

AUDIT REPORT

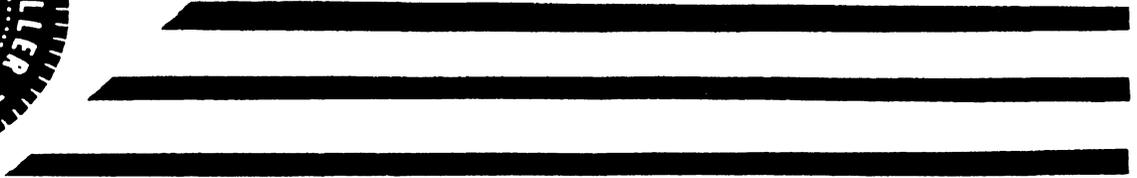
Tennessee Board of Regents
Chattanooga State Technical Community College

For the Years Ended
June 30, 2006, and June 30, 2005



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
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John G. Morgan
Comptroller

February 7, 2008

The Honorable Phil Bredesen, Governor
and

Members of the General Assembly
State Capitol
Nashville, Tennessee 37243

and

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

and

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

Ladies and Gentlemen:

Transmitted herewith is the financial and compliance audit of the Tennessee Board of Regents, Chattanooga State Technical Community College, for the years ended June 30, 2006, and June 30, 2005. 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
07/044

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
Chattanooga State Technical Community College
For the Years Ended June 30, 2006, and June 30, 2005

AUDIT OBJECTIVES

The objectives of the audit were to consider the college's internal control over financial reporting; to determine compliance with certain provisions of laws, regulations, contracts, and grant agreements; to determine the fairness of the presentation of the financial statements; and to recommend appropriate actions to correct any deficiencies.

AUDIT FINDINGS

The audit report contains no findings.

OPINIONS ON THE FINANCIAL STATEMENTS

The opinions on the financial statements are unqualified.

Audit Report
Tennessee Board of Regents
Chattanooga State Technical Community College
For the Years Ended June 30, 2006, and June 30, 2005

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**Tennessee Board of Regents
Chattanooga State Technical Community College
For the Years Ended June 30, 2006, and June 30, 2005**

INTRODUCTION

POST-AUDIT AUTHORITY

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

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

BACKGROUND

The idea for Tennessee’s community college system was conceived in 1957 when the state legislature ordered a study of community college programs, a study which resulted in the Pierce-Albright Report. Acting on the recommendation of the Governor and the Department of Education, the General Assembly authorized the Department of Education to establish several community colleges throughout Tennessee.

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

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

July 1, 1983, permanently merging Chattanooga State Technical Community College and Chattanooga State Area Vocational-Technical School. The Chattanooga State Area Vocational-Technical School changed its name to the Tennessee Technology Center at Chattanooga effective July 1, 1994.

ORGANIZATION

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

AUDIT SCOPE

The audit was limited to the period July 1, 2004, through June 30, 2006, 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, 2006, and June 30, 2005. Chattanooga State Technical Community College is an institution of the Tennessee Board of Regents, which is an integral part of state government. As such, the Tennessee Board of Regents has been included as a component unit in the *Tennessee Comprehensive Annual Financial Report*.

OBJECTIVES OF THE AUDIT

The objectives of the audit were

1. to consider the college's internal control over financial reporting to determine auditing procedures for the purpose of expressing opinions on the financial statements;
2. to determine compliance with certain provisions of laws, regulations, contracts, and grant agreements;
3. to determine the fairness of the presentation of the financial statements; and
4. to recommend appropriate actions to correct any deficiencies.

PRIOR AUDIT FINDING

Section 8-4-109, *Tennessee Code Annotated*, requires that each state department, agency, or institution report to the Comptroller of the Treasury the action taken to implement the recommendations in the prior audit report. The college filed its report with the Department of Audit on March 3, 2006. A follow-up of a prior audit finding was conducted as part of the current audit.

RESOLVED AUDIT FINDING

The current audit disclosed that the college has corrected a previous audit finding concerning the failure to properly perform Title IV return-of-funds calculations.

OBSERVATIONS AND COMMENTS

QUESTIONABLE ACTIVITIES OF A FORMER WOMEN'S BASKETBALL COACH

In 2001, internal auditors at Chattanooga State Technical Community College (CSTCC) initiated a preliminary review of alleged improper activities by a former basketball coach. While the internal auditors' initial examination was in progress, the former basketball coach resigned his position on June 13, 2001. Subsequently, the internal auditors referred the matter to our office; however, other priorities delayed our consideration of the matter. Questionable activities of the former basketball coach at CSTCC have been referred to the Tennessee Board of Regents (TBR) for action.

Our examination identified total questioned costs of \$15,165.76 stemming from the coach's improper activities related to youth summer basketball camp tuition fees; student athlete book, housing, and food allowances; and long-distance telephone calls on the former coach's CSTCC-provided calling cards.

With regard to summer basketball camp, the camp was advertised as a CSTCC-sanctioned fundamental basketball camp for students in grades 4 through 12. The camp registration form directed enrollees to make checks payable to the former basketball coach and send them to his home address. However, some of the checks were made payable to CSTCC, and some were left blank. The former basketball coach would add his name to the community college's name or would insert his name when the check's payee was left blank. The former basketball coach retained all of the tuition paid by the students and improperly deposited checks totaling \$6,935.00 for summer camp tuition into his personal bank account.

With reference to student athlete book purchases, students could either buy books at the college bookstore using funds from their Academic Work Scholarship checks or they could charge books to an account at the bookstore for the student athletes. The former coach improperly directed student athletes to sign Academic Work Scholarship checks over to him, and he improperly deposited checks totaling \$1,930.00 into his personal bank account. These students' books were actually paid for directly through an Athletic Department book account at the college bookstore.

Regarding housing allowances for student athletes, players who properly received housing allowances were required by the former coach to live in certain apartments since there was no CSTCC housing available. The former coach managed the apartments in question for an owner who lived in Georgia. Apparently, the coach exerted undue influence over the students by requiring that they live in these apartments.

As with the book allowances, the former coach improperly directed student athletes to sign housing checks over to him and improperly deposited checks totaling \$5,688.12 into his personal bank account—\$3,072.04 for student athletes who did not live in the apartments, and \$2,616.08 for student athletes who did live in the apartments but were ineligible to receive a housing allowance. In addition, the former basketball coach admitted signing the name of a student athlete, as the student's endorsement, on two housing checks and depositing those checks into his personal bank account. In this case, the student athlete was eligible for, and received, housing in the apartments. We did not question the amount of these two checks because the student essentially paid for and received housing with the checks. However, the former basketball coach improperly signed the student's name on the check.

Concerning student athlete food allowances, the former coach received \$118.00 in per diem amounts paid in advance for "away" games, more than the proper amount for the number of athletes on the per diem rosters. Pursuant to CSTCC procedures, the CSTCC checks for the total per diem amount for the "away" game travelers were made payable to the former coach. He then cashed the checks at a bank and distributed the funds to the individuals in the travel party. The \$118.00 that the former coach improperly received is comprised of \$106.00 for a four-day trip, and \$12.00 for a one-day trip. For each of these trips, there was one extra person included on the purchase order, and on the subsequent payment, that was not included in the actual travel party.

The former coach also improperly used his CSTCC-provided calling cards to make numerous long-distance calls to the apartment building owner in Georgia. Calls for the period August 5, 2000, to April 17, 2001, totaled \$494.64.

The statute of limitations for criminal prosecution has expired. The issue of the possible civil recovery of \$15,165.76 has been referred to the TBR, TBR staff, and the President of Chattanooga State Technical Community College for their consideration. Regarding enhancing internal controls to prevent future abuses, in 2001, the CSTCC internal auditors identified ten internal control risks in the Athletic Department and recommended mitigating internal controls related to the Athletic Department to CSTCC's President. Subsequently, the TBR Office of System-wide Internal Audit performed a follow-up review of these risks and recommendations

and issued a report, dated October 24, 2007. This subsequent review found that CSTCC has completely resolved five of the risks and has partially resolved the other five risks. The review also identified an additional risk related to the solicitation of donations in the Athletic Department. There was no evidence of abuse related to this risk, but the risk needs to be adequately mitigated by appropriate internal controls. This additional risk does not involve the former basketball coach. As a result of the review, the TBR Office of System-wide Internal Audit found that CSTCC has need for improvement of internal controls related to the remaining risks and provided further recommendations to CSTCC management.

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.

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, 2006, and June 30, 2005, 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 22, 2007

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

Dear Mr. Morgan:

We have audited the financial statements of Chattanooga State Technical Community College, an institution of the Tennessee Board of Regents, which is a component unit of the State of Tennessee, and its discretely presented component unit as of and for the years ended June 30, 2006, and June 30, 2005, and have issued our report thereon dated June 22, 2007. 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, 2006, the college implemented GASB Statement 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*. During the year ended June 30, 2005, the college implemented GASB Statement 40, *Deposit and Investment Risk Disclosures*.

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

The Honorable John G. Morgan
June 22, 2007
Page Two

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*.

We did, however, note another less significant instance of noncompliance, which we have reported to the college's management in a separate letter.

This report is intended solely for the information and use of the General Assembly of the State of Tennessee, the Tennessee Board of Regents, 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 22, 2007

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

Dear Mr. Morgan:

We have audited the accompanying basic financial statements of Chattanooga State Technical Community College, an institution of the Tennessee Board of Regents, which is a component unit of the State of Tennessee, and its discretely presented component unit as of and for the years ended June 30, 2006, and June 30, 2005, 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

The Honorable John G. Morgan
June 22, 2007
Page Two

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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Tennessee Board of Regents, Chattanooga State Technical Community College, and its discretely presented component unit as of June 30, 2006, and June 30, 2005, 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.

As explained in Note 12, the component unit financial statements include investments valued at \$894,450.00 at June 30, 2006, (17.3 percent of net assets) and \$842,630.00 at June 30, 2005, (17.7 percent of net assets) whose fair values have been estimated by management in the absence of readily determinable fair values. Management's estimates are based on information provided by the fund managers.

During the year ended June 30, 2006, the college implemented GASB Statement 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*. During the year ended June 30, 2005, the college implemented GASB Statement 40, *Deposit and Investment Risk Disclosures*.

The management's discussion and analysis on pages 12 through 26 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

The Honorable John G. Morgan
June 22, 2007
Page Three

In accordance with *Government Auditing Standards*, we have also issued our report dated June 22, 2007, on our consideration of the college's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Sincerely,

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

Arthur A. Hayes, Jr., CPA
Director

AAH/sds

Management's Discussion and Analysis

This section of Chattanooga State Technical Community College's annual financial report presents a discussion and analysis of the financial performance of the college during the fiscal year ended June 30, 2006, with comparative information presented for the fiscal years ended June 30, 2005, and June 30, 2004. This discussion has been prepared by management along with the financial statements and related note disclosures and should be read in conjunction with the independent auditor's report, the audited financial statements, and accompanying notes. The financial statements, notes, and this discussion are the responsibility of management.

The college has one discretely presented component unit, the Chattanooga State Technical Community College Foundation. More detailed information about the college's component unit is provided in Note 12 of the financial statements. Information and analysis regarding the component unit is also included in this section.

Using This Annual Report

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

The Statement of Net Assets

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

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

Institution
Condensed Statements of Net Assets
(in thousands of dollars)

| | <u>2006</u> | <u>2005</u> | <u>2004</u> |
|---|-------------|-------------|-------------|
| Assets: | | | |
| Current assets | \$6,449 | \$6,626 | \$6,243 |
| Capital assets, net | 27,273 | 27,964 | 27,870 |
| Other assets | 4,744 | 3,767 | 1,635 |
| Total Assets | 38,466 | 38,357 | 35,748 |
| Liabilities: | | | |
| Current liabilities | 3,332 | 3,051 | 2,625 |
| Noncurrent liabilities | 4,000 | 6,911 | 5,970 |
| Total Liabilities | 7,332 | 9,962 | 8,595 |
| Net Assets: | | | |
| Invested in capital assets, net of related debt | 24,256 | 22,044 | 22,833 |
| Restricted – expendable | 174 | 181 | 62 |
| Unrestricted | 6,704 | 6,170 | 4,258 |
| Total Net Assets | \$31,134 | \$28,395 | \$27,153 |

Comparison of FY 2006 to FY 2005

- Other assets include an increase in noncurrent cash of \$1.1 million due to transfers from other unrestricted net assets to plant fund net assets.
- Noncurrent liabilities include a decrease in long-term liabilities of \$3.1 million due to the \$4,430,000 payment of the outstanding commercial paper issued for the purchase of the Olan Mills Building. The college incurred additional debt in the amount of \$1,738,000 to fund an Energy Savings Project.

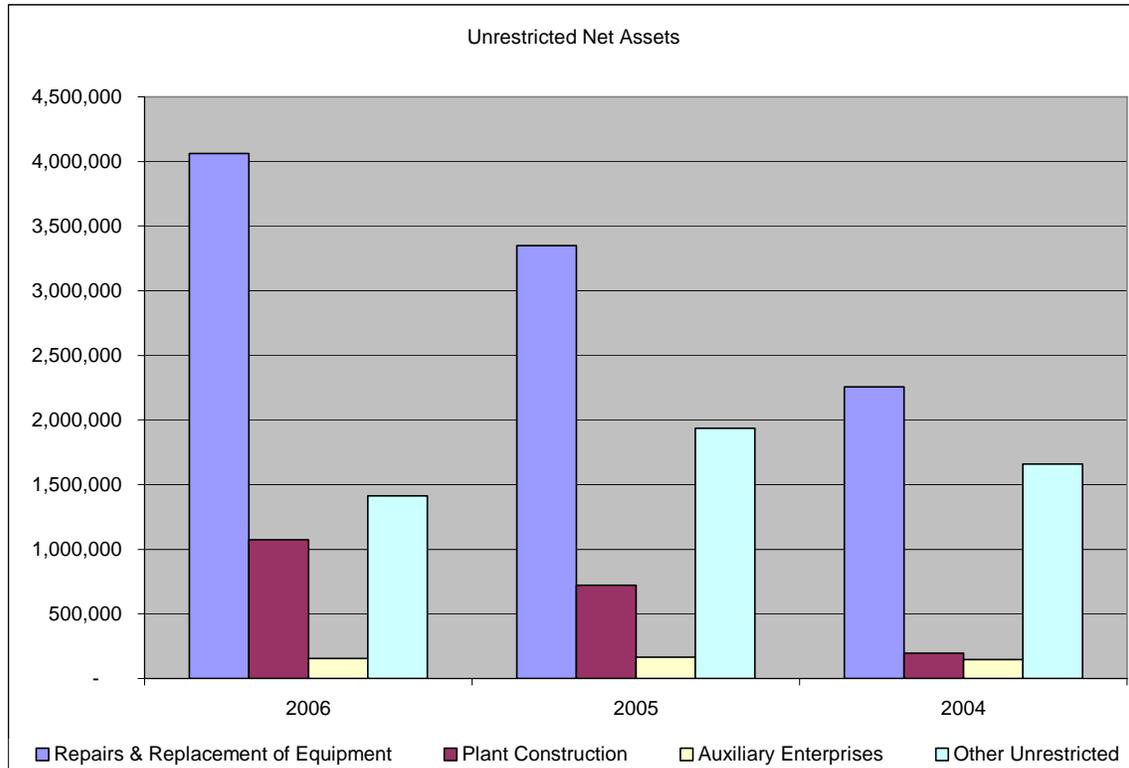
Comparison of FY 2005 to FY 2004

- Other assets include an increase in noncurrent cash of \$1.6 million due to transfers from other unrestricted net assets to plant fund net assets.
- Current liabilities include an increase in accrued employee benefits of \$340 thousand due to an increase in the TCRS rate to 10.31% and increases in group insurance rates.
- Noncurrent liabilities include an increase in long-term liabilities of \$1 million due to issuance of commercial paper to fund the acquisition of hardware and software for the implementation of Banner. (Banner is a new accounting and information system.)

**Component Unit
Condensed Statements of Net Assets
(in thousands of dollars)**

| | <u>2006</u> | <u>2005</u> | <u>2004</u> |
|---|-------------|-------------|-------------|
| Assets: | | | |
| Current assets | \$300 | \$32 | \$55 |
| Capital assets, net | 726 | 726 | 726 |
| Other assets | 4,292 | 4,118 | 4,161 |
| Total Assets | 5,318 | 4,876 | 4,942 |
| Liabilities: | | | |
| Current liabilities | 53 | 36 | 45 |
| Noncurrent liabilities | 100 | 85 | 65 |
| Total Liabilities | 153 | 121 | 110 |
| Net Assets: | | | |
| Invested in capital assets, net of related debt | 726 | 726 | 726 |
| Restricted – nonexpendable | 960 | 864 | 863 |
| Restricted – expendable | 2,264 | 1,828 | 1,826 |
| Unrestricted | 1,215 | 1,337 | 1,417 |
| Total Net Assets | \$5,165 | \$4,755 | \$4,832 |

Many of the college's unrestricted net assets have been designated or reserved for specific purposes such as repairs and replacement of equipment and capital projects. For additional detail, refer to Note 6. The following graph shows the allocations:



The foundation had only unreserved/undesignated unrestricted net assets at each year end.

Comparison of FY 2006 to FY 2005

- Plant Construction increased by \$351,000 due to a transfer from unrestricted of \$450,000 for renovations to facilities.
- Repairs and Replacement of Equipment increased by \$714,000 due to transfers from unrestricted of \$1,000,000 to fund future purchases for software and hardware for Banner implementation and \$450,000 to fund future purchases of replacement faculty and staff computers.

Comparison of FY 2005 to FY 2004

- Plant Construction increased by \$527,000 due to a transfer from unrestricted of \$400,000 for renovations to facilities.
- Repairs and Replacement of Equipment increased by \$1.2 million due to a transfer from unrestricted of \$1.4 million to fund debt related to Banner implementation and for the replacement of faculty computers.

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.

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

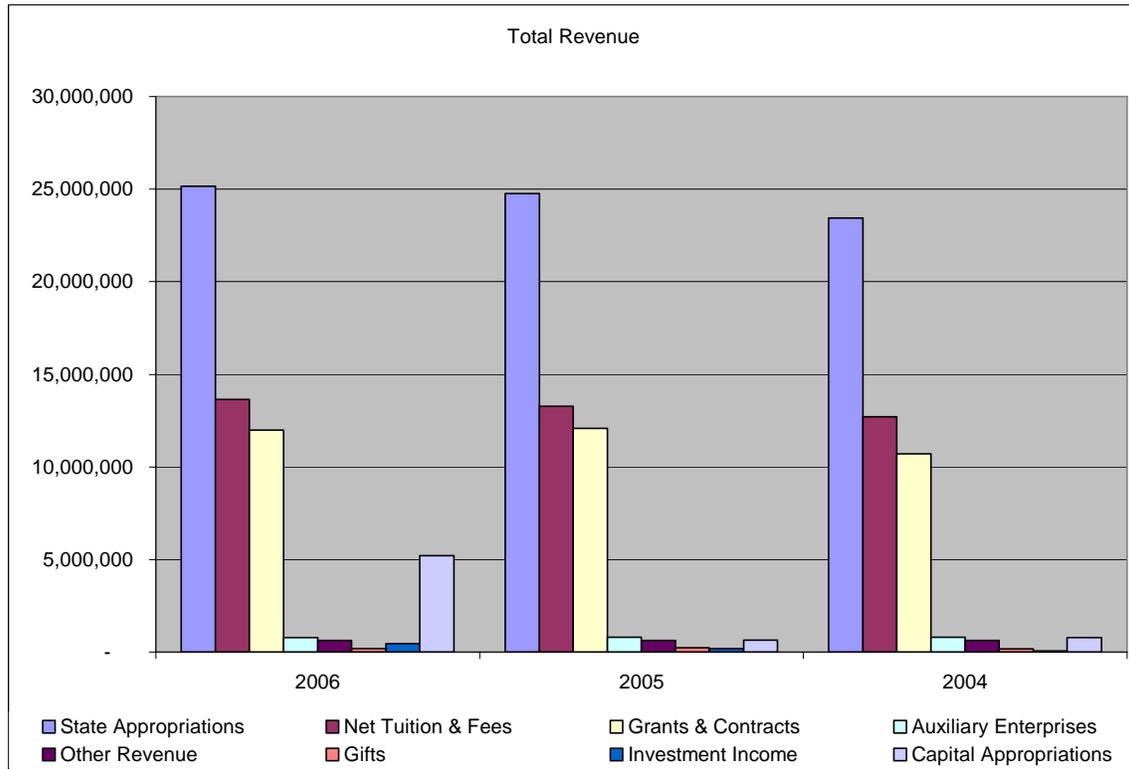
| | <u>2006</u> | <u>2005</u> | <u>2004</u> |
|--|-----------------|-----------------|-----------------|
| Operating revenues: | | | |
| Net tuition and fees | \$13,641 | \$13,264 | \$12,716 |
| Grants and contracts | 2,788 | 2,282 | 2,832 |
| Auxiliary | 786 | 793 | 800 |
| Other | 620 | 640 | 1,202 |
| Total operating revenues | <u>17,835</u> | <u>16,979</u> | <u>17,550</u> |
| Operating expenses | 55,340 | 51,256 | 48,241 |
| Operating loss | <u>(37,505)</u> | <u>(34,277)</u> | <u>(30,691)</u> |
| Nonoperating revenues and expenses: | | | |
| State appropriations | 25,153 | 24,757 | 23,439 |
| Gifts | 200 | 238 | 181 |
| Grants & contracts | 9,213 | 9,792 | 7,870 |
| Investment income | 458 | 198 | 76 |
| Other revenues and expenses | (4) | (128) | (62) |
| Total nonoperating revenues and expenses | <u>35,020</u> | <u>34,857</u> | <u>31,504</u> |
| Income (loss) before other revenues, expenses, gains, or losses | <u>(2,485)</u> | <u>580</u> | <u>813</u> |
| Other revenues, expenses, gains, or losses: | | | |
| Capital appropriations | 5,224 | 662 | 790 |
| Total other revenues, expenses, gains, or losses | <u>5,224</u> | <u>662</u> | <u>790</u> |
| Increase (decrease) in net assets | <u>2,739</u> | <u>1,242</u> | <u>1,603</u> |
| Net assets at beginning of period | <u>28,395</u> | <u>27,153</u> | <u>25,550</u> |
| Net assets at end of year | <u>\$31,134</u> | <u>\$28,395</u> | <u>\$27,153</u> |

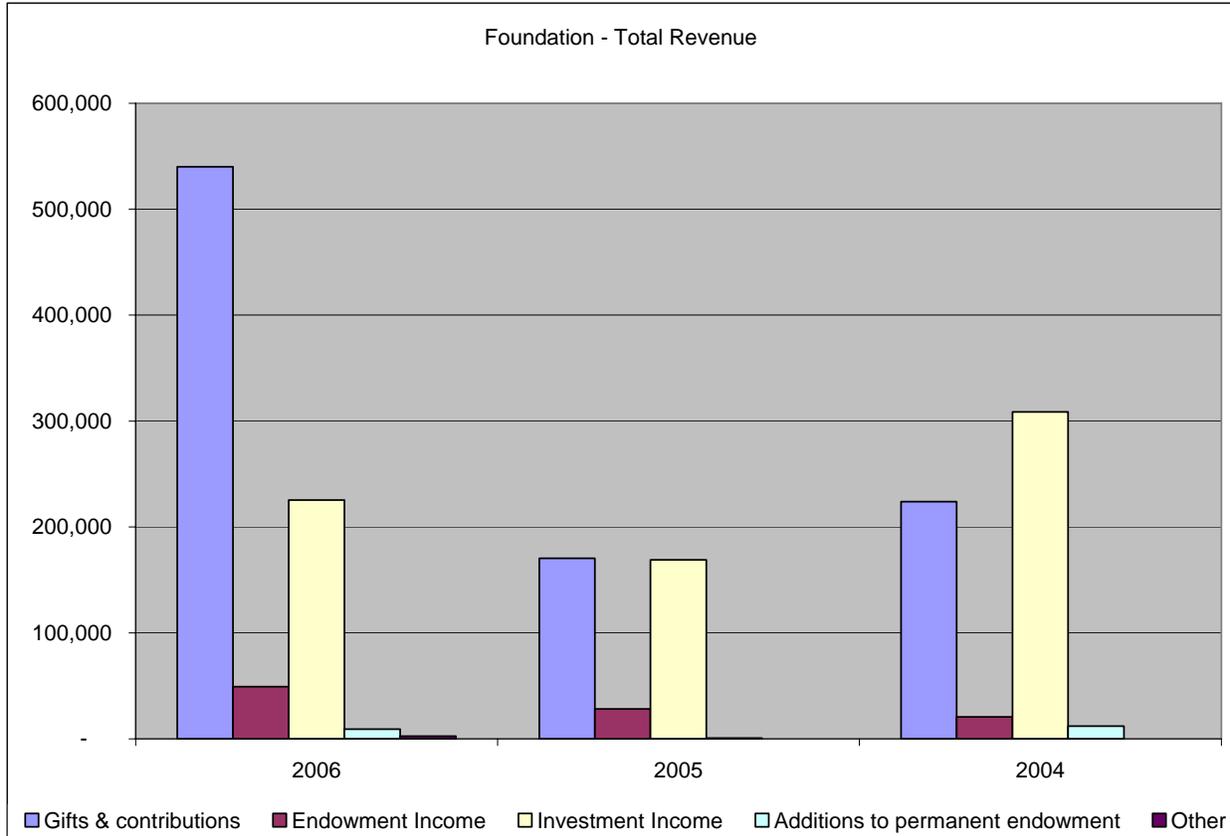
Component Unit
Condensed Statements of Revenues, Expenses, and Changes in Net Assets
(in thousands of dollars)

| | <u>2006</u> | <u>2005</u> | <u>2004</u> |
|--|-----------------------|-----------------------|-----------------------|
| Operating revenues: | | | |
| Gifts | \$540 | \$170 | \$224 |
| Other | 52 | 28 | 21 |
| Total operating revenues | <u>592</u> | <u>198</u> | <u>245</u> |
| Operating expenses | 417 | 445 | 462 |
| Operating income (loss) | <u>175</u> | <u>(247)</u> | <u>(217)</u> |
| Nonoperating revenues and expenses: | | | |
| Investment income | 226 | 169 | 308 |
| Total nonoperating revenues and expenses | <u>226</u> | <u>169</u> | <u>308</u> |
| Income (loss) before other revenues, expenses, gains, or losses | <u>401</u> | <u>(78)</u> | <u>91</u> |
| Other revenues, expenses, gains, or losses: | | | |
| Additions to permanent endowments | 9 | 1 | 12 |
| Total other revenues, expenses, gains, or losses | <u>9</u> | <u>1</u> | <u>12</u> |
| Increase (decrease) in net assets | <u>410</u> | <u>(77)</u> | <u>103</u> |
| Net assets at beginning of period | <u>4,755</u> | <u>4,832</u> | <u>4,729</u> |
| Net assets at end of year | <u><u>\$5,165</u></u> | <u><u>\$4,755</u></u> | <u><u>\$4,832</u></u> |

Revenues

The following is a graphic illustration of revenues by source (both operating and nonoperating), which are used to fund the college's operating activities for the years ended June 30, 2006; June 30, 2005; and June 30, 2004.





Comparison of FY 2006 to FY 2005

- Gifts and contributions increased due to an increase in cash contributions and a \$287 thousand increase in pledges receivable.
- Investment income increased due to an increase in LGIP interest rates.
- Capital appropriations include an increase of \$4.3 million due to the state capital project appropriation received for the debt retirement of the Olan Mills Building.

Comparison of FY 2005 to FY 2004

- Tuition and fees increased due to a 7% tuition increase.
- Nonoperating grants and contracts include an increase of \$1.1 million due to the implementation of the Tennessee Hope Scholarship program.
- Nonoperating grants and contracts also increased due to an increase in PELL awards due to increases in tuition and fees.
- Investment income increased due to an increase in LGIP interest rates.
- The foundation investment income decreased by \$139 thousand due to a decrease in invested principal.

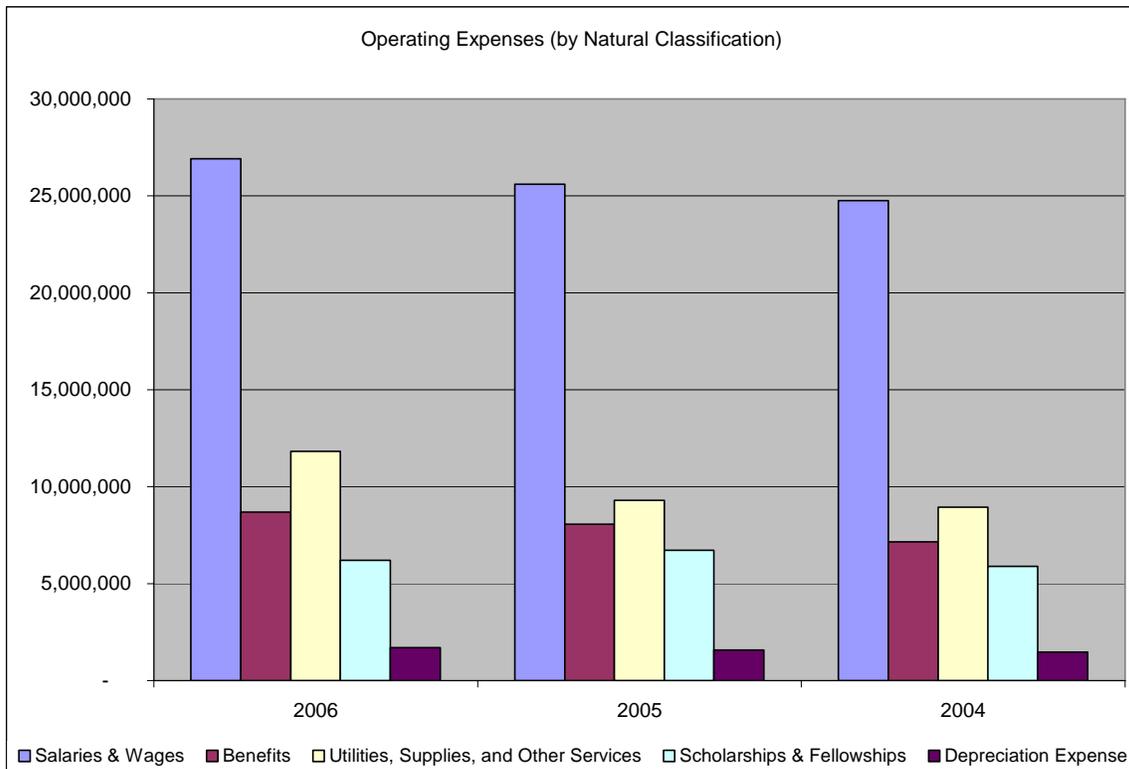
Expenses

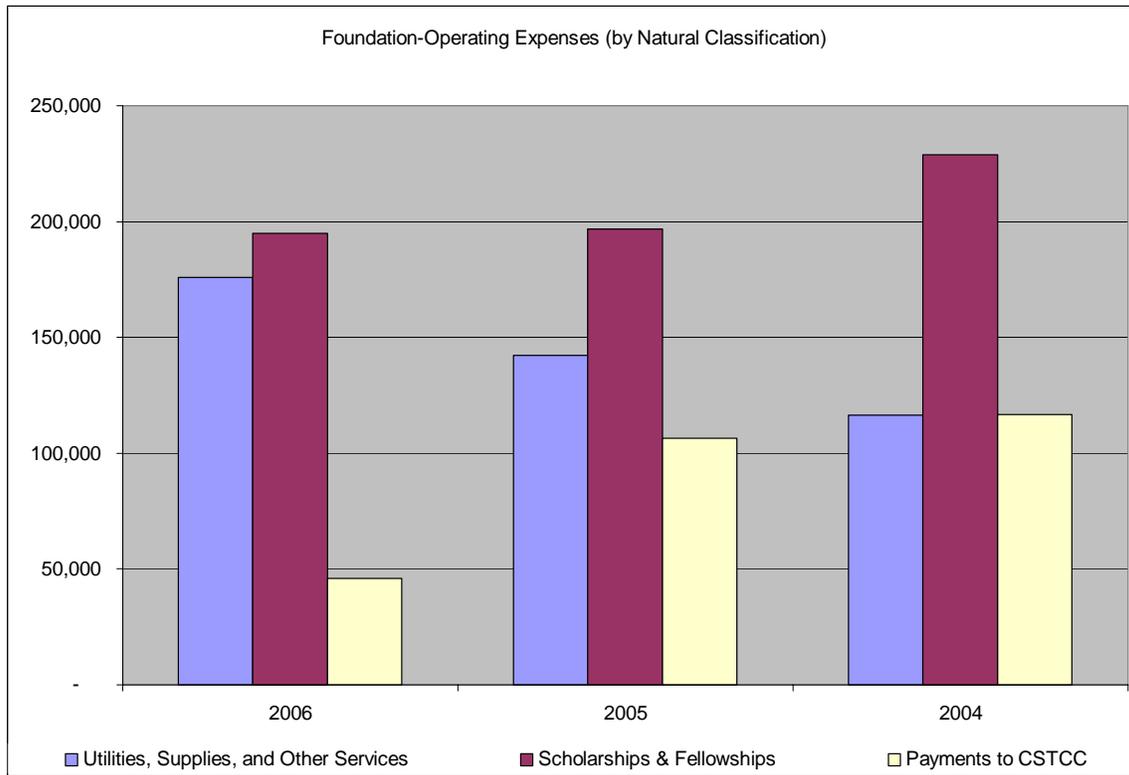
Operating expenses can be displayed in two formats, natural classification and program classification. Both formats are displayed below.

**Natural Classification
(in thousands of dollars)**

| | Institution | | |
|---|--------------------|--------------------|--------------------|
| | <u>2006</u> | <u>2005</u> | <u>2004</u> |
| Salaries and wages | \$26,902 | \$25,608 | \$24,756 |
| Benefits | 8,697 | 8,076 | 7,166 |
| Utilities, supplies, and other services | 11,830 | 9,290 | 8,945 |
| Scholarships and fellowships | 6,202 | 6,715 | 5,898 |
| Depreciation expense | 1,709 | 1,567 | 1,476 |
| Total Operating Expenses | \$55,340 | \$51,256 | \$48,241 |

| | Component Unit | | |
|---|-----------------------|--------------------|--------------------|
| | <u>2006</u> | <u>2005</u> | <u>2004</u> |
| Utilities, supplies, and other services | \$176 | \$142 | \$116 |
| Scholarships and fellowships | 195 | 197 | 229 |
| Payments to or on behalf of CSTCC | 46 | 106 | 117 |
| Total Operating Expenses | \$417 | \$445 | \$462 |





Comparison of FY 2006 to FY 2005

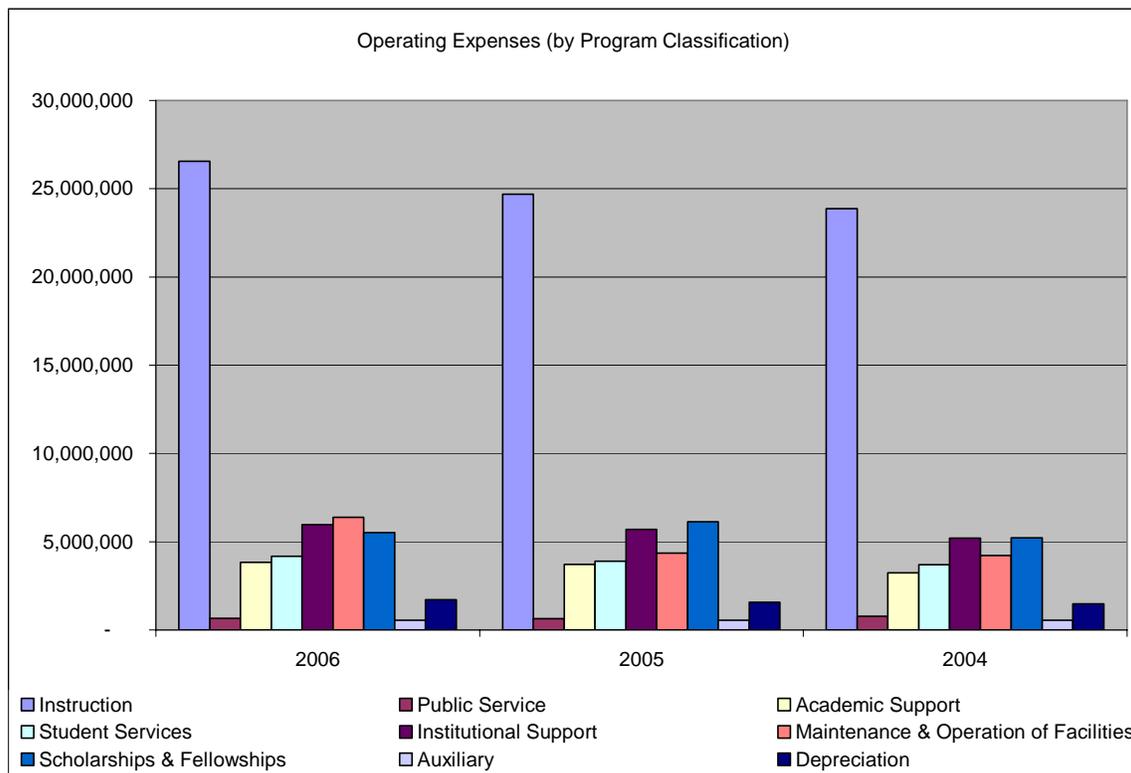
- Salary and wages increased due to a 2% across-the-board salary increase, equity, and bonus adjustments.
- Benefits increased due to an increase in the TCRS rate and increases in group insurance rates.
- Utilities, supplies, and other services increased by \$2.5 million due to an increase in utility rates and substantial completion of the Energy Savings project.

Comparison of FY 2005 to FY 2004

- Salary and wages increased due to a 2% salary increase.
- Benefits increased due to an increase in the TCRS rate and increases in group insurance rates.
- Scholarships increased due to an increase in PELL awards.
- Depreciation increased due to the full year depreciation of the new CBIH building.

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

| | Institution | | |
|---------------------------------------|------------------------|------------------------|------------------------|
| | <u>2006</u> | <u>2005</u> | <u>2004</u> |
| Instruction | \$26,552 | \$24,699 | \$23,867 |
| Public service | 665 | 639 | 775 |
| Academic support | 3,833 | 3,715 | 3,231 |
| Student services | 4,176 | 3,895 | 3,700 |
| Institutional support | 5,964 | 5,699 | 5,202 |
| Maintenance & operation of facilities | 6,377 | 4,353 | 4,228 |
| Scholarships & fellowships | 5,511 | 6,135 | 5,212 |
| Auxiliary | 552 | 554 | 550 |
| Depreciation | 1,710 | 1,567 | 1,476 |
| Total Operating Expenses | <u><u>\$55,340</u></u> | <u><u>\$51,256</u></u> | <u><u>\$48,241</u></u> |



Comparison of FY 2006 to FY 2005

- Instruction increased by \$1.8 million due to a 2% across-the-board salary increase, equity, and bonus adjustments.
- Maintenance and operation of facilities increased by \$2.0 million due to the substantial completion of the Energy Savings project.

Comparison of FY 2005 to FY 2004

- Scholarships increased due to an increase in PELL awards.
- Depreciation increased due to the full year depreciation of the new CBIH building.

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.

| Institution | | | |
|---|--------------------|--------------------|--------------------|
| Condensed Statements of Cash Flows | | | |
| (in thousands of dollars) | | | |
| | <u>2006</u> | <u>2005</u> | <u>2004</u> |
| Cash provided (used) by: | | | |
| Operating activities | (\$35,702) | (\$32,198) | (\$30,199) |
| Noncapital financing activities | 34,508 | 34,714 | 31,754 |
| Capital and related financing activities | 1,447 | (181) | (138) |
| Investing activities | 458 | 198 | 76 |
| Net increase (decrease) in cash | 711 | 2,533 | 1,493 |
| Cash, beginning of year | 8,374 | 5,841 | 4,348 |
| Cash, end of year | \$9,085 | \$8,374 | \$5,841 |

Comparison of FY 2006 to FY 2005

- Cash paid to suppliers and vendors include an increase of \$2.3 million due to the substantial completion of the Energy Savings project expenditures.
- Proceeds from state for capital appropriations include an increase of \$4.4 million due to the debt retirement of the Olan Mills Building funded from state capital appropriations.
- Cash paid for principal on capital debt increased by approximately \$4.6 million, which includes cash paid for the retirement of debt for the Olan Mills Building of \$4.4 million and cash paid for Banner project debt of \$188,000.
- Proceeds from capital debt increased by approximately \$800,000 due to the incurrence of \$1.7 million of new debt for the Energy Savings project.
- The liquidity of the college increased by \$711,000.

Comparison of FY 2005 to FY 2004

- Cash received from nonoperating grants and contracts increased by \$1.1 million due to the implementation of the Tennessee Hope Scholarship program.
- The liquidity of the college increased by \$2,533,000 due to measures taken to conserve funds for future commitments.

Capital Assets and Debt Administration

Capital Assets

Chattanooga State Technical Community College had \$27,272,900 invested in capital assets, net of accumulated depreciation of \$25,710,782 at June 30, 2006; \$27,964,232 invested in capital assets, net of accumulated depreciation of \$24,149,348 at June 30, 2005; and \$27,870,223 invested in capital assets, net of accumulated depreciation of \$22,921,717 at June 30, 2004. Depreciation charges totaled \$1,709,421, \$1,566,952, and \$1,475,798 for the years ended June 30, 2006; June 30, 2005; and June 30, 2004, respectively. Details of these assets are shown below.

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

| | <u>2006</u> | <u>2005</u> | <u>2004</u> |
|------------------------------------|-------------|-------------|-------------|
| Land | \$2,429 | \$2,429 | \$2,429 |
| Land improvements & infrastructure | 1,330 | 1,327 | 1,234 |
| Buildings | 20,177 | 21,018 | 21,860 |
| Equipment | 2,125 | 2,161 | 1,950 |
| Library holdings | 291 | 334 | 397 |
| Software | 921 | - | - |
| Projects in progress | - | 695 | - |

During fiscal year 2006, there were \$905,575 of capital additions, which included:

- The Banner software of \$329,000.
- Equipment purchases of \$306,000.
- Infrastructure purchases of \$109,000
- Library holding purchases of \$43,000.
- A donation of a 2003 Freightliner truck of \$55,000 for the commercial truck driving program.
- A purchase of a dynamometer system of \$28,800.
- A purchase of a tool room mill of \$24,895 for the machine shop program.
- A purchase of a hematology analyzer of \$9,880.

The Banner implementation project is being funded by the issuance of commercial paper. The other capital additions were funded by the college's unrestricted net assets.

During fiscal year 2005, there were \$1,630,989 of capital additions, which included:

- The Banner implementation project of \$694,680.
- Equipment purchases of \$671,395.
- Infrastructure purchases of \$182,529.
- Library holding purchases of \$36,390.
- A purchase of a 1999 Freightliner truck of \$24,900 for the truck driving school.

- An increase in infrastructure and improvements of \$21,095.

The Banner implementation project is being funded by the issuance of commercial paper. The other capital additions were funded by the college's unrestricted net assets.

During fiscal year 2004, there were \$5,203,000 of capital additions, which included:

- The acquisition of property for \$4,490,000.
- Equipment purchases of \$439,000.
- Infrastructure purchases of \$139,000.
- Library holding purchases of \$52,000.
- Four lathes at a total of \$30,900 for the basic machine tool program.
- A purchase of an automobile frame alignment system at \$27,800 for the auto body repair program.
- An industrial motor control system at \$17,030 for the industrial electricity program.
- A Gator utility cart with dumping bed at \$6,810 for the landscape and turf management program.

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

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

| | <u>2006</u> | <u>2005</u> | <u>2004</u> |
|------|-------------|-------------|-------------|
| Land | \$726 | \$726 | \$726 |

In the 2007 fiscal year, the college's planned capital expenditures include:

- a) The purchase of property from WTCI (a public television station) financed with TSBBA bonds.
- b) Construction of Allied Health facility on campus paid for with capital appropriations.
- c) Touchnet software of \$125,000.
- d) Library holding purchases of \$51,000.
- e) Infrastructure purchases of \$200,000.

The technology center plans to purchase \$35,000 in instructional equipment to be funded from unrestricted net assets and a purchase of \$10,000 in instructional equipment to be funded from the technology access fee.

More detailed information about the college's capital assets is presented in Note 4 to the financial statements.

Debt

The college had \$3,016,880, \$5,919,784, and \$5,036,834 in debt outstanding at June 30, 2006; June 30, 2005; and June 30, 2004, respectively. The component unit had no debt outstanding at June 30, 2006; June 30, 2005; or June 30, 2004. The table below summarizes these amounts by type of debt instrument.

| | Institution | | |
|------------------|--------------------|--------------------|--------------------|
| | <u>2006</u> | <u>2005</u> | <u>2004</u> |
| Bonds | \$1,278 | \$566 | \$607 |
| Commercial paper | 1,738 | 5,354 | 4,430 |

In 2006, the college retired the principal amount of commercial paper issued for the purchase of the Olan Mills Building with capital appropriations. In 2006, the college also issued commercial paper in the amount of \$1,738,838 for the financing of the Energy Savings Project. Tennessee State School Bond Authority bonds are currently rated AA- by Standard and Poor's.

More detailed information about the college's long-term liabilities is presented in Note 5 to the financial statements.

Economic Factors That Will Affect the Future

The economic position of Chattanooga State Technical Community College is closely tied to that of the State of Tennessee. For the 2006 fiscal year, state appropriations comprised 43% of total revenues and were thus the largest source of funding. Effective Fall 2005, student fees were increased by 9.7%. The additional revenue will further negate the effects of reductions in state support in recent years.

Requests for Information

This financial report is designed to provide a general overview of the institution's finances for all those with an interest in the college's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be directed to Tammy Swenson, Vice President for Business & Finance, Chattanooga State Technical Community College, 4501 Annicola Highway, Chattanooga, Tennessee 37406-1097.

TENNESSEE BOARD OF REGENTS
CHATTANOOGA STATE TECHNICAL COMMUNITY COLLEGE
STATEMENTS OF NET ASSETS
JUNE 30, 2006, AND JUNE 30, 2005

| | Chattanooga State Technical Community College | | Component Unit - Chattanooga State Technical Community College Foundation | |
|---|---|-------------------------|---|------------------------|
| | June 30, 2006 | June 30, 2005 | June 30, 2006 | June 30, 2005 |
| ASSETS | | | | |
| Current assets: | | | | |
| Cash and cash equivalents (Notes 2 and 12) | \$ 4,366,958.33 | \$ 4,679,457.10 | \$ 99,614.17 | \$ 30,827.42 |
| Accounts, notes, and grants receivable (net) (Note 3) | 1,782,268.40 | 1,787,690.59 | - | 608.45 |
| Pledges receivable (Note 12) | - | - | 200,026.67 | - |
| Inventories | 43,089.60 | 43,610.44 | - | - |
| Prepaid expenses and deferred charges | 257,033.46 | 115,035.68 | - | 171.25 |
| Total current assets | <u>6,449,349.79</u> | <u>6,625,793.81</u> | <u>299,640.84</u> | <u>31,607.12</u> |
| Noncurrent assets: | | | | |
| Cash and cash equivalents (Notes 2 and 12) | 4,717,996.74 | 3,694,092.80 | 90,968.26 | 42,805.09 |
| Investments (Note 12) | - | - | 4,114,112.96 | 4,076,206.14 |
| Accounts, notes, and grants receivable (net) (Note 3) | 25,742.52 | 72,982.13 | - | - |
| Pledges receivable (Note 12) | - | - | 87,330.48 | - |
| Capital assets (net) (Notes 4 and 12) | 27,272,899.48 | 27,964,232.53 | 725,603.03 | 725,603.03 |
| Total noncurrent assets | <u>32,016,638.74</u> | <u>31,731,307.46</u> | <u>5,018,014.73</u> | <u>4,844,614.26</u> |
| Total assets | <u>38,465,988.53</u> | <u>38,357,101.27</u> | <u>5,317,655.57</u> | <u>4,876,221.38</u> |
| LIABILITIES | | | | |
| Current liabilities: | | | | |
| Accounts payable | 274,597.09 | 314,484.10 | 52,633.35 | 36,296.34 |
| Accrued liabilities | 1,258,600.65 | 1,223,421.99 | - | - |
| Student deposits | 685.00 | - | - | - |
| Deferred revenue | 919,916.10 | 822,886.90 | - | - |
| Compensated absences (Note 5) | 539,739.79 | 516,655.61 | - | - |
| Accrued interest payable | 27,071.66 | 17,399.82 | - | - |
| Long-term liabilities, current portion (Note 5) | 228,375.66 | 44,671.26 | - | - |
| Deposits held in custody for others | 83,127.33 | 111,437.72 | - | - |
| Total current liabilities | <u>3,332,113.28</u> | <u>3,050,957.40</u> | <u>52,633.35</u> | <u>36,296.34</u> |
| Noncurrent liabilities: | | | | |
| Compensated absences (Note 5) | 1,211,085.37 | 1,035,590.73 | - | - |
| Long-term liabilities (Note 5) | 2,788,504.32 | 5,875,112.53 | - | - |
| Other liabilities (Note 12) | - | - | 100,000.00 | 85,000.00 |
| Total noncurrent liabilities | <u>3,999,589.69</u> | <u>6,910,703.26</u> | <u>100,000.00</u> | <u>85,000.00</u> |
| Total liabilities | <u>7,331,702.97</u> | <u>9,961,660.66</u> | <u>152,633.35</u> | <u>121,296.34</u> |
| NET ASSETS | | | | |
| Invested in capital assets, net of related debt | 24,256,019.50 | 22,044,448.74 | 725,603.03 | 725,603.03 |
| Restricted for: | | | | |
| Nonexpendable: | | | | |
| Scholarships and fellowships | - | - | 822,884.73 | 727,238.95 |
| Instructional department uses | - | - | 137,185.00 | 136,685.00 |
| Expendable: | | | | |
| Scholarships and fellowships | - | - | 700,483.42 | 709,503.97 |
| Instructional department uses | - | - | 1,253,754.23 | 1,083,504.97 |
| Loans | 20,361.48 | 20,361.48 | - | - |
| Capital projects | - | - | 235,336.27 | 547.36 |
| Debt service | 64,050.93 | 115,000.00 | - | - |
| Other | 89,562.82 | 45,240.19 | 74,471.75 | 34,841.64 |
| Unrestricted (Note 6) | 6,704,290.83 | 6,170,390.20 | 1,215,303.79 | 1,337,000.12 |
| Total net assets | <u>\$ 31,134,285.56</u> | <u>\$ 28,395,440.61</u> | <u>\$ 5,165,022.22</u> | <u>\$ 4,754,925.04</u> |

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

**TENNESSEE BOARD OF REGENTS
CHATTANOOGA STATE TECHNICAL COMMUNITY COLLEGE
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2006, AND JUNE 30, 2005**

| | <u>Chattanooga State Technical Community College</u> | | <u>Component Unit - Chattanooga State Technical Community College Foundation</u> | |
|--|--|------------------------------------|--|------------------------------------|
| | Year Ended <u>June 30, 2006</u> | Year Ended <u>June 30, 2005</u> | Year Ended <u>June 30, 2006</u> | Year Ended <u>June 30, 2005</u> |
| REVENUES | | | | |
| Operating revenues: | | | | |
| Student tuition and fees (net of scholarship allowances of \$4,792,367.03 for the year ended June 30, 2006, and \$4,298,198.00 for the year ended June 30, 2005) | \$ 13,641,322.46 | \$ 13,264,379.15 | \$ - | \$ - |
| Gifts and contributions | - | - | 540,527.84 | 170,372.55 |
| Governmental grants and contracts | 2,602,987.16 | 2,056,962.13 | - | - |
| Nongovernmental grants and contracts | 185,067.74 | 224,674.25 | - | - |
| Endowment income (per spending plan) | - | - | 49,234.14 | 28,100.00 |
| Sales and services of educational departments | 337,313.85 | 287,215.41 | - | - |
| Auxiliary enterprises: | | | | |
| Bookstore | 323,401.00 | 327,771.00 | - | - |
| Food service | 462,738.83 | 465,170.54 | - | - |
| Other operating revenues | 282,542.94 | 353,300.75 | 2,490.00 | - |
| Total operating revenues | <u>17,835,373.98</u> | <u>16,979,473.23</u> | <u>592,251.98</u> | <u>198,472.55</u> |
| EXPENSES | | | | |
| Operating expenses (Note 11): | | | | |
| Salaries and wages | 26,901,629.18 | 25,608,277.69 | - | - |
| Benefits | 8,696,579.60 | 8,076,455.93 | - | - |
| Utilities, supplies, and other services | 11,830,576.18 | 9,289,604.04 | 175,854.51 | 142,146.94 |
| Scholarships and fellowships | 6,202,054.63 | 6,715,067.22 | 194,969.73 | 196,741.99 |
| Depreciation expense | 1,709,421.18 | 1,566,952.21 | - | - |
| Payments to or on behalf of Chattanooga State Technical Community College | - | - | 45,858.44 | 106,454.67 |
| Total operating expenses | <u>55,340,260.77</u> | <u>51,256,357.09</u> | <u>416,682.68</u> | <u>445,343.60</u> |
| Operating income (loss) | <u>(37,504,886.79)</u> | <u>(34,276,883.86)</u> | <u>175,569.30</u> | <u>(246,871.05)</u> |
| NONOPERATING REVENUES (EXPENSES) | | | | |
| State appropriations | 25,153,100.00 | 24,757,400.00 | - | - |
| Gifts (college gifts include \$45,858.44 from component unit in 2006 and \$106,454.67 in 2005) (Note 12) | 199,895.42 | 237,811.77 | - | - |
| Grants and contracts | 9,213,313.68 | 9,791,937.84 | - | - |
| Investment income (for component unit, net of investment expense of \$32,706.55 in 2006 and \$27,646.63 in 2005) | 457,952.30 | 198,369.31 | 225,469.88 | 169,847.37 |
| Interest on capital asset-related debt | (93,328.24) | (103,254.61) | - | - |
| Bond issuance costs | (3,174.58) | (1,825.27) | - | - |
| Other nonoperating revenues (expenses) | 92,067.31 | (23,655.14) | - | (630.14) |
| Net nonoperating revenues | <u>35,019,825.89</u> | <u>34,856,783.90</u> | <u>225,469.88</u> | <u>169,217.23</u> |
| Income (loss) before other revenues, expenses, gains, or losses | <u>(2,485,060.90)</u> | <u>579,900.04</u> | <u>401,039.18</u> | <u>(77,653.82)</u> |
| Capital appropriations | 5,223,905.85 | 661,885.71 | - | - |
| Additions to permanent endowments | - | - | 9,058.00 | 640.00 |
| Total other revenues | <u>5,223,905.85</u> | <u>661,885.71</u> | <u>9,058.00</u> | <u>640.00</u> |
| Increase (decrease) in net assets | <u>2,738,844.95</u> | <u>1,241,785.75</u> | <u>410,097.18</u> | <u>(77,013.82)</u> |
| NET ASSETS | | | | |
| Net assets - beginning of year | 28,395,440.61 | 27,153,654.86 | 4,754,925.04 | 4,831,938.86 |
| Net assets - end of year | <u>\$ 31,134,285.56</u> | <u>\$ 28,395,440.61</u> | <u>\$ 5,165,022.22</u> | <u>\$ 4,754,925.04</u> |

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

**TENNESSEE BOARD OF REGENTS
CHATTANOOGA STATE TECHNICAL COMMUNITY COLLEGE
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2006, AND JUNE 30, 2005**

| | Year Ended <u>June 30, 2006</u> | Year Ended <u>June 30, 2005</u> |
|--|------------------------------------|------------------------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Tuition and fees | \$ 13,776,211.61 | \$ 13,365,319.71 |
| Grants and contracts | 2,656,729.45 | 2,348,341.51 |
| Sales and services of educational activities | 334,139.10 | 304,732.93 |
| Payments to suppliers and vendors | (11,894,671.95) | (9,235,423.24) |
| Payments to employees | (27,031,937.28) | (25,644,779.35) |
| Payments for benefits | (8,453,014.42) | (7,648,086.82) |
| Payments for scholarships and fellowships | (6,197,316.41) | (6,761,928.72) |
| Auxiliary enterprise charges: | | |
| Bookstore | 327,771.00 | 308,530.00 |
| Food services | 462,961.08 | 465,270.79 |
| Other receipts | 317,067.11 | 299,717.03 |
| Net cash used by operating activities | <u>(35,702,060.71)</u> | <u>(32,198,306.16)</u> |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES | | |
| State appropriations | 25,153,000.00 | 24,766,500.00 |
| Gifts and grants received for other than capital or endowment purposes | 9,376,034.90 | 9,945,835.04 |
| Federal student loan receipts | 8,571,636.09 | 7,109,762.98 |
| Federal student loan disbursements | (8,579,100.44) | (7,101,563.89) |
| Changes in deposits held for others | (23,058.76) | (6,746.61) |
| Other receipts | 9,810.00 | - |
| Net cash provided by noncapital financing activities | <u>34,508,321.79</u> | <u>34,713,787.52</u> |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | | |
| Proceeds from capital debt | 1,760,067.45 | 925,412.69 |
| Capital appropriations | 5,271,145.46 | 630,869.65 |
| Proceeds from sale of capital assets | - | 5,359.00 |
| Purchases of capital assets and construction | (846,980.76) | (1,598,220.56) |
| Principal paid on capital debt | (4,662,971.26) | (42,463.17) |
| Interest paid on capital debt | (83,656.40) | (100,760.67) |
| Bond issue costs paid on new debt issue | (3,174.58) | (1,825.27) |
| Changes in deposits with trustee | 12,761.88 | - |
| Net cash provided (used) by capital and related financing activities | <u>1,447,191.79</u> | <u>(181,628.33)</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Income on investments | 457,952.30 | 198,369.31 |
| Net cash provided by investing activities | <u>457,952.30</u> | <u>198,369.31</u> |
| Net increase in cash | 711,405.17 | 2,532,222.34 |
| Cash - beginning of year | 8,373,549.90 | 5,841,327.56 |
| Cash - end of year | <u>\$ 9,084,955.07</u> | <u>\$ 8,373,549.90</u> |

**TENNESSEE BOARD OF REGENTS
CHATTANOOGA STATE TECHNICAL COMMUNITY COLLEGE
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2006, AND JUNE 30, 2005**

| | Year Ended <u>June 30, 2006</u> | Year Ended <u>June 30, 2005</u> |
|---|------------------------------------|------------------------------------|
| Reconciliation of operating loss to net cash used by operating activities: | | |
| Operating loss | \$ (37,504,886.79) | \$ (34,276,883.86) |
| Adjustments to reconcile operating loss to net cash used by operating activities: | | |
| Depreciation expense | 1,709,421.18 | 1,566,952.21 |
| Other adjustment | - | 68,980.43 |
| Change in assets and liabilities: | | |
| Receivables, net | (41,130.65) | 52,009.14 |
| Inventories | 520.84 | 9,832.66 |
| Prepaid/deferred items | (154,759.66) | (44,249.76) |
| Accounts payable | (42,697.31) | 57,558.58 |
| Accrued liabilities | 35,178.66 | 372,404.81 |
| Deferred revenue | 97,029.20 | (106,949.04) |
| Deposits | 685.00 | - |
| Compensated absences | 198,578.82 | 102,038.67 |
| Net cash used by operating activities | <u>\$ (35,702,060.71)</u> | <u>\$ (32,198,306.16)</u> |
| Noncash transactions | | |
| Gifts of capital assets | \$ 85,450.00 | \$ 62,500.00 |
| Loss on disposal of capital assets | - | (4,324.96) |

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

Tennessee Board of Regents
Chattanooga State Technical Community College
Notes to the Financial Statements
June 30, 2006, and June 30, 2005

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 Chattanooga 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 12 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 (GAAP) applicable to governmental colleges and universities engaged in business-type activities as prescribed by the Governmental Accounting Standards Board (GASB).

Basis of Accounting

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

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed to the extent that those standards do not

Tennessee Board of Regents
Chattanooga State Technical Community College
Notes to the Financial Statements (Cont.)
June 30, 2006, and June 30, 2005

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) utilities, supplies, and other services; (4) scholarships and fellowships; and (5) depreciation.

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

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

Inventories

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

Compensated Absences

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

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.

Tennessee Board of Regents
Chattanooga State Technical Community College
Notes to the Financial Statements (Cont.)
June 30, 2006, and June 30, 2005

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

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

Net Assets

The college's net assets are classified as follows:

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

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

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

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

Tennessee Board of Regents
Chattanooga State Technical Community College
Notes to the Financial Statements (Cont.)
June 30, 2006, and June 30, 2005

and the amount that is paid by the student and/or third parties making payments on the student's behalf. Certain governmental grants, such as Pell grants, and other federal, state, or nongovernmental programs are recorded as either operating or nonoperating revenues in the college's financial statements. To the extent that revenues from such programs are used to satisfy tuition and fees and other student charges, the college has recorded a scholarship discount and allowance.

NOTE 2. CASH

At June 30, 2006, cash consisted of \$2,631,692.11 in bank accounts, \$3,900.40 of petty cash on hand, \$6,439,420.28 in the State of Tennessee Local Government Investment Pool administered by the State Treasurer, and \$9,942.28 in LGIP deposits for capital projects. At June 30, 2005, cash consisted of \$1,159,001.15 in bank accounts, \$4,270.00 of petty cash on hand, \$7,210,276.89 in the State of Tennessee Local Government Investment Pool administered by the State Treasurer, and \$1.86 in LGIP deposits for capital projects.

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

NOTE 3. RECEIVABLES

Receivables included the following:

**Tennessee Board of Regents
Chattanooga State Technical Community College
Notes to the Financial Statements (Cont.)
June 30, 2006, and June 30, 2005**

| | <u>June 30, 2006</u> | <u>June 30, 2005</u> |
|--------------------------------------|-----------------------|-----------------------|
| Student accounts receivable | \$1,233,478.04 | \$1,256,144.28 |
| Grants receivable | 670,346.45 | 569,423.17 |
| State appropriation receivable | 30,400.00 | 30,300.00 |
| Other receivables | <u>293,179.51</u> | <u>391,761.58</u> |
| Subtotal | 2,227,404.00 | 2,247,629.03 |
| Less allowance for doubtful accounts | <u>419,393.08</u> | <u>386,956.31</u> |
| Total receivables | <u>\$1,808,010.92</u> | <u>\$1,860,672.72</u> |

NOTE 4. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2006, was as follows:

| | <u>Beginning Balance</u> | <u>Additions</u> | <u>Transfers</u> | <u>Reductions</u> | <u>Ending Balance</u> |
|---|------------------------------|-----------------------|---------------------|--------------------|---------------------------|
| Land | \$2,429,000.00 | \$ - | \$ - | \$ - | \$2,429,000.00 |
| Land improvements and infrastructure | 2,864,319.45 | 108,635.36 | - | - | 2,972,954.81 |
| Buildings | 36,417,667.34 | - | - | - | 36,417,667.34 |
| Equipment | 8,890,260.29 | 540,575.71 | - | - | 9,430,836.00 |
| Library holdings | 817,653.43 | 43,260.19 | - | 151,115.65 | 709,797.97 |
| Software | - | 328,745.57 | 694,680.10 | - | 1,023,425.67 |
| Projects in progress | <u>694,680.10</u> | <u>-</u> | <u>(694,680.10)</u> | <u>-</u> | <u>-</u> |
| Total | <u>52,113,580.61</u> | <u>1,021,216.83</u> | <u>-</u> | <u>151,115.65</u> | <u>52,983,681.79</u> |
| Less accum. depreciation: | | | | | |
| Land improvements and infrastructure | 1,536,937.41 | 106,695.19 | - | - | 1,643,632.60 |
| Buildings | 15,399,242.93 | 841,312.01 | - | - | 16,240,554.94 |
| Equipment | 6,729,569.55 | 572,980.05 | - | (3,128.70) | 7,305,678.30 |
| Library holdings | 483,598.19 | 86,091.36 | - | 151,115.65 | 418,573.90 |
| Software | <u>-</u> | <u>102,342.57</u> | <u>-</u> | <u>-</u> | <u>102,342.57</u> |
| Total accum. depreciation | <u>24,149,348.08</u> | <u>1,709,421.18</u> | <u>-</u> | <u>147,986.95</u> | <u>25,710,782.31</u> |
| Capital assets, net | <u>\$27,964,232.53</u> | <u>\$(688,204.35)</u> | <u>\$ -</u> | <u>\$ 3,128.70</u> | <u>\$27,272,899.48</u> |

Tennessee Board of Regents
Chattanooga State Technical Community College
Notes to the Financial Statements (Cont.)
June 30, 2006, and June 30, 2005

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

| | <u>Beginning Balance</u> | <u>Additions</u> | <u>Reductions</u> | <u>Ending Balance</u> |
|---|------------------------------|----------------------|---------------------|---------------------------|
| Land | \$2,429,000.00 | \$ - | \$ - | \$2,429,000.00 |
| Land improvements and infrastructure | 2,660,695.55 | 203,623.90 | - | 2,864,319.45 |
| Buildings | 36,417,667.34 | - | - | 36,417,667.34 |
| Equipment | 8,328,472.41 | 781,594.17 | 219,806.29 | 8,890,260.29 |
| Library holdings | 956,104.88 | 36,390.28 | 174,841.73 | 817,653.43 |
| Projects in progress | <u>-</u> | <u>694,680.10</u> | <u>-</u> | <u>694,680.10</u> |
| Total | <u>50,791,940.18</u> | <u>1,716,288.45</u> | <u>394,648.02</u> | <u>52,113,580.61</u> |
| Less accum. depreciation: | | | | |
| Land improvements and infrastructure | 1,426,727.63 | 110,209.78 | - | 1,536,937.41 |
| Buildings | 14,557,930.90 | 841,312.03 | - | 15,399,242.93 |
| Equipment | 6,377,868.35 | 516,180.88 | 164,479.68 | 6,729,569.55 |
| Library holdings | <u>559,190.40</u> | <u>99,249.52</u> | <u>174,841.73</u> | <u>483,598.19</u> |
| Total accum. depreciation | <u>22,921,717.28</u> | <u>1,566,952.21</u> | <u>339,321.41</u> | <u>24,149,348.08</u> |
| Capital assets, net | <u>\$27,870,222.90</u> | <u>\$ 149,336.24</u> | <u>\$ 55,326.61</u> | <u>\$27,964,232.53</u> |

NOTE 5. LONG-TERM LIABILITIES

Long-term liabilities activity for the year ended June 30, 2006, was as follows:

**Tennessee Board of Regents
Chattanooga State Technical Community College
Notes to the Financial Statements (Cont.)
June 30, 2006, and June 30, 2005**

| | <u>Beginning Balance</u> | <u>Additions</u> | <u>Reductions</u> | <u>Ending Balance</u> | <u>Current Portion</u> |
|-----------------------------|------------------------------|-----------------------|-----------------------|---------------------------|----------------------------|
| Payables: | | | | | |
| TSSBA debt: | | | | | |
| Bonds | \$ 566,196.37 | \$ 756,516.00 | \$ 44,671.26 | \$1,278,041.11 | \$228,375.66 |
| Commercial paper | <u>5,353,587.42</u> | <u>1,756,892.87</u> | <u>5,371,641.42</u> | <u>1,738,838.87</u> | <u>-</u> |
| Subtotal | <u>5,919,783.79</u> | <u>2,513,408.87</u> | <u>5,416,312.68</u> | <u>3,016,879.98</u> | <u>228,375.66</u> |
| Other liabilities: | | | | | |
| Compensated absences | <u>1,552,246.34</u> | <u>305,403.69</u> | <u>106,824.87</u> | <u>1,750,825.16</u> | <u>539,739.79</u> |
| Subtotal | <u>1,552,246.34</u> | <u>305,403.69</u> | <u>106,824.87</u> | <u>1,750,825.16</u> | <u>539,739.79</u> |
| Total long-term liabilities | <u>\$7,472,030.13</u> | <u>\$2,818,812.56</u> | <u>\$5,523,137.55</u> | <u>\$4,767,705.14</u> | <u>\$768,115.45</u> |

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

| | <u>Beginning Balance</u> | <u>Additions</u> | <u>Reductions</u> | <u>Ending Balance</u> | <u>Current Portion</u> |
|-----------------------------|------------------------------|-----------------------|---------------------|---------------------------|----------------------------|
| Payables: | | | | | |
| TSSBA debt: | | | | | |
| Bonds | \$ 606,834.27 | \$ 1,825.27 | \$ 42,463.17 | \$ 566,196.37 | \$ 44,671.26 |
| Commercial paper | <u>4,430,000.00</u> | <u>923,587.42</u> | <u>-</u> | <u>5,353,587.42</u> | <u>-</u> |
| Subtotal | <u>5,036,834.27</u> | <u>925,412.69</u> | <u>42,463.17</u> | <u>5,919,783.79</u> | <u>44,671.26</u> |
| Other liabilities: | | | | | |
| Compensated absences | <u>1,450,207.67</u> | <u>227,274.19</u> | <u>125,235.52</u> | <u>1,552,246.34</u> | <u>516,655.61</u> |
| Subtotal | <u>1,450,207.67</u> | <u>227,274.19</u> | <u>125,235.52</u> | <u>1,552,246.34</u> | <u>516,655.61</u> |
| Total long-term liabilities | <u>\$6,487,041.94</u> | <u>\$1,152,686.88</u> | <u>\$167,698.69</u> | <u>\$7,472,030.13</u> | <u>\$561,326.87</u> |

TSSBA Debt - Bonds

Bonds, with interest rates ranging from 3.38% to 5.125%, were issued by the Tennessee State School Bond Authority (TSSBA). The bonds are due serially to 2015 and are secured by pledges of the facilities' revenues to which they relate and certain other revenues and fees of the college, including state appropriations.

Debt service requirements to maturity for the college's portion of TSSBA bonds at June 30, 2006, are as follows:

**Tennessee Board of Regents
Chattanooga State Technical Community College
Notes to the Financial Statements (Cont.)
June 30, 2006, and June 30, 2005**

| Year Ending <u>June 30</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|-------------------------------|-----------------------|---------------------|-----------------------|
| 2007 | \$ 228,375.66 | \$ 51,484.44 | \$ 279,860.10 |
| 2008 | 233,130.39 | 44,589.17 | 277,719.56 |
| 2009 | 243,229.69 | 34,956.14 | 278,185.83 |
| 2010 | 253,806.37 | 24,865.57 | 278,671.94 |
| 2011 | 58,860.00 | 14,104.06 | 72,964.06 |
| 2012-2015 | <u>260,639.00</u> | <u>32,422.64</u> | <u>293,061.64</u> |
| | <u>\$1,278,041.11</u> | <u>\$202,422.02</u> | <u>\$1,480,463.13</u> |

TSSBA Debt - Commercial Paper

The Tennessee State School Bond Authority issues commercial paper to finance the costs of various capital projects during their construction phase. When projects are placed in service, long-term, fixed-rate debt is issued by TSSBA to finance the project over its useful payback period and the commercial paper is redeemed. The amount issued for projects at the college was \$1,738,838.87 at June 30, 2006, and \$5,353,587.42 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.

More detailed information regarding the bonds and commercial paper can be found in the notes to the financial statements in the financial report for the Tennessee State School Bond Authority. That report may be obtained by writing to the Director of Bond Finance, Suite 1600, James K. Polk Building, Nashville, Tennessee 37243-0273, or by calling (615) 401-7872.

NOTE 6. 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
Chattanooga State Technical Community College
Notes to the Financial Statements (Cont.)
June 30, 2006, and June 30, 2005**

| | <u>June 30, 2006</u> | <u>June 30, 2005</u> |
|--------------------------------------|---------------------------|---------------------------|
| Working capital | \$833,878.88 | \$950,540.13 |
| Encumbrances | 138,104.55 | 238,339.65 |
| Auxiliaries | 156,342.38 | 164,251.78 |
| Plant construction | 1,074,035.22 | 723,013.81 |
| Renewal and replacement of equipment | 4,061,859.60 | 3,348,169.98 |
| Unreserved/undesignated | <u>440,070.20</u> | <u>746,074.85</u> |
| Total | <u>\$6,704,290.83</u> | <u>\$6,170,390.20</u> |

NOTE 7. 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 10.31% 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, 2006, 2005, and 2004 were

Tennessee Board of Regents
Chattanooga State Technical Community College
Notes to the Financial Statements (Cont.)
June 30, 2006, and June 30, 2005

\$1,301,269.00, \$1,252,996.00, and \$823,753.00. 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 \$1,098,027.00 for the year ended June 30, 2006, and \$1,028,802.00 for the year ended June 30, 2005. Contributions met the requirements for each year.

NOTE 8. 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.

Tennessee Board of Regents
Chattanooga State Technical Community College
Notes to the Financial Statements (Cont.)
June 30, 2006, and June 30, 2005

NOTE 9. 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 damages 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, 2006, and June 30, 2005, 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, 2006, the Risk Management Fund held \$133.2 million in cash and cash equivalents designated for payment of claims. At June 30, 2005, the Risk Management fund held \$114.4 million in cash and cash equivalents designated for payment of claims.

Tennessee Board of Regents
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Notes to the Financial Statements (Cont.)
June 30, 2006, and June 30, 2005

At June 30, 2006, the scheduled coverage for the college was \$63,709,500 for buildings and \$25,008,500 for contents. At June 30, 2005, the scheduled coverage for the college was \$58,812,900 for buildings and \$25,146,900 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 10. COMMITMENTS AND CONTINGENCIES

Sick Leave - The college records the cost of sick leave when paid. Generally, since sick leave (earned one day per month with unlimited accumulation) is paid only when an employee dies or is absent because of illness, injury, or related family death, there is no liability for sick leave at June 30. The dollar amount of unused sick leave was \$7,168,561.25 at June 30, 2006, and \$6,458,469.42 at June 30, 2005.

Operating Leases - The college has entered into various operating leases for buildings and equipment. Such leases will probably continue to be required. Expenses under operating leases for real property were \$192,875.82 and for personal property were \$97,180.92 for the year ended June 30, 2006. Amounts for the year ended June 30, 2005, were \$194,285.60 and \$80,739.97. All operating leases are cancelable at the lessee's option.

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 \$1,365,202.62 at June 30, 2006.

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

Tennessee Board of Regents
Chattanooga State Technical Community College
Notes to the Financial Statements (Cont.)
June 30, 2006, and June 30, 2005

NOTE 11. NATURAL CLASSIFICATIONS WITH FUNCTIONAL CLASSIFICATIONS

The college's operating expenses by functional classification for the year ended June 30, 2006, are as follows:

| Functional Classification | Natural Classification | | | | | Total |
|---------------------------|------------------------|-----------------------|------------------------|-----------------------|-----------------------|------------------------|
| | Salaries | Benefits | Other Operating | Scholarships | Depreciation | |
| Instruction | \$16,473,511.93 | \$4,863,911.55 | \$4,857,777.67 | \$357,118.25 | \$ - | \$26,552,319.40 |
| Public service | 339,803.26 | 107,201.91 | 145,778.02 | 72,425.19 | - | 665,208.38 |
| Academic support | 3,054,745.40 | 1,069,155.76 | (345,967.64) | 55,224.13 | - | 3,833,157.65 |
| Student services | 2,137,628.60 | 842,951.09 | 868,860.30 | 326,910.40 | - | 4,176,350.39 |
| Institutional support | 3,566,712.75 | 1,263,187.38 | 1,122,209.55 | 11,478.03 | - | 5,963,587.71 |
| Operation & maintenance | 1,022,866.08 | 456,466.67 | 4,897,792.87 | - | - | 6,377,125.62 |
| Scholar. & fellow. | 106,709.77 | 6,836.74 | 18,267.65 | 5,378,898.63 | - | 5,510,712.79 |
| Auxiliary | 199,651.39 | 86,868.50 | 265,857.76 | - | - | 552,377.65 |
| Depreciation | - | - | - | - | 1,709,421.18 | 1,709,421.18 |
| Total | \$26,901,629.18 | \$8,696,579.60 | \$11,830,576.18 | \$6,202,054.63 | \$1,709,421.18 | \$55,340,260.77 |

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 | \$15,759,844.84 | \$4,440,779.32 | \$4,279,675.58 | \$218,557.74 | \$ - | \$24,698,857.48 |
| Public service | 306,620.29 | 101,817.12 | 179,400.09 | 51,063.69 | - | 638,901.19 |
| Academic support | 3,004,096.50 | 1,084,709.57 | (420,866.68) | 47,182.19 | - | 3,715,121.58 |
| Student services | 2,031,738.00 | 746,980.17 | 842,321.38 | 273,973.75 | - | 3,895,013.30 |
| Institutional support | 3,244,023.89 | 1,158,129.70 | 1,273,900.34 | 23,714.92 | - | 5,699,768.85 |
| Operation & maintenance | 1,040,556.87 | 460,397.86 | 2,851,843.21 | - | - | 4,352,797.94 |
| Scholar. & fellow. | 18,477.64 | 6,639.70 | 9,630.00 | 6,100,574.93 | - | 6,135,322.27 |
| Auxiliary | 202,919.66 | 77,002.49 | 273,700.12 | - | - | 553,622.27 |
| Depreciation | - | - | - | - | 1,566,952.21 | 1,566,952.21 |
| Total | \$25,608,277.69 | \$8,076,455.93 | \$9,289,604.04 | \$6,715,067.22 | \$1,566,952.21 | \$51,256,357.09 |

NOTE 12. COMPONENT UNIT

The Chattanooga State Technical Community College Foundation is a legally separate, tax-exempt organization supporting Chattanooga State Technical Community College. The foundation acts primarily as a fund-raising organization to supplement the resources that are available to the college in support of its programs.

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Chattanooga State Technical Community College
Notes to the Financial Statements (Cont.)
June 30, 2006, and June 30, 2005

The 17-member board of the foundation is self-perpetuating and consists of 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, 2006, the foundation made distributions of \$45,858.44 to or on behalf of the college for both restricted and unrestricted purposes. During the year ended June 30, 2005, the foundation made distributions of \$106,454.67 to or on behalf of the college for both restricted and unrestricted purposes. Complete financial statements for the foundation can be obtained from Ms. Tammy Swenson, Vice President of Business and Finance, Chattanooga State Technical Community College, 4501 Amnicola Highway, Chattanooga, TN 37406.

Cash and cash equivalents - Cash and cash equivalents consists of demand deposit accounts and money market funds. Of the bank balances of deposits at June 30, 2006, \$100,000 was insured, and \$42,708.70 was uninsured. The bank balances of deposits at June 30, 2005, were entirely insured.

Investments - Investments are recorded on the date of contribution and are stated at fair value or estimated fair value. Unrealized gains and losses are determined by the difference between fair values or estimated fair values at the beginning and end of the year.

Investments held at June 30, 2006, were as follows:

**Tennessee Board of Regents
Chattanooga State Technical Community College
Notes to the Financial Statements (Cont.)
June 30, 2006, and June 30, 2005**

| | <u>Cost</u> | <u>Fair Value</u> |
|--|----------------|-----------------------|
| U.S. treasury obligations | \$242,293.36 | \$236,103.75 |
| U.S. agency obligations | \$280,826.01 | 275,702.55 |
| Corporate stock | \$700,428.43 | 765,448.13 |
| Corporate bonds | \$49,651.00 | 50,742.00 |
| Mutual funds | \$1,834,551.94 | 1,891,666.53 |
| Investment as limited partner in hedge fund | \$783,809.00 | <u>894,450.00</u> |
| Total investments | | <u>\$4,114,112.96</u> |

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

| | <u>Cost</u> | <u>Fair Value</u> |
|--|----------------|-----------------------|
| U.S. treasury obligations | \$322,496.49 | \$315,964.65 |
| U.S. agency obligations | \$328,505.84 | 333,250.75 |
| Corporate stock | \$1,549,944.85 | 1,698,257.61 |
| Corporate bonds | \$99,901.00 | 101,302.50 |
| Mutual funds | \$758,275.60 | 784,800.63 |
| Investment as limited partner in hedge fund | \$751,163.00 | <u>842,630.00</u> |
| Total investments | | <u>\$4,076,206.14</u> |

The foundation has an investment in a hedge fund partnership. The estimated fair value of this investment was \$894,450.00 at June 30, 2006, and \$842,630.00 at June 30, 2005.

The hedge fund partnership is a “fund of funds,” a hedge fund which invests for the most part in other hedge funds. The foundation believes that the reported amounts for this alternative investment are a reasonable estimate of fair value at each year end. Because these investments are not readily marketable, the estimated value is subject to uncertainty, and therefore, may differ from the value that would have been used had a ready market for the investments existed, and such differences could be

Tennessee Board of Regents
Chattanooga State Technical Community College
Notes to the Financial Statements (Cont.)
June 30, 2006, and June 30, 2005

material. These fair values are estimated by the general partner of each limited partnership or manager of each corporate entity using various valuation techniques.

Capital assets - Capital assets at June 30, 2006, and June 30, 2005, were as follows:

| | | |
|------|----------------------|----------------------|
| | <u>June 30, 2006</u> | <u>June 30, 2005</u> |
| Land | \$725,603.03 | \$725,603.03 |

Pledges Receivable – Pledges receivable are summarized below.

| | |
|------------------------------------|----------------------|
| | <u>June 30, 2006</u> |
| Current pledges | \$200,026.67 |
| Pledges dues in one to five years | <u>94,216.25</u> |
| Subtotal | 294,242.92 |
| Less discount to net present value | <u>6,885.77</u> |
| Total pledges receivable, net | <u>\$287,357.15</u> |

Other liabilities – Associates in Diagnostic Radiology deposited with the foundation the following amounts to generate income for the Diagnostic Imaging and Radiation Therapy Programs with the stipulation that should the program close within five years, the deposit will be returned.

| | |
|----------------|------------------|
| Year Ending | Deposit |
| <u>June 30</u> | <u>Amount</u> |
| 2002 | \$20,000 |
| 2003 | 25,000 |
| 2004 | 20,000 |
| 2005 | 20,000 |
| 2006 | <u>15,000</u> |
| Total | <u>\$100,000</u> |

Tennessee Board of Regents
Chattanooga State Technical Community College
Notes to the Financial Statements (Cont.)
June 30, 2006, and June 30, 2005

Therefore, a liability of \$85,000 was reported for the year ending June 30, 2005, and a liability of \$100,000 was reported for the year ending June 30, 2006. In September, 2006, the five-year period will be complete and the deposit will become a contribution to the foundation.

Endowments - If a donor has not provided specific instructions to the foundation, the foundation's policies and procedures permit it 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 spent is required to be spent for the purposes for which the endowment was established.

**TENNESSEE BOARD OF REGENTS
CHATTANOOGA STATE TECHNICAL COMMUNITY COLLEGE
SUPPLEMENTARY INFORMATION
STATEMENTS OF CASH FLOWS - COMPONENT UNIT
FOR THE YEARS ENDED JUNE 30, 2006, AND JUNE 30, 2005**

| | <u>Year Ended June 30, 2006</u> | <u>Year Ended June 30, 2005</u> |
|---|-------------------------------------|-------------------------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Gifts and contributions | \$ 253,170.69 | \$ 170,372.55 |
| Endowment income per spending plan | 49,234.14 | 28,100.00 |
| Payments to suppliers and vendors | (158,737.80) | (148,469.68) |
| Payments for scholarships and fellowships | (194,969.73) | (196,741.99) |
| Payments to Chattanooga State Technical Community College | (45,858.44) | (106,454.67) |
| Other receipts | 2,490.00 | - |
| Net cash used by operating activities | <u>(94,671.14)</u> | <u>(253,193.79)</u> |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES | | |
| Private gifts for endowment purposes | <u>24,058.00</u> | <u>20,640.00</u> |
| Net cash provided by noncapital financing activities | <u>24,058.00</u> | <u>20,640.00</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Proceeds from the sale and maturity of investments | 222,890.40 | 149,322.69 |
| Income on investments | 45,945.62 | 57,716.40 |
| Purchase of investments | (81,272.96) | - |
| Net cash provided by investing activities | <u>187,563.06</u> | <u>207,039.09</u> |
| Net increase (decrease) in cash and cash equivalents | 116,949.92 | (25,514.70) |
| Cash and cash equivalents - beginning of year | <u>73,632.51</u> | <u>99,147.21</u> |
| Cash and cash equivalents - end of year | <u>\$ 190,582.43</u> | <u>\$ 73,632.51</u> |
| Reconciliation of operating loss to net cash used by operating activities: | | |
| Operating income (loss) | \$ 175,569.30 | \$ (246,871.05) |
| Adjustments to reconcile operating loss to net cash used by operating activities: | | |
| Change in assets and liabilities: | | |
| Receivables, net | (286,748.70) | (608.45) |
| Accounts payable | 16,337.01 | (8,543.04) |
| Prepaid expenses and deferred charges | 171.25 | 2,828.75 |
| Net cash used by operating activities | <u>\$ (94,671.14)</u> | <u>\$ (253,193.79)</u> |
| Noncash transactions | | |
| Unrealized gain (loss) on investments | \$ (43,366.14) | \$ 114,621.33 |