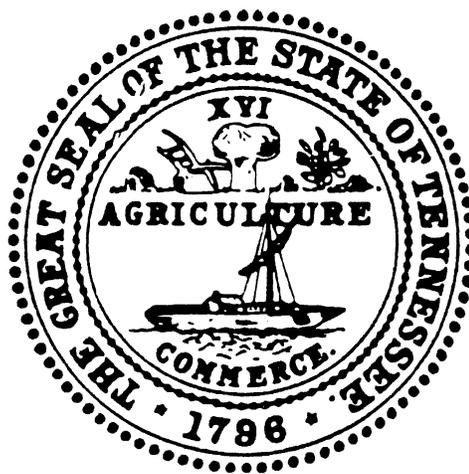


AUDIT REPORT

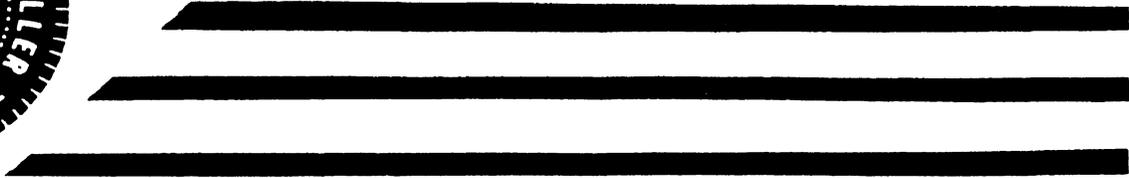
Tennessee Board of Regents
Pellissippi State Technical Community College

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



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STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY

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

John G. Morgan
Comptroller

November 16, 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. Allen G. Edwards, President
Pellissippi State Technical Community College
P. O. Box 22990
Knoxville, Tennessee 37933-0990

Ladies and Gentlemen:

Transmitted herewith is the financial and compliance audit of the Tennessee Board of Regents, Pellissippi State Technical Community College, for the years ended June 30, 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,

John G. Morgan
Comptroller of the Treasury

JGM/sds
06/040

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
Pellissippi State Technical Community College
For the Years Ended June 30, 2005, and June 30, 2004

A U D I T O B J E C T I V E S

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.

A U D I T F I N D I N G S

The audit report contains no findings.

O P I N I O N S O N T H E F I N A N C I A L S T A T E M E N T S

The opinions on the financial statements are unqualified.

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

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

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

BACKGROUND

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

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

ORGANIZATION

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

AUDIT SCOPE

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

OBJECTIVES OF THE AUDIT

The objectives of the audit were

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

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

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**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***

June 23, 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 Pellissippi 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 June 23, 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

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 certain matters 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
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Independent Auditor's Report

June 23, 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 Pellissippi 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
June 23, 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, Pellissippi 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 9 through 27 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. Pellissippi State Technical Community College has not presented condensed financial information comparing the 2004 and 2003 fiscal years which is required by accounting principles generally accepted in the United States of America to supplement, although not be a part of, the basic financial statements.

Our audit was conducted for the purpose of forming opinions on the basic financial statements. The accompanying financial information on page 48 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 June 23, 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,



Arthur A. Hayes, Jr., CPA
Director

AAH/sds

Management's Discussion and Analysis

This section of Pellissippi State Technical Community College's annual financial report presents a discussion and analysis of the financial performance of the college during the fiscal year ended June 30, 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 Pellissippi State Technical Community College Foundation. More detailed information about the college's component unit is presented in Note 14 of the financial statements. Information and analysis regarding the component unit are also included in this section.

Using This Annual Report

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

The Statement of Net Assets

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

Net assets are divided into three major categories. The first category, invested in capital assets, net of related debt, provides the college's equity in property, plant, and equipment owned by the college. The next asset category is restricted net assets, which are 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.

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

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Assets:			
Current assets	\$ 8,196	\$ 7,224	\$ 9,537
Capital assets, net	31,850	31,359	32,780
Other assets	5,684	5,135	3,089
Total assets	45,730	43,718	45,406
Liabilities:			
Current liabilities	5,552	4,522	7,683
Noncurrent liabilities	1,743	470	526
Total liabilities	7,295	4,992	8,209
Net assets:			
Invested in capital assets, net of related debt	30,355	31,359	32,780
Restricted – nonexpendable	-	-	-
Restricted – expendable	201	164	150
Unrestricted	7,879	7,203	4,267
Total net assets	\$38,435	\$38,726	\$37,197

- Net capital assets represent 70% of the total assets of the college and 83% of the total net assets. Net capital assets include buildings (24.0 million); land and land improvements and infrastructure (3.7 million); and equipment and library holdings (2.8 million).
- Liabilities consist of accounts payable, accrued liabilities, accrued employee annual leave, deferred revenue, and funds held in custody for others.
- The majority of current assets are cash and cash equivalents and accounts receivable.
- Other assets are noncurrent cash and cash equivalents used for plant construction and renewal and replacement of plant.
- Cash and cash equivalents increased by 15% or \$1,659,000 -- 90% of this increase (\$1,463,000) was due to increases in plant funds for future plant expenditures and renewal and replacement of college assets.
- Total assets increased by 4.6% or \$2,012,000.
- Total liabilities increased by 46% or \$2,303,000. The majority of the increase (65%) (\$1,495,000) is the debt that has been incurred for the Banner software implementation.
- Total net capital assets and total net assets remained stable during the 2005 fiscal year.

Component Unit
Pellissippi State Technical Community College Foundation
Statements of Net Assets
(in thousands of dollars)

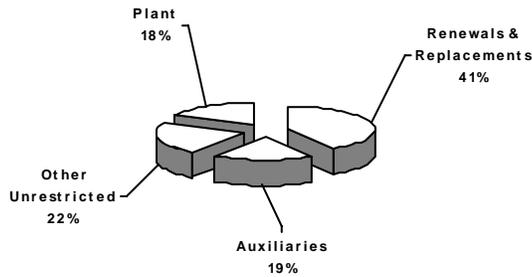
	<u>2005</u>	<u>2004</u>	<u>2003</u>
Assets:			
Current assets	\$1,100	\$814	\$674
Other assets	3,962	3,469	3,027
Total assets	<u>5,062</u>	<u>4,283</u>	<u>3,701</u>
Liabilities:			
Current liabilities	61	-	-
Total liabilities	<u>61</u>	<u>-</u>	<u>-</u>
Net assets:			
Restricted – nonexpendable	993	993	972
Restricted – expendable	3,912	3,251	2,723
Unrestricted	96	39	6
Total net assets	<u>\$5,001</u>	<u>\$4,283</u>	<u>\$3,701</u>

- Foundation total assets increased \$779,000 (18%). This represents a 42% increase in cash and cash equivalents (\$310,000), a 15% increase in investments (\$499,000), and a 19% decrease in accounts receivable (\$30,000). These assets increased due to increased fund raising efforts by the foundation.
- The foundation total net assets increased \$718,000 (17%) which reflects the increase in assets shown above less an increase of \$61,000 in accounts payable.

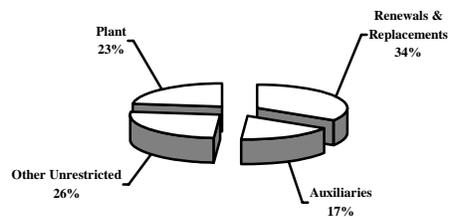
Many of the college's unrestricted net assets have been designated or reserved for specific purposes such as: repairs and replacement of equipment, capital projects, and auxiliary operations. The following graphs show the allocations:

Unrestricted Net Asset Allocations PSTCC

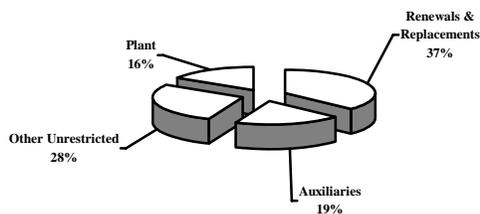
2005



2004



2003



- Unrestricted net assets increased \$676,000 – an increase of 9%. The largest change was an increase in the allocation for renewal and replacement of college equipment of \$814,000 (34%). There was a small increase in auxiliary allocation and small decreases in plant construction and unrestricted allocation.

Fiscal Year 2005

<u>Category</u>	<u>\$ Change (in thousands)</u>	<u>% Change</u>
Auxiliary	221	17%
Renewal & replacement	814	34%
Plant construction	(260)	(16%)
Other unrestricted	(99)	(5%)

**Unrestricted Net Asset Allocations
PSTCC Foundation**

- All of the PSTCC Foundation's unrestricted net assets are undesignated and unreserved. For the 2004 fiscal year, the unrestricted net assets increased \$33,000 and for the 2005 fiscal year, the unrestricted net assets increased \$57,000 to a total of \$96,000.

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 of America.

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

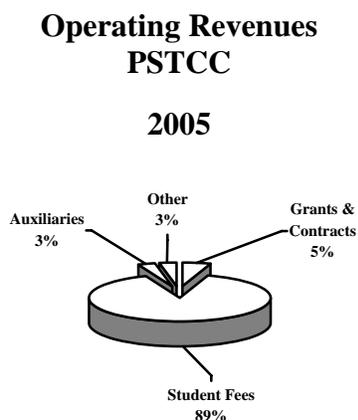
	<u>2005</u>	<u>2004</u>	<u>2003</u>
Operating revenues:			
Net tuition and fees	\$11,426	\$12,206	\$10,856
Grants and contracts	600	1,331	2,097
Auxiliary	367	362	352
Other	380	377	383
Total operating revenues	<u>12,773</u>	<u>14,276</u>	<u>13,688</u>
Operating expenses	(42,603)	(39,817)	(38,438)
Operating loss	<u>(29,830)</u>	<u>(25,541)</u>	<u>(24,750)</u>
Nonoperating revenues and expenses:			
State appropriations	19,039	18,088	18,353
Gifts	192	576	98
Grants and contracts	9,843	7,507	6,350
Investment income	242	97	20
Other revenues and expenses	(10)	-	-
Total nonoperating revenues and expenses	<u>29,306</u>	<u>26,268</u>	<u>24,821</u>
Income (loss) before other revenues, expenses, gains, or losses	<u>(524)</u>	<u>727</u>	<u>71</u>
Other revenues, expenses, gains, or losses:			
Capital appropriations	266	827	543
Capital grants and gifts	150	-	-
Other	(182)	(25)	654
Total other revenues, expenses, gains, or losses	<u>234</u>	<u>802</u>	<u>1,197</u>
Increase (decrease) in net assets	<u>(290)</u>	<u>1,529</u>	<u>1,268</u>
Net assets at beginning of year	<u>38,726</u>	<u>37,197</u>	<u>35,929</u>
Net assets at end of year	<u>\$38,436</u>	<u>\$38,726</u>	<u>\$37,197</u>

Pellissippi 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	975	837	281
Endowment income per spending plan	211	295	-
Total operating revenues	<u>1,186</u>	<u>1,132</u>	<u>281</u>
Operating expenses	(606)	(744)	(262)
Operating gain	<u>580</u>	<u>388</u>	<u>19</u>
Nonoperating revenues and expenses:			
Investment income	139	173	161
Total nonoperating revenues and expenses	<u>139</u>	<u>173</u>	<u>161</u>
Income before other revenues, expenses, gains, or losses	<u>719</u>	<u>561</u>	<u>180</u>
Other revenues, expenses, gains, or losses:			
Additions to permanent endowments	-	21	-
Total other revenues, expenses, gains, or losses	<u>-</u>	<u>21</u>	<u>-</u>
Increase in net assets	<u>719</u>	<u>582</u>	<u>180</u>
Net assets at beginning of year	<u>4,283</u>	<u>3,701</u>	<u>3,521</u>
Net assets at end of year	<u>\$5,002</u>	<u>\$4,283</u>	<u>\$3,701</u>

Revenues

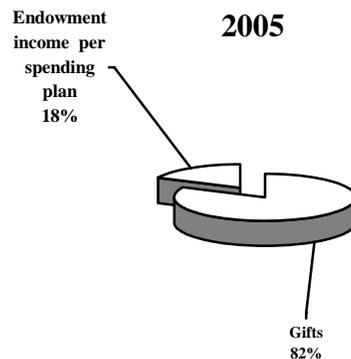
The following is a graphic illustration of revenues by source (only operating revenues), which are used to fund the college's operating activities for the year ended June 30, 2005, the year ended June 30, 2004, and the year ended June 30, 2003.

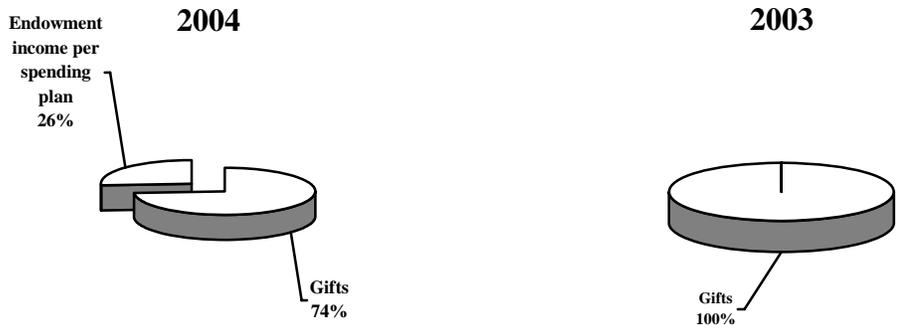




- Student tuition and fees represent 89% of the total operating revenue of the college. In the 2005 fiscal year, student tuition and fees decreased \$780,000 (6.4%). This decrease was due to declining enrollment.
- Total operating revenues decreased \$1,503,000 (10.5%).
- Grants and contracts consist of federal and state student financial aid and various restricted grants to the college. The grants and contracts account for 5% of the total operating revenue and in fiscal year 2005 decreased by 55% (\$731,000).
- Auxiliary operations include the bookstore and cafeteria (both are outsourced). Their commissions represent 3% of the total operating revenue, and they remained stable in the 2005 fiscal year.
- Other revenues include interest income, rental of facilities, and testing services; account for 3% of the total operating revenue; and remained stable in the 2005 fiscal year.

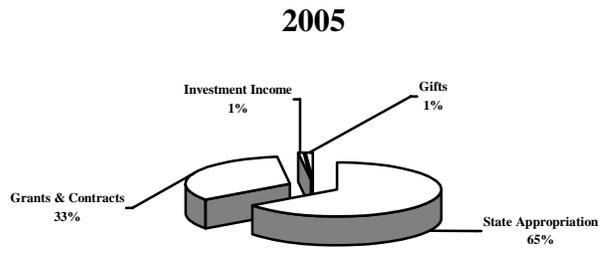
Operating Revenues PSTCC Foundation



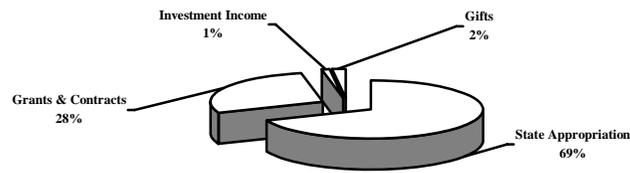


- The PSTCC Foundation’s operating revenue is primarily gifts and contributions. The gifts to the foundation increased from \$837,000 in fiscal year 2004 to \$975,000 in fiscal year 2005, an increase of 16%. This increase was due to increased fund raising efforts by the foundation.

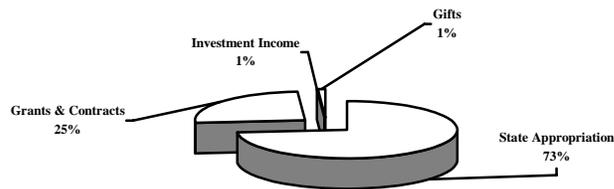
Nonoperating Revenues PSTCC



2004



2003



- State appropriations of \$19.039 million increased \$951,000 (5.3%). This funded a 3% salary increase. The appropriations are classified as nonoperating revenues, and they represent the largest single portion of total revenues.
- Total nonoperating revenues increased \$3,038,000, or 11.6%. Grants and contracts account for an increase of \$2,335,000 (31.1%), a result of the state lottery scholarship program.

Nonoperating Revenues PSTCC Foundation

- All of the foundation's nonoperating revenue is from investment income. For fiscal year 2005, the investment income decreased \$34,000 (20%).

Expenses

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

PSTCC

Natural Classification 2005

2005 Functional Classification	<u>Salaries</u>	<u>Benefits</u>	Other <u>Operating</u>	<u>Scholarships</u>	<u>Depreciation</u>	<u>Total</u>
Instruction	\$ 12,969	\$ 3,538	\$ 3,817	\$ 135	\$ -	\$ 20,459
Public service	518	123	216	596	-	1,453
Academic support	2,664	810	(648)	124	-	2,950
Student services	1,962	734	1,198	69	-	3,963
Institutional support	2,158	761	1,392	12	-	4,323
Operation & maintenance of plant	615	279	3,171	1	-	4,066
Scholarships	5	-	-	3,249	-	3,254
Depreciation	-	-	-	-	2,006	2,006
Auxiliaries	-	-	129	-	-	129
Total expenses	<u>\$ 20,891</u>	<u>\$ 6,245</u>	<u>\$ 9,275</u>	<u>\$ 4,186</u>	<u>\$ 2,006</u>	<u>\$ 42,603</u>

Natural Classification 2004

2004 Functional Classification	<u>Salaries</u>	<u>Benefits</u>	Other <u>Operating</u>	<u>Scholarships</u>	<u>Depreciation</u>	<u>Total</u>
Instruction	\$ 12,338	\$ 3,220	\$ 3,890	\$ 80	\$ -	\$ 19,528
Public service	517	127	550	111	-	1,305
Academic support	2,391	704	(107)	28	-	3,016
Student services	1,779	616	1,157	59	-	3,611
Institutional support	2,036	676	1,287	12	-	4,011
Operation & maintenance of plant	548	222	2,151	2	-	2,923
Scholarships	6	-	-	3,243	-	3,249
Depreciation	-	-	-	-	2,042	2,042
Auxiliaries	-	-	132	-	-	132
Total expenses	<u>\$ 19,615</u>	<u>\$ 5,565</u>	<u>\$ 9,060</u>	<u>\$ 3,535</u>	<u>\$ 2,042</u>	<u>\$ 39,817</u>

Natural Classification 2003

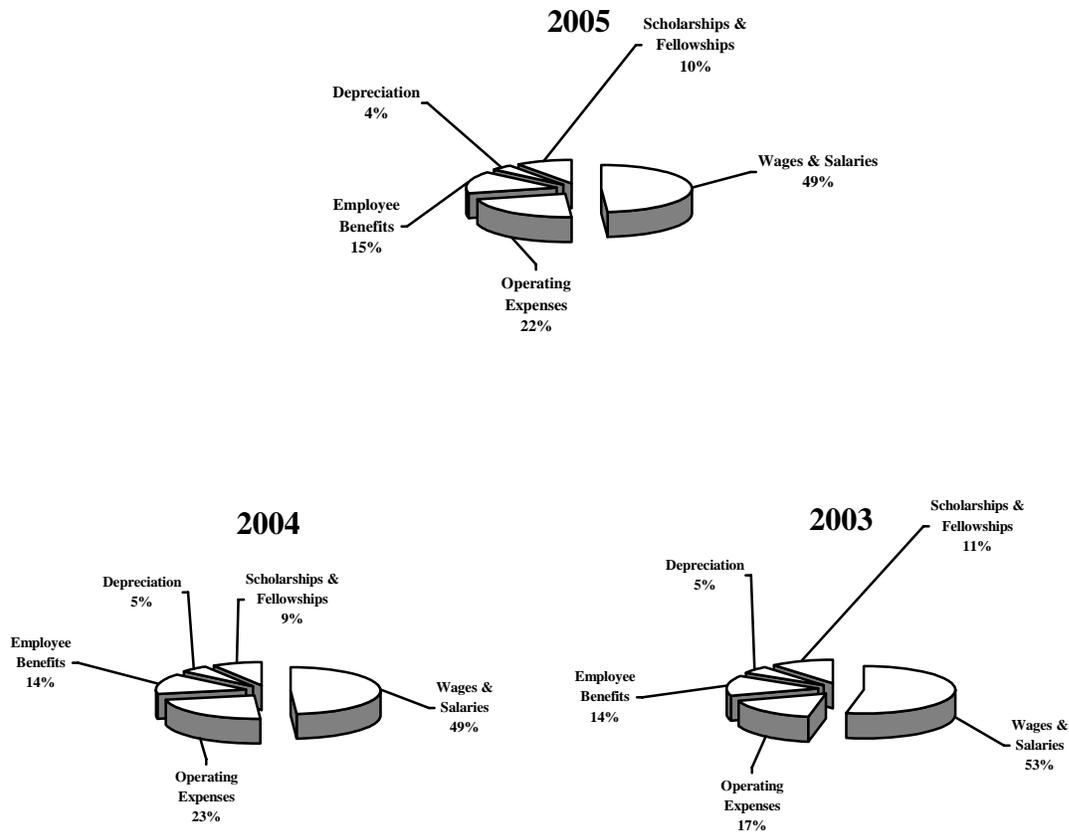
2003 Functional Classification	<u>Salaries</u>	<u>Benefits</u>	Other <u>Operating</u>	<u>Scholarships</u>	<u>Depreciation</u>	<u>Total</u>
Instruction	\$ 12,635	\$ 3,084	\$ 2,794	\$ 35	\$ -	\$ 18,548
Public service	549	135	464	-	-	1,148
Academic support	2,408	675	(512)	8	-	2,579
Student services	2,062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

PSTCC Foundation

Natural Classification

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Other operating	476	622	156
Scholarships	<u>130</u>	<u>122</u>	<u>105</u>
Total expenses	<u>\$606</u>	<u>\$744</u>	<u>\$261</u>

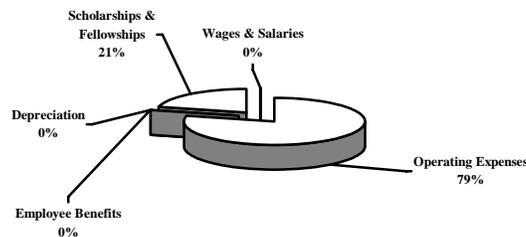
**Operating Expenses by Natural Classification
PSTCC**



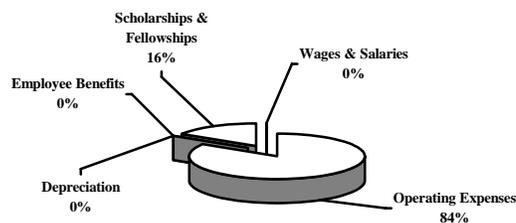
- Employee salaries and benefits account for 64% of the budget. This category includes any payment to any college employee and any associated benefits. The benefits category includes retirement, health insurance, social security, unemployment, and any other related employee benefits.
- Total expenditures increased 7% from the previous year (\$2,786,000). Salaries and benefits increased 7.7% (\$1,956,000) due to a 3% salary increase, a mid-year bonus, and an increase in insurance benefits. Scholarships increased 18.4% (\$651,000) due to the state lottery scholarship program.
- Scholarship payments are primarily for fees and books, and they represent 10% of the total operating expenses.
- Other operating expenses include travel, supplies, utilities, maintenance and repairs, contracted labor, and other general business expenses. These expenses represent 22% of the total operating expenses.

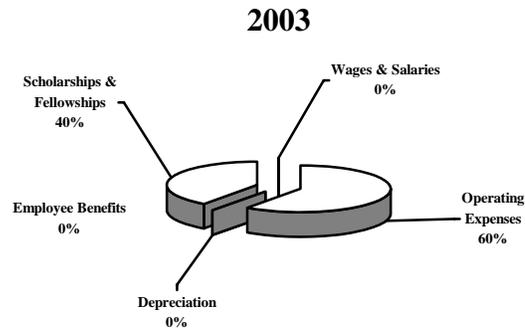
Operating Expenses by Natural Classification PSTCC Foundation

2005



2004





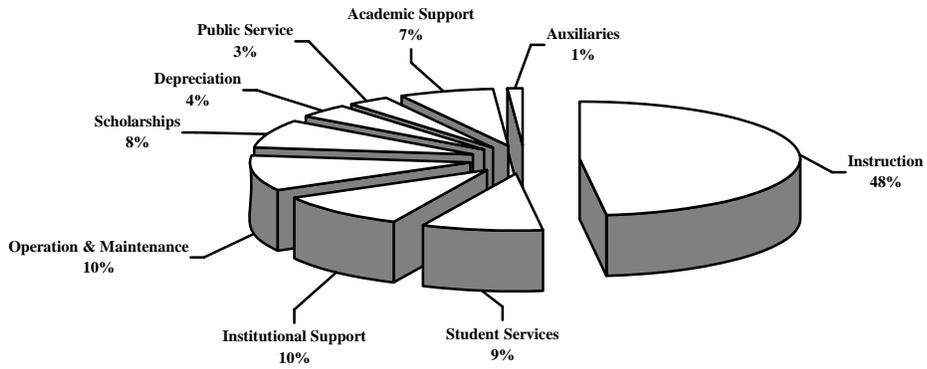
- Total foundation operating expenses decreased by \$138,000 (18%) due to a decrease in endowment income per the spending plan.

The college's program expenditure percentages are as follows:

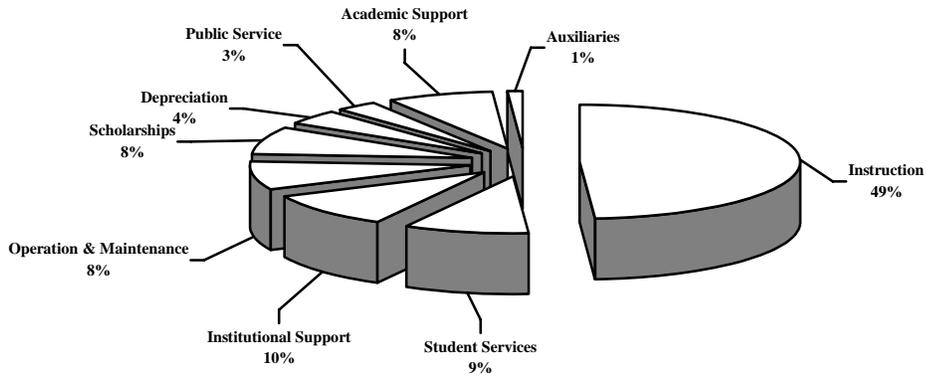
Operating Expenses by Function

	PSTCC		
	<u>2005</u>	<u>2004</u>	<u>2003</u>
Instruction	48%	49%	48%
Public service	3%	3%	3%
Academic support	<u>7%</u>	<u>8%</u>	<u>8%</u>
Subtotal	58%	60%	59%
Student services	9%	9%	10%
Institutional support	10%	10%	9%
Operation and maintenance	10%	8%	6%
Scholarships	8%	8%	10%
Depreciation	4%	4%	5%
Auxiliaries	<u>1%</u>	<u>1%</u>	<u>1%</u>
Total	100%	100%	100%

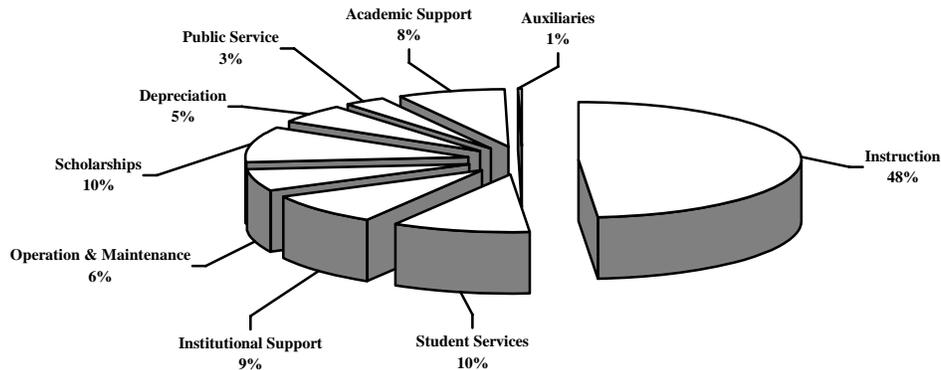
Operating Expenses by Function 2005



Operating Expenses by Function 2004



Operating Expenses by Function 2003



- Expenditures by program and classification did not significantly change from the previous year.
- Instruction is the largest functional expense of the college (48%). This category consists of faculty salaries and benefits, travel, instructional supplies, and instructional equipment.
- The academic support function (7%) includes library, media services, computer services, and academic administration.
- The student services function (9%) includes student records, admission, recruitment, financial aid, and advisement.
- The institutional support function (10%) includes the administrative cost of the college operations.
- The operation and maintenance function (10%) includes the cost of maintaining the campus facilities and grounds and utility costs.
- The scholarship function (8%) includes the cost of student fees and books.

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.

Pellissippi State Technical Community College
Statements of Cash Flows
(in thousands of dollars)

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Cash provided (used) by:			
Operating activities	\$(27,125)	\$(23,395)	\$(22,504)
Noncapital financing activities	29,321	25,911	25,474
Capital and related financing activities	(779)	182	(50)
Investing activities	242	97	20
Net increase (decrease) in cash	<u>1,659</u>	<u>2,795</u>	<u>2,940</u>
Cash, beginning of year	<u>10,976</u>	<u>8,181</u>	<u>5,241</u>
Cash, end of year	<u>\$12,635</u>	<u>\$10,976</u>	<u>\$ 8,181</u>

- Noncapital sources of cash increased by 13.2%, or \$3,410,000; \$2.1 million of the increase was primarily from the state lottery scholarship program, and approximately \$1 million was in increased state appropriations.
- Pellissippi State Technical Community College's liquidity improved during the year by \$1,659,000, an increase of 15%.
- The use of cash by operating activities increased \$3.7 million (16%), including a \$2 million increase in employee salaries and benefits and a \$.7 million increase in scholarships.
- The primary sources of cash from current operations are maintenance fees, grants and contracts, and other student fees.
- The primary uses of cash for current operations are for salaries, benefits, supplies, travel, and scholarships.
- Noncapital financing activities are primarily from state appropriations and gifts, grants, and contracts.

Pellissippi State Technical Community College Foundation
Statements of Cash Flows
(in thousands of dollars)

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Cash provided (used) by:			
Operating activities	\$516	\$301	\$162
Noncapital financing activities	-	21	-
Investing activities	(205)	(63)	52
Net increase (decrease) in cash	<u>311</u>	<u>259</u>	<u>214</u>
Cash, beginning of year	<u>740</u>	<u>481</u>	<u>267</u>
Cash, end of year	<u>\$1,051</u>	<u>\$740</u>	<u>\$481</u>

- The PSTCC Foundation's liquidity improved during the year by \$311,000, or 42%. Decreased expenditures led to the increase in operating cash flows, while purchases of investments led to the decrease in cash due to investing activities.

Capital Assets and Debt Administration

Capital Assets

At June 30, 2005, Pellissippi State Technical Community College had \$31,849,954.09 invested in capital assets, net of accumulated depreciation of \$23,768,001.60. Depreciation charges totaled \$2,006,423.87 for the current fiscal year.

Pellissippi State Technical Community College
Schedule of Capital Assets, Net of Depreciation
(in thousands of dollars)

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Land	\$ 2,592	\$ 2,592	\$2,592
Land improvements & infrastructure	1,062	893	1,834
Buildings	23,955	24,775	25,146
Equipment	1,907	2,014	2,183
Library holdings	867	890	912
Projects in progress	<u>1,467</u>	<u>195</u>	<u>113</u>
Total	<u>\$31,850</u>	<u>\$31,359</u>	<u>\$32,780</u>

- There were no major capital additions during the year— only minor additions of infrastructure and projects in progress.

Pellissippi State Technical Community College has capital expenditures planned in fiscal year 2006 in the areas of operating and instructional equipment, library holdings, and one major building project (a new academic building). The equipment and library purchases will be funded from current reserves, and the building will be funded by state capital appropriation. More detailed information about the college's capital assets is presented in Note 5 to the financial statements.

The PSTCC Foundation did not have any capital assets in fiscal years 2003 through 2005.

Debt

- At June 30, 2005, the college had \$1,494,894.65 in debt outstanding, and the component unit had no debt outstanding. The table below summarizes these amounts by type of debt instrument.

**Pellissippi State Technical Community College
Outstanding Debt
(in thousands of dollars)**

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Commercial Paper - TSSBA	\$1,495	\$ -	\$ -
Total	<u>\$1,495</u>	<u>\$ -</u>	<u>\$ -</u>

- The debt issued in fiscal year 2005 was for the purchase and implementation of hardware and software for the Banner project (\$552,800) and for an energy management project (\$942,094.65).
- Pellissippi State Technical Community College will issue additional debt in fiscal year 2006 for the Banner project and the energy management project. 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

For fiscal year 2006, significant changes that will affect the financial position of the college are as follows:

- State funding will remain constant.
- Student maintenance fees will increase by 9.7%—estimated at approximately \$1.5 million. These funds will be used for employee pay raises (2%) not funded by state appropriations and to cover increased costs due to inflation.

- There are currently no significant changes in the expenditure projections.

Requests for Information

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

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

	Pellissippi State Technical Community College		Component Unit - Pellissippi 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 14)	\$ 6,951,099.83	\$ 5,840,646.67	\$ 1,051,268.71	\$ 740,491.25
Accounts, notes, and grants receivable (net) (Note 4)	1,194,272.89	1,347,917.41	10,128.98	12,770.05
Pledges receivable (net) (Note 14)	-	-	38,859.99	60,236.87
Inventories	4,550.72	2,056.16	-	-
Prepaid expenses and deferred charges	45,929.74	33,371.14	-	-
Total current assets	<u>8,195,853.18</u>	<u>7,223,991.38</u>	<u>1,100,257.68</u>	<u>813,498.17</u>
Noncurrent assets:				
Cash (Notes 2 and 3)	5,684,095.05	5,135,187.54	-	-
Investments (Note 14)	-	-	3,883,842.52	3,385,117.47
Pledges receivable (net) (Note 14)	-	-	78,341.21	84,553.03
Capital assets (net) (Note 5)	31,849,954.09	31,358,514.58	-	-
Total noncurrent assets	<u>37,534,049.14</u>	<u>36,493,702.12</u>	<u>3,962,183.73</u>	<u>3,469,670.50</u>
Total assets	<u>45,729,902.32</u>	<u>43,717,693.50</u>	<u>5,062,441.41</u>	<u>4,283,168.67</u>
LIABILITIES				
Current liabilities:				
Accounts payable	805,117.21	225,327.22	60,741.70	84.50
Accrued liabilities	1,604,318.11	1,486,839.86	-	-
Deferred revenue	887,900.77	881,799.86	-	-
Compensated absences (Note 6)	403,804.03	300,297.47	-	-
Long-term liabilities, current portion (Note 6)	110,560.00	-	-	-
Deposits held in custody for others	1,725,417.49	1,591,544.73	-	-
Other liabilities	14,994.99	36,398.34	-	-
Total current liabilities	<u>5,552,112.60</u>	<u>4,522,207.48</u>	<u>60,741.70</u>	<u>84.50</u>
Noncurrent liabilities:				
Compensated absences (Note 6)	358,090.37	469,696.03	-	-
Long-term liabilities (Note 6)	1,384,334.65	-	-	-
Total noncurrent liabilities	<u>1,742,425.02</u>	<u>469,696.03</u>	<u>-</u>	<u>-</u>
Total liabilities	<u>7,294,537.62</u>	<u>4,991,903.51</u>	<u>60,741.70</u>	<u>84.50</u>
NET ASSETS				
Invested in capital assets, net of related debt	30,355,059.44	31,358,514.58	-	-
Restricted for:				
Nonexpendable:				
Scholarships and fellowships	-	-	992,775.85	992,775.85
Expendable:				
Scholarships and fellowships	-	-	3,098,349.07	2,654,540.52
Instructional department uses	-	-	71,272.40	105,610.68
Loans	1,005.61	1,005.61	86,910.41	86,265.21
Capital projects	-	-	656,817.46	385,340.22
Other	200,164.75	162,967.27	-	19,757.80
Unrestricted (Note 7)	<u>7,879,134.90</u>	<u>7,203,302.53</u>	<u>95,574.52</u>	<u>38,793.89</u>
Total net assets	<u>\$ 38,435,364.70</u>	<u>\$ 38,725,789.99</u>	<u>\$ 5,001,699.71</u>	<u>\$ 4,283,084.17</u>

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

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

	Pellissippi State Technical Community College		Component Unit - Pellissippi 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 \$4,764,786.33 for the year ended June 30, 2005, and \$3,413,548.55 for the year ended June 30, 2004)	\$ 11,425,820.35	\$ 12,205,988.38	\$ -	\$ -
Gifts and contributions	-	-	974,989.50	836,566.03
Endowment income per spending plan	-	-	210,996.74	294,661.85
Governmental grants and contracts	491,784.19	1,113,536.83	-	-
Non-governmental grants and contracts	108,423.39	217,087.27	-	-
Auxiliary enterprises:				
Bookstore	318,563.47	318,434.94	-	-
Food service	48,866.75	43,513.06	-	-
Other operating revenues	379,686.26	377,040.32	-	-
Total operating revenues	<u>12,773,144.41</u>	<u>14,275,600.80</u>	<u>1,185,986.24</u>	<u>1,131,227.88</u>
EXPENSES				
Operating expenses (Note 12):				
Salaries and wages	20,890,783.87	19,614,830.72	100.00	-
Benefits	6,245,257.30	5,565,376.98	280.50	-
Utilities, supplies, and other services	9,274,911.23	9,060,340.29	154,051.42	65,666.18
Scholarships and fellowships	4,185,636.72	3,534,248.56	129,765.90	122,000.70
Depreciation expense	2,006,423.87	2,041,604.03	-	-
Payments to or on behalf of Pellissippi State Technical Community College	-	-	321,752.12	555,961.33
Total operating expenses	<u>42,603,012.99</u>	<u>39,816,400.58</u>	<u>605,949.94</u>	<u>743,628.21</u>
Operating income (loss)	<u>(29,829,868.58)</u>	<u>(25,540,799.78)</u>	<u>580,036.30</u>	<u>387,599.67</u>
NONOPERATING REVENUES (EXPENSES)				
State appropriations	19,039,000.00	18,088,000.00	-	-
Gifts (college gifts include \$171,752.12 from component unit in 2005 and \$555,961.33 in 2004)	191,752.12	575,961.33	-	-
Grants and contracts	9,843,145.23	7,506,390.69	-	-
Investment income (for component unit, net of investment expense of \$13,546.88 in 2005 and \$11,754.34 in 2004)	241,990.95	97,177.59	138,579.24	173,795.56
Interest on capital asset-related debt	(10,064.03)	-	-	-
Net nonoperating revenues	<u>29,305,824.27</u>	<u>26,267,529.61</u>	<u>138,579.24</u>	<u>173,795.56</u>
Income (loss) before other revenues, expenses, gains, or losses	<u>(524,044.31)</u>	<u>726,729.83</u>	<u>718,615.54</u>	<u>561,395.23</u>
Capital appropriations	265,835.47	827,055.56	-	-
Capital grants and gifts (college gifts include \$150,000.00 from Pellissippi State Technical Community College Foundation in 2005)	150,000.00	-	-	-
Additions to permanent endowments	-	-	-	20,908.35
Other	(182,216.45)	(25,017.52)	-	-
Total other revenues	<u>233,619.02</u>	<u>802,038.04</u>	<u>-</u>	<u>20,908.35</u>
Increase (decrease) in net assets	<u>(290,425.29)</u>	<u>1,528,767.87</u>	<u>718,615.54</u>	<u>582,303.58</u>
NET ASSETS				
Net assets - beginning of year	38,725,789.99	37,197,022.12	4,283,084.17	3,700,780.59
Net assets - end of year	<u>\$ 38,435,364.70</u>	<u>\$ 38,725,789.99</u>	<u>\$ 5,001,699.71</u>	<u>\$ 4,283,084.17</u>

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

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

	Year Ended June 30, 2005	Year Ended June 30, 2004
CASH FLOWS FROM OPERATING ACTIVITIES		
Tuition and fees	\$ 11,518,670.53	\$ 12,257,804.05
Grants and contracts	647,577.43	1,259,675.37
Payments to suppliers and vendors	(8,741,388.14)	(9,094,566.61)
Payments to employees	(20,844,820.23)	(19,488,994.92)
Payments for benefits	(6,245,257.30)	(5,565,376.98)
Payments for scholarships and fellowships	(4,185,047.03)	(3,534,476.50)
Auxiliary enterprise charges:		
Bookstore	300,445.64	332,107.53
Food services	45,077.03	62,109.06
Other receipts	379,686.26	377,040.32
Net cash used by operating activities	<u>(27,125,055.81)</u>	<u>(23,394,678.68)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State appropriations	19,022,234.50	18,049,678.50
Gifts and grants received for other than capital or endowment purposes	10,165,732.01	8,082,352.02
Federal student loan receipts	3,358,425.00	3,256,365.48
Federal student loan disbursements	(3,358,425.00)	(3,256,365.48)
Changes in deposits held for others	133,872.76	(221,451.38)
Net cash provided by noncapital financing activities	<u>29,321,839.27</u>	<u>25,910,579.14</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from capital debt	1,494,894.65	-
Capital appropriations	265,835.47	827,055.56
Purchases of capital assets and construction	(2,530,079.83)	(645,054.32)
Interest paid on capital debt and leases	(10,064.03)	-
Net cash provided (used) by capital and related financing activities	<u>(779,413.74)</u>	<u>182,001.24</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Income on investments	241,990.95	97,177.59
Net cash provided by investing activities	<u>241,990.95</u>	<u>97,177.59</u>
Net increase in cash	1,659,360.67	2,795,079.29
Cash at beginning of year	10,975,834.21	8,180,754.92
Cash at end of year	<u>\$ 12,635,194.88</u>	<u>\$ 10,975,834.21</u>

**TENNESSEE BOARD OF REGENTS
 PELLISSIPPI STATE TECHNICAL COMMUNITY COLLEGE
 STATEMENTS OF CASH FLOWS
 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>
Reconciliation of operating loss to net cash used by operating activities:		
Operating loss	\$ (29,829,868.58)	\$ (25,540,799.78)
Adjustments to reconcile operating loss to net cash used by operating activities:		
Depreciation expense	2,006,423.87	2,041,604.03
Change in assets and liabilities:		
Receivables, net	39,575.36	(112,963.91)
Inventories	(2,494.56)	620.92
Prepaid/deferred items	(12,558.60)	(7,755.78)
Accounts payable	579,789.99	51,828.50
Accrued liabilities	117,478.25	79,872.19
Deferred revenue	6,100.91	115,886.11
Compensated absences	(8,099.10)	(22,970.96)
Other	(21,403.35)	-
Net cash used by operating activities	<u>\$ (27,125,055.81)</u>	<u>\$ (23,394,678.68)</u>
Noncash transactions		
Gifts in-kind	\$ 171,752.12	\$ 480,996.35
Gifts of capital assets	150,000.00	74,964.95
Loss on disposal of capital assets	(182,216.45)	(25,017.52)

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

Tennessee Board of Regents
Pellissippi 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 Pellissippi 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 14 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
Pellissippi 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) interest on capital asset-related debt; (4) certain grants and contracts; and (5) 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
Pellissippi 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

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

relating to the educational and general operations of the college, and may be used at the discretion of the college to meet current expenses for any purpose. The auxiliary enterprises are substantially self-supporting activities that provide services for students, faculty, and staff.

Scholarship Discounts and Allowances

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

NOTE 2. CASH

This classification includes demand deposits and petty cash on hand. At June 30, 2005, cash consisted of \$812,558.79 in bank accounts, \$3,830.00 of petty cash on hand, \$11,813,009.60 in the State of Tennessee Local Government Investment Pool administered by the State Treasurer, and \$5,796.49 in LGIP deposits for capital projects. At June 30, 2004, cash consisted of \$758,349.38 in bank accounts, \$3,830.00 of petty cash on hand, \$9,839,569.91 in the State of Tennessee Local Government Investment Pool administered by the State Treasurer, and \$374,084.92 in LGIP deposits for capital projects.

LGIP deposits for capital projects - Payments related to the college's capital projects are made by the State of Tennessee's Department of Finance and Administration. The college's estimated local share of the cost of each project is held in a separate Local Government Investment Pool (LGIP) account. As expenses are incurred, funds are withdrawn from the LGIP account by the Tennessee Board of Regents and transferred to the Department of Finance and Administration. The funds in the account are not available to the college for any other purpose until the project is completed and the Tennessee Board of Regents releases any remaining funds.

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

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.

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 \$812,558.79, and the bank balance including accrued interest was \$1,652,259.20. The bank balance was insured. At June 30, 2004, the carrying amount of the college's deposits was \$758,349.38, and the bank balance including accrued interest was \$1,419,112.23. 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.

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

NOTE 4. RECEIVABLES

Receivables included the following:

	<u>June 30, 2005</u>	<u>June 30, 2004</u>
Student accounts receivable	\$760,889.72	\$836,578.74
Grants receivable	298,001.92	411,266.94
State appropriation receivable	34,700.00	40,000.00
Other receivables	337,181.25	300,071.73
Subtotal	1,430,772.89	1,587,917.41
Less allowance for doubtful accounts	<u>236,500.00</u>	<u>240,000.00</u>
Total receivables	<u>\$1,194,272.89</u>	<u>\$1,347,917.41</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	\$2,592,127.74	\$ -	\$ -	\$ -	\$2,592,127.74
Land improvements and infrastructure	1,958,921.36	228,581.85	52,609.89	-	2,240,113.10
Buildings	40,352,742.20	375,706.55	28,514.15	-	40,756,962.90
Equipment	7,366,876.16	542,570.19	-	1,166,328.74	6,743,117.61
Library holdings	1,848,328.86	180,863.43	-	210,357.76	1,818,834.53
Projects in progress	<u>195,566.04</u>	<u>1,352,357.81</u>	<u>(81,124.04)</u>	-	<u>1,466,799.81</u>
Total	<u>54,314,562.36</u>	<u>2,680,079.83</u>	<u>-</u>	<u>1,376,686.50</u>	<u>55,617,955.69</u>

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

Less accum. depreciation:					
Land improvements and infrastructure	1,066,205.80	112,005.66	-	-	1,178,211.46
Buildings	15,577,939.04	1,224,354.72	-	-	16,802,293.76
Equipment	5,353,313.65	467,144.30	-	984,112.29	4,836,345.66
Library holdings	<u>958,589.29</u>	<u>202,919.19</u>	<u>-</u>	<u>210,357.76</u>	<u>951,150.72</u>
Total accum. depreciation	<u>22,956,047.78</u>	<u>2,006,423.87</u>	<u>-</u>	<u>1,194,470.05</u>	<u>23,768,001.60</u>
Capital assets, net	<u>\$31,358,514.58</u>	<u>\$ 673,655.96</u>	<u>\$ -</u>	<u>\$ 182,216.45</u>	<u>\$31,849,954.09</u>

Capital asset 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>
Land	\$2,592,127.74	\$ -	\$ -	\$2,592,127.74
Land improvements and infrastructure	1,958,921.36	-	-	1,958,921.36
Buildings	40,352,742.20	-	-	40,352,742.20
Equipment	7,192,015.82	375,119.96	200,259.62	7,366,876.16
Library holdings	1,837,618.71	179,017.27	168,307.12	1,848,328.86
Projects in progress	<u>113,253.95</u>	<u>90,917.09</u>	<u>8,605.00</u>	<u>195,566.04</u>
Total	<u>54,046,679.78</u>	<u>645,054.32</u>	<u>377,171.74</u>	<u>54,314,562.36</u>
Less accum. depreciation:				
Land improvements and infrastructure	968,259.73	97,946.07	-	1,066,205.80
Buildings	14,363,689.84	1,214,249.20	-	15,577,939.04
Equipment	5,009,415.61	527,745.14	183,847.10	5,353,313.65
Library holdings	<u>925,232.79</u>	<u>201,663.62</u>	<u>168,307.12</u>	<u>958,589.29</u>
Total accum. depreciation	<u>21,266,597.97</u>	<u>2,041,604.03</u>	<u>352,154.22</u>	<u>22,956,047.78</u>
Capital assets, net	<u>\$32,780,081.81</u>	<u>(\$1,396,549.71)</u>	<u>\$ 25,017.52</u>	<u>\$31,358,514.58</u>

NOTE 6. LONG-TERM LIABILITIES

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

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Pellissippi 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	\$ -	\$1,494,894.65	\$ -	\$1,494,894.65	\$110,560.00
Other liabilities:					
Compensated absences	<u>769,993.50</u>	<u>47,300.95</u>	<u>55,400.05</u>	<u>761,894.40</u>	<u>403,804.03</u>
Total long-term liabilities	<u>\$769,993.50</u>	<u>\$1,542,195.60</u>	<u>\$55,400.05</u>	<u>\$2,256,789.05</u>	<u>\$514,364.03</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	<u>\$792,964.46</u>	<u>\$53,576.96</u>	<u>\$76,547.92</u>	<u>\$769,993.50</u>	<u>\$300,297.47</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 \$1,494,894.65 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.

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:

**Tennessee Board of Regents
Pellissippi 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>
Working capital	\$ 402,109.92	\$ 319,875.70
Encumbrances	972,768.76	1,321,373.33
Auxiliaries	1,478,986.63	1,258,493.05
Plant construction	1,385,351.80	1,645,189.38
Renewal and replacement of equipment	3,240,461.72	2,426,020.96
Unreserved/undesignated	<u>399,456.07</u>	<u>232,350.11</u>
 Total	 <u>\$7,879,134.90</u>	 <u>\$7,203,302.53</u>

NOTE 8. PENSION PLANS

A. Defined Benefit Plan

Tennessee Consolidated Retirement System

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

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

Funding Policy - Plan members are noncontributory. The college is required to contribute an actuarially determined rate. The current rate is 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 \$806,917.19,

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Pellissippi State Technical Community College
Notes to the Financial Statements (Cont.)
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\$496,261.79, and \$506,612.56. Contributions met the requirements for each year.

B. Defined Contribution Plans

Optional Retirement Plans (ORP)

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

Funding Policy - Plan members are noncontributory. The college contributes an amount equal to 10% of the employee's base salary up to the social security wage base and 11% above the social security wage base. Contribution requirements are established and amended by state statute. The contribution made by the college to the plans was \$1,021,321.96 for the year ended June 30, 2005, and \$985,052.25 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 at the statewide level in the *Tennessee Comprehensive Annual Financial Report*. That report may be obtained by writing to the Tennessee Department of Finance and Administration, Division of Accounts, 14th Floor William R. Snodgrass Tennessee Tower, 312 Eighth Avenue North, Nashville, Tennessee 37243-0298, or by calling (615) 741-2140.

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Pellissippi State Technical Community College
Notes to the Financial Statements (Cont.)
June 30, 2005, and June 30, 2004

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 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.

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Notes to the Financial Statements (Cont.)
June 30, 2005, and June 30, 2004

At June 30, 2005, the scheduled coverage for the college was \$55,416,500 for buildings and \$15,043,200 for contents. At June 30, 2004, the scheduled coverage for the college was \$54,788,700 for buildings and \$16,451,600 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 \$5,670,324.85 at June 30, 2005, and \$5,387,889.24 at June 30, 2004.

Construction in Progress - At June 30, 2005, outstanding commitments under construction contracts totaled \$503,010.53 for the Goins Building renovation, the roof repairs project, the D&F Buildings project, and the ERC Testing Center renovation, of which \$501,336.07 will be funded by future state capital outlay appropriations.

Litigation - The college is currently not involved in any lawsuits.

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 \$1,614,382.00 at June 30, 2005.

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

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	\$12,968,996.97	\$3,538,573.48	\$3,816,570.69	\$134,846.22	\$ -	\$20,458,987.36
Public service	517,976.95	122,482.70	216,120.44	596,220.00	-	1,452,800.09
Academic support	2,664,320.98	809,811.66	(647,668.75)	123,676.00	-	2,950,139.89
Student services	1,961,780.24	734,330.28	1,198,198.09	69,039.75	-	3,963,348.36
Institutional support	2,157,962.65	760,999.84	1,392,506.95	11,639.00	-	4,323,108.44
Operation & maintenance	614,878.58	278,651.34	3,170,618.68	1,330.00	-	4,065,478.60
Scholarships & fellowships	4,867.50	408.00	-	3,248,885.75	-	3,254,161.25
Auxiliary	-	-	128,565.13	-	-	128,565.13
Depreciation	-	-	-	-	2,006,423.87	2,006,423.87
Total	<u>\$20,890,783.87</u>	<u>\$6,245,257.30</u>	<u>\$9,274,911.23</u>	<u>\$4,185,636.72</u>	<u>\$2,006,423.87</u>	<u>\$42,603,012.99</u>

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	\$12,338,300.85	\$3,219,894.31	\$3,890,038.58	\$ 79,619.50	\$ -	\$19,527,853.24
Public service	516,541.39	126,768.70	549,666.72	111,191.40	-	1,304,168.21
Academic support	2,391,105.02	703,757.76	(106,639.48)	27,882.54	-	3,016,105.84
Student services	1,779,037.99	616,408.43	1,156,965.02	59,137.45	-	3,611,548.89
Institutional support	2,036,335.19	676,148.34	1,286,695.92	11,650.00	-	4,010,829.45
Operation & maintenance	547,750.28	221,774.19	2,151,113.96	2,000.00	-	2,922,638.43
Scholarships & fellowships	5,760.00	625.25	300.00	3,242,767.67	-	3,249,452.92
Auxiliary	-	-	132,199.57	-	-	132,199.57
Depreciation	-	-	-	-	2,041,604.03	2,041,604.03
Total	<u>\$19,614,830.72</u>	<u>\$5,565,376.98</u>	<u>\$9,060,340.29</u>	<u>\$3,534,248.56</u>	<u>\$2,041,604.03</u>	<u>\$39,816,400.58</u>

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

NOTE 13. PRIOR-YEAR RESTATEMENT

At June 30, 2003, the college had \$843,230.74 of net building assets misclassified as land improvements and infrastructure. The beginning capital asset balances for the fiscal year ended June 30, 2004, were adjusted accordingly.

NOTE 14. COMPONENT UNIT

The Pellissippi State Technical Community College Foundation is a legally separate, tax-exempt organization supporting Pellissippi 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 36-member board of the foundation is self-perpetuating and consists of graduates and friends of the college. Although the college does not control the timing or amount of receipts from the foundation, the majority of resources, or income thereon, that the foundation holds and invests are restricted to the activities of the college by the donors. Because these restricted resources held by the foundation can only be used by, or for the benefit of, the college, the foundation is considered a component unit of the college and is discretely presented in the college's financial statements.

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 \$321,752.12 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 \$555,961.33 to or on behalf of the college for both restricted and unrestricted purposes. Complete financial statements for the foundation can be obtained from Mr. Ron Kesterson, Pellissippi State Technical Community College, P. O. Box 22990, Knoxville, TN 37933-0990.

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

Cash – At June 30, 2005, cash consisted of \$2,837.65 in bank accounts and \$1,048,431.06 in the State of Tennessee Local Government Investment Pool administered by the State Treasurer. The bank balances at June 30, 2005, were entirely insured. At June 30, 2004, cash consisted of \$39,315.14 in bank accounts and \$701,176.11 in the State of Tennessee Local Government Investment Pool administered by the State Treasurer. The bank balances at June 30, 2004, were entirely insured.

Investments – The foundation is authorized to invest funds in accordance with its board of directors’ policies. Investments are recorded on the date of contribution and are stated at market value. Unrealized gains and losses are determined by the difference between market values at the beginning and end of the year.

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

	<u>Cost</u>	<u>Market Value</u>
Commonfund:		
Equity Fund	\$1,738,788.42	\$2,726,231.26
Bond Fund	<u>745,366.56</u>	<u>1,157,611.26</u>
Total investments	<u>\$2,484,154.98</u>	<u>\$3,883,842.52</u>

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

	<u>Cost</u>	<u>Market Value</u>
Commonfund:		
Equity Fund	\$1,573,337.02	\$2,377,712.71
Bond Fund	<u>674,287.34</u>	<u>1,007,404.76</u>
Total investments	<u>\$2,247,624.36</u>	<u>\$3,385,117.47</u>

Pledges Receivable - Pledges receivable are summarized below net of the allowance for doubtful accounts.

**Tennessee Board of Regents
Pellissippi 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>
Current pledges	\$40,480.83	\$62,769.73
Pledges due in one to five years	60,297.94	62,004.05
Pledges due after five years	<u>34,261.90</u>	<u>33,084.44</u>
Subtotal	135,040.67	157,858.22
Less discounts to net present value	<u>(17,839.47)</u>	<u>(13,068.32)</u>
Total pledges receivable, net	<u>\$117,201.20</u>	<u>\$144,789.90</u>

Endowments – If a donor has not provided specific instructions to the 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.

The foundation chooses to spend only a portion of the investment income (including changes in the value of investments) each year. Under the spending plan established by the foundation, all investment earnings of endowed funds and one-half of term endowed funds has been authorized for expenditure. The remaining amount, if any, is retained to be used in future years when the amount computed using the spending plan exceeds the investment income. At June 30, 2005, net appreciation of \$369,159.04 is available to be spent, of which \$369,159.04 is restricted to specific purposes. At June 30, 2004, net appreciation of \$405,861.84 is available to be spent, of which \$405,861.84 is restricted to specific purposes.

**TENNESSEE BOARD OF REGENTS
PELLISSIPPI 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	\$ 1,001,252.20	\$ 1,000,297.58
Endowment income per spending plan	56,302.03	44,791.85
Payments to suppliers and vendors	(93,394.22)	(65,581.68)
Payments to employees	(100.00)	-
Payments for benefits	(280.50)	-
Payments for scholarships and fellowships	(125,798.83)	(122,000.70)
Payments to Pellissippi State Technical Community College	<u>(321,752.12)</u>	<u>(555,961.33)</u>
Net cash provided by operating activities	<u>516,228.56</u>	<u>301,545.72</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Private gifts for endowment purposes	<u>-</u>	<u>20,908.35</u>
Net cash provided by noncapital financing activities	<u>-</u>	<u>20,908.35</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of investments	3,339.98	12,147.19
Income on investments	31,079.52	14,753.90
Purchases of investments	<u>(239,870.60)</u>	<u>(89,922.17)</u>
Net cash used by investing activities	<u>(205,451.10)</u>	<u>(63,021.08)</u>
Net increase in cash	310,777.46	259,432.99
Cash at beginning of year	740,491.25	481,058.26
Cash at end of year	<u>\$ 1,051,268.71</u>	<u>\$ 740,491.25</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 580,036.30	\$ 387,599.67
Unrealized gains on investments	(154,694.71)	(249,870.00)
Change in assets and liabilities:		
Receivables, net	30,229.77	163,731.55
Accounts payable	60,657.20	84.50
Net cash provided by operating activities	<u>\$ 516,228.56</u>	<u>\$ 301,545.72</u>
Noncash transactions		
Gifts in-kind	\$ 171,752.12	\$ 480,996.35
Gifts of capital assets	150,000.00	74,964.95
Unrealized gains on investments	262,194.43	408,911.66