

**TENNESSEE BOARD OF REGENTS
TENNESSEE TECHNOLOGY CENTER AT KNOXVILLE**

**FOR THE YEARS ENDED
JUNE 30, 1995, AND JUNE 30, 1994**

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August 5, 1996

The Honorable Don Sundquist, Governor

and

Members of the General Assembly

State Capitol

Nashville, Tennessee 37243

and

The Honorable Charles E. Smith, Chancellor

Tennessee Board of Regents

1415 Murfreesboro Road, Suite 350

Nashville, Tennessee 37217

and

Mr. Phillip W. Johnston, Director

Tennessee Technology Center at Knoxville

1100 Liberty Street

Knoxville, Tennessee 37919

Ladies and Gentlemen:

Transmitted herewith is the financial and compliance audit of the Tennessee Board of Regents, Tennessee Technology Center at Knoxville (formerly Knoxville State Area Vocational-Technical School), for the years ended June 30, 1995, and June 30, 1994. You will note from the independent auditor's report that a qualified opinion was given on the fairness of the presentation of the financial statements. The center has elected not to record the liability for accrued compensated absences in its financial statements. In our opinion, accrued compensated absences should be recorded to conform with generally accepted accounting principles.

Consideration of the internal control structure and tests of compliance resulted in no audit findings.

Very truly yours,

W. R. Snodgrass

Comptroller of the Treasury

WRS/sdr
96/085

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
Tennessee Technology Center at Knoxville
For the Years Ended June 30, 1995, and June 30, 1994

AUDIT OBJECTIVES

The objectives of the audit were to consider the center's internal control structure; to determine compliance with laws, regulations, contracts, and grants; 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.

OPINION ON THE FINANCIAL STATEMENTS

The opinion on the financial statements is qualified because of the omission of the liability for accrued compensated absences from the financial statements.

"Audit Highlights" is a summary of the audit report. To obtain the complete audit report which contains all findings, recommendations, and management comments, please contact

Comptroller of the Treasury, Division of State Audit
1500 James K. Polk Building, Nashville, TN 37243-0264
(615) 741-3697

AUDIT REPORT
TENNESSEE BOARD OF REGENTS
TENNESSEE TECHNOLOGY CENTER AT KNOXVILLE
FOR THE YEARS ENDED JUNE 30, 1995, AND JUNE 30, 1994

TABLE OF CONTENTS

| | <u>Exhibit</u> | <u>Page</u> |
|--|----------------|-------------|
| <u>INTRODUCTION</u> | | 1 |
| Post-Audit Authority | | 1 |
| Objectives of the Audit | | 1 |
| Scope of the Audit | | 1 |
| <u>BACKGROUND AND ORGANIZATION</u> | | 2 |
| Background | | 2 |
| Organization | | 2 |
| <u>PRIOR AUDIT FINDINGS</u> | | 2 |
| <u>RESULTS OF THE AUDIT</u> | | 3 |
| Audit Conclusions | | 3 |
| Report on the Internal Control Structure Based on an Audit of the Financial Statements Performed in Accordance With <i>Government Auditing Standards</i> | | 4 |
| Compliance Report Based on an Audit of the Financial Statements Performed in Accordance With <i>Government Auditing Standards</i> | | 6 |
| <u>FINANCIAL STATEMENTS</u> | | |
| Independent Auditor's Report | | 8 |
| Balance Sheets | A | 10 |

TABLE OF CONTENTS (CONT.)

| | <u>Exhibit</u> | <u>Page</u> |
|---|----------------|-------------|
| Statement of Changes in Fund Balances for the Year Ended June 30, 1995 | B | 12 |
| Statement of Changes in Fund Balances for the Year Ended June 30, 1994 | C | 13 |
| Statement of Current Funds Revenues, Expenditures, and Other Changes for the Year Ended June 30, 1995 | D | 14 |
| Statement of Current Funds Revenues, Expenditures, and Other Changes for the Year Ended June 30, 1994 | E | 15 |
| Notes to the Financial Statements | | 16 |

TENNESSEE BOARD OF REGENTS
TENNESSEE TECHNOLOGY CENTER AT KNOXVILLE
FOR THE YEARS ENDED JUNE 30, 1995, AND JUNE 30, 1994

INTRODUCTION

POST-AUDIT AUTHORITY

This is a report on the financial and compliance audit of the Tennessee Board of Regents, Tennessee Technology Center at Knoxville. 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 state governmental entity that handles public funds when the Comptroller considers an audit to be necessary or appropriate.

OBJECTIVES OF THE AUDIT

The objectives of the audit were

1. to consider the center’s internal control structure to determine auditing procedures for the purpose of expressing an opinion on the financial statements;
2. to determine compliance with laws, regulations, contracts, and grants;
3. to determine the fairness of the presentation of the financial statements; and
4. to recommend appropriate actions to correct any deficiencies.

SCOPE OF THE AUDIT

The audit was limited to the period July 1, 1993, through June 30, 1995, and was conducted in accordance with generally accepted government auditing standards. Financial statements are presented for the years ended June 30, 1995, and June 30, 1994. The Tennessee Technology Center at Knoxville is an institution of the Tennessee Board of Regents, which is an integral part of state government. As such, the Tennessee Board of Regents has been included as a component unit in the *Tennessee Comprehensive Annual Financial Report*.

BACKGROUND AND ORGANIZATION

BACKGROUND

A statewide system of area vocational-technical schools was established in 1963 by Section 49-11-401, *Tennessee Code Annotated*, to meet the occupational and technical training needs of the citizens of the state, including employees and future employees of existing and prospective industries and businesses in the state. The area vocational-technical schools were governed by the State Board of Education until July 1, 1983. At that time, governance was transferred by Section 49-11-402, *Tennessee Code Annotated*, to the Tennessee Board of Regents. Effective July 1, 1994, the area vocational-technical schools became state technology centers. The Tennessee Technology Center at Knoxville began operation in 1967.

ORGANIZATION

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

PRIOR AUDIT FINDINGS

There were no findings in the prior audit report.

RESULTS OF THE AUDIT

AUDIT CONCLUSIONS

Internal Control Structure

As part of the audit of the center's financial statements for the years ended June 30, 1995, and June 30, 1994, we considered the internal control structure to determine auditing procedures for the purpose of expressing an opinion on the financial statements, as required by generally accepted government auditing standards. The report on the internal control structure is on the following pages. Consideration of the internal control structure disclosed no material weaknesses.

Compliance with Laws and Regulations

With respect to the items tested, the center complied with the provisions of laws, regulations, contracts, and grants that may have a material effect on the center's financial statements. The compliance report follows the report on the internal control structure.

Fairness of Financial Statement Presentation

The center has elected not to accrue the liability for compensated absences. Since this accounting practice is contrary to generally accepted accounting principles, the Division of State Audit has rendered a qualified opinion on the center's financial statements. The independent auditor's report follows the compliance report.

**Report on the Internal Control Structure
Based on an Audit of the Financial Statements
Performed in Accordance With
*Government Auditing Standards***

May 3, 1996

The Honorable W. R. Snodgrass
Comptroller of the Treasury
State Capitol
Nashville, Tennessee 37243

Dear Mr. Snodgrass:

We have audited the financial statements of the Tennessee Technology Center at Knoxville, an institution of the Tennessee Board of Regents, which is a component unit of the State of Tennessee, as of and for the years ended June 30, 1995, and June 30, 1994, and have issued our report thereon dated May 3, 1996. Our report was qualified because the center excluded the liability for accrued compensated absences from the balance sheets.

We conducted our audit in accordance with 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.

The center's management is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected.

The Honorable W. R. Snodgrass
May 3, 1996
Page Two

Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

In planning and performing our audit of the center's financial statements for the years ended June 30, 1995, and June 30, 1994, we obtained an understanding of the internal control structure. With respect to the internal control structure, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control structure. Accordingly, we do not express such an opinion.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a condition in which the design or operation of one or more of the internal control structure elements does not reduce to a relatively low level the risk that errors and irregularities in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control structure and its operation that we consider to be material weaknesses as defined above.

However, we noted certain matters involving the internal control structure and its operation that we have reported to the center's management in a separate letter.

This report is intended for the information of the General Assembly of the State of Tennessee and management. However, this report is a matter of public record, and its distribution is not limited.

Sincerely,

Arthur A. Hayes, Jr., CPA, Director
Division of State Audit

AAH/sdr

**Compliance Report Based on an Audit of the
Financial Statements Performed in Accordance
With *Government Auditing Standards***

May 3, 1996

The Honorable W. R. Snodgrass
Comptroller of the Treasury
State Capitol
Nashville, Tennessee 37243

Dear Mr. Snodgrass:

We have audited the financial statements of the Tennessee Technology Center at Knoxville, an institution of the Tennessee Board of Regents, which is a component unit of the State of Tennessee, as of and for the years ended June 30, 1995, and June 30, 1994, and have issued our report thereon dated May 3, 1996. Our report was qualified because the center excluded the liability for accrued compensated absences from the balance sheets.

We conducted our audit in accordance with 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.

Compliance with laws, regulations, contracts, and grants applicable to the center is the responsibility of the center's management. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the center's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our audit of the financial statements was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance that are required to be reported herein under generally accepted government auditing standards.

The Honorable W. R. Snodgrass
May 3, 1996
Page Two

This report is intended for the information of the General Assembly of the State of Tennessee and management. However, this report is a matter of public record, and its distribution is not limited.

Sincerely,

Arthur A. Hayes, Jr., CPA, Director
Division of State Audit

AAH/sdr

Independent Auditor's Report

May 3, 1996

The Honorable W. R. Snodgrass
Comptroller of the Treasury
State Capitol
Nashville, Tennessee 37243

Dear Mr. Snodgrass:

We have audited the accompanying balance sheets of the Tennessee Technology Center at Knoxville, an institution of the Tennessee Board of Regents, which is a component unit of the State of Tennessee, as of June 30, 1995, and June 30, 1994, and the related statements of changes in fund balances and current funds revenues, expenditures, and other changes for the years then ended. These financial statements are the responsibility of the center's management. Our responsibility is to express an opinion on these financial statements, based on our audit.

We conducted our audit in accordance with 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 opinion.

As described in Note 2 to the financial statements, the center has excluded the liability for accrued compensated absences from the accompanying balance sheets. In our opinion, accrued compensated absences should be included to conform with generally accepted accounting principles.

The Honorable W. R. Snodgrass
May 3, 1996
Page Two

In our opinion, except for the effects of not including the liability for accrued compensated absences in the accompanying balance sheets, as discussed in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of the Tennessee Board of Regents, Tennessee Technology Center at Knoxville, as of June 30, 1995, and June 30, 1994, and the changes in fund balances and the current funds revenues, expenditures, and other changes for the years then ended in conformity with generally accepted accounting principles.

In accordance with generally accepted government auditing standards, we have also issued reports dated May 3, 1996, on our consideration of the center's internal control structure and on its compliance with laws and regulations.

Sincerely,

Arthur A. Hayes, Jr., CPA, Director
Division of State Audit

AAH/sdr

TENNESSEE BOARD OF REGENTS
TENNESSEE TECHNOLOGY CENTER AT KNOXVILLE
BALANCE SHEETS
JUNE 30, 1995, AND JUNE 30, 1994

| | June 30, 1995 | June 30, 1994 | | June 30, 1995 | June 30, 1994 |
|--|----------------------|----------------------|--|----------------------|----------------------|
| <u>ASSETS</u> | | | <u>LIABILITIES AND FUND BALANCES</u> | | |
| Current funds: | | | Current funds: | | |
| Unrestricted: | | | Unrestricted: | | |
| General: | | | General: | | |
| Cash (Notes 3 and 4) | \$ 489,545.96 | \$ 363,913.93 | Liabilities: | | |
| Accounts receivable (net of allowance of \$3,613.97 at June 30, 1995, and \$3,489.54 at June 30, 1994) | 8,290.89 | 2,525.97 | Accounts payable | \$ 169,533.24 | \$ 67,441.74 |
| Prepaid expenses | 300.00 | - | Accrued liabilities | 21,703.22 | 22,684.29 |
| Due from restricted current funds | <u>100,004.77</u> | <u>106,999.34</u> | Other liabilities (Note 11) | <u>144,327.66</u> | <u>121,501.07</u> |
| | | | Total liabilities | <u>335,564.12</u> | <u>211,627.10</u> |
| | | | Fund balances: | | |
| | | | Nondiscretionary allocations: | | |
| | | | Allocation for working capital (Note 5) | 6,906.99 | 822.00 |
| | | | Allocation for encumbrances | 552.00 | - |
| | | | Unallocated | <u>255,118.51</u> | <u>260,990.14</u> |
| | | | Total fund balances | <u>262,577.50</u> | <u>261,812.14</u> |
| Total general | <u>598,141.62</u> | <u>473,439.24</u> | Total general | <u>598,141.62</u> | <u>473,439.24</u> |
| Auxiliary enterprises: | | | Auxiliary enterprises: | | |
| Cash (Notes 3 and 4) | 82,078.47 | 77,418.33 | Liabilities: | | |
| Accounts receivable | <u>25,357.28</u> | <u>25,256.70</u> | Accounts payable | - | 10.54 |
| | | | Fund balances: | | |
| | | | Nondiscretionary allocation: | | |
| | | | Allocation for working capital (Note 5) | 25,357.28 | 25,256.70 |
| | | | Unallocated | <u>82,078.47</u> | <u>77,407.79</u> |
| | | | Total fund balances | <u>107,435.75</u> | <u>102,664.49</u> |
| Total auxiliary enterprises | <u>107,435.75</u> | <u>102,675.03</u> | Total auxiliary enterprises | <u>107,435.75</u> | <u>102,675.03</u> |
| Total unrestricted | <u>705,577.37</u> | <u>576,114.27</u> | Total unrestricted | <u>705,577.37</u> | <u>576,114.27</u> |
| Restricted: | | | Restricted: | | |
| Accounts and grants receivable | <u>136,519.64</u> | <u>114,039.75</u> | Liabilities: | | |
| | | | Accounts payable | 16.03 | - |
| | | | Accrued liabilities | 1,126.51 | 976.21 |
| | | | Due to unrestricted current funds | <u>100,004.77</u> | <u>106,999.34</u> |
| | | | Total liabilities | <u>101,147.31</u> | <u>107,975.55</u> |
| | | | Fund balances | <u>35,372.33</u> | <u>6,064.20</u> |
| Total restricted | <u>136,519.64</u> | <u>114,039.75</u> | Total restricted | <u>136,519.64</u> | <u>114,039.75</u> |
| Total current funds | <u>\$ 842,097.01</u> | <u>\$ 690,154.02</u> | Total current funds | <u>\$ 842,097.01</u> | <u>\$ 690,154.02</u> |
| Loan funds: | | | Loan funds: | | |
| Cash (Notes 3 and 4) | <u>\$ 200.00</u> | <u>\$ 200.00</u> | Fund balances: | | |
| | | | Institutional funds: | | |
| | | | Restricted | <u>\$ 200.00</u> | <u>\$ 200.00</u> |
| Total loan funds | <u>\$ 200.00</u> | <u>\$ 200.00</u> | Total loan funds | <u>\$ 200.00</u> | <u>\$ 200.00</u> |

TENNESSEE BOARD OF REGENTS
TENNESSEE TECHNOLOGY CENTER AT KNOXVILLE
BALANCE SHEETS
JUNE 30, 1995, AND JUNE 30, 1994

| | <u>June 30, 1995</u> | <u>June 30, 1994</u> | | <u>June 30, 1995</u> | <u>June 30, 1994</u> |
|---------------------------------|------------------------|------------------------|--------------------------------------|------------------------|------------------------|
| ASSETS | | | LIABILITIES AND FUND BALANCES | | |
| Plant funds: | | | Plant funds: | | |
| Renewals and replacements: | | | Renewals and replacements: | | |
| Cash (Notes 3 and 4) | \$ <u>133,148.35</u> | \$ <u>126,165.35</u> | Fund balances: | | |
| | | | Unrestricted | \$ <u>133,148.35</u> | \$ <u>126,165.35</u> |
| Total renewals and replacements | <u>133,148.35</u> | <u>126,165.35</u> | Total renewals and replacements | <u>133,148.35</u> | <u>126,165.35</u> |
| Investment in plant (Note 6): | | | Investment in plant: | | |
| Land | 49,600.00 | 49,600.00 | Fund balances: | | |
| Buildings | 1,266,731.65 | 1,266,731.65 | Net investment in plant | <u>2,748,063.56</u> | <u>2,605,217.79</u> |
| Construction in progress | 100,266.03 | - | | | |
| Equipment | <u>1,331,465.88</u> | <u>1,288,886.14</u> | | | |
| Total investment in plant | <u>2,748,063.56</u> | <u>2,605,217.79</u> | Total investment in plant | <u>2,748,063.56</u> | <u>2,605,217.79</u> |
| Total plant funds | \$ <u>2,881,211.91</u> | \$ <u>2,731,383.14</u> | Total plant funds | \$ <u>2,881,211.91</u> | \$ <u>2,731,383.14</u> |
| Agency funds: | | | Agency funds: | | |
| Cash (Notes 3 and 4) | \$ <u>7,858.93</u> | \$ <u>6,331.71</u> | Deposits held in custody for others | \$ <u>7,858.93</u> | \$ <u>6,331.71</u> |
| Total agency funds | \$ <u>7,858.93</u> | \$ <u>6,331.71</u> | Total agency funds | \$ <u>7,858.93</u> | \$ <u>6,331.71</u> |

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

TENNESSEE BOARD OF REGENTS
TENNESSEE TECHNOLOGY CENTER AT KNOXVILLE
STATEMENT OF CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30,1995

| | <u>Current Funds</u> | | | <u>Plant Funds</u> | | |
|--|----------------------|---------------------|-------------------|--------------------|----------------------------------|----------------------------|
| | <u>Unrestricted</u> | <u>Restricted</u> | <u>Loan Funds</u> | <u>Unexpended</u> | <u>Renewals and Replacements</u> | <u>Investment In Plant</u> |
| <u>REVENUES AND OTHER ADDITIONS</u> | | | | | | |
| Unrestricted current fund revenues | \$ 2,229,652.35 | \$ - | \$ - | \$ - | \$ - | - |
| Auxiliary enterprise revenues | 24,771.26 | - | - | - | - | - |
| State appropriations | - | - | - | 100,266.03 | - | - |
| Federal grants and contracts | - | 767,814.33 | - | - | - | - |
| Private gifts, grants, and contracts | - | 23,114.10 | - | - | - | - |
| Investment income | - | - | - | - | 6,983.00 | - |
| Expended for plant facilities (including \$42,579.74 charged to current fund expenditures) | - | - | - | - | - | 142,845.77 |
| Total revenues and other additions | <u>2,254,423.61</u> | <u>790,928.43</u> | <u>-</u> | <u>100,266.03</u> | <u>6,983.00</u> | <u>142,845.77</u> |
| <u>EXPENDITURES AND OTHER DEDUCTIONS</u> | | | | | | |
| Educational and general expenditures | 2,248,886.99 | 738,940.27 | - | - | - | - |
| Indirect costs recovered | - | 22,680.03 | - | - | - | - |
| Expended for plant facilities | - | - | - | 100,266.03 | - | - |
| Total expenditures and other deductions | <u>2,248,886.99</u> | <u>761,620.30</u> | <u>-</u> | <u>100,266.03</u> | <u>-</u> | <u>-</u> |
| Net increase for the year | 5,536.62 | 29,308.13 | - | - | 6,983.00 | 142,845.77 |
| Fund balances at beginning of year | <u>364,476.63</u> | <u>6,064.20</u> | <u>200.00</u> | <u>-</u> | <u>126,165.35</u> | <u>2,605,217.79</u> |
| Fund balances at end of year | <u>\$ 370,013.25</u> | <u>\$ 35,372.33</u> | <u>\$ 200.00</u> | <u>\$ -</u> | <u>\$ 133,148.35</u> | <u>\$ 2,748,063.56</u> |

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

TENNESSEE BOARD OF REGENTS
 TENNESSEE TECHNOLOGY CENTER AT KNOXVILLE
 STATEMENT OF CHANGES IN FUND BALANCES
 FOR THE YEAR ENDED JUNE 30, 1994

| | Current Funds | | | Plant Funds | | |
|--|---------------------|--------------------|------------|-----------------|---------------------------|---------------------|
| | Unrestricted | Restricted | Loan Funds | Unexpended | Renewals and Replacements | Investment In Plant |
| REVENUES AND OTHER ADDITIONS | | | | | | |
| Unrestricted current fund revenues | \$ 2,192,154.47 | \$ - | \$ - | \$ - | \$ - | \$ - |
| Auxiliary enterprise revenues | 24,514.64 | - | - | - | - | - |
| Federal grants and contracts | - | 784,592.20 | - | - | - | - |
| Private gifts, grants, and contracts | - | 26,150.00 | - | - | - | - |
| Investment income | - | - | - | - | 4,138.42 | - |
| Expended for plant facilities (charged to current fund expenditures) | - | - | - | - | - | 217,301.03 |
| Other (Note 11) | 203,415.93 | - | - | - | - | - |
| Total revenues and other additions | 2,420,085.04 | 810,742.20 | - | - | 4,138.42 | 217,301.03 |
| EXPENDITURES AND OTHER DEDUCTIONS | | | | | | |
| Educational and general expenditures | 2,276,691.75 | 816,015.74 | - | - | - | - |
| Indirect costs recovered | - | 48,729.66 | - | - | - | - |
| Contribution to extraordinary maintenance pool | - | - | - | 8,509.00 | - | - |
| Disposal of plant assets | - | - | - | - | - | 148,957.65 |
| Other | 3,920.00 | - | - | - | - | - |
| Total expenditures and other deductions | 2,280,611.75 | 864,745.40 | - | 8,509.00 | - | 148,957.65 |
| TRANSFERS BETWEEN FUNDS - ADDITIONS (DEDUCTIONS) | | | | | | |
| Nonmandatory: | | | | | | |
| Unexpended plant | (8,509.00) | - | - | 8,509.00 | - | - |
| Total transfers | (8,509.00) | - | - | 8,509.00 | - | - |
| Net increase (decrease) for the year | 130,964.29 | (54,003.20) | - | - | 4,138.42 | 68,343.38 |
| Fund balances at beginning of year | 233,512.34 | 60,067.40 | 200.00 | - | 122,026.93 | 2,536,874.41 |
| Fund balances at end of year | \$ 364,476.63 | \$ 6,064.20 | \$ 200.00 | \$ - | \$ 126,165.35 | \$ 2,605,217.79 |

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

TENNESSEE BOARD OF REGENTS
 TENNESSEE TECHNOLOGY CENTER AT KNOXVILLE
 STATEMENT OF CURRENT FUNDS REVENUES, EXPENDITURES, AND OTHER CHANGES
 FOR THE YEAR ENDED JUNE 30, 1995

| | <u>Unrestricted</u> | <u>Restricted</u> | <u>Total</u> |
|--|---------------------|---------------------|---------------------|
| REVENUES | | | |
| Tuition and fees | \$ 213,991.79 | \$ - | \$ 213,991.79 |
| State appropriations | 1,905,500.00 | - | 1,905,500.00 |
| Federal grants and contracts | 20,454.26 | 719,051.94 | 739,506.20 |
| Private gifts, grants, and contracts | 2,225.77 | 19,888.33 | 22,114.10 |
| Sales and services of educational activities | 18,700.50 | - | 18,700.50 |
| Sales and services of auxiliary enterprises | 24,771.26 | - | 24,771.26 |
| Other sources | 68,780.03 | - | 68,780.03 |
| Total current revenues | <u>2,254,423.61</u> | <u>738,940.27</u> | <u>2,993,363.88</u> |
| EXPENDITURES | | | |
| Educational and general expenditures: | | | |
| Instruction | 1,485,362.14 | 286,642.98 | 1,772,005.12 |
| Student services | 208,379.29 | - | 208,379.29 |
| Institutional support | 342,361.44 | - | 342,361.44 |
| Operation and maintenance of plant | 202,871.12 | 4,113.75 | 206,984.87 |
| Scholarships and fellowships | 9,913.00 | 448,183.54 | 458,096.54 |
| Total educational and general expenditures | <u>2,248,886.99</u> | <u>738,940.27</u> | <u>2,987,827.26</u> |
| Total expenditures | <u>2,248,886.99</u> | <u>738,940.27</u> | <u>2,987,827.26</u> |
| OTHER ADDITIONS | | | |
| (DEDUCTIONS) | | | |
| Excess of restricted receipts over transfers to revenues | - | 51,988.16 | 51,988.16 |
| Indirect costs recovered | - | (22,680.03) | (22,680.03) |
| Net increase in fund balances | <u>\$ 5,536.62</u> | <u>\$ 29,308.13</u> | <u>\$ 34,844.75</u> |

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

TENNESSEE BOARD OF REGENTS
TENNESSEE TECHNOLOGY CENTER AT KNOXVILLE
STATEMENT OF CURRENT FUNDS REVENUES, EXPENDITURES, AND OTHER CHANGES
FOR THE YEAR ENDED JUNE 30, 1994

| | <u>Unrestricted</u> | <u>Restricted</u> | <u>Total</u> |
|--|----------------------|-----------------------|---------------------|
| REVENUES | | | |
| Tuition and fees | \$ 177,379.60 | \$ - | \$ 177,379.60 |
| State appropriations | 1,881,700.00 | - | 1,881,700.00 |
| Federal grants and contracts | 43,420.74 | 794,975.96 | 838,396.70 |
| State grants and contracts | 23,009.00 | - | 23,009.00 |
| Private gifts, grants, and contracts | 5,308.92 | 21,039.78 | 26,348.70 |
| Sales and services of educational activities | 19,965.00 | - | 19,965.00 |
| Sales and services of auxiliary enterprises | 24,514.64 | - | 24,514.64 |
| Other sources | 41,371.21 | - | 41,371.21 |
| Total current revenues | <u>2,216,669.11</u> | <u>816,015.74</u> | <u>3,032,684.85</u> |
| EXPENDITURES AND TRANSFERS | | | |
| Educational and general expenditures: | | | |
| Instruction | 1,464,808.39 | 386,976.09 | 1,851,784.48 |
| Student services | 194,318.05 | 3,056.25 | 197,374.30 |
| Institutional support | 303,342.67 | - | 303,342.67 |
| Operation and maintenance of plant | 303,490.14 | 5,133.75 | 308,623.89 |
| Scholarships and fellowships | 10,732.50 | 420,849.65 | 431,582.15 |
| Total educational and general expenditures | <u>2,276,691.75</u> | <u>816,015.74</u> | <u>3,092,707.49</u> |
| Nonmandatory transfers: | | | |
| Unexpended plant | 8,509.00 | - | 8,509.00 |
| Total educational and general expenditures and transfers | <u>2,285,200.75</u> | <u>816,015.74</u> | <u>3,101,216.49</u> |
| Total expenditures and transfers | <u>2,285,200.75</u> | <u>816,015.74</u> | <u>3,101,216.49</u> |
| OTHER ADDITIONS | | | |
| (DEDUCTIONS) | | | |
| Excess of transfers to revenues over restricted receipts | - | (5,273.54) | (5,273.54) |
| Indirect costs recovered | - | (48,729.66) | (48,729.66) |
| Other additions | 203,415.93 | - | 203,415.93 |
| Other deductions | (3,920.00) | - | (3,920.00) |
| Net increase (decrease) in fund balances | <u>\$ 130,964.29</u> | <u>\$ (54,003.20)</u> | <u>\$ 76,961.09</u> |

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

TENNESSEE BOARD OF REGENTS
TENNESSEE TECHNOLOGY CENTER AT KNOXVILLE
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 1995, AND JUNE 30, 1994

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

REPORTING ENTITY

The center is 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 its governing body and provides financial support; the system is discretely presented in the *Tennessee Comprehensive Annual Financial Report*.

BASIS OF PRESENTATION

The financial statements of the center have been prepared in conformity with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board. The center uses the AICPA College Guide model for accounting and financial reporting.

BASIS OF ACCOUNTING

The financial statements of the center have been prepared on the accrual basis, except that depreciation on plant assets is not recorded and revenues and expenditures of an academic term encompassing more than one fiscal year are reported solely in the fiscal year in which the term is predominantly conducted. All restricted resources are recorded as additions to the fund balances of the appropriate fund groups. Restricted current resources are then recorded as revenues during the period in which they are expended. The statement of current funds revenues, expenditures, and other changes is a statement of financial activities of current funds related to the current reporting period. It does not purport to present the results of operations or the net income or loss for the period, as would a statement of income or a statement of revenues and expenses.

To the extent that current funds are used to finance plant assets, the funds are accounted for as expenditures, for normal replacement of movable equipment, and nonmandatory transfers, for all other cases.

TENNESSEE BOARD OF REGENTS
TENNESSEE TECHNOLOGY CENTER AT KNOXVILLE
NOTES TO THE FINANCIAL STATEMENTS (CONT.)
JUNE 30, 1995, AND JUNE 30, 1994

FUND ACCOUNTING

To ensure observance of limitations and restrictions placed on the use of the resources available, the center maintains accounts in accordance with the principles of fund accounting. With this procedure, resources for various purposes are classified for accounting and reporting purposes into funds for specified activities or objectives. Separate accounts are maintained for each fund; however, in the accompanying financial statements, funds with similar characteristics have been combined into fund groups. Accordingly, all financial transactions have been recorded and reported by fund group.

Within each fund group, fund balances restricted by outside sources are so indicated and are distinguished from unrestricted funds which are allocated to specific purposes by the governing board. Externally restricted funds may be used only in accordance with the purposes established by the source of such funds and contrast with unrestricted funds over which the governing board retains full control to use in achieving any of its institutional purposes.

All gains and losses arising from the sale, collection, or other disposition of investments and other noncash assets are accounted for in the fund that owned such assets. Ordinary income derived from investments, receivables, and the like is accounted for in the fund owning such assets.

All other unrestricted revenue is accounted for in the unrestricted current funds. Restricted gifts, grants, appropriations, and other restricted resources are accounted for in the appropriate restricted funds. Restricted current funds are reported as revenues and expenditures when expended for current operating purposes.

Current Funds

Unrestricted current funds consist of those funds over which the center retains full control for use in achieving any of its authorized institutional purposes. Auxiliary enterprises activities are included in unrestricted current funds and include the bookstore and food services activities. Restricted current funds are externally restricted and may be used only in accordance with the purposes established by their source.

TENNESSEE BOARD OF REGENTS
TENNESSEE TECHNOLOGY CENTER AT KNOXVILLE
NOTES TO THE FINANCIAL STATEMENTS (CONT.)
JUNE 30, 1995, AND JUNE 30, 1994

Loan Funds

Loan funds consist of resources made available for student loans.

Plant Funds

The plant funds group consists of (1) funds set aside for the acquisition of physical properties for institutional purposes, (2) funds set aside for the renewal and replacement of institutional properties, and (3) funds expended for, and thus invested in, institutional properties.

Agency Funds

In handling these funds, the center acts solely as an agent; consequently, transactions of these funds do not affect the center's operating statements.

NOTE 2. COMPENSATED ABSENCES

The center's employees accrue annual leave at varying rates, depending on length of service or classification. Generally accepted accounting principles require that certain accrued compensated absences, the effects of which are material to the financial statements, be recorded as earned. The center's policy is to record such benefits as paid. The recognition of this liability for accrued compensated absences and related benefits would have increased the liabilities of the unrestricted current fund by \$136,148.74 at June 30, 1995, and \$143,049.33 at June 30, 1994, decreased the unrestricted current fund expenditures by \$6,900.59 for the year ended June 30, 1995, and increased the unrestricted current fund expenditures by \$9,987.46 for the year ended June 30, 1994.

NOTE 3. CASH

This classification includes demand deposits and petty cash on hand. At June 30, 1995, cash consisted of \$451,706.54 in bank accounts, \$200.00 of petty cash on hand, and \$260,925.17 in the State of Tennessee Local Government Investment Pool administered by the State Treasurer. At June 30, 1994, cash consisted of

TENNESSEE BOARD OF REGENTS
TENNESSEE TECHNOLOGY CENTER AT KNOXVILLE
NOTES TO THE FINANCIAL STATEMENTS (CONT.)
JUNE 30, 1995, AND JUNE 30, 1994

\$211,055.54 in bank accounts, \$200.00 of petty cash on hand, and \$362,773.78 in the State of Tennessee Local Government Investment Pool.

NOTE 4. DEPOSITS

The laws of the State of Tennessee require that collateral be pledged to secure all uninsured deposits. Tennessee Board of Regents policies require that the market value of collateral pledged equal 105% of the uninsured deposits. The pledged securities are included with securities pledged for funds on deposit for Pellissippi State Technical Community College, the center's lead institution. The bank balance of the operating account maintained by the center was entirely insured.

NOTE 5. ALLOCATION FOR WORKING CAPITAL

The unrestricted fund balance is allocated for the amount of working capital. "Working capital" is defined as the total of all petty cash, accounts receivable, inventories, and prepaid expenses in the unrestricted fund at the balance sheet date, except for student receivables credited to deferred revenue, accrued interest, and amounts due on federal letters of credit, less the accrued benefits on accrued faculty salaries.

NOTE 6. PLANT ASSETS

The physical plant and equipment are stated at cost at date of purchase or at fair value at date of donation. Depreciation on the physical plant and equipment is not recorded.

NOTE 7. DEFINED BENEFIT PENSION PLAN

All the center's regular employees may participate in a cost-sharing multiple-employer pension plan administered by the Tennessee Consolidated Retirement System (TCRS). The payroll for employees covered by the TCRS plan was \$1,335,376.10 for the year ended June 30, 1995, and \$1,263,202.44 for the year ended June 30, 1994. The center's total payroll was \$1,410,497.24 for the year

TENNESSEE BOARD OF REGENTS
TENNESSEE TECHNOLOGY CENTER AT KNOXVILLE
NOTES TO THE FINANCIAL STATEMENTS (CONT.)
JUNE 30, 1995, AND JUNE 30, 1994

ended June 30, 1995, and \$1,351,135.85 for the year ended June 30, 1994. TCRS members may retire at age 60 with five years of service or at any age with 30 years' service. Early retirement with reduced benefits is available to vested members who are at least age 55 or have 25 years of service. TCRS benefits are based on the number of years of creditable service and highest average salary for five consecutive years. Members attain vesting rights after five years of service. The TCRS also provides death and disability benefits. Benefits are established by state statute.

The center is required by state statute, effective July 1, 1981, to contribute the amounts necessary to pay benefits when due. Prior to that date, the employee bore a portion of the contribution. Members with contributory service who leave the center are eligible for a refund of their contributions, along with contributions made after July 1, 1981, on the employees' behalf by the center. The actuarially required contribution made for the year ended June 30, 1995, was \$84,508.43, which represented 6.33% of the covered payroll, and for the year ended June 30, 1994, was \$84,542.22, which represented 6.69% of the covered payroll.

The pension benefit obligation is a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases and step-rate benefits, estimated to be payable in the future as a result of employee service to date. The measure, which is the actuarial present value of credited projected benefits, is intended to help users assess the funding status of the TCRS on a going-concern basis, assess progress in accumulating sufficient assets to pay benefits when due, and make comparisons among public employee retirement systems and among employers. The TCRS does not make separate measurements of assets and pension benefit obligation for individual state employers. Therefore, the following information is provided for the entire state employee portion of the TCRS. The pension benefit obligation at June 30, 1995, and at June 30, 1994, determined through an actuarial valuation performed as of June 30, 1995, was \$10,697.4 million and through an actuarial update performed as of June 30, 1994, was \$9,344.5 million. The net assets, at cost or amortized cost, available for benefits were \$11,566.8 million at June 30, 1995, and \$10,772.4 million at June 30, 1994, leaving assets in excess of pension benefit obligation of \$869.4 million at June 30, 1995, and \$1,427.9 million at June 30, 1994. The market value of the net assets available for benefits was \$12,552.1 million at June 30, 1995, and \$11,106.5 million at June 30, 1994. The center's 1995 and 1994 contributions represented .03% of total contributions required of all participating entities.

TENNESSEE BOARD OF REGENTS
TENNESSEE TECHNOLOGY CENTER AT KNOXVILLE
NOTES TO THE FINANCIAL STATEMENTS (CONT.)
JUNE 30, 1995, AND JUNE 30, 1994

Ten-year historical trend information showing the progress of the TCRS in accumulating sufficient assets to pay benefits when due is presented in the June 30, 1995, *Tennessee Consolidated Retirement System Comprehensive Annual Financial Report*.

NOTE 8. OTHER POST-EMPLOYMENT BENEFITS

The State of Tennessee administers a group health insurance program which provides post-employment health insurance benefits to eligible center retirees. This benefit is provided and administered by the State of Tennessee. The center assumes no liability for retiree health care programs. Information related to this plan is available at the statewide level in the *Tennessee Comprehensive Annual Financial Report*.

NOTE 9. INSURANCE-RELATED ACTIVITIES

The state purchases commercial insurance for real property losses above \$5 million per year and surety bond coverage on the state's officials and employees. In the past three fiscal years, the state has not had any claims filed with the commercial insurer. A designation for casualty losses in the amount of \$5 million has been established in the state's general fund to provide for any property losses other than the commercial insurance coverage.

At June 30, 1995, the scheduled coverage for the center was \$4,070,300 for buildings and \$1,788,300 for contents. At June 30, 1994, the scheduled coverage was \$4,070,300 for buildings and \$1,314,000 for contents.

The state has set aside assets for claim settlement in an internal service fund, the Claims Award Fund. This fund services all claims for risk of loss to which the state is exposed, including general liability, automotive liability, professional malpractice, and workers' compensation. The center participates in the Claims Award Fund. The fund allocates the cost of providing claims servicing and claims payment by charging a premium to the center based on a percentage of the center'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. Since the center participates in the Claims Award Fund, it is subject to the liability limitations under the provisions of the Tennessee Claims Commission Act, *Tennessee Code*

TENNESSEE BOARD OF REGENTS
TENNESSEE TECHNOLOGY CENTER AT KNOXVILLE
NOTES TO THE FINANCIAL STATEMENTS (CONT.)
JUNE 30, 1995, AND JUNE 30, 1994

Annotated, Section 9-8-101 et seq. Liability for negligence of the center 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 Claims Award Fund.

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 center 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 center based on estimates of the ultimate cost of claims that have been reported but not settled and of claims that have been incurred but not reported. Employees and providers have 13 months to file medical claims.

NOTE 10. COMMITMENTS AND CONTINGENCIES

Sick Leave - The center records the cost of sick leave when paid. Generally, since sick leave (earned one day per month with unlimited accumulation) is paid only when an employee dies or is absent because of illness, injury, or related family death, there is no liability for sick leave at June 30. The dollar amount of unused sick leave was \$501,604.03 at June 30, 1995, and \$462,334.65 at June 30, 1994.

Operating Lease - The center has entered into an operating lease for a building. This lease will probably continue to be required. Expenditures under the operating lease for real property were \$120,000.00 for June 30, 1995, and June 30, 1994. The following is a schedule by years of future minimum rental payments required under the noncancelable operating lease that has a remaining lease term of more than one year at June 30, 1995:

TENNESSEE BOARD OF REGENTS
 TENNESSEE TECHNOLOGY CENTER AT KNOXVILLE
 NOTES TO THE FINANCIAL STATEMENTS (CONT.)
 JUNE 30, 1995, AND JUNE 30, 1994

| Year Ending <u>June 30</u> | | |
|---------------------------------|----|--------------------------|
| 1996 | \$ | 120,000.00 |
| 1997 | | 120,000.00 |
| 1998 | | 120,000.00 |
| 1999 | | 120,000.00 |
| 2000 | | 120,000.00 |
| Later years | | <u>120,000.00</u> |
| Total minimum payments required | \$ | <u><u>720,000.00</u></u> |

NOTE 11. KNOX COUNTY TEACHERS' PENSION CONTRIBUTIONS

Other liabilities on the balance sheet represent the liability for pension contributions on behalf of certain Knox County teachers under contract with Tennessee Technology Center at Knoxville who formerly worked for the now defunct Knoxville school system. Because of litigation between the former Knoxville school system's teachers and Knox County, the exact amount of this liability was not known at June 30, 1993, or in previous years. Therefore, this liability was estimated until June 30, 1994. Because these estimates exceeded the actual liability resulting from the settlement of the lawsuit, an other addition was presented on the statement of changes in fund balances for the year ended June 30, 1994, to adjust the estimated liability to the actual liability.

NOTE 12. RESTATEMENT OF NET INVESTMENT IN PLANT

The July 1, 1993, net investment in plant was increased by \$26,194.00 because the center capitalized equipment that was purchased prior to July 1, 1993, that had been previously omitted in error.