

AUDIT REPORT

Tennessee Board of Regents
Chattanooga State Community College

For the Years Ended
June 30, 2012, and June 30, 2011



STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY

Department of Audit
Division of State Audit



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STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
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June 27, 2013

The Honorable Bill Haslam, Governor
and

Members of the General Assembly
State Capitol
Nashville, Tennessee 37243

and

The Honorable John G. Morgan, Chancellor
Tennessee Board of Regents
1415 Murfreesboro Road, Suite 340
Nashville, Tennessee 37217

and

Dr. James L. Catanzaro, President
Chattanooga State 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 Community College, for the years ended June 30, 2012, and June 30, 2011. 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,

A handwritten signature in black ink that reads "Deborah V. Loveless".

Deborah V. Loveless, CPA
Director

DVL/sds
13/045

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 Community College
For the Years Ended June 30, 2012, and June 30, 2011

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 Community College
For the Years Ended June 30, 2012, and June 30, 2011

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**Tennessee Board of Regents
Chattanooga State Community College
For the Years Ended June 30, 2012, and June 30, 2011**

INTRODUCTION

POST-AUDIT AUTHORITY

This is a report on the financial and compliance audit of the Tennessee Board of Regents, Chattanooga State 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 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. In 2009, the General Assembly changed the name of the college to Chattanooga State 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 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 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 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, 2010, through June 30, 2012, 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, 2012, and June 30, 2011. Chattanooga State 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 discretely presented 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 controls 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, 2012, and June 30, 2011, 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 material weaknesses.

Compliance and Other Matters

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.

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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**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***

May 31, 2013

The Honorable Bill Haslam, Governor
and

Members of the General Assembly
State Capitol
Nashville, Tennessee 37243

and

The Honorable John G. Morgan, Chancellor
Tennessee Board of Regents
1415 Murfreesboro Road, Suite 340
Nashville, Tennessee 37217

and

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

Ladies and Gentlemen:

We have audited the financial statements of Chattanooga State 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, 2012, and June 30, 2011, and have issued our report thereon dated May 31, 2013. 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

Management of the college is responsible for establishing and maintaining effective 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.

A deficiency in internal control 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 and correct misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, 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.

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 its 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 noted certain matters that we reported to the management of Chattanooga State Community College in a separate letter.

May 31, 2013
Page Three

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 "Deborah V. Loveless". The signature is written in a cursive style with a large initial 'D'.

Deborah V. Loveless, CPA
Director

DVL/sds



STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
DEPARTMENT OF AUDIT
DIVISION OF STATE AUDIT
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PHONE (615) 401-7897
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Independent Auditor's Report

May 31, 2013

The Honorable Bill Haslam, Governor
and
Members of the General Assembly
State Capitol
Nashville, Tennessee 37243

and
The Honorable John G. Morgan, Chancellor
Tennessee Board of Regents
1415 Murfreesboro Road, Suite 340
Nashville, Tennessee 37217

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

Ladies and Gentlemen:

We have audited the accompanying basic financial statements of Chattanooga State 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, 2012, and June 30, 2011, 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 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 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, 2012, and June 30, 2011, 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 Chattanooga State Community College, and its discretely presented component unit as of June 30, 2012, and June 30, 2011, 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 16, the financial statements of Chattanooga State Technical Community College Foundation, a discretely presented component unit of Chattanooga State Community College, include investments valued at \$1,127,686.00 at June 30, 2012, (17.7 percent of net assets of the foundation) and \$1,098,939.00 at June 30, 2011, (16.3 percent of net assets of the foundation) whose fair values have been estimated by management in the absence of readily determinable fair values. Management's estimates are based on information provided by the fund managers.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 12 through 30 and the schedule of funding progress on page 61 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of

preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during the audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the basic financial statements as a whole. The accompanying financial information on page 62 is presented for purposes of additional analysis and is not a required part of the basic financial statements. This information is the responsibility of the university's management and was derived from, and relates directly to, the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves and other additional procedures, in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information 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 May 31, 2013, 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 considered in assessing the results of our audit.

Sincerely,



Deborah V. Loveless, CPA
Director

DVL/sds

**Tennessee Board of Regents
Chattanooga State Community College
Management's Discussion and Analysis**

This section of Chattanooga State Community College's financial report presents a discussion and analysis of the financial performance of the college during the fiscal years ended June 30, 2012, and June 30, 2011, with comparative information presented for the fiscal year ended June 30, 2010. 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 Chattanooga State Technical Community College Foundation. More detailed information about the college's component unit is included in Note 16 of the financial statements. Information and analysis regarding the component unit are included in this section.

Using This 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 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
Chattanooga State Community College
Management's Discussion and Analysis (Cont.)**

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

| | <u>2012</u> | <u>2011</u> | <u>2010</u> |
|---|------------------------|------------------------|------------------------|
| Assets: | | | |
| Current assets | \$12,702 | \$15,024 | \$10,265 |
| Capital assets, net | 58,298 | 53,959 | 45,836 |
| Other assets | 9,128 | 13,327 | 8,019 |
| Total assets | <u>80,128</u> | <u>82,310</u> | <u>64,120</u> |
| Liabilities: | | | |
| Current liabilities | 5,702 | 5,832 | 4,605 |
| Noncurrent liabilities | 8,398 | 8,302 | 7,365 |
| Total liabilities | <u>14,100</u> | <u>14,134</u> | <u>11,970</u> |
| Net assets: | | | |
| Invested in capital assets, net of related debt | 56,473 | 52,073 | 44,467 |
| Restricted – expendable | 89 | 107 | 109 |
| Unrestricted | 9,466 | 15,996 | 7,574 |
| Total net assets | <u>\$66,028</u> | <u>\$68,176</u> | <u>\$52,150</u> |

Comparison of Fiscal Year 2012 to Fiscal Year 2011

- The decrease in current assets includes a decrease in due from primary government of \$349 thousand due to a decrease in American Reinvestment and Recovery Act of 2007 (ARRA) receivables.
- The increase in capital assets, net includes building additions of \$3.6 million for the Center for Engineering Technologies, Arts, and Sciences (CETAS) Building and equipment additions of \$2.1 million for the CETAS Building.
- The decrease in other assets includes a decrease in noncurrent cash of \$3.75 million due to spending on the CETAS Building to prepare it for occupancy.
- The decrease in other assets also includes a decrease in noncurrent cash of \$605 thousand due to spending on expansion and paving of the Center for Business, Industry, and Health (CBIH) parking lot.

**Tennessee Board of Regents
Chattanooga State Community College
Management's Discussion and Analysis (Cont.)**

Comparison of Fiscal Year 2011 to Fiscal Year 2010

- The increase in current assets includes an increase in cash of \$4.63 million in Discretionary Allocations.
- The increase in current assets also includes an increase in deferred charges of \$271 thousand due to an increase in summer payroll deferred charges. Summer session started later in FY 2011 (6/6/11) compared to FY 2010 (5/13/10).
- The increase in capital assets, net includes building additions of \$7.66 million - \$5.64 million for the Center for Engineering Technologies, Arts, and Sciences Building and \$2.02 million for the Athletic Fieldhouse.
- The increase in other assets includes an increase in noncurrent cash of \$2.6 million due to receipt of funds for the Wacker Institute.
- The increase in other assets also includes an increase in noncurrent cash of \$1.2 million due to a transfer to the Center for Engineering Technologies, Arts, and Sciences Building renovation.
- The increase in current liabilities includes an increase in accounts payable of \$308 thousand due to a payable to the State of Tennessee for the ARRA/Instructional Materials Center Redesign.
- The increase in current liabilities also includes an increase in deferred revenue of \$244 thousand due to an increase in summer tuition revenue deferral. Summer session started later in FY 2011 (6/6/11) compared to FY 2010 (5/13/10).
- The increase in noncurrent liabilities includes an increase in net other postemployment benefits (OPEB) obligations of \$469 thousand due to the accrual of OPEB per *Governmental Accounting Standards Board Statement 45*.
- The increase in noncurrent liabilities also includes an increase in long-term liabilities of \$576 thousand due to the issuance of commercial paper for the Athletic Fieldhouse.

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

| | <u>2012</u> | <u>2011</u> | <u>2010</u> |
|---------------------|--------------|--------------|--------------|
| Assets: | | | |
| Current assets | \$636 | \$592 | \$747 |
| Capital assets, net | 726 | 726 | 726 |
| Other assets | 5,029 | 5,463 | 4,863 |
| Total assets | <u>6,391</u> | <u>6,781</u> | <u>6,336</u> |

**Tennessee Board of Regents
Chattanooga State Community College
Management's Discussion and Analysis (Cont.)**

Liabilities:

| | | | |
|--------------------------|-----------|-----------|-----------|
| Current liabilities | 32 | 22 | 17 |
| Total liabilities | 32 | 22 | 17 |

Net Assets:

| | | | |
|---|----------------|----------------|----------------|
| Invested in capital assets, net of related debt | 726 | 726 | 726 |
| Restricted – nonexpendable | 2,186 | 2,148 | 2,033 |
| Restricted – expendable | 3,065 | 3,308 | 2,929 |
| Unrestricted | 382 | 577 | 631 |
| Total net assets | \$6,359 | \$6,759 | \$6,319 |

Comparison of Fiscal Year 2012 to Fiscal Year 2011

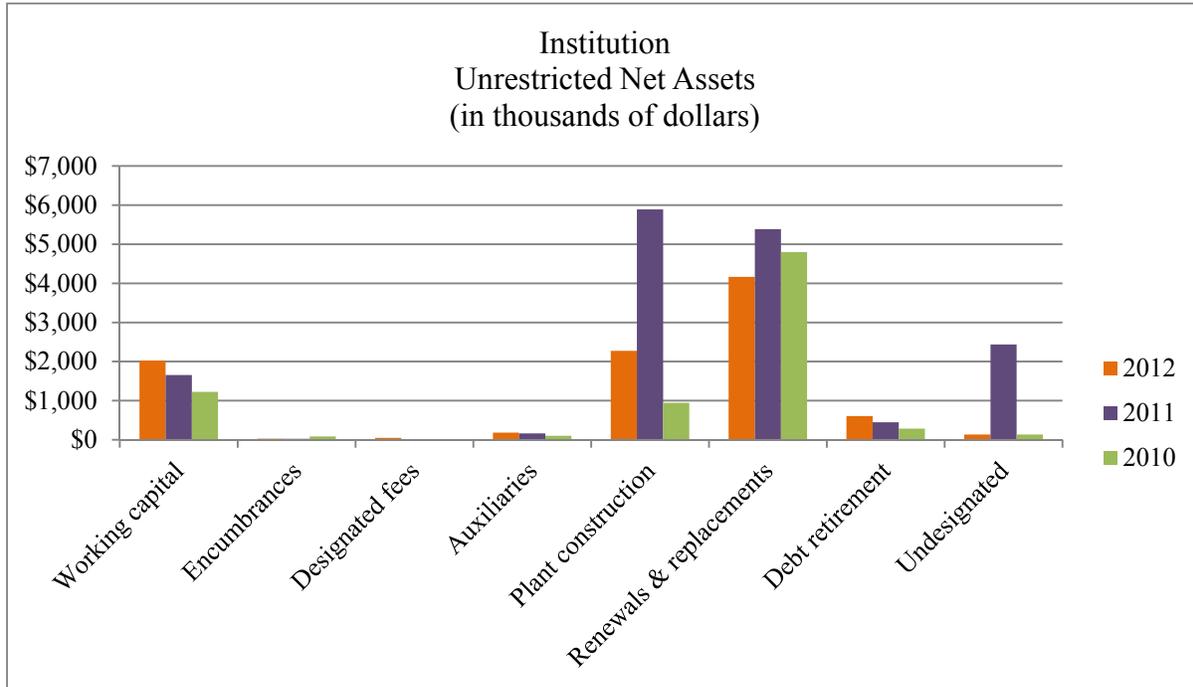
- The decrease in other assets includes a decrease in pledges receivable of \$247 thousand due to pledges from previous years having been collected and a decrease in new pledges.
- The decrease in other assets also includes a decrease in investments of \$146 thousand due to realized and unrealized losses from market performance.

Comparison of Fiscal Year 2011 to Fiscal Year 2010

- The decrease in current assets includes a decrease in cash and cash equivalents of \$214 thousand due to a decrease in money market funds held.

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

**Tennessee Board of Regents
Chattanooga State Community College
Management's Discussion and Analysis (Cont.)**



Comparison of Fiscal Year 2012 to Fiscal Year 2011

- The decrease in plant construction includes a decrease of \$3.75 million due to spending on the CETAS Building project.
- The decrease in plant construction also includes a decrease of \$605 thousand due to spending on the CBIH parking lot expansion and paving project.

Comparison of Fiscal Year 2011 to Fiscal Year 2010

- The increase in plant construction includes an increase of \$2.6 million in funds received for the Wacker Institute.
- The increase in plant construction also includes a \$1.2 million transfer to the Center for Engineering Technologies, Arts, and Sciences Building renovation from other unrestricted net assets.
- The increase in other unrestricted net asset categories is due to an increase in tuition revenue of \$2.25 million.

**Tennessee Board of Regents
Chattanooga State Community College
Management's Discussion and Analysis (Cont.)**

The Statement of Revenues, Expenses, and Changes in Net Assets

The statement of revenues, expenses, and changes in net assets presents the operating results of the college, as well as the nonoperating revenues and expenses. Annual state appropriations, while budgeted for operations, are considered nonoperating revenues according to accounting principles generally accepted in the United States of America.

| Institution | | | |
|--|------------------------|------------------------|------------------------|
| Condensed Statements of Revenues, Expenses, and Changes in Net Assets | | | |
| (in thousands of dollars) | | | |
| | <u>2012</u> | <u>2011</u> | <u>2010</u> |
| Operating revenues: | | | |
| Net tuition and fees | \$25,826 | \$23,401 | \$21,151 |
| Grants and contracts | 8,387 | 10,745 | 5,607 |
| Auxiliary | 1,268 | 1,183 | 1,082 |
| Other | 692 | 645 | 708 |
| Total operating revenues | <u>36,173</u> | <u>35,974</u> | <u>28,548</u> |
| Operating expenses | 91,819 | 89,715 | 80,234 |
| Operating loss | <u>(55,646)</u> | <u>(53,741)</u> | <u>(51,686)</u> |
| Nonoperating revenues and expenses: | | | |
| State appropriations | 23,458 | 28,599 | 25,111 |
| Gifts | 166 | 345 | 565 |
| Grants & contracts | 27,392 | 30,247 | 26,269 |
| Investment income | 45 | 61 | 47 |
| Other nonoperating revenues (expenses) | 183 | 667 | (66) |
| Total nonoperating revenues and expenses | <u>51,244</u> | <u>59,919</u> | <u>51,926</u> |
| Income (loss) before other revenues, expenses, gains, or losses | <u>(4,402)</u> | <u>6,178</u> | <u>240</u> |
| Other revenues, expenses, gains, or losses: | | | |
| Capital appropriations | 2,254 | 9,756 | 4,934 |
| Capital grants and gifts | - | 92 | 32 |

**Tennessee Board of Regents
Chattanooga State Community College
Management's Discussion and Analysis (Cont.)**

| | | | |
|---|-----------------|-----------------|-----------------|
| Total other revenues, expenses, gains, or losses | 2,254 | 9,848 | 4,966 |
| Increase (decrease) in net assets | (2,148) | 16,026 | 5,206 |
| Net assets at beginning of year | 68,176 | 52,150 | 46,944 |
| Net assets at end of year | \$66,028 | \$68,176 | \$52,150 |

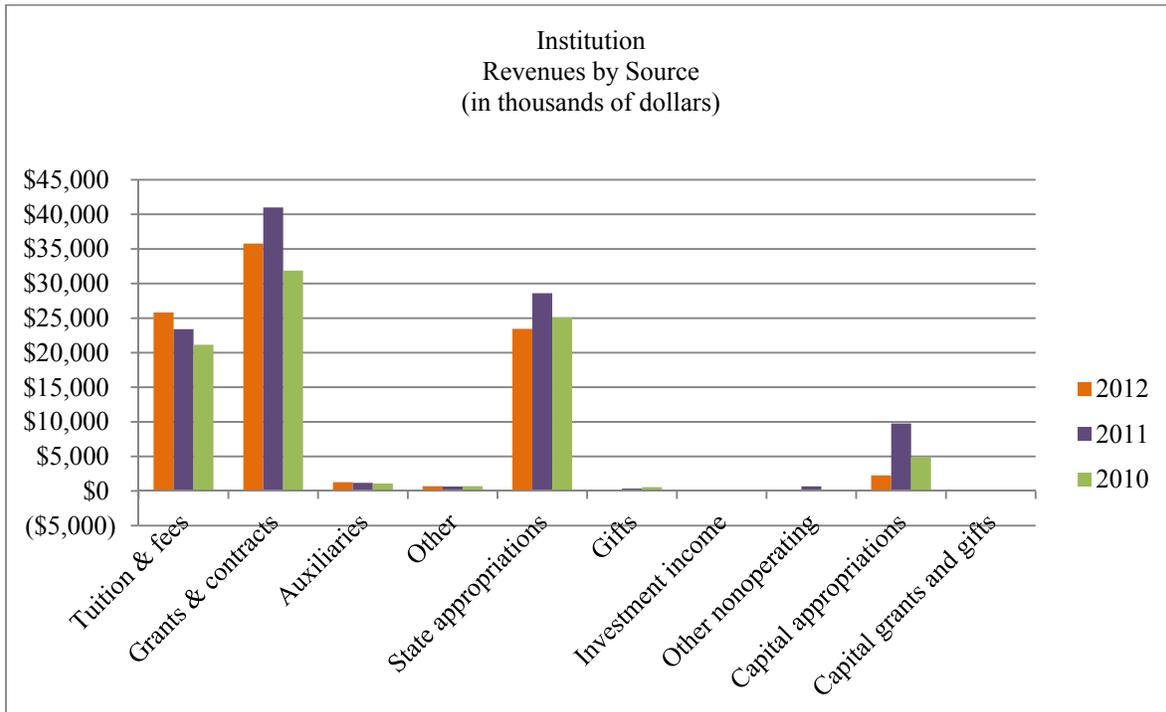
**Component Unit
Condensed Statements of Revenues, Expenses, and Changes in Net Assets
(in thousands of dollars)**

| | <u>2012</u> | <u>2011</u> | <u>2010</u> |
|--|--------------------|--------------------|--------------------|
| Operating revenues: | | | |
| Gifts | \$198 | \$103 | \$816 |
| Other | 112 | 94 | 66 |
| Total operating revenues | 310 | 197 | 882 |
| Operating expenses | 586 | 575 | 711 |
| Operating income (loss) | (276) | (378) | 171 |
| Nonoperating revenues and expenses: | | | |
| Investment income | (163) | 704 | 287 |
| Other nonoperating revenue | - | - | 7 |
| Total nonoperating revenues and expenses | (163) | 704 | 294 |
| Income (loss) before other revenues, expenses, gains, or losses | (439) | 326 | 465 |
| Other revenues, expenses, gains, or losses: | | | |
| Additions to permanent endowments | 39 | 114 | 282 |
| Total other revenues, expenses, gains, or losses | 39 | 114 | 282 |
| Increase (decrease) in net assets | (400) | 440 | 747 |
| Net assets at beginning of year | 6,759 | 6,319 | 5,572 |
| Net assets at end of year | \$6,359 | \$6,759 | \$6,319 |

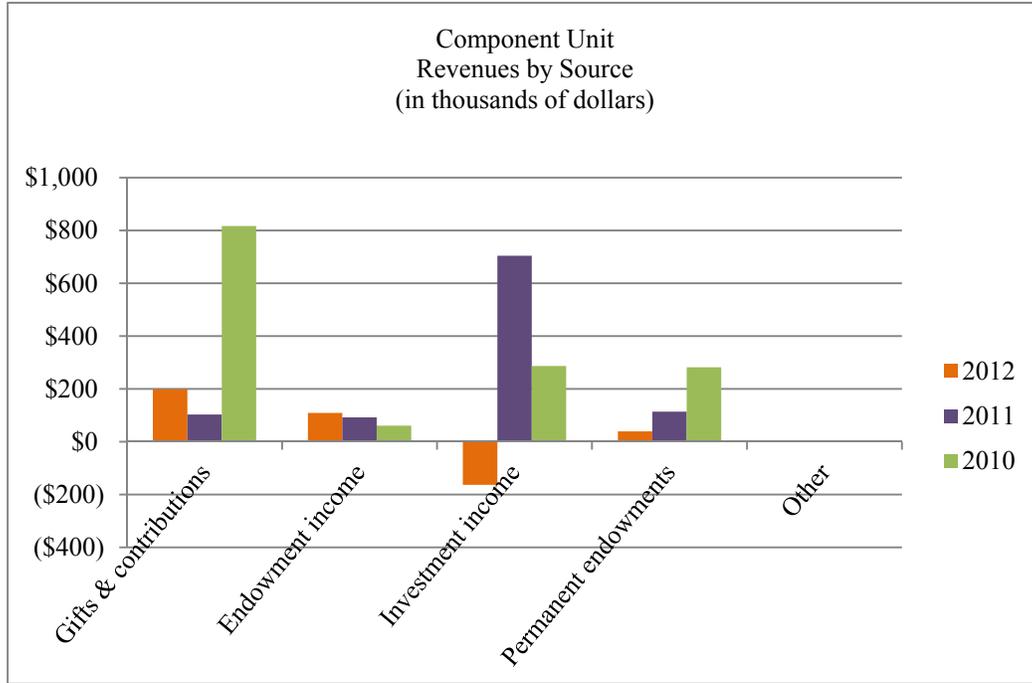
**Tennessee Board of Regents
Chattanooga State Community College
Management's Discussion and Analysis (Cont.)**

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, 2012; June 30, 2011; and June 30, 2010.



**Tennessee Board of Regents
Chattanooga State Community College
Management's Discussion and Analysis (Cont.)**



Comparison of Fiscal Year 2012 to Fiscal Year 2011

- The increase in net tuition and fees of \$2.4 million is due to a fee increase of 9.3%.
- The decrease in state appropriations of \$5.1 million is due to a reduction in state funding.
- The decrease in grants and contracts is due to funds received in fiscal year 2011 that were not received in fiscal year 2012. These were a state grant of \$3 million for the renovation of the Olan Mills Building for the Wacker Institute and \$1.5 million in ARRA money.
- The decrease in capital appropriations is due to capital projects that were in fiscal year 2011 but not in fiscal year 2012. These were the Olan Mills Building purchase of \$7.6 million and the Allied Health Building project of \$1.9 million.
- The decrease in foundation investment income of \$867 thousand is due to market performance.

Comparison of Fiscal Year 2011 to Fiscal Year 2010

- The increase in net tuition and fees of \$2.25 million is due to a fee increase of 6.3% and an enrollment increase of 11.9%.
- The increase in operating grants and contracts includes an increase of \$1.4 million for the Volkswagen Training Center state grant.
- The increase in operating grants and contracts also includes an increase of \$3 million for the renovation of the Olan Mills Building for the Wacker Institute.

**Tennessee Board of Regents
Chattanooga State Community College
Management's Discussion and Analysis (Cont.)**

- The increase in nonoperating grants and contracts includes an increase in PELL of \$5.4 million due to increased fees and enrollment.
- The increase in nonoperating other revenues is due to the Educational Broadband Services lease agreement revenue of \$753 thousand.
- The increase in capital appropriations is due to \$7.6 million for the purchase and renovation of the Olan Mills Building and reductions in capital appropriations for the Allied Health Building of \$1.9 million.
- The decrease in foundation gifts and contributions of \$713 thousand is due to decreases in both contributions received and unconditional promises to give.
- The increase in foundation investment income of \$417 thousand is due to market performance.

Expenses

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

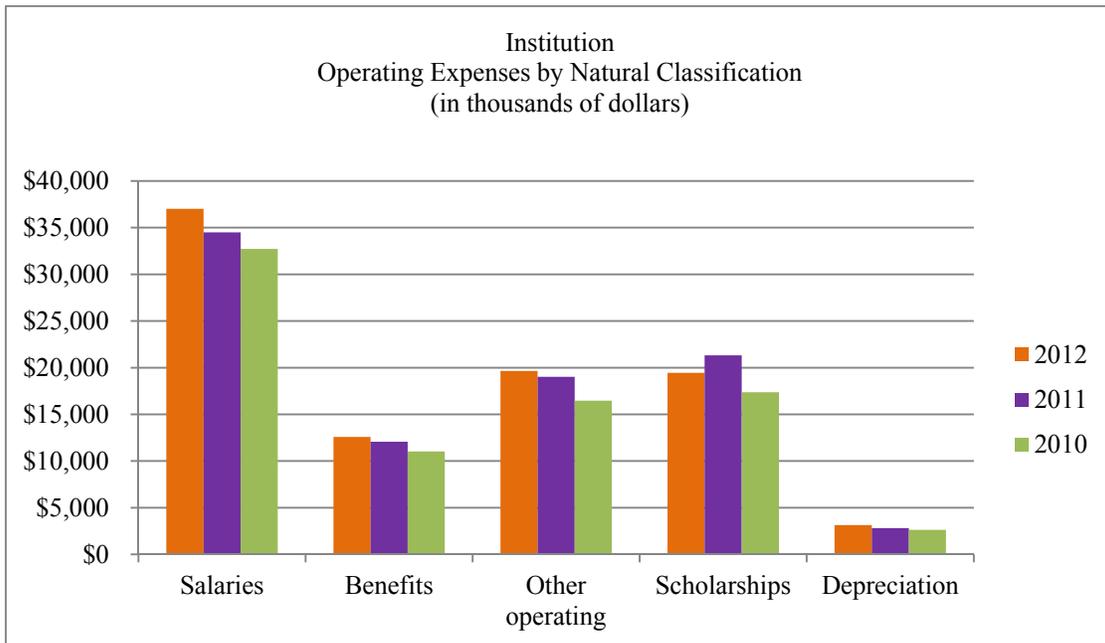
**Institution
Natural Classification
(in thousands of dollars)**

| | <u>2012</u> | <u>2011</u> | <u>2010</u> |
|---|-----------------|-----------------|-----------------|
| Salaries and wages | \$37,012 | \$34,489 | \$32,726 |
| Benefits | 12,574 | 12,076 | 11,036 |
| Utilities, supplies, and other services | 19,654 | 19,014 | 16,467 |
| Scholarships and fellowships | 19,446 | 21,315 | 17,371 |
| Depreciation expense | 3,133 | 2,821 | 2,634 |
| Total operating expense | \$91,819 | \$89,715 | \$80,234 |

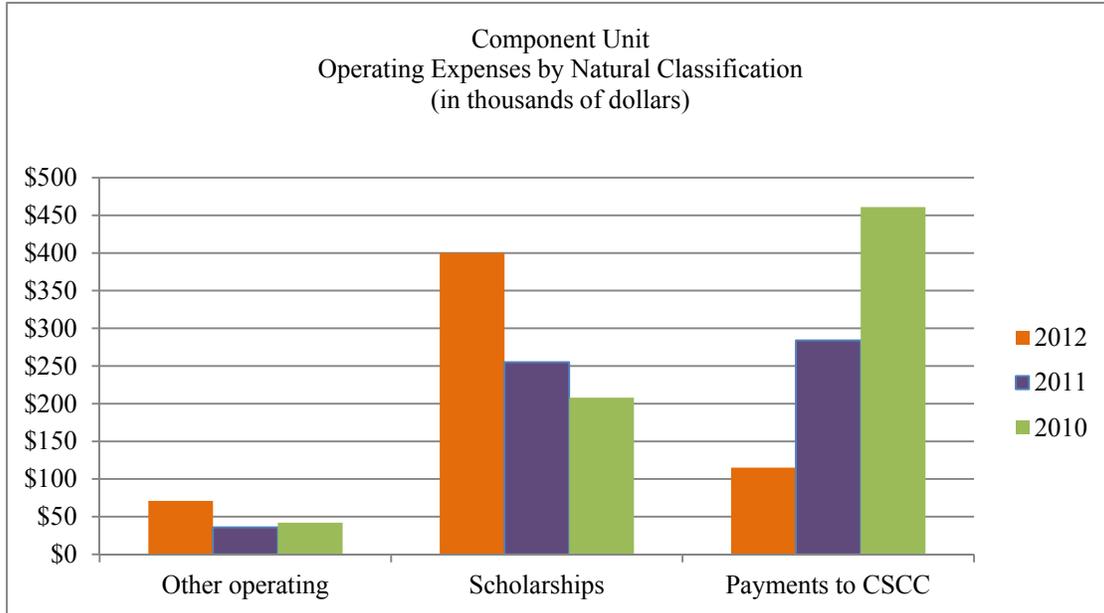
**Tennessee Board of Regents
Chattanooga State Community College
Management's Discussion and Analysis (Cont.)**

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

| | <u>2012</u> | <u>2011</u> | <u>2010</u> |
|--|--------------|--------------|--------------|
| Utilities, supplies, and other services | \$71 | \$36 | \$42 |
| Scholarships and fellowships | 400 | 255 | 208 |
| Payments to or on behalf of Chattanooga State Community College | 115 | 284 | 461 |
| Total operating expense | \$586 | \$575 | \$711 |



**Tennessee Board of Regents
Chattanooga State Community College
Management's Discussion and Analysis (Cont.)**



Comparison of Fiscal Year 2012 to Fiscal Year 2011

- The increase in salaries and wages is due to pay raises of 3% and 2.5% received in July 2011 and January 2012, respectively.
- The increase in benefits is due to the increase in salaries and wages.
- The increase in utilities, supplies, and other services includes an increase of \$530 thousand for the underground piping correction project.
- The decrease in scholarships and fellowships includes a decrease in PELL of \$1.1 million due to PELL not being awarded during the summer term.
- The decrease in scholarships and fellowships also includes an increase in scholarship discounts of \$500 thousand.
- The increase in foundation scholarship expense of \$145 thousand includes \$32 thousand awarded for the Erlanger Nursing scholarship, \$25 thousand awarded for the Memorial Nursing scholarship, and general increased awarding of student scholarships.
- The decrease in foundation payments to the college is due to expenditures that existed in fiscal year 2011 that did not reoccur in fiscal year 2012, which include spending on the Allied Health Building and CETAS Building.

Comparison of Fiscal Year 2011 to Fiscal Year 2010

- The increase in utilities, supplies, and other services includes an increase of \$1.1 million in expenditures for the Volkswagen Training Center, \$426 thousand in renovation costs

**Tennessee Board of Regents
Chattanooga State Community College
Management's Discussion and Analysis (Cont.)**

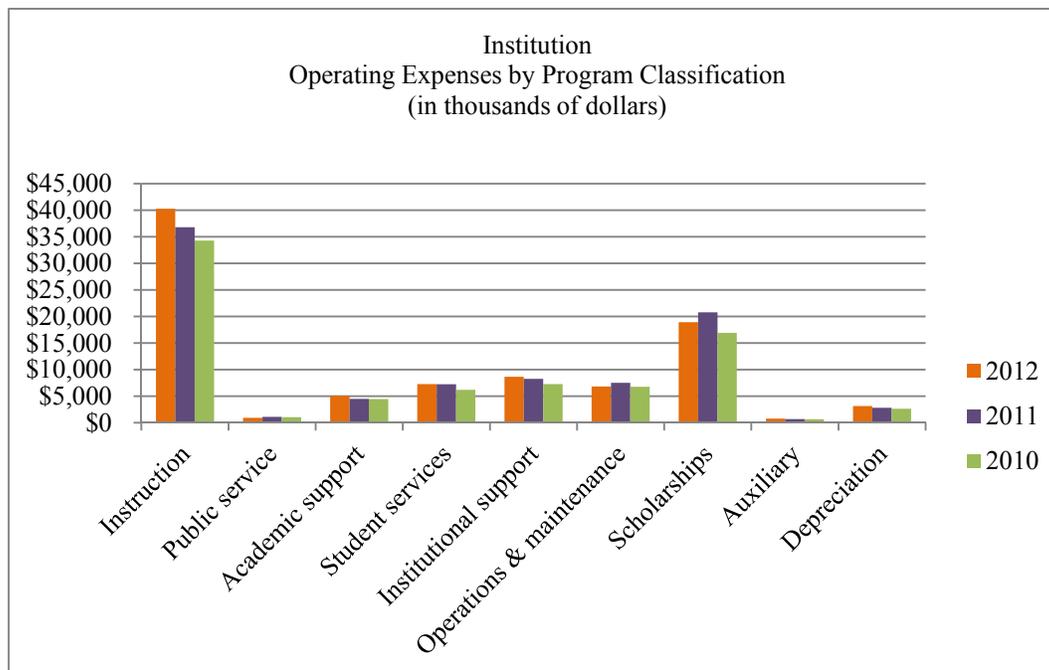
in the Allied Health Building project, and \$803 thousand in renovations of classrooms and offices.

- The increase in scholarships and fellowships includes an increase in PELL of \$5.4 million due to increased fees and enrollment.
- The decrease in foundation payments to the college of \$177 thousand is due to expenditures for the new Health Science Building that were paid in fiscal year 2010 but not in fiscal year 2011.

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

| | <u>2012</u> | <u>2011</u> | <u>2010</u> |
|---------------------------------------|------------------------|------------------------|------------------------|
| Instruction | \$40,276 | \$36,795 | \$34,284 |
| Public service | 937 | 1,095 | 1,045 |
| Academic support | 5,052 | 4,492 | 4,459 |
| Student services | 7,263 | 7,252 | 6,191 |
| Institutional support | 8,650 | 8,271 | 7,286 |
| Maintenance & operation of facilities | 6,819 | 7,517 | 6,764 |
| Scholarships & fellowships | 18,919 | 20,789 | 16,916 |
| Auxiliary | 770 | 683 | 655 |
| Depreciation | 3,133 | 2,821 | 2,634 |
| Total operating expenses | <u>\$91,819</u> | <u>\$89,715</u> | <u>\$80,234</u> |

**Tennessee Board of Regents
Chattanooga State Community College
Management's Discussion and Analysis (Cont.)**



Comparison of Fiscal Year 2012 to Fiscal Year 2011

- The increase in instruction expense is due to increases in salaries and wages due to pay raises of 3% and 2.5% received in July 2011 and January 2012, respectively.
- The increase in academic support expense is due to increases in salaries and wages.
- The increase in institutional support expense is due to increases in salaries and wages.
- The decrease in scholarships and fellowships includes a decrease in PELL of \$1.1 million due to PELL not being awarded during the summer term.
- The decrease in scholarships and fellowships also includes an increase in scholarship discounts of \$500 thousand.

Comparison of Fiscal Year 2011 to Fiscal Year 2010

- The increase in instruction expense includes an increase of \$1.1 million for the Volkswagen Training Center and \$426 thousand in renovation costs in the Allied Health Building project.
- The increase in maintenance and operation of facilities includes \$803 thousand in renovations of classrooms and offices.
- The increase in scholarships and fellowships expense includes an increase in PELL of \$5.4 million due to increased fees and enrollment.

**Tennessee Board of Regents
Chattanooga State Community College
Management's Discussion and Analysis (Cont.)**

Capital Assets and Debt Administration

Capital Assets

Chattanooga State Community College had \$58,297,749 invested in capital assets, net of accumulated depreciation of \$34,971,144 at June 30, 2012; \$53,959,190 invested in capital assets, net of accumulated depreciation of \$33,172,578 at June 30, 2011; and \$45,836,018 invested in capital assets, net of accumulated depreciation of \$31,235,870 at June 30, 2010. Depreciation charges totaled \$3,132,758, \$2,821,110, and \$2,633,979 for the years ended June 30, 2012; June 30, 2011; and June 30, 2010, respectively. Details of these assets are shown below:

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

| | <u>2012</u> | <u>2011</u> | <u>2010</u> |
|------------------------------------|-----------------|-----------------|-----------------|
| Land | \$3,729 | \$3,729 | \$2,429 |
| Land improvements & infrastructure | 1,906 | 1,421 | 1,549 |
| Buildings | 44,362 | 41,563 | 35,411 |
| Equipment | 7,340 | 4,676 | 3,927 |
| Library holdings | 185 | 195 | 213 |
| Intangible assets | 776 | 1,034 | 1,252 |
| Projects in progress | - | 1,341 | 1,055 |
| Total | <u>\$58,298</u> | <u>\$53,959</u> | <u>\$45,836</u> |

During fiscal year 2012, the college spent \$7,444,411 on capital additions, which included

- Center for Engineering Technologies, Arts, and Sciences Building renovations of \$3,563,560 to prepare the building for occupancy;
- Center for Engineering Technologies, Arts, and Sciences Building equipment purchases of \$2,068,809;
- equipment purchases of \$1,183,917 for continued technology upgrades;
- Athletic Fieldhouse renovations of \$58,805;
- library holding purchases of \$37,008; and
- Center for Business, Industry, and Health parking lot improvements of \$532,312.

The Center for Engineering Technologies, Arts, and Sciences Building renovation was funded by capital appropriations in the amount of \$1,354,794. Equipment purchases of \$154,106 were

**Tennessee Board of Regents
Chattanooga State Community College
Management's Discussion and Analysis (Cont.)**

funded by restricted net assets. The other capital additions were funded by the college's unrestricted net assets.

In the fiscal year ending June 30, 2012, the technology center purchased \$43,539 in equipment, which included

- equipment for the Machine Tool Technology program of \$24,800;
- equipment for the Industrial Electricity/Electronics and Industrial Maintenance programs of \$10,000; and
- equipment for the Heating, Ventilation, & Air Conditioning program of \$8,739.

The equipment purchases were funded from the technology access fee of \$33,539 and restricted funds of \$10,000.

During fiscal year 2011, the college spent \$10,361,747 on capital additions, which included

- Center for Engineering Technologies, Arts, and Sciences Building and land purchase of \$6,940,000 to expand the course offerings and house the Wacker Institute;
- equipment purchases of \$1,039,726 for continued technology upgrades;
- Athletic Fieldhouse project in progress of \$967,655;
- Center for Engineering Technologies, Arts, and Sciences renovation project in progress of \$1,228,956 to prepare the building for instructional use;
- CBIH parking lot project in progress of \$112,193 to provide additional student parking;
- Banner software of \$40,716; and
- library holding purchases of \$32,501.

The Athletic Fieldhouse construction was completed during the fiscal year ended June 30, 2011. The building was capitalized with a value of \$2,022,508. A transfer was made from Projects in progress to Buildings for the capitalized amount.

The Center for Engineering Technologies, Arts, and Sciences Building purchase and Center for Engineering Technologies, Arts, and Sciences renovation project in progress were funded by capital appropriations in the amount of \$7,645,206. Equipment purchases of \$103,266 were funded by restricted net assets. The other capital additions were funded by the college's unrestricted net assets.

In the fiscal year ending June 30, 2011, the technology center purchased \$494,862 in equipment, which included

**Tennessee Board of Regents
Chattanooga State Community College
Management's Discussion and Analysis (Cont.)**

- equipment for the Industrial Electricity/Electronics and Industrial Maintenance programs of \$293,969;
- equipment for the Practical Nursing program of \$21,697;
- equipment for the Automotive Technology program of \$27,110;
- equipment for the Commercial Truck Driving program of \$26,400;
- equipment for the Kimball Welding program of \$15,825;
- equipment for the Motorcycle and Marine Engine Technology program of \$13,959;
- equipment for the Automotive Technology program of \$20,032; and
- networking upgrades of \$75,870.

The equipment purchases were funded from the technology access fee of \$41,729, restricted funds of \$317,311, and other unrestricted funds of \$135,822.

During fiscal year 2010, the college spent \$4,416,820 on capital additions, which included

- equipment purchases of \$946,463;
- Banner software of \$32,668;
- library holding purchases of \$39,002;
- Allied Health Building construction in progress of \$1,743,744;
- Athletic Fieldhouse construction in progress of \$978,597; and
- Omniplex parking lot improvement of \$676,346.

The Allied Health Building construction was completed during the fiscal year ended June 30, 2010. The building was capitalized with a value of \$18,417,632. A transfer was made from Projects in progress to Buildings for the capitalized amount.

The Allied Health Building and Athletic Fieldhouse were funded by capital appropriations. Equipment purchases of \$279,200 were funded by restricted net assets. The other capital additions were funded by the college's unrestricted net assets.

In the fiscal year ending June 30, 2010, the technology center purchased \$148,411 in equipment. Equipment purchases were funded from the technology access fee. The equipment items purchased were

- a Tiger Cub lawn cart at \$6,239 for the Landscape and Horticulture program;
- a station tool changer at \$7,978 for the Machine Tool Technology program;
- a simulator for automated systems at \$14,000 for the Industrial Electricity program;
- a cooling tower at \$5,217 for the Air Conditioning program;
- a vertical machining center at \$88,100 for the Machine Tool Technology program;
- a brake lathe at \$6,902 for the Auto Mechanical program; and

**Tennessee Board of Regents
Chattanooga State Community College
Management's Discussion and Analysis (Cont.)**

- an electric training unit at \$19,975 for the Mechatronics program.

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

| | <u>2012</u> | <u>2011</u> | <u>2010</u> |
|------|-------------|-------------|-------------|
| Land | \$726 | \$726 | \$726 |

In fiscal year 2013, the college's planned capital expenditures include

- computer lab updates of \$270,580;
- instructional technology spending of \$1,080,828; and
- network infrastructure spending of \$420,000.

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

Debt

The college had \$3,535,279, \$3,733,297, and \$3,347,914 in debt outstanding at June 30, 2012; June 30, 2011; and June 30, 2010, respectively. The component unit had no debt outstanding at June 30, 2012; June 30, 2011; and June 30, 2010. The table below summarizes these amounts by type of debt instrument.

**Institution
Debt
(in thousands of dollars)**

| | <u>2012</u> | <u>2011</u> | <u>2010</u> |
|------------------|----------------|----------------|----------------|
| Bonds | \$1,910 | \$2,108 | \$2,299 |
| Commercial paper | 1,625 | 1,625 | 1,049 |
| Total | <u>\$3,535</u> | <u>\$3,733</u> | <u>\$3,348</u> |

The ratings on debt issued by the Tennessee State School Bond Authority at June 30, 2012, were as follows:

| | |
|--------------------------|-----|
| Fitch | AA+ |
| Moody's Investor Service | Aa1 |
| Standard & Poor's | AA |

**Tennessee Board of Regents
Chattanooga State Community College
Management's Discussion and Analysis (Cont.)**

More information about the college's long-term liabilities is presented in Note 7 to the financial statements.

Economic Factors That Will Affect the Future

The economic position of Chattanooga State Community College is closely tied to that of the State of Tennessee. For the 2012 fiscal year, state appropriations made up 37% of total revenues and were the second largest source of funding, with tuition and fees being the largest source at 61% of total revenues. Effective Fall 2012, student fees will be increased by 4.7%. The fee increase will negate the effects of the reduction in state support for the fiscal year 2013.

The economic position of the Tennessee Technology Center at Chattanooga, which is part of the college, is closely tied to that of the State of Tennessee. State appropriations constitute 53% of total revenues and are thus the largest source of funding. Effective Fall 2012, student fees will be increased by 6.2%. The fee increase will negate the effects of the reduction in state support for the fiscal year 2013.

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 Ms. Tammy Swenson, Executive Vice President for Business and Finance, Chattanooga State Community College, 4501 Amnicola Highway, Chattanooga, Tennessee 37406-1097.

**TENNESSEE BOARD OF REGENTS
CHATTANOOGA STATE COMMUNITY COLLEGE
STATEMENTS OF NET ASSETS
JUNE 30, 2012, AND JUNE 30, 2011**

| | Chattanooga State Community College | | Component Unit - Chattanooga State Technical Community College Foundation | |
|---|--|-------------------------|---|------------------------|
| | June 30, 2012 | June 30, 2011 | June 30, 2012 | June 30, 2011 |
| ASSETS | | | | |
| Current assets: | | | | |
| Cash and cash equivalents (Notes 2, 3, and 16) | \$ 8,697,225.05 | \$ 10,168,259.46 | \$ 143,186.35 | \$ 144,530.35 |
| Accounts and grants receivable (net) (Note 4) | 3,779,809.53 | 4,090,291.89 | 80.00 | - |
| Due from primary government | 24,600.00 | 398,573.44 | - | - |
| Pledges receivable (net) (Note 16) | - | - | 490,656.55 | 446,124.16 |
| Inventories | 43,134.41 | 48,562.95 | - | - |
| Prepaid expenses and deferred charges | 157,027.04 | 317,722.31 | 2,000.00 | - |
| Other assets | - | - | - | 1,546.37 |
| Total current assets | <u>12,701,796.03</u> | <u>15,023,410.05</u> | <u>635,922.90</u> | <u>592,200.88</u> |
| Noncurrent assets: | | | | |
| Cash and cash equivalents (Notes 2, 3, and 16) | 9,128,413.36 | 13,327,326.94 | 59,888.47 | 99,923.31 |
| Investments (Note 16) | - | - | 4,503,595.34 | 4,649,342.85 |
| Pledges receivable (net) (Note 16) | - | - | 466,087.39 | 713,513.05 |
| Capital assets (net) (Notes 5 and 16) | <u>58,297,749.02</u> | <u>53,959,189.81</u> | <u>725,603.03</u> | <u>725,603.03</u> |
| Total noncurrent assets | <u>67,426,162.38</u> | <u>67,286,516.75</u> | <u>5,755,174.23</u> | <u>6,188,382.24</u> |
| Total assets | <u>80,127,958.41</u> | <u>82,309,926.80</u> | <u>6,391,097.13</u> | <u>6,780,583.12</u> |
| LIABILITIES | | | | |
| Current liabilities: | | | | |
| Accounts payable (Note 6) | 797,056.34 | 903,990.70 | 32,586.99 | 21,786.21 |
| Accrued liabilities | 1,662,800.83 | 1,512,900.33 | - | - |
| Deferred revenue | 2,286,828.68 | 2,467,840.30 | - | - |
| Compensated absences (Note 7) | 672,335.03 | 647,958.79 | - | - |
| Accrued interest payable | 14,057.85 | 15,897.19 | - | - |
| Long-term liabilities, current portion (Note 7) | 205,000.60 | 198,018.20 | - | - |
| Deposits held in custody for others | <u>64,254.77</u> | <u>84,972.25</u> | <u>-</u> | <u>-</u> |
| Total current liabilities | <u>5,702,334.10</u> | <u>5,831,577.76</u> | <u>32,586.99</u> | <u>21,786.21</u> |
| Noncurrent liabilities: | | | | |
| Compensated absences (Note 7) | 2,021,002.47 | 1,852,261.99 | - | - |
| Long-term liabilities (Note 7) | 3,330,278.00 | 3,535,278.60 | - | - |
| Net OPEB obligation (Note 11) | <u>3,046,212.05</u> | <u>2,914,710.33</u> | <u>-</u> | <u>-</u> |
| Total noncurrent liabilities | <u>8,397,492.52</u> | <u>8,302,250.92</u> | <u>-</u> | <u>-</u> |
| Total liabilities | <u>14,099,826.62</u> | <u>14,133,828.68</u> | <u>32,586.99</u> | <u>21,786.21</u> |
| NET ASSETS | | | | |
| Invested in capital assets, net of related debt | 56,473,071.52 | 52,073,551.31 | 725,603.03 | 725,603.03 |
| Restricted for: | | | | |
| Nonexpendable: | | | | |
| Scholarships and fellowships | - | - | 1,930,910.28 | 1,892,233.91 |
| Instructional department uses | - | - | 255,547.00 | 255,547.00 |
| Expendable: | | | | |
| Scholarships and fellowships | - | - | 994,928.86 | 1,187,197.63 |
| Instructional department uses | - | - | 1,642,771.36 | 1,665,827.33 |
| Loans | 20,361.48 | 20,361.48 | - | - |
| Capital projects | - | - | 329,241.15 | 354,632.32 |
| Other | 68,414.79 | 86,551.69 | 97,799.74 | 100,435.69 |
| Unrestricted (Note 8) | <u>9,466,284.00</u> | <u>15,995,633.64</u> | <u>381,708.72</u> | <u>577,320.00</u> |
| Total net assets | <u>\$ 66,028,131.79</u> | <u>\$ 68,176,098.12</u> | <u>\$ 6,358,510.14</u> | <u>\$ 6,758,796.91</u> |

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

**TENNESSEE BOARD OF REGENTS
CHATTANOOGA STATE COMMUNITY COLLEGE
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2012, AND JUNE 30, 2011**

| | Chattanooga State Community College | | Component Unit - Chattanooga State Technical Community College Foundation | |
|---|--|-----------------------------|---|-----------------------------|
| | Year Ended June 30, 2012 | Year Ended June 30, 2011 | Year Ended June 30, 2012 | Year Ended June 30, 2011 |
| REVENUES | | | | |
| Operating revenues: | | | | |
| Student tuition and fees (net of scholarship allowances of \$10,373,267.03 for the year ended June 30, 2012, and \$9,829,620.36 for the year ended June 30, 2011) | \$ 25,825,786.88 | \$ 23,401,333.11 | \$ - | \$ - |
| Gifts and contributions | - | - | 198,310.91 | 102,766.35 |
| Endowment income per spending plan | - | - | 108,941.00 | 91,510.00 |
| Governmental grants and contracts | 7,649,736.88 | 7,560,896.20 | - | - |
| Nongovernmental grants and contracts | 737,995.83 | 3,184,530.36 | - | - |
| Sales and services of educational departments | 367,025.11 | 352,282.35 | - | - |
| Sales and services of other activities | 242,555.44 | 213,258.73 | - | - |
| Auxiliary enterprises: | | | | |
| Bookstore | 568,520.34 | 550,994.42 | - | - |
| Food service | 699,254.07 | 632,263.15 | - | - |
| Other operating revenues | 82,278.87 | 79,028.54 | 2,640.00 | 2,783.24 |
| Total operating revenues | <u>36,173,153.42</u> | <u>35,974,586.86</u> | <u>309,891.91</u> | <u>197,059.59</u> |
| EXPENSES | | | | |
| Operating expenses (Note 14): | | | | |
| Salaries and wages | 37,012,163.40 | 34,489,060.34 | - | - |
| Benefits | 12,573,597.09 | 12,075,788.51 | - | - |
| Utilities, supplies, and other services | 19,654,215.72 | 19,014,163.49 | 71,155.78 | 36,674.11 |
| Scholarships and fellowships | 19,445,816.26 | 21,314,732.21 | 400,200.66 | 254,663.97 |
| Depreciation expense | 3,132,757.82 | 2,821,110.44 | - | - |
| Payments to or on behalf of Chattanooga State Community College (Note 16) | - | - | 114,498.47 | 283,813.28 |
| Total operating expenses | <u>91,818,550.29</u> | <u>89,714,854.99</u> | <u>585,854.91</u> | <u>575,151.36</u> |
| Operating loss | <u>(55,645,396.87)</u> | <u>(53,740,268.13)</u> | <u>(275,963.00)</u> | <u>(378,091.77)</u> |
| NONOPERATING REVENUES (EXPENSES) | | | | |
| State appropriations | 23,457,950.99 | 28,598,410.00 | - | - |
| Gifts (college gifts include \$114,498.47 from component unit in 2012 and \$283,813.28 from component unit in 2011) | 165,764.47 | 344,775.58 | - | - |
| Grants and contracts | 27,392,414.27 | 30,247,195.47 | - | - |
| Investment income (for component unit, net of investment expense of \$25,519.54 in 2012, and \$26,438.16 in 2011) | 45,102.72 | 60,646.94 | (162,999.96) | 703,730.70 |
| Interest on capital asset-related debt | (87,586.06) | (95,961.97) | - | - |
| Other nonoperating revenues (expenses) | 270,250.71 | 762,941.00 | (0.18) | 320.69 |
| Net nonoperating revenues (expenses) | <u>51,243,897.10</u> | <u>59,918,007.02</u> | <u>(163,000.14)</u> | <u>704,051.39</u> |
| Income (loss) before other revenues, expenses, gains, or losses | <u>(4,401,499.77)</u> | <u>6,177,738.89</u> | <u>(438,963.14)</u> | <u>325,959.62</u> |
| Capital appropriations | 2,253,533.44 | 9,755,673.93 | - | - |
| Capital grants and gifts | - | 92,600.00 | - | - |
| Additions to permanent endowments | - | - | 38,676.37 | 114,048.09 |
| Total other revenues | <u>2,253,533.44</u> | <u>9,848,273.93</u> | <u>38,676.37</u> | <u>114,048.09</u> |
| Increase (decrease) in net assets | <u>(2,147,966.33)</u> | <u>16,026,012.82</u> | <u>(400,286.77)</u> | <u>440,007.71</u> |
| NET ASSETS | | | | |
| Net assets - beginning of year | <u>68,176,098.12</u> | <u>52,150,085.30</u> | <u>6,758,796.91</u> | <u>6,318,789.20</u> |
| Net assets - end of year | <u>\$ 66,028,131.79</u> | <u>\$ 68,176,098.12</u> | <u>\$ 6,358,510.14</u> | <u>\$ 6,758,796.91</u> |

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

**TENNESSEE BOARD OF REGENTS
CHATTANOOGA STATE COMMUNITY COLLEGE
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2012, AND JUNE 30, 2011**

| | Year Ended <u>June 30, 2012</u> | Year Ended <u>June 30, 2011</u> |
|--|------------------------------------|------------------------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Tuition and fees | \$ 25,512,542.06 | \$ 23,786,492.18 |
| Grants and contracts | 9,162,890.61 | 11,001,505.86 |
| Sales and services of educational activities | 368,453.29 | 353,517.41 |
| Sales and services of other activities | 241,492.19 | 213,258.73 |
| Payments to suppliers and vendors | (19,737,341.28) | (18,589,201.63) |
| Payments to employees | (37,001,196.34) | (34,553,579.80) |
| Payments for benefits | (12,070,548.99) | (11,484,253.44) |
| Payments for scholarships and fellowships | (19,447,684.74) | (21,292,577.58) |
| Auxiliary enterprise charges: | | |
| Bookstore | 547,994.42 | 487,553.61 |
| Food services | 699,254.07 | 632,263.15 |
| Other receipts | 84,551.01 | 32,266.62 |
| Net cash used by operating activities | <u>(51,639,593.70)</u> | <u>(49,412,754.89)</u> |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES | | |
| State appropriations | 23,434,070.12 | 28,580,400.00 |
| Gifts and grants received for other than capital or endowment purposes | 27,925,498.38 | 30,553,828.46 |
| Federal student loan receipts | 32,960,099.00 | 33,394,705.00 |
| Federal student loan disbursements | (32,959,139.00) | (33,385,704.00) |
| Changes in deposits held for others | (20,099.48) | (11,516.63) |
| Other receipts | 35,313.87 | 756,024.57 |
| Net cash provided by noncapital financing activities | <u>51,375,742.89</u> | <u>59,887,737.40</u> |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | | |
| Capital appropriations | 2,264,454.38 | 9,744,752.99 |
| Proceeds from sale of capital assets | 15,769.00 | 11,844.00 |
| Purchases of capital assets and construction | (7,443,979.68) | (10,884,500.51) |
| Issuance of capital debt | - | 575,775.80 |
| Principal paid on capital debt | (198,018.20) | (190,392.80) |
| Interest paid on capital debt | (89,425.40) | (97,029.33) |
| Net cash used by capital and related financing activities | <u>(5,451,199.90)</u> | <u>(839,549.85)</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Income on investments | 45,102.72 | 60,646.94 |
| Net cash provided by investing activities | <u>45,102.72</u> | <u>60,646.94</u> |
| Net increase (decrease) in cash | (5,669,947.99) | 9,696,079.60 |
| Cash - beginning of year | 23,495,586.40 | 13,799,506.80 |
| Cash - end of year | <u>\$ 17,825,638.41</u> | <u>\$ 23,495,586.40</u> |

**TENNESSEE BOARD OF REGENTS
CHATTANOOGA STATE COMMUNITY COLLEGE
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2012, AND JUNE 30, 2011**

| | <u>Year Ended June 30, 2012</u> | <u>Year Ended June 30, 2011</u> |
|---|-------------------------------------|-------------------------------------|
| Reconciliation of operating loss to net cash used by operating activities: | | |
| Operating loss | \$ (55,645,396.87) | \$ (53,740,268.13) |
| Adjustments to reconcile operating loss to net cash used by operating activities: | | |
| Depreciation expense | 3,132,757.82 | 2,821,110.44 |
| Other adjustments | 23,880.87 | 17,810.00 |
| Change in assets and liabilities: | | |
| Receivables, net | 530,423.69 | (61,409.97) |
| Inventories | 5,428.54 | (5,377.58) |
| Prepaid/deferred items | 45,514.04 | (156,111.02) |
| Accounts payable | (25,709.11) | 506,603.20 |
| Accrued liabilities | 149,900.50 | 53,687.85 |
| Net OPEB obligation | 131,501.72 | 469,025.72 |
| Deferred revenue | (181,011.62) | 571,925.61 |
| Compensated absences | 193,116.72 | 110,248.99 |
| Net cash used by operating activities | <u>\$ (51,639,593.70)</u> | <u>\$ (49,412,754.89)</u> |
| Noncash investing, capital, or financing transactions | | |
| Gifts of capital assets | \$ - | \$ 92,600.00 |
| Loss on disposal of capital assets | \$ (6,632.73) | \$ (4,927.57) |

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

**Tennessee Board of Regents
Chattanooga State Community College
Notes to the Financial Statements
June 30, 2012, and June 30, 2011**

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

Basis of Accounting

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

**Tennessee Board of Regents
Chattanooga State Community College
Notes to the Financial Statements (Cont.)
June 30, 2012, and June 30, 2011**

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 and sick leave at varying rates, depending on length of service or classification. Some employees also earn compensatory time. The amount of the liabilities for annual leave and compensatory time and their related benefits are reported in the statement of net assets. There is no liability for unpaid accumulated sick leave since the college's policy is to pay this only if the employee dies or is absent because of illness, injury, or related family death.

**Tennessee Board of Regents
Chattanooga State Community College
Notes to the Financial Statements (Cont.)
June 30, 2012, and June 30, 2011**

Capital Assets

Capital assets, which include property, plant, equipment, library holdings, and intangible assets, are reported in the statement of net assets at historical cost or at fair value at date of donation, less accumulated depreciation/amortization. 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 intangible assets 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, sales and services of educational departments, other activities, 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

**Tennessee Board of Regents
Chattanooga State Community College
Notes to the Financial Statements (Cont.)
June 30, 2012, and June 30, 2011**

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

This classification includes demand deposits and petty cash on hand. At June 30, 2012, cash consisted of \$3,084,253.99 in bank accounts, \$4,590.00 of petty cash on hand, \$12,775,146.88 in the State of Tennessee Local Government Investment Pool (LGIP) administered by the State Treasurer, and \$1,961,647.54 in LGIP deposits for capital projects. At June 30, 2011, cash consisted of \$3,142,577.59 in bank accounts, \$3,880.00 of petty cash on hand, \$15,591,477.64 in LGIP, and \$4,757,651.17 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 LGIP account. As expenses are incurred, funds are withdrawn from the LGIP account by the Tennessee Board of Regents and transferred to the Department of Finance and Administration. The funds in the account are not available to the college for any other purpose until the project is completed and the Tennessee Board of Regents releases any remaining funds.

**Tennessee Board of Regents
Chattanooga State Community College
Notes to the Financial Statements (Cont.)
June 30, 2012, and June 30, 2011**

NOTE 3. INVESTMENTS

Credit Risk

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).

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 ratings services that have rated the issuer. Prime banker's acceptances are required to be eligible for purchase by the Federal Reserve System. To be eligible, the original maturity must not be more than 270 days, and it must (1) arise out of the current shipment of goods between countries or with the United States, or (2) arise out of storage within the United States of goods under contract of sale or expected to move into the channel of trade within a reasonable time and that are secured throughout their life by a warehouse receipt or similar document conveying title to the underlying goods.

Tennessee Board of Regents policy requires that prime commercial paper shall be limited to that of corporations that meet the following criteria: (1) Senior long-term debt, if any, should have a minimum rating of A1 or equivalent, and short-term debt should have 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 rating must be A1 by all rating services (minimum of two). (2) The rating should be based on the merits of the issuer or guaranteed by a nonbank. (3) A financial review should be made to ascertain the issuer's financial strength to cover the debt. (4) Commercial paper of a banking institution should not be purchased. Prime commercial paper shall not have a maturity that exceeds 270 days.

At June 30, 2012, and June 30, 2011, the college's investments consisted entirely of investments in the Local Government Investment Pool. The fair value of these investments was \$14,736,794.42 at June 30, 2012, and \$20,349,128.81 at June 30,

**Tennessee Board of Regents
Chattanooga State Community College
Notes to the Financial Statements (Cont.)
June 30, 2012, and June 30, 2011**

2011. LGIP investments are not rated by nationally recognized statistical ratings organizations. The LGIP is part of the State Pooled Investment Fund. The fund's required risk disclosures are presented in the *State of Tennessee's Treasurer's Report*. That report is available on the state's website at www.treasury.tn.gov.

NOTE 4. RECEIVABLES

Receivables included the following:

| | <u>June 30, 2012</u> | <u>June 30, 2011</u> |
|--------------------------------------|-----------------------|-----------------------|
| Student accounts receivable | \$2,213,579.19 | \$1,573,202.52 |
| Grants receivable | 1,505,632.96 | 2,533,025.40 |
| Other receivables | <u>662,208.94</u> | <u>405,296.63</u> |
| Subtotal | 4,381,421.09 | 4,511,524.55 |
| Less allowance for doubtful accounts | <u>601,611.56</u> | <u>421,232.66</u> |
| Total receivables | <u>\$3,779,809.53</u> | <u>\$4,090,291.89</u> |

NOTE 5. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2012, was as follows:

| | <u>Beginning Balance</u> | <u>Additions</u> | <u>Transfers</u> | <u>Reductions</u> | <u>Ending Balance</u> |
|---|------------------------------|---------------------|-----------------------|---------------------|---------------------------|
| Land | \$ 3,729,000.00 | \$ - | \$ - | \$ - | \$ 3,729,000.00 |
| Land improvements and infrastructure | 3,608,297.57 | - | 644,505.21 | - | 4,252,802.78 |
| Buildings | 63,210,688.56 | 15,507.00 | 4,402,063.31 | - | 67,628,258.87 |
| Equipment | 12,446,499.68 | 1,227,455.54 | 2,502,559.22 | 1,268,302.10 | 14,908,212.34 |
| Library holdings | 512,421.89 | 37,007.96 | - | 82,522.66 | 466,907.19 |
| Intangible assets | 2,283,711.40 | - | - | - | 2,283,711.40 |
| Projects in progress | <u>1,341,148.48</u> | <u>6,207,979.26</u> | <u>(7,549,127.74)</u> | - | - |
| Total | <u>87,131,767.58</u> | <u>7,487,949.76</u> | - | <u>1,350,824.76</u> | <u>93,268,892.58</u> |

**Tennessee Board of Regents
Chattanooga State Community College
Notes to the Financial Statements (Cont.)
June 30, 2012, and June 30, 2011**

| | | | | | |
|---|------------------------|-----------------------|-------------|---------------------|------------------------|
| Less accumulated depreciation/amortization: | | | | | |
| Land improvements and infrastructure | 2,186,946.01 | 159,902.54 | - | - | 2,346,848.55 |
| Buildings | 21,647,858.32 | 1,618,074.97 | - | - | 23,265,933.29 |
| Equipment | 7,770,258.15 | 1,049,574.64 | - | 1,251,669.37 | 7,568,163.42 |
| Library holdings | 317,863.68 | 46,690.73 | - | 82,522.66 | 282,031.75 |
| Intangible assets | <u>1,249,651.61</u> | <u>258,514.94</u> | <u>-</u> | <u>-</u> | <u>1,508,166.55</u> |
| Total | <u>33,172,577.77</u> | <u>3,132,757.82</u> | <u>-</u> | <u>1,334,192.03</u> | <u>34,971,143.56</u> |
| Capital assets, net | <u>\$53,959,189.81</u> | <u>\$4,355,191.94</u> | <u>\$ -</u> | <u>\$ 16,632.73</u> | <u>\$58,297,749.02</u> |

Capital asset activity for the year ended June 30, 2011, was as follows:

| | Beginning Balance | Additions | Transfers | Reductions | Ending Balance |
|---|------------------------|-----------------------|-----------------------|--------------------|------------------------|
| Land | \$ 2,429,000.00 | \$1,300,000.00 | \$ - | \$ - | \$ 3,729,000.00 |
| Land improvements and infrastructure | 3,608,297.57 | - | - | - | 3,608,297.57 |
| Buildings | 55,548,180.86 | 5,640,000.00 | 2,022,507.70 | - | 63,210,688.56 |
| Equipment | 11,708,640.62 | 1,627,188.92 | - | 889,329.86 | 12,446,499.68 |
| Library holdings | 479,920.70 | 32,501.19 | - | - | 512,421.89 |
| Intangible assets | 2,242,994.90 | 40,716.50 | - | - | 2,283,711.40 |
| Projects in progress | <u>1,054,853.02</u> | <u>2,308,803.16</u> | <u>(2,022,507.70)</u> | <u>-</u> | <u>1,341,148.48</u> |
| Total | <u>77,071,887.67</u> | <u>10,949,209.77</u> | <u>-</u> | <u>889,329.86</u> | <u>87,131,767.58</u> |
| Less accumulated depreciation/amortization: | | | | | |
| Land improvements and infrastructure | 2,059,268.76 | 127,677.25 | - | - | 2,186,946.01 |
| Buildings | 20,136,697.58 | 1,511,160.74 | - | - | 21,647,858.32 |
| Equipment | 7,782,145.10 | 872,515.34 | - | 884,402.29 | 7,770,258.15 |
| Library holdings | 266,621.51 | 51,242.17 | - | - | 317,863.68 |
| Intangible assets | <u>991,136.67</u> | <u>258,514.94</u> | <u>-</u> | <u>-</u> | <u>1,249,651.61</u> |
| Total | <u>31,235,869.62</u> | <u>2,821,110.44</u> | <u>-</u> | <u>884,402.29</u> | <u>33,172,577.77</u> |
| Capital assets, net | <u>\$45,836,018.05</u> | <u>\$8,128,099.33</u> | <u>\$ -</u> | <u>\$ 4,927.57</u> | <u>\$53,959,189.81</u> |

NOTE 6. ACCOUNTS PAYABLE

Accounts payable included the following:

**Tennessee Board of Regents
Chattanooga State Community College
Notes to the Financial Statements (Cont.)
June 30, 2012, and June 30, 2011**

| | <u>June 30, 2012</u> | <u>June 30, 2011</u> |
|------------------------|----------------------|----------------------|
| Vendors payable | \$777,153.17 | \$894,164.44 |
| Other payables | <u>19,903.17</u> | <u>9,826.26</u> |
| Total accounts payable | <u>\$797,056.34</u> | <u>\$903,990.70</u> |

NOTE 7. LONG-TERM LIABILITIES

Long-term liabilities activity for the year ended June 30, 2012, 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 | \$2,108,297.30 | \$ - | \$ 198,018.20 | \$1,910,279.10 | \$205,000.60 |
| Commercial paper | <u>1,624,999.50</u> | <u>-</u> | <u>-</u> | <u>1,624,999.50</u> | <u>-</u> |
| Subtotal | <u>3,733,296.80</u> | <u>-</u> | <u>198,018.20</u> | <u>3,535,278.60</u> | <u>205,000.60</u> |
| Other liabilities: | | | | | |
| Compensated absences | <u>2,500,220.78</u> | <u>1,791,469.89</u> | <u>1,598,353.17</u> | <u>2,693,337.50</u> | <u>672,335.03</u> |
| Subtotal | <u>2,500,220.78</u> | <u>1,791,469.89</u> | <u>1,598,353.17</u> | <u>2,693,337.50</u> | <u>672,335.03</u> |
| Total long-term liabilities | <u>\$6,233,517.58</u> | <u>\$1,791,469.89</u> | <u>\$1,796,371.37</u> | <u>\$6,228,616.10</u> | <u>\$877,335.63</u> |

Long-term liabilities activity for the year ended June 30, 2011, 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 | \$2,298,690.10 | \$ - | \$ 190,392.80 | \$2,108,297.30 | \$198,018.20 |
| Commercial paper | <u>1,049,223.70</u> | <u>575,775.80</u> | <u>-</u> | <u>1,624,999.50</u> | <u>-</u> |
| Subtotal | <u>3,347,913.80</u> | <u>575,775.80</u> | <u>190,392.80</u> | <u>3,733,296.80</u> | <u>198,018.20</u> |
| Other liabilities: | | | | | |
| Compensated absences | <u>2,389,971.79</u> | <u>1,461,357.85</u> | <u>1,351,108.86</u> | <u>2,500,220.78</u> | <u>647,958.79</u> |
| Subtotal | <u>2,389,971.79</u> | <u>1,461,357.85</u> | <u>1,351,108.86</u> | <u>2,500,220.78</u> | <u>647,958.79</u> |

**Tennessee Board of Regents
Chattanooga State Community College
Notes to the Financial Statements (Cont.)
June 30, 2012, and June 30, 2011**

| | | | | | |
|-----------------------------|-----------------------|-----------------------|-----------------------|-----------------------|---------------------|
| Total long-term liabilities | <u>\$5,737,885.59</u> | <u>\$2,037,133.65</u> | <u>\$1,541,501.66</u> | <u>\$6,233,517.58</u> | <u>\$845,976.99</u> |
|-----------------------------|-----------------------|-----------------------|-----------------------|-----------------------|---------------------|

TSSBA Debt - Bonds

Bonds, with interest rates ranging from 3.50% to 5.00%, 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 (see Note 9 for further detail) and certain other revenues and fees of the college, including state appropriations.

Debt service requirements to maturity for the college's portion of TSSBA bonds at June 30, 2012, are as follows:

| Year Ending <u>June 30</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|-------------------------------|-----------------------|---------------------|-----------------------|
| 2013 | \$ 205,000.60 | \$ 79,742.38 | \$ 284,742.98 |
| 2014 | 213,533.70 | 71,619.13 | 285,152.83 |
| 2015 | 223,168.00 | 62,412.77 | 285,580.77 |
| 2016 | 159,641.70 | 52,786.44 | 212,428.14 |
| 2017 | 166,346.70 | 46,400.78 | 212,747.48 |
| 2018 – 2022 | <u>942,588.40</u> | <u>126,427.70</u> | <u>1,069,016.10</u> |
| Total | <u>\$1,910,279.10</u> | <u>\$439,389.20</u> | <u>\$2,349,668.30</u> |

TSSBA Debt - Commercial Paper

The Tennessee State School Bond Authority issues commercial paper to finance the costs of various capital projects during their construction phase. When projects are placed in service, long-term, fixed-rate debt is issued by TSSBA to finance the project over its useful payback period and the commercial paper is redeemed. The amount issued for projects at the college was \$1,624,999.50 at June 30, 2012, and at June 30, 2011.

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

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School Bond Authority. That report is available on the state's website at www.comptroller.tn.gov/tssba/cafr.asp.

NOTE 8. 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, 2012</u> | <u>June 30, 2011</u> |
|--------------------------------------|-----------------------|------------------------|
| Working capital | \$2,026,482.94 | \$ 1,654,201.15 |
| Encumbrances | 28,679.35 | 23,074.43 |
| Designated fees | 50,069.45 | - |
| Auxiliaries | 183,373.93 | 160,817.10 |
| Plant construction | 2,273,256.65 | 5,889,142.45 |
| Renewal and replacement of equipment | 4,164,803.42 | 5,386,779.02 |
| Debt retirement | 606,404.33 | 445,848.82 |
| Undesignated | <u>133,213.93</u> | <u>2,435,770.67</u> |
| Total | <u>\$9,466,284.00</u> | <u>\$15,995,633.64</u> |

NOTE 9. PLEDGED REVENUES

The college has pledged certain revenues and fees, including state appropriations, to repay \$1,910,279.10 in revenue bonds issued from November 2000 to January 2008 (see Note 7 for further detail). Proceeds from the bonds provided financing for campus upgrades, energy savings, and administrative computing equipment and associated software. The bonds are payable through 2022. Annual principal and interest payments on the bonds are expected to require 0.50% of available revenues. The total principal and interest remaining to be paid on the bonds at June 30, 2012, is \$2,349,668.30. Principal and interest paid for fiscal year 2012 and total available revenues in that year were \$284,348.58 and \$56,862,808.26, respectively. Principal and interest paid for fiscal year 2011 and total available revenues in that year were \$283,971.02 and \$59,398,937.46, respectively. See Note 7 for further detail.

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NOTE 10. 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 is available on the state's website at www.treasury.tn.gov/tcrs.

Funding Policy - Plan members are noncontributory. The college is required to contribute an actuarially determined rate. The current rate is 14.91% 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, 2012, 2011, and 2010 were \$2,374,906.73, \$2,273,295.17, and \$1,917,916.86, respectively. Contributions met the requirements for each year.

B. Defined Contribution Plans

Optional Retirement Plans

Plan Description - The college contributes to three defined contribution plans: Teachers Insurance and Annuity Association-College Retirement Equities Fund (TIAA-CREF), ING 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.

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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 contributions made by the college to the plans were \$1,526,352.86 for the year ended June 30, 2012, and \$1,392,133.52 for the year ended June 30, 2011. Contributions met the requirements for each year.

NOTE 11. OTHER POSTEMPLOYMENT BENEFITS

Healthcare is the only "other postemployment benefit" (OPEB) provided to employees. The State of Tennessee administers a group health insurance program which provides postemployment 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. For accounting purposes, the plans are agent multiple-employer defined benefit OPEB plans. Benefits are established and amended by an insurance committee created by Section 8-27-101, *Tennessee Code Annotated*. Prior to reaching age 65, all members have the option of choosing between the standard or partnership preferred provider organization (PPO) 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 State of Tennessee's *Comprehensive Annual Financial Report* (CAFR). The CAFR is available on the state's website at www.tn.gov/finance/act/cafr.shtml.

Special Funding Situation

The State of Tennessee is legally responsible for contributions to the Medicare Supplement Plan that covers the retirees of other governmental entities, including Chattanooga State Community College. The state is the sole contributor for the college retirees that participate in the Medicare Supplement Plan and, therefore, is acting as the employer.

Funding Policy

The premium requirements of members of the State Employee Group Plan are established and may be amended by the insurance committee. The plan is self-

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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. Administrative costs of the plan are allocated to plan participants. In accordance with Section 8-27-205(b), *Tennessee Code Annotated*, retirees in the State Employee Group Plan pay the same base premium as active employees in the plan adjusted for years of service. Retirees with 30 years of service are subsidized 80%; retirees with 20 years of service but less than 30 years of service, 70%; and retirees with less than 20 years of service, 60%. Retirees in the Medicare Supplement Plan have flat-rate premium subsidies based on years of service. Retirees with 30 years of service receive \$50 per month; retirees with 20 years of service but less than 30 years of service, \$37.50; and retirees with 15 years of service but less than 20 years of service, \$25.

College's Annual OPEB Cost and Net OPEB Obligation
State Employee Group Plan

| | <u>2012</u> | <u>2011</u> |
|---|-----------------------|-----------------------|
| Annual required contribution (ARC) | \$ 822,000.00 | \$1,049,000.00 |
| Interest on the net OPEB obligation | 116,588.42 | 110,055.81 |
| Adjustment to the ARC | <u>(123,756.39)</u> | <u>(104,244.68)</u> |
| Annual OPEB cost | 814,832.03 | 1,054,811.13 |
| Amount of contribution | <u>(683,330.31)</u> | <u>(585,785.41)</u> |
| Increase in net OPEB obligation | 131,501.72 | 469,025.72 |
| Net OPEB obligation – beginning of year | <u>2,914,710.33</u> | <u>2,445,684.61</u> |
| Net OPEB obligation – end of year | <u>\$3,046,212.05</u> | <u>\$2,914,710.33</u> |

| <u>Year-end</u> | <u>Plan</u> | <u>Annual OPEB Cost</u> | <u>Percentage of Annual OPEB Cost Contributed</u> | <u>Net OPEB Obligation at Year-end</u> |
|-----------------|---------------------------|-------------------------|---|--|
| June 30, 2012 | State Employee Group Plan | \$814,832.03 | 83.9% | \$3,046,212.05 |
| June 30, 2011 | State Employee Group Plan | \$1,054,811.13 | 55.5% | \$2,914,710.33 |
| June 30, 2010 | State Employee Group Plan | \$1,161,208.39 | 41.9% | \$2,445,684.61 |

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Funded Status and Funding Progress

The funded status of the college's portion of the State Employee Group Plan was as follows:

| State Employee Group Plan | | |
|--|-----------------|-----------------|
| | July 1, 2011 | July 1, 2010 |
| Actuarial valuation date | July 1, 2011 | July 1, 2010 |
| Actuarial accrued liability (AAL) | \$6,041,000.00 | \$10,075,000.00 |
| Actuarial value of plan assets | - | - |
| Unfunded actuarial accrued liability (UAAL) | \$6,041,000.00 | \$10,075,000.00 |
| Actuarial value of assets as a percentage of the AAL | 0% | 0% |
| Covered payroll (active plan members) | \$25,885,378.48 | \$24,754,826.82 |
| UAAL as percentage of covered payroll | 23.3% | 40.7% |

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, 2011, actuarial valuation, the Projected Unit Credit actuarial cost method was used. The actuarial assumptions included a 4 percent investment rate of return (net of administrative expenses) and an annual healthcare cost trend rate of 9.25 percent in fiscal year 2012. The rate decreases to 8.75 percent in fiscal year 2013, and then reduces by decrements to an ultimate rate of 5 percent in fiscal year 2021. All rates include a 2.5 percent inflation assumption. The unfunded actuarial

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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 12. INSURANCE-RELATED ACTIVITIES

It is the policy of the state not to purchase commercial insurance for the risks associated with casualty losses for general liability, automobile liability, professional medical 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, builder's risk (for construction projects starting prior to July 1, 2012) and crime and fidelity coverage on the state's officials and employees. The contractor is responsible for acquiring builder's risk insurance for all construction projects after June 30, 2012, and thus builder's risk is no longer covered by the Risk Management Fund. For property coverage, the deductible for an individual state agency is the first \$25,000 of losses. The Risk Management Fund is responsible for property losses for the annual aggregate deductible of \$10 million for perils other than earthquakes and flood. Purchased insurance coverage is responsible for losses exceeding the \$10 million annual aggregate deductible. For earthquake and flood, there is a deductible of \$10 million per occurrence. The maximum insurance coverage is \$750 million per year for perils other than earthquake and flood. The maximum flood insurance coverage is \$50 million per occurrence, except there is only \$25 million of coverage in flood zones A and V. The maximum earthquake insurance coverage is \$50 million per occurrence. The amounts of settlements have not exceeded insurance coverage for each of the three past fiscal years.

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, 2012, and June 30, 2011, are presented in the *Tennessee Comprehensive Annual Financial Report*. The CAFR is available on the state's website at www.tn.gov/finance/act/cafr.shtml. 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*

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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, 2012, the Risk Management Fund held \$97.2 million in cash and cash equivalents designated for payment of claims. At June 30, 2011, the Risk Management Fund held \$107.6 million in cash and cash equivalents designated for payment of claims.

At June 30, 2012, the scheduled coverage for the college was \$112,843,700.00 for buildings and \$38,431,600.00 for contents. At June 30, 2011, the scheduled coverage for the college was \$115,109,000.00 for buildings and \$35,679,500.00 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, including the 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 13. COMMITMENTS AND CONTINGENCIES

Sick Leave

The college records the cost of sick leave when paid. The dollar amount of unused sick leave was \$10,032,344.69 at June 30, 2012, and \$9,430,246.67 at June 30, 2011.

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 \$386,220.64 and for personal property were \$132,177.00 for the year ended June 30, 2012. The amounts for the year ended June 30, 2011, were \$393,590.74 and \$166,784.96. All operating leases are cancelable at the lessee's option.

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Construction in Progress

At June 30, 2012, outstanding commitments under construction contracts totaled \$295,273.09 for the Olan Mills Building project, the Envelope project, the Master Plan Update project, the Sequatchie Valley Roof Replacement project, the ADA Adaptions project, and the Chemistry Lab Updates project, of which \$28,678.82 will be funded by future state capital outlay appropriations.

Litigation

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

NOTE 14. NATURAL CLASSIFICATIONS WITH FUNCTIONAL CLASSIFICATIONS

The college's operating expenses for the year ended June 30, 2012, are as follows:

| <u>Functional Classification</u> | <u>Natural Classification</u> | | | | | <u>Total</u> |
|----------------------------------|-------------------------------|-------------------------------|-------------------------------|-------------------------------|------------------------------|-------------------------------|
| | <u>Salaries</u> | <u>Benefits</u> | <u>Other Operating</u> | <u>Scholarships</u> | <u>Depreciation</u> | |
| Instruction | \$22,509,514.03 | \$6,855,749.32 | \$10,791,235.48 | \$ 119,783.02 | \$ - | \$40,276,281.85 |
| Public service | 453,485.31 | 151,224.80 | 204,768.40 | 127,496.18 | - | 936,974.69 |
| Academic support | 3,697,347.00 | 1,517,712.39 | (204,724.96) | 41,818.25 | - | 5,052,152.68 |
| Student services | 3,758,169.93 | 1,451,746.76 | 1,642,113.18 | 410,333.51 | - | 7,262,363.38 |
| Institutional support | 4,716,962.82 | 1,786,140.11 | 2,135,632.88 | 11,363.37 | - | 8,650,099.18 |
| Operation & maintenance | 1,449,974.40 | 696,565.06 | 4,663,517.19 | 8,827.76 | - | 6,818,884.41 |
| Scholarships & fellowships | 187,521.57 | 4,978.54 | 450.00 | 18,725,750.17 | - | 18,918,700.28 |
| Auxiliary | 239,188.34 | 109,480.11 | 421,223.55 | 444.00 | - | 770,336.00 |
| Depreciation | - | - | - | - | 3,132,757.82 | 3,132,757.82 |
| Total | <u>\$37,012,163.40</u> | <u>\$12,573,597.09</u> | <u>\$19,654,215.72</u> | <u>\$19,445,816.26</u> | <u>\$3,132,757.82</u> | <u>\$91,818,550.29</u> |

The college's operating expenses for the year ended June 30, 2011, are as follows:

| <u>Functional Classification</u> | <u>Natural Classification</u> | | | | | <u>Total</u> |
|----------------------------------|-------------------------------|-----------------|------------------------|---------------------|---------------------|-----------------|
| | <u>Salaries</u> | <u>Benefits</u> | <u>Other Operating</u> | <u>Scholarships</u> | <u>Depreciation</u> | |
| Instruction | \$21,016,401.94 | \$6,639,692.23 | \$9,048,331.63 | \$ 90,212.05 | \$ - | \$36,794,637.85 |
| Public service | 451,745.38 | 173,306.77 | 196,356.67 | 274,047.45 | - | 1,095,456.27 |
| Academic support | 3,431,508.22 | 1,454,241.77 | (408,710.00) | 14,989.00 | - | 4,492,028.99 |
| Student services | 3,518,931.76 | 1,380,128.97 | 1,982,061.59 | 370,450.53 | - | 7,251,572.85 |
| Institutional support | 4,260,905.99 | 1,617,757.74 | 2,380,439.15 | 11,871.75 | - | 8,270,974.63 |

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| | | | | | | |
|----------------------------|------------------------|------------------------|------------------------|------------------------|-----------------------|------------------------|
| Operation & maintenance | 1,346,125.67 | 690,893.34 | 5,470,964.30 | 9,037.32 | - | 7,517,020.63 |
| Scholarships & fellowships | 237,635.52 | 8,615.78 | - | 20,542,505.36 | - | 20,788,756.66 |
| Auxiliary | 225,805.86 | 111,151.91 | 344,720.15 | 1,618.75 | - | 683,296.67 |
| Depreciation | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>2,821,110.44</u> | <u>2,821,110.44</u> |
| Total | <u>\$34,489,060.34</u> | <u>\$12,075,788.51</u> | <u>\$19,014,163.49</u> | <u>\$21,314,732.21</u> | <u>\$2,821,110.44</u> | <u>\$89,714,854.99</u> |

Expenses initially incurred by the academic support function as a result of providing internal services to the other functional classifications were allocated to the other functional areas by reducing the academic support function's operating expenses by the total amount of salaries, benefits, and operating expenses incurred in the provision of these services, and allocating this amount to the other functional areas' operating expenses on the basis of usage. As a result of this process, expenses totaling \$2,094,271.74 for the year ended June 30, 2012, and \$2,026,315.97 for the year ended June 30, 2011, were reallocated from academic support to the other functional areas and caused academic support operating expenses to appear as a negative amount in the schedule above.

NOTE 15. ON-BEHALF PAYMENTS

During the year ended June 30, 2012, the State of Tennessee made payments of \$23,880.87 on behalf of the college for retirees participating in the Medicare Supplement Plan. The amount for the year ended June 30, 2011, was \$17,810.00. The Medicare Supplement Plan is a postemployment benefit healthcare plan and is discussed further in Note 11. The plan is reported in the *Tennessee Comprehensive Annual Financial Report*. That report is available on the state's website at www.tn.gov/finance/act/cafr.shtml.

NOTE 16. COMPONENT UNIT

The Chattanooga State Technical Community College Foundation is a legally separate, tax-exempt organization supporting Chattanooga State 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 17-member board of the foundation is self-perpetuating and consists of friends of the college. Although the college does not control the timing or amount of receipts from the foundation, the majority of resources, or income thereon, that the foundation holds

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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. 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 adjustments, 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, 2012, the foundation made distributions of \$114,498.47 to or on behalf of the college for both restricted and unrestricted purposes. During the year ended June 30, 2011, the foundation made distributions of \$283,813.28 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, the college's Executive Vice President for Business and Finance, Chattanooga State Community College, 4501 Amnicola Highway, Chattanooga, TN 37406.

Fair Value Measurements

The foundation reports certain assets at fair value. Fair value has been determined using quoted prices in active markets for identical assets that are accessible at the measurement date (Level 1), inputs other than quoted market prices included in Level 1 that are directly or indirectly observable for the asset (Level 2), or significant unobservable inputs (Level 3). The following tables categorize the recurring fair value measurements for assets at June 30, 2012, and at June 30, 2011.

| | Total Fair Value at <u>June 30, 2012</u> | Quoted Prices <u>Level 1</u> | Significant Other Inputs <u>Level 2</u> | Significant Unobservable Inputs <u>Level 3</u> |
|--------------------|---|---------------------------------|---|---|
| Assets: | | | | |
| Cash equivalents | \$ 137,957.57 | \$ 137,957.57 | \$ - | \$ - |
| Investments | 4,503,595.34 | 3,375,909.34 | - | 1,127,686.00 |
| Pledges receivable | <u>956,743.94</u> | <u>-</u> | <u>-</u> | <u>956,743.94</u> |
| Total assets | <u>\$5,598,296.85</u> | <u>\$3,513,866.91</u> | <u>\$ -</u> | <u>\$2,084,429.94</u> |

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| | Total Fair Value at June 30, 2011 | Quoted Prices Level 1 | Significant Other Inputs Level 2 | Significant Unobservable Inputs Level 3 |
|--------------------|--------------------------------------|--------------------------|--|--|
| Assets: | | | | |
| Cash equivalents | \$ 171,783.92 | \$ 171,783.92 | \$ - | \$ - |
| Investments | 4,649,342.85 | 3,550,403.85 | - | 1,098,939.00 |
| Pledges receivable | <u>1,159,637.21</u> | <u>-</u> | <u>-</u> | <u>1,159,637.21</u> |
| Total assets | <u>\$5,980,763.98</u> | <u>\$3,722,187.77</u> | <u>\$ -</u> | <u>\$2,258,576.21</u> |

The following table reconciles beginning and ending balances of all assets valued using Level 3 inputs.

| <u>At June 30, 2012</u> | Beginning Balance | Total Gains/(Losses), Realized and Unrealized | Other | Ending Balance |
|-------------------------|-----------------------|--|-----------------------|-----------------------|
| Assets: | | | | |
| Investments | \$1,098,939.00 | \$28,747.00 | \$ - | \$1,127,686.00 |
| Pledges receivable | <u>1,159,637.21</u> | <u>-</u> | <u>(202,893.27)</u> | <u>956,743.94</u> |
| Total assets | <u>\$2,258,576.21</u> | <u>\$28,747.00</u> | <u>\$(202,893.27)</u> | <u>\$2,084,429.94</u> |

| <u>At June 30, 2011</u> | Beginning Balance | Total Gains/(Losses), Realized and Unrealized | Other | Ending Balance |
|-------------------------|-----------------------|--|----------------------|-----------------------|
| Assets: | | | | |
| Investments | \$ 947,847.00 | \$151,092.00 | \$ - | \$1,098,939.00 |
| Pledges receivable | <u>1,240,529.76</u> | <u>-</u> | <u>(80,892.55)</u> | <u>1,159,637.21</u> |
| Total assets | <u>\$2,188,376.76</u> | <u>\$151,092.00</u> | <u>\$(80,892.55)</u> | <u>\$2,258,576.21</u> |

All gains and losses, both realized and unrealized, have been reported on the statement of revenues, expenses, and changes in net assets as investment income. Of this total, \$(28,168.00) is attributable to the change in unrealized gains or losses relating to those assets still held at June 30, 2012, and \$161,674.00 is attributable to the change in unrealized gains or losses relating to those assets still held at June 30, 2011.

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Chattanooga State Community College
Notes to the Financial Statements (Cont.)
June 30, 2012, and June 30, 2011**

Cash and Cash Equivalents

Cash and cash equivalents consist of demand deposit accounts and money market funds. The bank balances of deposits at June 30, 2012, were entirely insured. The bank balances of deposits at June 30, 2011, were entirely insured.

Investments

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

Investments held at June 30, 2012, were as follows:

| | <u>Cost</u> | <u>Fair Value</u> |
|---|---------------------------|---------------------------|
| U.S. treasury obligations | \$ 59,507.57 | \$ 60,920.05 |
| U.S. agency obligations | 42,517.04 | 41,895.15 |
| Corporate stock | 1,074,963.85 | 1,108,455.70 |
| Corporate bonds | 162,941.93 | 165,992.75 |
| Mutual bond funds | 803,682.42 | 842,115.24 |
| Mutual equity funds | 1,235,489.13 | 1,156,530.45 |
| Investment as limited partner in hedge fund | <u>931,838.00</u> | <u>1,127,686.00</u> |
| Total investments | <u>\$4,310,939.94</u> | <u>\$4,503,595.34</u> |

Investments held at June 30, 2011, were as follows:

| | <u>Cost</u> | <u>Fair Value</u> |
|---|---------------------------|---------------------------|
| U.S. treasury obligations | \$ 51,410.89 | \$ 51,957.45 |
| U.S. agency obligations | 137,394.79 | 137,931.55 |
| Corporate stock | 973,213.13 | 1,061,866.88 |
| Corporate bonds | 256,354.80 | 259,115.86 |
| Mutual bond funds | 765,821.62 | 785,390.91 |
| Mutual equity funds | 1,221,884.98 | 1,254,141.20 |
| Investment as limited partner in hedge fund | <u>874,923.00</u> | <u>1,098,939.00</u> |
| Total investments | <u>\$4,281,003.21</u> | <u>\$4,649,342.85</u> |

**Tennessee Board of Regents
Chattanooga State Community College
Notes to the Financial Statements (Cont.)
June 30, 2012, and June 30, 2011**

Alternative investments - The foundation has an investment in a hedge fund partnership. The estimated fair value of these assets is \$1,127,686.00 at June 30, 2012, and \$1,098,939.00 at June 30, 2011.

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 carrying amount of its alternative investments is a reasonable estimate of fair value as of June 30, 2012, and as of June 30, 2011. 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 investments are made in accordance with the foundation’s investment policy that approves the allocation of funds to various asset classes in order to ensure the proper level of diversification. These investments are designed to enhance diversification and provide reductions in overall portfolio volatility. 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:

| | <u>June 30, 2012</u> | <u>June 30, 2010</u> |
|------------------------------------|----------------------|-----------------------|
| Current pledges | \$ 490,656.55 | \$ 446,124.16 |
| Pledges due in one to five years | <u>477,950.00</u> | <u>758,195.00</u> |
| Subtotal | 968,606.55 | 1,204,319.16 |
| Less discount to net present value | <u>(11,862.61)</u> | <u>(44,681.95)</u> |
| Total pledges receivable, net | <u>\$ 956,743.94</u> | <u>\$1,159,637.21</u> |

At June 30, 2012, and June 30, 2011, the foundation considered all recorded promises to be collectible.

Capital Assets

Capital assets at June 30, 2012, and June 30, 2011, were as follows:

| | <u>June 30, 2012</u> | <u>June 30, 2011</u> |
|------|----------------------|----------------------|
| Land | \$725,603.03 | \$725,603.03 |

**Tennessee Board of Regents
Chattanooga State Community College
Notes to the Financial Statements (Cont.)
June 30, 2012, and June 30, 2011**

Endowments

The Chattanooga State Technical Community College Foundation's endowment consists of approximately 65 individual funds established for a variety of purposes. Its endowment includes donor-restricted endowment funds. As required by GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of relevant law - The Board of Trustees of the Chattanooga State Technical Community College Foundation has interpreted the Uniform Prudent Management of Institutional Funds Act (the Act) as adopted by Tennessee as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Chattanooga State Technical Community College Foundation classifies as permanently restricted net assets (1) the original value of gifts donated to the permanent endowment; (2) the original value of subsequent gifts to the permanent endowment; and (3) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the foundation in a manner consistent with the standard of prudence prescribed by the Act. In accordance with the Act, the foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the fund; (2) the purposes of the foundation and the endowment fund; (3) general economic conditions; (4) the possible effect of inflation or deflation; (5) the expected total return from income and the appreciation of investments; (6) other resources of the foundation; and (7) the investment policies of the foundation.

**Tennessee Board of Regents
Chattanooga State Community College
Notes to the Financial Statements (Cont.)
June 30, 2012, and June 30, 2011**

Composition of Endowment by Net Asset Class
As of June 30, 2012

| | <u>Permanently Restricted</u> | <u>Temporarily Restricted</u> | <u>Unrestricted</u> | <u>Total</u> |
|----------------------------------|-----------------------------------|-----------------------------------|---------------------|-----------------------|
| Donor-restricted endowment funds | <u>\$2,186,457.28</u> | <u>\$665,874.46</u> | <u>\$(2,606.42)</u> | <u>\$2,849,725.32</u> |
| Total funds | <u>\$2,186,457.28</u> | <u>\$665,874.46</u> | <u>\$(2,606.42)</u> | <u>\$2,849,725.32</u> |

Composition of Endowment by Net Asset Class
As of June 30, 2011

| | <u>Permanently Restricted</u> | <u>Temporarily Restricted</u> | <u>Unrestricted</u> | <u>Total</u> |
|----------------------------------|-----------------------------------|-----------------------------------|---------------------|-----------------------|
| Donor-restricted endowment funds | <u>\$2,147,780.91</u> | <u>\$781,459.00</u> | <u>\$ -</u> | <u>\$2,929,239.91</u> |
| Total funds | <u>\$2,147,780.91</u> | <u>\$781,459.00</u> | <u>\$ -</u> | <u>\$2,929,239.91</u> |

Changes in Endowment Net Assets
for the Fiscal Year Ended June 30, 2012

| | <u>Permanently Restricted</u> | <u>Temporarily Restricted</u> | <u>Unrestricted</u> | <u>Total</u> |
|---|-----------------------------------|-----------------------------------|---------------------|-----------------------|
| Endowment net assets, beginning of year | \$2,147,780.91 | \$ 781,459.00 | \$ - | \$2,929,239.91 |
| Investment return: | | | | |
| Investment income | - | 71,321.54 | - | 71,321.54 |
| Net appreciation/depreciation (realized and unrealized) | <u>-</u> | <u>(103,473.98)</u> | <u>(642.75)</u> | <u>(104,116.73)</u> |
| Total investment return | <u>-</u> | <u>(32,152.44)</u> | <u>(642.75)</u> | <u>(32,795.19)</u> |
| Contributions | 38,676.37 | - | - | 38,676.37 |
| Appropriations of endowment assets for expenditure | - | (83,394.50) | - | (83,394.50) |
| Transfers | <u>-</u> | <u>(37.60)</u> | <u>(1,963.67)</u> | <u>(2,001.27)</u> |
| Endowment net assets, end of year | <u>\$2,186,457.28</u> | <u>\$665,874.46</u> | <u>\$(2,606.42)</u> | <u>\$2,849,725.32</u> |

**Tennessee Board of Regents
Chattanooga State Community College
Notes to the Financial Statements (Cont.)
June 30, 2012, and June 30, 2011**

Changes in Endowment Net Assets
for the Fiscal Year Ended June 30, 2011

| | <u>Permanently Restricted</u> | <u>Temporarily Restricted</u> | <u>Total</u> |
|---|-----------------------------------|-----------------------------------|-----------------------|
| Endowment net assets, beginning of year | \$2,033,436.32 | \$210,323.65 | \$2,243,759.97 |
| Investment return: | | | |
| Investment income | - | 73,872.34 | 73,872.34 |
| Net appreciation/depreciation (realized and unrealized) | <u>-</u> | <u>543,289.37</u> | <u>543,289.37</u> |
| Total investment return | <u>-</u> | <u>617,161.71</u> | <u>617,161.71</u> |
| Contributions | 114,048.09 | - | 114,048.09 |
| Appropriations of endowment assets for expenditure | - | (46,342.50) | (46,342.50) |
| Transfers | <u>296.50</u> | <u>316.14</u> | <u>612.64</u> |
| Endowment net assets, end of year | <u>\$2,147,780.91</u> | <u>\$781,459.00</u> | <u>\$2,929,239.91</u> |

Funds with deficiencies - From time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the level that the foundation is required to retain in a fund of perpetual duration. In accordance with accounting principles generally accepted in the United States of America, deficiencies of this nature are reported in unrestricted net assets. These deficiencies resulted from unfavorable market fluctuations that occurred after the investment of permanently restricted contributions and/or continued appropriation for fees and previously approved budgeted expenditures. At June 30, 2012, deficiencies of this nature totaled \$2,606.42.

Return objectives and risk parameters - The foundation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the organization must hold in perpetuity or for a donor-specified period. Under this policy, as approved by the Board of Trustees, the endowment assets are invested in a manner that is intended to maximize long-term returns. The foundation expects its endowment funds, over time, to provide an

**Tennessee Board of Regents
Chattanooga State Community College
Notes to the Financial Statements (Cont.)
June 30, 2012, and June 30, 2011**

average rate of return of approximately 7.8 percent annually. Actual returns in any given year may vary from this amount.

Strategies employed for achieving objectives - To satisfy its long-term rate-of-return objectives, the foundation relies on a total return strategy in which investment returns are achieved through a focus on capital appreciation (realized and unrealized). As such, current income is of secondary importance. The foundation targets an asset allocation that places 1% to 6% in cash equivalents, 20% to 40% in fixed income securities, 60% to 80% in equities, and 0% to 30% in alternative investments.

Spending policy and how the investment objectives relate - The foundation has a policy of appropriating for distribution each year (unless stated otherwise in the applicable donor gift instrument) the lesser of (a) 4.5% of the endowment fund's average value, calculated on fair values determined at least quarterly and averaged over a period of not less than three years through the calendar year-end preceding the fiscal year in which the distribution is planned, or (b) the balance of the expendable portion of the endowment fund as projected for June 30 of the year preceding the fiscal year in which the distribution is planned. In establishing this policy, the foundation considered the long-term expected return on its endowment. Accordingly, over the long-term, the foundation expects the current spending policy to allow its endowment to grow at an average of the annual inflation rate. This is consistent with the foundation's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.

**Tennessee Board of Regents
Chattanooga State 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] |
|--------------------------------|------------------------------------|--|---|------------------------------------|--------------------------|---------------------------|--|
| July 1, 2011 | State Employee Group Plan | \$ - | \$6,041,000.00 | \$6,041,000.00 | 0% | \$25,885,378.48 | 23.3% |
| July 1, 2010 | State Employee Group Plan | \$ - | \$10,075,000.00 | \$10,075,000.00 | 0% | \$24,754,826.82 | 40.7% |
| July 1, 2009 | State Employee Group Plan | \$ - | \$11,159,000.00 | \$11,159,000.00 | 0% | \$22,745,288.23 | 49.1% |

The amount reported here for covered payroll relates to the fiscal year in which the valuations were performed.

**TENNESSEE BOARD OF REGENTS
CHATTANOOGA STATE COMMUNITY COLLEGE
SUPPLEMENTARY INFORMATION
SCHEDULES OF CASH FLOWS - COMPONENT UNIT
FOR THE YEARS ENDED JUNE 30, 2012, AND JUNE 30, 2011**

| | <u>Year Ended June 30, 2012</u> | <u>Year Ended June 30, 2011</u> |
|---|-------------------------------------|-------------------------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Gifts and contributions | \$ 309,222.10 | \$ 192,234.12 |
| Payments to suppliers and vendors | (72,505.78) | (36,605.90) |
| Payments for scholarships and fellowships | (400,200.66) | (254,663.97) |
| Payments to Chattanooga State Community College | (104,427.69) | (279,410.66) |
| Other receipts | <u>2,640.00</u> | <u>2,783.24</u> |
| Net cash used by operating activities | <u>(265,272.03)</u> | <u>(375,663.17)</u> |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES | | |
| Private gifts for endowment purposes | 130,658.45 | 105,472.87 |
| Other noncapital financing receipts | <u>1,546.19</u> | <u>200.00</u> |
| Net cash provided by noncapital financing activities | <u>132,204.64</u> | <u>105,672.87</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Proceeds from sales and maturities of investments | 28,783.82 | 23,023.41 |
| Purchases of investments | (29,936.73) | (119,057.66) |
| Income on investments | <u>92,841.46</u> | <u>93,787.07</u> |
| Net cash provided (used) by investing activities | <u>91,688.55</u> | <u>(2,247.18)</u> |
| Net decrease in cash and cash equivalents | (41,378.84) | (272,237.48) |
| Cash and cash equivalents - beginning of year | <u>244,453.66</u> | <u>516,691.14</u> |
| Cash and cash equivalents - end of year | <u>\$ 203,074.82</u> | <u>\$ 244,453.66</u> |
| Reconciliation of operating loss to net cash used by operating activities: | | |
| Operating loss | \$ (275,963.00) | \$ (378,091.77) |
| Adjustments to reconcile operating loss to net cash used by operating activities: | | |
| Endowment income per spending plan | (108,941.00) | (91,510.00) |
| Change in assets and liabilities: | | |
| Receivables, net | 110,831.19 | 89,714.44 |
| Prepaid/deferred items | (2,000.00) | - |
| Accounts payable | <u>10,800.78</u> | <u>4,224.16</u> |
| Net cash used by operating activities | <u>\$ (265,272.03)</u> | <u>\$ (375,663.17)</u> |
| Noncash investing, capital, or financing transactions | | |
| Unrealized gains (losses) on investments | \$ (175,684.24) | \$ 678,430.22 |