	<u>\$ 2,924,075.64</u>

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

**TENNESSEE BOARD OF REGENTS
NORTHEAST STATE TECHNICAL COMMUNITY COLLEGE
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2005, AND JUNE 30, 2004**

	Year Ended <u>June 30, 2005</u>	Year Ended <u>June 30, 2004</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Tuition and fees	\$ 5,845,868.84	\$ 5,465,215.72
Grants and contracts	809,467.88	1,024,449.13
Payments to suppliers and vendors	(5,141,159.33)	(4,492,635.41)
Payments to employees	(11,607,460.22)	(10,402,845.00)
Payments for benefits	(3,548,680.04)	(3,051,066.91)
Payments for scholarships and fellowships	(3,446,479.20)	(2,843,317.33)
Auxiliary enterprise charges:		
Bookstore	149,196.37	212,542.00
Food services	24,363.04	23,152.89
Other receipts	172,742.07	181,614.07
Net cash used by operating activities	<u>(16,742,140.59)</u>	<u>(13,882,890.84)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State appropriations	11,083,000.00	10,512,500.00
Gifts and grants received for other than capital or endowment purposes	6,445,184.07	5,345,359.50
Federal student loan receipts	2,617,750.01	2,217,348.00
Federal student loan disbursements	(2,618,673.09)	(2,212,994.48)
Changes in deposits held for others	(24,528.17)	(241,315.05)
Net cash provided by noncapital financing activities	<u>17,502,732.82</u>	<u>15,620,897.97</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from capital debt	1,124,699.94	-
Capital appropriations	642,888.83	200,348.23
Purchases of capital assets and construction	(1,873,847.82)	(822,492.44)
Interest paid on capital debt and leases	(11,633.11)	-
Net cash used by capital and related financing activities	<u>(117,892.16)</u>	<u>(622,144.21)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Income on investments	220,819.48	98,032.57
Net cash provided by investing activities	<u>220,819.48</u>	<u>98,032.57</u>
Net increase in cash	863,519.55	1,213,895.49
Cash at beginning of year	9,784,185.93	8,570,290.44
Cash at end of year	\$ <u>10,647,705.48</u>	\$ <u>9,784,185.93</u>

**TENNESSEE BOARD OF REGENTS
NORTHEAST STATE TECHNICAL COMMUNITY COLLEGE
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2005, AND JUNE 30, 2004**

	Year Ended <u>June 30, 2005</u>	Year Ended <u>June 30, 2004</u>
Reconciliation of operating loss to net cash used by operating activities:		
Operating loss	\$ (17,467,084.87)	\$ (15,274,395.22)
Adjustments to reconcile operating loss to net cash used by operating activities:		
Depreciation expense	1,117,236.53	1,148,696.25
Gifts in-kind	85,219.00	6,800.00
Change in assets and liabilities:		
Receivables, net	(178,170.99)	20,775.34
Inventories	(1,353.86)	3,992.37
Prepaid/deferred items	(51,793.00)	(11,147.97)
Accounts payable	(63,597.52)	94,217.43
Accrued liabilities	(244,254.14)	2,366.90
Deferred revenue	(1,755.33)	144,134.30
Compensated absences	63,413.59	(18,330.24)
Net cash used by operating activities	<u>\$ (16,742,140.59)</u>	<u>\$ (13,882,890.84)</u>
Noncash transactions		
Gifts in-kind	\$ 85,219.00	\$ 6,800.00
Gifts of capital assets	-	20,000.00
Loss on disposal of capital assets	(19,291.95)	(77,761.47)

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

Tennessee Board of Regents
Northeast State Technical Community College
Notes to the Financial Statements
June 30, 2005, and June 30, 2004

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*.

The Northeast State Technical Community College Foundation is considered a component unit of the college. Although the college does not control the timing or amount of receipts from the foundation, the majority of resources, or income thereon, that the foundation holds and invests are restricted to the activities of the college by 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. See Note 13 for more detailed information about the component unit and how to obtain the 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

Tennessee Board of Regents
Northeast State Technical Community College
Notes to the Financial Statements (Cont.)
June 30, 2005, and June 30, 2004

are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. All significant interfund transactions have been eliminated.

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

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

All other activity is nonoperating in nature and includes (1) state appropriations for operations; (2) investment income; (3) bond issuance costs; (4) interest on capital asset-related debt; (5) certain grants and contracts; and (6) gifts and nonexchange transactions.

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

Inventories

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

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.

Tennessee Board of Regents
Northeast State Technical Community College
Notes to the Financial Statements (Cont.)
June 30, 2005, and June 30, 2004

Capital Assets

Capital assets, which include property, plant, equipment, library holdings, and software 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. The capitalization threshold for software is set at \$100,000.

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

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.

Nonexpendable restricted net assets - Nonexpendable restricted net assets consist of endowment and similar type funds in which donors or other outside sources have stipulated, as a condition of the gift instrument, that the principal is to be maintained inviolate and in perpetuity, and invested for the purpose of producing present and future income, which may be expendable or added to principal.

Expendable restricted net 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

Tennessee Board of Regents
Northeast State Technical Community College
Notes to the Financial Statements (Cont.)
June 30, 2005, and June 30, 2004

enterprises are substantially self-supporting activities that provide services for students, faculty, and staff.

Scholarship Discounts and Allowances

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

NOTE 2. CASH

At June 30, 2005, cash consisted of \$106,258.67 in bank accounts, \$720.00 of petty cash on hand, \$10,433,441.66 in the State of Tennessee Local Government Investment Pool administered by the State Treasurer, and \$107,285.15 on deposit with the State Treasurer. At June 30, 2004, cash consisted of \$267,857.68 in bank accounts, \$720.00 of petty cash on hand, \$9,408,323.10 in the State of Tennessee Local Government Investment Pool administered by the State Treasurer, and \$107,285.15 on deposit with the State Treasurer.

NOTE 3. DEPOSITS

During the year ended June 30, 2005, the college implemented GASB Statement 40, *Deposit and Investment Risk Disclosures*. That statement modified the custodial credit risk disclosures of GASB Statement 3 to limit required disclosures to deposits that are not covered by depository insurance and are (a) uncollateralized, (b) collateralized with securities held by the pledging financial institution, or (c) collateralized with securities held by the pledging financial institution's trust department or agent but not in the college's name.

Tennessee Board of Regents
Northeast State Technical Community College
Notes to the Financial Statements (Cont.)
June 30, 2005, and June 30, 2004

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, 2005, the carrying amount of the college's deposits was \$106,258.67, and the bank balance was \$264,486.41. The bank balance was insured. At June 30, 2004, the carrying amount of the college's deposits was \$267,857.68, and the bank balance was \$438,114.47. The bank balance was insured.

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

The college also has deposits in the Local Government Investment Pool (LGIP) administered by the State Treasurer. The LGIP is part of the Pooled Investment Fund. The fund's investment policy and required risk disclosures 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:

**Tennessee Board of Regents
Northeast State Technical Community College
Notes to the Financial Statements (Cont.)
June 30, 2005, and June 30, 2004**

	<u>June 30, 2005</u>	<u>June 30, 2004</u>
Student accounts receivable	\$778,846.09	\$638,506.06
Grants receivable	204,747.81	182,852.74
State appropriation receivable	18,300.00	17,400.00
Other receivables	<u>73,786.73</u>	<u>58,807.99</u>
Subtotal	1,075,680.63	897,566.79
Less allowance for doubtful accounts	<u>13,667.65</u>	<u>14,927.95</u>
Total receivables	<u>\$1,062,012.98</u>	<u>\$882,638.84</u>

NOTE 5. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2005, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Transfers</u>	<u>Reductions</u>	<u>Ending Balance</u>
Land	\$1,917,471.64	\$ -	\$ -	\$ -	\$1,917,471.64
Land improvements and infrastructure	1,403,717.36	190,492.45	-	-	1,594,209.81
Buildings	24,984,606.82	-	-	-	24,984,606.82
Equipment	2,989,987.66	425,965.80	-	154,555.06	3,261,398.40
Library holdings	1,654,017.35	133,169.19	-	142,911.62	1,644,274.92
Projects in progress	<u>-</u>	<u>1,124,220.38</u>	<u>-</u>	<u>-</u>	<u>1,124,220.38</u>
Total	<u>32,949,800.83</u>	<u>1,873,847.82</u>	<u>-</u>	<u>297,466.68</u>	<u>34,526,181.97</u>
Less accum. depreciation:					
Land improvements and infrastructure	357,738.11	75,154.28	-	-	432,892.39
Buildings	5,813,909.84	669,450.55	-	-	6,483,360.39
Equipment	2,083,807.20	208,204.20	-	135,263.11	2,156,748.29
Library holdings	<u>906,415.24</u>	<u>164,427.50</u>	<u>-</u>	<u>142,911.62</u>	<u>927,931.12</u>
Total accum. depreciation	<u>9,161,870.39</u>	<u>1,117,236.53</u>	<u>-</u>	<u>278,174.73</u>	<u>10,000,932.19</u>
Capital assets, net	<u>\$23,787,930.44</u>	<u>\$ 756,611.29</u>	<u>\$ -</u>	<u>\$19,291.95</u>	<u>\$24,525,249.78</u>

**Tennessee Board of Regents
 Northeast State Technical Community College
 Notes to the Financial Statements (Cont.)
 June 30, 2005, and June 30, 2004**

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	\$1,829,286.64	\$25,912.50	\$62,272.50	\$ -	\$1,917,471.64
Land improvements and infrastructure	998,778.77	258,161.85	154,464.74	7,688.00	1,403,717.36
Buildings	24,783,260.32	201,346.50	-	-	24,984,606.82
Equipment	2,997,617.57	230,717.02	-	238,346.93	2,989,987.66
Library holdings	1,655,533.12	126,354.57	-	127,870.34	1,654,017.35
Projects in progress	<u>216,737.24</u>	<u>-</u>	<u>(216,737.24)</u>	<u>-</u>	<u>-</u>
Total	<u>32,481,213.66</u>	<u>842,492.44</u>	<u>-</u>	<u>373,905.27</u>	<u>32,949,800.83</u>
Less accum. depreciation:					
Land improvements and infrastructure	297,476.94	66,027.17	-	5,766.00	357,738.11
Buildings	5,138,493.16	675,416.68	-	-	5,813,909.84
Equipment	2,004,464.00	241,850.66	-	162,507.46	2,083,807.20
Library holdings	<u>868,883.84</u>	<u>165,401.74</u>	<u>-</u>	<u>127,870.34</u>	<u>906,415.24</u>
Total accum. depreciation	<u>8,309,317.94</u>	<u>1,148,696.25</u>	<u>-</u>	<u>296,143.80</u>	<u>9,161,870.39</u>
Capital assets, net	<u>\$24,171,895.72</u>	<u>(\$306,203.81)</u>	<u>\$ -</u>	<u>\$77,761.47</u>	<u>\$23,787,930.44</u>

NOTE 6. LONG-TERM LIABILITIES

Long-term liabilities activity for the year ended June 30, 2005, was as follows:

**Tennessee Board of Regents
 Northeast State Technical Community College
 Notes to the Financial Statements (Cont.)
 June 30, 2005, and June 30, 2004**

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Current Portion</u>
Payables:					
Commercial paper	\$ -	\$1,124,699.94	\$ -	\$1,124,699.94	\$168,625.00
Subtotal	<u>-</u>	<u>1,124,699.94</u>	<u>-</u>	<u>1,124,699.94</u>	<u>168,625.00</u>
Other liabilities:					
Compensated absences	546,992.22	63,413.59	-	610,405.81	196,435.50
Deferred revenue	<u>543,430.53</u>	<u>-</u>	<u>1,755.33</u>	<u>541,675.20</u>	<u>534,519.28</u>
Subtotal	<u>1,090,422.75</u>	<u>63,413.59</u>	<u>1,755.33</u>	<u>1,152,081.01</u>	<u>730,954.78</u>
Total long-term liabilities	<u>\$1,090,422.75</u>	<u>\$1,188,113.53</u>	<u>\$1,755.33</u>	<u>\$2,276,780.95</u>	<u>\$899,579.78</u>

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>
Other liabilities:					
Compensated absences	\$565,322.46	\$ -	\$18,330.24	\$ 546,992.22	\$204,216.33
Deferred revenue	<u>399,296.23</u>	<u>144,134.30</u>	<u>-</u>	<u>543,430.53</u>	<u>533,807.17</u>
Total long-term liabilities	<u>\$964,618.69</u>	<u>\$144,134.30</u>	<u>\$18,330.24</u>	<u>\$1,090,422.75</u>	<u>\$738,023.50</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 \$1,124,699.94 at June 30, 2005.

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.

**Tennessee Board of Regents
 Northeast State Technical Community College
 Notes to the Financial Statements (Cont.)
 June 30, 2005, and June 30, 2004**

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, 2005</u>	<u>June 30, 2004</u>
Working capital	\$622,469.56	\$394,545.50
Encumbrances	59,222.52	112,849.43
Designated fees	377,996.33	170,869.59
Auxiliaries	13,906.39	9,757.54
Plant construction	4,263,623.26	4,075,584.76
Renewal and replacement of equipment	2,472,351.40	1,810,523.16
Debt retirement	257,741.30	-
Unreserved/undesignated	<u>720,757.04</u>	<u>875,596.02</u>
Total	<u>\$8,788,067.80</u>	<u>\$7,449,726.00</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.

Tennessee Board of Regents
Northeast State Technical Community College
Notes to the Financial Statements (Cont.)
June 30, 2005, and June 30, 2004

Funding Policy - Plan members are noncontributory. The college is required to contribute an actuarially determined rate. The current rate is 10.54% 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, 2005, 2004, and 2003 were \$647,363.90, \$400,617.97, and \$379,909.97. Contributions met the requirements for each year.

B. Defined Contribution Plans

Optional Retirement Plans (ORP)

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

Funding Policy - Plan members are noncontributory. The college contributes an amount equal to 10% of the employee's base salary up to the social security wage base and 11% above the social security wage base. Contribution requirements are established and amended by state statute. The contribution made by the college to the plans was \$371,071.79 for the year ended June 30, 2005, and \$358,471.53 for the year ended June 30, 2004. 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

Tennessee Board of Regents
Northeast State Technical Community College
Notes to the Financial Statements (Cont.)
June 30, 2005, and June 30, 2004

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

NOTE 10. 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. Information regarding the determination of the claims liabilities and the changes in the balances of the claims liabilities for the years ended June 30, 2005, and June 30, 2004, 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. 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

Tennessee Board of Regents
Northeast State Technical Community College
Notes to the Financial Statements (Cont.)
June 30, 2005, and June 30, 2004

et seq. Claims are paid through the state's Risk Management Fund. At June 30, 2005, the Risk Management Fund held \$114.4 million in cash and cash equivalents designated for payment of claims. At June 30, 2004, the Risk Management Fund held \$101.1 million in cash and cash equivalents designated for payment of claims.

At June 30, 2005, the scheduled coverage for the college was \$35,113,300 for buildings and \$12,543,400 for contents. At June 30, 2004, the scheduled coverage for the college was \$33,407,200 for buildings and \$12,003,400 for contents.

The state has also set aside assets in the Employee Group Insurance Fund, an internal service fund, to provide a program of health insurance coverage for the employees of the state with the risk retained by the state. The college participates in the Employee Group Insurance Fund. The fund allocates the cost of providing claims servicing and claims payment by charging a premium to the college based on estimates of the ultimate cost of claims 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 \$3,314,295.01 at June 30, 2005, and \$2,957,836.60 at June 30, 2004.

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 \$217,442.54 and for personal property were \$84,773.91 for the year ended June 30, 2005. Amounts for the year ended June 30, 2004, were \$224,326.36 and \$80,809.59. All operating leases are cancelable at the lessee's option.

Construction in Progress - At June 30, 2005, outstanding commitments under construction contracts totaled \$517,997.39 for a new humanities classroom and performing arts center and other minor renovation projects, of which \$464,238.89 will be funded by future state capital outlay appropriations.

**Tennessee Board of Regents
 Northeast State Technical Community College
 Notes to the Financial Statements (Cont.)
 June 30, 2005, and June 30, 2004**

Contract - In December 2004, the Tennessee Board of Regents system entered into a contract with SungardSCT for the purchase of a comprehensive enterprise resource planning system. The contract includes a multi-year phase-in of administrative software for financial, human resource, and student systems. The college's outstanding liability for this contract is estimated as \$1,126,124.29 at June 30, 2005.

NOTE 12. NATURAL CLASSIFICATIONS WITH FUNCTIONAL CLASSIFICATIONS

The college's operating expenses by functional classification for the year ended June 30, 2005, are as follows:

Functional Classification	Natural Classification					Total
	Salaries	Benefits	Other Operating	Scholarships	Depreciation	
Instruction	\$6,411,254.91	\$1,765,706.15	\$1,887,627.53	\$25,152.70	\$ -	\$10,089,741.29
Public service	-	-	595.70	-	-	595.70
Academic support	1,272,756.35	458,802.84	(55,382.10)	2,513.00	-	1,678,690.09
Student services	1,562,007.14	569,190.50	814,064.67	65,965.20	-	3,011,227.51
Institutional support	1,378,308.28	548,756.70	570,374.96	5,729.00	-	2,503,168.94
Operation & maintenance	694,499.41	311,228.53	1,925,294.08	2,513.00	-	2,933,535.02
Scholarships & fellowships	-	-	-	3,337,057.31	-	3,337,057.31
Depreciation	-	-	-	-	1,117,236.53	1,117,236.53
Total	\$11,318,826.09	\$3,653,684.72	\$5,142,574.84	\$3,438,930.21	\$1,117,236.53	\$24,671,252.39

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

Functional Classification	Natural Classification					Total
	Salaries	Benefits	Other Operating	Scholarships	Depreciation	
Instruction	\$5,940,551.71	\$1,572,117.17	\$1,716,600.91	\$ 29,247.13	\$ -	\$9,258,516.92
Public service	-	-	587.34	-	-	587.34
Academic support	1,174,377.14	386,479.14	142,527.15	3,056.50	-	1,706,439.93
Student services	1,530,273.28	490,977.16	790,737.03	102,280.94	-	2,914,268.41
Institutional support	1,232,358.04	396,949.67	438,070.31	5,962.00	-	2,073,340.02
Operation & maintenance	622,381.94	247,260.31	1,469,625.55	-	-	2,339,267.80
Scholarships & fellowships	-	-	-	2,708,703.77	-	2,708,703.77
Depreciation	-	-	-	-	1,148,696.25	1,148,696.25
Total	\$10,499,942.11	\$3,093,783.45	\$4,558,148.29	\$2,849,250.34	\$1,148,696.25	\$22,149,820.44

Tennessee Board of Regents
Northeast State Technical Community College
Notes to the Financial Statements (Cont.)
June 30, 2005, and June 30, 2004

NOTE 13. COMPONENT UNIT

The Northeast State Technical Community College Foundation is a legally separate, tax-exempt organization supporting Northeast 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 40-member board of the foundation is self-perpetuating and consists of graduates and friends of the college. All board members are elected for a three-year term, with no more than one-half of the directors being elected at any regular or called meeting. Although the college does not control the timing or amount of receipts from the foundation, the majority of resources, or income thereon, that the foundation holds and invests are restricted to the activities of the college by the donors. Because these restricted resources held by the foundation can only be used by, or for the benefit of, the college, the foundation is considered a component unit of the college and is discretely presented in the college's financial statements.

The foundation is a nonprofit organization that reports under Financial Accounting Standards Board (FASB) standards, 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, 2005, the foundation made distributions of \$4,000 to or on behalf of the college for both restricted and unrestricted purposes. During the year ended June 30, 2004, the foundation made distributions of \$2,250 to or on behalf of the college for both restricted and unrestricted purposes. Complete financial statements for the foundation can be obtained from Dr. Claire Stinson, Vice President for Business Affairs, Northeast State Technical Community College, P. O. Box 246, Blountville, TN 37617.

Cash – At June 30, 2005, cash consists of \$38,808.01 in bank accounts and \$61,326.03 in the State of Tennessee Local Government Investment Pool administered by the State Treasurer. The bank balances of deposits at June 30, 2005, were entirely insured. At June 30, 2004, cash consists of \$16,205.55 in bank accounts and \$72,801.42 in the State of Tennessee Local Government Investment

**Tennessee Board of Regents
 Northeast State Technical Community College
 Notes to the Financial Statements (Cont.)
 June 30, 2005, and June 30, 2004**

Pool administered by the State Treasurer. The bank balances of deposits at June 30, 2004, were entirely insured.

Donated assets – Marketable securities are recorded at their fair value as listed on the respective stock exchange as of the gift date. Other noncash donations are recorded at their fair value as estimated by the donor as of the gift date unless an appraisal is required for tax purposes, in which case the fair value as stated in the appraisal is used to value the gift. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose.

Investments - Investments in marketable securities are stated at the quoted market value at June 30. Unrealized gains and losses are determined by the difference between market values and cost basis at the beginning and end of the year and are included in the change in net assets. For classification purposes on the statement of net assets, permanently restricted net assets held as cash equivalents awaiting purchase of marketable securities are recorded as long-term investments in accordance with FASB Statement 117.

Investments securities held at June 30, 2005, were as follows:

	<u>Cost</u>	<u>Market Value</u>
Cash equivalents held for long-term investment	\$242,294.17	\$242,294.17
United States government securities	59,861.87	60,486.80
Mutual funds	2,158,474.71	2,374,843.17
Corporate bonds	73,213.80	72,118.10
Certificates of deposit	<u>411,000.00</u>	<u>409,777.74</u>
Total investments	<u>\$2,944,844.55</u>	<u>\$3,159,519.98</u>

**Tennessee Board of Regents
 Northeast State Technical Community College
 Notes to the Financial Statements (Cont.)
 June 30, 2005, and June 30, 2004**

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

	<u>Cost</u>	<u>Market Value</u>
Cash equivalents held for long-term investment	\$130,567.94	\$130,567.94
United States government securities	9,893.12	10,850.00
Mutual funds	2,391,274.78	2,522,716.30
Corporate bonds	<u>135,200.60</u>	<u>134,693.95</u>
 Total investments	 <u>\$2,666,936.44</u>	 <u>\$2,798,828.19</u>

Accounts, notes, and grants receivable – Accounts receivable included the following at June 30, 2005.

	<u>June 30, 2005</u>
Due from Northeast State	\$ 25.00
Other receivables	<u>300.00</u>
 Total	 <u>\$325.00</u>

Pledges receivable – Unconditional pledges to give, less an allowance for uncollectible amounts, are recognized as revenue in the period received and as assets, decreases of liabilities, or expenses depending on the form of the benefits received. Conditional pledges to give are recognized when the conditions on which they depend are substantially met. Unconditional pledges to give that are expected to be collected within one year are recorded at net realizable value. Unconditional pledges to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using risk-free interest rates applicable to the years in which the promises are received. Amortization of the discounts is included in contribution revenue.

Capital assets - Capital assets for the year ended June 30, 2005, were as follows:

Tennessee Board of Regents
Northeast State Technical Community College
Notes to the Financial Statements (Cont.)
June 30, 2005, and June 30, 2004

	<u>June 30, 2005</u>
Software	\$300,000.00
Less accumulated depreciation	<u>(100,000.00)</u>
Capital assets, net	<u>\$200,000.00</u>

Restricted net assets – Expendable restricted net assets are available for scholarship assistance and other programs to further the vision of the college. Nonexpendable restricted net assets are to provide permanent endowments for the foundation, with investment income restricted primarily for scholarships.

Contributions – Contributions received are recorded as unrestricted, temporarily restricted (expendable restricted), or permanently restricted (nonexpendable restricted) support, depending on the existence and/or nature of any donor restrictions. Support that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the support is recognized. All other donor-restricted support is reported as an increase in temporarily restricted (expendable) or permanently restricted (nonexpendable) restricted net assets, depending on the nature of the restriction.

Donated services – A significant portion of the foundation’s functions are conducted by unpaid volunteers. The value of this contributed time is not reflected in the accompanying financial statements since the volunteers’ time does not meet the criteria for recognition under FASB Statement 116.

Endowments – If a donor has not provided specific instructions to Northeast State Technical Community College Foundation, state law permits the foundation to authorize for expenditure the net appreciation (realized and unrealized) of the investments of endowment funds. When administering its power to spend net appreciation, the foundation is required to consider the foundation’s long-term and short-term needs, present and anticipated financial requirements, expected total return on its investments, price-level trends, and general economic conditions. Any net appreciation that is spent is required to be spent for the purposes for which the endowment was established.

Tennessee Board of Regents
Northeast State Technical Community College
Notes to the Financial Statements (Cont.)
June 30, 2005, and June 30, 2004

The foundation chooses to spend only a portion of the investment income (excluding changes in the value of investments) each year. Under the spending plan established by the foundation, 80% of the investment income and realized changes in the value of the investments has been authorized for expenditure. The remaining amount is retained as a hedge against inflation; however, the Board can authorize use of these funds in future years when the amount of scholarship awards exceeds the available income. At June 30, 2005, net appreciation of \$109,912.25 is available to be spent, of which \$109,912.25 is restricted to specific purposes.

**TENNESSEE BOARD OF REGENTS
NORTHEAST STATE TECHNICAL COMMUNITY COLLEGE
SUPPLEMENTARY INFORMATION
STATEMENTS OF CASH FLOWS - COMPONENT UNIT
FOR THE YEARS ENDED JUNE 30, 2005, AND JUNE 30, 2004**

	<u>Year Ended June 30, 2005</u>	<u>Year Ended June 30, 2004</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Gifts and contributions	\$ 235,081.73	\$ 325,288.00
Endowment income per spending plan	25,853.52	13,364.54
Grants and contracts	20,000.00	-
Sales and services of educational activities	6,995.00	-
Payments to suppliers and vendors	(27,891.61)	(6,195.80)
Payments for scholarships and fellowships	(276,715.82)	(339,447.29)
Payments to Northeast State Technical Community College	(2,000.00)	(2,250.00)
Net cash used by operating activities	<u>(18,677.18)</u>	<u>(9,240.55)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Private gifts for endowment purposes	226,503.70	77,040.11
Net cash provided by noncapital financing activities	<u>226,503.70</u>	<u>77,040.11</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of investments	1,919,226.97	1,678,038.81
Income on investments	74,952.54	(1,506.71)
Purchases of investments	(2,190,878.96)	(1,704,190.56)
Net cash used by investing activities	<u>(196,699.45)</u>	<u>(27,658.46)</u>
Net increase in cash	11,127.07	40,141.10
Cash at beginning of year	89,006.97	48,865.87
Cash at end of year	<u>\$ 100,134.04</u>	<u>\$ 89,006.97</u>
Reconciliation of operating loss to net cash used by operating activities:		
Operating loss	\$ (117,432.42)	\$ (5,627.34)
Adjustments to reconcile operating loss to net cash used by operating activities:		
Depreciation expense	100,000.00	-
Change in assets and liabilities:		
Receivables, net	(2,860.20)	(2,647.77)
Accounts payable	1,615.44	(965.44)
Net cash used by operating activities	<u>\$ (18,677.18)</u>	<u>\$ (9,240.55)</u>
Noncash transactions		
Gifts of capital assets	\$ 300,000.00	\$ -
Unrealized gains on investments	89,041.21	238,727.91