AUDIT REPORT

Tennessee Board of Regents
Chattanooga State Technical Community College

For the Years Ended
June 30, 2008, and June 30, 2007

STATE OF TENNESSEE

COMPTROLLER OF THE TREASURY

Department of Audit

Division of State Audit

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STATE OF TENNESSEE
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July 28, 2009

The Honorable Phil Bredesen, Governor
and
Members of the General Assembly
State Capitol
Nashville, Tennessee 37243
and
The Honorable Charles W. Manning, Chancellor
Tennessee Board of Regents
1415 Murfreesboro Road, Suite 350
Nashville, Tennessee 37217
and
Dr. James L. Catanzaro, President
Chattanooga State Technical Community College
4501 Amnicola Highway
Chattanooga, Tennessee 37406

Ladies and Gentlemen:

Transmitted herewith is the financial and compliance audit of the Tennessee Board of Regents, Chattanooga State Technical Community College, for the years ended June 30, 2008, and June 30, 2007. You will note from the independent auditor's report that unqualified opinions were given on the fairness of the presentation of the financial statements.

Consideration of internal control over financial reporting and tests of compliance resulted in no audit findings.

Sincerely,

Arthur A. Hayes, Jr., CPA
Director

AAH/sds
09/044

State of Tennessee

A u d i t   H i g h l i g h t s

Comptroller of the Treasury   Division of State Audit

Financial and Compliance Audit
Chattanooga State Technical Community College
For the Years Ended June 30, 2008, and June 30, 2007

AUDIT OBJECTIVES

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

AUDIT FINDINGS

The audit report contains no findings.

OPINIONS ON THE FINANCIAL STATEMENTS

The opinions on the financial statements are unqualified.

Audit Report
Tennessee Board of Regents
Chattanooga State Technical Community College
For the Years Ended June 30, 2008, and June 30, 2007

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Tennessee Board of Regents
Chattanooga State Technical Community College
For the Years Ended June 30, 2008, and June 30, 2007

INTRODUCTION

POST-AUDIT AUTHORITY

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

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

BACKGROUND

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

Chattanooga State Technical Community College began operation as Chattanooga State Technical Institute, which was established by the General Assembly in 1965. In 1973, the General Assembly granted community college status to the institute and changed its name to Chattanooga State Technical Community College. The purpose of the college is to offer highly diversified and comprehensive programs that serve the educational needs of the community; the college's primary goal is to offer post-secondary occupational and technical training and to provide academic preparation for transfer to four-year institutions.

Pursuant to Chapter 244 of the Public Acts of 1981, Chattanooga State Technical Community College and Chattanooga State Area Vocational-Technical School were consolidated as one institution effective July 1, 1981. Established as a pilot program, the consolidation was to remain in effect for three years, after which designated legislative committees would consider continuation, modification, or termination of the program. Legislation was enacted, effective July 1, 1983, permanently merging Chattanooga State

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

ORGANIZATION

The governance of Chattanooga State Technical Community College is vested in the Tennessee Board of Regents. The Governor, the Commissioner of Education, the Commissioner of Agriculture, and the Executive 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, 2006, through June 30, 2008, 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, 2008, and June 30, 2007. Chattanooga State Technical Community College is an institution of the Tennessee Board of Regents, which is an integral part of state government. As such, the Tennessee Board of Regents has been included as a component unit in the *Tennessee Comprehensive Annual Financial Report.*

OBJECTIVES OF THE AUDIT

The objectives of the audit were

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

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

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

4. to recommend appropriate actions to correct any deficiencies.

PRIOR AUDIT 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.

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, 2008, and June 30, 2007, 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. Consideration of internal control over financial reporting disclosed no significant deficiencies or material weaknesses.

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

July 2, 2009

The Honorable Phil Bredesen, Governor
and
Members of the General Assembly
State Capitol
Nashville, Tennessee 37243
and
The Honorable Charles W. Manning, Chancellor
Tennessee Board of Regents
1415 Murfreesboro Road, Suite 350
Nashville, Tennessee 37217
and
Dr. James L. Catanzaro, President
Chattanooga State Technical Community College
4501 Amnicola Highway
Chattanooga, Tennessee 34706

Ladies and Gentlemen:

We have audited the financial statements of Chattanooga State Technical Community College, an institution of the Tennessee Board of Regents, which is a component unit of the State of Tennessee, and its discretely presented component unit as of and for the years ended June 30, 2008, and June 30, 2007, and have issued our report thereon dated July 2, 2009. During the year ended June 30, 2008, the college implemented GASB Statement 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions.* 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 in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting.

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 college's internal control.

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 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 internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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

Compliance and Other Matters

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

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

Sincerely,

Arthur A. Hayes, Jr., CPA
Director

AAH/sds

STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
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Independent Auditor's Report

July 2, 2009

The Honorable Phil Bredesen, Governor
and
Members of the General Assembly
State Capitol
Nashville, Tennessee 37243
and
The Honorable Charles W. Manning, Chancellor
Tennessee Board of Regents
1415 Murfreesboro Road, Suite 350
Nashville, Tennessee 37217
and
Dr. James L. Catanzaro, President
Chattanooga State Technical Community College
4501 Amnicola Highway
Chattanooga, Tennessee 37406

Ladies and Gentlemen:

We have audited the accompanying basic financial statements of Chattanooga State Technical Community College, an institution of the Tennessee Board of Regents, which is a component unit of the State of Tennessee, and its discretely presented component unit as of and for the years ended June 30, 2008, and June 30, 2007, 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 Chattanooga 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 Chattanooga 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, 2008, and June 30, 2007, and the changes in its financial position and 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, Chattanooga State Technical Community College, and its discretely presented component unit as of June 30, 2008, and June 30, 2007, and the respective changes in financial position and cash flows thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 14, during the year ended June 30, 2008, the college implemented GASB Statement 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions.*

The management's discussion and analysis on pages 11 through 27 and the OPEB schedule of funding progress on page 53 are not a required part of the basic financial statements but are 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. In its management's discussion and analysis, Chattanooga State Technical Community College has not presented condensed financial information comparing the 2007 and 2006 fiscal years which is required by accounting principles generally accepted in the United States of America to supplement, although not be a part of, the basic financial statements.

Our audit was conducted for the purpose of forming opinions on the basic financial statements. The accompanying financial information on page 54 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with generally accepted government auditing standards, we have also issued our report dated July 2, 2009, on our consideration of the college's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with generally accepted government auditing standards and should be read in conjunction with this report in considering the results of our audit.

Sincerely,

Arthur A. Hayes, Jr.

Arthur A. Hayes, Jr., CPA
Director

AAH/sds

Tennessee Board of Regents
Chattanooga State Technical Community College
Management's Discussion and Analysis
June 30, 2008, and June 30, 2007

This section of Chattanooga State Technical Community College's report presents a discussion and analysis of the financial performance of the college during the fiscal year ended June 30, 2008, with comparative information presented for the fiscal year ended June 30, 2007. This discussion has been prepared by management along with the financial statements and related note disclosures and should be read in conjunction with the independent auditor's report, the audited financial statements, and accompanying notes. The financial statements, notes, and this discussion are the responsibility of management.

The Tennessee Technology Center at Chattanooga is part of Chattanooga State Technical Community College. The college has one discretely presented component unit, the Chattanooga State Technical Community College Foundation. More detailed information about the college's component unit is provided in Note 16 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 Chattanooga State Technical Community College as a whole and present a long-term view of the college's finances.

The Statement of Net Assets

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

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

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

	2008	2007
Assets:		
Current assets	$ 8,408	$ 6,607
Capital assets, net	30,867	27,995
Other assets	3,356	4,468
Total assets	**42,631**	**39,070**
Liabilities:		
Current liabilities	4,080	3,456
Noncurrent liabilities	5,273	4,524
Total liabilities	**9,353**	**7,980**
Net assets:		
Invested in capital assets, net of related debt	30,050	26,946
Restricted – expendable	104	118
Unrestricted	3,124	4,026
Total net assets	**$33,278**	**$31,090**

Comparison of Fiscal Year 2008 to Fiscal Year 2007

- The increase in current assets includes an increase in accounts, notes, and grants receivable of $1.02 million due in part to an increase in PELL receivables of $703,000.
- The increase in capital assets, net includes equipment additions of $1.44 million and an increase in construction in progress of the Allied Health Building of $2.78 million.
- The decrease in other assets includes a decrease in noncurrent cash due to renovations expenditures of $747,000 and continued implementation expenditures for Banner of $525,000. (Banner is the college's new accounting and information system.)
- The increase in noncurrent liabilities includes increases in accrued liabilities of $918,000 due to the accrual of other post-employment benefits (OPEB) per the implementation of Governmental Accounting Standards Board (GASB) Statement number 45.

- The decrease in unrestricted net assets also includes a decrease in renewal and replacement net assets of $730,000 due to Banner implementation and equipment purchases.

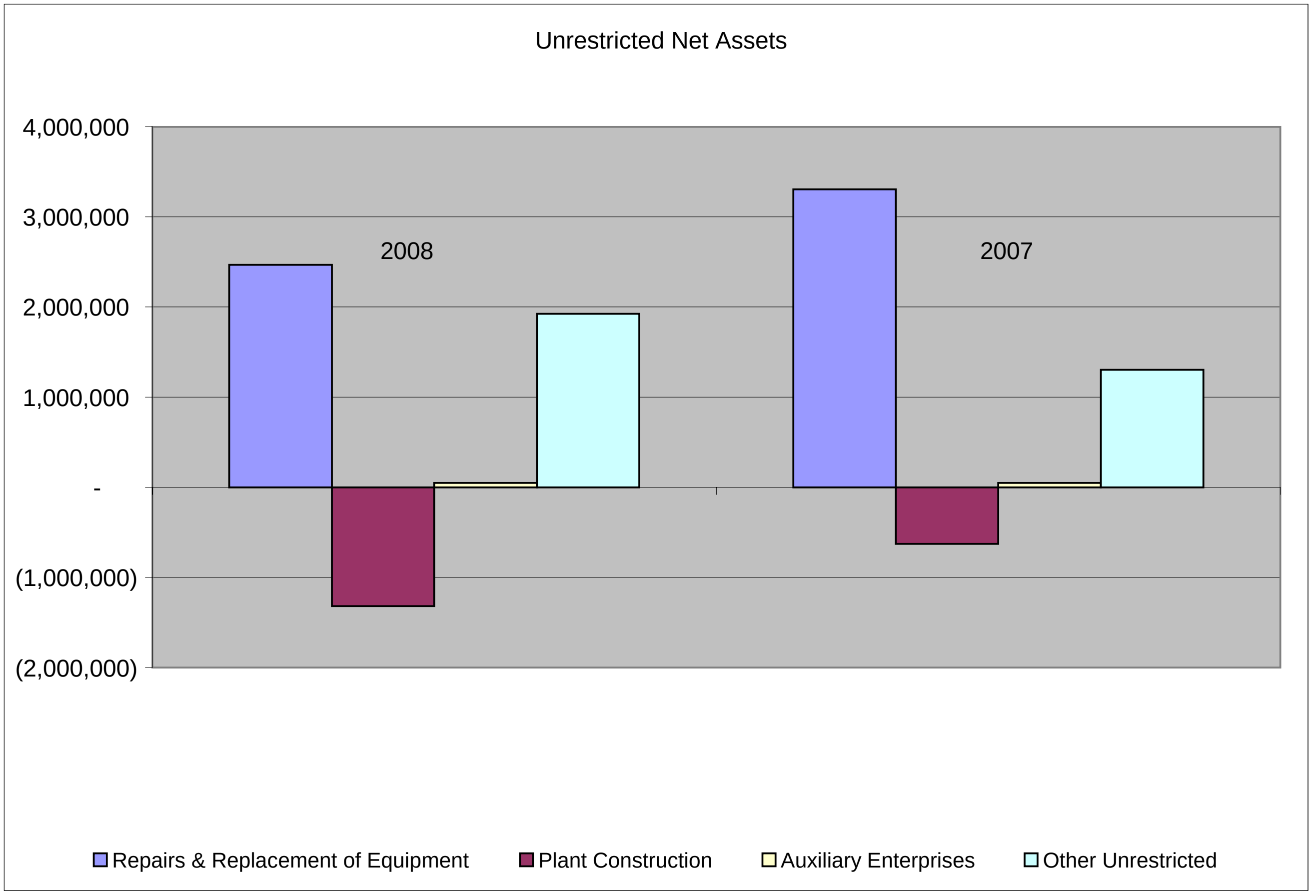
Component Unit
Condensed Statements of Net Assets
(in thousands of dollars)

	2008	2007
Assets:		
Current assets	$ 560	$ 329
Capital assets, net	726	726
Other assets	5,329	4,915
Total assets	**6,615**	**5,970**
Liabilities:		
Current liabilities	183	17
Total liabilities	**183**	**17**
Net assets:		
Invested in capital assets, net of related debt	726	726
Restricted – nonexpendable	1,531	1,219
Restricted – expendable	3,201	2,768
Unrestricted	974	1,240
Total net assets	**$6,432**	**$5,953**

<u>Comparison of Fiscal Year 2008 to Fiscal Year 2007</u>

- The increase in foundation current assets includes an increase in pledges receivable of $483,000 partially due to a capital campaign that occurred during the year.
- The increase in current liabilities is an increase in accounts payable due to $146,000 of college equipment purchases being paid for by the foundation.

Many of the college's unrestricted net assets have been designated for specific purposes such as repairs and replacement of equipment and capital projects. For additional detail, refer to Note 7. The following graph shows the allocations:



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

Comparison of Fiscal Year 2008 to Fiscal Year 2007

- The decrease in college repairs and replacements of equipment net assets includes decreases due to Banner implementation and equipment purchases.

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
Chattanooga State Technical Community College
Management's Discussion and Analysis (Cont.)
June 30, 2008, and June 30, 2007

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

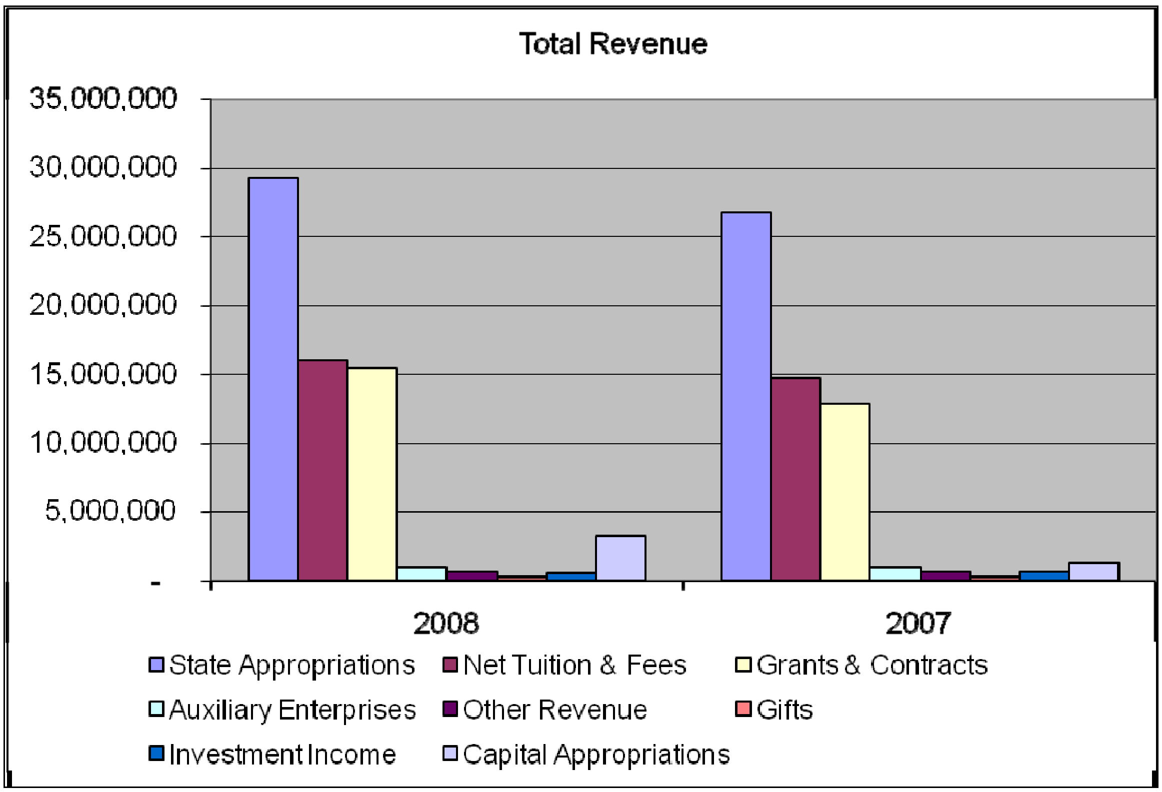
	2008	2007
Operating revenues:		
Net tuition and fees	$15,995	$14,761
Grants and contracts	3,003	3,017
Auxiliary	969	919
Other	563	545
Total operating revenues	**20,530**	**19,242**
Operating expenses	64,025	58,232
Operating loss	**(43,495)**	**(38,990)**
Nonoperating revenues and expenses:		
State appropriations	29,225	26,824
Gifts	292	167
Grants & contracts	12,413	9,777
Investment income	490	634
Other revenues and expenses	(66)	(93)
Total nonoperating revenues and expenses	**42,354**	**37,309**
Income (loss) before other revenues, expenses, gains, or losses	**(1,141)**	**(1,681)**
Other revenues, expenses, gains, or losses:		
Capital appropriations	3,277	1,249
Capital grants and gifts	52	109
Total other revenues, expenses, gains, or losses	**3,329**	**1,358**
Increase (decrease) in net assets	**2,188**	**(323)**
Net assets at beginning of year	**31,090**	**31,134**
Prior period adjustment	-	279
Net assets at end of year	**$33,278**	**$31,090**

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

	2008	2007
Operating revenues:		
Gifts	$849	$298
Other	136	105
Total operating revenues	**985**	**403**
Operating expenses	464	407
Operating income (loss)	**521**	**(4)**
Nonoperating revenues and expenses:		
Investment income	(320)	542
Other revenues and expenses	-	4
Total nonoperating revenues and expenses	**(320)**	**546**
Income (loss) before other revenues, expenses, gains, or losses	**201**	**542**
Other revenues, expenses, gains, or losses:		
Additions to permanent endowments	278	246
Total other revenues, expenses, gains, or losses	**278**	**246**
Increase in net assets	**479**	**788**
Net assets at beginning of year	**5,953**	**5,165**
Net assets at end of year	**$6,432**	**$5,953**

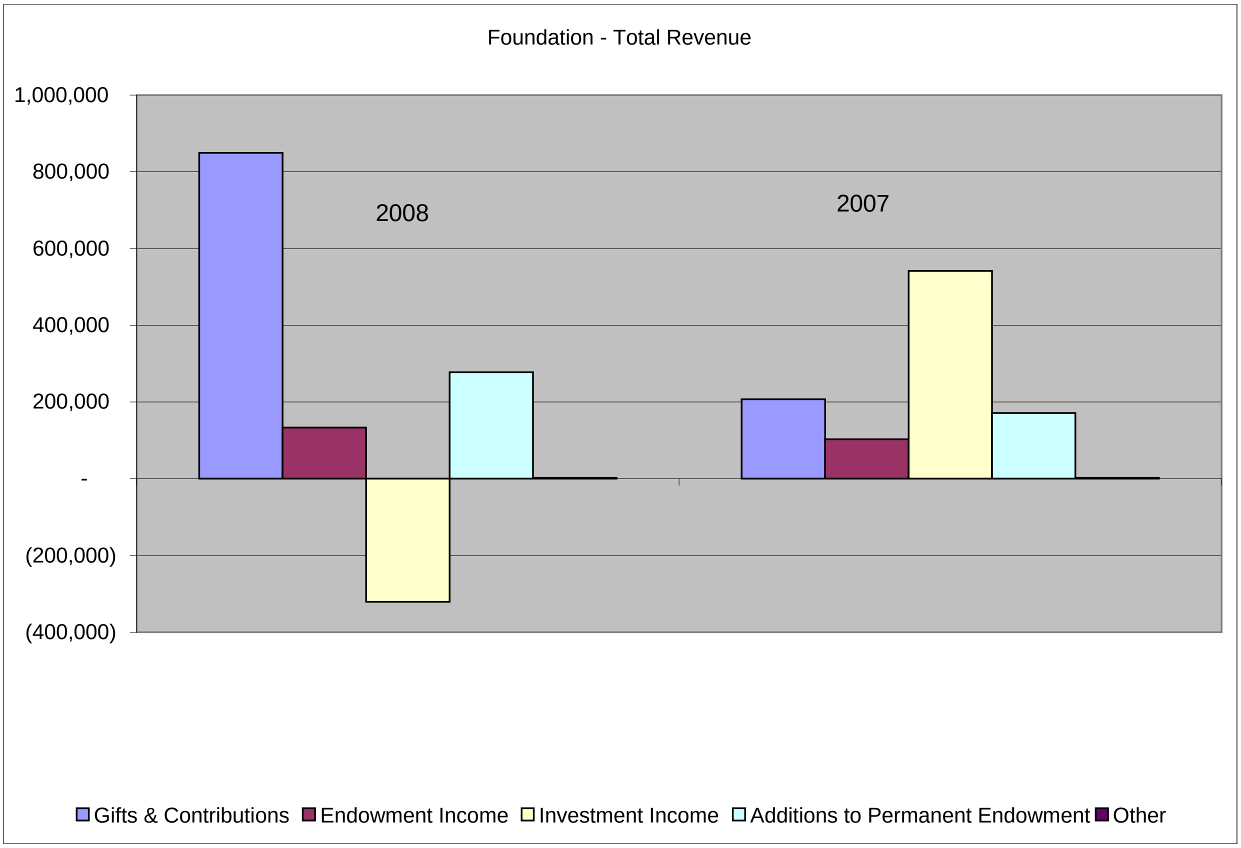
Revenues

The following is a graphic illustration of revenues by source (both operating and nonoperating), which are used to fund the college's operating activities for the years ended June 30, 2008, and June 30, 2007.



Comparison of Fiscal Year 2008 to Fiscal Year 2007

- The increase in grants and contracts revenue includes an increase in PELL grants and contracts of $1.4 million and an increase in Tennessee state scholarships of $700,000.
- The increase in capital appropriations of $2.0 million is due to the Allied Health Building construction in progress capital expenditures.



Comparison of Fiscal Year 2008 to Fiscal Year 2007

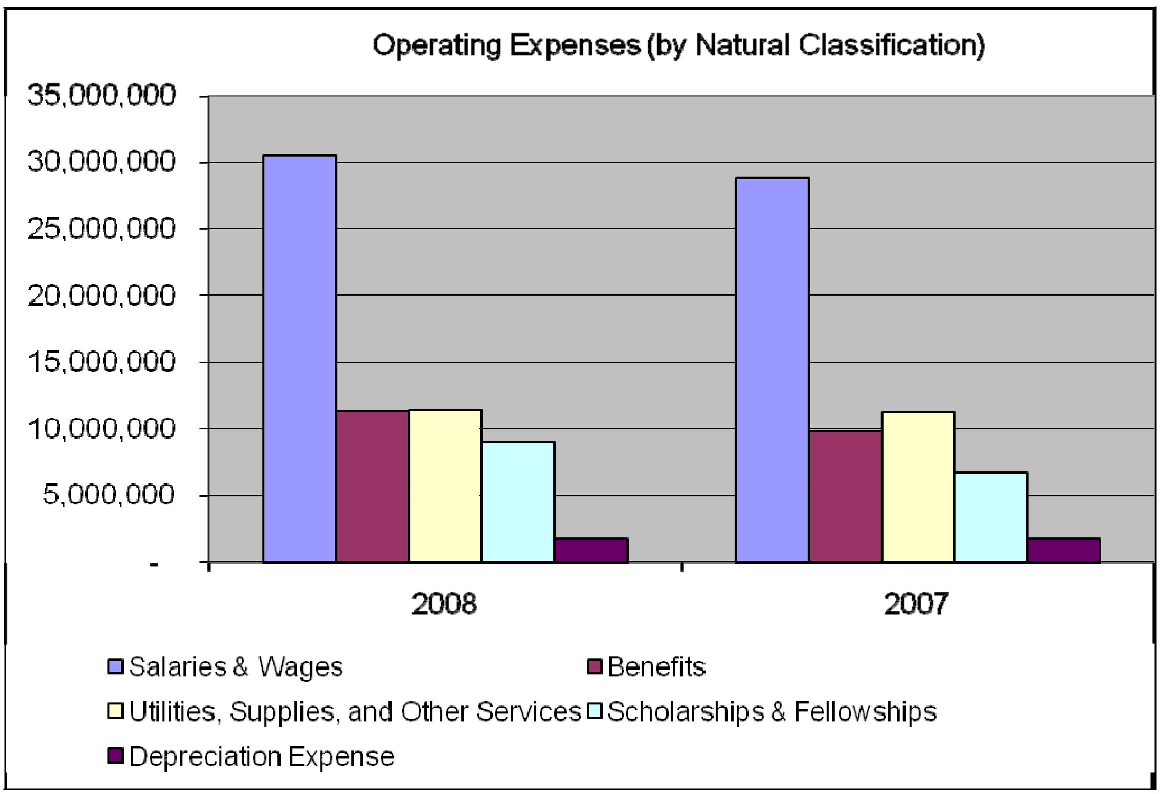
- The increase in foundation gifts and contributions is due to the increase of $483,000 in pledges receivable.
- The decrease in foundation investment income is due to market performance.

Expenses

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

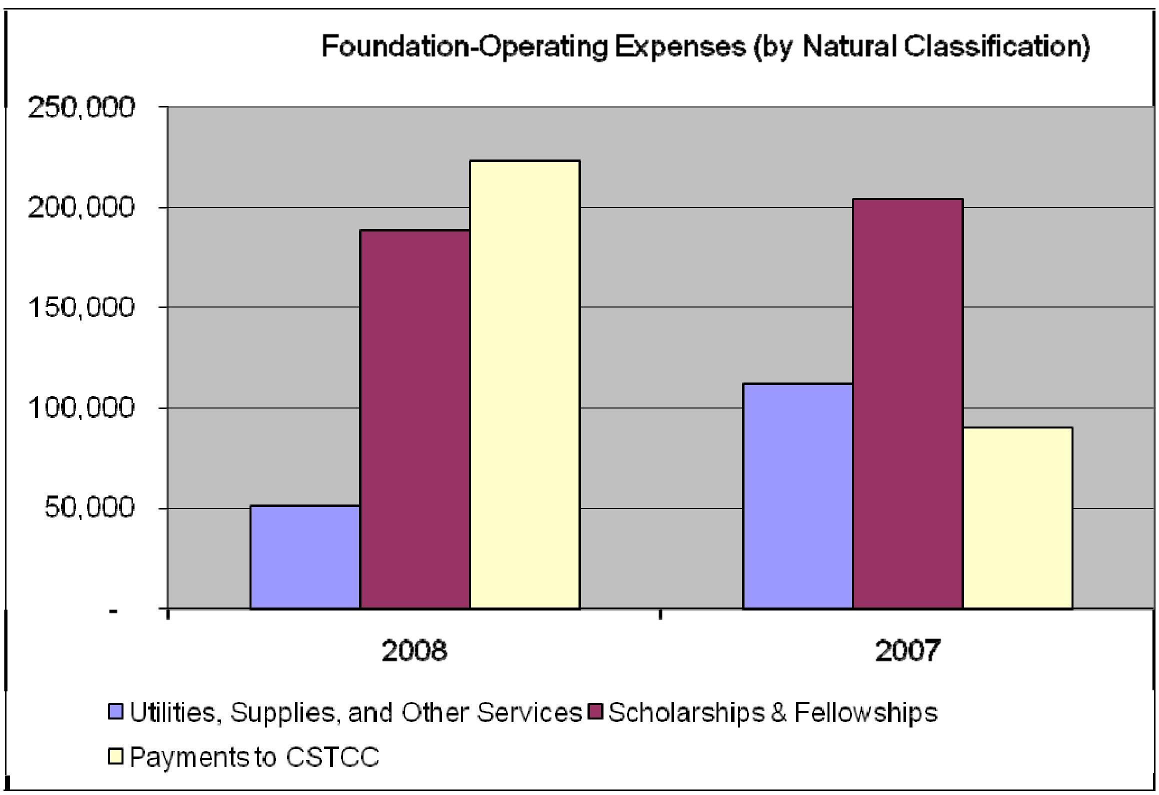
Institution
Natural Classification
(in thousands of dollars)

	2008	**2007**
Salaries and wages	$30,534	$28,786
Benefits	11,293	9,789
Utilities, supplies, and other services	11,381	11,186
Scholarships and fellowships	9,007	6,684
Depreciation expense	1,810	1,787
Total operating expenses	**$64,025**	**$58,232**



Component Unit
Natural Classification
(in thousands of dollars)

	2008	2007
Utilities, supplies, and other services	$ 51	$112
Scholarships and fellowships	189	204
Payments to or on behalf of CSTCC	224	91
Total operating expenses	**$464**	**$407**



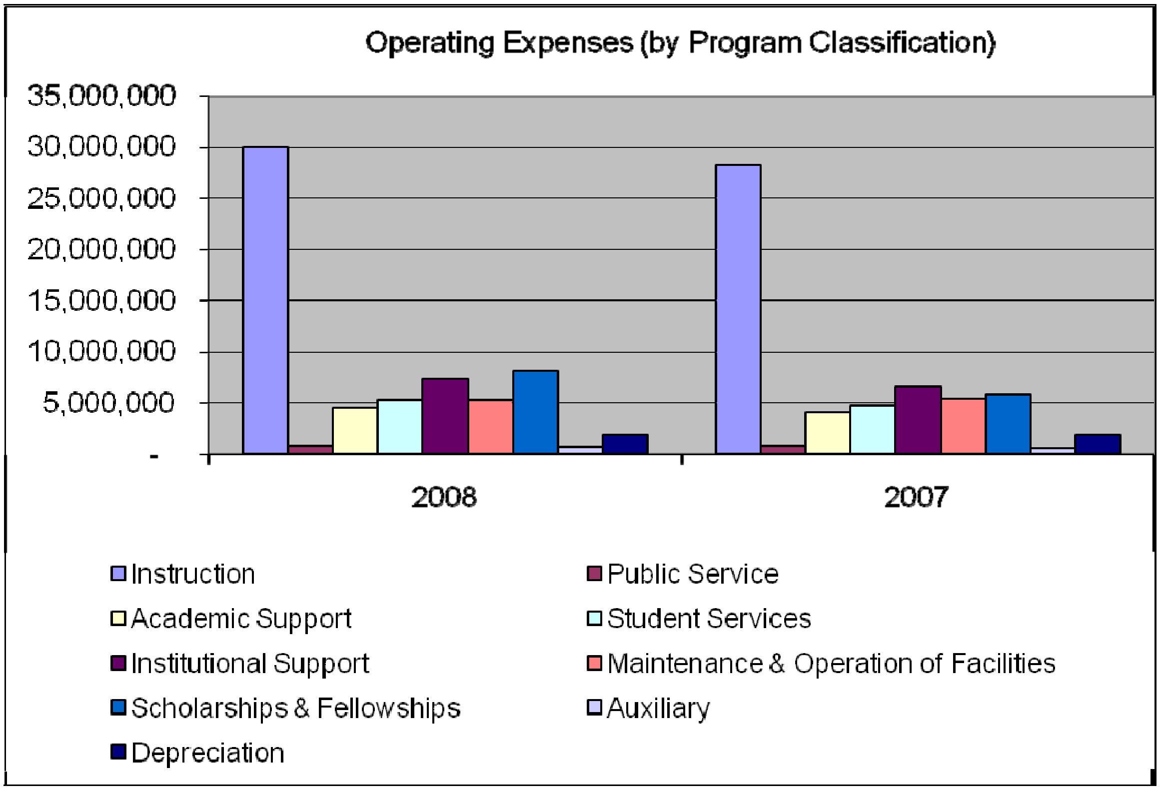
Comparison of Fiscal Year 2008 to Fiscal Year 2007

- For the college, the increase in benefits expense includes an increase in OPEB expense of $918,000 due to the implementation of GASB Statement 45.

- For the college, the increase in scholarships and fellowships expense includes increases in PELL and state scholarships.

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

	2008	2007
Instruction	$30,055	$28,365
Public service	852	835
Academic support	4,475	4,021
Student services	5,318	4,726
Institutional support	7,355	6,542
Maintenance & operation of facilities	5,240	5,439
Scholarships and fellowships	8,224	5,885
Auxiliary	696	632
Depreciation expense	1,810	1,787
Total operating expenses	**$64,025**	**$58,232**



Comparison of Fiscal Year 2008 to Fiscal Year 2007

- The increase in scholarships and fellowships expense includes increases in PELL and state scholarships.

The Statement of Cash Flows

The statement of cash flows provides information about cash receipts and cash payments during the year. This statement also assists users in assessing the college's ability to generate net cash flows, its ability to meet its obligations as they come due, and its need for external financing.

Institution
Condensed Statements of Cash Flows
(in thousands of dollars)

	2008	2007
Cash provided (used) by:		
Operating activities	$(40,225)	$(36,465)
Noncapital financing activities	41,150	36,803
Capital and related financing activities	(1,736)	(752)
Investing activities	490	634
Net increase (decrease) in cash	**(321)**	**220**
Cash, beginning of year	**9,305**	**9,085**
Cash, end of year	**$ 8,984**	**$ 9,305**

Comparison of Fiscal Year 2008 to Fiscal Year 2007

- The increase in cash used for operating activities includes an increase in payments for scholarships and fellowships of $2.3 million due to increases in PELL and state scholarship awards.
- The increase in cash provided by noncapital financing activities includes an increase in state appropriations of $2.4 million and an increase in grants of $1.87 million due to increases in PELL and state scholarships.
- Increases in cash provided by capital and related financing activities included a special equipment appropriation of $970,800 for the college's technology center.
- The liquidity of the college decreased by $321,000.

Capital Assets and Debt Administration

Capital Assets

Chattanooga State Technical Community College had $30,867,141 invested in capital assets, net of accumulated depreciation of $27,932,984 at June 30, 2008; and $27,995,571 invested in capital assets, net of accumulated depreciation of $26,387,267 at June 30, 2007. Depreciation charges totaled $1,810,450 and $1,786,995 for the years ended June 30, 2008, and June 30, 2007, respectively. Details of these assets are shown below.

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

	2008	2007
Land	$2,429	$2,429
Land improvements & infrastructure	1,094	1,195
Buildings	19,173	19,996
Equipment	3,022	2,194
Library holdings	255	276
Software	1,593	1,362
Projects in progress	3,301	544

During fiscal year 2008, the college (excluding its technology center) spent $4,392,945 on capital additions which included:

- Equipment purchases of $1,114,086.
- Banner software of $437,071.
- Library holding purchases of $48,236.
- Additional WTCI property acquisition expenses of $36,157. (WTCI is a local public television station.)
- Allied Health Building construction in progress of $2,757,395.

In the fiscal year ending June 30, 2008, the technology center added $264,727 in capital assets which included:

- A purchase of two semi tractors at $113,800 for the truck driving program.
- A purchase of a hydraulic lift system at $61,824 for the diesel program.
- A purchase of a bobcat at $46,291 for the landscape and turf program.
- A purchase of a PLC trainer at $13,707 for the industrial electricity/electronics program.
- A purchase of a touring bike at $11,331 for the motorcycle marine service technology program.
- A purchase of a sign at $6,350 for the Eastgate mall site.
- A purchase of a transmission jack at $5,597 for the diesel program.
- A purchase of a Xeon server at $5,827 for the computer operation technology program.

The Allied Health Building was funded by capital appropriations. Equipment purchases of $187,346 were funded by restricted net assets. The other capital additions were funded by the college's unrestricted net assets.

During fiscal year 2007, the college (excluding its technology center) spent $2,118,199 on capital additions which included:

- The purchase of WTCI property of $676,725.
- Banner software of $603,794.
- Equipment purchases of $544,728.
- Library holding purchases of $62,497.
- Allied Health Building construction in progress of $230,455.

In the fiscal year ending June 30, 2007, the technology center added $36,878 in capital assets which included:

- A purchase of networking additions of $31,829.
- A purchase of a video capture and editing system of $5,049 for the electronic programs.

The Allied Health Building was funded by capital appropriations. The other capital additions were funded by the college's unrestricted net assets.

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

	2008	2007
Land	$726	$726

In the 2009 fiscal year, the college's planned capital expenditures include:

- Upgrade of the telephone switch.
- Renovation of the baseball facility.
- Expenditures on campus infrastructure project.

In fiscal year 2009, the technology center plans to purchase $104,000 in instructional equipment to be funded from the technology access fee.

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

Debt

The college had $3,021,846 and $3,337,533 in debt outstanding at June 30, 2008, and June 30, 2007, respectively. The component unit had no debt outstanding at June 30, 2008, and June 30, 2007. The table below summarizes these amounts by type of debt instrument.

Institution
Debt
(in thousands of dollars)

	2008	2007
Bonds	$3,022	$1,050
Commercial paper	-	2,288

In 2008, the college converted commercial paper in the amount of $2,287,868 to bonds payable for the financing of the Energy Savings project. Tennessee State School Bond Authority bonds are currently rated AA by Standard and Poor's.

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

Economic Factors That Will Affect the Future

The economic position of Chattanooga State Technical Community College is closely tied to that of the State of Tennessee. For the 2008 fiscal year, state appropriations comprised 42% of total revenues for the college (excluding its technology center) and 71% of the total revenues for the college's technology center and were thus the largest source of funding. Effective fall 2008, student fees will be increased by 6%. The additional revenue will further negate the effects of reductions in state support in recent years.

Requests for Information

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

TENNESSEE BOARD OF REGENTS
CHATTANOOGA STATE TECHNICAL COMMUNITY COLLEGE
STATEMENTS OF NET ASSETS
JUNE 30, 2008, AND JUNE 30, 2007

	Chattanooga State Technical Community College		Component Unit - Chattanooga State Technical Community College Foundation	
	June 30, 2008	June 30, 2007	June 30, 2008	June 30, 2007
ASSETS				
Current assets:				
Cash and cash equivalents (Notes 2, 3, and 16)	$ 5,627,861.20	$ 4,856,057.04	$ 234,082.97	$ 37,314.34
Accounts and grants receivable (net) (Note 4)	2,692,615.13	1,663,647.17	1,018.50	1.04
Pledges receivable (net) (Note 16)	-	-	321,046.05	287,651.07
Inventories	44,676.27	42,799.82	-	-
Prepaid expenses and deferred charges	43,225.89	44,233.35	-	-
Other assets	-	-	3,980.12	3,629.21
Total current assets	8,408,378.49	6,606,737.38	560,127.64	328,595.66
Noncurrent assets:				
Cash and cash equivalents (Notes 2, 3, and 16)	3,355,972.87	4,449,230.95	83,072.37	27,993.28
Investments (Note 16)	-	-	4,631,239.65	4,723,488.49
Accounts and grants receivable (net) (Note 4)	-	18,531.52	-	-
Pledges receivable (net) (Note 16)	-	-	614,615.06	164,198.86
Capital assets (net) (Notes 5 and 16)	30,867,141.29	27,995,571.05	725,603.03	725,603.03
Total noncurrent assets	34,223,114.16	32,463,333.52	6,054,530.11	5,641,283.66
Total assets	42,631,492.65	39,070,070.90	6,614,657.75	5,969,879.32
LIABILITIES				
Current liabilities:				
Accounts payable	300,226.13	226,092.26	182,779.61	17,348.50
Accrued liabilities	1,489,373.14	1,366,117.48	-	-
Deferred revenue	1,323,210.38	999,058.04	-	-
Compensated absences (Note 6)	414,727.34	522,647.50	-	-
Accrued interest payable	21,602.90	19,516.47	-	-
Long-term liabilities, current portion (Note 6)	364,372.79	233,130.39	-	-
Deposits held in custody for others	166,290.40	89,196.36	-	-
Total current liabilities	4,079,803.08	3,455,758.50	182,779.61	17,348.50
Noncurrent liabilities:				
Compensated absences (Note 6)	1,697,320.19	1,419,538.28	-	-
Long-term liabilities (Note 6)	2,657,473.57	3,104,403.10	-	-
Net OPEB obligation (Notes 6 and 9)	918,421.35	-	-	-
Total noncurrent liabilities	5,273,215.11	4,523,941.38	-	-
Total liabilities	9,353,018.19	7,979,699.88	182,779.61	17,348.50
NET ASSETS				
Invested in capital assets, net of related debt	30,050,606.23	26,945,905.60	725,603.03	725,603.03
Restricted for:				
Nonexpendable:				
Scholarships and fellowships	-	-	1,290,934.02	978,281.76
Instructional department uses	-	-	240,559.50	240,484.07
Expendable:				
Scholarships and fellowships	-	-	848,017.35	862,573.13
Instructional department uses	-	-	1,518,387.80	1,347,860.32
Loans	20,361.48	20,361.48	-	-
Capital projects	-	-	764,524.77	487,331.45
Other	83,447.66	97,799.58	69,752.19	70,507.29
Unrestricted (Note 7)	3,124,059.09	4,026,304.36	974,099.48	1,239,889.77
Total net assets	$ 33,278,474.46	$ 31,090,371.02	$ 6,431,878.14	$ 5,952,530.82

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

Exhibit B

TENNESSEE BOARD OF REGENTS
CHATTANOOGA STATE TECHNICAL COMMUNITY COLLEGE
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2008, AND JUNE 30, 2007

	Chattanooga State Technical Community College		Component Unit - Chattanooga State Technical Community College Foundation	
	Year Ended June 30, 2008	Year Ended June 30, 2007	Year Ended June 30, 2008	Year Ended June 30, 2007
REVENUES				
Operating revenues:				
Student tuition and fees (net of scholarship allowances of $5,640,760.00 for the year ended June 30, 2008, and $5,223,955.00 for the year ended June 30, 2007)	$ 15,995,294.63	$ 14,761,160.15	$ -	$ -
Gifts and contributions	-	-	849,400.07	297,314.73
Endowment income per spending plan	-	-	133,702.00	102,989.00
Governmental grants and contracts	2,832,548.31	2,827,161.17	-	-
Nongovernmental grants and contracts	170,845.63	189,587.35	-	-
Sales and services of educational departments	339,888.28	309,100.39	-	-
Auxiliary enterprises:				
Bookstore	410,986.79	396,746.05	-	-
Food service	557,561.92	521,897.47	-	-
Other operating revenues	222,514.09	236,226.65	2,400.00	2,400.00
Total operating revenues	20,529,639.65	19,241,879.23	985,502.07	402,703.73
EXPENSES				
Operating expenses (Note 12):				
Salaries and wages	30,534,150.56	28,785,654.97	-	-
Benefits	11,292,466.30	9,788,788.06	-	-
Utilities, supplies, and other services	11,381,229.94	11,186,201.75	51,414.16	111,862.15
Scholarships and fellowships	9,006,945.65	6,684,171.56	189,042.04	204,298.57
Depreciation expense	1,810,450.46	1,786,995.17	-	-
Payments to or on behalf of Chattanooga State Technical Community College (Note 16)	-	-	223,815.80	90,456.67
Total operating expenses	64,025,242.91	58,231,811.51	464,272.00	406,617.39
Operating income (loss)	(43,495,603.26)	(38,989,932.28)	521,230.07	(3,913.66)
NONOPERATING REVENUES (EXPENSES)				
State appropriations	29,225,000.00	26,823,800.00	-	-
Gifts (college gifts include $223,815.80 from component unit in 2008 and $90,456.67 from component unit in 2007)	292,013.02	167,195.69	-	-
Grants and contracts	12,412,806.91	9,777,101.14	-	-
Investment income (for component unit, net of investment expense of $50,081.86 in 2008, and $43,593.08 in 2007)	490,167.04	634,138.67	(319,903.72)	541,885.92
Interest on capital asset-related debt	(109,593.91)	(100,115.89)	-	-
Other nonoperating revenues (expenses)	43,930.42	7,190.33	350.91	3,629.21
Net nonoperating revenues (expenses)	42,354,323.48	37,309,309.94	(319,552.81)	545,515.13
Income (loss) before other revenues, expenses, gains, or losses	(1,141,279.78)	(1,680,622.34)	201,677.26	541,601.47
Capital appropriations	3,277,258.22	1,248,558.72	-	-
Capital grants and gifts	52,125.00	108,700.00	-	-
Additions to permanent endowments	-	-	277,670.06	245,907.13
Total other revenues	3,329,383.22	1,357,258.72	277,670.06	245,907.13
Increase (decrease) in net assets	2,188,103.44	(323,363.62)	479,347.32	787,508.60
NET ASSETS				
Net assets - beginning of year	31,090,371.02	31,134,285.56	5,952,530.82	5,165,022.22
Prior period adjustment (Note 13)	-	279,449.08	-	-
Net assets - end of year	$ 33,278,474.46	$ 31,090,371.02	$ 6,431,878.14	$ 5,952,530.82

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

Exhibit C

TENNESSEE BOARD OF REGENTS
CHATTANOOGA STATE TECHNICAL COMMUNITY COLLEGE
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2008, AND JUNE 30, 2007

	Year Ended June 30, 2008	Year Ended June 30, 2007
CASH FLOWS FROM OPERATING ACTIVITIES		
Tuition and fees	$ 15,792,274.98	$ 14,801,866.15
Grants and contracts	3,350,793.27	3,031,741.19
Sales and services of educational activities	343,750.70	315,951.11
Payments to suppliers and vendors	(11,321,634.05)	(11,136,926.71)
Payments to employees	(30,438,279.59)	(28,599,591.85)
Payments for benefits	(10,148,560.04)	(9,458,979.11)
Payments for scholarships and fellowships	(8,965,336.03)	(6,673,643.81)
Auxiliary enterprise charges:		
Bookstore	396,746.05	510,901.00
Food services	561,298.29	516,668.90
Other receipts	203,733.80	227,125.28
Net cash used by operating activities	(40,225,212.62)	(36,464,887.85)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State appropriations	29,222,800.00	26,825,200.00
Gifts and grants received for other than capital or endowment purposes	11,795,256.59	9,922,334.29
Federal student loan receipts	11,277,022.04	7,347,263.37
Federal student loan disbursements	(11,236,553.87)	(7,342,891.07)
Changes in deposits held for others	87,013.50	20,960.47
Other receipts	4,280.00	30,323.83
Net cash provided by noncapital financing activities	41,149,818.26	36,803,190.89
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from capital debt	-	549,029.17
Capital appropriations	3,295,644.54	1,255,769.72
Proceeds from sale of capital assets	8,541.11	10,424.81
Purchases of capital assets and construction	(4,686,306.63)	(2,232,196.98)
Principal paid on capital debt	(315,687.13)	(228,375.66)
Interest paid on capital debt	(107,507.48)	(107,671.08)
Changes in deposits with trustee	10,203.89	911.23
Other receipts	58,885.10	-
Net cash used by capital and related financing activities	(1,736,226.60)	(752,108.79)
CASH FLOWS FROM INVESTING ACTIVITIES		
Income on investments	490,167.04	634,138.67
Net cash provided by investing activities	490,167.04	634,138.67
Net increase (decrease) in cash	(321,453.92)	220,332.92
Cash - beginning of year	9,305,287.99	9,084,955.07
Cash - end of year	$ 8,983,834.07	$ 9,305,287.99

TENNESSEE BOARD OF REGENTS
CHATTANOOGA STATE TECHNICAL COMMUNITY COLLEGE
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2008, AND JUNE 30, 2007

	Year Ended June 30, 2008	Year Ended June 30, 2007
Reconciliation of operating loss to net cash used by operating activities:		
Operating loss	$ (43,495,603.26)	$ (38,989,932.28)
Adjustments to reconcile operating loss to net cash used by operating activities:		
Depreciation expense	1,810,450.46	1,786,995.17
Change in assets and liabilities:		
Receivables, net	(169,282.38)	123,839.14
Inventories	(1,876.45)	289.78
Prepaid/deferred items	(9,196.43)	211,888.88
Accounts payable	104,604.34	24,697.07
Accrued liabilities	1,041,677.01	107,516.83
Deposits	-	(685.00)
Deferred revenue	324,152.34	79,141.94
Compensated absences	169,861.75	191,360.62
Net cash used by operating activities	$ (40,225,212.62)	$ (36,464,887.85)
Noncash transactions		
Gifts in-kind	$ 26,125.00	$ -
Gifts of capital assets	$ 26,000.00	$ 108,700.00
Loss on disposal of capital assets	$ (15,985.62)	$ (33,558.31)
Trade-in allowance	$ 6,795.00	$ 18,000.00

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

Tennessee Board of Regents
Chattanooga State Technical Community College
Notes to the Financial Statements
June 30, 2008, and June 30, 2007

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The college is a part of the State University and Community College System of Tennessee (Tennessee Board of Regents). This system is a component unit of the State of Tennessee because the state appoints a majority of the system's governing body and provides financial support; the system is discretely presented in the *Tennessee Comprehensive Annual Financial Report*. The financial statements present only that portion of the Tennessee Board of Regents' activities that is attributable to the transactions of Chattanooga State Technical Community College.

The Chattanooga State Technical Community College Foundation is considered a component unit of the college. Although the college does not control the timing or amount of receipts from the foundation, the majority of resources, or income thereon, that the foundation holds and invests are restricted to the activities of the college by the donors. Because these restricted resources held by the foundation can only be used by, or for the benefit of, the college, the foundation is considered a component unit of the college and is discretely presented in the college's financial statements. See Note 16 for more detailed information about the component unit and how to obtain the report.

Basis of Presentation

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

Basis of Accounting

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

Private sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. The college has the option of following private-sector guidance issued subsequent to November 30, 1989, subject to the above limitation. The college has elected not to follow private-sector guidance issued subsequent to November 30, 1989.

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

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

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

Inventories

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

Compensated Absences

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

Capital Assets

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

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

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

Net Assets

The college's net assets are classified as follows:

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

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

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

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

Scholarship Discounts and Allowances

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

NOTE 2. CASH

At June 30, 2008, cash consisted of $957,203.52 in bank accounts, $3,910.00 of petty cash on hand, and $8,022,720.55 in the State of Tennessee Local Government Investment Pool (LGIP) administered by the State Treasurer. At June 30, 2007, cash consisted of $2,297,428.24 in bank accounts, $3,910.00 of petty cash on hand, $7,002,905.49 in the State of Tennessee Local Government Investment Pool administered by the State Treasurer, and $1,044.26 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. INVESTMENTS

<u>Credit Risk</u>. Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The college is authorized by statute to invest funds in accordance with Tennessee Board of Regents policies. Under the current policy, funds other than endowments may be invested only in obligations of the United States or its agencies which are backed by the full faith and credit of the United States, repurchase agreements for United States securities, certificates of deposit in banks and savings and loan associations, banker's acceptances, commercial paper, money market mutual funds, and the State of Tennessee Local Government Investment Pool (LGIP). Securities are rated using Standard and Poor's, Moody's, and/or Fitch's. Tennessee Board of Regents policy restricts investments in banker's acceptances and commercial

paper. The policy requires that prime banker's acceptances must be issued by domestic banks with a minimum AA rating or foreign banks with a AAA long-term debt rating by a majority of the rating services that have rated the issuer. The policy further requires that commercial paper must be issued by corporations with a minimum rating of A1 or equivalent as provided by a majority of the rating services that rate the issuer. If there is no long-term debt rating, the short-term debt must be rated A1 by all rating services (minimum of two). Commercial paper of a banking institution must not be purchased. As of June 30, 2008, and June 30, 2007, the college's investments consisted entirely of investments in the Local Government Investment Pool. The fair value of these investments, reported as cash on the statements of net assets, was $8,022,720.55 at June 30, 2008, and $7,003,949.75 at June 30, 2007. LGIP investments are not rated by nationally recognized statistical ratings organizations.

NOTE 4. RECEIVABLES

Receivables included the following:

	June 30, 2008	June 30, 2007
Student accounts receivable	$1,287,088.42	$1,135,110.61
Grants receivable	1,503,825.34	710,742.13
State appropriation receivable	31,200.00	29,000.00
Other receivables	257,810.68	194,621.49
Subtotal	3,079,924.44	2,069,474.23
Less allowance for doubtful accounts	387,309.31	387,295.54
Total receivables	$2,692,615.13	$1,682,178.69

NOTE 5. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2008, was as follows:

	Beginning Balance	Additions	Transfers	Reductions	Ending Balance
Land	$ 2,429,000.00	$ -	$ -	$ -	$ 2,429,000.00
Land improvements and infrastructure	2,931,951.55	-	-	-	2,931,951.55
Buildings	37,094,392.34	36,156.50	-	-	37,130,548.84
Equipment	9,110,404.82	1,437,732.62	-	192,935.60	10,355,201.84
Library holdings	645,752.79	48,236.05	-	106,367.83	587,621.01
Software	1,627,219.78	437,071.30	-	-	2,064,291.08
Projects in progress	544,116.00	2,757,395.02	-	-	3,301,511.02
Total	54,382,837.28	4,716,591.49	-	299,303.43	58,800,125.34
Less accumulated depreciation/amortization:					
Land improvements and infrastructure	1,737,286.41	100,445.15	-	-	1,837,731.56
Buildings	17,098,785.10	859,157.22	-	-	17,957,942.32
Equipment	6,916,868.69	575,020.08	-	158,364.81	7,333,523.96
Library holdings	369,261.48	69,398.90	-	106,367.83	332,292.55
Software	265,064.55	206,429.11	-	-	471,493.66
Total	26,387,266.23	1,810,450.46	-	264,732.64	27,932,984.05
Capital assets, net	$27,995,571.05	$2,906,141.03	$ -	$ 34,570.79	$30,867,141.29

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

	Beginning Balance	Additions	Transfers	Reductions	Ending Balance
Land	$ 2,429,000.00	$ -	$ -	$ -	$ 2,429,000.00
Land improvements and infrastructure	2,972,954.81	-	-	41,003.26	2,931,951.55
Buildings	36,417,667.34	676,725.00	-	-	37,094,392.34
Equipment	9,430,836.00	713,768.16	-	1,034,199.34	9,110,404.82
Library holdings	709,797.97	62,496.70	-	126,541.88	645,752.79
Software	1,023,425.67	603,794.11	-	-	1,627,219.78
Projects in progress	-	544,116.00	-	-	544,116.00
Total	52,983,681.79	2,600,899.97	-	1,201,744.48	54,382,837.28

Less accumulated depreciation/amortization:					
Land improvements and infrastructure	1,643,632.60	100,445.15	-	6,791.34	1,737,286.41
Buildings	16,240,554.94	858,230.16	-	-	17,098,785.10
Equipment	7,305,678.30	588,368.42	-	977,178.03	6,916,868.69
Library holdings	418,573.90	77,229.46	-	126,541.88	369,261.48
Software	102,342.57	162,721.98	-	-	265,064.55
Total accum. depreciation	25,710,782.31	1,786,995.17	-	1,110,511.25	26,387,266.23
Capital assets, net	$27,272,899.48	$ 813,904.80	$ -	$ 91,233.23	$27,995,571.05

NOTE 6. LONG-TERM LIABILITIES

Long-term liabilities activity for the year ended June 30, 2008, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Payables:					
TSSBA debt:					
Bonds	$1,049,665.45	$2,287,868.04	$ 315,687.13	$3,021,846.36	$364,372.79
Commercial paper	2,287,868.04	-	2,287,868.04	-	-
Subtotal	3,337,533.49	2,287,868.04	2,603,555.17	3,021,846.36	364,372.79
Other liabilities:					
Compensated absences	1,942,185.78	307,217.95	137,356.20	2,112,047.53	414,727.34
Net OPEB obligation	-	918,421.35	-	918,421.35	-
Subtotal	1,942,185.78	1,225,639.30	137,356.20	3,030,468.88	414,727.34
Total long-term liabilities	$5,279,719.27	$3,513,507.34	$2,740,911.37	$6,052,315.24	$779,100.13

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

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Payables:					
TSSBA debt:					
Bonds	$1,278,041.11	$ -	$228,375.66	$1,049,665.45	$233,130.39
Commercial paper	1,738,838.87	549,029.17	-	2,287,868.04	-
Subtotal	3,016,879.98	549,029.17	228,375.66	3,337,533.49	233,130.39
Other liabilities:					
Compensated absences	1,750,825.16	281,329.59	89,968.97	1,942,185.78	522,647.50
Subtotal	1,750,825.16	281,329.59	89,968.97	1,942,185.78	522,647.50
Total long-term liabilities	$4,767,705.14	$830,358.76	$318,344.63	$5,279,719.27	$755,777.89

TSSBA Debt - Bonds

Bonds, with interest rates ranging from 3.25% to 5.125%, were issued by the Tennessee State School Bond Authority (TSSBA). The bonds are due serially to 2022 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 $21,254.00 at June 30, 2008, and were restricted for the college's Energy Savings project.

Debt service requirements to maturity for the college's portion of TSSBA bonds at June 30, 2008, are as follows:

Year Ending June 30	Principal	Interest	Total
2009	$ 364,372.79	$ 124,325.26	$ 488,698.05
2010	380,037.47	109,388.97	489,426.44
2011	190,392.80	93,578.22	283,971.02
2012	198,018.20	86,330.38	284,348.58
2013	205,000.60	79,742.38	284,742.98
2014-2018	936,023.30	272,966.04	1,208,989.34
2019-2022	748,001.20	86,680.78	834,681.98
	$3,021,846.36	$ 853,012.03	$3,874,858.39

TSSBA Debt - Commercial Paper

The Tennessee State School Bond Authority issues commercial paper to finance the costs of various capital projects during their construction phase. When projects are placed in service, long-term, fixed-rate debt is issued by TSSBA to finance the project over its useful payback period and the commercial paper is redeemed. The amount issued for projects at the college was $2,287,868.04 at June 30, 2007.

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

More detailed information regarding the bonds and commercial paper can be found in the notes to the financial statements in the financial report for the Tennessee State School Bond Authority. That report may be obtained by writing to the Director of Bond Finance, Suite 1600, James K. Polk Building, Nashville, Tennessee 37243-1402, or by calling (615) 401-7872.

NOTE 7. UNRESTRICTED NET ASSETS

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

	June 30, 2008	June 30, 2007
Working capital	$ 943,663.04	$ 724,352.34
Encumbrances	316,571.25	131,777.61
Auxiliaries	47,304.43	48,582.51
Plant construction	(1,317,949.19)	(629,817.06)
Renewal and replacement of equipment	2,468,755.96	3,304,137.12
Technology Center equipment appropriation	350,794.17	-
Undesignated	314,919.43	447,271.84
Total	$3,124,059.09	$4,026,304.36

NOTE 8. PENSION PLANS

A. Defined Benefit Plan

Tennessee Consolidated Retirement System

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

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

Funding Policy - Plan members are noncontributory. The college is required to contribute an actuarially determined rate. The current rate is 13.62% 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, 2008, 2007, and 2006, were $1,930,544.46, $1,787,906.00, and $1,301,269.00. Contributions met the requirements for each year.

B. Defined Contribution Plans

Optional Retirement Plans (ORP)

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

Funding Policy - Plan members are noncontributory. The college contributes an amount equal to 10% of the employee's base salary up to the social security wage base and 11% above the social security wage base. Contribution requirements are established and amended by state statute. The contribution made by the college to the plans was $1,248,944.68 for the year ended June 30, 2008, and $1,179,718.00 for the year ended June 30, 2007. Contributions met the requirements for each year.

NOTE 9. OTHER POST-EMPLOYMENT BENEFITS

Healthcare is the only "other postemployment benefit" (OPEB) provided to employees. The State of Tennessee administers a group health insurance program which provides post-employment health insurance benefits to eligible college retirees. This program includes two plans available to higher education employees – the State Employee Group Plan and the Medicare Supplement Plan. Both plans are agent multiple-employer defined benefit OPEB plans. Benefits are established and amended by an insurance committee created by Title 8, Chapter 27, Part 201, *Tennessee Code Annotated*. Prior to reaching age 65, all members have the option of choosing a preferred provider organization (PPO), point of service (POS), or health maintenance organization (HMO) plan for healthcare benefits. Subsequent to age 65, members who are also in the state's retirement system may participate in a state-administered Medicare supplement that does not include pharmacy. The state makes on-behalf payments to the Medicare supplement plan for the college's eligible retirees; see Note 15. The plans are reported in the *Tennessee Comprehensive Annual Financial Report*. That report is available on the state's website at http://tennessee.gov/finance/act/cafr.html.

Funding Policy. The premium requirements of plan members are established and may be amended by the insurance committee. The plans are self-insured and financed on a pay-as-you-go basis with the risk shared equally among the participants. Claims liabilities of the plan are periodically computed using actuarial and statistical techniques to establish premium rates. In accordance with TCA 8-27-205 (b), retirees not eligible for Medicare pay a percentage of the total state premium under the State Employee Group Plan based on years of service, leaving a portion of retiree premiums effectively subsidized by contributions to the State Employee Group Plan for active employees. Retirees with 30 years of service pay 20% of the total premium under the State Employee Group Plan. Retirees with 20 but less than 30 years of service pay 30% of the total premium under the State Employee Group Plan. Retirees 55 and older with less than 20 but more than 10 years of service pay 40% of the total premium under the State Employee Group Plan. Contributions for the State Employee Group Plan for the year ended June 30, 2008, were $5,255,839.40, which consisted of $4,330,382.49 from the college and $925,456.91 from the employees.

Annual OPEB Cost and Net OPEB Obligation	State Employee Group Plan
Annual Required Contribution (ARC)	$1,390,000.00
Interest on the Net OPEB Obligation	-
Adjustment to the ARC	-
Annual OPEB Cost	1,390,000.00
Amount of contribution	(471,578.65)
Increase (decrease) in Net OPEB Obligation	918,421.35
Net OPEB Obligation – beginning of year	-
Net OPEB Obligation – end of year	$ 918,421.35

Year-end	Plan	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation at Year-end
June 30, 2008	State Employee Group Plan	$1,390,000.00	33.9%	$918,421.35

Funded Status and Funding Progress. The funded status of the plan as of June 30, 2008, was as follows:

	State Employee Group Plan
Actuarial valuation date	July 1, 2007
Actuarial accrued liability (AAL)	$12,313,000.00
Actuarial value of plan assets	-
Unfunded actuarial accrued liability (UAAL)	$12,313,000.00
Actuarial value of assets as a percentage of the AAL	0.00%
Covered payroll (active plan members)	$22,987,682.10
UAAL as percentage of covered payroll	53.6%

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future, and actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. The schedule of funding progress, presented as RSI following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Actuarial Methods and Assumptions. Calculations are based on the types of benefits provided under the terms of the substantive plan at the time of each valuation and on the pattern of sharing of costs between the employer and plan members to that point.

Actuarial calculations reflect a long-term perspective. Consistent with that perspective, actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets.

In the July 1, 2007, actuarial valuation, the Projected Unit Credit actuarial cost method was used. The actuarial assumptions included a 4.5 percent investment rate of return (net of administrative expenses) and an annual healthcare cost trend rate of 7 percent initially, increased to 11 percent in the second year and then reduced by decrements to an ultimate rate of 5 percent after 12 years. Both rates include a 3 percent inflation assumption. The unfunded actuarial accrued liability is being amortized as a level percentage of payroll on a closed basis over a 30-year period beginning with July 1, 2007.

NOTE 10. INSURANCE-RELATED ACTIVITIES

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

The college participates in the Risk Management Fund. The fund allocates the cost of providing claims servicing and claims payment by charging a premium to the college based on a percentage of the college's expected loss costs, which include both experience and exposures. This charge considers recent trends in actual claims experience of the state as a whole. An actuarial valuation is performed as of fiscal year-end to determine the fund liability and premium allocation. Information regarding the determination of the claims liabilities and the changes in the balances of the claims liabilities for the years ended June 30, 2008, and June 30, 2007, are presented in the *Tennessee Comprehensive Annual Financial Report*. That report may be obtained by writing to the Tennessee Department of Finance and

Administration, Division of Accounts, 14th Floor William R. Snodgrass Tennessee Tower, 312 Rosa L. Parks Avenue, Nashville, Tennessee 37243-1102, 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, 2008, the Risk Management Fund held $123.9 million in cash and cash equivalents designated for payment of claims. 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, 2008, the scheduled coverage for the college was $106,979,500.00 for buildings and $26,252,500.00 for contents. At June 30, 2007, the scheduled coverage for the college was $111,980,100.00 for buildings and $25,569,200.00 for contents.

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

NOTE 11. COMMITMENTS AND CONTINGENCIES

Sick Leave - The college records the cost of sick leave when paid. Generally, since sick leave (earned one day per month with unlimited accumulation) is paid only when an employee dies or is absent because of illness, injury, or related family death, there is no liability for sick leave at June 30. The dollar amount of unused sick leave was $8,192,410.72 at June 30, 2008, and $7,703,764.43 at June 30, 2007.

Operating Leases - The college has entered into various operating leases for buildings and equipment. Such leases will probably continue to be required. Expenses under operating leases for real property were $164,803.71 and for personal property were $88,665.55 for the year ended June 30, 2008. The amounts for the year ended June

30, 2007, were $120,394.50 and $79,482.38. All operating leases are cancelable at the lessee's option.

Construction in Progress - At June 30, 2008, outstanding commitments under construction contracts totaled $13,612,088.40 for the Allied Health Facilities project, of which $13,612,088.40 will be funded by future state capital outlay appropriations.

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

NOTE 12. NATURAL CLASSIFICATIONS WITH FUNCTIONAL CLASSIFICATIONS

The college's operating expenses by functional classification for the year ended June 30, 2008, are as follows:

	Natural Classification					
Functional Classification	Salaries	Benefits	Other Operating	Scholarships	Depreciation	Total
Instruction	$18,390,215.16	$ 6,174,997.94	$ 5,146,279.39	$ 343,543.16	$ -	$30,055,035.65
Public service	291,058.30	119,827.49	297,128.02	143,897.36	-	851,911.17
Academic support	3,402,742.37	1,437,543.15	(418,428.80)	53,427.60	-	4,475,284.32
Student services	2,584,487.43	1,101,900.06	1,170,775.09	460,683.76	-	5,317,846.34
Institutional support	4,209,874.90	1,668,522.86	1,457,834.82	18,752.40	-	7,354,984.98
Operation & maintenance	1,203,633.56	655,414.46	3,376,071.58	5,320.34	-	5,240,439.94
Scholarships & fellowships	215,321.50	8,172.40	19,485.47	7,980,629.03	-	8,223,608.40
Auxiliary	236,817.34	126,087.94	332,084.37	692.00	-	695,681.65
Depreciation	-	-	-	-	1,810,450.46	1,810,450.46
Total	$30,534,150.56	$11,292,466.30	$11,381,229.94	$9,006,945.65	$1,810,450.46	$64,025,242.91

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

	Natural Classification					
Functional Classification	Salaries	Benefits	Other Operating	Scholarships	Depreciation	Total
Instruction	$17,569,648.04	$5,419,717.10	$ 5,014,296.64	$ 361,771.52	$ -	$28,365,433.30
Public service	333,770.59	114,638.30	264,168.98	121,970.93	-	834,548.80
Academic support	3,204,224.71	1,254,950.43	(500,279.48)	62,182.25	-	4,021,077.91
Student services	2,305,927.85	932,057.17	1,023,304.19	464,074.96	-	4,725,364.17
Institutional support	3,873,573.09	1,432,921.48	1,220,742.12	14,544.14	-	6,541,780.83
Operation & maintenance	1,085,582.27	514,510.28	3,839,152.64	-	-	5,439,245.19
Scholarships & fellowships	190,338.93	7,808.74	27,371.36	5,659,627.76	-	5,885,146.79
Auxiliary	222,589.49	112,184.56	297,445.30	-	-	632,219.35
Depreciation	-	-	-	-	1,786,995.17	1,786,995.17
Total	$28,785,654.97	$9,788,788.06	$11,186,201.75	$6,684,171.56	$1,786,995.17	$58,231,811.51

NOTE 13. PRIOR-YEAR ADJUSTMENT

As of June 30, 2006, the college understated construction in progress by $313,661.00 and overstated infrastructure by $34,211.92. As a result, for the year ending June 30, 2007, beginning net assets have been increased by $279,449.08.

NOTE 14. CHANGE IN ACCOUNTING PRINCIPLE

During the year ended June 30, 2008, the college implemented Governmental Accounting Standards Board's Statement 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. This statement establishes standards for the measurement, recognition, and display of OPEB expense and related liabilities, note disclosures, and required supplementary information. The statement was implemented prospectively with a zero net OPEB obligation at transition.

NOTE 15. ON-BEHALF PAYMENTS

During the year ended June 30, 2008, the State of Tennessee made payments of $17,960.06 on behalf of the college for retirees participating in the Medicare Supplement Plan. The Medicare Supplement Plan is a postemployment benefit healthcare plan and is discussed further in Note 9. The plan is reported in the *Tennessee Comprehensive Annual Financial Report*. That report is available on the state's website at http://tennessee.gov/finance/act/cafr.html.

NOTE 16. COMPONENT UNIT

The Chattanooga State Technical Community College Foundation is a legally separate, tax-exempt organization supporting Chattanooga State Technical Community College. The foundation acts primarily as a fund-raising organization to supplement the resources that are available to the college in support of its programs. The 15-member board of the foundation is self-perpetuating and consists of graduates and friends of the college. Although the college does not control the timing or amount of receipts from the foundation, the majority of resources, or income thereon, that the foundation holds and invests are restricted to the activities of the college by the donors. Because these restricted resources held by the foundation can only be used by, or for the benefit of, the college, the foundation is considered a component unit of the college and is discretely presented in the college's financial statements.

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

During the year ended June 30, 2008, the foundation made distributions of $223,815.80 to or on behalf of the college for both restricted and unrestricted purposes. During the year ended June 30, 2007, the foundation made distributions of $90,456.67 to or on behalf of the college for both restricted and unrestricted purposes. Complete financial statements for the foundation can be obtained from Ms. Tammy Swenson, Vice President of Business and Finance, Chattanooga State Technical Community College, 4501 Amnicola Highway, Chattanooga, TN 37406.

<u>Cash and cash equivalents</u> - Cash and cash equivalents consists of demand deposit accounts and money market funds. Uninsured bank balances at June 30, 2008, totaled $52,304.04. The bank balances of deposits at June 30, 2007, were entirely insured.

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

Investments held at June 30, 2008, were as follows:

	Cost	Fair Value
U.S. treasury obligations	$40,093.75	$ 40,100.00
U.S. agency obligations	$380,875.77	382,103.15
Corporate stock	$728,004.70	797,247.76
Corporate bonds	$109,651.00	106,721.90
Mutual funds	$2,360,979.51	2,186,248.84
Investment as limited partner in hedge fund	$917,821.00	1,118,818.00
Total investments		$4,631,239.65

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

	Cost	Fair Value
U.S. treasury obligations	$130,529.68	$ 129,354.90
U.S. agency obligations	$275,336.71	273,875.40
Corporate stock	$732,373.65	937,958.09
Corporate bonds	$49,651.00	50,803.00
Mutual funds	$2,081,767.56	2,303,505.10
Investment as limited partner in hedge fund	$826,671.00	1,027,992.00
Total investments		$4,723,488.49

The foundation has an investment in a hedge fund partnership. The estimated fair value of this investment was $1,118,818.00 at June 30, 2008, and $1,027,992.00 at June 30, 2007.

The hedge fund partnership is a "fund of funds," a hedge fund which invests for the most part in other hedge funds. The foundation believes that the reported amounts for this alternative investment are a reasonable estimate of fair value at each year end. Because these investments are not readily marketable, the estimated value is subject to uncertainty, and therefore, may differ from the value that would have been used had a ready market for the investments existed, and such differences could be material. These fair values are estimated by the general partner of each limited partnership or manager of each corporate entity using various valuation techniques.

Pledges Receivable - Pledges receivable are summarized below.

	June 30, 2008	June 30, 2007
Current pledges	$ 321,046.05	$ 287,651.07
Pledges due in one to five years	662,143.25	177,034.26
Pledges due after five years	160.00	280.00
Subtotal	983,349.30	464,965.33
Less discount to net present value	47,688.19	13,115.40
Total pledges receivable, net	$ 935,661.11	$ 451,849.93

At June 30, 2008, and June 30, 2007, the foundation considered all recorded pledges receivable to be collectible.

Capital assets - Capital assets at June 30, 2008, and June 30, 2007, were as follows:

	June 30, 2008	June 30, 2007
Land	$ 725,603.03	$ 725,603.03

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.

NOTE 17. SUBSEQUENT EVENTS

Further disruption in the credit markets and overall declines in economic conditions in markets in the United States of America and internationally have resulted in significant declines in the fair value of the foundation's investments subsequent to June 30, 2008. Based on information available from fund managers, the foundation estimates that the value of the investments as of April 30, 2009, has declined approximately $1 million compared to the value as of June 30, 2008.

Tennessee Board of Regents
Chattanooga State Technical Community College
Required Supplementary Information
OPEB Schedule of Funding Progress
Unaudited

Actuarial Valuation Date	Plan	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b-a)/c)]
7/1/2007	State Employee Group Plan	$ -	$12,313,000	$12,313,000	0%	$22,987,682.10	53.6%

TENNESSEE BOARD OF REGENTS
CHATTANOOGA STATE TECHNICAL COMMUNITY COLLEGE
SUPPLEMENTARY INFORMATION
SCHEDULES OF CASH FLOWS - COMPONENT UNIT
FOR THE YEARS ENDED JUNE 30, 2008, AND JUNE 30, 2007

	Year Ended June 30, 2008	Year Ended June 30, 2007
CASH FLOWS FROM OPERATING ACTIVITIES		
Gifts and contributions	$ 516,302.84	$ 207,537.24
Endowment income per spending plan	133,702.00	102,989.00
Payments to suppliers and vendors	(51,431.62)	(111,863.19)
Payments for scholarships and fellowships	(189,042.04)	(204,298.57)
Payments to Chattanooga State Technical Community College	(58,384.69)	(125,741.52)
Other receipts	2,400.00	2,400.00
Net cash provided (used) by operating activities	353,546.49	(128,977.04)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Private gifts for endowment purposes	125,956.11	71,191.84
Net cash provided by noncapital financing activities	125,956.11	71,191.84
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of investments	147,566.56	75,234.95
Income on investments	65,874.69	62,045.30
Purchase of investments	(441,096.13)	(204,769.86)
Net cash used by investing activities	(227,654.88)	(67,489.61)
Net increase (decrease) in cash and cash equivalents	251,847.72	(125,274.81)
Cash and cash equivalents - beginning of year	65,307.62	190,582.43
Cash and cash equivalents - end of year	$ 317,155.34	$ 65,307.62
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:		
Operating income (loss)	$ 521,230.07	$ (3,913.66)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Change in assets and liabilities:		
Receivables, net	(333,114.69)	(89,778.53)
Accounts payable	165,431.11	(35,284.85)
Net cash provided (used) by operating activities	$ 353,546.49	$ (128,977.04)
Noncash transactions		
Unrealized gains (losses) on investments	$ (533,344.97)	$ 404,605.67