

**TENNESSEE BOARD OF REGENTS
NORTHEAST STATE TECHNICAL COMMUNITY COLLEGE**

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

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June 18, 1997

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

Dr. R. Wade Powers, President
Northeast State Technical Community College
P. O. Box 246
Blountville, Tennessee 37617

Ladies and Gentlemen:

Transmitted herewith is the financial and compliance audit of the Tennessee Board of Regents, Northeast State Technical Community College, 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 college 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 disclosed certain deficiencies, which are detailed in the Results of the Audit section of this report. The college's administration has responded to the audit findings; the responses are included following each finding. The Division of State Audit will follow up the audit to examine the application of the procedures instituted because of the audit findings.

Very truly yours,

W. R. Snodgrass
Comptroller of the Treasury

State of Tennessee

Audit Highlights

Comptroller of the Treasury

Division of State Audit

Financial and Compliance Audit
Northeast State Technical Community College
For the Years Ended June 30, 1995, and June 30, 1994

AUDIT OBJECTIVES

The objectives of the audit were to consider the college'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.

COMPLIANCE FINDINGS

Enrollment Changes Not Reported to Stafford Loan Program Lenders Promptly*

The records of 24 Stafford Loan recipients were tested. Fourteen of the recipients had changes in enrollment status that were not reported to the lenders promptly as required by federal regulations (page 7).

Inadequate Title IV Refund Policy

The college's refund policy does not comply with Title IV requirements because it does not include procedures for calculating pro-rata refunds for first-time students (page 9).

* This finding is repeated from the prior audit.

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
NORTHEAST STATE TECHNICAL COMMUNITY COLLEGE
FOR THE YEARS ENDED JUNE 30, 1995, AND JUNE 30, 1994

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

Section 8-4-109, *Tennessee Code Annotated*, authorizes the Comptroller of the Treasury to audit any books and records of any 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 college’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. Northeast State Technical Community College is an institution of the Tennessee Board of Regents, which is an integral part of state government. As such, the Tennessee Board of Regents has been included as a component unit in the *Tennessee Comprehensive Annual Financial Report*.

BACKGROUND AND ORGANIZATION

BACKGROUND

In March 1963, the General Assembly passed House Bill 633 authorizing the establishment of a statewide system of area vocational-technical schools and regional technical schools. Tri-Cities State Area Vocational School began operations in 1966 and became a technical institute on July 1, 1978.

Until July 1, 1983, Tri-Cities State Technical Institute operated under the Tennessee State Board of Vocational Education through the Tennessee Department of Education, Division of Vocational-Technical Education. At that time, the 93rd General Assembly transferred the governance of Tri-Cities State Technical Institute to the State Board of Regents.

Effective July 1, 1990, the General Assembly granted community college status to Tri-Cities State Technical Institute and changed its name to Northeast State Technical Community College. An articulation agreement with four-year institutions was obtained allowing students at Northeast State Technical Community College to transfer credits earned toward a four-year degree. Northeast State Technical Community College also offers two-year, college-level programs to prepare adults for employment as technicians in engineering, physical science, and computer science. These two-year programs lead to an associate of engineering, associate of science, or associate of applied science degree. Also, the institute offers special programs and courses to meet the needs of industry, business, and government.

ORGANIZATION

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

PRIOR AUDIT FINDINGS

Section 8-4-109, *Tennessee Code Annotated*, requires that each state department, agency, or institution report to the Comptroller of the Treasury the action taken to implement the recommendations in the prior audit report. The college filed its report with the Department of Audit on

January 18, 1995. A follow-up of all prior audit findings was conducted as part of the current audit.

REPEATED AUDIT FINDING

The current audit disclosed that the college had not corrected the previous audit finding concerning the reporting of enrollment changes to Stafford loan program lenders. Although the college took steps to improve its reporting procedures, 14 of 24 loan recipients whose files were tested in the current audit had changes in enrollment status that were not reported to the lenders promptly. This finding has not been resolved and is repeated in this report.

RESULTS OF THE AUDIT

AUDIT CONCLUSIONS

Internal Control Structure

As part of the audit of the college'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

The results of our tests disclosed no instances of noncompliance that are required to be reported herein under generally accepted government auditing standards. Immaterial instances of noncompliance, along with recommendations and management's responses, are included in the findings and recommendations. The compliance report follows the findings and recommendations.

Fairness of Financial Statement Presentation

The college 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 college'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***

July 8, 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 Northeast State Technical Community College, 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 July 8, 1996. Our report was qualified because the college 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 college'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. Also, projection of

The Honorable W. R. Snodgrass
July 8, 1996
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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 college'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 college'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

FINDINGS AND RECOMMENDATIONS

IMPROVEMENT IS NEEDED IN THE REPORTING OF ENROLLMENT CHANGES TO STAFFORD LOAN PROGRAM LENDERS

1. FINDING:

As noted in the prior audit, Northeast State Technical Community College does not always notify Stafford Loan Program lenders promptly that student borrowers are no longer enrolled at least half-time. Management concurred with the prior finding and stated that additional staff had been hired to help alleviate the work load caused by enrollment growth and that student loan files would be reviewed every 30 days to ensure prompt notification to the guaranty agency. However, an examination of the files of 24 loan recipients who had been approved for loans for the spring and fall terms 1994 and 1995 revealed that 14 recipients (58.3%) had changes in enrollment status that were not reported to the lenders promptly. Lender notifications were sent from 33 to 80 days after the change in status for 13 of these 14. In one instance, the “School Notice of Loan Guarantee” was not dated; therefore, it could not be determined when the school notified the lender of the student’s change of status. The *Code of Federal Regulations*, Title 34, Part 682.610, states:

A school shall -

- (1) Upon receipt of a student status confirmation report form from the Secretary or a similar student status confirmation report form from any guaranty agency, complete and return that report within 30 days of receipt to the Secretary or the guaranty agency, as appropriate;
- (2) Unless it expects to submit its next student status confirmation report to the Secretary or the guaranty agency within the next 60 days, notify the guaranty agency or lender within 30 days-
 - (i) If it discovers that a Stafford, SLS, or PLUS loan has been made to or on behalf of a student who enrolled at that school, but who has ceased to be enrolled on at least a half-time basis

By not notifying the lender promptly when a student borrower ceases to be enrolled at least half-time, the college delays the start of the repayment process and deprives the lender of the use of funds.

RECOMMENDATION:

The Vice President of Instruction and Student Services, the Dean of Student Services, and the Financial Aid Director should review the measures implemented in response to the prior audit finding and determine why the deficiency persists. The Financial Aid Director should implement a system which adequately identifies loans requiring notification to lenders and track such notification. The information from the system should be regularly monitored to ensure compliance with federal regulations. Instances of noncompliance should be noted and appropriate corrective action taken. The Financial Aid Director should consider automating the process and should consult with appropriate staff regarding the development of an automated system.

MANAGEMENT'S COMMENT:

We concur with the finding and recommendation. A follow-up to the prior audit, performed by Internal Audit in May 1995, showed that due to a lack of training of new personnel and due to a lack of automation of the loan reporting process, the problems had not been resolved. It was recommended by Internal Audit that proper training be provided to the student loan personnel and that the Financial Aid Office work with Computer Services to develop a report to identify loan students with enrollment status changes. In August 1995, another follow-up was performed by Internal Audit which showed that training had been provided and the collection of data for necessary reporting on student loans had been automated. At this time, notification to guarantee agencies was current as required by federal regulations. Since that time, Internal Audit has performed two additional reviews of this area which has shown that reporting has continued to be current according to federal regulations. This process will continue to be monitored each semester by Internal Audit to ensure that compliance with established procedures is being followed by personnel responsible for student loan reporting.

Currently, computer programs that identify Stafford Loan students who have dropped below half-time enrollment either due to failure to enroll for a term, dropping or withdrawing within a term, or graduating, is run weekly. These reports are reviewed by a technical clerk responsible for student loans in the Financial Aid Office. On a weekly basis, the technical clerk notifies the guarantee agencies of any student with an enrollment status change that effects their loan repayment status.

The college has entered into an agreement with the National Student Loan Clearing House to submit reports of all students enrolled. This information will be used to notify guarantee agencies across the country of any changes in enrollment status for students with loans. Currently this is being tested by the Financial Aid Office in coordination with Admissions and Records and Computer Services. Once this process is fully operational, the notification process required for student loans will be fully automated. The anticipated date of full implementation is spring 1998.

TITLE IV REFUND POLICY IS INADEQUATE

2. FINDING:

The financial aid office at Northeast State Technical Community College does not adequately coordinate Title IV student financial aid procedures with the business office to ensure that refunds to financial aid programs and to students are calculated according to federal regulations. As a result, pro rata refunds were not calculated for first-time students.

The school's refund policy does not comply with Title IV requirements because it does not require calculations of pro rata refunds for first-time students. A fair and equitable refund policy would include this calculation. *The Code of Federal Regulations*, Section 34, Part 668.22, Paragraph (b), states:

. . . an institution's refund policy is fair and equitable if the policy provides for a refund of at least the larger of the amount provided under

- (i) The requirements of applicable state law;
- (ii) The specific refund standards established by the institution's nationally recognized accrediting agency. . .
- (iii) The pro rata refund calculation. . .

Paragraph (c) of the same section states:

Pro rata refund means a refund by an institution to a student attending that institution for the first time of not less than that portion of the tuition, fees, room, board, and other charges assessed the student by the institution equal to the portion of the period of enrollment for which the student has been charged that remains on the withdrawal date, rounded to the nearest 10 percent of that period, less any unpaid amount of scheduled cash payment for the period of enrollment for which the student has been charged.

RECOMMENDATION:

The Financial Aid Director should revise the refund policy to comply with federal regulations. The financial aid office needs to work more closely with the business office to ensure that pro rata refunds are calculated for first-time students who receive Title IV aid

and who withdraw prior to the 60 percent point of the student's first term. The Financial Aid Director should consider automating the refund process to avoid the errors made under the current manual process.

MANAGEMENT'S COMMENT:

We concur with the finding and recommendation. Effective summer 1997, a comprehensive refund policy was developed that included both the regular refund policy and the pro rata refund policy as required by federal regulations. This policy will be printed in the financial aid handbook for 1997-1998 and referenced in the college catalog for all students.

A computer program has been developed that identifies first-time Title IV students and their schedules. The program is run weekly for the first nine (9) weeks of the semester and used to monitor the enrollment of these students. Financial aid personnel review this report immediately and when a first-time Title IV student withdraws within 60 percent of the term and a Withdrawal Records Form is prepared and forwarded to the business office for calculation of the proper refund amount. At the end of each semester, computer services personnel run a report that identifies all first time students that received student financial aid funds after grades have been recorded for all students. Financial aid personnel review this report and follow up on any students that have received an "F" in all classes to determine if the students unofficially withdrew and if so, on what date the students last attended classes. This information is forwarded to the business office for calculation of proper refund amounts according to federal regulations.

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

July 8, 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 Northeast State Technical Community College, 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 July 8, 1996. Our report was qualified because the college 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 college is the responsibility of the college's management. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the college'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
July 8, 1996
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We did, however, note certain immaterial instances of noncompliance that we have included in the Findings and Recommendations section of this report. We also noted certain other less significant instances of noncompliance that we have reported to the college'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

Independent Auditor's Report

July 8, 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 Northeast State Technical Community College, 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 college'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 college 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.

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 finan-

The Honorable W. R. Snodgrass
July 8, 1996
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cial statements referred to above present fairly, in all material respects, the financial position of the Tennessee Board of Regents, Northeast State Technical Community College, 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 July 8, 1996, on our consideration of the college'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
NORTHEAST STATE TECHNICAL COMMUNITY COLLEGE
BALANCE SHEETS
JUNE 30, 1995, AND JUNE 30, 1994

ASSETS	June 30, 1995	June 30, 1994	LIABILITIES AND FUND BALANCES	June 30, 1995	June 30, 1994
Current funds:			Current funds:		
Unrestricted:			Unrestricted:		
General:			General:		
Cash and cash equivalents (Notes 3 and 4)	\$ 1,470,394.91	\$ 1,506,005.14	Liabilities:		
Accounts receivable	78,119.92	93,330.76	Accounts payable	\$ 187,700.36	\$ 290,015.97
Inventories	20,673.93	12,257.62	Accrued liabilities	488,975.24	482,788.87
Prepaid expenses	14,002.25	7,483.62	Deferred revenue	269,029.25	264,468.75
Due from restricted current funds	59,890.69	87,504.67	Other liabilities	-	991.20
			Total liabilities	945,704.85	1,038,264.79
			Fund balances:		
			Nondiscretionary allocations:		
			Allocation for working capital	15,105.72	24,602.10
			Allocation for encumbrances	214,605.07	170,009.50
			Discretionary allocation:		
			Allocation for subsequent budget	221,697.05	154,523.48
			Unallocated	245,969.01	319,181.94
			Total fund balances	697,376.85	668,317.02
Total general	1,643,081.70	1,706,581.81	Total general	1,643,081.70	1,706,581.81
Auxiliary enterprises:			Auxiliary enterprises:		
Cash and cash equivalents (Notes 3 and 4)	330,827.06	252,025.62	Fund balances:		
Accounts receivable	-	6,250.00	Nondiscretionary allocation:		
			Allocation for working capital	-	6,250.00
			Discretionary allocation:		
			Allocation for contingencies	3,818.49	3,813.03
			Unallocated	327,008.57	248,212.59
			Total fund balances	330,827.06	258,275.62
Total auxiliary enterprises	330,827.06	258,275.62	Total auxiliary enterprises	330,827.06	258,275.62
Total unrestricted	1,973,908.76	1,964,857.43	Total unrestricted	1,973,908.76	1,964,857.43
Restricted:			Restricted:		
Accounts and grants receivable	134,128.09	171,340.25	Liabilities:		
			Accounts payable	9,553.44	19,989.58
			Due to unrestricted current funds	59,890.69	87,504.67
			Total liabilities	69,444.13	107,494.25
			Fund balance	64,683.96	63,846.00
Total restricted	134,128.09	171,340.25	Total restricted	134,128.09	171,340.25
Total current funds	\$ 2,108,036.85	\$ 2,136,197.68	Total current funds	\$ 2,108,036.85	\$ 2,136,197.68
Plant funds:			Plant funds:		
Unexpended plant:			Unexpended plant:		
Cash and cash equivalents (Notes 3 and 4)	\$ 240,178.30	\$ 133,178.30	Fund balance:		
			Unrestricted	240,178.30	133,178.30
Total unexpended plant	240,178.30	133,178.30	Total unexpended plant	\$ 240,178.30	\$ 133,178.30
Renewals and replacements:			Renewals and replacements:		
Cash and cash equivalents (Notes 3 and 4)	303,061.41	321,261.95	Liabilities:		
			Accounts payable	6,901.64	1,746.74
			Fund balance:		
			Unrestricted (Note 6)	296,159.77	319,515.21
Total renewals and replacements	303,061.41	321,261.95	Total renewals and replacements	\$ 303,061.41	\$ 321,261.95
Retirement of indebtedness:			Retirement of indebtedness:		
Cash and cash equivalents (Notes 3 and 4)	54,676.97	7,688.23	Liabilities:		
			Accrued interest payable	2,460.60	4,590.60
			Fund balance:		
			Unrestricted	52,216.37	3,097.63
Total retirement of indebtedness	54,676.97	7,688.23	Total retirement of indebtedness	54,676.97	7,688.23

TENNESSEE BOARD OF REGENTS
NORTHEAST STATE TECHNICAL COMMUNITY COLLEGE
BALANCE SHEETS
JUNE 30, 1995, AND JUNE 30, 1994

<u>ASSETS</u>	June 30, 1995	June 30, 1994	<u>LIABILITIES AND FUND BALANCES</u>	June 30, 1995	June 30, 1994
Investment in plant:			Investment in plant:		
Land	1,915,871.79	1,865,193.14	Liabilities:		
Buildings	13,082,423.97	10,358,343.16	Notes payable (Note 8)	335,000.00	445,000.00
Improvements other than buildings	217,832.95	217,832.95	Lease obligations payable (Note 7)	<u>1,500.00</u>	<u>3,000.00</u>
Equipment	5,222,689.35	4,550,491.97	Total liabilities	<u>336,500.00</u>	<u>448,000.00</u>
Library books	573,850.00	550,716.50	Fund balance:		
Construction in progress	-	675,741.61	Net investment in plant	<u>21,354,205.06</u>	<u>18,346,033.33</u>
Library holdings	<u>678,037.00</u>	<u>575,714.00</u>	Total investment in plant	<u>21,690,705.06</u>	<u>18,794,033.33</u>
Total investment in plant	<u>21,690,705.06</u>	<u>18,794,033.33</u>	Total plant funds	<u>\$ 22,288,621.74</u>	<u>\$ 19,256,161.81</u>
Total plant funds	<u>\$ 22,288,621.74</u>	<u>\$ 19,256,161.81</u>	Agency funds:		
Agency funds:			Nonfoundation funds:		
Nonfoundation funds:			Accounts payable	2,618.31	1,255.94
Cash and cash equivalents (Notes 3 and 4)	\$ 123,073.16	\$ 159,898.38	Deposits held in custody for others	<u>120,454.85</u>	<u>158,645.07</u>
Accounts receivable	<u>-</u>	<u>2.63</u>	Total nonfoundation funds	<u>123,073.16</u>	<u>159,901.01</u>
Total nonfoundation funds	<u>123,073.16</u>	<u>159,901.01</u>	Foundation funds:		
Foundation funds:			Accounts payable	5,729.56	-
Cash and cash equivalents (Notes 3 and 4)	686,330.61	219,543.46	Deposits held in custody for foundation	<u>1,285,215.78</u>	<u>535,330.66</u>
Investments (Note 5)	599,365.59	312,102.92	Total foundation funds	<u>1,290,945.34</u>	<u>535,330.66</u>
Accrued interest receivable	<u>5,249.14</u>	<u>3,684.28</u>	Total agency funds	<u>\$ 1,414,018.50</u>	<u>\$ 695,231.67</u>
Total foundation funds	<u>1,290,945.34</u>	<u>535,330.66</u>			
Total agency funds	<u>\$ 1,414,018.50</u>	<u>\$ 695,231.67</u>			

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

TENNESSEE BOARD OF REGENTS
 NORTHEAST STATE TECHNICAL COMMUNITY COLLEGE
 STATEMENT OF CHANGES IN FUND BALANCES
 FOR THE YEAR ENDED JUNE 30, 1995

	Current Funds		Plant Funds			
	Unrestricted	Restricted	Unexpended	Renewals and Replacements	Retirement of Indebtedness	Investment In Plant
REVENUES AND OTHER ADDITIONS						
Unrestricted current fund revenues	\$ 10,812,143.04	\$ -	\$ -	\$ -	\$ -	\$ -
Auxiliary enterprise revenues	76,369.93	-	-	-	-	-
State appropriations	-	69,200.00	2,271,234.36	-	-	-
Federal grants and contracts	-	2,464,621.65	-	-	-	-
State grants and contracts	-	445,056.15	-	-	-	-
Local grants and contracts	-	32,407.17	-	-	-	-
Private gifts, grants, and contracts	-	136,176.98	-	-	-	-
Expended for plant facilities (including \$776,225.31 charged to current fund expenditures)	-	-	-	-	-	3,000,826.44
Equipment use charges	-	-	-	43,000.00	-	-
Retirement of indebtedness	-	-	-	-	-	110,000.00
Investment income	-	-	7,939.62	17,942.50	802.95	-
Capital lease acquisition	-	-	-	-	-	1,500.00
Other	2,231.67	-	-	-	-	-
Total revenues and other additions	10,890,744.64	3,147,461.95	2,279,173.98	60,942.50	802.95	3,112,326.44
EXPENDITURES AND OTHER DEDUCTIONS						
Educational and general expenditures	10,488,599.95	3,112,205.69	-	-	-	-
Indirect costs recovered	-	18,507.41	-	-	-	-
Refunded to grantors	-	15,910.89	-	-	-	-
Expended for plant facilities	-	-	2,176,290.84	48,310.29	-	-
Expended for noncapital items	-	-	96,943.52	56,263.64	-	-
Retirement of indebtedness	-	-	-	-	110,000.00	-
Interest on indebtedness	-	-	-	-	20,881.26	-
Disposal of plant facilities	-	-	-	-	-	83,509.78
Library holdings revaluation	-	-	-	-	-	17,455.12
Other	-	-	-	-	-	3,189.81
Total expenditures and other deductions	10,488,599.95	3,146,623.99	2,273,234.36	104,573.93	130,881.26	104,154.71

TENNESSEE BOARD OF REGENTS
 NORTHEAST STATE TECHNICAL COMMUNITY COLLEGE
 STATEMENT OF CHANGES IN FUND BALANCES
 FOR THE YEAR ENDED JUNE 30, 1995

	Current Funds		Plant Funds			
	<u>Unrestricted</u>	<u>Restricted</u>	<u>Unexpended</u>	<u>Renewals and Replacements</u>	<u>Retirement of Indebtedness</u>	<u>Investment In Plant</u>
<u>TRANSFERS AMONG FUNDS - ADDITIONS</u>						
<u>(DEDUCTIONS)</u>						
Mandatory:						
Principal and interest	(180,000.00)	-	-	-	180,000.00	-
Nonmandatory:						
Unexpended plant	(101,060.38)	-	101,060.38	-	-	-
Renewals and replacements	(20,275.99)	-	-	20,275.99	-	-
Unrestricted current funds	802.95	-	-	-	(802.95)	-
Total transfers	(300,533.42)	-	101,060.38	20,275.99	179,197.05	-
Net increases (decrease) for the year	101,611.27	837.96	107,000.00	(23,355.44)	49,118.74	3,008,171.73
Fund balances at beginning of year	926,592.64	63,846.00	133,178.30	319,515.21	3,097.63	18,346,033.33
Fund balances at end of year	\$ <u>1,028,203.91</u>	\$ <u>64,683.96</u>	\$ <u>240,178.30</u>	\$ <u>296,159.77</u>	\$ <u>52,216.37</u>	\$ <u>21,354,205.06</u>

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

TENNESSEE BOARD OF REGENTS
NORTHEAST STATE TECHNICAL COMMUNITY COLLEGE
STATEMENT OF CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 1994

	Current Funds		Plant Funds			
	Unrestricted	Restricted	Unexpended	Renewals and Replacements	Retirement of Indebtedness	Investment In Plant
REVENUES AND OTHER ADDITIONS						
Unrestricted current fund revenues	\$ 9,859,843.17	\$ -	\$ -	\$ -	\$ -	\$ -
Auxiliary enterprise revenues	76,260.60	-	-	-	-	-
State appropriations	-	70,000.00	1,281,740.29	-	-	-
Federal grants and contracts	-	2,212,001.79	-	-	-	-
State grants and contracts	-	359,835.46	-	-	-	-
Local grants and contracts	-	35,208.00	-	-	-	-
Private gifts, grants, and contracts	-	372,194.18	-	-	-	-
Expended for plant facilities (including \$748,419.40 charged to current fund expenditures)	-	-	-	-	-	2,004,362.08
Equipment use charges	-	-	-	48,000.00	-	-
Retirement of indebtedness	-	-	-	-	-	110,000.00
Investment income	-	-	4,343.12	7,659.20	-	-
Library holdings revaluation	-	-	-	-	-	33,257.16
Total revenues and other additions	9,936,103.77	3,049,239.43	1,286,083.41	55,659.20	-	2,147,619.24
EXPENDITURES AND OTHER DEDUCTIONS						
Educational and general expenditures	9,600,438.62	3,101,291.52	-	-	-	-
Indirect costs recovered	-	20,749.74	-	-	-	-
Refunded to grantors	-	2,543.64	-	-	-	-
Expended for plant facilities	-	-	1,236,377.63	19,565.05	-	-
Expended for noncapital items	-	-	88,184.36	2,613.43	-	-
Retirement of indebtedness	-	-	-	-	110,000.00	-
Interest on indebtedness	-	-	-	-	27,262.93	-
Disposal of plant facilities	-	-	-	-	-	156,479.00
Increase in indebtedness	-	-	-	-	-	3,000.00
Other	-	-	-	-	-	7,200.00
Total expenditures and other deductions	9,600,438.62	3,124,584.90	1,324,561.99	22,178.48	137,262.93	166,679.00
TRANSFERS AMONG FUNDS - ADDITIONS (DEDUCTIONS)						
Mandatory:						
Principal and interest	(136,300.00)	-	-	-	136,300.00	-
Nonmandatory:						
Unexpended plant	(28,856.88)	-	28,856.88	-	-	-
Renewals and replacements	(96,153.83)	-	-	96,153.83	-	-
Total transfers	(261,310.71)	-	28,856.88	96,153.83	136,300.00	-

TENNESSEE BOARD OF REGENTS
NORTHEAST STATE TECHNICAL COMMUNITY COLLEGE
STATEMENT OF CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 1994

	<u>Current Funds</u>			<u>Plant Funds</u>		
	<u>Unrestricted</u>	<u>Restricted</u>	<u>Unexpended</u>	<u>Renewals and Replacements</u>	<u>Retirement of Indebtedness</u>	<u>Investment In Plant</u>
Net increases (decreases) for the year	74,354.44	(75,345.47)	(9,621.70)	129,634.55	(962.93)	1,980,940.24
Fund balances at beginning of year	<u>852,238.20</u>	<u>139,191.47</u>	<u>142,800.00</u>	<u>189,880.66</u>	<u>4,060.56</u>	<u>16,365,093.09</u>
Fund balances at end of year	\$ <u><u>926,592.64</u></u>	\$ <u><u>63,846.00</u></u>	\$ <u><u>133,178.30</u></u>	\$ <u><u>319,515.21</u></u>	\$ <u><u>3,097.63</u></u>	\$ <u><u>18,346,033.33</u></u>

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

TENNESSEE BOARD OF REGENTS
 NORTHEAST STATE TECHNICAL COMMUNITY COLLEGE
 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	\$ 2,882,662.93	\$ -	\$ 2,882,662.93
State appropriations	7,205,000.00	88,541.22	7,293,541.22
Federal grants and contracts	30,151.41	2,404,672.86	2,434,824.27
State grants and contracts	-	453,483.28	453,483.28
Local grants and contracts	1,440.00	32,407.17	33,847.17
Private gifts, grants, and contracts	518,259.13	133,101.16	651,360.29
Sales and services of auxiliary enterprises	76,369.93	-	76,369.93
Other sources	176,861.24	-	176,861.24
Total current revenues	<u>10,890,744.64</u>	<u>3,112,205.69</u>	<u>14,002,950.33</u>
EXPENDITURES AND TRANSFERS			
Educational and general expenditures:			
Instruction	5,889,855.99	668,603.04	6,558,459.03
Public service	548,779.70	51,668.50	600,448.20
Academic support	635,295.53	195.50	635,491.03
Student services	1,093,354.26	338,379.54	1,431,733.80
Institutional support	1,269,226.86	-	1,269,226.86
Operation and maintenance of plant	948,849.13	525.00	949,374.13
Scholarships and fellowships	103,238.48	2,052,834.11	2,156,072.59
Total educational and general expenditures	<u>10,488,599.95</u>	<u>3,112,205.69</u>	<u>13,600,805.64</u>
Educational and general transfers:			
Mandatory transfer for:			
Principal and interest	180,000.00	-	180,000.00
Nonmandatory transfers for:			
Unexpended plant	101,060.38	-	101,060.38
Renewals and replacements	16,457.50	-	16,457.50
Retirement of indebtedness	(802.95)	-	(802.95)
Total educational and general expenditures and transfers	<u>10,785,314.88</u>	<u>3,112,205.69</u>	<u>13,897,520.57</u>
Auxiliary enterprises:			
Nonmandatory transfer for:			
Renewals and replacements	3,818.49	-	3,818.49
Total auxiliary enterprises	<u>3,818.49</u>	<u>-</u>	<u>3,818.49</u>
Total expenditures and transfers	<u>10,789,133.37</u>	<u>3,112,205.69</u>	<u>13,901,339.06</u>
OTHER TRANSFERS AND ADDITIONS			
(DEDUCTIONS)			
Excess of restricted receipts over transfers to revenues	-	35,256.26	35,256.26
Indirect costs recovered	-	(18,507.41)	(18,507.41)
Refunded to grantors	-	(15,910.89)	(15,910.89)
Net increases in fund balances	<u>\$ 101,611.27</u>	<u>\$ 837.96</u>	<u>\$ 102,449.23</u>

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

TENNESSEE BOARD OF REGENTS
 NORTHEAST STATE TECHNICAL COMMUNITY COLLEGE
 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	\$ 2,788,859.29	\$ -	\$ 2,788,859.29
State appropriations	6,505,900.00	86,100.33	6,592,000.33
Federal grants and contracts	47,888.74	2,197,510.34	2,245,399.08
State grants and contracts	-	412,829.92	412,829.92
Local grants and contracts	11,557.00	35,208.00	46,765.00
Private gifts, grants, and contracts	356,348.00	369,642.93	725,990.93
Sales and services of auxiliary enterprises	76,260.60	-	76,260.60
Other sources	149,290.14	-	149,290.14
Total current revenues	<u>9,936,103.77</u>	<u>3,101,291.52</u>	<u>13,037,395.29</u>
EXPENDITURES AND TRANSFERS			
Educational and general expenditures:			
Instruction	5,425,668.08	802,456.42	6,228,124.50
Public service	426,897.44	41,324.24	468,221.68
Academic support	599,993.10	2,862.87	602,855.97
Student services	1,079,345.74	416,436.89	1,495,782.63
Institutional support	1,103,862.19	893.13	1,104,755.32
Operation and maintenance of plant	882,509.96	7,000.00	889,509.96
Scholarships and fellowships	82,162.11	1,830,317.97	1,912,480.08
Total educational and general expenditures	<u>9,600,438.62</u>	<u>3,101,291.52</u>	<u>12,701,730.14</u>
Educational and general transfers:			
Mandatory transfer for:			
Principal and interest	136,300.00	-	136,300.00
Nonmandatory transfers for:			
Unexpended plant	28,856.88	-	28,856.88
Renewals and replacements	92,340.80	-	92,340.80
Total educational and general expenditures and transfers	<u>9,857,936.30</u>	<u>3,101,291.52</u>	<u>12,959,227.82</u>
Auxiliary enterprises:			
Nonmandatory transfer for:			
Renewals and replacements	3,813.03	-	3,813.03
Total auxiliary enterprises	<u>3,813.03</u>	<u>-</u>	<u>3,813.03</u>
Total expenditures and transfers	<u>9,861,749.33</u>	<u>3,101,291.52</u>	<u>12,963,040.85</u>
OTHER TRANSFERS AND ADDITIONS			
(DEDUCTIONS)			
Deficiency of restricted receipts under transfers to revenue	-	(52,052.09)	(52,052.09)
Indirect costs recovered	-	(20,749.74)	(20,749.74)
Refunded to grantors	-	(2,543.64)	(2,543.64)
Net increase (decrease) in fund balances	<u>\$ 74,354.44</u>	<u>\$ (75,345.47)</u>	<u>\$ (991.03)</u>

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

TENNESSEE BOARD OF REGENTS
NORTHEAST STATE TECHNICAL COMMUNITY COLLEGE
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 1995, AND JUNE 30, 1994

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

REPORTING ENTITY

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

BASIS OF ACCOUNTING

The financial statements of the college 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 (1) expenditures, for normal replacement of movable equipment and library holdings, (2) mandatory transfers, for required debt amortization and interest, and (3) nonmandatory transfers, for all other cases.

TENNESSEE BOARD OF REGENTS
NORTHEAST STATE TECHNICAL COMMUNITY COLLEGE
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 college 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 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, endowment income, 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 college retains full control for use in achieving any of its authorized institutional purposes. Auxiliary enterprises activities are included in unrestricted current funds and include bookstore and food services. Restricted current funds are externally restricted and may be used only in accordance with the purposes established by their source.

TENNESSEE BOARD OF REGENTS
NORTHEAST STATE TECHNICAL COMMUNITY COLLEGE
NOTES TO THE FINANCIAL STATEMENTS (CONT.)
JUNE 30, 1995, AND JUNE 30, 1994

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, (3) funds set aside for debt service charges and for the retirement of the indebtedness on institutional properties, and (4) funds expended for, and thus invested in, institutional properties.

Agency Funds

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

INVENTORIES

Inventories are valued at the lower of cost or market. All other items are maintained on an average-cost or first-in, first-out basis.

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.

PLANT ASSETS

The physical plant and equipment are stated at cost at date of purchase or at fair value at date of donation. Library books are valued at \$20 per volume, and other library holdings are valued at various standardized values. Depreciation on the physical plant and equipment is not recorded.

TENNESSEE BOARD OF REGENTS
NORTHEAST STATE TECHNICAL COMMUNITY COLLEGE
NOTES TO THE FINANCIAL STATEMENTS (CONT.)
JUNE 30, 1995, AND JUNE 30, 1994

In the case of service departments, the college charges renewal and replacement of plant assets to current expenditures; these charges are also reported as additions to funds for renewals and replacements.

NORTHEAST STATE TECHNICAL COMMUNITY COLLEGE FOUNDATION

The college is the sole beneficiary of the Northeast State Technical Community College Foundation. This private, nonprofit foundation is controlled by a board independent of the college. The financial records, investments, and other financial transactions are handled by the college, and the assets and liabilities of the foundation are included in the agency funds on the college's balance sheet.

NOTE 2. COMPENSATED ABSENCES

The college's employees accrue annual leave at varying rates, depending on length of service or classification. Some employees also earn compensatory time. Generally accepted accounting principles require that certain accrued compensated absences and related benefits, the effects of which are material to the financial statements, be recorded as earned. The college'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 \$330,487.24 at June 30, 1995, and \$326,203.61 at June 30, 1994, and increased the unrestricted current fund expenditures by \$4,283.63 for the year ended June 30, 1995, and by \$38,298.98 for the year ended June 30, 1994.

NOTE 3. CASH AND CASH EQUIVALENTS

The balance sheet classification "cash and cash equivalents" includes all readily available sources of cash, including petty cash, demand deposits, and instruments convertible to known amounts of cash and which have original maturities of three months or less. Additionally, the college maintains custodial accounts at First Tennessee and First American Banks for funds contractually managed by independent trust departments. The banks place current cash and cash equivalents in these bank accounts into money market mutual funds.

TENNESSEE BOARD OF REGENTS
NORTHEAST STATE TECHNICAL COMMUNITY COLLEGE
NOTES TO THE FINANCIAL STATEMENTS (CONT.)
JUNE 30, 1995, AND JUNE 30, 1994

At June 30, 1995, cash and cash equivalents consisted of \$160,564.00 in bank accounts, \$625.00 of petty cash on hand, \$2,514,519.31 in the State of Tennessee Local Government Investment Pool administered by the State Treasurer, and \$532,834.11 in First Tennessee and First American Bank's money market mutual funds. At June 30, 1994, cash and cash equivalents consisted of \$515,981.42 in bank accounts, \$650.00 of petty cash on hand, \$1,997,617.44 in the State of Tennessee Local Government Investment Pool, and \$85,352.22 in First Tennessee and First American Banks' money market mutual funds.

NOTE 4. DEPOSITS

The bank balances of deposits including accrued interest as of June 30, 1995, were entirely insured or collateralized with securities held by the college's agent in the college's name.

The bank balances of deposits including accrued interest as of June 30, 1994, were entirely insured or collateralized with securities held by the college's agent in the college's name. From July 1, 1993, through October 20, 1993, the college had uncollateralized amounts as high as \$1,006,541.62. The uncollateralized amounts were related to a court decision by the U. S. Court of Appeals for the Eighth Circuit which raised a question about the enforceability of security interests in collateral pledged to secure deposits held in financial institutions. The court decision was based on Section 1823(e) of the Financial Institutions Reform, Recovery and Enforcement Act of 1989 (FIRREA). Because the college's security agreement did not meet the requirements outlined in Section 1823(e) of the act, it is uncertain whether the college had any priority claim to the collateral pledged to secure deposits in excess of FDIC insurance coverage. The college's security agreement was revised as of October 20, 1993, to meet these new requirements.

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.

TENNESSEE BOARD OF REGENTS
 NORTHEAST STATE TECHNICAL COMMUNITY COLLEGE
 NOTES TO THE FINANCIAL STATEMENTS (CONT.)
 JUNE 30, 1995, AND JUNE 30, 1994

NOTE 5. INVESTMENTS

The Northeast State Technical Community College Foundation is authorized to invest funds in accordance with its board of directors' policies. Investments are valued at cost, or in the case of gifts, at fair value on the date of receipt.

The foundation's investments are categorized below to indicate the level of risk assumed by the foundation at year-end. Category 1 consists of insured or registered investments or investments for which the securities are held by the foundation or its agent in the foundation's name. Category 2 consists of uninsured and unregistered investments for which the securities are held by the counterparty's/counterparties' trust department or agent in the foundation's name. Category 3 consists of uninsured and unregistered investments for which the securities are held by the counterparty or by its trust department or agent but not in the foundation's name.

June 30, 1995

	<u>Category 1</u>	<u>Carrying Amount</u>	<u>Market Value</u>
	<u>1</u>		
U. S. Government securities	\$327,559.42	\$327,559.42	\$330,340.62
Foreign government bonds	9,422.00	9,422.00	9,727.60
Corporate bonds	<u>54,118.63</u>	54,118.63	54,317.25
	<u>\$391,100.05</u>		
Investments not susceptible to credit risk categorization:			
Mutual funds		<u>208,265.54</u>	<u>220,375.82</u>
Total investments on the balance sheet		<u>\$559,365.59</u>	<u>\$614,761.29</u>

TENNESSEE BOARD OF REGENTS
 NORTHEAST STATE TECHNICAL COMMUNITY COLLEGE
 NOTES TO THE FINANCIAL STATEMENTS (CONT.)
 JUNE 30, 1995, AND JUNE 30, 1994

June 30, 1994

	<u>Category 1</u>	<u>Carrying Amount</u>	<u>Market Value</u>
U. S. Government securities	<u>1</u>	\$145,260.41	\$143,960.95
Corporate bonds		131,693.66	129,404.85
	<u>\$276,954.07</u>		
Investments not susceptible to credit risk categorization:			
Mutual funds		<u>35,148.85</u>	<u>35,148.85</u>
Total investments on the balance sheet		<u>\$312,102.92</u>	<u>\$308,514.65</u>

NOTE 6. PLANT FUND ENCUMBRANCES

Plant fund encumbrances outstanding at June 30, 1995, amounted to \$3,006.00 for renewals and replacements. There were no plant fund encumbrances outstanding at June 30, 1994.

NOTE 7. CAPITAL LEASES

The college has a capital lease agreement for equipment; the major acquisition was a ProQuest PQ workstation. This agreement has a beginning date of May 1995, and an ending date of May 1996, with no imputed interest rate. The asset balance was \$3,000.00 at June 30, 1995. The following is a schedule by years of the future minimum lease payments under the capital lease together with the present value of the net minimum lease payments at June 30, 1995:

TENNESSEE BOARD OF REGENTS
 NORTHEAST STATE TECHNICAL COMMUNITY COLLEGE
 NOTES TO THE FINANCIAL STATEMENTS (CONT.)
 JUNE 30, 1995, AND JUNE 30, 1994

Year Ending <u>June 30</u>	
1996	<u>\$1,500.00</u>
Total minimum lease payments	1,500.00
Less amount representing interest	<u>-</u>
Present value of net minimum lease payments	<u><u>\$1,500.00</u></u>

NOTE 8. NOTES PAYABLE

The Tennessee Board of Regents, on behalf of the college, borrowed funds to purchase a computer system and computer equipment to connect new buildings. The notes bear interest rates from 5.625% to 6.4% and are due serially to September 2002. The balance owed by the college was \$335,000.00 at June 30, 1995, and \$445,000.00 at June 30, 1994.

The college's debt service requirements to maturity for all notes payable at June 30, 1995, are as follows:

Year Ending <u>June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
1996	\$135,000.00	\$15,980.63	\$150,980.63
1997	110,000.00	8,975.00	118,975.00
1998	15,000.00	5,325.00	20,325.00
1999	15,000.00	4,365.00	19,365.00
2000	15,000.00	3,405.00	18,405.00
2001-2003	<u>45,000.00</u>	<u>4,417.50</u>	<u>49,417.50</u>
	<u><u>\$335,000.00</u></u>	<u><u>\$42,468.13</u></u>	<u><u>\$377,468.13</u></u>

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NOTE 9. PENSION PLANS

Defined Benefit Plan

All the college'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 \$3,670,448.91 for the year ended June 30, 1995, and \$3,377,680.03 for the year ended June 30, 1994. The college's total payroll was \$6,767,406.47 for the year ended June 30, 1995, and \$6,312,581.07 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 are vested after five years of service. The TCRS also provides death and disability benefits. Disability benefits are available to members with five years of service who become disabled and cannot engage in gainful employment. There is no service requirement for disability that is the result of an accident or injury occurring while the member performed duties. Benefits are established by state statute.

The college 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 college are eligible for a refund of their contributions, along with contributions made after July 1, 1981, on the employees' behalf by the college. The actuarially required contribution made for the year ended June 30, 1995, was \$230,397.70, which represented 6.28% of the covered payroll, and for the year ended June 30, 1994, was \$223,602.06, which represented 6.62% 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 TCRS' funding status on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among public employee retirement systems and

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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 (determined 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 college's 1995 and 1994 contributions represented .081% and .084% of total contributions required of all participating entities.

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

Defined Contribution Plans

The college has three defined contribution plans offered through the Teachers Insurance and Annuity Association—College Retirement Equities Fund (TIAA-CREF), Aetna Life Insurance and Annuity Company, and Variable Annuity Life Insurance Company (VALIC). These plans are available only to eligible faculty and staff exempt from the overtime provision of the Fair Labor Standards Act. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. State statute requires the college to contribute an amount equal to 10% of the employee's base salary below the social security wage base and 11% above the social security wage base. Members are fully vested upon entry into the plans.

The payroll for employees covered by the defined contribution plans was \$2,111,077.66 for the year ended June 30, 1995, and \$1,995,623.30 for the year ended June 30, 1994. The college's total payroll was \$6,767,406.47 for the year ended June 30, 1995, and \$6,312,581.07 for the year ended June 30, 1994. The required contribution made by the college for the year ended June 30, 1995, was \$211,358.55, which represented 10.01% of the covered payroll, and for the year

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ended June 30, 1994, was \$199,945.17, which represented 10.02% of the covered payroll.

NOTE 10. OTHER POST-EMPLOYMENT BENEFITS

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

NOTE 11. 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 not covered by the commercial insurance.

At June 30, 1995, the scheduled coverage for the college was \$13,596,800 for buildings and \$4,314,400 for contents. At June 30, 1994, the scheduled coverage was \$11,131,400 for buildings and \$4,317,400 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 college participates in the Claims Award 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. Since the college participates in the Claims Award Fund, it is subject to the liability limitations under the provisions of the Tennessee Claims Commission Act, *Tennessee Code Annotated*, Section 9-8-101 *et seq.* Liability for negligence of the college for bodily

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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 college participates in the Employee Group Insurance Fund. The fund allocates the cost of providing claims servicing and claims payment by charging a premium to the college based on estimates of the ultimate cost of claims that have been reported but not settled and of claims that have been incurred but not reported. Employees and providers have 13 months to file medical claims.

NOTE 12. COMMITMENTS AND CONTINGENCIES

Sick Leave - The college records the cost of sick leave when paid. Generally, since sick leave (earned one day per month with unlimited accumulation) is paid only when an employee dies or is absent because of illness, injury, or related family death, there is no liability for sick leave at June 30. The dollar amount of unused sick leave was \$1,395,660.97 at June 30, 1995, and \$1,266,136.32 at June 30, 1994.

Operating Leases - The college has entered into various operating leases for buildings and equipment. Such leases will probably continue to be required. Expenditures under operating leases for real property were \$82,252.00 and for personal property were \$60,195.97 for the year ended June 30, 1995. The amounts for the year ended June 30, 1994, were \$74,532.00 and \$51,718.81. The following is a schedule by years of future minimum rental payments required under noncancelable operating leases that have initial or remaining lease terms of more than one year at June 30, 1995:

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<u>Year Ending</u> <u>June 30</u>	
1996	\$74,532.00
1997	<u>18,633.00</u>
Total minimum payments required	<u><u>\$93,165.00</u></u>

Construction in Progress - At June 30, 1995, outstanding commitments under construction contracts totaled \$8,842.92 for an academic classroom building project, of which \$8,842.92 will be funded by future state capital outlay appropriations.

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

Questioned Costs - As of June 30, 1995, the college had not resolved \$9,040.00 of questioned costs resulting from prior audits. In addition, the following costs were questioned as a result of the current audit.

<u>Program</u>	<u>Amount</u> <u>Questioned</u>
Pell Grant Program	\$2,159.45
Vocational Rehabilitation	<u>885.25</u>
Total	<u><u>\$3,044.70</u></u>

Final resolution of these questioned costs will be determined by the grantor.

NOTE 13. PLEDGES

At June 30, 1995, unrecorded pledges totaled \$613,750.69 and were restricted to scholarships and equipment purchases. These pledges are due to be collected over the following fiscal years:

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<u>Year Ending June 30</u>	<u>Amount</u>
1996	\$208,759.76
1997	48,671.05
1998	13,182.41
1999	10,802.41
2000	10,802.41
2001 and beyond	<u>321,532.65</u>
	<u>\$613,750.69</u>

It is not practicable to estimate the net realizable value of such pledges; therefore, they are not reflected in the accompanying financial statements.