

AUDIT REPORT

Tennessee Board of Regents
Mississippi 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 Thomas, CPA, CFE
Assistant Director

Robert D. Hunter, Jr., CPA
Audit Manager

Ben Johnson, CPA, CFE
Alicia Reed, CFE
In-Charge Auditors

Mary Cole, CPA
Jennifer Pedersen
Karen Phillips, CPA
Ben Rogers, CFE
Emily Uptain
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

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



STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
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

December 4, 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. Allen G. Edwards, President
Pellissippi State Technical Community College
P. O. Box 22990
Knoxville, Tennessee 37933-0990

Ladies and Gentlemen:

Transmitted herewith is the financial and compliance audit of the Tennessee Board of Regents, Pellissippi State Technical Community College, for the years ended June 30, 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 a deficiency, which is detailed in the Results of the Audit section of this report. The college's administration has responded to the audit finding; the response is included following the finding. The Division of State Audit will follow up the audit to examine the application of the procedures instituted because of the audit finding.

Sincerely,

Arthur A. Hayes, Jr., CPA
Director

AAH/sds
08/053

State of Tennessee

Audit Highlights

Comptroller of the Treasury

Division of State Audit

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

AUDIT OBJECTIVES

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

INTERNAL CONTROL FINDING

The College's Financial Analyst Lacked Adequate Knowledge and Experience Concerning Endowment Reporting, Resulting in Material Misclassifications on the Foundation's Financial Statements

The Financial Analyst at Pellissippi State Technical Community College, who oversees the college foundation's accounting operations and prepares the foundation's financial statements, lacked adequate knowledge and experience to ensure the accuracy of the foundation's endowment accounting and the accuracy of reporting the foundation's financial statements. As a result, material reporting errors were made on the foundation's financial statements in the college's 2007 financial report (page 9).

OPINIONS ON THE FINANCIAL STATEMENTS

The opinions on the financial statements are unqualified.

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

TABLE OF CONTENTS

	<u>Exhibit</u>	<u>Page</u>
INTRODUCTION		1
Post-Audit Authority		1
Background		1
Organization		2
AUDIT SCOPE		2
OBJECTIVES OF THE AUDIT		2
PRIOR AUDIT FINDINGS		3
OBSERVATIONS AND COMMENTS		3
Management's Responsibility for Risk Assessment		3
Fraud Considerations		4
Technology Center		4
RESULTS OF THE AUDIT		4
Audit Conclusions		4
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i>		6
Finding and Recommendation		9
The college's Financial Analyst lacked adequate knowledge and experience concerning endowment reporting, resulting in material misclassifications on the foundation's financial statements		9

TABLE OF CONTENTS (CONT.)

	<u>Exhibit</u>	<u>Page</u>
FINANCIAL SECTION		11
Independent Auditor's Report		11
Management's Discussion and Analysis		14
Financial Statements		34
Statements of Net Assets	A	34
Statements of Revenues, Expenses, and Changes in Net Assets	B	35
Statements of Cash Flows	C	36
Notes to the Financial Statements		38
Supplementary Information		53
Statements of Cash Flows - Component Unit		53

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

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

BACKGROUND

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.

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

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

ORGANIZATION

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

AUDIT SCOPE

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

OBJECTIVES OF THE AUDIT

The objectives of the audit were

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

PRIOR AUDIT FINDINGS

There were no findings in the prior audit report.

OBSERVATIONS AND COMMENTS

MANAGEMENT'S RESPONSIBILITY FOR RISK ASSESSMENT

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

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

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

FRAUD CONSIDERATIONS

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

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

TECHNOLOGY CENTER

Pellissippi State Technical Community College serves as the lead institution under an agreement with the Tennessee Technology Center at Knoxville. Under this agreement, Pellissippi State Technical Community College performs the accounting and reporting functions for the center. The chief administrative officer of the center is the director, who is assisted and advised by members of the faculty and administrative staff. 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. A material weakness, along with a recommendation and management's response, are detailed in the finding and recommendation section.

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***

October 31, 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. Allen G. Edwards, President
Pellissippi State Technical Community College
P. O. Box 22990
Knoxville, Tennessee 37933-0990

Ladies and Gentlemen:

We have audited the financial statements of Pellissippi State Technical Community College, an institution of the Tennessee Board of Regents, which is a component unit of the State of Tennessee, and its discretely presented component unit as of and for the years ended June 30, 2007, and June 30, 2006, and have issued our report thereon dated October 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 a deficiency in internal control over financial reporting that we consider to be a significant deficiency.

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

The following significant deficiency was noted:

- The college's Financial Analyst lacked adequate knowledge and experience concerning endowment reporting, resulting in material misclassifications on the foundation's financial statements.

This deficiency is described in the Finding and Recommendation section of this report.

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the college's financial statements are free of material misstatement, we performed tests of the college's compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under generally accepted government auditing standards.

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

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

Sincerely,

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

Arthur A. Hayes, Jr., CPA
Director

AAH/sds

FINDING AND RECOMMENDATION

The college's Financial Analyst lacked adequate knowledge and experience concerning endowment reporting, resulting in material misclassifications on the foundation's financial statements

Finding

The Financial Analyst at Pellissippi State Technical Community College, who oversees the college foundation's accounting operations and prepares the foundation's financial statements, lacked adequate knowledge and experience to ensure the accuracy of the foundation's endowment accounting and the accuracy of reporting the foundation's financial statements. As a result, we found the following material reporting errors:

The Financial Analyst incorrectly classified the cumulative market appreciation for the foundation's endowments (\$1,530,372.81) as restricted nonexpendable net assets instead of restricted expendable net assets on the foundation's statement of net assets at June 30, 2007. The Financial Analyst did not realize this appreciation was expendable under state law. She thought that since these net assets were not expendable under the foundation's internal spending plan that they should be reported as nonexpendable net assets. We corrected the financial statements for our audit report.

The Financial Analyst incorrectly reported the annual market appreciation of the endowment funds as endowment income instead of nonoperating investment income on the foundation's statements of revenues, expenses, and changes in net assets for the years ended June 30, 2007, and June 30, 2006. These classification errors totaled \$923,208.19 for fiscal year 2007 and \$45,262.53 for fiscal year 2006. Per the foundation's spending plan, only realized interest and dividends may be spent. Therefore, only these amounts, not annual market appreciation, should be reported as endowment income per spending plan. We corrected the financial statements for our audit report.

Once we brought these reporting errors to management's attention, the Financial Analyst and the Vice President met with us for advice as they wanted to ensure they fully understood the accounting and reporting requirements.

Without an appropriate knowledge of reporting requirements, management's risk of financial reporting errors is increased.

Recommendation

The Vice President of Business and Finance at the college should ensure that the college's Financial Analyst and all assisting fiscal staff have adequate, detailed knowledge of reporting requirements to perform their responsibilities, and that they perform those duties with appropriate care and attention.

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

Management's Comment

Management concurs with the finding and recommendation. The college has allocated additional resources for professional development and training of the Financial Analyst. The college has requested an additional position in the October budget to assist in preparation of foundation financial statements.

The year-end financial statement preparation checklist will be updated to include control questions that will identify these risk areas and, along with monitoring by the Financial Analyst and the Vice President of Business and Finance, ensure that all foundation reporting requirements are being met.



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

October 31, 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. Allen G. Edwards, President

Pellissippi State Technical Community College

P. O. Box 22990

Knoxville, Tennessee 37933-0990

Ladies and Gentlemen:

We have audited the accompanying basic financial statements of Pellissippi State Technical Community College, an institution of the Tennessee Board of Regents, which is a component unit of the State of Tennessee, and its discretely presented component unit as of and for the years ended June 30, 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 Pellissippi 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 Pellissippi State Technical Community College. They do not purport to, and do not, present fairly the financial position of the Tennessee Board of Regents as of June 30, 2007, and June 30, 2006, the changes in its financial position, and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Tennessee Board of Regents, Pellissippi State Technical Community College, and its discretely presented component unit as of June 30, 2007, and June 30, 2006, and the respective changes in financial position and cash flows thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis on pages 14 through 33 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 53 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 October 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

October 31, 2008
Page Three

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 that reads "Arthur A. Hayes, Jr." with a stylized flourish at the end.

Arthur A. Hayes, Jr., CPA
Director

AAH/sds

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

This section of Pellissippi State Technical Community College's annual financial report presents a discussion and analysis of the financial performance of the college during the fiscal year ended June 30, 2007, with comparative information presented for the fiscal years ended June 30, 2006, and June 30, 2005. This discussion has been prepared by management along with the financial statements and related note disclosures and should be read in conjunction with the independent auditor's report, the audited financial statements, and the accompanying notes. The financial statements, notes, and this discussion are the responsibility of management.

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

Using This Annual Report

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

The Statement of Net Assets

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

Net assets are divided into three major categories. The first category, invested in capital assets, net of related debt, provides the college's equity in property, plant, and equipment owned by the college. The next asset category is restricted net assets, which 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
Pellissippi State Technical Community College
Management's Discussion and Analysis (Cont.)
June 30, 2007, and June 30, 2006**

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

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Assets:			
Current assets	\$9,512	\$8,314	\$8,196
Capital assets, net	35,806	31,128	31,850
Other assets	9,709	7,534	5,684
Total assets	<u>55,027</u>	<u>46,976</u>	<u>45,730</u>
Liabilities:			
Current liabilities	7,353	5,813	5,552
Noncurrent liabilities	1,739	1,906	1,743
Total liabilities	<u>9,092</u>	<u>7,719</u>	<u>7,295</u>
Net assets:			
Invested in capital assets, net of related debt	34,336	29,430	30,355
Restricted – expendable	332	225	201
Unrestricted	11,267	9,602	7,879
Total net assets	<u>\$45,935</u>	<u>\$39,257</u>	<u>\$38,435</u>

Comparison of fiscal year 2007 to fiscal year 2006

- Current assets increased \$1,198,000 (14%), primarily due to a \$703,000 increase in cash in auxiliary enterprises and a \$368,000 increase in receivables in grants and contracts.
- Capital assets increased \$4,678,000 (15%) with \$1,745,000 in capitalized software and \$3,188,000 in projects in progress for a new academic building.
- Other assets increased \$2,175,000 (29%). This was due to an increase in plant fund cash balances.
- Liabilities increased \$1,373,000 (18%) consisting of a \$650,000 sales contract payable for a land acquisition and other operational liabilities.
- The college's current ratio is 1.3 to 1.

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

Comparison of fiscal year 2006 to fiscal year 2005

- Total assets and total liabilities remained relatively constant during fiscal year 2006.
- Other assets consisting of cash used for plant construction and renewal and replacement of plant assets increased by \$1.8 million (33%). This was utilized for plant and equipment replacement.
- Capital assets at June 30, 2006, included \$23 million in buildings, \$4 million in land and infrastructure, and \$2 million in equipment.
- Capital assets decreased by \$722,000 (2%) due primarily to depreciation expense.
- The college had a very good current ratio of 1.43 to 1.

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

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Assets:			
Current assets	\$1,491	\$969	\$1,100
Other assets	5,904	4,343	3,962
Total assets	7,395	5,312	5,062
Liabilities:			
Current liabilities	-	1	61
Total liabilities	-	1	61
Net assets:			
Restricted – nonexpendable	1,715	1,198	993
Restricted – expendable	5,552	3,990	3,912
Unrestricted	128	123	96
Total net assets	\$7,395	\$5,311	\$5,001

Comparison of fiscal year 2007 to fiscal year 2006

- The foundation assets increased \$2,083,000 (39%) due to a capital fundraising campaign.

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

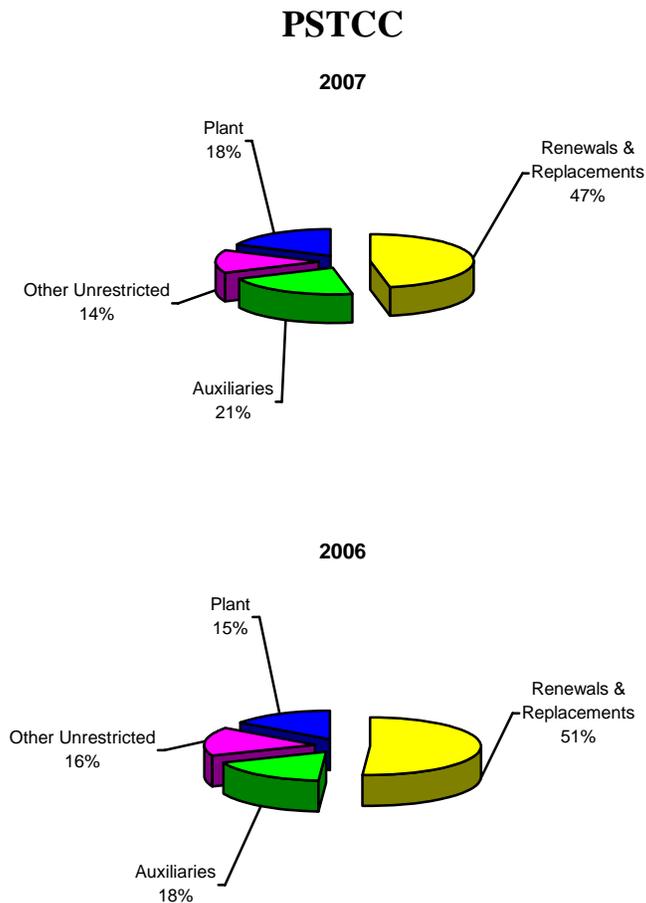
Comparison of fiscal year 2006 to fiscal year 2005

- Foundation assets increased by \$250,000 (5%), due primarily to a \$400,000 increase in investments.

- The foundation has no outstanding debt.

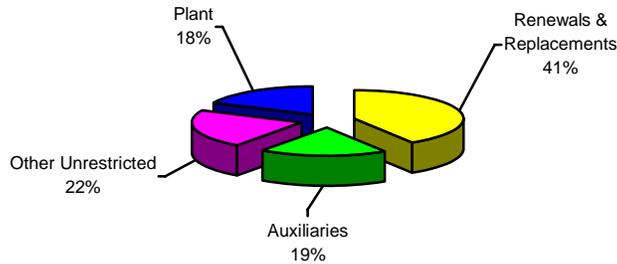
Many of the college's unrestricted net assets have been designated or reserved for specific purposes such as repairs and replacement of equipment and capital projects. The following graphs show the allocations:

Unrestricted Net Asset Allocation



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

2005



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

Comparison of fiscal year 2007 to fiscal year 2006

- The unrestricted net assets increased \$1,665,000. There were increases in the allocations for renewals and replacements, plant construction, and auxiliary enterprises.

Comparison of fiscal year 2006 to fiscal year 2005

- The unrestricted net assets increased \$1.7 million. The majority of this increase was in the allocation for renewals and replacements. There was a 51% increase in this category.

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

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

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Operating revenues:			
Net tuition and fees	\$13,929	\$12,794	\$11,426
Grants and contracts	662	447	600
Auxiliary	395	376	367
Other	442	397	380
Total operating revenues	<u>15,428</u>	<u>14,014</u>	<u>12,773</u>
Operating expenses	(47,040)	(44,343)	(42,603)
Operating loss	<u>(31,612)</u>	<u>(30,329)</u>	<u>(29,830)</u>
Nonoperating revenues and expenses:			
State appropriations	20,764	19,358	19,039
Gifts	185	205	192
Grants & contracts	10,815	10,523	9,843
Investment income	793	543	242
Other revenues and expenses	(48)	(97)	(10)
Total nonoperating revenues and expenses	<u>32,509</u>	<u>30,532</u>	<u>29,306</u>
Income (loss) before other revenues, expenses, gains, or losses	<u>897</u>	<u>203</u>	<u>(524)</u>
Other revenues, expenses, gains, or losses:			
Capital appropriations	5,813	650	265
Capital grants and gifts	-	-	150
Other	(32)	(31)	(182)
Total other revenues, expenses, gains, or losses	<u>5,781</u>	<u>619</u>	<u>233</u>
Increase (decrease) in net assets	<u>6,678</u>	<u>822</u>	<u>(291)</u>
Net assets at beginning of year	<u>39,257</u>	<u>38,435</u>	<u>38,726</u>
Net assets at end of year	<u>\$45,935</u>	<u>\$39,257</u>	<u>\$38,435</u>

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

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

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Operating revenues:			
Gifts	\$1,814	\$555	\$975
Endowment income per spending plan	128	123	211
Total operating revenues	<u>1,942</u>	<u>678</u>	<u>1,186</u>
Operating expenses	(857)	(652)	(606)
Operating income	<u>1,085</u>	<u>26</u>	<u>580</u>
Nonoperating revenues and expenses:			
Investment income	673	236	138
Total nonoperating revenues and expenses	<u>673</u>	<u>236</u>	<u>138</u>
Income (loss) before other revenues, expenses, gains, or losses	<u>1,758</u>	<u>262</u>	<u>718</u>
Other revenues, expenses, gains, or losses:			
Additions to permanent endowments	326	48	-
Total other revenues, expenses, gains, or losses	<u>326</u>	<u>48</u>	<u>-</u>
Increase (decrease) in net assets	<u>2,084</u>	<u>310</u>	<u>718</u>
Net assets at beginning of year	<u>5,311</u>	<u>5,001</u>	<u>4,283</u>
Net assets at end of year	<u>\$7,395</u>	<u>\$5,311</u>	<u>\$5,001</u>

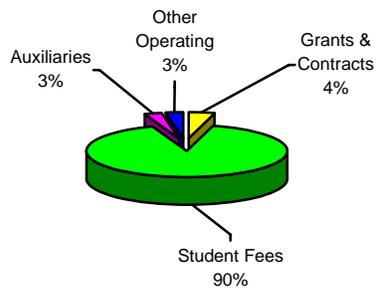
Revenues

The following is a graphic illustration of revenues by source (operating only), which are used to partially fund the college's operating activities for the years ended June 30, 2007; June 30, 2006; and June 30, 2005. Amounts are presented in thousands of dollars.

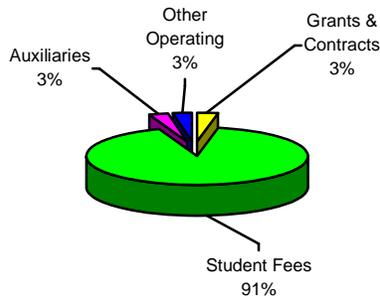
**Tennessee Board of Regents
Pellissippi State Technical Community College
Management's Discussion and Analysis (Cont.)
June 30, 2007, and June 30, 2006**

**Operating Revenues
PSTCC**

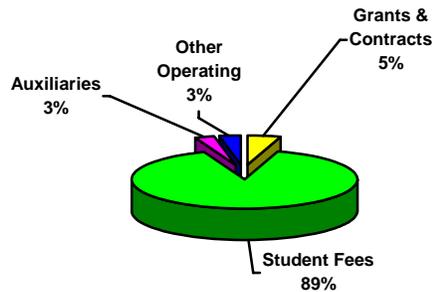
2007



2006

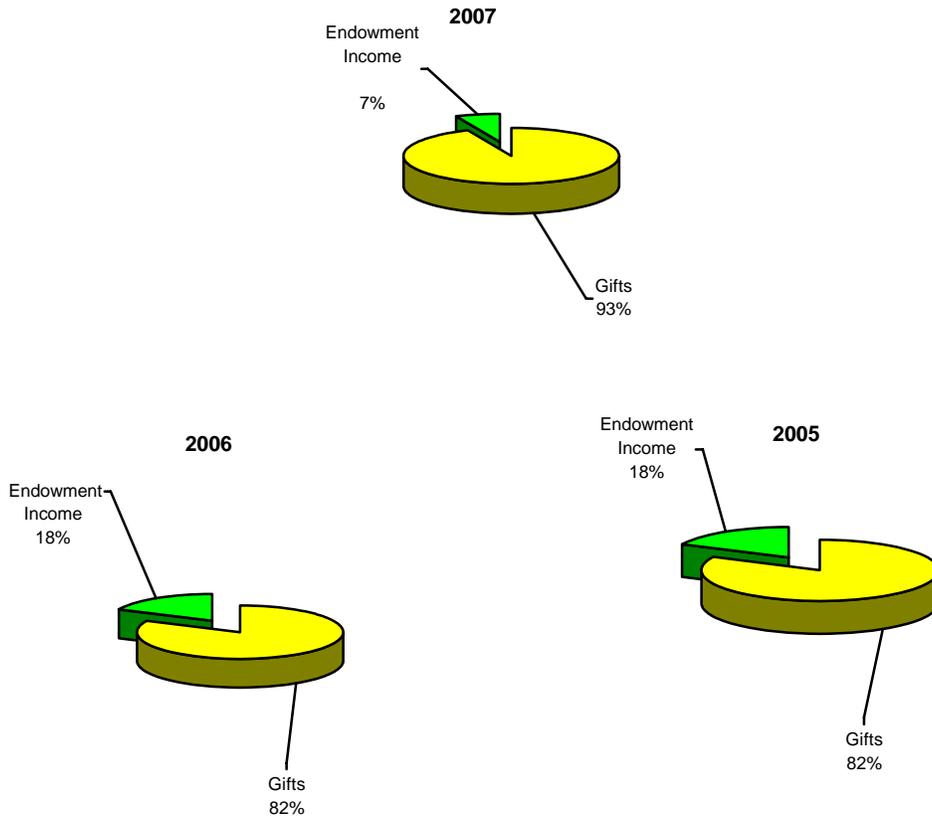


2005



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

**Operating Revenues
PSTCC Foundation**



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

Comparison of fiscal year 2007 to fiscal year 2006

- Student tuition and fees increased \$1.1 million (9%) due to enrollment growth and fee increases. These fees account for 90% of operating revenue.
- State appropriations (a component of nonoperating revenue) increased \$1.4 million (7%). Other college revenues remained relatively constant.
- Capital appropriations (a component of other nonoperating revenue) increased due to a significant increase in state-funded capital projects.
- The foundation gift revenues (an operating category) increased by \$1.3 million (227%) due to a major capital fundraising campaign.

Comparison of fiscal year 2006 to fiscal year 2005

- Student tuition and fees, representing 91% of the total operating revenues, increased \$1.4 million (12%) in fiscal year 2006. The increase was due to a 10% fee increase and increased enrollment.
- Other revenues remained relatively constant.

Expenses

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

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

PSTCC

2007

Functional Classification

Natural Classification

	Other					Total
	Salaries	Benefits	Operating	Scholarships	Depreciation	
Instruction	\$14,278	\$4,023	\$4,336	\$ 368	\$ -	\$ 23,005
Public service	503	130	413	339	-	1,385
Academic support	3,149	954	(1,147)	174	-	3,130
Student services	2,210	854	1,659	78	-	4,801
Institutional support	2,320	915	1,504	16	-	4,755
Maintenance & operation	638	339	2,860	1	-	3,838
Scholarships	2	-	-	3,730	-	3,732
Depreciation	-	-	-	-	2,235	2,235
Auxiliaries	-	-	159	-	-	159
Total expenses	\$23,100	\$7,215	\$9,784	\$4,706	\$2,235	\$47,040

2006

Functional Classification

Natural Classification

	Other					Total
	Salaries	Benefits	Operating	Scholarships	Depreciation	
Instruction	\$13,422	\$3,753	\$4,308	\$ 154	\$ -	\$21,637
Public service	488	117	278	895	-	1,778
Academic support	3,006	905	(1,023)	88	-	2,976
Student services	2,081	759	1,418	68	-	4,326
Institutional support	2,236	823	1,533	14	-	4,606
Maintenance & operation	606	295	2,485	1	-	3,387
Scholarships	5	-	-	3,445	-	3,450
Depreciation	-	-	-	-	2,037	2,037
Auxiliaries	-	-	146	-	-	146
Total expenses	\$21,844	\$6,652	\$9,145	\$4,665	\$2,037	\$44,343

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

2005

Functional Classification

Natural Classification

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

PSTCC Foundation

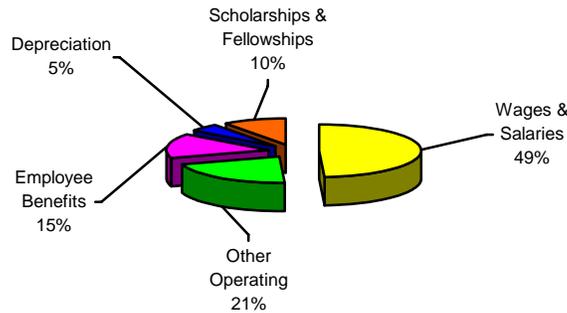
Natural Classification

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Other operating	\$690	\$487	\$476
Scholarships	167	165	130
Total expenses	\$857	\$652	\$606

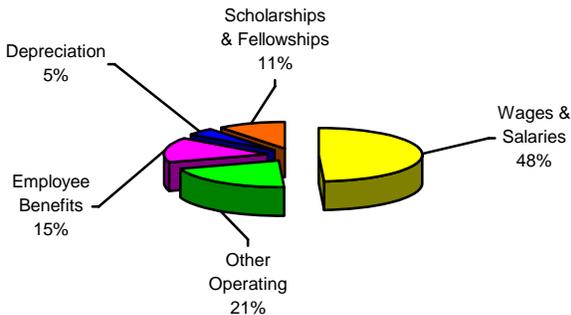
**Tennessee Board of Regents
Pellissippi State Technical Community College
Management's Discussion and Analysis (Cont.)
June 30, 2007, and June 30, 2006**

**Operating Expenses by Natural Classification
PSTCC**

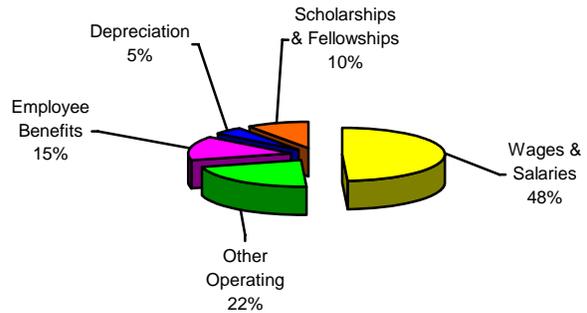
2007



2006



2005



Comparison of fiscal year 2007 to fiscal year 2006

- Expenses increased by \$2.7 million (6%). Employee salary and benefits was \$1.8 million of the increase. Salaries increased due to a state funded 2% cost of living pay raise and a one-time \$350 bonus and a partial year college funded 2% cost of living pay raise and a one-time \$150 bonus. Other expenses remained constant.
- For the foundation, other operating expenses increased \$203,000 (42%) due to the capital fundraising campaign.

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

Comparison of fiscal year 2006 to fiscal year 2005

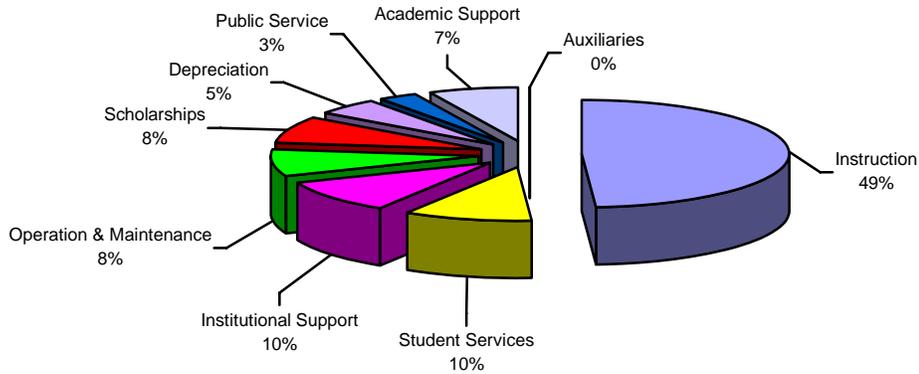
- Total expenses increased \$1,740,000 (4%). Employee salaries and benefits accounted for the majority of the increase. There was a 2% employee pay raise and additional health insurance expense.
- Scholarships increased \$479,000 (11%) due to increased aid and scholarships to students, both federal and state lottery.
- Other areas remained constant.

The college's program expense percentages are as follows:

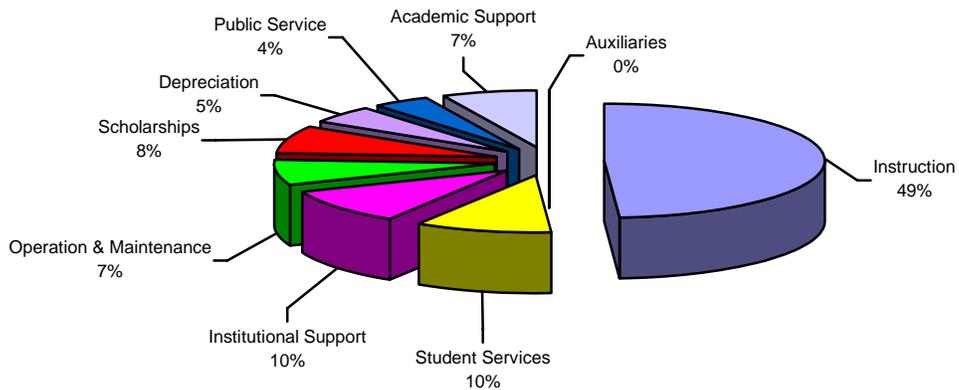
	Program Classification		
	<u>Operating Expenses by Function</u>		
	<u>2007</u>	PSTCC <u>2006</u>	<u>2005</u>
Instruction	49%	49%	48%
Public Service	3%	4%	3%
Academic Support	<u>7%</u>	<u>7%</u>	<u>7%</u>
Subtotal	59%	60%	58%
Student Services	10%	10%	9%
Institutional Support	10%	10%	10%
Operation and Maintenance	8%	7%	10%
Scholarships	8%	8%	8%
Depreciation	5%	5%	5%
Auxiliaries	<u>0%</u>	<u>0%</u>	<u>0%</u>
Total	<u>100%</u>	<u>100%</u>	<u>100%</u>

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

**Operating Expenses by Function
2007**

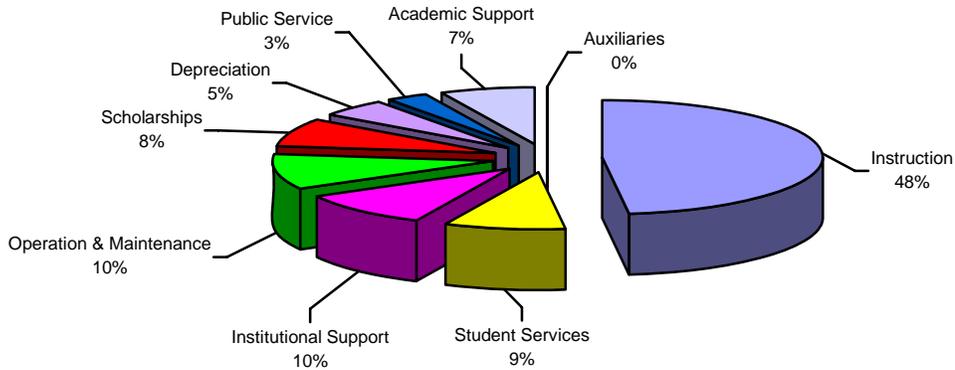


**Operating Expenses by Function
2006**



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

**Operating Expenses by Function
2005**



Comparison of fiscal year 2007 to fiscal year 2006

- Expenses by program classification did not significantly change from the previous year.

Comparison of fiscal year 2006 to fiscal year 2005

- Expenses by program classification did not significantly change from the previous year.

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.

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

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

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Cash provided (used) by:			
Operating activities	\$(28,744)	\$(28,316)	\$(27,125)
Noncapital financing activities	32,374	30,329	29,321
Capital and related financing activities	(1,408)	(527)	(779)
Investing activities	793	543	242
Net increase (decrease) in cash	<u>3,015</u>	<u>2,029</u>	<u>1,659</u>
Cash, beginning of year	<u>14,664</u>	<u>12,635</u>	<u>10,976</u>
Cash, end of year	<u>\$17,679</u>	<u>\$14,664</u>	<u>\$12,635</u>

Comparison of fiscal year 2007 to fiscal year 2006

- Cash used by operating activities did not change significantly in fiscal year 2007.
- Cash provided by noncapital financing activities increased by \$2,045,000 in fiscal year 2007, due mainly to a \$1,400,000 increase in state appropriations and a \$340,000 increase in cash gifts.
- Pellissippi State Technical Community College's liquidity improved during fiscal year 2007 by \$3,015,000 (21%).

Comparison of fiscal year 2006 to fiscal year 2005

- Cash used by operating activities did not change significantly in fiscal year 2006.
- Cash provided by noncapital financing activities remained fairly constant in fiscal year 2006.
- Cash from capital financial activities increased due to TSSBA debt borrowings and state capital appropriations.
- Cash provided by investing activities increased by \$301,000 (124%) due to higher interest rates on invested funds.

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

- Pellissippi State Technical Community College's liquidity improved during fiscal year 2006 by \$2,029,000 with an increase of 16%.

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

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Cash provided (used) by:			
Operating activities	\$352	\$(61)	\$516
Noncapital financing activities	250	65	-
Investing activities	(233)	(110)	(205)
Net increase (decrease) in cash	369	(106)	311
Cash, beginning of year	945	1,051	740
Cash, end of year	\$1,314	\$945	\$1,051

Capital Assets and Debt Administration

Capital Assets

Pellissippi State Technical Community College had \$35,806,790.98 invested in capital assets, net of accumulated depreciation of \$26,269,037.64 at June 30, 2007; \$31,128,588.25 invested in capital assets, net of accumulated depreciation of \$24,822,268.22 at June 30, 2006; and \$31,849,954.09 invested in capital assets, net of accumulated depreciation of \$23,768,001.60 at June 30, 2005. Depreciation charges totaled \$2,234,600.19, \$2,036,855.05, and \$2,006,423.87 for the years ended June 30, 2007; June 30, 2006; and June 30, 2005, respectively. Details of these assets are shown below.

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

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

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Land	\$3,109	\$2,592	\$2,592
Land improvements & infrastructure	1,729	1,369	1,062
Buildings	21,634	22,730	23,955
Equipment	2,048	2,044	1,907
Library holdings	798	838	867
Software	1,745	-	-
Projects in progress	4,743	1,555	1,467
Total	<u>\$35,806</u>	<u>\$31,128</u>	<u>\$31,850</u>

Capital assets increased by \$4.7 million (15%) due to projects in progress in fiscal year 2007. This is for a new academic building funded by state appropriations and capitalized software funded by the school.

Pellissippi State Technical Community College will complete a new academic building in fiscal year 2008 (Bagwell Center) and begin renovations on the Goins Administration Building and the Magnolia Avenue campus. Also, a new campus in Blount County will begin construction. All of the capital projects will be funded by state appropriations. The Pellissippi State Technical Community College Foundation has raised contributions to provide equipment for the projects. More detailed information about Pellissippi State Technical Community College's capital assets is presented in Note 4 to the financial statements.

The foundation did not have any capital assets in fiscal years 2006 through 2007.

Debt

The college had \$1,470,468.12, \$1,699,036.39, and \$1,494,894.65 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.

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

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

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Bonds payable - TSSBA	\$1,470	\$1,699	\$ -
Commercial paper - TSSBA	-	-	1,495
Total	\$1,470	\$1,699	\$1,495

The college paid a portion of its debt in fiscal year 2007, resulting in a current balance of \$1,470,468.12. Additional debt will be issued for an energy management project. More detailed information about Pellissippi State Technical Community College's long-term liabilities is presented in Note 5 to the financial statements.

Economic Factors That Will Affect the Future

For fiscal year 2008, significant changes will affect the financial position of the college:

- State funding will increase \$1.2 million.
- Student tuition will increase 6%, approximately \$1 million.
- There are currently no significant changes in expense projections. The revenue increase will fund employee pay raises and increased operating costs.

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. Allen G. Edwards, President, 10915 Hardin Valley Road, Knoxville, TN 37933.

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

	Pellissippi State Technical Community College		Component Unit - Pellissippi State Technical Community College Foundation	
	June 30, 2007	June 30, 2006	June 30, 2007	June 30, 2006
ASSETS				
Current assets:				
Cash (Notes 2 and 12)	\$ 7,970,308.81	\$ 7,130,101.08	\$ 1,313,394.65	\$ 944,702.48
Accounts, notes, and grants receivable (net) (Note 3)	1,499,741.10	1,131,519.68	9,376.84	10,381.40
Pledges receivable (net) (Note 12)	-	-	166,738.03	14,276.13
Inventories	1,978.77	3,115.16	-	-
Prepaid expenses and deferred charges	39,847.41	49,329.64	1,000.00	-
Total current assets	<u>9,511,876.09</u>	<u>8,314,065.56</u>	<u>1,490,509.52</u>	<u>969,360.01</u>
Noncurrent assets:				
Cash (Notes 2 and 12)	9,708,970.54	7,533,595.57	-	-
Investments (Note 12)	-	-	5,249,134.54	4,294,547.08
Pledges receivable (net) (Note 12)	-	-	655,037.97	48,202.28
Capital assets (net) (Note 4)	35,806,790.98	31,128,588.25	-	-
Total noncurrent assets	<u>45,515,761.52</u>	<u>38,662,183.82</u>	<u>5,904,172.51</u>	<u>4,342,749.36</u>
Total assets	<u>55,027,637.61</u>	<u>46,976,249.38</u>	<u>7,394,682.03</u>	<u>5,312,109.37</u>
LIABILITIES				
Current liabilities:				
Accounts payable	578,249.87	434,652.54	-	833.24
Accrued liabilities	1,800,927.60	1,745,053.87	-	-
Deferred revenue	1,008,854.49	923,379.42	-	-
Compensated absences (Note 5)	423,656.69	432,765.95	-	-
Long-term liabilities, current portion (Note 5)	226,335.50	228,568.50	-	-
Deposits held in custody for others	2,649,352.56	2,035,379.73	-	-
Other liabilities	665,397.44	13,181.69	-	-
Total current liabilities	<u>7,352,774.15</u>	<u>5,812,981.70</u>	<u>-</u>	<u>833.24</u>
Noncurrent liabilities:				
Compensated absences (Note 5)	495,338.30	435,893.12	-	-
Long-term liabilities (Note 5)	1,244,132.62	1,470,467.89	-	-
Total noncurrent liabilities	<u>1,739,470.92</u>	<u>1,906,361.01</u>	<u>-</u>	<u>-</u>
Total liabilities	<u>9,092,245.07</u>	<u>7,719,342.71</u>	<u>-</u>	<u>833.24</u>
NET ASSETS				
Invested in capital assets, net of related debt	34,336,322.86	29,429,551.86	-	-
Restricted for:				
Nonexpendable:				
Scholarships and fellowships	-	-	1,692,631.56	1,198,547.40
Instructional department uses	-	-	3,660.16	-
Other	-	-	18,329.27	-
Expendable:				
Scholarships and fellowships	-	-	4,399,936.80	3,288,936.10
Instructional department uses	-	-	395,891.97	79,464.50
Loans	1,005.61	1,005.61	83,875.22	84,654.17
Capital projects	-	-	672,314.26	536,979.64
Other	331,542.29	224,189.75	-	-
Unrestricted (Note 6)	<u>11,266,521.78</u>	<u>9,602,159.45</u>	<u>128,042.79</u>	<u>122,694.32</u>
Total net assets	<u>\$ 45,935,392.54</u>	<u>\$ 39,256,906.67</u>	<u>\$ 7,394,682.03</u>	<u>\$ 5,311,276.13</u>

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

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

	<u>Pellissippi State Technical Community College</u>		<u>Component Unit - Pellissippi State Technical Community College Foundation</u>	
	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 \$5,255,564.97 for the year ended June 30, 2007, and \$4,921,805.37 for the year ended June 30, 2006)	\$ 13,928,629.08	\$ 12,794,374.94	\$ -	\$ -
Gifts and contributions	-	-	1,814,463.87	555,223.31
Endowment income per spending plan	-	-	127,518.42	122,415.62
Governmental grants and contracts	662,257.07	447,066.81	-	-
Auxiliary enterprises:				
Bookstore	327,063.07	321,944.32	-	-
Food service	67,642.42	54,268.11	-	-
Other operating revenues	441,754.74	396,796.79	-	-
Total operating revenues	<u>15,427,346.38</u>	<u>14,014,450.97</u>	<u>1,941,982.29</u>	<u>677,638.93</u>
EXPENSES				
Operating expenses (Note 11):				
Salaries and wages	23,100,279.11	21,844,227.56	4,261.60	877.50
Benefits	7,214,611.82	6,652,559.10	277.65	67.13
Utilities, supplies, and other services	9,784,198.19	9,144,608.97	526,573.35	301,378.21
Scholarships and fellowships	4,706,122.58	4,665,061.32	166,789.80	165,122.24
Depreciation expense	2,234,600.19	2,036,855.05	-	-
Payments to or on behalf of Pellissippi State Technical Community College	-	-	158,919.24	184,623.70
Total operating expenses	<u>47,039,811.89</u>	<u>44,343,312.00</u>	<u>856,821.64</u>	<u>652,068.78</u>
Operating income (loss)	<u>(31,612,465.51)</u>	<u>(30,328,861.03)</u>	<u>1,085,160.65</u>	<u>25,570.15</u>
NONOPERATING REVENUES (EXPENSES)				
State appropriations	20,764,600.00	19,358,100.00	-	-
Gifts (college gifts include \$158,919.24 from component unit in 2007 and \$184,623.70 in 2006)	184,919.24	204,623.70	-	-
Grants and contracts	10,814,635.67	10,523,409.51	-	-
Investment income (for component unit, net of investment expense of \$17,857.64 in 2007 and \$15,496.21 in 2006)	793,303.64	542,984.07	672,529.71	236,065.63
Interest on capital asset-related debt	(57,440.21)	(65,661.61)	-	-
Bond issuance costs	-	(32,300.35)	-	-
Other nonoperating revenues (expenses)	9,140.30	-	-	-
Net nonoperating revenues	<u>32,509,158.64</u>	<u>30,531,155.32</u>	<u>672,529.71</u>	<u>236,065.63</u>
Income (loss) before other revenues, expenses, gains, or losses	<u>896,693.13</u>	<u>202,294.29</u>	<u>1,757,690.36</u>	<u>261,635.78</u>
Capital appropriations	5,813,317.94	650,470.74	-	-
Additions to permanent endowments	-	-	325,715.54	47,940.64
Other	(31,525.20)	(31,223.06)	-	-
Total other revenues	<u>5,781,792.74</u>	<u>619,247.68</u>	<u>325,715.54</u>	<u>47,940.64</u>
Increase (decrease) in net assets	<u>6,678,485.87</u>	<u>821,541.97</u>	<u>2,083,405.90</u>	<u>309,576.42</u>
NET ASSETS				
Net assets - beginning of year	39,256,906.67	38,435,364.70	5,311,276.13	5,001,699.71
Net assets - end of year	<u>\$ 45,935,392.54</u>	<u>\$ 39,256,906.67</u>	<u>\$ 7,394,682.03</u>	<u>\$ 5,311,276.13</u>

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

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

	Year Ended June 30, 2007	Year Ended June 30, 2006
CASH FLOWS FROM OPERATING ACTIVITIES		
Tuition and fees	\$ 13,933,291.24	\$ 12,810,460.94
Grants and contracts	386,678.02	451,921.44
Payments to suppliers and vendors	(8,964,436.22)	(9,477,058.98)
Payments to employees	(22,998,056.05)	(21,600,071.82)
Payments for benefits	(7,214,611.82)	(6,652,559.10)
Payments for scholarships and fellowships	(4,710,025.43)	(4,665,179.21)
Auxiliary enterprise charges:		
Bookstore	321,931.61	366,719.42
Food services	59,703.59	52,973.40
Other receipts	441,754.74	396,796.79
Net cash used by operating activities	<u>(28,743,770.32)</u>	<u>(28,315,997.12)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State appropriations	20,760,400.00	19,357,900.00
Gifts and grants received for other than capital or endowment purposes	10,999,554.91	10,660,427.33
Federal student loan receipts	4,774,107.56	3,886,097.21
Federal student loan disbursements	(4,774,107.56)	(3,886,097.21)
Changes in deposits held for others	613,972.83	309,962.24
Net cash provided by noncapital financing activities	<u>32,373,927.74</u>	<u>30,328,289.57</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from capital debt	-	2,070,424.70
Capital appropriations	5,813,317.94	713,757.74
Purchases of capital assets and construction	(6,944,328.12)	(1,346,712.27)
Principal paid on capital debt	(228,568.50)	(1,866,282.96)
Interest paid on capital debt	(57,440.21)	(65,661.61)
Bond issue costs paid on new debt issue	-	(32,300.35)
Other capital and related financing receipts	9,140.53	-
Net cash used by capital and related financing activities	<u>(1,407,878.36)</u>	<u>(526,774.75)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Income on investments	793,303.64	542,984.07
Net cash provided by investing activities	<u>793,303.64</u>	<u>542,984.07</u>
Net increase in cash	3,015,582.70	2,028,501.77
Cash at beginning of year	14,663,696.65	12,635,194.88
Cash at end of year	<u>\$ 17,679,279.35</u>	<u>\$ 14,663,696.65</u>

**TENNESSEE BOARD OF REGENTS
 MISSISSIPPI 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>
Reconciliation of operating loss to net cash used by operating activities:		
Operating loss	\$ (31,612,465.51)	\$ (30,328,861.03)
Adjustments to reconcile operating loss to net cash used by operating activities:		
Depreciation expense	2,234,600.19	2,036,855.05
Change in assets and liabilities:		
Receivables, net	(364,021.42)	67,272.09
Inventories	1,136.39	1,435.56
Prepaid/deferred items	9,482.23	(3,399.90)
Accounts payable	143,597.33	(370,464.67)
Accrued liabilities	708,089.48	140,735.76
Deferred revenue	85,475.07	35,478.65
Compensated absences	50,335.92	106,764.67
Other	-	(1,813.30)
Net cash used by operating activities	<u>\$ (28,743,770.32)</u>	<u>\$ (28,315,997.12)</u>
Noncash transactions		
Gifts in-kind	\$ 118,747.29	\$ 87,204.75
Gifts of capital assets	40,171.95	97,418.95
Loss on disposal of capital assets	(31,525.20)	(31,223.06)

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

Tennessee Board of Regents
Pellissippi State Technical Community College
Notes to the Financial Statements
June 30, 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 Pellissippi State Technical Community College Foundation is considered a component unit of the college. Although the college does not control the timing or amount of receipts from the foundation, the majority of resources, or income thereon, that the foundation holds and invests are restricted to the activities of the college by the donors. Because these restricted resources held by the foundation can only be used by, or for the benefit of, the college, the foundation is considered a component unit of the college and is discretely presented in the college's financial statements. See Note 12 for more detailed information about the component unit and how to obtain the report.

Basis of Presentation

The financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) applicable to governmental colleges and universities engaged in business-type activities as prescribed by the Governmental Accounting Standards Board (GASB).

Basis of Accounting

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

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

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

conflict with or contradict guidance of the Governmental Accounting Standards Board. The college has the option of following private-sector guidance issued subsequent to November 30, 1989, subject to the above limitation. The college has elected not to follow private-sector guidance issued subsequent to November 30, 1989.

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

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

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

Inventories

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

Compensated Absences

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

Capital Assets

Capital assets, which include property, plant, equipment, library holdings, and software, are reported in the statement of net assets at historical cost or at fair value at date of donation, less accumulated depreciation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's useful life are not capitalized.

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

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

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

Net Assets

The college's net assets are classified as follows:

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

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

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

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

Scholarship Discounts and Allowances

Student tuition and fee revenues, and certain other revenues from students, are reported net of scholarship discounts and allowances in the statement of revenues, expenses, and changes in net assets. Scholarship discounts and allowances are the difference between the stated charge for goods and services provided by the college

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

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 \$579,234.82 in bank accounts, \$3,830.00 of petty cash on hand, \$16,895,634.80 in the State of Tennessee Local Government Investment Pool (LGIP) administered by the State Treasurer, and \$200,579.73 in LGIP deposits for capital projects. At June 30, 2006, cash consisted of \$477,879.04 in bank accounts, \$3,830.00 of petty cash on hand, \$14,176,184.84 in the State of Tennessee Local Government Investment Pool administered by the State Treasurer, and \$5,802.77 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.

NOTE 3. RECEIVABLES

Receivables included the following:

	<u>June 30, 2007</u>	<u>June 30, 2006</u>
Student accounts receivable	\$744,061.52	\$737,670.64
Grants receivable	531,712.39	346,767.43
State appropriation receivable	39,100.00	34,900.00
Other receivables	376,867.19	232,181.61

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

Subtotal	1,691,741.10	1,351,519.68
Less allowance for doubtful accounts	<u>192,000.00</u>	<u>220,000.00</u>
 Total receivables	 <u>\$1,499,741.10</u>	 <u>\$1,131,519.68</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	\$2,592,127.74	\$516,034.68	\$877.51	\$ -	\$3,109,039.93
Land improvements and infrastructure	2,681,238.42	530,913.00	-	402,673.69	2,809,477.73
Buildings	40,756,962.90	141,702.10	247.49	-	40,898,912.49
Equipment	6,595,260.60	474,753.59	-	203,193.46	6,866,820.73
Library holdings	1,769,580.52	152,301.13	-	213,488.82	1,708,392.83
Software	-	791,956.81	1,147,365.33	-	1,939,322.14
Projects in progress	<u>1,555,686.29</u>	<u>4,336,666.81</u>	<u>(1,148,490.33)</u>	<u>-</u>	<u>4,743,862.77</u>
 Total	 <u>55,950,856.47</u>	 <u>6,944,328.12</u>	 <u>-</u>	 <u>819,355.97</u>	 <u>62,075,828.62</u>
 Less accum. depreciation:					
Land improvements and infrastructure	1,312,273.47	140,473.89	-	372,406.89	1,080,340.47
Buildings	18,026,648.44	1,238,549.66	-	-	19,265,198.10
Equipment	4,551,506.66	469,456.24	-	201,935.06	4,819,027.84
Library holdings	931,839.65	192,188.19	-	213,488.82	910,539.02
Software	<u>-</u>	<u>193,932.21</u>	<u>-</u>	<u>-</u>	<u>193,932.21</u>
 Total accum. depreciation	 <u>24,822,268.22</u>	 <u>2,234,600.19</u>	 <u>-</u>	 <u>787,830.77</u>	 <u>26,269,037.64</u>
 Capital assets, net	 <u>\$31,128,588.25</u>	 <u>\$4,709,727.93</u>	 <u>\$ -</u>	 <u>\$31,525.20</u>	 <u>\$35,806,790.98</u>

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

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

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Transfers</u>	<u>Reductions</u>	<u>Ending Balance</u>
Land	\$2,592,127.74	\$ -	\$ -	\$ -	\$2,592,127.74
Land improvements and infrastructure	2,240,113.10	168,858.84	272,266.48	-	2,681,238.42
Buildings	40,756,962.90	-	-	-	40,756,962.90
Equipment	6,743,117.61	383,414.06	264,463.62	795,734.69	6,595,260.60
Library holdings	1,818,834.53	168,822.79	-	218,076.80	1,769,580.52
Projects in progress	<u>1,466,799.81</u>	<u>625,616.58</u>	<u>(536,730.10)</u>	<u>-</u>	<u>1,555,686.29</u>
Total	<u>55,617,955.69</u>	<u>1,346,712.27</u>	<u>-</u>	<u>1,013,811.49</u>	<u>55,950,856.47</u>
Less accum. depreciation:					
Land improvements and infrastructure	1,178,211.46	134,062.01	-	-	1,312,273.47
Buildings	16,802,293.76	1,224,354.68	-	-	18,026,648.44
Equipment	4,836,345.66	479,672.63	-	764,511.63	4,551,506.66
Library holdings	<u>951,150.72</u>	<u>198,765.73</u>	<u>-</u>	<u>218,076.80</u>	<u>931,839.65</u>
Total accum. depreciation	<u>23,768,001.60</u>	<u>2,036,855.05</u>	<u>-</u>	<u>982,588.43</u>	<u>24,822,268.22</u>
Capital assets, net	<u>\$31,849,954.09</u>	<u>\$(690,142.78)</u>	<u>\$ -</u>	<u>\$31,223.06</u>	<u>\$31,128,588.25</u>

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	<u>\$1,699,036.39</u>	<u>\$.23</u>	<u>\$228,568.50</u>	<u>\$1,470,468.12</u>	<u>\$226,335.50</u>
Other liabilities:					
Compensated absences	<u>868,659.07</u>	<u>131,412.47</u>	<u>81,076.55</u>	<u>918,994.99</u>	<u>423,656.69</u>
Total long-term liabilities	<u>\$2,567,695.46</u>	<u>\$131,412.70</u>	<u>\$309,645.05</u>	<u>\$2,389,463.11</u>	<u>\$649,992.19</u>

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

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	\$ -	\$1,699,036.39	\$ -	\$1,699,036.39	\$228,568.50
Commercial paper	<u>1,494,894.65</u>	<u>371,388.31</u>	<u>1,866,282.96</u>	<u>-</u>	<u>-</u>
Subtotal	<u>1,494,894.65</u>	<u>2,070,424.70</u>	<u>1,866,282.96</u>	<u>1,699,036.39</u>	<u>228,568.50</u>
Other liabilities:					
Compensated absences	<u>761,894.40</u>	<u>147,600.96</u>	<u>40,836.29</u>	<u>868,659.07</u>	<u>432,765.95</u>
Total long-term liabilities	<u>\$2,256,789.05</u>	<u>\$2,218,025.66</u>	<u>\$1,907,119.25</u>	<u>\$2,567,695.46</u>	<u>\$661,334.45</u>

TSSBA Debt - Bonds

Bonds, with interest rates ranging from 4% to 4.5%, were issued by the Tennessee State School Bond Authority (TSSBA). The bonds are due serially to 2021 and are secured by pledges of the facilities' revenues to which they relate and certain other revenues and fees of the college, including state appropriations. The bonded indebtedness with the Tennessee State School Bond Authority included in long-term liabilities on the statement of net assets is shown net of unexpended debt proceeds. Unexpended debt proceeds were \$18,794.38 at June 30, 2007, and \$18,794.61 at June 30, 2006, and were restricted for capital projects.

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

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	\$226,335.50	\$60,869.74	\$287,205.24
2009	235,841.50	51,816.32	287,657.82
2010	245,747.00	42,382.66	288,129.66
2011	57,218.50	32,552.78	89,771.28
2012	59,621.50	30,264.04	89,885.54
2013-2017	337,839.50	113,479.88	451,319.38
2018-2021	<u>307,864.62</u>	<u>37,006.40</u>	<u>344,871.02</u>
	<u>\$1,470,468.12</u>	<u>\$368,371.82</u>	<u>\$1,838,839.94</u>

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

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

NOTE 6. UNRESTRICTED NET ASSETS

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

	<u>June 30, 2007</u>	<u>June 30, 2006</u>
Working capital	\$421,385.02	\$357,002.70
Encumbrances	925,734.03	1,033,887.34
Auxiliaries	2,406,374.41	1,690,095.88
Plant construction	2,074,745.68	1,467,118.01
Renewal and replacement of equipment	5,246,102.74	4,899,056.58
Undesignated	<u>192,179.90</u>	<u>154,998.94</u>
Total	<u>\$11,266,521.78</u>	<u>\$9,602,159.45</u>

NOTE 7. 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.

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

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 \$1,180,082.10, \$849,294.41, and \$806,917.19. Contributions met the requirements for each year.

B. Defined Contribution Plans

Optional Retirement Plans (ORP)

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

Funding Policy - Plan members are noncontributory. The college contributes an amount equal to 10% of the employee's base salary up to the social security wage base and 11% above the social security wage base. Contribution requirements are established and amended by state statute. The contribution made by the college to the plans was \$1,078,316.76 for the year ended June 30, 2007, and \$1,019,139.93 for the year ended June 30, 2006. Contributions met the requirements for each year.

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

NOTE 8. OTHER POST-EMPLOYMENT BENEFITS

The State of Tennessee administers a group health insurance program which provides post-employment health insurance benefits to eligible college retirees. This benefit is provided and administered by the State of Tennessee. The college assumes no liability for retiree health care programs. Information related to this plan is available at the statewide level in the *Tennessee Comprehensive Annual Financial Report*. That report may be obtained by writing to the Tennessee Department of Finance and Administration, Division of Accounts, 14th Floor William R. Snodgrass Tennessee Tower, 312 Eighth Avenue North, Nashville, Tennessee 37243-0298, or by calling (615) 741-2140.

NOTE 9. INSURANCE-RELATED ACTIVITIES

It is the policy of the state not to purchase commercial insurance for the risks of losses for general liability, automobile liability, professional malpractice, and workers' compensation. The state's management believes it is more economical to manage these risks internally and set aside assets for claim settlement in its internal service fund, the Risk Management Fund. The state purchases commercial insurance for real property, flood, earthquake, and builder's risk losses and surety bond coverage on the state's officials and employees. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years. The Risk Management Fund is also responsible for claims for damages to state-owned property up to the amount of the property insurance aggregate deductible amount. The insurance policy deductibles vary from \$25,000 per occurrence, depending on the type of coverage, to an aggregate of \$5 million.

The college participates in the Risk Management Fund. The fund allocates the cost of providing claims servicing and claims payment by charging a premium to the college based on a percentage of the college's expected loss costs, which include both experience and exposures. This charge considers recent trends in actual claims experience of the state as a whole. An actuarial valuation is performed as of fiscal year-end to determine the fund liability and premium allocation. Information regarding the determination of the claims liabilities and the changes in the balances of the claims liabilities for the years ended June 30, 2007, and June 30, 2006, are presented in the *Tennessee Comprehensive Annual Financial Report*. That report may be obtained by writing to the Tennessee Department of Finance and

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

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 \$64,459,100 for buildings and \$15,334,600 for contents. At June 30, 2006, the scheduled coverage for the college was \$56,986,300 for buildings and \$14,907,100 for contents.

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

NOTE 10. COMMITMENTS AND CONTINGENCIES

Sick Leave - The college records the cost of sick leave when paid. Generally, since sick leave (earned one day per month with unlimited accumulation) is paid only when an employee dies or is absent because of illness, injury, or related family death, there is no liability for sick leave at June 30. The dollar amount of unused sick leave was \$6,831,908.93 at June 30, 2007, and \$6,303,420.24 at June 30, 2006.

Construction in Progress - At June 30, 2007, outstanding commitments under construction contracts totaled \$3,379,750.82 for the Physical Plant Building Expansion project, the Bagwell Center project, the Goins Building Renovation

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

project, the Accessibility Adaptations project, and the Student Recreation Center Expansion project #2, of which \$2,484,836.19 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 \$860,313.00 at June 30, 2007, and \$1,236,189.00 at June 30, 2006.

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

NOTE 11. NATURAL CLASSIFICATIONS WITH FUNCTIONAL CLASSIFICATIONS

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

Functional Classification	Salaries	Benefits	Natural Classification			Total
			Operating	Scholarships	Depreciation	
Instruction	\$14,278,491.12	\$4,023,085.57	\$4,335,935.97	\$368,369.43	\$ -	\$23,005,882.09
Public service	502,710.89	130,115.21	412,918.24	339,198.74	-	1,384,943.08
Academic support	3,148,635.16	953,712.58	(1,146,591.58)	173,769.62	-	3,129,525.78
Student services	2,210,477.60	853,515.30	1,659,407.83	77,630.00	-	4,801,030.73
Institutional support	2,320,134.14	915,318.57	1,503,806.65	15,891.00	-	4,755,150.36
Operation & maintenance	637,580.20	338,673.33	2,860,029.39	1,435.00	-	3,837,717.92
Scholarships & fellowships	2,250.00	191.26	-	3,729,828.79	-	3,732,270.05
Auxiliary	-	-	158,691.69	-	-	158,691.69
Depreciation	-	-	-	-	2,234,600.19	2,234,600.19
Total	<u>\$23,100,279.11</u>	<u>\$7,214,611.82</u>	<u>\$9,784,198.19</u>	<u>\$4,706,122.58</u>	<u>\$2,234,600.19</u>	<u>\$47,039,811.89</u>

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

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

Functional Classification	Salaries	Benefits	Natural Classification		Scholarships	Depreciation	Total
			Other Operating				
Instruction	\$13,422,304.02	\$3,752,760.00	\$4,307,981.58		\$154,367.19	\$ -	\$21,637,412.79
Public service	488,260.40	117,128.43	277,479.77		894,713.28	-	1,777,581.88
Academic support	3,006,353.91	905,418.98	(1,023,195.29)		87,860.60	-	2,976,438.20
Student services	2,081,338.56	759,068.39	1,418,151.60		67,715.50	-	4,326,274.05
Institutional support	2,235,478.05	822,915.89	1,533,355.79		14,045.00	-	4,605,794.73
Operation & maintenance	605,992.62	294,884.89	2,484,542.96		1,220.00	-	3,386,640.47
Scholarships & fellowships	4,500.00	382.52	-		3,445,139.75	-	3,450,022.27
Auxiliary	-	-	146,292.56		-	-	146,292.56
Depreciation	-	-	-		-	2,036,855.05	2,036,855.05
Total	<u>\$21,844,227.56</u>	<u>\$6,652,559.10</u>	<u>\$9,144,608.97</u>		<u>\$4,665,061.32</u>	<u>\$2,036,855.05</u>	<u>\$44,343,312.00</u>

NOTE 12. COMPONENT UNIT

The Pellissippi State Technical Community College Foundation is a legally separate, tax-exempt organization supporting Pellissippi State Technical Community College. The foundation acts primarily as a fund-raising organization to supplement the resources that are available to the college in support of its programs. The 34-member board of the foundation is self-perpetuating and consists of graduates and friends of the college. Although the college does not control the timing or amount of receipts from the foundation, the majority of resources, or income thereon, that the foundation holds and invests are restricted to the activities of the college by the donors. Because these restricted resources held by the foundation can only be used by, or for the benefit of, the college, the foundation is considered a component unit of the college and is discretely presented in the college's financial statements.

The foundation is a nonprofit organization that reports under Financial Accounting Standards Board (FASB) standards, including FASB Statement 117, *Financial Statements of Not-for-Profit Organizations*. As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features. With the exception of necessary presentation reformatting, no modifications have been made to the foundation's financial information in the college's financial statements for these differences.

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

During the year ended June 30, 2007, the foundation made distributions of \$158,919.24 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 \$184,623.70 to or on behalf of the college for both restricted and unrestricted purposes. Complete financial statements for the foundation can be obtained from Mr. Ron Kesterson, Pellissippi State Technical Community College, P. O. Box 22990, Knoxville, TN 37933-0990.

Cash – At June 30, 2007, cash consisted of \$38,769.15 in bank accounts and \$1,274,625.50 in the State of Tennessee Local Government Investment Pool administered by the State Treasurer. The bank balances at June 30, 2007, were entirely insured. At June 30, 2006, cash consisted of \$2,837.65 in bank accounts and \$941,864.83 in the State of Tennessee Local Government Investment Pool administered by the State Treasurer. The bank balances at June 30, 2006, were entirely insured.

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 funds - bonds	\$889,499.71	\$1,582,165.87
Mutual funds - equity	\$2,075,496.30	<u>3,666,968.67</u>
Total investments		<u>\$5,249,134.54</u>

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

	<u>Cost</u>	<u>Market Value</u>
Mutual funds - bonds	\$796,069.69	\$1,292,583.68
Mutual funds - equity	\$1,857,491.94	<u>3,001,963.40</u>
Total investments		<u>\$4,294,547.08</u>

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

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	\$177,588.76	\$15,205.17
Pledges due in one to five years	604,168.61	49,215.60
Pledges due after five years	<u>294,063.15</u>	<u>14,333.48</u>
Subtotal	1,075,820.52	78,754.25
Less discount to net present value	<u>(254,044.52)</u>	<u>(16,275.84)</u>
Total pledges receivable, net	<u>\$821,776.00</u>	<u>\$62,478.41</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 (not including changes in the value of investments) each year. Under the spending plan established by the foundation, interest and dividends of regular endowed funds and one-half of interest and dividends of the Challenge Grant endowed funds have been authorized for expenditure. The remaining amount, if any, is retained to be used in future years when the amount computed using the spending plan exceeds the investment income. At June 30, 2007, net appreciation of \$2,284,138.53 is available to be spent, of which \$2,284,138.53 is included in restricted net assets expendable for scholarships and fellowships. At June 30, 2006, net appreciation of \$1,263,558.80 is available to be spent, of which \$1,263,558.80 is included in restricted net assets expendable for scholarships and fellowships.

**TENNESSEE BOARD OF REGENTS
PELLISSIPPI 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 June 30, 2007</u>	<u>Year Ended June 30, 2006</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Gifts and contributions	\$ 972,435.96	\$ 410,977.89
Endowment income per spending plan	78,832.65	57,612.59
Payments to suppliers and vendors	(528,406.59)	(361,286.67)
Payments to employees	(4,261.60)	(877.50)
Payments for benefits	(277.65)	(67.13)
Payments for scholarships and fellowships	(165,785.24)	(167,374.66)
Net cash provided (used) by operating activities	<u>352,537.53</u>	<u>(61,015.48)</u>
CASH FLOWS NONCAPITAL FINANCING ACTIVITIES		
Private gifts for endowment purposes	<u>249,526.62</u>	<u>64,285.15</u>
Net cash provided by noncapital financing activities	<u>249,526.62</u>	<u>64,285.15</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Income on investments	78,062.40	59,570.75
Purchases of investments	(311,434.38)	(169,406.65)
Net cash used by investing activities	<u>(233,371.98)</u>	<u>(109,835.90)</u>
Net increase (decrease) in cash	368,692.17	(106,566.23)
Cash at beginning of year	944,702.48	1,051,268.71
Cash at end of year	<u>\$ 1,313,394.65</u>	<u>\$ 944,702.48</u>
Reconciliation of operating income to net cash provided (used) by operating activities:		
Operating income	\$ 1,085,160.65	\$ 25,570.15
Unrealized gains on investments	(48,685.77)	(64,803.03)
Change in assets and liabilities:		
Receivables, net	(682,104.11)	38,125.86
Prepaid/deferred items	(1,000.00)	-
Accounts payable	(833.24)	(59,908.46)
Net cash provided (used) by operating activities	<u>\$ 352,537.53</u>	<u>\$ (61,015.48)</u>
Noncash transactions		
Gifts in-kind	\$ 118,747.29	\$ 87,204.75
Gifts of capital assets	40,171.95	97,418.95
Unrealized gains on investments	643,153.08	241,297.91