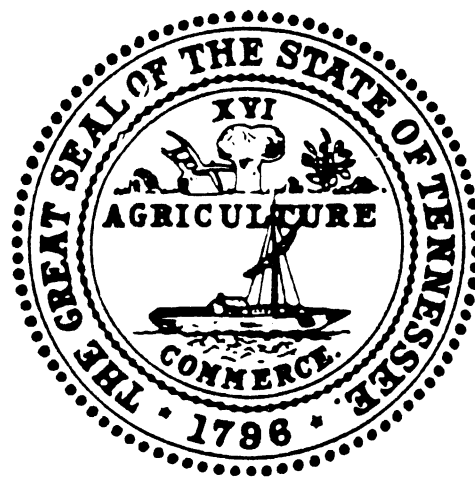


AUDIT REPORT

Tennessee Board of Regents
Nashville 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
Division of State Audit



Arthur A. Hayes, Jr., CPA, JD, CFE
Director

Kandi B. Thomas, CPA, CFE
Assistant Director

Donna L. Jewell, CPA, CFE
Audit Manager

Keith L. Isbell
In-Charge Auditor

Laura B. Pickett
Chadwick Sit, CFE
Diane E. Wheeler
Staff Auditors

Gerry Boaz, CPA
Technical Manager

Amy Brack
Editor

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

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STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY

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

John G. Morgan
Comptroller

September 30, 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. George H. Van Allen, President
Nashville State Technical Community College
120 White Bridge Road
Nashville, Tennessee 37209

Ladies and Gentlemen:

Transmitted herewith is the financial and compliance audit of the Tennessee Board of Regents, Nashville 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 the findings. The Division of State Audit will follow up the audit to examine the application of the procedures instituted because of the audit findings.

Sincerely,

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

John G. Morgan
Comptroller of the Treasury

JGM/cj
08/045

State of Tennessee

Audit Highlights

Comptroller of the Treasury

Division of State Audit

Financial and Compliance Audit
Nashville 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 FINDINGS

Neither the Controller nor the Vice President of Finance and Administrative Services Ensured That Cash and Unrestricted Net Assets Were Properly Reported in the Financial Statements and the Accompanying Notes to the Financial Statements, Which Resulted in Improper Reporting and Increased Risks of the Possible Mismanagement of Funds

Although top management of the college is responsible for the fair presentation of financial position in conformity with accounting principles generally accepted in the United States of America, neither the Vice President of Finance and Administrative Services nor the Controller

ensured that the financial statements and accompanying notes to the financial statements were free of misstatement (page 9).

The President, the Vice President of Finance and Administrative Services, and the Foundation's Board of Directors Have Not Established Adequate Controls or Mitigated the Risks Associated With the Bank Reconciliation Process for the College's and the Foundation's Bank Accounts

Neither the college nor the foundation has a formal policy regarding the preparation of bank reconciliations. As a result, bank

reconciliations were not always prepared timely, were not always retained for later review, and did not always provide accountability in regard to those employees with the responsibility for the preparation

and the review of the reconciliations (page 14).

OPINIONS ON THE FINANCIAL STATEMENTS

The opinions on the financial statements are unqualified.

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

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

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

BACKGROUND

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

In March 1963, the Tennessee General Assembly passed House Bill 633, authorizing the establishment of a statewide system of area vocational-technical schools and regional technical schools. Nashville State Technical Institute opened in the fall of 1970. Until 1983, the institute operated under the Tennessee State Board of Vocational-Technical Education. The 93rd General Assembly transferred the institute to the Tennessee Board of Regents July 1, 1983.

In April 2002, the General Assembly amended Section 49-8-101, *Tennessee Code Annotated*, and changed the name of Nashville State Technical Institute to Nashville State Technical Community College. The change became effective on July 1, 2002.

The college offers two-year programs and certificates to prepare adults for employment as technicians in career areas. The programs lead to an Associate of Applied Science degree. Also, the college offers special programs and courses to meet the needs of industry, business, and government.

ORGANIZATION

The governance of Nashville 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. Nashville State Technical Community College is an institution of the Tennessee Board of Regents, which is an integral part of state government. As such, the Tennessee Board of Regents has been included as a component unit in the *Tennessee Comprehensive Annual Financial Report*.

OBJECTIVES OF THE AUDIT

The objectives of the audit were

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

PRIOR AUDIT FINDING

Section 8-4-109, *Tennessee Code Annotated*, requires that each state department, agency, or institution report to the Comptroller of the Treasury the action taken to implement the recommendations in the prior audit report. The college filed its report with the Department of Audit on September 19, 2006. A follow-up of the prior audit finding was conducted as part of the current audit.

RESOLVED AUDIT FINDING

The current audit disclosed that the college has corrected the previous audit finding concerning its failure to approve employment contracts before the effective date.

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 CENTERS

Nashville State Technical Community College serves as the lead institution under agreements with the Tennessee Technology Center at Dickson and the Tennessee Technology Center at Nashville. Under these agreements, Nashville State Technical Community College performs the accounting and reporting functions for the centers. The chief administrative officer of each center is the director, who is assisted and advised by members of the faculty and administrative staff. Each 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. Significant deficiencies, along with recommendations and management's responses, are detailed in the findings and recommendations section. Consideration of internal control over financial reporting disclosed one material weakness.

Compliance

The results of our tests disclosed no instances of noncompliance that are 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.



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

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

**Report on Internal Control Over Financial Reporting and
on Compliance and Other Matters Based on an Audit of
Financial Statements Performed in Accordance With
*Government Auditing Standards***

July 31, 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 Nashville 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 July 31, 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 certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

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 deficiencies were noted:

- Neither the Controller nor the Vice President of Finance and Administrative Services ensured that cash and unrestricted net assets were properly reported in the financial statements and the accompanying notes to the financial statements, which resulted in improper reporting and increased risks of the possible mismanagement of funds
- The President, the Vice President of Finance and Administrative Services, and the Foundation's Board of Directors have not established adequate controls or mitigated the risks associated with the bank reconciliation process for the college's and the foundation's bank accounts

These deficiencies are 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, of the significant deficiencies described above, we consider the following to be a material weakness:

- Neither the Controller nor the Vice President of Finance and Administrative Services ensured that cash and unrestricted net assets were properly reported in the financial statements and the accompanying notes to the financial statements, which resulted in improper reporting and increased risks of the possible mismanagement of funds

The Honorable John G. Morgan
July 31, 2008
Page Three

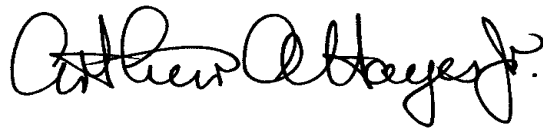
We also noted certain matters involving the internal control over financial reporting, which we have reported to the college's management in a separate letter.

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 no instances of noncompliance or other matters that are required to be reported under generally accepted government auditing standards.

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

Sincerely,

A handwritten signature in black ink that reads "Arthur A. Hayes, Jr." with a stylized flourish at the end.

Arthur A. Hayes, Jr., CPA
Director

AAH/cj

FINDINGS AND RECOMMENDATIONS

1. Neither the Controller nor the Vice President of Finance and Administrative Services ensured that cash and unrestricted net assets were properly reported in the financial statements and the accompanying notes to the financial statements, which resulted in improper reporting and increased risks of the possible mismanagement of funds

Top management of Nashville State Technical Community College (NSTCC) is responsible for the fair presentation of financial position in conformity with accounting principles generally accepted in the United States of America. However, neither the Vice President of Finance and Administrative Services nor the Controller ensured that the financial statements and accompanying notes to the financial statements were free of misstatement. According to the Vice President of Finance and Administrative Services, the financial statements and the accompanying notes were prepared by the Controller and the Accountant and were reviewed by the Vice President. However, we noted several reporting errors in the financial statements and notes involving cash and net assets balances.

Problems Noted With Financial Reporting on Cash and Cash Equivalents

Based on our review of NSTCC's Statement of Net Assets at June 30, 2006, we noted a cash classification error. Specifically, the Controller failed to include the effects of a transfer of cash when preparing the financial statements. As a result, the Controller understated noncurrent cash and cash equivalents by \$394,511.31 and overstated current cash and cash equivalents by \$394,511.31. We reclassified the cash and cash equivalents on the college's Statement of Net Assets to properly reflect current versus noncurrent balances as follows:

Category	Original	Restated	Difference
June 30, 2006			
Cash – current	\$ 7,205,838.54	\$ 6,811,327.23	(\$394,511.31)
Cash – noncurrent	11,962,688.39	12,357,199.70	394,511.31
Total cash difference			0.00

When we discussed this reporting error with the Bursar, she stated that she made the transfer which resulted in this misstatement after the Controller prepared the initial Statement of Net Assets; however, although the Controller approved the journal entry for the transfer, she did not update the statement to account for the subsequent transfer.

We also found that NSTCC management and staff made several errors within the Notes to the Financial Statements. These problems are enumerated below:

- In mid-July 2007 and in mid-July 2006, the Bursar recorded journal entries to transfer Local Government Investment Pool (LGIP) interest earnings for May and June totaling \$96,767.22 and \$119,224.59, respectively, from the college's LGIP account to the college's and the college's technology centers' bank accounts. However,

although she recorded journal entries in June of each year to transfer these funds in the college's accounting records, the actual funds were still in the LGIP account at June 30. As a result, the Controller understated the college and technology centers' cash balance in LGIP and overstated the college and technology centers' cash balance in bank accounts in the Notes to the Financial Statements. When we discussed this issue with the Bursar, she stated that this process has been her standard practice for quite some time. She also stated that she started this practice after receiving this advice from a State Auditor. However, the practice of recording transfers in the accounting records prior to the actual transfers does not accurately reflect the Local Government Investment Pool and cash in bank account balances at June 30.

- The Controller requested that the Bursar record a journal entry to transfer the accounting of \$300,000 from one LGIP account to another LGIP account within the general ledger. No actual funds were transferred. However, the Bursar's accounting entry actually recorded the transfer from the LGIP account to a non-LGIP bank account in the general ledger. No actual funds were transferred. As a result of this error, the Controller understated the college's cash reported in LGIP and overstated the college's cash reported in bank accounts in the Notes to the Financial Statements. According to the Bursar, she made an error in the journal entry.
- Based on our analysis of the related general ledger account balances, the Controller double-counted funds held in LGIP for Capital Projects when preparing the Notes to the Financial Statements for the fiscal year ending June 30, 2007. The balance of the LGIP for Capital Projects account (\$293,219.13) was included in both the amount held in LGIP for Capital Projects and the amount held in LGIP. This error in disclosure resulted in an overstatement of \$293,219.13 in total college cash in the Notes to the Financial Statements. When we discussed this issue with the Controller, she stated that she made a mathematical error in which LGIP for Capital Projects was not correctly deducted from the amount held for LGIP.

As a result of these errors, we adjusted Note 2 as follows:

Category	Original	Restated	Difference
June 30, 2007			
Cash held in banks	\$ 692,100.29	\$ 595,333.07	(\$ 96,767.22)
LGIP Deposits– Capital Projects	293,219.13	293,219.13	0.00
LGIP	21,497,785.63	21,301,333.72	(196,451.91)
Total cash difference			(293,219.13)
June 30, 2006			
Cash held in banks	\$ 1,117,381.23	\$ 698,156.64	(\$419,224.59)
LGIP	17,153,621.67	17,572,846.26	\$419,224.59
Total cash difference			0.00

Problems Found With Financial Reporting of Unrestricted Net Assets

In addition to the problems described above with cash, we also discovered a reporting error in the Unrestricted Net Assets Note (Note 7). In this note, the Controller omitted a material classification of unrestricted net assets. This omission of unrestricted net assets set aside for plant construction resulted in an overstatement of undesignated net assets of \$4,086,767.63 and \$3,092,461.75 at June 30, 2007, and June 30, 2006, respectively. Although this error did not affect overall unrestricted net assets as presented on the Statement of Net Assets, the placement of plant construction net assets as undesignated net assets may be misleading since management has set aside these funds for the specific purpose of construction.

When we discussed this error with the Controller, she stated that she did not realize that the plant construction category (as described in the year-end instructions that the college receives from the Tennessee Board of Regents [TBR]) was synonymous with the unexpended plant funds category recorded and held by the college for construction purposes. However, the Controller did not seek advice from the TBR for clarification.

In May 2007, college management submitted to the Tennessee Board of Regents the Risk Assessment prepared for the college as a whole. In this Risk Assessment, management identified within accounting the risks of posting entries incorrectly and inaccurate reports. For these items, management's intention is to monitor through supervision controls, such as reconciliations and journal entry review, and to monitor through execution controls, such as journal entry preparation. However, the Vice President of Finance and Administrative Services and the Controller did not detect these errors during their review. Also, the Controller did not seek clarification of TBR instructions from the Vice President of Finance and Administrative Services or the Tennessee Board of Regents.

When journal entries reporting transfers are recorded before they actually occur, the risk of mismanagement of funds increases substantially. For example, management decisions may be made based on the expectation of the availability of funds when those funds may not yet be available. Also, individuals making decisions for the college and the technology centers may not have accurate information when basing their decisions on incorrect financial statements or other financial information. Failure to seek technical advice when instructions are not understood and the failure to ensure that staff adequately understand related accounting principles could lead to material misstatements in the accounting records.

Recommendation

The President and the Vice President of Finance and Administrative Services should ensure that all accounting staff seek technical advice when instructions are not understood. They should also give more oversight to the review of year-end journal entries and to the review of the financial statements and the related notes. The Vice President of Finance and Administrative Services should ensure that the amounts reported in the financial ledgers are accurate and reflect the modified accrual method of accounting and that all notes to the financial statements are

accurate at year-end and in agreement to the respective amounts in the statements. The President and the Vice President of Finance and Administrative Services should assign specific staff the responsibility for monitoring the process for preparing year-end entries and, ultimately, the financial statements and related notes, to mitigate the risks of errors or fraud, waste, or abuse and the potential of material misstatement associated with financial reporting.

Steps should be taken to improve coordination among all staff and management involved in requesting, approving, executing, and reviewing accounting entries and transactions. Management should continue to evaluate risks and include them in documented risk assessment activities. Management should ensure staff who are responsible for the design and implementation of internal controls to adequately mitigate those risks and to prevent and detect exceptions timely are continually evaluating those controls. Management should ensure staff who are responsible for ongoing monitoring for compliance with all requirements are indeed monitoring and taking prompt action should exceptions occur. All controls and control activities, including monitoring, should be adequately documented.

Management's Comment

Management concurs with the finding and concurs in most parts with the recommendation.

In order to insure that all accounting staff seek technical advice when instructions are not understood, a notice was sent to all management personnel in the Business Office reminding them of the chain of command to follow for technical advice. The accounting management staff will also meet twice per month to discuss accounting specific issues and adequately test accounting transactions in a test environment.

A meeting to discuss the audit has been held with Business Office managers and management will request additional over-time funding in order to allow adequate time for review of the financial statements and related notes.

The following staff were assigned responsibility for monitoring the process for preparing year-end entries:

Job Title	Responsible for Monitoring and Approval
Bursar	Accounts receivable entries and tape, determination of deferred revenue, bank reconciliation, investments, scholarship allowances
Controller	Financial statement and note preparation, operating cash disbursements tape, grant close outs, GASB required adjustments
Payroll Manager	Payroll cash disbursements, benefit note information, OPEB note assistance
Budget Manager	Travel accruals
Accounts Payable Supervisor	Accounts payable accruals, encumbrance verifications
Director of Property Management and Purchasing	Capital schedules and capital notes
Vice President of Finance and Administrative Services	Review and approval of all journal entries exceeding \$10,000, review and approval of financial statements

The Vice President has stressed to Business Office management personnel the importance of good coordination in requesting, approving, executing, and reviewing accounting entries and transactions.

A detailed risk assessment is currently underway in the Business Office, with an expected completion date of September 30, 2008. This assessment will assign all controls to specific managers as well as require monitoring of the controls. The control footprint has a check off list for each manager to detail the date the control was checked as well as a signature certifying the adequacy of the control. The Vice President of Finance will review the control plans quarterly to insure that proper monitoring has occurred. In instances of improper monitoring, the Vice President will follow the progressive discipline process of the college.

2. **The President, the Vice President of Finance and Administrative Services, and the Foundation's Board of Directors have not established adequate controls or mitigated the risks associated with the bank reconciliation process for the college's and the foundation's bank accounts**

Finding

The President, the Vice President of Finance and Administrative Services, and the Foundation's Board of Directors have not established adequate controls or mitigated the risks associated with the bank reconciliation process for the college's and the foundation's bank accounts.

Specifically, we noted the following weaknesses:

- The President and the Vice President of Finance and Administrative Services have not created a policy governing the timeliness or approval of bank reconciliations for the college.
- The Foundation Board of Directors had no formal policy for the reconciliation process for the foundation's bank accounts.
- The Vice President of Finance and Administrative Services at Nashville State Technical Community College (NSTCC) did not ensure that the Bursar or the Account Clerk III prepared the bank reconciliations for the college in a timely manner.
- The President did not ensure that the Vice President of Finance and Administrative Services or another appropriate designated employee prepared bank reconciliations for the NSTCC foundation in a timely manner.
- The Bursar and the Account Clerk III did not retain all of the college's original, approved operating account bank reconciliations for our review, nor did the Vice President of Finance and Administrative Services retain all of the foundation's original, approved operating account bank reconciliations for our review.
- The President or his designee also did not ensure that staff charged with the task of preparing the foundation's bank reconciliations provided accountability for the preparation by signing the reconciliation.
- Finally, the President did not ensure that his designee charged with the task of reviewing the foundation's bank reconciliations provided accountability for that review by signing the reconciliation.

Background Information

During the audit period, the college staff maintained operating accounts and two depository accounts located in Waverly at FirstBank and in Cookeville at First Tennessee Bank. The college's average monthly balance in the operating account for fiscal years ended June 30, 2007, and June 30, 2006, was nearly \$478,000, with outstanding checks averaging over \$410,000 at the end of each month. In addition, the NSTCC fiscal staff performed the depository account reconciliations for the Tennessee Technology Center at Dickson. The Tennessee Technology Center at Dickson has two depository accounts—one in Dickson with TriStar Bank and one in Clarksville with USBank. The average monthly deposits for the depository accounts during fiscal years ended June 30, 2007, and June 30, 2006, were \$18,343.08 for Waverly with FirstBank; \$28,506.17 for Cookeville with First Tennessee Bank; \$53,116.61 for Dickson with TriStar Bank; and \$6,932.72 for Clarksville with USBank. In addition, the Nashville State Technical Community College Foundation had two operating accounts and a savings account during the audit period. One operating account had an average monthly balance of approximately \$91,000. The other operating account had an average monthly balance of approximately \$152,000. The foundation savings account had an average monthly balance of approximately \$7,000.

Nashville State Technical Community College

During the audit period (July 1, 2005, through June 30, 2007), we reviewed NSTCC's procedures for reconciling the operating account and the depository accounts. Under these procedures, the Account Clerk III prepared the bank reconciliations and the Bursar approved the reconciliations through February 2007. When the Account Clerk III resigned in March 2007, the Bursar assumed the responsibility of preparing the bank reconciliations and the Vice President of Finance and Administrative Services reviewed and approved the bank reconciliations.

Nashville State Technical Community College – Operating Account

We tested all operating account reconciliations for the fiscal years ended June 30, 2007, and June 30, 2006. Since NSTCC utilized more than one operating account for the first three months of the audit period, our testwork included a review of 27 individual bank reconciliations. Based on our review, we found the following problems:

- The Bursar could not locate 5 of the 27 original, signed operating account reconciliations (19%). Although the Bursar could provide us with electronic versions of the five reconciliations, these electronic versions did not contain the signatures of the preparer or the approver or the dates of when the reconciliation, its review, and approval were completed. As a result, we could not determine who prepared the reconciliation, who approved the reconciliation, and the timeliness of either function.

We then examined the remaining 22 bank reconciliations for timeliness of completion and promptness of approval. Since NSTCC had no policy stating when bank reconciliations were to be completed and approved, for our review, we considered reconciliations prepared, reviewed, and approved within 60 days after month-end as timely. We used 60 days after month-

end since banks generally allow clients to pursue adjustments due to banking errors within 60 days. In our review, we found the following:

- For one of 22 operating account reconciliations tested (5%), the Bursar signed but did not date the reconciliation as preparer and the Vice President of Finance and Administrative Services signed but did not date the reconciliation as approver. As a result, we could not determine the timeliness of preparation or the timeliness of approval of that reconciliation.
- For 11 of 21 reconciliations tested (52%), neither the Account Clerk III nor the Bursar prepared the operating bank account reconciliations within 60 days after month-end. The Account Clerk III or the Bursar prepared those operating account reconciliations from 65 to 166 days after the end of the month. In addition, NSTCC staff prepared multiple bank reconciliations on a single day on five separate occasions involving 15 of the 21 bank reconciliations reviewed (71%). In one instance, the Bursar initialed her preparation of four months' reconciliations on the same day.
- For one of 21 reconciliations (5%), the Vice President of Finance and Administrative Services did not initial her approval for the operating account reconciliation that the Bursar had prepared. As a result, we could not determine the timeliness of approval of that reconciliation.
- Of the 20 reconciliations that contained the signatures and dates of preparation and approval, we found that for 16 reconciliations (80%), neither the Bursar nor the Vice President of Finance and Administrative Services, as applicable, documented her review of the reconciliations in a timely manner. For these reconciliations, the Bursar or the Vice President of reviewed them from 63 to 233 days after the end of the applicable month.

Depository Account Reconciliations

We noted similar problems with the preparation and approval of the depository account reconciliations. We tested all 96 depository account reconciliations for both Nashville State Technical Community College and Tennessee Technology Center at Dickson, for the fiscal years ended June 30, 2007, and June 30, 2006. Based on our review, we found the following problems:

- For 13 of 96 depository account reconciliations reviewed (14%), neither the Account Clerk III nor the Bursar prepared the reconciliations timely (within 60 days after month-end) for 13 of the 96 depository account reconciliations reviewed (14%). The Account Clerk III or the Bursar prepared those depository account reconciliations from 62 to 217 days after the end of the month.
- Neither the Bursar nor the Vice President of Finance and Administrative Services reviewed and approved the reconciliations timely (within 60 days after month-end) for

25 of the 96 reconciliations (26%). The Bursar or the Vice President first approved those reconciliations 61 to 217 days after the end of the month.

We discussed the college staff's failure to reconcile the bank accounts timely with the Vice President of Finance and Administrative Services, who agreed that this issue is a problem. According to the Vice President, there were several factors associated with the timeliness of the preparation of the bank reconciliations:

- During the audit period, three different individuals held the Account Clerk III position, which is the position responsible for preparing the bank reconciliations under the college's procedures.
- The timeliness of bank reconciliations was also negatively affected by the implementation of a new financial accounting system on July 1, 2006. As a result, college staff were not able to use the reports that they had used previously for bank reconciliations or were not able to obtain information from the system in the same format as they had previously.
- The Bursar who prepared some and reviewed most of the bank reconciliations was also involved with the implementation of two other new computer systems during a 13-month segment of the audit period.

Before we found the problems with the bank reconciliations, the Vice President of Finance and Administrative Services had already implemented compensating controls for the lack of timeliness in the preparation of the bank reconciliations. Specifically, the Bursar received cash reports from the college's information system and reconciled each cashier's transactions to these reports on a daily basis. Also, college staff established additional controls related to wire transfers. The President provided the banks with a listing of authorized payees, and the bank verified the payee before any funds were wired from the college's operating account. According to the authorization agreement with the bank, the President must approve any changes in the authorization payee listing. In addition, the Vice President of Finance and Administrative Services implemented positive pay for the operating account when the college set up the First Tennessee account at the end of fiscal year 2005. Positive pay is the process of informing the bank of all checks to be paid prior to payment, thereby decreasing the likelihood that a falsified or duplicate check would clear the bank account. Although these compensating controls are important and should help management mitigate the risks of errors and fraud, those compensating controls do not obviate the necessity of performing monthly bank reconciliations timely to ensure that the college's financial reporting is free from material misstatement. Subsequent to our audit period, the Vice President of Finance and Administrative Services added another Account Clerk III position in October 2007. In addition, the Assistant to the Vice President also assists in the preparation of the bank reconciliations.

Nashville State Technical Community College Foundation

Although the Foundation Board of Directors had no formal policy, their reconciliation procedures for the foundation's operating account and savings account provided that the college's Vice President of Finance and Administrative Services, or an appropriate designee (the Assistant to the Vice President beginning in February 2007), was responsible for preparing the bank reconciliations, and the college's President, or an appropriate designee, was responsible for approving them.

We noted similar problems with the timeliness of the preparation and approval of the foundation account reconciliations as well as problems with the staff's accountability for the reconciliations. We tested all 48 reconciliations for the foundation's operating and savings accounts for the fiscal years ended June 30, 2007, and June 30, 2006. Based on our review, we found the following problems:

- The Vice President of Finance and Administrative Services could not find two of 48 original operating account reconciliations (4%). The Vice President reprinted the electronic file of the operating account reconciliations for March 2007 and April 2007 on December 21, 2007. As the reprinted versions did not contain the signatures of the preparer or the reviewer or the dates when the reconciliations, the reviews, and approvals were completed, we could not determine who prepared the reconciliations, who approved the reconciliations, and the timeliness of either function.
- Of the remaining 46 reconciliations, the Vice President of Finance and Administrative Services or her designee did not initial 11 (24%) as the preparer and did not prepare 3 of the reconciliations in a timely manner (within 60 days after the end of the month) (7%). The three reconciliations were not signed as prepared until 62 to 128 days after the end of the applicable month.
- The President's Administrative Assistant (the President's designee) did not initial or date her review for 10 of the 48 reconciliations (21%) and did not date her review for 25 additional reconciliations (52%). As a result, we could not determine the timeliness of her review for 35 reconciliations (73%).

We also discussed with the college's Vice President of Finance and Administrative Services the staff's failure to reconcile the foundation operating and savings accounts in a timely manner and to provide overall accountability of those involved in the reconciliation process. According to the Vice President, the reconciliations were computer-generated with the foundation's accounting system and could not be finalized until all closing journal entries were recorded to the foundation ledger each month. However, the Vice President also stated that the reconciliation process began much earlier. We could not substantiate these statements as the final version that ultimately is printed and reviewed is the only version maintained and serves as the official bank reconciliation. The Vice President could not explain why some reconciliations were not initialed and/or dated as prepared and/or reviewed by herself, the Administrative

Assistant, or the Assistant to the Vice President, except that other items took priority over the reconciliations.

We also discussed and verified the controls management designed to compensate for the lack of timeliness in the preparation of the foundation's bank reconciliations with the college's Vice President of Finance and Administrative Services. These controls include the Vice President reviewing all receipts of the foundation online with the bank each time that deposits are made. In addition, only the Vice President and the Assistant to the Vice President had access to foundation checks during the audit period. Also, when the foundation bank account was set up with First Tennessee, in August 2006, the Vice President of Finance and Administrative Services implemented positive pay. Although these compensating controls are important and should help management mitigate the risks of errors or fraud, those compensating controls do not negate the necessity of performing monthly bank reconciliations timely to ensure that the foundation's financial reporting is free from material misstatement.

In May 2007, college management submitted to the Tennessee Board of Regents the Risk Assessment prepared for the college as a whole. In this initial Risk Assessment, management identified within the accounting area the risk of not maintaining adequate records and cash theft through alteration of checks. Management assessed the level of risk of maintaining adequate records as "Moderate Impact, Moderate Probability." For items at this risk level, management's intention is to monitor the situation through execution and supervisory controls, such as the approval of bank reconciliations. However, as the Bursar or other designee was not held responsible for preparing timely reconciliations, management failed to fulfill its intention to monitor these controls. Management assessed the level of risk of cash theft through alteration of checks as "Moderate Impact, Low Probability." For items at this risk level, management's intention is to rely on the controls that have been established and rely on the immediate supervisor to monitor these controls. For this process, these controls might include supervision for printing checks and submission of positive pay to the bank by the Vice President of Finance and Administrative Services. However, alteration of checks may not be caught timely or at all unless reconciliations are prepared in a timely manner.

The staff's failure to perform bank reconciliations timely could prohibit or limit management's ability to prevent or detect errors in financial reporting. Also, the bank may be unwilling or unable to assist the college in correcting these errors if they are not reported timely.

Recommendation

The President and Vice President of Finance and Administrative Services should develop formal, written policies related to the timeliness of bank reconciliations for NSTCC. The NSTCC staff who work with the foundation should develop formal, written policies related to the timeliness of bank reconciliations and present the policies to the Foundation Board of Directors for approval. The Vice President should not permit control procedures to lapse because of staffing or other problems. After such policies are developed, the Vice President should ensure that bank reconciliations are always performed timely in accordance with those policies. The

Vice President should assign specific staff the responsibility for monitoring the process for preparing and reviewing bank reconciliations to mitigate the risks of errors or fraud and the potential of material misstatement associated with bank reconciliations. For the foundation, the President or his designee should ensure that the foundation bank reconciliations are always performed timely as well.

Management should continue to evaluate risks and include them in documented risk assessment activities. Management should ensure staff who are responsible for the design and implementation of internal controls to adequately mitigate those risks and to prevent and detect exceptions timely are continually evaluating those controls. Management should ensure staff who are responsible for ongoing monitoring for compliance with all requirements are indeed monitoring and taking prompt action should exceptions occur. All controls and control activities, including monitoring, should be adequately documented.

Management's Comment

Management concurs with the finding and the recommendation. A formal bank reconciliation procedure has been written for the college and approved by the President. A draft reconciliation policy has been prepared and forwarded to the Foundation Finance Committee for approval. Both policies will require that bank reconciliations be prepared and approved within 60 days of the receipt of the bank statement.

Because reconciliation of the bank statement to the accounting records requires a high level of knowledge of the Banner system, and employee turnover has caused untimely reconciliations in the past, two employees are being trained in the reconciliation process for the college, the new Account Clerk III and the Assistant to the Vice President. For the foundation, the Grant Accountant will serve as the primary reconciler with the Assistant to the Vice President serving as the secondary preparer. Training of these employees is ongoing and is expected to be completed by December 2008.

The Bursar has developed a check-off list that details the bank accounts, the preparer of the bank reconciliation, the date the statements were received from the bank, the date the reconciliation was prepared, the date the reconciliation was approved by the Bursar, and the date the reconciliation was approved by the Vice President. The check-off list will be transmitted to the Vice President for review and approval once per month.



STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
DEPARTMENT OF AUDIT
DIVISION OF STATE AUDIT
SUITE 1500
JAMES K. POLK STATE OFFICE BUILDING
NASHVILLE, TENNESSEE 37243-0264
PHONE (615) 401-7897
FAX (615) 532-2765

Independent Auditor's Report

July 31, 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 Nashville 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 Nashville 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 Nashville State 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
July 31, 2008
Page Two

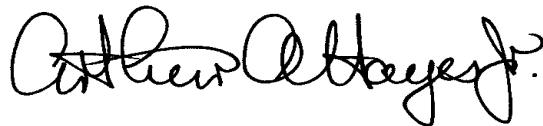
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Tennessee Board of Regents, Nashville State Technical Community College, and its discretely presented component unit as of June 30, 2007, and June 30, 2006, and the respective changes in financial position, and, where applicable, 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 23 through 45 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 66 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 July 31, 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,

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

Arthur A. Hayes, Jr., CPA
Director

AAH/cj

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

This section of Nashville State Technical Community College's report presents a discussion and analysis of the financial performance of the college during the fiscal years ended June 30, 2007, and June 30, 2006, with comparative information presented for the fiscal year ended 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 the accompanying notes. The financial statements, notes, and this discussion are the responsibility of management.

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 Nashville 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.

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

**Nashville State Technical Community College
Net Assets (in thousands of dollars)**

	2007	2006	2005
Assets:			
Current assets	\$ 8,968	\$ 8,244	\$ 8,215
Capital assets, net	18,304	18,340	16,598
Other assets	14,882	12,357	11,591
Total assets	42,154	38,941	36,404
Liabilities:			
Current liabilities	7,458	6,890	6,986
Noncurrent liabilities	1,275	609	402
Total liabilities	8,733	7,499	7,388
Net assets:			
Invested in capital assets, net of related debt	17,469	18,276	16,525
Restricted – nonexpendable	5	5	5
Restricted – expendable	397	374	325
Unrestricted	15,550	12,787	12,161
Total net assets	\$33,421	\$31,442	\$29,016

- Noncurrent liabilities increased in fiscal year 2007 due to the addition of approximately \$780 thousand in commercial paper. In fiscal year 2006, noncurrent liabilities increased due to compliance with the position paper, “Determining the Current and Noncurrent Portions of the Compensated Absences Liability,” calculation instructions.
- Capital assets and net assets, invested in capital assets, increased in fiscal year 2006 due to the additions with the A Building renovation project.
- Unrestricted net assets increased from fiscal year 2006 to fiscal year 2007 due to increased funding for institutional equipment for the new student services building and increased funding for the off-campus development project.

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

**Nashville State Technical Community College Foundation
Net Assets (in thousands of dollars)**

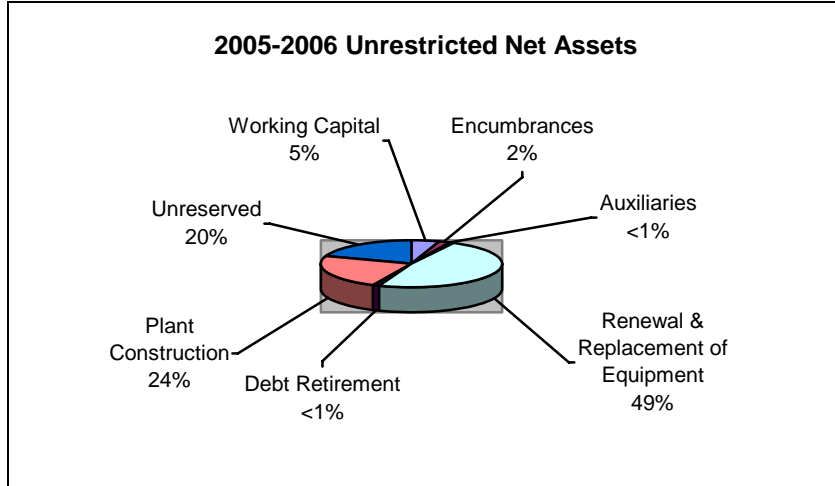
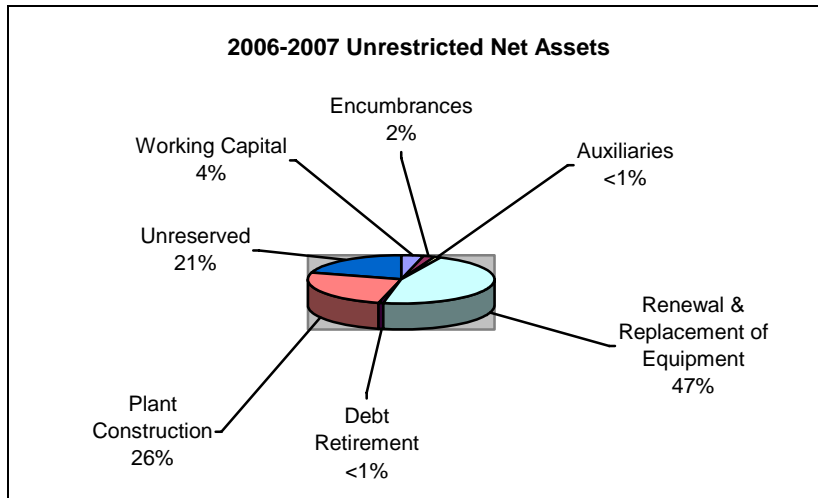
	2007	2006	2005
Assets:			
Current assets	\$761	\$608	\$665
Total assets	761	608	665
Liabilities:			
Current liabilities	10	3	5
Total liabilities	10	3	5
Net assets:			
Restricted – nonexpendable	260	209	164
Restricted – expendable	237	172	281
Unrestricted	254	224	215
Total net assets	\$751	\$605	\$660

- The increase in net assets in fiscal year 2007 is attributable to investment earnings increases of approximately \$38 thousand, proceeds from special events of approximately \$9 thousand, unspent grants of approximately \$18 thousand, and decreased expenditures of approximately \$85 thousand.
- In fiscal year 2007, restricted expendable and non-expendable net assets both increased due to outside donations to foundation scholarships. The decrease in expendable net assets of the foundation between fiscal year 2005 and fiscal year 2006 is attributable to the expenditure of the Oprah Winfrey Scholarship funds. The gift of \$140,000 was given in fiscal year 2005 for use in fiscal year 2006.

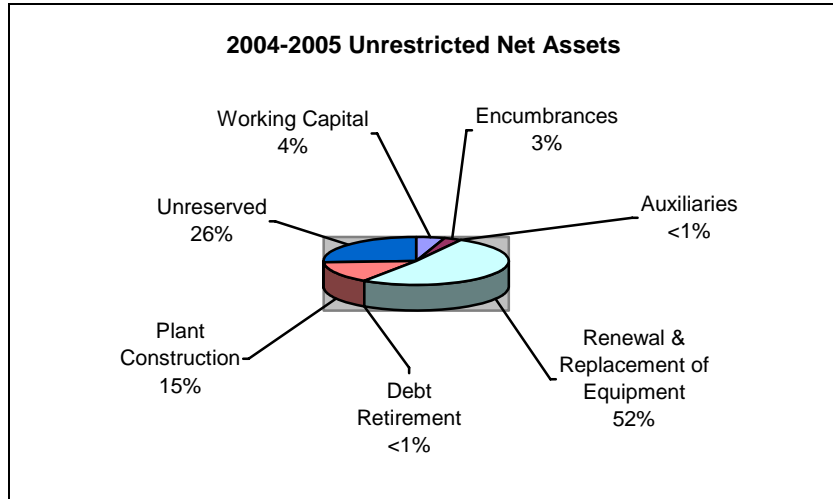
Many of the college's unrestricted net assets have been designated or reserved for specific purposes such as renewal and replacement of equipment, debt retirement, and capital projects. The following graph shows the allocations:

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

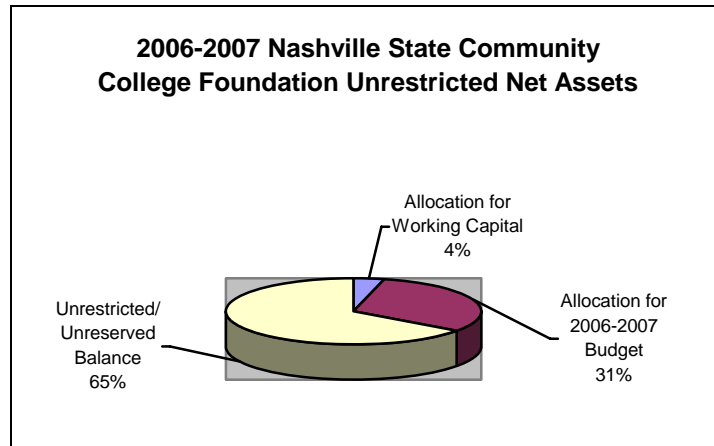
College



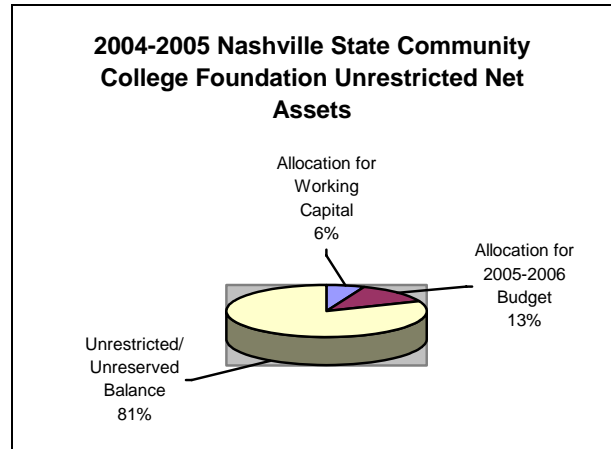
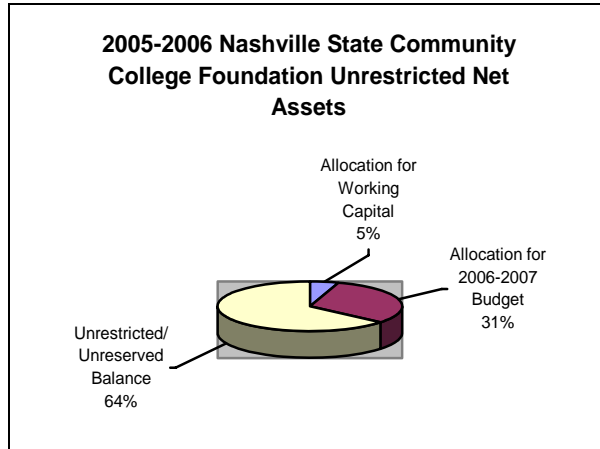
**Tennessee Board of Regents
Nashville State Technical Community College
Management's Discussion and Analysis (Cont.)
June 30, 2007, and June 30, 2006**



Foundation



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



- In fiscal year 2007, the allocation for working capital decreased 1% due to a reduction in pledges receivable.
- The unrestricted unreserved balance increased 16% percent due to a reduction in operating expenses during fiscal year 2007. Operating expenses decreased due to a decrease in scholarships given out from fiscal year 2006.
- The allocation for the fiscal year 2007 budget increased \$41,928 from the fiscal year 2006 budget. The allocation for the Presidential Scholarship was reduced by \$3,049. The allocation for Dual Enrollment scholarships was increased by \$340. The allocation for the Development Office operating expenses was increased by \$6,764.

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.

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

**Nashville State Technical Community College
Changes in Net Assets (in thousands of dollars)**

	2007	2006	2005
Operating revenues:			
Net tuition and fees	\$ 8,539	\$ 8,065	\$ 7,371
Grants and contracts	2,672	2,664	3,239
Auxiliary	211	224	215
Other	303	329	263
Total operating revenues	11,725	11,282	11,088
Operating expenses	33,050	31,058	29,185
Operating loss	(21,325)	(19,776)	(18,097)
Nonoperating revenues and expenses:			
State appropriations	15,325	14,045	13,800
Gifts	233	127	183
Grants and contracts	6,284	6,383	6,078
Investment income	883	653	283
Other revenues and expenses	(30)	(7)	(30)
Total nonoperating revenues and expenses	22,695	21,201	20,314
Income before other revenues, expenses, gains, or losses	1,370	1,425	2,217
Other revenues, expenses, gains, or losses:			
Capital appropriations	609	1,002	295
Other	-	(1)	3
Total other revenues, expenses, gains, or losses	609	1,001	298
Increase in net assets	1,979	2,426	2,515
Net assets at beginning of year	31,442	29,016	26,501
Net assets at end of year	\$33,421	\$31,442	\$29,016

- All revenue source categories increased during fiscal year 2006 except for governmental grants and contracts due to reduced awards of NSF grants.

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

- During fiscal year 2007, capital appropriations decreased due to the completion of the science lab renovation project. Capital assets increased in fiscal year 2006 due to capitalized Banner software.
- Operating revenues improved for each fiscal year due to increases in enrollment and tuition and fee increases.
- The decrease in operating grants and contracts from fiscal year 2005 to fiscal year 2006 is attributed to a reduction in funding of NSF grants.
- In fiscal year 2007, gifts increased significantly due to outside donations for scholarships. Gifts in fiscal year 2006 decreased because of a reduction of in-kind gifts to the college.
- In all three fiscal years, investment income has steadily increased due to rising interest rates.
- Other losses decreased in fiscal year 2006 from fiscal year 2005 due to investment of plant adjustments.

**Nashville State Technical Community College Foundation
Changes in Net Assets (in thousands of dollars)**

	2007	2006	2005
Operating revenues:			
Gifts	\$ 81	\$ 73	\$202
Grants and contracts	62	5	39
Other	146	120	105
Total operating revenues	289	198	346
Operating expenses	222	307	140
Operating income (loss)	67	(109)	206
Nonoperating revenues and expenses:			
Investment income	53	15	4
Total nonoperating revenues and expenses	53	15	4
Income (loss) before other revenues, expenses, gains, or losses	120	(94)	210

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

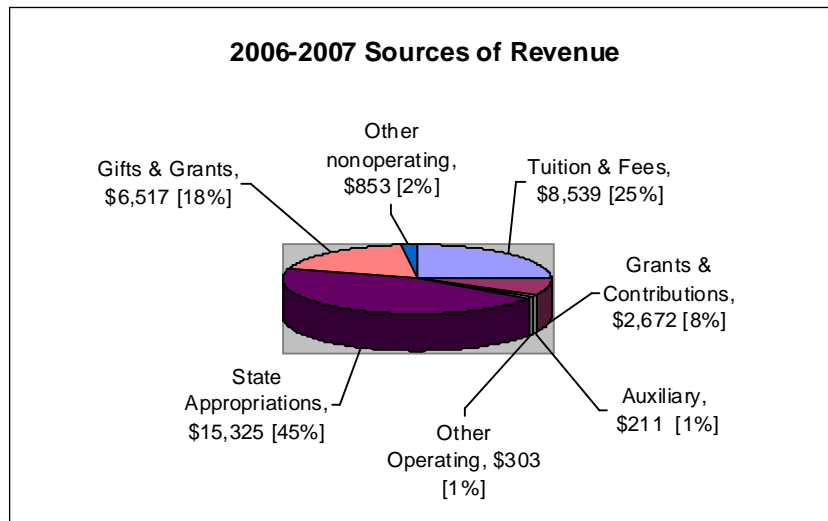
Other revenues, expenses, gains, or losses:

Additions to permanent endowments	26	39	15
Total other revenues, expenses, gains, or losses	26	39	15
Increase (decrease) in net assets	146	(55)	225
Net assets at beginning of year	605	660	435
Net assets at end of year	\$751	\$605	\$660

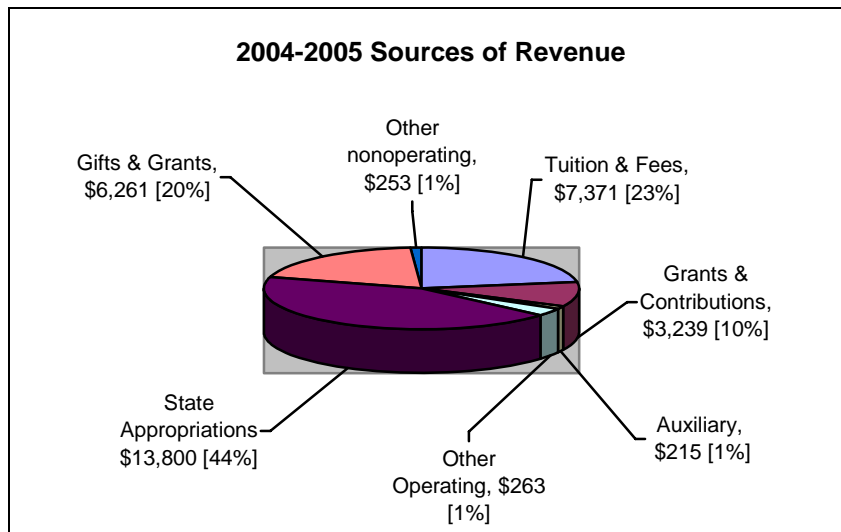
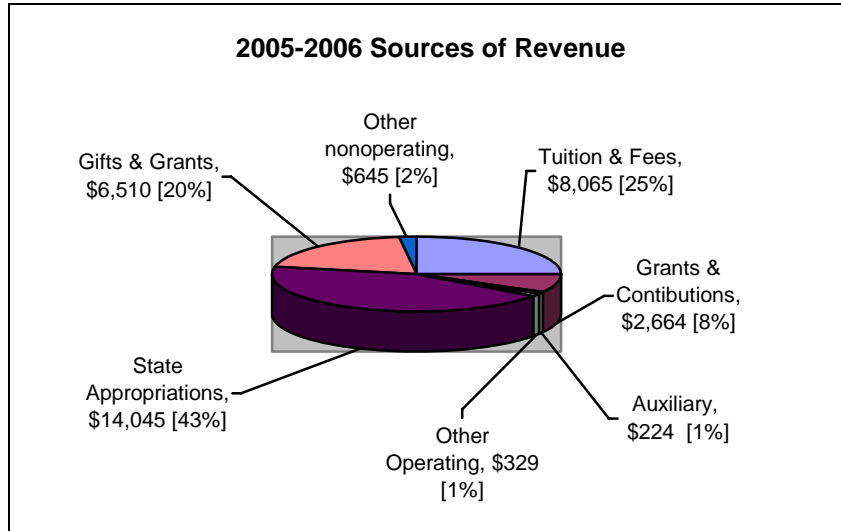
Revenues

The following is a graphic illustration of revenues by source (both operating and nonoperating), which are used to fund the college's operating activities for the year ended June 30, 2007; the year ended June 30, 2006; and the year ended June 30, 2005 (graphs are expressed in thousands).

College



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

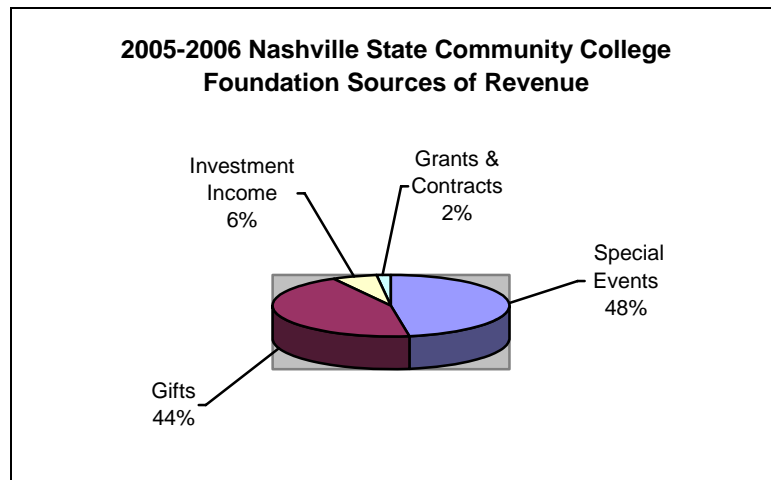
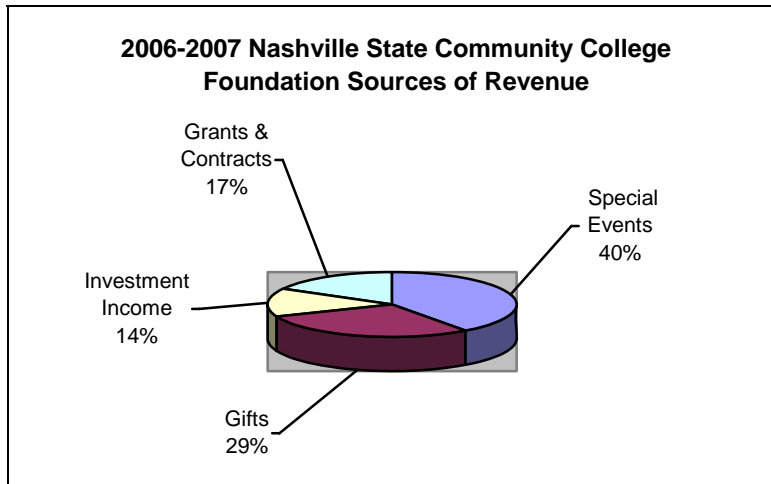


- In fiscal year 2007, an increase in state appropriations raised that portion of funding by 2% of overall revenues. In fiscal year 2006, all revenue sources categories increased compared to fiscal year 2005 except for governmental grants and contracts, which dropped only 2% within the overall revenue total.
- Bookstore revenue has remained stable at approximately 1% all three years.

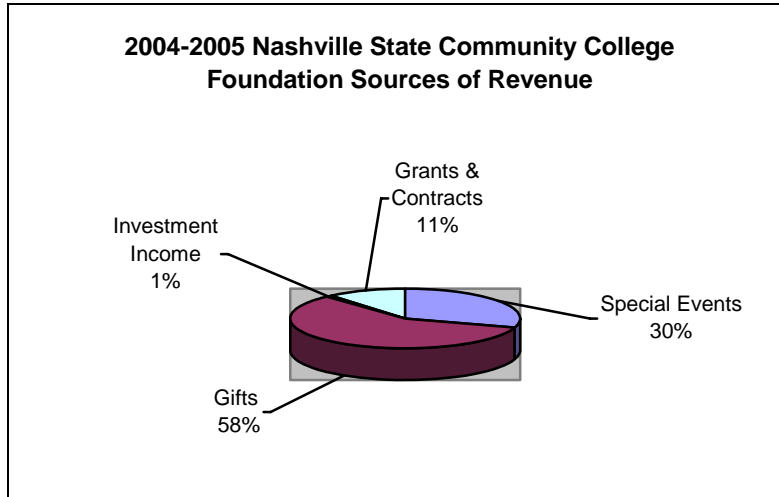
**Tennessee Board of Regents
Nashville State Technical Community College
Management's Discussion and Analysis (Cont.)
June 30, 2007, and June 30, 2006**

- Increases in state appropriations and interest on capital-asset-related debt contributed to the increase in nonoperating revenues during fiscal year 2007. In fiscal year 2006, increases in state appropriations, grants and contracts, and interest on capital-asset-related debt contributed to the nonoperating revenues increase compared to fiscal year 2005.

Foundation



**Tennessee Board of Regents
Nashville State Technical Community College
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- Investment income increased from 6% in fiscal year 2006 to 14% in fiscal year 2007 in total revenues. In March of 2006, an investment firm was hired to manage the foundation investments. Approximately two-thirds of foundation funds are managed through the investment firm, which has resulted in a greater rate of return than is available through the bank or local government investment pool.
- Grant and contract income increased from 2% in 2006 to 17% in fiscal year 2007 in total revenues. This is due to the receipt of a grant from Ford for the CITE center of \$44,389 and a grant from the Frist Foundation of \$17,500 for annual campaign development.
- Gifts declined in percentage from 44% in fiscal year 2006 to 29% in fiscal year 2007 in total revenues. Actual gift income increased by \$8,211, but the percentage of total income declined due to the large increases in investment income and grant income.
- Special events revenues declined in percentage from 48% in fiscal year 2006 to 40% in fiscal year 2007 in total revenues. Actual gift income increased by \$26,189, but the percentage of total income declined due to the large increases in investment income and grant income.
- In fiscal year 2006, investment income increased due to better interest rates.
- Other operating revenues in fiscal year 2006 increased from special event income. In fiscal year 2006, the increase was \$15,207, and of that increase, \$13,670 was attributable

**Tennessee Board of Regents
Nashville State Technical Community College
Management's Discussion and Analysis (Cont.)
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to a photography auction held to benefit the O'Bryant Scholarship and the O'Bryant endowment.

- Grants and contracts income decreased from \$39,500 in fiscal year 2005 to \$5,000 in fiscal year 2006. The foundation received a \$35,000 grant from Electronic Data Systems Incorporated during fiscal year 2005 that was non-recurring. Grants from TVA increased by \$500 in fiscal year 2006.
- Gifts decreased from \$202,105 in fiscal year 2005 to \$72,993 in fiscal year 2006. In fiscal year 2005, the foundation received a non-recurring \$140,000 gift from the Oprah Winfrey Foundation. Other gifts excluding the Oprah Winfrey Foundation increased by \$10,887 in fiscal year 2006 from fiscal year 2005, which represents a 17.53% increase over the prior year.
- In fiscal year 2006, operating revenues decreased due to a decrease in special event revenues, which decreased funds available for scholarships.
- In fiscal year 2006, funds were received by the foundation for permanent endowments for faculty members.

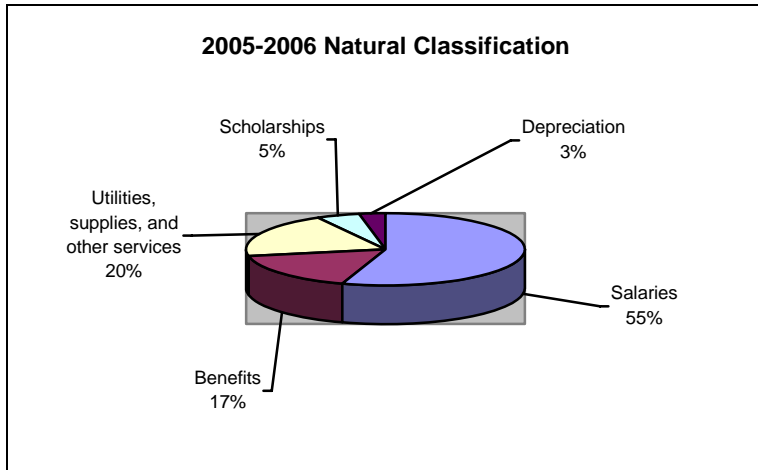
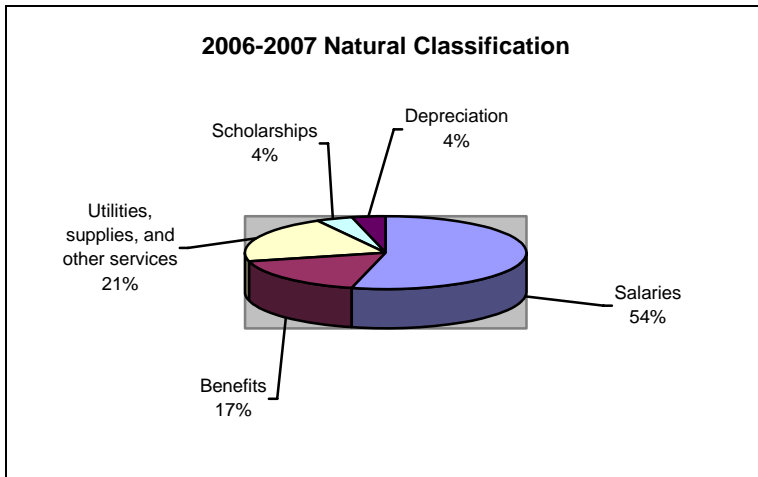
Expenses

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

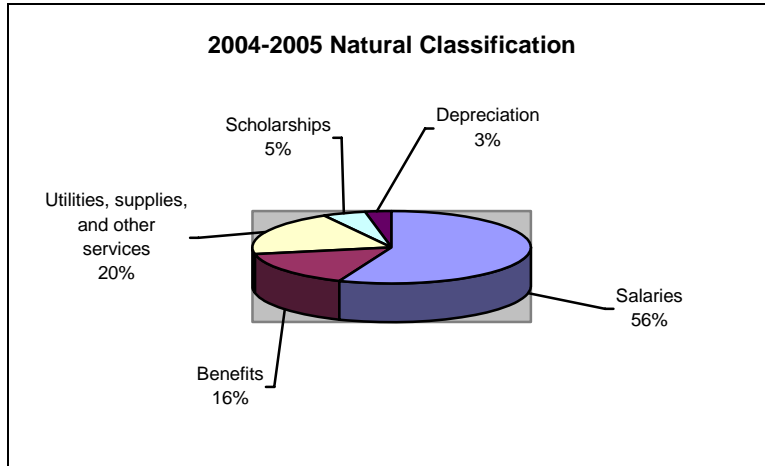
*Natural Classification
for the College*

	2007	2006	2005
Salaries	\$17,683	\$17,091	\$16,183
Benefits	5,593	5,160	4,665
Utilities, supplies, and other services	7,029	6,142	5,909
Scholarships	1,444	1,580	1,541
Depreciation	1,301	1,085	887
Total	\$33,050	\$31,058	\$29,185

**Tennessee Board of Regents
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**Tennessee Board of Regents
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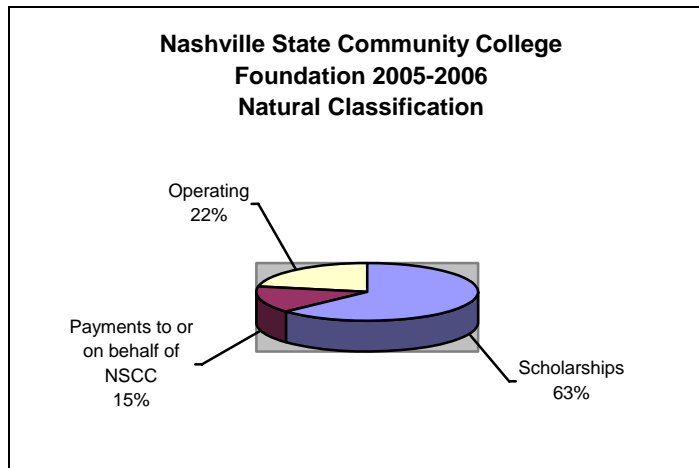
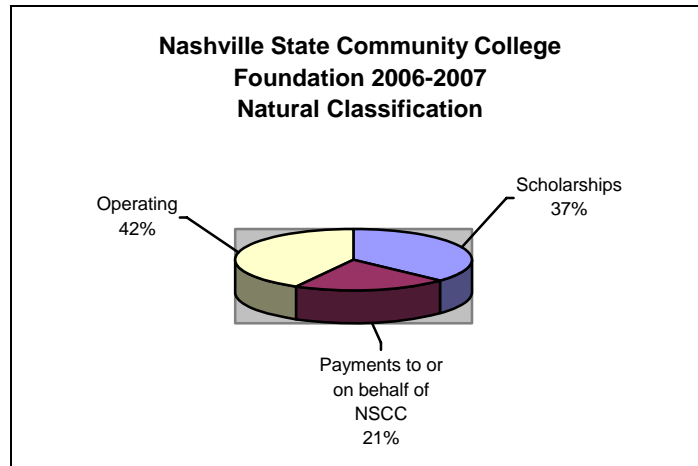


- The largest expense all three years was salaries, which account for slightly over half of all operating expenditures. A 3.45% across-the-board salary increase was given during fiscal year 2007. A 3% across-the-board and 1% equity salary increases occurred during fiscal year 2006.
- Benefits classification has remained between 16-17% of total expenses for the past three years.
- The utilities, supplies, and other expenses classification includes such items as printing, utilities, classroom and office supplies, and maintenance costs. It has remained around 20% of total expenses each year.
- Federal grants represent the largest component of the scholarship percentage.

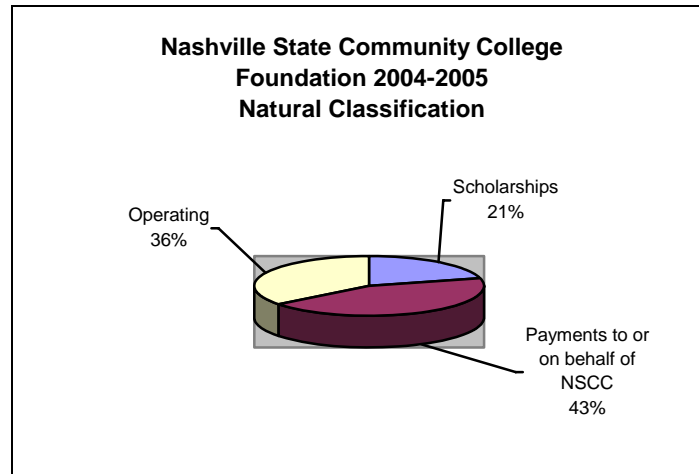
*Natural Classification
for the Nashville State Community College Foundation*

	2007	2006	2005
Utilities, supplies, and other services	\$ 93	\$ 67	\$ 50
Scholarships	83	194	29
Payments to or on behalf of NSCC	46	46	61
Total	\$222	\$307	\$140

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Nashville State Technical Community College
Management's Discussion and Analysis (Cont.)
June 30, 2007, and June 30, 2006**



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



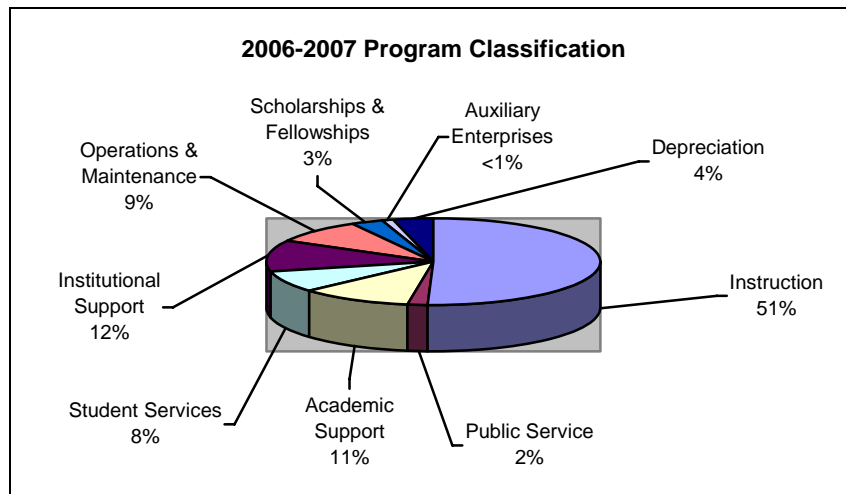
- Payments on behalf of the college increased from 15% of total expenses in fiscal year 2006 to 21% of total expenses in fiscal year 2007. This increase was due to \$40,000 in expenditures made from the Ford grant in support of the CITE center.
- Utilities supplies and other expenses increased from 22% of total expenses in fiscal year 2006 to 42% of total expenses in fiscal year 2007. This increase was due to increased expenses associated with special events of \$16,855 and \$8,000 in costs associated with annual campaign development.
- Scholarships decreased from 63% in 2006 to 37% in fiscal year 2007. In fiscal year 2006, the college awarded \$140,000 in Oprah Winfrey scholarships. This grant was for one year only.
- The increase in scholarships in fiscal year 2006 was due primarily to a gift of \$140,000 received from the Oprah Winfrey Foundation in fiscal year 2005. Other significant scholarship increases were \$11,750 in special event scholarships and \$4,734 in Ingram Scholarships from fiscal year 2005 to fiscal year 2006.
- The difference in payments on behalf of the college is attributable to the net effect of a \$50,000 non-recurring nursing grant that was expended in fiscal year 2005 and a \$34,460 grant from EDS for the Middle College expended in fiscal year 2006.
- The increase in utilities, supplies and other expenses in fiscal year 2006 is due primarily to increased special events expenses. Total expenses associated with special events increased

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

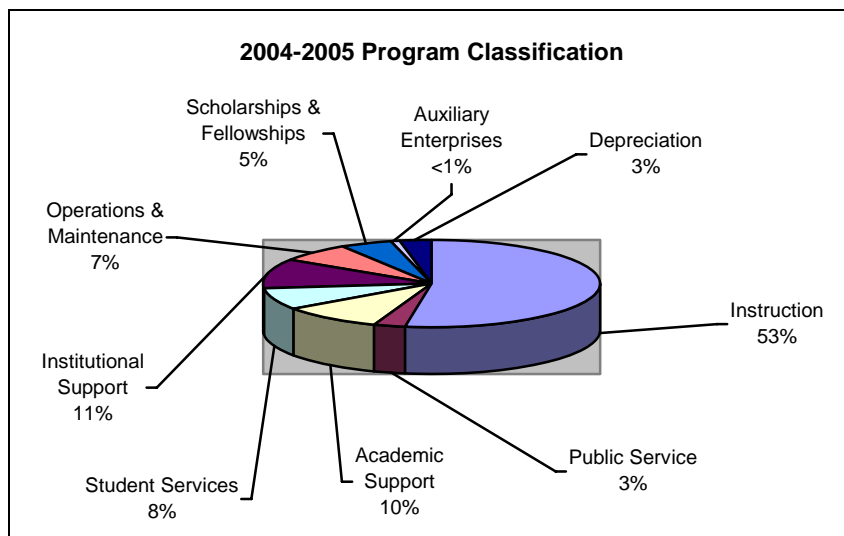
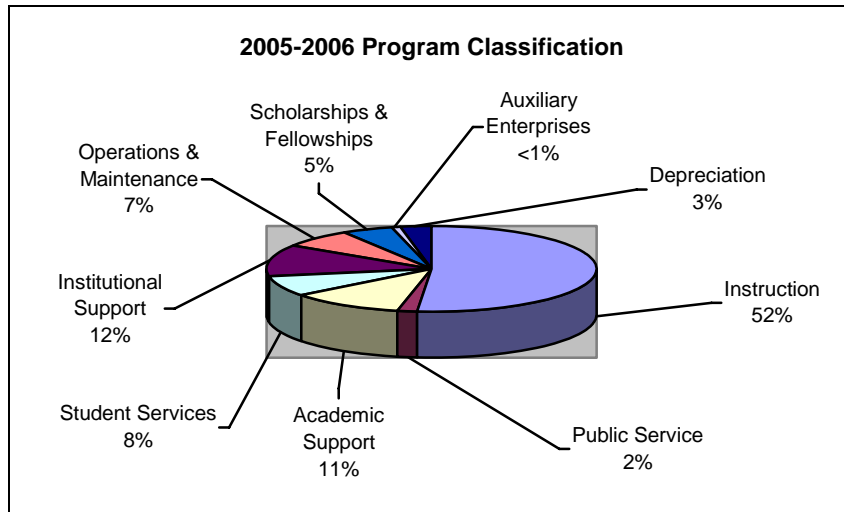
\$17,045 from fiscal year 2005 to fiscal year 2006. Of this amount, \$15,264 represents in-kind expenses on donated items.

***Program Classification
for the College***

	2007	2006	2005
Instruction	\$16,707	\$16,060	\$15,807
Public Service	720	701	736
Academic Support	3,606	3,389	2,788
Student Services	2,601	2,598	2,310
Institutional Support	4,102	3,695	3,291
Operations & Maintenance	2,942	2,107	1,914
Scholarships & Fellowships	1,068	1,420	1,449
Auxiliary Enterprises	4	3	3
Depreciation	1,300	1,085	887
Total	\$33,050	\$31,058	\$29,185



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



- The largest program expense is instruction. This represents instructional salaries, benefits, and supplies used in the classrooms and laboratories.
- General administrative expenses for the college include the program functions of student services, institutional support, academic support, and public services, which combined totaled 33% of total expenses for fiscal year 2007 and fiscal year 2006 and 32% of total expenses for fiscal year 2005.

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

- Operations and maintenance expenses include utilities, custodial supplies, and general maintenance support. This category has remained on an average at about 8% of total expenses all three years. Utilities make up approximately half of the program area expenses.
- Auxiliary expense has represented less than 1% of total expenses for the past three years. The college contracts the bookstore operation on a commission basis.

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.

**Nashville State Technical Community College
Cash Flows (in thousands of dollars)**

	2007	2006	2005
Cash provided (used) by:			
Operating activities	(\$19,586)	(\$18,490)	(\$17,049)
Noncapital financing activities	22,421	20,475	20,138
Capital and related financing activities	(695)	(1,838)	(1,441)
Investing activities	883	653	284
Net increase in cash	3,023	800	1,932
Cash, beginning of year	19,169	18,369	16,437
Cash, end of year	\$22,192	\$19,169	\$18,369

- State appropriations increased while capital appropriations and nonoperating grants and gifts decreased in fiscal year 2007. In fiscal year 2006, state appropriations and gifts and grants increases contributed to the increase in non-capital financing activities.
- Investing activities continued to improve in all three fiscal years due to higher returns on investments.
- The primary source of the college's cash flow is the state appropriation, which increased \$1,279,800 in fiscal year 2007 and \$244,700 in fiscal year 2006.

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

- Over the past three years, the college has maintained a positive cash flow due to fee increases.

Capital Assets and Debt Administration

Capital Assets

Nashville State Technical Community College had \$18,303,937 invested in capital assets, net of accumulated depreciation of \$13,898,545 at June 30, 2007; \$18,339,925 invested in capital assets, net of accumulated depreciation of \$12,732,060 at June 30, 2006; and \$16,598,449 invested in capital assets, net of accumulated depreciation of \$12,063,981 at June 30, 2005. Depreciation charges totaled \$1,300,663, \$1,084,514, and \$886,829 for the years ended June 30, 2007; June 30, 2006; and June 30, 2005, respectively. Details of these assets are shown below.

**Nashville State Technical Community College
Capital Assets, Net of Depreciation (in thousands of dollars)**

	2007	2006	2005
Land	\$ 1,340	\$ 1,340	\$ 1,340
Land improvements & infrastructure	734	800	866
Buildings	13,325	11,470	12,058
Equipment	1,585	1,625	1,233
Library holdings	290	305	318
Software	493	555	-
Projects in progress	537	2,245	783
Total	\$18,304	\$18,340	\$16,598

The college plans to purchase equipment for the Student Building soon to be under construction in 2008. Renovations of space in the current Student Services Building will begin after construction is completed. This renovated space will provide additional faculty offices and classrooms. More detailed information about the college's capital assets is presented in Note 4 to the financial statements.

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

In fiscal year 2007, in projects in progress, the renovation of the science labs was completed. This reduced capitalized projects in process and increased capitalized buildings.

In fiscal year 2006, projects in progress increased due to the capitalization of software. Equipment increases included upgrades of the campus telephone system, electronic signage, and digital lab equipment.

Debt

The college had \$835,051, \$64,343, and \$73,348 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.

Schedule of Debt (in thousands of dollars)

	2007	2006	2005
TSSBA Bonds due 2012/Commercial Paper	\$835,051	\$64,343	\$73,348

Debt issuance was TSSBA Bonds to finance a portion of the chiller replacement project and commercial paper for the energy performance contract. The state bond fund rating as of July 1, 2007, was rated as AA- with a stable outlook by Standard and Poor's. More detailed information about the college's long-term liabilities is presented in Note 5 of the financial statements.

Economic Factors That Will Affect the Future

College

The college is highly dependent upon state appropriations to offset operating losses. The Tennessee Higher Education Commission formula is used to establish appropriations recommendations each year. Despite the improvement funding recommended for fiscal year 2007-2008, continued long-term improvement funding beyond the next fiscal year remains unlikely.

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

During fiscal year 2006-2007 the college received funding for a student services classroom building. The approximate completion date for the construction is December 2008. The addition of this classroom space will enable the college to both better serve existing students as well as serve additional students.

The college has received funding for the 2007-2008 fiscal year for renovation of space that will be migrated to the new student services building. The renovation of the migrated space will provide badly needed faculty office space as well as a few additional classrooms. Renovations will not begin until construction of the new student services building is completed.

The construction of the student services/classroom building and ensuing renovation of migrated space will reduce, but not eliminate, the college space deficits. The college remains deficient in physical education space.

Foundation

The Upper Cumberland Educational Foundation was chartered in fiscal year 2007 to serve the Cookeville area. The Nashville State Community College Foundation is in the process of obtaining approval from donors that have given gifts restricted to the Don Sundquist campus to transfer the funds to the Upper Cumberland Educational Foundation. It is anticipated that approximately \$104,826 will be transferred to the Upper Cumberland Education Foundation. This includes \$90,784 in endowment principal, \$5,111 in endowment scholarships, and \$8,931 in scholarships restricted to the Don Sundquist campus.

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. George Van Allen, President, Nashville State Technical Community College, 120 White Bridge Road, Nashville, Tennessee 37209.

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

	Nashville State Technical Community College		Component Unit Nashville State Technical Community College Foundation	
	June 30, 2007	June 30, 2006	June 30, 2007	June 30, 2006
ASSETS				
Current assets:				
Cash and cash equivalents (Notes 2 and 13)	\$ 7,309,723.97	\$ 6,811,327.23	\$ 279,954.99	\$ 260,568.35
Short-term investments (Note 13)	-	-	469,615.50	335,847.49
Accounts, notes, and grants receivable (net) (Note 3)	1,395,082.40	1,373,761.66	1,255.00	50.00
Pledges receivable (net) (Note 13)	-	-	9,961.02	11,522.96
Prepaid expenses and deferred charges	262,965.49	58,393.03	-	-
Total current assets	<u>8,967,771.86</u>	<u>8,243,481.92</u>	<u>760,786.51</u>	<u>607,988.80</u>
Noncurrent assets:				
Cash and cash equivalents (Notes 2 and 13)	14,881,761.95	12,357,199.70	-	-
Capital assets (net) (Note 4)	18,303,937.18	18,339,924.93	-	-
Total noncurrent assets	<u>33,185,699.13</u>	<u>30,697,124.63</u>	<u>-</u>	<u>-</u>
Total assets	<u>42,153,470.99</u>	<u>38,940,606.55</u>	<u>760,786.51</u>	<u>607,988.80</u>
LIABILITIES				
Current liabilities:				
Accounts payable	356,455.28	827,229.67	3,323.23	2,946.16
Accrued liabilities	1,389,207.91	1,082,253.35	-	-
Student deposits	1,885.73	-	-	-
Deferred revenue	808,115.99	822,128.93	6,755.00	-
Compensated absences (Note 5)	255,500.06	157,574.77	-	-
Accrued interest payable	2,756.47	546.06	-	-
Long-term liabilities, current portion (Note 5)	9,894.55	9,450.38	-	-
Deposits held in custody for others	4,451,747.95	3,868,249.49	-	-
Other liabilities	182,266.78	122,373.90	-	-
Total current liabilities	<u>7,457,830.72</u>	<u>6,889,806.55</u>	<u>10,078.23</u>	<u>2,946.16</u>
Noncurrent liabilities:				
Compensated absences (Note 5)	449,964.32	554,039.51	-	-
Long-term liabilities (Note 5)	825,156.62	54,892.47	-	-
Total noncurrent liabilities	<u>1,275,120.94</u>	<u>608,931.98</u>	<u>-</u>	<u>-</u>
Total liabilities	<u>8,732,951.66</u>	<u>7,498,738.53</u>	<u>10,078.23</u>	<u>2,946.16</u>
NET ASSETS				
Invested in capital assets, net of related debt	17,468,886.01	18,275,582.08	-	-
Restricted for:				
Nonexpendable:				
Scholarships and fellowships	4,739.67	4,739.67	259,510.46	209,295.87
Expendable:				
Scholarships and fellowships (Notes 6 and 13)	26,856.24	5,918.23	200,021.23	152,646.16
Instructional department uses	132,051.94	151,267.35	5,344.00	955.00
Other	238,272.40	216,959.50	31,773.05	18,247.49
Unrestricted (Note 7)	15,549,713.07	12,787,401.19	254,059.54	223,898.12
Total net assets	<u>\$ 33,420,519.33</u>	<u>\$ 31,441,868.02</u>	<u>\$ 750,708.28</u>	<u>\$ 605,042.64</u>

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

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

	Nashville State Technical Community College		Component Unit Nashville 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 \$5,759,418.81 for the year ended June 30, 2007, and \$5,539,409.86 for the year ended June 30, 2006)	\$ 8,539,289.69	\$ 8,064,536.01	\$ -	\$ -
Gifts and contributions	-	-	81,203.69	72,992.67
Governmental grants and contracts	2,397,222.36	2,061,017.00	-	5,000.00
Nongovernmental grants and contracts	275,112.23	602,622.70	61,889.00	-
Sales and services of educational departments	23,190.93	26,364.35	-	-
Auxiliary enterprises:				
Bookstore	211,408.14	223,981.21	-	-
Other operating revenues	279,323.00	303,358.78	146,069.09	119,880.54
Total operating revenues	<u>11,725,546.35</u>	<u>11,281,880.05</u>	<u>289,161.78</u>	<u>197,873.21</u>
EXPENSES				
Operating expenses (Note 12):				
Salaries and wages	17,683,098.21	17,090,914.03	-	-
Benefits	5,593,117.23	5,160,520.83	-	-
Utilities, supplies, and other services	7,029,294.61	6,141,587.27	92,856.00	66,720.33
Scholarships and fellowships	1,443,936.28	1,580,558.35	82,985.00	193,678.00
Depreciation expense	1,300,663.31	1,084,514.02	-	-
Payments to or on behalf of Nashville State Technical Community College (Note 13)	-	-	46,058.46	46,427.58
Total operating expenses	<u>33,050,109.64</u>	<u>31,058,094.50</u>	<u>221,899.46</u>	<u>306,825.91</u>
Operating income (loss)	<u>(21,324,563.29)</u>	<u>(19,776,214.45)</u>	<u>67,262.32</u>	<u>(108,952.70)</u>
NONOPERATING REVENUES (EXPENSES)				
State appropriations	15,324,700.00	14,044,900.00	-	-
Gifts, including \$46,058.46 from component unit for the year ended June 30, 2007, and \$46,427.58 for the year ended June 30, 2006	232,690.27	126,559.27	-	-
Grants and contracts	6,283,914.95	6,383,207.24	-	-
Investment income	882,408.67	652,813.64	52,229.32	14,595.12
Interest on capital asset-related debt	(29,662.34)	(3,522.82)	-	-
Other nonoperating revenues (expenses)	-	(3,000.53)	-	-
Net nonoperating revenues	<u>22,694,051.55</u>	<u>21,200,956.80</u>	<u>52,229.32</u>	<u>14,595.12</u>
Income (loss) before other revenues, expenses, gains, or losses	<u>1,369,488.26</u>	<u>1,424,742.35</u>	<u>119,491.64</u>	<u>(94,357.58)</u>
Capital appropriations	609,163.05	1,001,621.14	-	-
Additions to permanent endowments	-	-	26,174.00	39,153.00
Other capital	-	(754.06)	-	-
Total other revenues	<u>609,163.05</u>	<u>1,000,867.08</u>	<u>26,174.00</u>	<u>39,153.00</u>
Increase (decrease) in net assets	<u>1,978,651.31</u>	<u>2,425,609.43</u>	<u>145,665.64</u>	<u>(55,204.58)</u>
NET ASSETS				
Net assets - beginning of year	<u>31,441,868.02</u>	<u>29,016,258.59</u>	<u>605,042.64</u>	<u>660,247.22</u>
Net assets - end of year	<u>\$ 33,420,519.33</u>	<u>\$ 31,441,868.02</u>	<u>\$ 750,708.28</u>	<u>\$ 605,042.64</u>

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

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

	Year Ended <u>June 30, 2007</u>	Year Ended <u>June 30, 2006</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Tuition and fees	\$ 8,441,030.91	\$ 7,991,541.22
Grants and contracts	2,740,047.53	2,761,860.38
Sales and services of educational activities	23,190.93	26,364.35
Payments to suppliers and vendors	(6,294,510.25)	(5,989,752.57)
Payments to employees	(17,720,311.73)	(16,941,863.59)
Payments for benefits	(5,608,658.60)	(5,107,483.06)
Payments for scholarships and fellowships	(1,657,448.06)	(1,758,010.38)
Auxiliary enterprise charges:		
Bookstore	211,408.14	223,981.21
Other receipts (payments)	279,323.00	303,358.78
Net cash used by operating activities	<u>(19,585,928.13)</u>	<u>(18,490,003.66)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State appropriations	15,321,000.00	14,046,100.00
Gifts and grants received for other than capital purposes, including \$46,058.46 from Nashville State Technical Community College Foundation for the year ended June 30, 2007, and \$46,427.58 for the year ended June 30, 2006	6,516,605.22	6,509,766.51
Federal student loan receipts	7,852,861.63	8,075,223.14
Federal student loan disbursements	(7,852,861.63)	(8,075,223.14)
Changes in deposits held for others	583,498.46	(78,066.22)
Other noncapital financing receipts (payments)	-	(3,000.53)
Net cash provided by noncapital financing activities	<u>22,421,103.68</u>	<u>20,474,799.76</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital appropriations	609,163.05	1,001,621.14
Purchases of capital assets and construction	(1,264,675.56)	(2,827,560.93)
Principal paid on capital debt	(9,450.38)	(9,004.65)
Interest paid on capital debt	(29,662.34)	(3,597.62)
Other capital and related financing receipts (payments)	-	816.69
Net cash used by capital and related financing activities	<u>(694,625.23)</u>	<u>(1,837,725.37)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Income on investments	882,408.67	652,813.64
Net cash provided by investing activities	<u>882,408.67</u>	<u>652,813.64</u>
Net increase in cash and cash equivalents	3,022,958.99	799,884.37
Cash and cash equivalents - beginning of year	19,168,526.93	18,368,642.56
Cash and cash equivalents - end of year	<u>\$ 22,191,485.92</u>	<u>\$ 19,168,526.93</u>

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

	<u>Year Ended</u> <u>June 30, 2007</u>	<u>Year Ended</u> <u>June 30, 2006</u>
Reconciliation of operating loss to net cash used by operating activities:		
Operating loss	\$ (21,324,563.29)	\$ (19,776,214.45)
Adjustments to reconcile operating loss to net cash used by operating activities:		
Depreciation expense	1,300,663.31	1,084,514.02
Change in assets and liabilities:		
Receivables, net	(17,620.74)	(52,181.98)
Prepaid/deferred items	(264,384.65)	29,867.69
Accounts payable	744,641.12	(43,570.58)
Accrued liabilities	(53,670.31)	88,423.61
Deferred revenue	47,684.98	118,667.75
Compensated absences	(18,678.55)	60,490.28
Net cash used by operating activities	<u>\$ (19,585,928.13)</u>	<u>\$ (18,490,003.66)</u>

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

Tennessee Board of Regents
Nashville State Technical Community College
Notes to the Financial Statements
June 30, 2007, and June 30, 2006

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 financial statements present only that portion of the Tennessee Board of Regents' activities that is attributable to the transactions of Nashville State Technical Community College.

The Nashville 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.

Tennessee Board of Regents
Nashville State Technical Community College
Notes to the Financial Statements (Cont.)
June 30, 2007, and June 30, 2006

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.

Cash Equivalents

This classification includes instruments that are readily convertible to known amounts of cash and have original maturities of three months or less.

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

Tennessee Board of Regents
Nashville State Technical Community College
Notes to the Financial Statements (Cont.)
June 30, 2007, and June 30, 2006

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.

Tennessee Board of Regents
Nashville State Technical Community College
Notes to the Financial Statements (Cont.)
June 30, 2007, and June 30, 2006

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 \$595,333.07 in bank accounts, \$1,600.00 of petty cash on hand, \$21,301,333.72 in the State of Tennessee Local Government Investment Pool (LGIP) administered by the State Treasurer, and \$293,219.13 in LGIP deposits for capital projects. At June 30, 2006, cash consisted of \$698,156.64 in bank accounts, \$900.00 of petty cash on hand, \$17,572,846.26 in the State of Tennessee Local Government Investment Pool administered by the State Treasurer, and \$896,624.03 in LGIP deposits for capital projects.

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

Tennessee Board of Regents
Nashville State Technical Community College
Notes to the Financial Statements (Cont.)
June 30, 2007, and June 30, 2006

NOTE 3. RECEIVABLES

Receivables included the following:

	<u>June 30, 2007</u>	<u>June 30, 2006</u>
Student accounts receivable	\$ 956,768.34	\$ 846,993.26
Grants receivable	458,378.68	525,391.62
State appropriation receivable	50,000.00	46,300.00
Other receivables	<u>68,935.38</u>	<u>71,076.78</u>
Subtotal	1,534,082.40	1,489,761.66
Less allowance for doubtful accounts	<u>(139,000.00)</u>	<u>(116,000.00)</u>
Total receivables	<u>\$1,395,082.40</u>	<u>\$1,373,761.66</u>

NOTE 4. CAPITAL ASSETS

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

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Transfers</u>	<u>Reductions</u>	<u>Ending Balance</u>
Land	\$ 1,340,140.00	\$ -	\$ -	\$ -	\$ 1,340,140.00
Land improvements and infrastructure	1,577,382.21	-	-	-	1,577,382.21
Buildings	21,069,601.86	325,771.43	2,244,824.57	-	23,640,197.86
Equipment	3,598,668.38	375,665.93	-	73,459.50	3,900,874.81
Library holdings	624,685.78	53,203.95	-	87,224.45	590,665.28
Software	616,682.59	-	-	-	616,682.59
Projects in progress	<u>2,244,824.57</u>	<u>536,539.25</u>	<u>(2,244,824.57)</u>	-	<u>536,539.25</u>
Total	<u>31,071,985.39</u>	<u>1,291,180.56</u>	<u>-</u>	<u>160,683.95</u>	<u>32,202,482.00</u>
Less accum. depreciation:					
Land improvements and infrastructure	777,339.74	66,611.97	-	-	843,951.71
Buildings	9,599,124.51	716,220.49	-	-	10,315,345.00

Tennessee Board of Regents
Nashville State Technical Community College
Notes to the Financial Statements (Cont.)
June 30, 2007, and June 30, 2006

Equipment	1,974,156.14	388,373.63	-	46,954.50	2,315,575.27
Library holdings	319,771.81	67,788.96	-	87,224.45	300,336.32
Software	<u>61,668.26</u>	<u>61,668.26</u>	-	-	<u>123,336.52</u>
Total accum. depreciation	<u>12,732,060.46</u>	<u>1,300,663.31</u>	-	<u>134,178.95</u>	<u>13,898,544.82</u>
Capital assets, net	<u>\$18,339,924.93</u>	<u>\$ (9,482.75)</u>	<u>\$ -</u>	<u>\$ 26,505.00</u>	<u>\$18,303,937.18</u>

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

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Transfers</u>	<u>Reductions</u>	<u>Ending Balance</u>
Land	\$ 1,340,140.00	\$ -	\$ -	\$ -	\$ 1,340,140.00
Land improvements and infrastructure	1,577,382.21	-	-	-	1,577,382.21
Buildings	21,069,601.86	-	-	-	21,069,601.86
Equipment	3,229,082.46	689,558.12	-	319,972.20	3,598,668.38
Library holdings	663,217.57	59,501.73	-	98,033.52	624,685.78
Software	-	53,406.00	563,276.59	-	616,682.59
Projects in progress	<u>783,006.08</u>	<u>2,025,095.08</u>	<u>(563,276.59)</u>	-	<u>2,244,824.57</u>
Total	<u>28,662,430.18</u>	<u>2,827,560.93</u>	-	<u>418,005.72</u>	<u>31,071,985.39</u>
Less accum. depreciation:					
Land improvements and infrastructure	710,727.77	66,611.97	-	-	777,339.74
Buildings	9,011,433.81	587,690.70	-	-	9,599,124.51
Equipment	1,996,286.44	296,271.15	-	318,401.45	1,974,156.14
Library holdings	345,533.39	72,271.94	-	98,033.52	319,771.81
Software	-	<u>61,668.26</u>	-	-	<u>61,668.26</u>
Total accum. depreciation	<u>12,063,981.41</u>	<u>1,084,514.02</u>	-	<u>416,434.97</u>	<u>12,732,060.46</u>
Capital assets, net	<u>\$16,598,448.77</u>	<u>\$1,743,046.91</u>	<u>\$ -</u>	<u>\$ 1,570.75</u>	<u>\$18,339,924.93</u>

Tennessee Board of Regents
Nashville State Technical Community College
Notes to the Financial Statements (Cont.)
June 30, 2007, and June 30, 2006

NOTE 5. LONG-TERM LIABILITIES

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

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Current Portion</u>
Payables:					
TSSBA debt:					
Bonds	\$ 64,342.85	\$ -	\$ 9,450.38	\$ 54,892.47	\$ 9,894.55
Commercial paper	<u>-</u>	<u>780,158.70</u>	<u>-</u>	<u>780,158.70</u>	<u>-</u>
Subtotal	<u>64,342.85</u>	<u>780,158.70</u>	<u>9,450.38</u>	<u>835,051.17</u>	<u>9,894.55</u>
Other liabilities:					
Compensated absences	<u>711,614.28</u>	<u>396,665.76</u>	<u>402,815.66</u>	<u>705,464.38</u>	<u>255,500.06</u>
Total long-term liabilities	<u>\$775,957.13</u>	<u>\$1,176,824.46</u>	<u>\$412,266.04</u>	<u>\$1,540,515.55</u>	<u>\$265,394.61</u>

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

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Current Portion</u>
Payables:					
TSSBA debt:					
Bonds	\$ 73,347.50	\$ -	\$ 9,004.65	\$ 64,342.85	\$ 9,450.38
Other liabilities:					
Compensated absences	<u>681,026.08</u>	<u>470,127.16</u>	<u>439,538.96</u>	<u>711,614.28</u>	<u>157,574.77</u>
Total long-term liabilities	<u>\$754,373.58</u>	<u>\$470,127.16</u>	<u>\$448,543.61</u>	<u>\$775,957.13</u>	<u>\$167,025.15</u>

TSSBA Debt - Bonds

Bonds, with an interest rate of 5%, were issued by the Tennessee State School Bond Authority (TSSBA). The bonds are due serially to 2012 and are secured by pledges of the facilities' revenues to which they relate and certain other revenues and fees of the college, including state appropriations.

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

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Nashville State Technical Community College
Notes to the Financial Statements (Cont.)
June 30, 2007, and June 30, 2006**

Year Ending <u>June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	\$ 9,894.55	\$2,744.62	\$12,639.17
2009	10,409.06	2,249.90	12,658.96
2010	10,950.33	1,729.44	12,679.77
2011	11,519.75	1,181.92	12,701.67
2012	<u>12,118.78</u>	<u>605.94</u>	<u>12,724.72</u>
	<u>\$54,892.47</u>	<u>\$8,511.82</u>	<u>\$63,404.29</u>

TSSBA Debt - Commercial Paper

The Tennessee State School Bond Authority issues commercial paper to finance the costs of various capital projects during their construction phase. When projects are placed in service, long-term, fixed-rate debt is issued by TSSBA to finance the project over its useful payback period and the commercial paper is redeemed. The amount issued for projects at the college was \$780,158.70 at June 30, 2007.

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

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

NOTE 6. ENDOWMENTS

If a donor has not provided specific instructions to the college, state law permits the college to authorize for expenditure the earnings of the investments of endowment funds. When administering its power to spend the earnings, the college is required to consider the college's long-term and short-term needs, present and anticipated

**Tennessee Board of Regents
Nashville State Technical Community College
Notes to the Financial Statements (Cont.)
June 30, 2007, and June 30, 2006**

financial requirements, expected return on its investments, price-level trends, and general economic conditions. Any earnings spent are required to be spent for the purposes for which the endowment was established.

The college chooses to spend only a portion of the investment income each year. Under the spending plan established by the college, 95% of investment earnings on endowments not otherwise specifying a specific spending plan are available for allocation. The remaining amount, if any, is added to the endowment base. At June 30, 2007, investment income of \$252.40 is available to be spent, which is included in restricted net assets expendable for scholarships and fellowships. At June 30, 2006, investment income of \$195.00 is available to be spent, which is included in restricted net assets expendable for scholarships and fellowships.

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:

	<u>June 30, 2007</u>	<u>June 30, 2006</u>
Working capital	\$ 588,035.29	\$ 617,302.33
Encumbrances	240,815.44	211,104.55
Auxiliaries	11,200.00	9,500.00
Plant construction	4,086,767.63	3,092,461.75
Renewal and replacement of equipment	7,304,361.77	6,245,125.76
Debt retirement	55,187.28	31,513.33
Undesignated	<u>3,263,345.66</u>	<u>2,580,393.47</u>
Total	<u>\$15,549,713.07</u>	<u>\$12,787,401.19</u>

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Nashville State Technical Community College
Notes to the Financial Statements (Cont.)
June 30, 2007, and June 30, 2006

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 \$1,165,999.30, \$826,279.71, and \$776,333.28. 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

Tennessee Board of Regents
Nashville State Technical Community College
Notes to the Financial Statements (Cont.)
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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 \$606,712.17 for the year ended June 30, 2007, and \$593,969.15 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

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Notes to the Financial Statements (Cont.)
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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 \$61,223,400 for buildings and \$20,185,500 for contents. At June 30, 2006, the scheduled coverage for the college was \$36,920,700 for buildings and \$20,130,500 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.

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Notes to the Financial Statements (Cont.)
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NOTE 11. COMMITMENTS AND CONTINGENCIES

Sick Leave - The college records the cost of sick leave when paid. Generally, since sick leave (earned one day per month with unlimited accumulation) is paid only when an employee dies or is absent because of illness, injury, or related family death, there is no liability for sick leave at June 30. The dollar amount of unused sick leave was \$5,201,829.94 at June 30, 2007, and \$4,958,456.95 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 real property were \$57,878.16 and for personal property were \$73,014.38 for the year ended June 30, 2007. Comparative amounts for the year ended June 30, 2006, were \$0.00 and \$60,364.50. All operating leases are cancelable at the lessee's option.

Construction in Progress - At June 30, 2007, outstanding commitments under construction contracts totaled \$1,287,897.73 for the Academic/Student Services Building, A Building lab upgrade, roof replacements, fire alarm/security improvements, infrastructure, and ADA improvements, of which \$1,278,567.15 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 estimated as \$81,688.06 at June 30, 2007, and \$70,731.70 at June 30, 2006.

Litigation - The college is involved in one lawsuit, which is not expected to have a material effect on the accompanying financial statements.

NOTE 12. NATURAL CLASSIFICATIONS WITH FUNCTIONAL CLASSIFICATIONS

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

**Tennessee Board of Regents
Nashville State Technical Community College
Notes to the Financial Statements (Cont.)
June 30, 2007, and June 30, 2006**

Functional Classification	Salaries	Benefits	Natural Classification			Total
			Other	Operating	Scholarships	
Instruction	\$10,115,571.79	\$2,835,498.89	\$3,723,368.88	\$ 32,428.88	\$ -	\$16,706,868.44
Public service	448,242.41	149,975.13	108,596.99	12,966.18	-	719,780.71
Academic support	3,117,505.29	994,172.28	(547,284.49)	41,831.16	-	3,606,224.24
Student services	1,416,180.78	567,268.42	611,832.78	5,481.10	-	2,600,763.08
Institutional support	2,064,224.41	818,871.83	880,359.73	338,542.49	-	4,101,998.46
Operation & maintenance	521,373.53	227,330.68	2,193,157.47	-	-	2,941,861.68
Scholarships & fellowships	-	-	55,378.05	1,012,686.47	-	1,068,064.52
Auxiliary	-	-	3,885.20	-	-	3,885.20
Depreciation	-	-	-	-	1,300,663.31	1,300,663.31
Total	<u>\$17,683,098.21</u>	<u>\$5,593,117.23</u>	<u>\$7,029,294.61</u>	<u>\$1,443,936.28</u>	<u>\$1,300,663.31</u>	<u>\$33,050,109.64</u>

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

Functional Classification	Salaries	Benefits	Natural Classification			Total
			Other	Operating	Scholarships	
Instruction	\$ 9,957,553.14	\$2,838,068.90	\$3,094,010.23	\$ 170,574.66	\$ -	\$16,060,206.93
Public service	399,190.51	106,910.95	194,663.09	-	-	700,764.55
Academic support	2,941,182.56	828,615.96	(421,014.98)	40,239.00	-	3,389,022.54
Student services	1,292,267.73	483,236.45	802,648.35	19,230.63	-	2,597,383.16
Institutional support	1,993,031.04	711,009.73	986,392.00	4,734.00	-	3,695,166.77
Operation & maintenance	507,689.05	192,678.84	1,406,935.69	-	-	2,107,303.58
Scholarships & fellowships	-	-	74,489.00	1,345,780.06	-	1,420,269.06
Auxiliary	-	-	3,463.89	-	-	3,463.89
Depreciation	-	-	-	-	\$1,084,514.02	1,084,514.02
Total	<u>\$17,090,914.03</u>	<u>\$5,160,520.83</u>	<u>\$6,141,587.27</u>	<u>\$1,580,558.35</u>	<u>\$1,084,514.02</u>	<u>\$31,058,094.50</u>

NOTE 13. COMPONENT UNIT

The Nashville State Technical Community College Foundation is a legally separate, tax-exempt organization supporting Nashville 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 28-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

Tennessee Board of Regents
Nashville State Technical Community College
Notes to the Financial Statements (Cont.)
June 30, 2007, and June 30, 2006

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 \$46,058.46 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 \$46,427.58 to or on behalf of the college for both restricted and unrestricted purposes. Complete financial statements for the foundation can be obtained from Debra Bauer, Nashville State Technical Community College, 120 White Bridge Road, Nashville, Tennessee 37209.

Cash and cash equivalents - Cash and cash equivalents consists of demand deposit accounts, money market funds, and the State of Tennessee Local Government Investment Pool. Uninsured bank balances as of June 30, 2007, and June 30, 2006, totaled \$92,366.77 and \$9,404.44, respectively.

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:

	<u>Cost</u>	<u>Market Value</u>
Mutual equity funds	\$456,563.05	\$469,615.50

**Tennessee Board of Regents
Nashville State Technical Community College
Notes to the Financial Statements (Cont.)
June 30, 2007, and June 30, 2006**

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

	<u>Cost</u>	<u>Market Value</u>
Mutual equity funds	\$338,081.83	\$335,847.49

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

	<u>June 30, 2007</u>	<u>June 30, 2006</u>
Current pledges	\$9,961.02	\$11,522.96
Pledges due in one to five years	-	-
Pledges due after five years	-	-
Subtotal	<u>9,961.02</u>	<u>11,522.96</u>
Less discount to net present value	<u>(-)</u>	<u>(-)</u>
Total pledges receivable, net	<u>\$9,961.02</u>	<u>\$11,522.96</u>

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, for endowments with a base of more than \$10,000, 95% of investment earnings, on endowments not otherwise specifying a specific spending plan, are available for allocation. The remaining amount, if any, is added to the endowment base. On endowments with a balance of less than \$10,000, all earnings are added to the base of the endowment. At June 30, 2007, net appreciation of \$14,600.10 is available to be spent which is included in restricted net assets expendable for scholarships and fellowships. At June 30, 2006, net appreciation of \$2,724.20 is available to be spent which is included in restricted net assets expendable for scholarships and fellowships.

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

	<u>Year Ended</u> <u>June 30, 2007</u>	<u>Year Ended</u> <u>June 30, 2006</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Gifts and contributions	\$ 81,560.63	\$ 73,089.95
Grants and contracts	61,889.00	5,000.00
Payments to suppliers and vendors	(92,478.93)	(68,774.17)
Payments for scholarships and fellowships	(82,985.00)	(193,678.00)
Payments to Nashville State Technical Community College	(46,058.46)	(46,427.58)
Other receipts (payments)	152,824.09	119,880.54
Net cash provided (used) by operating activities	<u>74,751.33</u>	<u>(110,909.26)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Private gifts for endowment purposes	26,174.00	39,153.00
Net cash provided by noncapital financing activities	<u>26,174.00</u>	<u>39,153.00</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of investments	-	1,416.42
Income on investments	7,485.88	15,413.04
Purchases of investments	(89,024.57)	(338,081.83)
Net cash used by investing activities	<u>(81,538.69)</u>	<u>(321,252.37)</u>
Net increase (decrease) in cash and cash equivalents	19,386.64	(393,008.63)
Cash and cash equivalents - beginning of year	260,568.35	653,576.98
Cash and cash equivalents - end of year	<u>\$ 279,954.99</u>	<u>\$ 260,568.35</u>
Reconciliation of operating loss to net cash used by operating activities:		
Operating income (loss)	\$ 67,262.32	\$ (108,952.70)
Adjustments to reconcile operating loss to net cash used by operating activities:		
Change in assets and liabilities:		
Receivables, net	356.94	97.28
Prepaid/deferred items	6,755.00	-
Accounts payable	377.07	(2,053.84)
Net cash provided (used) by operating activities	<u>\$ 74,751.33</u>	<u>\$ (110,909.26)</u>