AUDIT REPORT

Tennessee Board of Regents
Northeast State Technical Community College

For the Years Ended
June 30, 2007, and June 30, 2006

STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY

Department of Audit

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STATE OF TENNESSEE

COMPTROLLER OF THE TREASURY

State Capitol
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John G. Morgan
Comptroller

October 21, 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. William W. Locke, President
Northeast State Technical Community College
P. O. Box 246
Blountville, Tennessee 37617

Ladies and Gentlemen:

Transmitted herewith is the financial and compliance audit of the Tennessee Board of Regents, Northeast State Technical Community College, for the years ended June 30, 2007, and June 30, 2006. You will note from the independent auditor's report that unqualified opinions were given on the fairness of the presentation of the financial statements.

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

Sincerely,

John G. Morgan
Comptroller of the Treasury

JGM/sds
08/043

State of Tennessee

Audit Highlights

Comptroller of the Treasury | Division of State Audit

Financial and Compliance Audit
Northeast State Technical Community College
For the Years Ended June 30, 2007, and June 30, 2006

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.

INTERNAL CONTROL FINDING

The Vice President for Business Affairs Did Not Adequately Mitigate the Risks of Inaccurate Financial Reporting by Ensuring That Staff Accurately Prepared and Reviewed the 2007 Financial Report Before Submitting the College's Financial Report to the Tennessee Board of Regents, Resulting in Material Reporting Errors
The Vice President for Business Affairs for Northeast State Technical Community College did not adequately review the college's financial report for the year ended June 30, 2007, before the report was submitted to the Tennessee Board of Regents. In addition, apparently business office personnel did not have adequate knowledge of all financial reporting requirements, which resulted in inaccurate preparation of the college's financial report and related note disclosures (page 12).

COMPLIANCE FINDING

The Director of Financial Aid Failed to Report an Accredited Location Which Offered 50% or More of a Degree Program, Resulting in $1,454,342 of Questioned Costs
The Director of Financial Aid did not know that the college's Elizabethton campus offered 50% or more of the credits necessary to complete a degree program, and therefore failed to report this location to the U.S. Department of Education. All schools are required to report to the department adding an additional accredited and licensed location where they will be offering

50% or more of an eligible program if the school wants to disburse federal student aid funds to students enrolled at that location. Federal financial aid disbursements were made to students taking classes on the Elizabethton campus during the 2002, 2003, 2004, 2005, 2006, and 2007 fiscal years without proper notification to the department (page 9).

OPINIONS ON THE FINANCIAL STATEMENTS

The opinions on the financial statements are unqualified.

Audit Report
Tennessee Board of Regents
Northeast State Technical Community College
For the Years Ended June 30, 2007, and June 30, 2006

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Tennessee Board of Regents
Northeast State Technical Community College
For the Years Ended June 30, 2007, and June 30, 2006

INTRODUCTION

POST-AUDIT AUTHORITY

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

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

BACKGROUND

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

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

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

ORGANIZATION

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

AUDIT SCOPE

The audit was limited to the period July 1, 2005, through June 30, 2007, 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 generally accepted government auditing standards. Financial statements are presented for the years ended June 30, 2007, and June 30, 2006. Northeast State Technical Community College is an institution of the Tennessee Board of Regents, which is an integral part of state government. As such, the Tennessee Board of Regents has been included as a component unit in the *Tennessee Comprehensive Annual Financial Report.*

OBJECTIVES OF THE AUDIT

The objectives of the audit were

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

2. to determine compliance with certain provisions of laws, regulations, contracts, and grant agreements;

3. to determine the fairness of the presentation of the financial statements; and

4. to recommend appropriate actions to correct any deficiencies.

PRIOR AUDIT FINDINGS

There were no findings in the prior audit report.

OBSERVATIONS AND COMMENTS

MANAGEMENT'S RESPONSIBILITY FOR RISK ASSESSMENT

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

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

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

FRAUD CONSIDERATIONS

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

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

TECHNOLOGY CENTER

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

RESULTS OF THE AUDIT

AUDIT CONCLUSIONS

Internal Control

As part of the audit of the college's financial statements for the years ended June 30, 2007, and June 30, 2006, we considered internal control over financial reporting as a basis for designing 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 generally accepted government auditing standards. A material weakness, along with a recommendation and management's response, is detailed in the findings and recommendations section.

Compliance

The results of our tests disclosed an instance of noncompliance that is required to be reported under generally accepted government auditing standards.

Fairness of Financial Statement Presentation

The Division of State Audit has rendered unqualified opinions on the college's financial statements.

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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*

September 12, 2008

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

Dear Mr. Morgan:

We have audited the financial statements of Northeast State Technical Community College, an institution of the Tennessee Board of Regents, which is a component unit of the State of Tennessee, and its discretely presented component unit as of and for the years ended June 30, 2007, and June 30, 2006, and have issued our report thereon dated September 12, 2008. 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 generally accepted government auditing standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the college's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the college's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the college's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the college's ability to initiate, authorize, record, process, or report financial data reliably in accordance with accounting principles generally accepted in the United States of America such that there is more than a remote likelihood that a misstatement of the college's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

The following significant deficiency was noted:

- The Vice President for Business Affairs did not adequately mitigate the risks of inaccurate financial reporting by ensuring that staff accurately prepared and reviewed the 2007 financial report before submitting the college's financial report to the Tennessee Board of Regents, resulting in material reporting errors.

This deficiency is described in the Findings and Recommendations section of this report.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe the significant deficiency described above is a material weakness.

We also 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 an instance of noncompliance that is required to be reported under generally accepted government auditing standards.

We also noted certain other less significant instances 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,

Arthur A. Hayes, Jr.

Arthur A. Hayes, Jr., CPA
Director

AAH/sds

FINDINGS AND RECOMMENDATIONS

1. **The Director of Financial Aid failed to report an accredited location which offered 50% or more of a degree program, resulting in $1,454,342 of questioned costs**

Finding

The Director of Financial Aid at Northeast State Technical Community College failed to notify the U.S. Department of Education in September 2001 that the college's Elizabethton campus offered 50% or more of the credits necessary to complete a degree program, resulting in federal noncompliance and significant questioned costs.

In September of 2001, Northeast State Technical Community College received a letter from the Southern Association of Colleges and Schools (SACS) which recognized its Elizabethton campus as an accredited campus which offered more than 50% of the credits necessary to complete a degree program. Institutions operating financial aid programs under a valid Program Participation Agreement with the U.S. Department of Education are required to report certain substantive changes to the department through an electronic Application to Participate (E-App).

According to the *Federal Student Financial Aid Handbook*, volume 2, chapter 5, page 68:

> All schools are required to report (using the E-App) to the Department adding an additional accredited and licensed location where they will be offering 50% or more of an eligible program if the school wants to disburse FSA program funds to students enrolled at that location.
>
> Schools must not disburse FSA program funds to students at a new location before the school has reported that location and submitted any required supporting documents to the Department. Once it has reported a new licensed and accredited location, a school may disburse FSA program funds to students enrolled at that location.
>
> The school must notify the Department by reporting the change and the date of the change within 10 calendar days of the change.

Based on our review, we found that the Director of Financial Aid had not reported to the U.S. Department of Education at the time the Elizabethton campus met the 50% threshold. When we informed the Director of this deficiency, she promptly informed the U.S. Department of Education on March 28, 2008. In addition to the college's failure to report the required changes to the U.S. Department of Education, we also found that the Director of Financial Aid and staff had made federal financial aid disbursements to students taking classes at the Elizabethton campus during the 2002, 2003, 2004, 2005, 2006, and 2007 fiscal years in violation of the federal regulations.

The Director of Financial Aid claims that she did not know that 50% or more of an eligible program was being offered at the Elizabethton site, and therefore she did not know to notify the U.S. Department of Education. The Director further stated that she had made inquiries over the past several years of the Vice President of Academic Affairs and of the Academic Affairs staff relating to changes in the college's campuses and whether those campuses offered more than 50% of the credits necessary to complete a degree program. We also interviewed the Vice President for Academic Affairs, who stated that she was not familiar with this federal reporting requirement and that she was never asked about the 50% threshold.

Our financial aid testwork found that the college awarded federal financial aid totaling $1,120,442 to 367 students who attended the Elizabethton site in fiscal year 2006, and awarded financial aid totaling $1,203,815 to 364 students who attended the Elizabethton site in fiscal year 2007. To estimate the college's questioned costs, we calculated each student's percentage of credit hours taken at the Elizabethton campus by academic term against their total institution-wide attempted hours. We applied this ratio to each student's total annual federal award amount and determined that federal questioned costs were $698,381 for the fiscal year ended June 30, 2006, and $755,961 for the fiscal year ended June 30, 2007. Total questioned costs were $1,454,342.

Without proper communication among college personnel and familiarity of the college's organizational structure as it relates to financial aid awards and accreditation, management cannot ensure that all federal and state regulations are met, thus increasing the risks of noncompliance and questioned costs.

Recommendation

The Director of Financial Aid should develop formal, annual communication procedures with the Vice President for Academic Affairs and her staff members to avoid future violations of federal or state laws and regulations. Since the Vice President for Academic Affairs and her staff already perform an annual evaluation of the college's campuses, including determination of which locations offer 50% or more of degree programs, the Director of Financial Aid should coordinate with the Vice President of Academic Affairs to stay abreast of significant changes at each of the college's campuses in order to ensure compliance with all federal and state requirements.

The Director of Financial Aid should also ensure that changes in status for the institution's campuses are reported to the U.S. Department of Education within ten days of the institution's receipt of its accreditation agency's approval letter.

The Director of Financial Aid should determine the need to address the similar costs for fiscal years 2002 through 2005 with the U.S. Department of Education as a result of the costs questioned for the 2006 and 2007 fiscal years.

The President should ensure that the risks noted in this finding are adequately identified and assessed in management's documented risk-assessment activities. According to the Vice President for Business Affairs, the risk assessment for financial aid is scheduled for completion by May 2009. The President and top management should identify specific staff to be responsible for the design and implementation of internal controls to prevent and detect exceptions in a timely manner. The President and top management should also identify staff to be responsible for ongoing monitoring for compliance with all requirements and taking prompt action should exceptions occur.

Management's Comment

We concur with the finding. To ensure that the college reports in a timely manner to the U.S. Department of Education and other appropriate agencies changes in status at any of the institution's campuses, the college has implemented a new process. The process, which is now included in the Northeast State Technical Community College Inventory of Primary Assessments and Reports, calls for a semi-annual review by the college's Executive Council of any changes which may need to be reported to a regulatory/oversight agency as required by and in accordance with the timeline established by the agency. Following this process will ensure that changes in status for the institution's campuses are reported by the Director of Financial Aid to the U.S. Department of Education within the timeframe established by the Department.

Regarding the questioned costs, the Director of Financial Aid will work with the U.S. Department of Education to resolve the questioned costs for the 2006 and 2007 fiscal years in the best interest of the college. In addition, the Director of Financial Aid will determine the need to address the similar costs for fiscal years 2002 through 2005 with the U.S. Department of Education.

To ensure that risks noted in this finding are adequately identified and assessed, the President has assigned to the Vice President for Business Affairs the responsibility for designing and implementing internal controls which lead to the prevention and detection of exceptions to the reporting requirements of the U.S. Department of Education. The Vice President for Business Affairs is also responsible for continuous monitoring of compliance issues and for taking prompt action in the event exceptions occur. The Vice President for Business Affairs is also tasked with responsibility of ensuring that the risk assessment measures are included in the institution's risk assessment plan.

2. **<u>The Vice President for Business Affairs did not adequately mitigate the risks of inaccurate financial reporting by ensuring that staff accurately prepared and reviewed the 2007 financial report before submitting the college's financial report to the Tennessee Board of Regents, resulting in material reporting errors</u>**

Finding

The Vice President for Business Affairs for Northeast State Technical Community College did not adequately review the college's financial report for the year ended June 30, 2007, before the report was submitted to the Tennessee Board of Regents (TBR). In addition, apparently business office personnel did not have adequate knowledge of all financial reporting requirements, which resulted in inaccurate preparation of the college's financial report and related note disclosures.

As a result, the following misstatements occurred:

a. In note 8 of the college's 2007 financial report, the business office staff reported the college's 2005 contributions to the Tennessee Consolidated Retirement System at $400,617.97 instead of $647,363.90. According to the Business Manager, staff mistakenly used the 2004 contribution amount.

b. In note 10, business office staff reported the scheduled insurance coverage for 2007 building contents at $3,800,000 as opposed to $14,855,900. According to the Business Manager, staff mistakenly reported the wrong amount from a supporting worksheet.

c. At June 30, 2006, and June 30, 2007, business office staff improperly categorized and reported foundation investments in note 13 of the college's financial report. For example, U.S. agency obligations, corporate bonds, mutual funds - bonds, and mutual funds - equity were incorrectly reported. Based on discussions with the college's Director of Budget, who prepared the note, we determined that she had limited experience in categorizing the various investments listed on the statements provided by the investment managers.

d. We also found that management of the college's foundation had not ensured that the foundation's deposits were properly insured. As a result, deposits held at SunTrust Bank ($400,543.35) and First Tennessee Bank ($330,451.01) at June 30, 2007, and deposits held at First Tennessee Bank ($27,370.50) and SunTrust Bank ($202,699.39) at June 30, 2006, were uninsured. However, the college's fiscal staff did not properly disclose this credit risk in the college's financial reports (note 13) for the fiscal years ended June 30, 2006, and June 30, 2007. This concentration of credit risk must be reported as required by *Statement of Financial Accounting Standards Number 5*. Based on our discussions with the college's Vice President for Business Affairs, bank personnel had incorrectly informed college personnel that these amounts were covered by the State of Tennessee's Bank Collateral Pool.

e. Our review of the college's financial statements as of and for the year ended June 30, 2007, identified that the Vice President for Business Affairs incorrectly capitalized $2,112,373.31 of encumbrances under state-funded capital projects and overstated capital appropriations revenue by $2,127,734.46. The Vice President stated that he thought the encumbrances were supposed to be capitalized along with incurred expenses.

f. We also found that on the college's statement of revenues, expenses, and changes in net assets for the year ended June 30, 2007, and in note 12 in the college's 2007 financial report, business office personnel incorrectly reported $2,700,502.50 of scholarships and fellowships as utilities, supplies, and other services (other operating expenses). This apparently occurred because the TBR's central office provided a new Banner reporting program which classified the grants and subsidies object code in the other operating expense classification.

We made audit adjustments to correct the reporting and disclosure errors and disclosed to the Vice President the reporting deficiencies. The Vice President also informed us that he was new to his position (he began his employment in June 2006), and the entire business office staff was heavily involved in the implementation of a new accounting system during the 2006 and 2007 fiscal years. He also stated that the staff required extensive Banner training, and this limited the time that could be devoted to financial statement preparation and review.

Without the appropriate knowledge of reporting requirements, appropriate due care, and without an adequate review process, management's risk of financial reporting errors is increased.

Recommendation

The Vice President for Business Affairs should ensure all fiscal staff are appropriately trained to prepare the college's financial report. The Vice President should also ensure business office staff are capable of performing an adequate and thorough review of the college's financial statements and related disclosures. The college's financial report preparation process should incorporate all TBR's instructions, and staff should seek clarification from TBR's Office of Business and Finance when instructions are not clear. The Vice President, the Business Manager, and the Director of Budget should ensure that they and all fiscal staff have a detailed knowledge of reporting requirements to perform their responsibilities, and that they perform those duties with appropriate care and attention.

The President and top management should ensure that the risks noted in this finding are adequately identified and assessed in management's documented risk-assessment activities which are currently ongoing. The President and top management should identify specific staff to be responsible for the design and implementation of internal controls to prevent and detect exceptions in a timely manner. The President and top management should also identify staff to be responsible for ongoing monitoring for compliance with all requirements and taking prompt action should exceptions occur.

Management's Comment

We concur with the finding. To ensure that personnel in the office of Business Affairs are appropriately trained to a level which enables the employees to satisfactorily prepare the institution's financial reports, the Vice President will conduct a meeting of the office of Business Affairs employees to review the results of the audit for the fiscal years ending June 30, 2006, and June 30, 2007, and to discuss observations provided by the auditors which resulted in audit finding number two. The Vice President for Business Affairs will review the performance level of the office of Business Affairs staff and ensure that they have a detailed knowledge of reporting requirements necessary to perform their assigned responsibilities and their duties. As appropriate and on a collective and/or individual basis, the Vice President will schedule and coordinate training sessions designed to ensure that the office staff have the knowledge to and are capable of performing their assigned duties with an appropriate level of care and attention, that the college's financial report preparation process incorporates all Tennessee Board of Regents instructions, and that the staff should seek clarification from the Tennessee Board of Regents' office of Business and Finance when there is uncertainty about the clarity of instructions.

The Vice President for Business Affairs, while retaining overall responsibility, may delegate to the Business Manager and Director of Budget authority to design, implement, and monitor internal controls which ensure that staff prepare and submit accurate financial reports to the Vice President for Business Affairs. The Vice President for Business Affairs will review and verify the accuracy of the reports prior to submitting them to the Tennessee Board of Regents. To ensure that risks noted in this finding are adequately identified and assessed, the Vice President for Business Affairs will review the risks noted in this finding and include these risks in the institution's risk assessment plan.

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Independent Auditor's Report

September 12, 2008

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

Dear Mr. Morgan:

We have audited the accompanying basic financial statements of Northeast State Technical Community College, an institution of the Tennessee Board of Regents, which is a component unit of the State of Tennessee, and its discretely presented component unit as of and for the years ended June 30, 2007, and June 30, 2006, 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 generally accepted government auditing standards. 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.

As discussed in Note 1, the financial statements of Northeast State Technical Community College, an institution of the Tennessee Board of Regents, are intended to present the financial position, the changes in financial position, and the cash flows of only Northeast State Technical Community College. They do not purport to, and do not present fairly the financial position of the Tennessee Board of Regents as of June 30, 2007, and June 30, 2006, the changes in its financial position, and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The Honorable John G. Morgan
September 12, 2008
Page Two

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Tennessee Board of Regents, Northeast State Technical Community College, and its discretely presented component unit as of June 30, 2007, and June 30, 2006, 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.

The management's discussion and analysis on pages 17 through 41 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 64 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with generally accepted government auditing standards, we have also issued our report dated September 12, 2008, 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 generally accepted government auditing standards and should be read in conjunction with this report in considering the results of our audit.

Sincerely,

Arthur A. Hayes, Jr., CPA
Director

AAH/sds

Tennessee Board of Regents
Northeast State Technical Community College
Management's Discussion and Analysis
June 30, 2007, and June 30, 2006

This section of Northeast State Technical Community College's annual financial report presents a discussion and analysis of the financial performance of the college during the fiscal year ended June 30, 2007, with comparative information presented for the fiscal years ended June 30, 2006, and June 30, 2005. 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 a discretely presented component unit, the Northeast State Technical Community College Foundation. More detailed information about the college's component unit is presented in Note 13 of the financial statements.

Using This Annual Report

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

The Statement of Net Assets

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

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

Northeast State
Condensed Statements of Net Assets
(in thousands of dollars)

	2007	2006	2005
Assets:			
Current assets	$ 6,089	$ 5,220	$ 4,778
Capital assets, net	36,350	25,152	24,525
Other assets	9,243	7,844	7,020
Total assets	**51,682**	**38,216**	**36,323**
Liabilities:			
Current liabilities	3,434	2,817	2,737
Noncurrent liabilities	1,365	1,377	1,377
Total liabilities	**4,799**	**4,194**	**4,114**
Net assets:			
Invested in capital assets, net of related debt	35,454	24,084	23,401
Restricted – expendable	24	26	20
Unrestricted	11,405	9,912	8,788
Total net assets	**$46,883**	**$34,022**	**$32,209**

Comparison of FY 2007 to FY 2006

- The liquidity ratio of the college continues to remain constant. The college's ratio of current assets to current liabilities is 1.97:1 at June 30, 2007, exclusive of assets and liabilities related to deposits held in custody for others, compared to a current ratio of 1.99:1 at June 30, 2006.

- Accounts, notes, and grants receivable increased in fiscal year 2007 by $399,000 over fiscal year 2006. This was largely due to an increase in student accounts receivable of $225,000 related to higher tuition rates and a $96,000 increase in grants receivable.

- Noncurrent assets, exclusive of investments in capital assets, increased by $1,399,000 in fiscal year 2007 compared to fiscal year 2006 as a result of funds designated for future plant construction, renewal and replacement funds set aside for the replacement of equipment, and $171,356 designated for retirement of long-term debt.

- Total long-term debt at June 30, 2007, amounted to $896,000. The amount to be repaid within the next fiscal year is $171,000 and is shown on the financial statements as a current liability. See the debt section of this management's discussion and analysis (MD&A) and Note 6 of the notes to the financial statements for additional information related to the college's long-term debt.

- The college incurred $1,067,000 of long-term debt during fiscal year 2006, of which $172,000 was repaid during the 2007 fiscal year and is shown on the financial statements as a current liability. See the debt section of this MD&A and Note 6 of the notes to the financial statements for additional information related to the college's long-term debt.

- The noncurrent liability for compensated absences increased by $187,000 in fiscal year 2007 compared to fiscal year 2006. The increase is primarily due to pay increases, salary/title changes, and a larger number of annual leave hours carried over due to the additional work on the implementation of Banner.

- Amounts invested in capital assets, net of related debt, increased by $11,370,000 in fiscal year 2007 compared to fiscal year 2006. This is primarily due to the construction of the new Humanities/Fine Arts building.

- The college's unrestricted net assets at June 30, 2007, increased by $1,493,000 over June 30, 2006. This is primarily due to funds designated for future capital projects and retirement of indebtedness.

<u>Comparison of FY 2006 to FY 2005</u>

- The liquidity ratio of the college continued to improve. The college's ratio of current assets to current liabilities is 1.99:1 at June 30, 2006, exclusive of assets and liabilities related to deposits held in custody for others, compared to a current ratio of 1.95:1 at June 30, 2005.

- Accounts, notes, and grants receivable increased in fiscal year 2006 by $190,000 over fiscal year 2005. This was largely due to an increase in student accounts receivable of $77,000 related to higher tuition rates and a $122,000 increase in state appropriations receivable.

- Noncurrent assets, exclusive of investments in capital assets, increased by $824,000 in fiscal year 2006 compared to fiscal year 2005 as a result of funds designated for future plant construction, renewal and replacement funds set aside for the replacement of equipment and $260,000 designated for retirement of long-term debt.

- Deposits held in custody for others represent the net assets held by the college for the Tennessee Technology Center at Elizabethton and various student clubs.

- Total long-term debt at June 30, 2006, amounted to $1,067,000. The amount to be repaid within the next fiscal year is $172,000 and is shown on the financial statements as a current liability. See the debt section of this MD&A and Note 6 of the notes to the financial statements for additional information related to the college's long-term debt.

- The college incurred $1,125,000 of long-term debt during fiscal year 2005, of which $169,000 was to be repaid within the 2006 fiscal year and is shown on the financial statements as a current liability. See the debt section of this MD&A and Note 6 of the financial statements for additional information related to the college's long-term debt.

- The noncurrent liability for compensated absences increased by $29,000 in fiscal year 2006 compared to fiscal year 2005. This increase is primarily due to an increase in employees' compensation rates and the hiring of additional staff to support the college's enrollment growth.

- Amounts invested in capital assets, net of related debt, increased by $683,000 in fiscal year 2006 compared to fiscal year 2005. Net capital assets increased by $627,000 due to new construction, the largest project being the new Humanities/Performing Arts Center.

- The college's unrestricted net assets at June 30, 2006, increased by $1,124,000 over June 30, 2005. This is primarily due to funds designated for future capital projects and retirement of indebtedness.

Component Unit
Northeast State Foundation
Condensed Statements of Net Assets
(in thousands of dollars)

	2007	2006	2005
Assets:			
Current assets	$3,028	$2,183	$1,533
Capital assets, net	-	100	200
Other assets	1,850	1,665	1,761
Total assets	**4,878**	**3,948**	**3,494**
Liabilities:			
Current liabilities	154	46	2
Total liabilities	**154**	**46**	**2**
Net assets:			
Invested in capital assets, net of related debt	-	100	200
Restricted – nonexpendable	1,850	1,665	1,761
Restricted – expendable	2,585	1,856	1,267
Unrestricted	289	281	264
Total net assets	**$4,724**	**$3,902**	**$3,492**

Comparison of FY 2007 to FY 2006

- The Northeast State Technical Community College Foundation's current assets increased by $845,000 in fiscal year 2007 as compared to fiscal year 2006, primarily due to a new capital campaign fundraiser that began in fiscal year 2007. This resulted in a significant increase in donations restricted for future scholarships.

- The foundation's total assets increased by $930,000 in fiscal year 2007 over fiscal year 2006 due to the capital campaign donations and additional donations to permanent endowments of $175,000.

- Liabilities increased by $108,000 in fiscal year 2007 over fiscal year 2006 from scholarships payable at June 30, 2007.

- Restricted nonexpendable net assets increased $185,000 primarily because of additional donations restricted to permanent endowments by the donors.

- Restricted expendable net assets represent 53% of the foundation's assets at June 30, 2007, and 47% of the foundation's assets at June 30, 2006, compared to 36% at June 30, 2005. The majority of restricted expendable net assets have been restricted by the donors for student scholarships. The restricted expendable net assets increased by $729,000 in fiscal year 2007 as compared to $589,000 in fiscal year 2006, primarily due to a new capital campaign. There were also donations to establish 13 new annual scholarships.

- At June 30, 2007, unrestricted net assets represented 5.9% of the foundation's total assets compared to 7.1% at June 30, 2006, and 7.6% at June 30, 2005.

Comparison of FY 2006 to FY 2005

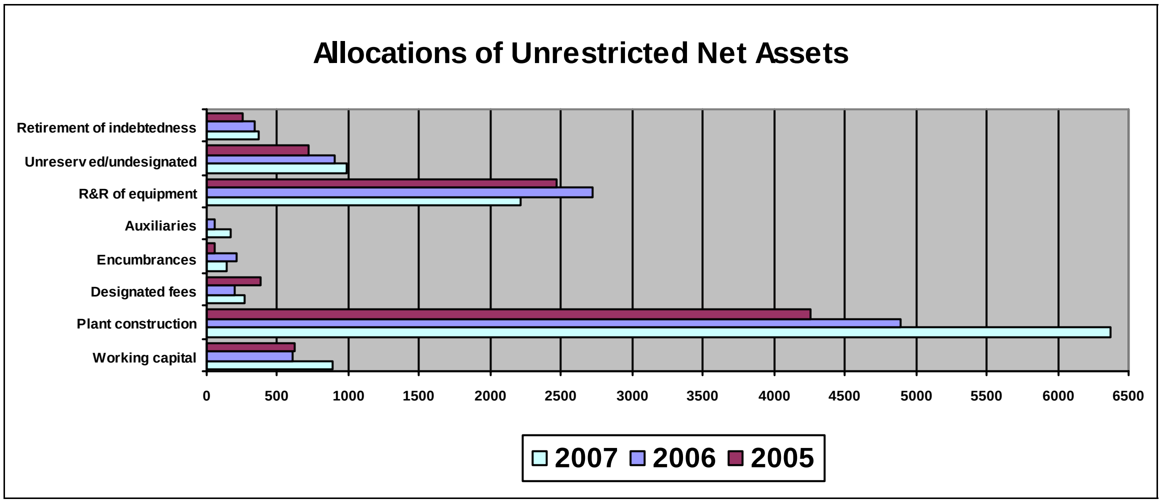
- The Northeast State Technical Community College Foundation's current assets increased by $650,000 in fiscal year 2006 as compared to fiscal year 2005, primarily due to a donor change in donor-imposed restrictions on permanent endowments to term endowments. There were also additional donations restricted for 13 new scholarships and earnings on donations that were unspent at fiscal year end.

- The foundation's total assets increased by $454,000 in fiscal year 2006 over fiscal year 2005 largely due to $288,000 of additions to permanent endowments.

- Restricted expendable net assets represent 47% of the foundation's assets at June 30, 2006, compared to 36% of the foundation's assets at June 30, 2005. Restricted expendable net assets have been restricted by the donors for student scholarships and other purposes. The restricted expendable net assets increased by $589,000 in fiscal year 2006 as compared to fiscal year 2005, primarily due to a donor change in donor-imposed restrictions on permanent endowments to term endowments.

- At June 30, 2006, unrestricted net assets represented 7.1% of the foundation's total assets compared to 7.6% at June 30, 2005.

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



Comparison of FY 2007 to FY 2006

- Allocation for encumbrances decreased in fiscal year 2007 over fiscal year 2006 by $74,000. This decrease resulted from network upgrades which were encumbered in fiscal year 2006.

- At year-end June 30, 2007, $235,000 of technology access fees designated for technology improvement in instructional programs and $34,000 of student activity fees designated to support student cultural and other events were unexpended. This represents an increase of $74,000 over the amount designated for these fees at June 30, 2006. In fiscal year 2005, a renewal and replacement fund was established for the Student Technology Access Fee, of which $343,760 was funded in fiscal year 2006, partially from the fiscal year 2005 allocation and partially from fiscal year 2006 revenues. The designated fee allocation increased in fiscal year 2007 because of a decrease in technology access fee expenditures. Also, an enrollment increase provided an additional $53,000 in revenue.

- Funds allocated for capital projects, renewal and replacement of equipment, and deferred maintenance increased at June 30, 2007, by $983,000, compared to June 30, 2006. This increase is caused primarily by the additions to the allocation for capital projects to provide matching requirements for construction of the Humanities Classroom and Performing Arts Center to be completed in fiscal year 2008.

- Funds allocated for renewal and replacement of equipment decreased by $503,000 due to noncapital expenditures relating to current facilities projects.

- Funds allocated for retirement of indebtedness increased by $34,000 at June 30, 2007. This increase is to provide resources for repayment of new debt that began repayment in fiscal year 2006 and another to begin repayment in fiscal year 2007.

- Unreserved/undesignated funds were $981,000 at June 30, 2007. This represents an increase of $77,000 from the unreserved/undesignated net assets at June 30, 2006, primarily as a result of a 4.1% increase in tuition.

- None of the Northeast State Technical Community College Foundation's unrestricted assets were designated at June 30, 2007, or June 30, 2006.

<u>Comparison of FY 2006 to FY 2005</u>

- Allocation for encumbrances increased in fiscal year 2006 over fiscal year 2005 by $149,000. Additional encumbrances were placed later in the fiscal year for 2006.

- At year-end June 30, 2006, $163,000 of technology access fees designated for technology improvement in instructional programs and $32,000 of student activity fees designated to support student cultural and other events were unexpended. This represents a decrease of $183,000 over the amount designated for these fees at June 30, 2005. In fiscal year 2005, a renewal and replacement fund was established for the Student Technology Access Fee, of which $343,760 was funded in fiscal year 2006, partially from the fiscal year 2005 allocation and partially from fiscal year 2006 revenues.

- Funds allocated for capital projects increased $623,000 from fiscal year 2005 to 2006 due to the reservation of funds for the Humanities Center complex. A Local Government Investment Pool (LGIP) account was established, and $1,200,000 was deposited for the construction of the Humanities Center. This fund is classified as unexpended plant funds.

- Funds allocated for renewals and replacements increased $250,000 from fiscal year 2005 to 2006 because capital expenditures decreased $459,000 in fiscal year 2006. The decrease in expenditures during fiscal year 2006 resulted from the purchase of equipment for the Banner implementation in fiscal year 2005.

- Funds allocated for retirement of indebtedness increased by $81,000 at June 30, 2006. This increase is to provide resources for repayment of new debt that began repayment in fiscal year 2006 and another to begin repayment in fiscal year 2007.

- Unreserved/undesignated funds were $903,000 at June 30, 2006. This represents an increase of $182,000 from the unreserved/undesignated net assets at June 30, 2005, primarily as a result of a 9.7% increase in tuition.

- None of the Northeast State Technical Community College Foundation's unrestricted assets were designated at June 30, 2006, or June 30, 2005.

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.

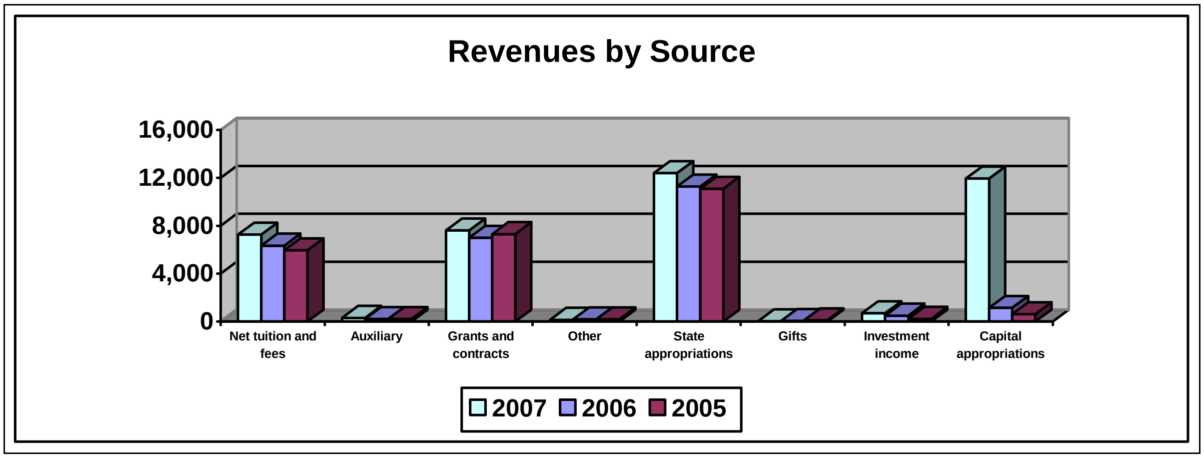
Northeast State
Condensed Statements of Revenues, Expenses, and Changes in Net Assets
(in thousands of dollars)

	2007	**2006**	**2005**
Operating revenues:			
Net tuition and fees	$ 7,264	$ 6,342	$ 5,949
Grants and contracts	706	777	871
Auxiliary	304	201	202
Other	136	182	182
Total operating revenues	**8,410**	**7,502**	**7,204**
Operating expenses	27,462	24,846	24,671
Operating gain (loss)	**(19,052)**	**(17,344)**	**(17,467)**
Nonoperating revenues and expenses:			
State appropriations	12,388	11,275	11,084
Gifts	26	50	96
Grants & contracts	6,899	6,226	6,434
Investment income	697	493	221
Other revenues (expenses)	(43)	(35)	(31)
Total nonoperating revenues and expenses	**19,967**	**18,009**	**17,804**
Income (loss) before other revenues, expenses, gains, or losses	**915**	**665**	**337**
Other revenues, expenses, gains, or losses:			
Capital appropriations	11,941	1,152	617
Other	5	(4)	-
Total other revenues, expenses, gains, or losses	**11,946**	**1,148**	**617**
Increase (decrease) in net assets	**12,861**	**1,813**	**954**
Net assets at beginning of the year	**34,022**	**32,209**	**31,255**
Net assets at end of year	**$46,883**	**$34,022**	**$32,209**

Component Unit - Northeast State Foundation *Condensed Statements of Revenues, Expenses, and Changes in Net Assets* *(in thousands of dollars)*	**2007**	**2006**	**2005**
Gifts and contributions	$ 939	$ 360	$ 238
Endowment income (per spending plan)	107	51	26
Grants and contracts	2	72	20
Sales and services of educational departments	2	3	7
Total operating revenues	**1,050**	**486**	**291**
Operating expenses	796	560	408
Operating gain (loss)	**254**	**(74)**	**(117)**
Nonoperating revenues and expenses:			
Gifts	23	51	-
Investment income	390	184	164
Other revenues (expenses)	(20)	(39)	-
Total nonoperating revenues and expenses	**393**	**196**	**164**
Income (loss) before other revenues, expenses, gains, or losses	**647**	**122**	**47**
Other revenues, expenses, gains, or losses:			
Capital gifts	-	-	300
Additions to permanent endowments	175	288	221
Total other revenues, expenses, gains, or losses	**175**	**288**	**521**
Increase (decrease) in net assets	**822**	**410**	**568**
Net assets at beginning of the year	**3,902**	**3,492**	**2,924**
Net assets at end of year	**$4,724**	**$3,902**	**$3,492**

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, 2007; June 30, 2006; and June 30, 2005 (amounts are presented in thousands of dollars).

Northeast State Technical Community College



Comparison of FY 2007 to FY 2006

- Tuition and fees increased by $922,000 in fiscal year 2007 compared to fiscal year 2006 primarily due to a 4.1% tuition increase, plus an enrollment increase of 5.86%, with a $185,000 increase in continuing education units. Tuition and fees revenues contributed approximately 18% of the resources available to the college to support its operations for 2007.

- State appropriations designated for operations increased $1,113,000 over fiscal year 2006. The increase was to fund the costs related to a 2% across-the-board salary increase and a $350 one-time bonus for faculty and staff. Additional institutional funds were allocated to provide a 1.5% across-the-board salary increase and a $400 one-time bonus.

- Investment income increased by $204,000 in fiscal year 2007 compared to fiscal year 2006. This is primarily related to improved interest rates in the Local Government Investment Pool.

- Capital appropriations increased in fiscal year 2007 by $10,789,000. This is related primarily to funding appropriated for a new Humanities/Performing Arts Center on the college's main campus.

Comparison of FY 2006 to FY 2005

- Tuition and fees increased by $393,000 in fiscal year 2006 compared to fiscal year 2005 primarily due to a 9.7% tuition increase effective fall semester 2005 offset by an enrollment decrease of 3% in fall semester 2005. Tuition and fees revenues contributed approximately 24% of the resources available to the college to support its operations for 2006.

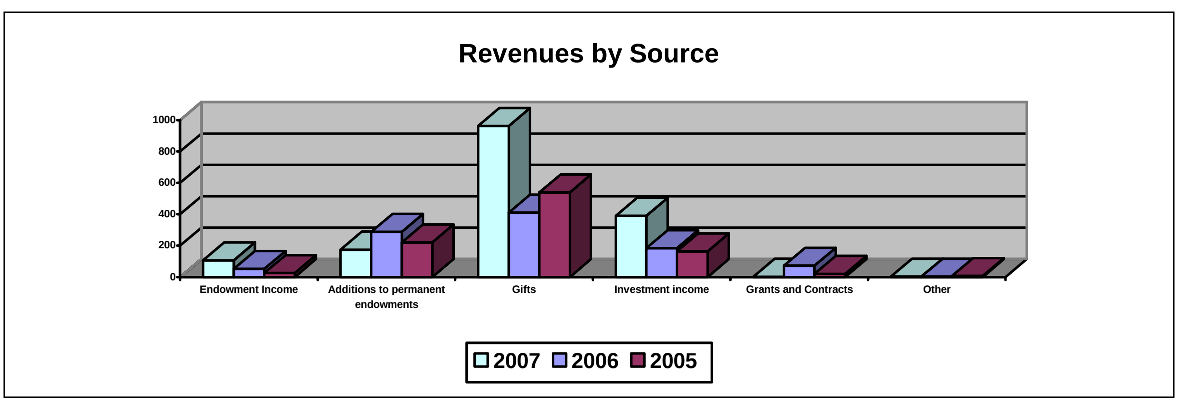
- Operating grants and contracts decreased by $94,000 in fiscal year 2006 compared to fiscal year 2005 mainly due to non-renewal of a grant for Tech Prep-Industrial Technology Electro-Mechanical Career Pathway.

- State appropriations designated for operations increased $191,000 over fiscal year 2005. The increase was primarily to fund the costs related to a 3% salary increase for faculty and staff. State appropriations were also provided to fund increases in employee retirement and health insurance benefit costs.

- Investment income increased by $272,000 in fiscal year 2006 compared to fiscal year 2005. This is primarily related to improved interest rates in the Local Government Investment Pool.

- Capital appropriations increased in fiscal year 2006 by $535,000. This is related primarily to funding appropriated for a new Humanities/Performing Arts Center on the college's main campus.

Northeast State Technical Community College Foundation



Comparison of FY 2007 to FY 2006

- Operating gifts and contributions increased by $579,000 in fiscal year 2007 compared to fiscal year 2006. This is primarily due to the new capital campaign fundraiser.

- Endowment income increased by $56,000 in fiscal year 2007 as compared to fiscal year 2006 because of increased return on investments.

- Operating expenses increased by $236,000, primarily as a result of new scholarships awarded from new donor-imposed annual scholarship donations.

- The foundation's additions to permanent endowments decreased by $113,000 in fiscal year 2007 as compared to fiscal year 2006 due to a decrease in the number of donor established endowments. The current capital campaign is actively fundraising for non-endowed, restricted donations, resulting in a decrease in donations to establish new endowments.

- Investment income increased by $206,000 in fiscal year 2007 as compared to fiscal year 2006 due to increased return on investments and unrealized gains.

Comparison of FY 2006 to FY 2005

- Operating gifts increased by $122,000 in fiscal year 2006 compared to fiscal year 2005 due to increased fundraising activities.

- During fiscal year 2006, the foundation entered into a grant with the Appalachian Regional Commission, resulting in an increase in grants and contracts of $51,000.

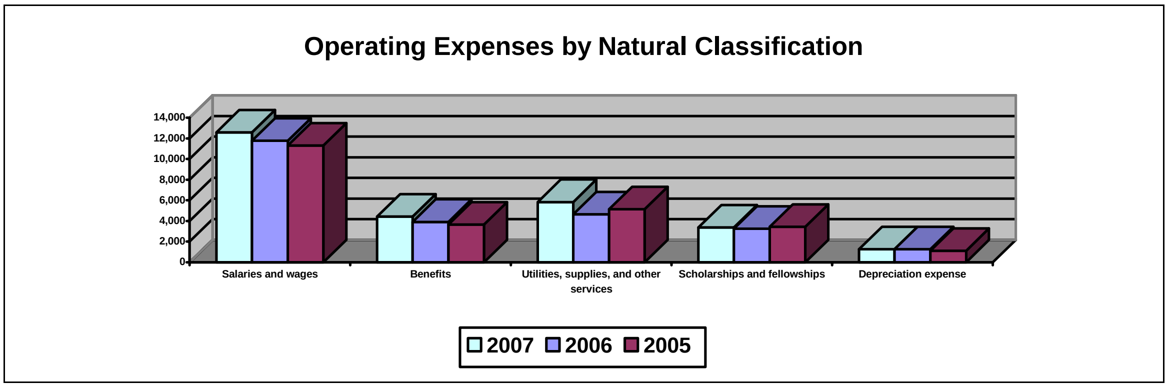
- The foundation's additions to permanent endowments increased by $67,000 in fiscal year 2006 as compared to fiscal year 2005 as a result of ten new endowments established by external donors in fiscal year 2006.

Expenses

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

Tennessee Board of Regents
Northeast State Technical Community College
Management's Discussion and Analysis (Cont.)
June 30, 2007, and June 30, 2006

Northeast State ***Natural Classification*** ***(in thousands of dollars)***			
	2007	**2006**	**2005**
Salaries and wages	$12,569	$11,773	$11,319
Benefits	4,419	3,918	3,654
Utilities, supplies, and other services	5,835	4,644	5,142
Scholarships and fellowships	3,383	3,252	3,439
Depreciation expense	1,256	1,259	1,117
Total	**$27,462**	**$24,846**	**$24,671**



<u>Comparison of FY 2007 to FY 2006</u>

- Salaries and wage expense increased by $796,000, or 6.7%, in fiscal year 2007 compared to fiscal year 2006. An across-the-board increase of 3.5% plus bonuses of $750 were given to all full-time employees.

- Benefit expense increased by $501,000 in fiscal year 2007 compared to fiscal year 2006. The increase results mainly from the across-the-board pay increases and employee health insurance costs.

- Utilities, supplies, and other services increased by $1,191,000 in fiscal year 2007 compared to fiscal year 2006. This increase, in part, is a result of an increase in unexpended plant fund expenses ($853,301.07) and an increase in current fund supplies and material costs ($429,593.25).

- Scholarships and fellowships increased only by $131,000 in fiscal year 2007. This is not considered a significant increase.

- Depreciation expense decreased by $3,000 in fiscal year 2007 as compared to fiscal year 2006, primarily as a result of calculation differences in the Banner system relative to cost basis. The difference is considered immaterial.

<u>Comparison of FY 2006 to FY 2005</u>

- Salaries and wage expense increased by $454,000, or 4%, in fiscal year 2006 compared to fiscal year 2005. An across-the-board increase of 5% was given to all full-time employees.

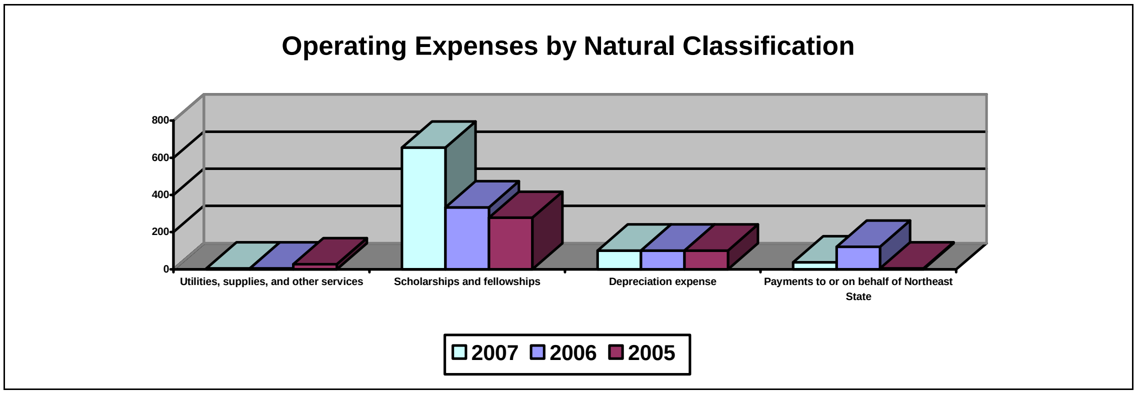
- Benefit expense increased by $264,000 in fiscal year 2006 compared to fiscal year 2005. The increase results mainly from the across-the-board pay increases and employee health insurance costs.

- Utilities, supplies, and other services decreased by $498,000 in fiscal year 2006 compared to fiscal year 2005. Expenses relating to the energy savings performance contract were not reoccurring for fiscal year 2006.

- Scholarships and fellowships decreased by $187,000 in fiscal year 2006 compared to fiscal year 2005. This decrease is mainly due to a decrease in Federal Pell grant awards and a decrease in Tennessee Student Assistance Corporation grants caused by a 3% decrease in enrollment. These amounts are offset by an increase in the Tennessee Education Lottery Scholarship awards to students in fiscal year 2006.

- Depreciation expense increased by $142,000 in fiscal year 2006 as compared to fiscal year 2005, primarily as a result of the Sungard SCT administrative software implementation being substantially completed in fiscal year 2006 and as a result, capitalized. It has been determined that this software has an estimated useful life of ten years amortized annually with a full year's amortization in the first year of implementation.

Component Unit - Northeast State Foundation ***Natural Classification*** ***(in thousands of dollars)***			
	2007	**2006**	**2005**
Utilities, supplies, and other services	$ 5	$ 7	$ 27
Scholarships and fellowships	656	333	277
Depreciation expense	100	100	100
Payments to or on behalf of Northeast State	35	120	4
Total	**$796**	**$560**	**$408**



Comparison of FY 2007 to FY 2006

- The foundation's scholarships and fellowships expense increased by $323,000 in fiscal year 2007 as compared to fiscal year 2006 primarily from new annual scholarships, including 40 scholarships to 40 students in celebration of Northeast State's 40th anniversary, and an increase in the number of students receiving Educate and Grow scholarships.

- Payments to or on behalf of Northeast State decreased by $85,000 in fiscal year 2007 compared to fiscal year 2006 primarily as a result of a grant ending that was awarded to Northeast State from the foundation and in-kind donations to the institution.

Comparison of FY 2006 to FY 2005

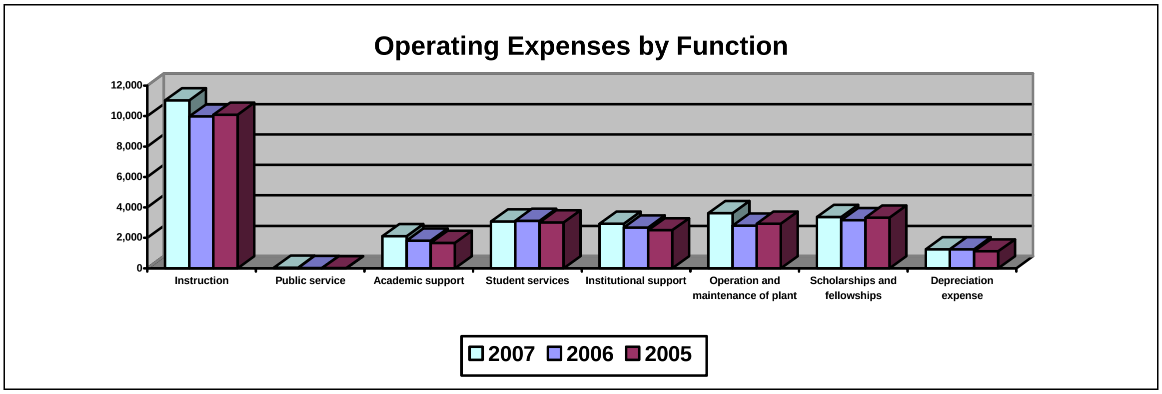
- Utilities, supplies, and other services decreased by $20,000 in fiscal year 2006 compared to fiscal year 2005. This is primarily from a grant with Appalachian Regional Commission that ended in fiscal year 2005.

- The foundation's scholarships and fellowships increased by $56,000 in fiscal year 2006 as compared to fiscal year 2005 primarily from an additional 13 new annual scholarships and 10 new endowments to provide scholarships initiated in fiscal year 2006.

- Payments to or on behalf of Northeast State increased by $116,000 in fiscal year 2006 compared to fiscal year 2005 primarily as a result of a grant awarded to Northeast State from the foundation and in-kind donations to the institution.

Northeast State
Program Classification
(in thousands of dollars)

	2007	2006	2005
Instruction	$11,042	$ 9,981	$10,090
Public service	26	20	1
Academic support	2,117	1,815	1,679
Student services	3,084	3,120	3,011
Institutional support	2,941	2,674	2,503
Operation and maintenance of plant	3,613	2,807	2,933
Scholarships and fellowships	3,383	3,170	3,337
Depreciation expense	1,256	1,259	1,117
Total	**$27,462**	**$24,846**	**$24,671**



Comparison of FY 2007 to FY 2006

- Instruction expenses increased 10.6% in fiscal year 2007 due to the addition of the new nursing program.

- Public service increased by $6,000 in fiscal year 2007 compared to fiscal year 2006. This is primarily due to an increase in public service activities in fiscal year 2007.

- Expenses in academic support increased by $302,000 in fiscal year 2007 compared to fiscal year 2006. This is from funding of new initiatives such as new computer lab updates, computer lab supplies, and allocated charges to academic support areas.

- Expenses in the student services function decreased by $36,000 in fiscal year 2007 compared to fiscal year 2006. This is primarily due to conservatism during the year of Banner implementation.

- Institutional support expenses increased 10% in fiscal year 2007 primarily due to the addition of three new positions and associated benefits.

- Expenses in the operation and maintenance of plant function increased by $806,000 in fiscal year 2007 compared to fiscal year 2006. This increase is a result of expansion of facilities and rising utility costs.

- Expenses in scholarships and fellowships increased by $213,000 in fiscal year 2007 compared to fiscal year 2006. This change resulted from the increase in Tennessee Education Lottery Scholarship awards to students in fiscal year 2007.

- Depreciation expense decreased by $3,000 in fiscal year 2007 as compared to fiscal year 2006, primarily as a result of the Sungard SCT administrative software implementation being substantially completed in fiscal year 2006 and as a result, capitalized. It has been determined that this software has an estimated useful life of ten years amortized annually with a full year's amortization in the first year of implementation.

Comparison of FY 2006 to FY 2005

- Public service increased by $19,000 in fiscal year 2006 compared to fiscal year 2005. This is primarily due to new funding in fiscal year 2006 due to an increase in public service activities in fiscal year 2006.

- Expenses in academic support increased by $136,000 in fiscal year 2006 compared to fiscal year 2005. This is from funding of new initiatives such as new computer lab updates, computer lab supplies, and allocated charges to academic support areas.

- Expenses in the student services function increased by $109,000 in fiscal year 2006 compared to fiscal year 2005. This is primarily due to a new promotions initiative.

- Expenses in the operation and maintenance of plant function decreased by $126,000 in fiscal year 2006 compared to fiscal year 2005. This decrease is primarily a result of energy savings performance contract expenses in fiscal year 2005. This amount is offset by increases in utility costs in fiscal year 2006.

- Expenses in scholarships and fellowships decreased by $167,000 in fiscal year 2006 compared to fiscal year 2005. This decrease is mainly due to a decrease in federal Pell grant awards and a decrease in Tennessee Student Assistance Corporation grants caused by a 3% decrease in enrollment. These amounts are offset by an increase in the Tennessee Education Lottery Scholarship awards to students in fiscal year 2006.

- Depreciation expense increased by $142,000 in fiscal year 2006 as compared to fiscal year 2005, primarily as a result of the Sungard SCT administrative software implementation being substantially completed in fiscal year 2006 and as a result, capitalized. It has been determined that this software has an estimated useful life of ten years amortized annually with a full year's amortization in the first year of implementation.

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.

Northeast State
Condensed Statements of Cash Flows
(in thousands of dollars)

	2007	2006	2005
Cash provided (used) by:			
Operating activities	$(17,997)	$(15,999)	$(16,742)
Noncapital financing activities	19,527	17,525	17,503
Capital and related financing activities	(334)	(930)	(118)
Investing activities	2,219	(1,029)	221
Net increase (decrease) in cash	**3,415**	**(433)**	**864**
Cash, beginning of year	**10,215**	**10,648**	**9,784**
Cash, end of year	**$ 13,630**	**$ 10,215**	**$ 10,648**

Comparison of FY 2007 to FY 2006

- Cash expended for operations exceeded cash received from operations in fiscal year 2007. This is due to a significant source of cash, state appropriations, being shown as noncapital financial activities as defined by GASB 35.
- Cash received from tuition and fees in fiscal year 2007 exceeded fiscal year 2006 by $537,000. This is primarily due to a 4.1% tuition increase effective fall 2006.
- Cash received from state appropriations increased by $1,113,000 in fiscal year 2007. This is primarily state funding provided for salaries and operating expenses.
- The college invested an additional $10,583,000 in capital assets during fiscal year 2007 which was provided by state capital appropriations.
- Cash provided by investing activities increased in fiscal year 2007 by $3,248,000 due to the purchase of investments (certificates of deposit) in fiscal year 2006 and the sale of investments in fiscal year 2007.
- The college's cash used by operating activities increased by $1,998,000 during fiscal year 2007, while cash provided by noncapital financing activities increased by $2,002,000. The college ended fiscal year 2007 with an increase in cash and cash equivalents of $3,415,000 compared to a decrease in cash in fiscal year 2006 of $433,000. The college's ability to meet its current liabilities with current assets remains strong as indicated by the current ratio of 1.97:1.

Comparison of FY 2006 to FY 2005

- Cash expended for operations exceeded cash received from operations in fiscal year 2006. This is due to a significant source of cash, state appropriations, being shown as noncapital financial activities as defined by GASB 35.

- Cash received from tuition and fees in fiscal year 2006 exceeded fiscal year 2005 by $582,000. This is primarily due to a 9.7% tuition increase effective fall 2005 offset by a 3% enrollment decrease for the year.

- Cash received from state capital appropriations increased by $385,000 in fiscal year 2006. This is primarily state capital funding provided for the Humanities/Performing Arts Center.

- The college invested an additional $1,860,000 in capital assets during fiscal year 2006, of which $1,152,000 of funding was provided by state capital appropriations and $50,312 was financed through proceeds from capital debt.

- The college's cash used by operating activities decreased by $743,000 during fiscal year 2006, while cash provided by noncapital financing activities increased by $22,000. The college ended fiscal year 2006 with a decrease in cash and cash equivalents of $433,000 compared to an increase in cash in fiscal year 2005 of $864,000. The college's ability to meet its current liabilities with current assets remains strong as indicated by the current ratio of 1.99:1.

- Cash expended for investing activities increased by $1,250,000 in fiscal year 2006 compared to fiscal year 2005 primarily from a purchase of certificates of deposit in fiscal year 2006 of $1,500,000. There was an offsetting increase of $250,000 in income on investments as a result of an increase in the rate of return on the State of Tennessee Local Government Investment Pool.

Capital Assets and Debt Administration

Capital Assets

Northeast State Technical Community College had $36,350,000 invested in capital assets, net of accumulated depreciation of $11,990,000 at June 30, 2007; $25,152,000 invested in capital assets, net of accumulated depreciation of $10,992,000 at June 30, 2006; and $24,525,000 invested in capital assets, net of accumulated depreciation of

$10,001,000 at June 30, 2005. Depreciation charges totaled $1,256,000, $1,260,000, and $1,117,000 for the years ended June 30, 2007; June 30, 2006; and June 30, 2005, respectively. Details of these assets are shown below.

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

	2007	2006	2005
Land	$ 1,917	$ 1,917	$ 1,917
Land improvements & infrastructure	1,283	1,184	1,161
Buildings	17,190	17,832	18,501
Equipment	1,009	1,113	1,105
Library holdings	679	688	716
Projects in progress	13,240	1,627	1,124
Software	1,031	791	-

In fiscal year 2007, the college incurred costs of $11,222,000 for the construction of the new Humanities/Performing Arts Center. In addition, the college incurred costs of $404,000 for the construction of the new welcome center. Of these costs, $11,613,000 will be carried on the financial statements as projects in progress until the buildings are substantially completed. These costs were funded through state capital appropriations.

The 9.3% decrease in equipment was the result of disposal of net capital assets in the amount of $4,000. The 30% increase in software relates to Banner implementation costs amounting to $369,000 less related depreciation.

In fiscal year 2006, the college incurred costs of $949,000 for the design and development phase for the new Humanities/Performing Arts Center. These costs will be carried on the financial statements as projects in progress until the building is substantially completed. These costs were funded through state capital appropriations. During the year, projects in progress totaling $520,000 were capitalized as software.

The college was appropriated state capital funds in fiscal year 2005 to begin updating its central energy and HVAC systems on campus. These amounts were also included in projects in progress at June 30, 2006.

Several campus improvement projects were undertaken during fiscal year 2006 including an ongoing landscaping master plan at a cost to date of $16,000. We began the design of the walking trail for $9,000. These projects were funded through campus funds designated for plant improvements.

The college replaced several pieces of equipment at a cost of $75,000 during fiscal year 2006 using funds designated for renewal and replacement. The replacements included a motor vehicle and administrative and instructional computer equipment. Additionally, the college implemented a new administrative Enterprise Resource Planning system to replace its obsolete Legacy system. This project was funded through proceeds from capital debt of $50,000 and renewal and replacements funds designated for replacement of the administrative computing system ($359,026.05 in 2006).

Approximately $186,000 was expended during fiscal year 2006 for instructional equipment using a combination of funds from the technology access fee and other operating funds. The college continues to provide the latest technology to its students using a technology access fee charged to each student. The board members of the Tennessee Board of Regents have designated this fee exclusively for technology improvement in the instructional programs.

There were no significant changes in the amount of expenditures for library holdings in fiscal year 2006 compared to fiscal year 2005. In recognition of the changing media for library resources, the college continues to expand its use of on-line and other electronic media.

The college's planned capital expenditures for the next fiscal year include completion of the new Humanities/Performing Arts Building; the purchase of a leased classroom facility in Gray, Tennessee; renovation of the Pierce Building atrium; and the planning and design of a technical education complex. These projects are to be funded by state capital appropriations.

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

Component Unit - Northeast State Foundation
Schedule of Capital Assets, Net of Depreciation
(in thousands of dollars)

	2007	2006	2005
Software	$ -	$100	$200

Debt

The college had $896,000, $1,067,000, and $1,125,000 in debt outstanding at June 30, 2007; June 30, 2006; and June 30, 2005, respectively. The table below summarizes these amounts by type of debt instrument.

Northeast State *Schedule of Debt* *(in thousands of dollars)*			
	2007	**2006**	**2005**
Commercial Paper	$ -	$ -	$1,125
Bonds	896	1,067	-

At June 30, 2007, the college had long-term debt of $436,000 for the energy savings performance contract. The debt was converted to bonds during the 2006 fiscal year and will be repaid serially over 15 years. The annual interest rate on the debt will be 4% over the life of the loan. It is expected that the debt will be repaid with projected annual utility allocations made possible by energy savings of an equal amount.

Additionally, at June 30, 2007, the college has long-term debt of $460,000 for equipment and software related to the Enterprise Resource Planning system. During 2006, the debt was converted to bonds and will be repaid serially over five years. The annual interest rate on the debt will be 4% over the life of the loan. Debt repayment began in fiscal year 2006 with four years remaining on the loan.

More detailed information about the college's long-term liabilities is presented in Note 6 to the financial statements.

Economic Factors That Will Affect the Future

The state budget for fiscal year 2008 includes an across-the-board pay increase of 3% for all full-time state higher education employees. Additional state appropriations have been allocated to the college to fund the 3% increase; the college is planning to fund an additional 2% from tuition increases or other sources of revenue.

The Tennessee Board of Regents members voted during June 2007 to increase tuition rates at all of its colleges and universities by 6% effective with the fall 2007 semester. However, taking into consideration the tuition increase, Northeast State's student tuition and fees remain reasonable and it is expected that the fall semester 2007 student enrollment level will remain constant.

The college continues to pursue its long-range plan to expand its facilities through new construction on the main campus and the purchase or construction of permanent facilities at off-campus sites. Construction is continuing through the first half of fiscal year 2008 on the new Humanities/Performing Arts Center. State capital appropriations have been allocated to support the cost of the building.

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

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

Requests for Information

This financial report is designed to provide a general overview of the institution's finances for all those with an interest in the college's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be directed to Dr. Steven R. Campbell, Office of the Vice President for Business Affairs, Northeast State Technical Community College, P. O. Box 246, Blountville, TN 37617.

Exhibit A

TENNESSEE BOARD OF REGENTS
NORTHEAST STATE TECHNICAL COMMUNITY COLLEGE
STATEMENTS OF NET ASSETS
JUNE 30, 2007, AND JUNE 30, 2006

	Northeast State Technical Community College		Component Unit - Northeast State Technical Community College Foundation	
	June 30, 2007	June 30, 2006	June 30, 2007	June 30, 2006
ASSETS				
Current assets:				
Cash (Notes 2 and 13)	$ 4,386,297.90	$ 2,369,927.74	$ 438,027.71	$ 87,873.30
Short-term investments (Notes 3 and 13)	-	1,500,000.00	2,420,428.26	2,010,647.91
Accounts, notes, and grants receivable (net) (Note 4)	1,651,048.35	1,251,799.57	97,098.75	48,830.46
Pledges receivable (net) (Note 13)	-	-	55,948.72	27,154.92
Inventories	18,433.77	13,434.15	-	-
Prepaid expenses and deferred charges	33,312.47	62,613.63	-	-
Accrued interest receivable	-	21,924.59	16,282.58	8,373.95
Total current assets	6,089,092.49	5,219,699.68	3,027,786.02	2,182,880.54
Noncurrent assets:				
Cash (Notes 2 and 13)	9,243,336.20	7,844,401.91	-	-
Investments (Notes 3 and 13)	-	-	1,818,542.33	1,633,010.34
Accounts, notes, and grants receivable (net)	-	-	1,710.63	615.88
Pledges receivable (net) (Note 13)	-	-	30,143.51	31,734.73
Capital assets (net) (Notes 5 and 13)	36,349,825.22	25,151,626.19	-	100,000.00
Total noncurrent assets	45,593,161.42	32,996,028.10	1,850,396.47	1,765,360.95
Total assets	51,682,253.91	38,215,727.78	4,878,182.49	3,948,241.49
LIABILITIES				
Current liabilities:				
Accounts payable	734,751.37	207,551.14	153,652.23	46,317.53
Accrued liabilities	965,693.14	968,579.15	-	-
Deferred revenue (Note 6)	598,316.59	616,530.49	-	-
Compensated absences (Note 6)	122,402.23	232,434.71	-	-
Long-term liabilities, current portion (Note 6)	171,356.00	171,587.00	-	-
Deposits held in custody for others	675,734.60	380,799.65	-	-
Other liabilities	165,664.61	239,006.83	-	-
Total current liabilities	3,433,918.54	2,816,488.97	153,652.23	46,317.53
Noncurrent liabilities:				
Deferred revenue (Note 6)	11,525.00	38,857.70	-	-
Compensated absences (Note 6)	629,044.28	442,495.35	-	-
Long-term liabilities (Note 6)	724,224.03	895,580.03	-	-
Total noncurrent liabilities	1,364,793.31	1,376,933.08	-	-
Total liabilities	4,798,711.85	4,193,422.05	153,652.23	46,317.53
NET ASSETS				
Invested in capital assets, net of related debt	35,454,245.19	24,084,459.16	-	100,000.00
Restricted for:				
Nonexpendable:				
Scholarships and fellowships	-	-	1,850,396.47	1,665,360.95
Expendable:				
Scholarships and fellowships	5,919.35	13,789.97	2,555,172.19	1,816,890.50
Instructional department uses	14,645.58	8,846.60	10,153.82	20,220.72
Loans	-	-	7,968.00	7,109.00
Other	3,800.54	3,456.45	11,456.54	11,456.54
Unrestricted (Note 7)	11,404,931.40	9,911,753.55	289,383.24	280,886.25
Total net assets	$ 46,883,542.06	$ 34,022,305.73	$ 4,724,530.26	$ 3,901,923.96

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

Exhibit B

TENNESSEE BOARD OF REGENTS
NORTHEAST STATE TECHNICAL COMMUNITY COLLEGE
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2007, AND JUNE 30, 2006

	Northeast State Technical Community College		Component Unit - Northeast State Technical Community College Foundation	
	Year Ended June 30, 2007	Year Ended June 30, 2006	Year Ended June 30, 2007	Year Ended June 30, 2006
REVENUES				
Operating revenues:				
Student tuition and fees (net of scholarship allowances of $3,687,299.72 for the year ended June 30, 2007, and $3,269,438.75 for the year ended June 30, 2006)	$ 7,264,483.27	$ 6,341,612.00	$ -	$ -
Gifts and contributions	-	-	938,603.66	360,185.09
Endowment income per spending plan	-	-	107,236.53	50,903.42
Governmental grants and contracts	704,556.21	687,194.01	2,098.79	71,455.05
Nongovernmental grants and contracts	1,216.20	90,365.41	-	-
Sales and services of educational departments	-	-	2,592.40	3,225.00
Auxiliary enterprises:				
Bookstore	276,090.73	175,242.86	-	-
Food service	27,607.42	25,901.49	-	-
Other operating revenues (college revenues include $3,386.16 from component unit in 2006)	135,925.85	181,935.30	-	-
Total operating revenues	8,409,879.68	7,502,251.07	1,050,531.38	485,768.56
EXPENSES				
Operating expenses (Note 12):				
Salaries and wages	12,568,823.55	11,772,755.29	-	-
Benefits	4,419,330.35	3,917,546.97	-	-
Utilities, supplies, and other services	5,834,601.14	4,643,994.21	5,515.02	6,938.29
Scholarships and fellowships	3,382,570.99	3,251,762.92	655,807.70	332,504.03
Depreciation expense	1,256,126.68	1,259,657.25	100,000.00	100,000.00
Payments to or on behalf of Northeast State Technical Community College	-	-	34,885.85	120,560.85
Total operating expenses	27,461,452.71	24,845,716.64	796,208.57	560,003.17
Operating income (loss)	(19,051,573.03)	(17,343,465.57)	254,322.81	(74,234.61)
NONOPERATING REVENUES (EXPENSES)				
State appropriations	12,387,800.00	11,274,800.00	-	-
Gifts (college gifts include $19,081.30 from component unit in 2007 and $43,066.36 in 2006)	26,081.30	50,066.36	23,081.30	51,066.36
Grants and contracts (college grants include $15,804.55 from component unit in 2007 and $74,108.33 in 2006)	6,899,491.87	6,225,663.10	-	-
Investment income (for component unit, net of investment expense of $25,622.22 in 2007 and $22,825.76 in 2006)	697,122.01	492,929.95	390,375.93	183,469.45
Interest on capital asset-related debt	(37,702.65)	(28,008.32)	-	-
Bond issuance costs	-	(7,224.77)	-	-
Other nonoperating revenues (expenses)	(5,659.83)	-	(20,207.12)	(38,510.51)
Net nonoperating revenues	19,967,132.70	18,008,226.32	393,250.11	196,025.30
Income before other revenues, expenses, gains, or losses	915,559.67	664,760.75	647,572.92	121,790.69
Capital appropriations	11,940,475.56	1,152,496.96	-	-
Additions to permanent endowments	-	-	175,033.38	288,345.02
Other	5,201.10	(3,776.00)	-	-
Total other revenues	11,945,676.66	1,148,720.96	175,033.38	288,345.02
Increase in net assets	12,861,236.33	1,813,481.71	822,606.30	410,135.71
NET ASSETS				
Net assets - beginning of year	34,022,305.73	32,208,824.02	3,901,923.96	3,491,788.25
Net assets - end of year	$ 46,883,542.06	$ 34,022,305.73	$ 4,724,530.26	$ 3,901,923.96

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

Exhibit C

TENNESSEE BOARD OF REGENTS
NORTHEAST STATE TECHNICAL COMMUNITY COLLEGE
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2007, AND JUNE 30, 2006

	Year Ended June 30, 2007	Year Ended June 30, 2006
CASH FLOWS FROM OPERATING ACTIVITIES		
Tuition and fees	$ 6,965,678.37	$ 6,428,353.55
Grants and contracts	533,231.80	796,744.53
Payments to suppliers and vendors	(5,540,101.19)	(4,660,169.31)
Payments to employees	(12,624,101.20)	(11,725,792.63)
Payments for benefits	(4,301,054.13)	(3,917,325.81)
Payments for scholarships and fellowships	(3,387,704.78)	(3,244,694.79)
Auxiliary enterprise charges:		
Bookstore	157,920.61	135,607.06
Food services	27,569.75	29,220.28
Other receipts	171,438.72	158,732.90
Net cash used by operating activities	(17,997,122.05)	(15,999,324.22)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State appropriations	12,387,800.00	11,275,000.00
Gifts and grants received for other than capital or endowment purposes	6,906,491.87	6,232,663.10
Federal student loan receipts	3,087,403.43	2,782,604.19
Federal student loan disbursements	(3,075,488.80)	(2,785,339.63)
Changes in deposits held for others	294,934.95	(218,739.28)
Net cash balance implicitly financed (repaid)	(73,342.22)	239,006.83
Net cash provided by noncapital financing activities	19,527,799.23	17,525,195.21
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital appropriations	12,316,429.31	1,027,575.23
Purchases of capital assets and construction	(12,443,307.31)	(1,859,809.66)
Principal paid on capital debt	(171,587.00)	(57,532.91)
Interest paid on capital debt	(31,400.30)	(30,771.16)
Bond issue costs paid on new debt issue	-	(9,713.68)
Other capital	(4,324.83)	-
Net cash used by capital and related financing activities	(334,190.13)	(930,252.18)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of investments	1,500,000.00	-
Income on investments	718,817.40	471,005.36
Purchase of investments	-	(1,500,000.00)
Net cash provided (used) by investing activities	2,218,817.40	(1,028,994.64)
Net increase (decrease) in cash	3,415,304.45	(433,375.83)
Cash at beginning of year	10,214,329.65	10,647,705.48
Cash at end of year	$ 13,629,634.10	$ 10,214,329.65

TENNESSEE BOARD OF REGENTS
NORTHEAST STATE TECHNICAL COMMUNITY COLLEGE
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2007, AND JUNE 30, 2006

	Year Ended June 30, 2007	Year Ended June 30, 2006
Reconciliation of operating loss to net cash used by operating activities:		
Operating loss	$ (19,051,573.03)	$ (17,343,465.57)
Adjustments to reconcile operating loss to net cash used by operating activities:		
Depreciation expense	1,256,126.68	1,259,657.25
Gifts in-kind	11,929.00	13,066.36
Change in assets and liabilities:		
Receivables, net	(516,826.59)	(69,279.91)
Inventories	(4,999.62)	(1,414.00)
Prepaid/deferred items	29,301.16	13,204.02
Accounts payable	257,138.86	(29,126.66)
Accrued liabilities	(9,188.36)	(20,202.95)
Deferred revenue	(45,546.60)	113,712.99
Compensated absences	76,516.45	64,524.25
Net cash used by operating activities	$ (17,997,122.05)	$ (15,999,324.22)
Noncash transactions		
Gifts in-kind	$ 19,081.30	$ 43,066.66
Loss on disposal of capital assets	(1,335.00)	(3,776.00)
Trade-in allowance	3,375.00	-
Equipment replaced by vendor	5,201.10	-

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The college is a part of the State University and Community College System of Tennessee (Tennessee Board of Regents). This system is a component unit of the State of Tennessee because the state appoints a majority of the system's governing body and provides financial support; the system is discretely presented in the *Tennessee Comprehensive Annual Financial Report*.

The Northeast State Technical Community College Foundation is considered a component unit of the college. Although the college does not control the timing or amount of receipts from the foundation, the majority of resources, or income thereon, that the foundation holds and invests are restricted to the activities of the college by the donors. Because these restricted resources held by the foundation can only be used by, or for the benefit of, the college, the foundation is considered a component unit of the college and is discretely presented in the college's financial statements. See Note 13 for more detailed information about the component unit and how to obtain the report.

Basis of Presentation

The financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (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 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.

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/amortized 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 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, 2007, cash consisted of $270,492.64 in bank accounts, $1,220.00 of petty cash on hand, $11,889,744.85 in the State of Tennessee Local Government Investment Pool (LGIP) administered by the State Treasurer, $1,360,891.46 in LGIP deposits for capital projects, and $107,285.15 on deposit with the State Treasurer. At June 30, 2006, cash consisted of $4,673.93 in bank accounts, $720.00 of petty cash on hand, $8,896,788.13 in the State of Tennessee Local Government Investment Pool administered by the State Treasurer, $1,204,862.44 in LGIP deposits for capital projects, and $107,285.15 on deposit with the State Treasurer.

LGIP deposits for capital projects - Payments related to the college's capital projects are made by the State of Tennessee's Department of Finance and Administration. The college's estimated local share of the cost of each project is held in a separate Local Government Investment Pool 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. INVESTMENTS

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

Investments are valued at fair value. The college's investments at June 30, 2006, consisted of certificates of deposit with original maturities greater than three months.

NOTE 4. RECEIVABLES

Receivables included the following:

	June 30, 2007	June 30, 2006
Student accounts receivable	$1,081,098.97	$856,284.15
Grants receivable	286,295.55	190,434.84
State appropriation receivable	18,100.00	139,955.00
Other receivables	312,276.59	110,628.91
Subtotal	1,697,771.11	1,297,302.90
Less allowance for doubtful accounts	46,722.76	45,503.33
Total receivables	$1,651,048.35	$1,251,799.57

NOTE 5. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2007, was as follows:

	Beginning Balance	Additions	Transfers	Reductions	Ending Balance
Land	$1,917,471.64	$ -	$ -	$ -	$1,917,471.64
Land improvements and infrastructure	1,696,390.31	188,848.42	-	-	1,885,238.73
Buildings	24,984,606.82	-	-	-	24,984,606.82
Equipment	3,430,188.54	147,681.59	-	90,891.92	3,486,978.21
Library holdings	1,609,261.34	134,898.44	-	166,953.37	1,577,206.41
Software	879,183.90	368,895.69	-	-	1,248,079.59

Projects in progress	1,626,756.68	11,613,510.47	-	-	13,240,267.15
Total	36,143,859.23	12,453,834.61	-	257,845.29	48,339,848.55
Less accum. depreciation:					
Land improvements and infrastructure	512,822.12	89,323.29	-	-	602,145.41
Buildings	7,152,810.94	641,827.38	-	-	7,794,638.32
Equipment	2,317,469.98	251,838.41	-	91,383.02	2,477,925.37
Library holdings	921,211.61	144,230.80	-	166,953.37	898,489.04
Software	87,918.39	128,906.80	-	-	216,825.19
Total accum. depreciation	10,992,233.04	1,256,126.68	-	258,336.39	11,990,023.33
Capital assets, net	$25,151,626.19	$11,197,707.93	$ -	$(491.10)	$36,349,825.22

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

	Beginning Balance	Additions	Transfers	Reductions	Ending Balance
Land	$1,917,471.64	$ -	$ -	$ -	$1,917,471.64
Land improvements and infrastructure	1,594,209.81	102,180.50	-	-	1,696,390.31
Buildings	24,984,606.82	-	-	-	24,984,606.82
Equipment	3,261,398.40	273,276.90	-	104,486.76	3,430,188.54
Library holdings	1,644,274.92	132,632.06	-	167,645.64	1,609,261.34
Software	-	359,026.05	520,157.85	-	879,183.90
Projects in progress	1,124,220.38	1,022,694.15	(520,157.85)	-	1,626,756.68
Total	34,526,181.97	1,889,809.66	-	272,132.40	36,143,859.23
Less accum. depreciation:					
Land improvements and infrastructure	432,892.39	79,929.73	-	-	512,822.12
Buildings	6,483,360.39	669,450.55	-	-	7,152,810.94
Equipment	2,156,748.29	261,432.45	-	100,710.76	2,317,469.98
Software	-	87,918.39	-	-	87,918.39
Library holdings	927,931.12	160,926.13	-	167,645.64	921,211.61
Total accum. depreciation	10,000,932.19	1,259,657.25	-	268,356.40	10,992,233.04
Capital assets, net	$24,525,249.78	$630,152.41	$ -	$3,776.00	$25,151,626.19

NOTE 6. LONG-TERM LIABILITIES

Long-term liabilities activity for the year ended June 30, 2007, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Payables:					
TSSBA debt:					
Bonds	$1,067,167.03	$ -	$171,587.00	$895,580.03	$171,356.00
Subtotal	1,067,167.03	-	171,587.00	895,580.03	171,356.00
Other liabilities:					
Compensated absences	674,930.06	505,841.64	429,325.19	751,446.51	122,402.23
Deferred revenue	655,388.19	-	45,546.60	609,841.59	598,316.59
Subtotal	1,330,318.25	505,841.64	474,871.79	1,361,288.10	720,718.82
Total long-term liabilities	$2,397,485.28	$505,841.64	$646,458.79	$2,256,868.13	$892,074.82

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

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Payables:					
TSSBA debt:					
Bonds	$ -	$1,067,167.03	$ -	$1,067,167.03	$171,587.00
Commercial paper	1,124,699.94	-	1,124,699.94	-	-
Subtotal	1,124,699.94	1,067,167.03	1,124,699.94	1,067,167.03	171,587.00
Other liabilities:					
Compensated absences	610,405.81	549,470.30	484,946.05	674,930.06	232,434.71
Deferred revenue	541,675.20	113,712.99	-	655,388.19	616,530.49
Subtotal	1,152,081.01	663,183.29	484,946.05	1,330,318.25	848,965.20
Total long-term liabilities	$2,276,780.95	$1,730,350.32	$1,609,645.99	$2,397,485.28	$1,020,552.20

TSSBA Debt - Bonds

Bonds, with an interest rate of 4%, were issued by the Tennessee State School Bond Authority (TSSBA). The bonds are due serially to 2021 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. The bonded indebtedness with the Tennessee State School Bond Authority included in long-term liabilities on the statement of net assets is shown net of unexpended debt proceeds. Unexpended debt proceeds were $17,167.97 at June 30, 2007, and $17,167.97 at June 30, 2006.

Debt service requirements to maturity for the college's portion of TSSBA bonds at June 30, 2007, are as follows:

Year Ending June 30	Principal	Interest	Total
2008	$171,356.00	$37,136.46	$208,492.46
2009	178,552.50	30,282.22	208,834.72
2010	186,052.00	23,140.12	209,192.12
2011	27,592.50	15,698.04	43,290.54
2012	28,751.50	14,594.34	43,345.84
2013 – 2017	162,917.50	54,723.80	217,641.30
2018 – 2021	140,358.03	17,845.74	158,203.77
	$895,580.03	$193,420.72	$1,089,000.75

More detailed information regarding the bonds 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 7. UNRESTRICTED NET ASSETS

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

	June 30, 2007	June 30, 2006
Working capital	$882,681.33	$606,732.47
Encumbrances	133,918.64	208,315.01
Designated fees	269,166.21	195,214.70
Auxiliaries	173,493.16	50,157.67
Plant construction	6,372,563.03	4,886,886.94
Renewal and replacement of equipment	2,219,346.50	2,722,229.92
Debt retirement	373,180.70	339,065.98
Undesignated	980,581.83	903,150.86
Total	$11,404,931.40	$9,911,753.55

NOTE 8. PENSION PLANS

A. Defined Benefit Plans

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 13.66% 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, 2007, 2006, and 2005 were $957,543.83, $662,401.11, and $647,363.90, respectively. 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 $382,107.47 for the year ended June 30, 2007, and $393,521.35 for the year ended June 30, 2006. Contributions met the requirements for each year.

NOTE 9. OTHER POST-EMPLOYMENT BENEFITS

The State of Tennessee administers a group health insurance program which provides post-employment health insurance benefits to eligible college retirees. This benefit is provided and administered by the State of Tennessee. The college assumes no liability for retiree health care programs. Information related to this plan is available at the statewide level in the *Tennessee Comprehensive Annual Financial Report*. That report may be obtained by writing to the Tennessee Department of Finance and Administration, Division of Accounts, 14th Floor William R. Snodgrass Tennessee

Tower, 312 Eighth Avenue North, Nashville, Tennessee 37243-0298, or by calling (615) 741-2140.

NOTE 10. INSURANCE-RELATED ACTIVITIES

It is the policy of the state not to purchase commercial insurance for the risks of losses for general liability, automobile liability, professional malpractice, and workers' compensation. The state's management believes it is more economical to manage these risks internally and set aside assets for claim settlement in its internal service fund, the Risk Management Fund. The state purchases commercial insurance for real property, flood, earthquake, and builder's risk losses and surety bond coverage on the state's officials and employees. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years. 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 $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, 2007, and June 30, 2006, 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, 2007, the

Risk Management Fund held $116.7 million in cash and cash equivalents designated for payment of claims. 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, 2007, the scheduled coverage for the college was $50,173,600 for buildings and $14,855,900 for contents. At June 30, 2006, the scheduled coverage for the college was $49,797,600 for buildings and $14,699,400 for contents.

The state has also set aside assets in the Employee Group Insurance Fund, an internal service fund, to provide a program of health insurance coverage for the employees of the state with the risk retained by the state. The college participates in the Employee Group Insurance Fund. The fund allocates the cost of providing claims servicing and claims payment by charging a premium to the college based on estimates of the ultimate cost of claims that have been reported but not settled and of claims that have been incurred but not reported. Employees and providers have 13 months to file medical claims.

NOTE 11. COMMITMENTS AND CONTINGENCIES

Sick Leave - The college records the cost of sick leave when paid. Generally, since sick leave (earned one day per month with unlimited accumulation) is paid only when an employee dies or is absent because of illness, injury, or related family death, there is no liability for sick leave at June 30. The dollar amount of unused sick leave was $3,682,649.22 at June 30, 2007, and $3,849,057.49 at June 30, 2006.

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 personal property were $28,227.00 for the year ended June 30, 2007. Expenses under operating leases for real property were $229,256.00 and for personal property were $80,059.21 for the year ended June 30, 2006. All operating leases are cancelable at the lessee’s option.

Construction in Progress - At June 30, 2007, outstanding commitments under construction contracts totaled $2,127,734.46 for the Humanities Classroom Building project, the Performing Arts Center project, and other minor renovation projects, of which $2,127,734.46 will be funded by future state capital outlay appropriations.

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 $469,630.50 at June 30, 2007, and $604,600.00 at June 30, 2006.

Questioned Costs – As of June 30, 2007, the following costs were questioned as a result of the current-year audit.

Year Ended June 30, 2007:

Program	Amount Questioned
Federal Pell Grant Program (CFDA 84.063)	$497,892
Federal Family Education Loans (CFDA 84.032)	237,519
Federal Work-Study Program (CFDA 84.033)	10,896
Federal Supplemental Educational Opportunity Grants (CFDA 84.007)	9,654

Year Ended June 30, 2006:

Program	Amount Questioned
Federal Pell Grant Program (CFDA 84.063)	$470,963
Federal Family Education Loans (CFDA 84.032)	207,274
Federal Supplemental Educational Opportunity Grants (CFDA 84.007)	12,248
Federal Work-Study Program (CFDA 84.033)	7,896
Total	$1,454,342

Final resolution of these questioned costs will be determined by the grantor.

NOTE 12. NATURAL CLASSIFICATIONS WITH FUNCTIONAL CLASSIFICATIONS

The college's operating expenses by functional classification for the year ended June 30, 2007, are as follows:

			Natural Classification			
Functional Classification	Salaries	Benefits	Other Operating	Scholarships	Depreciation	Total
Instruction	$7,052,902.46	$2,130,953.30	$1,858,316.09	$ -	$ -	$11,042,171.85
Public service	-	-	25,774.38	-	-	25,774.38
Academic support	1,432,274.81	561,779.62	122,626.97	-	-	2,116,681.40
Student services	1,569,010.97	611,825.97	903,428.61	-	-	3,084,265.55
Institutional support	1,748,021.96	718,581.99	474,074.82	-	-	2,940,678.77
Operation & maintenance	766,613.35	396,189.47	2,450,380.27	-	-	3,613,183.09
Scholarships & fellowships	-	-	-	3,382,570.99	-	3,382,570.99
Depreciation	-	-	-	-	1,256,126.68	1,256,126.68
Total	$12,568,823.55	$4,419,330.35	$5,834,601.14	$3,382,570.99	$1,256,126.68	$27,461,452.71

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

			Natural Classification			
Functional Classification	Salaries	Benefits	Other Operating	Scholarships	Depreciation	Total
Instruction	$6,622,566.58	$1,916,845.58	$1,413,879.45	$27,685.67	$ -	$9,980,977.28
Public service	-	-	19,611.59	-	-	19,611.59
Academic support	1,370,195.79	492,756.34	(47,375.74)	-	-	1,815,576.39
Student services	1,520,585.69	554,188.27	983,864.32	61,766.16	-	3,120,404.44
Institutional support	1,501,794.57	600,943.24	568,448.01	2,703.00	-	2,673,888.82
Operation & maintenance	757,612.66	352,813.54	1,696,137.28	-	-	2,806,563.48
Scholarships & fellowships	-	-	9,429.30	3,159,608.09	-	3,169,037.39
Depreciation	-	-	-	-	1,259,657.25	1,259,657.25
Total	$11,772,755.29	$3,917,546.97	$4,643,994.21	$3,251,762.92	$1,259,657.25	$24,845,716.64

NOTE 13. COMPONENT UNIT

The Northeast State Technical Community College Foundation is a legally separate, tax-exempt organization supporting Northeast State Technical Community College. The foundation acts primarily as a fund-raising organization to supplement the resources that are available to the college in support of its programs. The 40-member board of the foundation is self-perpetuating and consists of graduates and friends of the college. 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, 2007, the foundation made distributions of $34,885.85 to or on behalf of the college for both restricted and unrestricted purposes. During the year ended June 30, 2006, the foundation made distributions of $120,560.85 to or on behalf of the college for both restricted and unrestricted purposes. Complete financial statements for the foundation can be obtained from Dr. Steve R. Campbell, Vice President for Business Affairs, Northeast State Technical Community College, P. O. Box 246, Blountville, TN 37617.

<u>Cash</u> – At June 30, 2007, cash consists of $430,191.32 in bank accounts and $7,836.39 in the State of Tennessee Local Government Investment Pool administered by the State Treasurer. At June 30, 2006, cash consists of $80,481.32 in bank accounts and $7,391.98 in the State of Tennessee Local Government Investment Pool administered by the State Treasurer.

At June 30, 2006, and June 30, 2007, the foundation reported investments in certificates of deposit totaling $665,191.10 and $1,153,321.57, respectively. Total uninsured bank balances were $230,069.89 and $730,994.36 at June 30, 2006, and June 30, 2007, respectively. This represents a significant concentration of credit risk for the foundation.

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

Investments held at June 30, 2007, were as follows:

	Cost	Fair Value
U.S. Treasury obligations	$34,619.68	$34,316.05
U.S. agency obligations	$244,893.75	243,734.70
Corporate bonds	$52,296.00	50,003.00
Mutual funds - bonds	$220,321.13	215,283.41
Mutual funds - equity	$1,744,365.43	2,326,654.34
Money market funds	$215,657.52	215,657.52
Certificates of deposit		1,153,321.57
Total investments		$4,238,970.59

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

	Cost	Fair Value
U.S. Treasury obligations	$34,619.68	$33,989.70
U.S. agency obligations	89,893.75	88,521.90
Corporate bonds	$89,028.60	84,830.45
Mutual funds - bonds	$223,309.80	216,921.10
Mutual funds - equity	$1,695,580.73	2,008,670.97
Cash and cash equivalents held for long-term investment	$545,533.03	545,533.03
Certificates of deposit		665,191.10
Total investments		$3,643,658.25

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

	June 30, 2007	June 30, 2006
Current pledges	$58,161.40	$35,283.39
Pledges due in one to five years	36,833.33	29,593.45
Subtotal	94,994.73	64,876.84
Less discount to net present value	(8,902.50)	(5,987.19)
Total pledges receivable, net	$86,092.23	$58,889.65

Capital assets - Capital assets at June 30, 2007, and June 30, 2006, were as follows:

	June 30, 2007	June 30, 2006
Software	$300,000.00	$300,000.00
Less accumulated depreciation	(300,000.00)	(200,000.00)
Capital assets, net	$ -	$100,000.00

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.

The foundation chooses to spend only a portion of the investment income (including changes in the value of investments) each year. Under the spending plan established by the foundation, 80% of the investment income and realized changes in the value of investments has been authorized for expenditure. The remaining amount, if any, is retained to be used in future years when the amount computed using the spending plan exceeds the investment income. At June 30, 2007, net appreciation (including interest, dividends, and realized and unrealized changes in the value of investments) of $1,022,449.13 is available to be spent, of which $1,022,449.13 is included in restricted net assets expendable for scholarships and fellowships. At June 30, 2006, net appreciation (including interest, dividends, and realized and unrealized changes in the value of investments) of $688,441.18 is available to be spent, of which $688,441.18 is included in restricted net assets expendable for scholarships and fellowships.

TENNESSEE BOARD OF REGENTS
NORTHEAST STATE TECHNICAL COMMUNITY COLLEGE
SUPPLEMENTARY INFORMATION
STATEMENTS OF CASH FLOWS - COMPONENT UNIT
FOR THE YEARS ENDED JUNE 30, 2007, AND JUNE 30, 2006

	Year Ended June 30, 2007	Year Ended June 30, 2006
CASH FLOWS FROM OPERATING ACTIVITIES		
Gifts and contributions	$ 821,761.11	$ 340,264.63
Endowment income per spending plan	98,938.94	42,918.43
Grants and contracts	40,786.09	24,024.51
Sales and services of educational activities	2,667.40	3,475.00
Payments to suppliers and vendors	(5,452.62)	(6,902.17)
Payments for scholarships and fellowships	(564,070.95)	(332,504.03)
Payments to Northeast State Technical Community College	-	(33,476.96)
Loans issued to students and employees	(69.00)	(1,450.00)
Net cash provided by operating activities	394,560.97	36,349.41
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Private gifts for endowment purposes	176,851.52	282,958.14
Other payments	(15,000.00)	(30,510.51)
Net cash provided by noncapital financing activities	161,851.52	252,447.63
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of investments	741,408.60	920,281.37
Income on investments	115,584.02	100,492.21
Purchases of investments	(1,063,250.70)	(1,321,831.36)
Net cash used by investing activities	(206,258.08)	(301,057.78)
Net increase (decrease) in cash	350,154.41	(12,260.74)
Cash at beginning of year	87,873.30	100,134.04
Cash at end of year	$ 438,027.71	$ 87,873.30
Reconciliation of operating income (loss) to net cash provided by operating activities:		
Operating income (loss)	$ 254,322.81	$ (74,234.61)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
Depreciation expense	100,000.00	100,000.00
Gifts in-kind	19,081.30	43,066.36
Change in assets and liabilities:		
Receivables, net	(84,970.72)	(76,799.87)
Accounts payable	107,334.70	44,317.53
Other	(1,207.12)	-
Net cash provided by operating activities	$ 394,560.97	$ 36,349.41
Noncash transactions		
In-kind gifts	$ 23,081.30	$ 51,066.66
Unrealized gains on investments	273,470.24	82,588.28