

**Tennessee Board of Regents  
State Technical Institute at Memphis**

**For the Years Ended  
June 30, 1996, and June 30, 1995**

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Editor

September 3, 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. M. Douglas Call, President  
State Technical Institute at Memphis  
5983 Macon Cove  
Memphis, Tennessee 38134

Ladies and Gentlemen:

Transmitted herewith is the financial and compliance audit of the Tennessee Board of Regents, State Technical Institute at Memphis, for the years ended June 30, 1996, and June 30, 1995. 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 institute 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 one deficiency, which is detailed in the Results of the Audit section of this report. The institute's administration has responded to the audit finding; the response is included following the finding. The Division of State Audit will follow up the audit to examine the application of the procedures instituted because of the audit finding.

Very truly yours,

W. R. Snodgrass  
Comptroller of the Treasury

WRS/cr  
97/042

State of Tennessee

# Audit Highlights

Comptroller of the Treasury

Division of State Audit

Financial and Compliance Audit  
**State Technical Institute at Memphis**  
For the Years Ended June 30, 1996, and June 30, 1995

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## AUDIT OBJECTIVES

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

## INTERNAL CONTROL FINDING

### **Annual Physical Inventory of Equipment Not Performed**

The institute did not perform a physical inventory of equipment during the fiscal year ended June 30, 1996. Without a physical count, detection of missing or damaged equipment may not be timely. Items missing or damaged could continue to be included on the master inventory list and in the financial statement amount for equipment (page 7).

## 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.

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"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

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**Audit Report**  
**Tennessee Board of Regents**  
**State Technical Institute at Memphis**  
**For the Years Ended June 30, 1996, and June 30, 1995**

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**Tennessee Board of Regents  
State Technical Institute at Memphis  
For the Years Ended June 30, 1996, and June 30, 1995**

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**INTRODUCTION**

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**POST-AUDIT AUTHORITY**

This is a report on the financial and compliance audit of the Tennessee Board of Regents, State Technical Institute at Memphis. 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.

**BACKGROUND**

In 1963, the Tennessee General Assembly stated that the State Board of Vocational Education would establish regional technical schools to provide technical training in locations the board deemed necessary. Memphis was chosen as the site of one of the technical schools. State Technical Institute at Memphis’ first regular program of instruction began with the 1967 fall quarter. The institute was governed by the State Board of Vocational Education through the Tennessee Department of Education, Division of Vocational-Technical Education, until July 1, 1983. At that time, the 93rd General Assembly transferred the institute to the Tennessee Board of Regents.

State Technical Institute at Memphis 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 Applied Science degree in Business, Computers, or Engineering Technologies. Also, the institute offers special programs and courses to meet the needs of industry, business, and government.

**ORGANIZATION**

The governance of State Technical Institute at Memphis 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 institute is the president, who is assisted and advised by members of the faculty and administrative staff.

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### **AUDIT SCOPE**

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The audit was limited to the period July 1, 1994, through June 30, 1996, and was conducted in accordance with generally accepted government auditing standards. Financial statements are presented for the years ended June 30, 1996, and June 30, 1995. State Technical Institute at Memphis 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*.

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### **OBJECTIVES OF THE AUDIT**

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The objectives of the audit were

1. to consider the institute'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.
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### **PRIOR AUDIT FINDINGS**

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There were no findings in the prior audit report.

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## RESULTS OF THE AUDIT

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### AUDIT CONCLUSIONS

#### Internal Control Structure

As part of the audit of the institute's financial statements for the years ended June 30, 1996, and June 30, 1995, 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. The reportable condition, along with the recommendation and management's response, is detailed in the finding and recommendation, which follow the report on the internal control structure. 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. The compliance report follows the finding and recommendation.

#### Fairness of Financial Statement Presentation

The institute 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 institute'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 29, 1997

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

Dear Mr. Snodgrass:

We have audited the financial statements of State Technical Institute at Memphis, 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, 1996, and June 30, 1995, and have issued our report thereon dated May 29, 1997. Our report was qualified because the institute 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 institute'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  
May 29, 1997  
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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 institute's financial statements for the years ended June 30, 1996, and June 30, 1995, 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.

We noted one matter involving the internal control structure and its operation that we consider to be a reportable condition under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the institute's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

The following reportable condition was noted: an annual physical inventory of equipment was not performed. This condition is described in the Finding and Recommendation section of this report.

A material weakness is a reportable condition in which the design or operation of one or more of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or 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.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we do not believe the reportable condition described above is a material weakness.

We also noted other matters involving the internal control structure and its operation that we have reported to the institute's management in a separate letter.

The Honorable W. R. Snodgrass  
May 29, 1997  
Page Three

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/cr

## **FINDING AND RECOMMENDATION**

### **An annual physical inventory of equipment was not performed**

#### **Finding**

State Technical Institute at Memphis did not perform a physical inventory of equipment during the fiscal year ended June 30, 1996.

It is the institute's policy to perform an annual inventory. If any item is missing and cannot be accounted for, it is to be reported in writing to the proper authorities at the institute.

Without a physical inventory count, detection of missing or damaged equipment may not be timely. Items missing or damaged could continue to be included on the master inventory list and in the financial statement amount for equipment.

#### **Recommendation**

The Vice President for Business and Finance should ensure that a physical inventory of equipment is performed each fiscal year.

#### **Management's Comment**

We concur with the finding and recommendation. Responsibility for equipment inventory was transferred to the Vice President for Business and Finance and the Business Office during the 1996-97 fiscal year. A physical inventory of equipment was completed in June 1997 and will be performed each fiscal year in the future, as it was performed in 1995 and all previous years.

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

May 29, 1997

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

Dear Mr. Snodgrass:

We have audited the financial statements of State Technical Institute at Memphis, 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, 1996, and June 30, 1995, and have issued our report thereon dated May 29, 1997. Our report was qualified because the institute 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 institute is the responsibility of the institute's management. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the institute'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 29, 1997  
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We did, however, note certain immaterial instances of noncompliance that we have reported to the institute'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/cr

## **Independent Auditor's Report**

May 29, 1997

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 State Technical Institute at Memphis, an institution of the Tennessee Board of Regents, which is a component unit of the State of Tennessee, as of June 30, 1996, and June 30, 1995, 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 institute'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 institute 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  
May 29, 1997  
Page Two

cial statements referred to above present fairly, in all material respects, the financial position of the Tennessee Board of Regents, State Technical Institute at Memphis, as of June 30, 1996, and June 30, 1995, 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 29, 1997, on our consideration of the institute's internal control structure and on its compliance with laws and regulations.

Sincerely,

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

AAH/cr

TENNESSEE BOARD OF REGENTS  
STATE TECHNICAL INSTITUTE AT MEMPHIS  
BALANCE SHEETS  
JUNE 30, 1996, AND JUNE 30, 1995

	June 30, 1996	June 30, 1995		June 30, 1996	June 30, 1995
<b>ASSETS</b>			<b>LIABILITIES AND FUND BALANCES</b>		
Current funds:			Current funds:		
Unrestricted:			Unrestricted:		
General:			General:		
Cash (Notes 3 and 4)	\$ 2,750,162.12	\$ 2,527,244.06	Liabilities:		
Accounts receivable (net of allowance of \$97,500.00 at June 30, 1996, and \$85,000.00 at June 30, 1995)	712,063.51	770,693.94	Accounts payable	\$ 98,990.66	\$ 110,366.35
Inventories	38,610.91	26,076.95	Accrued liabilities	206,176.40	201,402.39
Prepaid expenses and deferred charges	355,059.10	312,711.73	Student deposits	16,785.07	16,805.07
Due from restricted current funds	254,218.34	159,589.08	Deferred revenue	1,427,664.00	1,398,196.00
Due from agency funds	6,946.00	-	Other liabilities	259,709.45	247,116.67
	<u>4,117,059.98</u>	<u>3,796,315.76</u>	Total liabilities	<u>2,009,325.58</u>	<u>1,973,886.48</u>
			Fund balances:		
			Nondiscretionary allocations:		
			Allocation for working capital	611,249.78	631,542.75
			Allocation for encumbrances	333,192.03	62,410.20
			Allocation for designated state appropriations	17,748.31	9,180.90
			Unallocated	1,145,544.28	1,119,295.43
			Total fund balances	<u>2,107,734.40</u>	<u>1,822,429.28</u>
Total general	<u>4,117,059.98</u>	<u>3,796,315.76</u>	Total general	<u>4,117,059.98</u>	<u>3,796,315.76</u>
Auxiliary enterprises:			Auxiliary enterprises:		
Cash (Notes 3 and 4)	192,462.30	183,204.01	Liabilities:		
Accounts receivable	25,638.45	26,865.83	Accounts payable	4,070.66	9,566.01
Inventories	6,592.98	5,961.23	Accrued liabilities	-	155.00
	<u>224,693.73</u>	<u>216,031.07</u>	Total liabilities	<u>4,070.66</u>	<u>9,721.01</u>
			Fund balances:		
			Nondiscretionary allocations:		
			Allocation for working capital	33,031.43	33,627.06
			Allocation for encumbrances	-	2,603.36
			Discretionary allocation:		
			Allocation for contingencies	26,230.53	23,423.58
			Unallocated	161,361.11	146,656.06
			Total fund balances	<u>220,623.07</u>	<u>206,310.06</u>
Total auxiliary enterprises	<u>224,693.73</u>	<u>216,031.07</u>	Total auxiliary enterprises	<u>224,693.73</u>	<u>216,031.07</u>
Total unrestricted	<u>4,341,753.71</u>	<u>4,012,346.83</u>	Total unrestricted	<u>4,341,753.71</u>	<u>4,012,346.83</u>
Restricted:			Restricted:		
Accrued interest receivable	217.05	217.05	Liabilities:		
Accounts and grants receivable	505,650.34	421,663.92	Accounts payable	14,658.70	12,395.62
	<u>505,867.39</u>	<u>421,880.97</u>	Accrued liabilities	31,086.17	20,546.43
			Due to unrestricted current funds	254,218.34	159,589.08
			Total liabilities	<u>299,963.21</u>	<u>192,531.13</u>
			Fund balance	<u>205,904.18</u>	<u>229,349.84</u>
Total restricted	<u>505,867.39</u>	<u>421,880.97</u>	Total restricted	<u>505,867.39</u>	<u>421,880.97</u>
Total current funds	<u>\$ 4,847,621.10</u>	<u>\$ 4,434,227.80</u>	Total current funds	<u>\$ 4,847,621.10</u>	<u>\$ 4,434,227.80</u>
Endowment and similar funds:			Endowment and similar funds:		
Cash (Notes 3 and 4)	\$ 30,000.00	\$ 30,000.00	Fund balances:		
Investments (Note 5)	7,380.00	7,380.00	Endowment	\$ 30,000.00	\$ 30,000.00
	<u>37,380.00</u>	<u>37,380.00</u>	Term endowment	7,380.00	7,380.00
Total endowment and similar funds	<u>\$ 37,380.00</u>	<u>\$ 37,380.00</u>	Total endowment and similar funds	<u>\$ 37,380.00</u>	<u>\$ 37,380.00</u>
Plant funds:			Plant funds:		
Unexpended plant:			Unexpended plant:		
Cash (Notes 3 and 4)	\$ 876,395.43	\$ 876,874.27	Liabilities:		
LGIP deposit - capital projects	229,357.03	531,003.39	Accounts payable	\$ 7,307.50	\$ 25,522.60
	<u>1,105,752.46</u>	<u>1,407,877.66</u>	Other liabilities	148,089.40	-
			Total liabilities	<u>155,396.90</u>	<u>25,522.60</u>
			Fund balance:		
			Unrestricted (Note 6)	950,355.56	1,382,355.06
Total unexpended plant	<u>1,105,752.46</u>	<u>1,407,877.66</u>	Total unexpended plant	<u>1,105,752.46</u>	<u>1,407,877.66</u>

TENNESSEE BOARD OF REGENTS  
STATE TECHNICAL INSTITUTE AT MEMPHIS  
BALANCE SHEETS  
JUNE 30, 1996, AND JUNE 30, 1995

	<u>June 30, 1996</u>	<u>June 30, 1995</u>		<u>June 30, 1996</u>	<u>June 30, 1995</u>
<b>ASSETS</b>			<b>LIABILITIES AND FUND BALANCES</b>		
Renewals and replacements:			Renewals and replacements:		
Cash (Notes 3 and 4)	966,041.77	302,497.05	Liabilities:		
			Accounts payable	1,786.00	12.00
			Fund balance:		
			Unrestricted (Note 6)	964,255.77	302,485.05
Total renewals and replacements	<u>966,041.77</u>	<u>302,497.05</u>	Total renewals and replacements	<u>966,041.77</u>	<u>302,497.05</u>
Investment in plant:			Investment in plant:		
Land	1,013,500.00	1,013,500.00	Fund balance:		
Buildings	17,364,935.66	17,364,935.66	Net investment in plant	33,534,450.10	32,940,801.67
Improvements other than buildings	1,322,312.56	1,253,242.29			
Equipment	10,895,615.56	10,825,370.12			
Library books	1,019,560.00	997,360.00			
Other library holdings	1,469,797.00	1,460,871.00			
Construction in progress	448,729.32	25,522.60			
Total investment in plant	<u>33,534,450.10</u>	<u>32,940,801.67</u>	Total investment in plant	<u>33,534,450.10</u>	<u>32,940,801.67</u>
Total plant funds	<u>\$ 35,606,244.33</u>	<u>\$ 34,651,176.38</u>	Total plant funds	<u>\$ 35,606,244.33</u>	<u>\$ 34,651,176.38</u>
Agency funds:			Agency funds:		
Foundation:			Foundation:		
Cash (Notes 3 and 4)	\$ 171,363.68	\$ 160,142.80	Liabilities:		
Investments (Note 5)	1,305.00	940.00	Accounts payable	\$ 65.00	\$ -
Accrued interest receivable	5.60	5.60	Deposits held in custody for foundation	172,609.28	161,088.40
Total foundation	<u>172,674.28</u>	<u>161,088.40</u>	Total foundation	<u>172,674.28</u>	<u>161,088.40</u>
Nonfoundation:			Nonfoundation:		
Cash (Notes 3 and 4)	46,795.49	120,235.35	Liabilities:		
			Due to unrestricted current funds	6,946.00	-
			Deposits held in custody for others	39,849.49	120,235.35
Total nonfoundation	<u>46,795.49</u>	<u>120,235.35</u>	Total nonfoundation	<u>46,795.49</u>	<u>120,235.35</u>
Total agency funds	<u>\$ 219,469.77</u>	<u>\$ 281,323.75</u>	Total agency funds	<u>\$ 219,469.77</u>	<u>\$ 281,323.75</u>

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

TENNESSEE BOARD OF REGENTS  
STATE TECHNICAL INSTITUTE AT MEMPHIS  
STATEMENT OF CHANGES IN FUND BALANCES  
FOR THE YEAR ENDED JUNE 30, 1996

	Current Funds			Plant Funds		
	Unrestricted	Restricted	Endowment and Similar Funds	Unexpended	Renewals and Replacements	Investment In Plant
<b><u>REVENUES AND OTHER ADDITIONS</u></b>						
Unrestricted current fund revenues	\$ 26,713,370.69	\$ -	\$ -	\$ -	\$ -	\$ -
Auxiliary enterprise revenues	524,610.53	-	-	-	-	-
State appropriations	-	93,100.00	-	-	-	-
Federal grants and contracts	-	3,819,918.68	-	-	-	-
State grants and contracts	-	59,128.13	-	-	-	-
Local grants and contracts	-	20,460.00	-	-	-	-
Private gifts, grants, and contracts	-	243,557.22	-	-	-	-
Endowment income	-	2,299.12	-	-	-	-
Investment income	-	2,973.99	-	20,312.49	-	-
Equipment use charges	-	-	-	-	325,000.00	-
Expended for plant facilities (including \$845,576.45 charged to current fund expenditures)	-	-	-	-	-	1,420,574.81
Other	-	3,969.98	-	-	-	20,500.10
Total revenues and other additions	<u>27,237,981.22</u>	<u>4,245,407.12</u>	<u>-</u>	<u>20,312.49</u>	<u>325,000.00</u>	<u>1,441,074.91</u>
<b><u>EXPENDITURES AND OTHER DEDUCTIONS</u></b>						
Educational and general expenditures	26,123,183.67	4,235,722.03	-	-	-	-
Auxiliary enterprise expenditures	355,722.33	-	-	-	-	-
Indirect costs recovered	-	4,445.99	-	-	-	-
Refunded to grantors	-	4,667.76	-	-	-	-
Expended for plant facilities	-	-	-	492,276.99	82,721.37	-
Disposal of plant facilities	-	-	-	-	-	752,143.60
Library holdings revaluation	-	-	-	-	-	95,282.88
Other	-	24,017.00	-	-	-	-
Total expenditures and other deductions	<u>26,478,906.00</u>	<u>4,268,852.78</u>	<u>-</u>	<u>492,276.99</u>	<u>82,721.37</u>	<u>847,426.48</u>

TENNESSEE BOARD OF REGENTS  
STATE TECHNICAL INSTITUTE AT MEMPHIS  
STATEMENT OF CHANGES IN FUND BALANCES  
FOR THE YEAR ENDED JUNE 30, 1996

	Current Funds			Plant Funds		
	Unrestricted	Restricted	Endowment and Similar Funds	Unexpended	Renewals and Replacements	Investment In Plant
<u>TRANSFERS AMONG FUNDS - ADDITIONS</u>						
<u>(DEDUCTIONS)</u>						
Nonmandatory:						
Unexpended plant	(451,930.00)	-	-	451,930.00	-	-
Renewals and replacements	<u>(7,527.09)</u>	<u>-</u>	<u>-</u>	<u>(411,965.00)</u>	<u>419,492.09</u>	<u>-</u>
Total transfers	<u>(459,457.09)</u>	<u>-</u>	<u>-</u>	<u>39,965.00</u>	<u>419,492.09</u>	<u>-</u>
Net increases (decreases) for the year	299,618.13	(23,445.66)	-	(431,999.50)	661,770.72	593,648.43
Fund balances at beginning of year	<u>2,028,739.34</u>	<u>229,349.84</u>	<u>37,380.00</u>	<u>1,382,355.06</u>	<u>302,485.05</u>	<u>32,940,801.67</u>
Fund balances at end of year	\$ <u><u>2,328,357.47</u></u>	\$ <u><u>205,904.18</u></u>	\$ <u><u>37,380.00</u></u>	\$ <u><u>950,355.56</u></u>	\$ <u><u>964,255.77</u></u>	\$ <u><u>33,534,450.10</u></u>

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

TENNESSEE BOARD OF REGENTS  
STATE TECHNICAL INSTITUTE AT MEMPHIS  
STATEMENT OF CHANGES IN FUND BALANCES  
FOR THE YEAR ENDED JUNE 30, 1995

	Current Funds			Plant Funds		
	Unrestricted	Restricted	Endowment and Similar Funds	Unexpended	Renewals and Replacements	Investment In Plant
<b><u>REVENUES AND OTHER ADDITIONS</u></b>						
Unrestricted current fund revenues	\$ 25,933,780.74	\$ -	\$ -	\$ -	\$ -	\$ -
Auxiliary enterprise revenues	468,471.51	-	-	-	-	-
State appropriations	-	113,600.00	-	-	-	-
Federal grants and contracts	-	4,310,199.53	-	-	-	-
State grants and contracts	-	60,907.11	-	-	-	-
Local grants and contracts	-	10,912.00	-	-	-	-
Private gifts, grants, and contracts	-	245,949.98	-	-	-	609,042.26
Endowment income	-	2,258.01	-	-	-	-
Investment income	-	2,892.88	-	2,003.39	-	-
Expended for plant facilities (including \$555,212.22 charged to current fund expenditures)	-	-	-	-	-	842,849.11
Other	-	1,752.48	-	-	-	6,000.00
Total revenues and other additions	<u>26,402,252.25</u>	<u>4,748,471.99</u>	<u>-</u>	<u>2,003.39</u>	<u>-</u>	<u>1,457,891.37</u>
<b><u>EXPENDITURES AND OTHER DEDUCTIONS</u></b>						
Educational and general expenditures	24,634,903.83	4,679,371.63	-	-	-	-
Auxiliary enterprise expenditures	315,885.45	-	-	-	-	-
Indirect costs recovered	-	7,166.28	-	-	-	-
Refunded to grantors	-	8,125.37	-	-	-	-
Expended for plant facilities	-	-	-	149,696.34	137,940.55	-
Expended for noncapital items	-	-	-	4,630.90	-	-
Disposal of plant facilities	-	-	-	-	-	149,894.14
Library holdings revaluation	-	-	-	-	-	159,094.80
Other	-	858.10	-	-	-	-
Total expenditures and other deductions	<u>24,950,789.28</u>	<u>4,695,521.38</u>	<u>-</u>	<u>154,327.24</u>	<u>137,940.55</u>	<u>308,988.94</u>

TENNESSEE BOARD OF REGENTS  
STATE TECHNICAL INSTITUTE AT MEMPHIS  
STATEMENT OF CHANGES IN FUND BALANCES  
FOR THE YEAR ENDED JUNE 30, 1995

	Current Funds			Plant Funds		
	Unrestricted	Restricted	Endowment and Similar Funds	Unexpended	Renewals and Replacements	Investment In Plant
<u>TRANSFERS AMONG FUNDS - ADDITIONS</u>						
<u>(DEDUCTIONS)</u>						
Nonmandatory:						
Restricted current funds	(14,665.22)	14,665.22	-	-	-	-
Unexpended plant	(720,884.00)	-	-	720,884.00	-	-
Renewals and replacements	(5,930.00)	-	-	-	5,930.00	-
Total transfers	<u>(741,479.22)</u>	<u>14,665.22</u>	<u>-</u>	<u>720,884.00</u>	<u>5,930.00</u>	<u>-</u>
Net increases (decrease) for the year	709,983.75	67,615.83	-	568,560.15	(132,010.55)	1,148,902.43
Fund balances at beginning of year	<u>1,318,755.59</u>	<u>161,734.01</u>	<u>37,380.00</u>	<u>813,794.91</u>	<u>434,495.60</u>	<u>31,791,899.24</u>
Fund balances at end of year	\$ <u>2,028,739.34</u>	\$ <u>229,349.84</u>	\$ <u>37,380.00</u>	\$ <u>1,382,355.06</u>	\$ <u>302,485.05</u>	\$ <u>32,940,801.67</u>

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

TENNESSEE BOARD OF REGENTS  
STATE TECHNICAL INSTITUTE AT MEMPHIS  
STATEMENT OF CURRENT FUNDS REVENUES, EXPENDITURES, AND OTHER CHANGES  
FOR THE YEAR ENDED JUNE 30, 1996

	<u>Unrestricted</u>	<u>Restricted</u>	<u>Total</u>
<b>REVENUES</b>			
Tuition and fees	\$ 7,394,104.45	\$ -	\$ 7,394,104.45
State appropriations	17,987,600.00	132,652.20	18,120,252.20
Federal grants and contracts	4,445.99	3,780,470.76	3,784,916.75
State grants and contracts	-	64,950.81	64,950.81
Local grants and contracts	-	16,374.04	16,374.04
Private gifts, grants, and contracts	604,795.33	238,975.10	843,770.43
Investment income	316,140.12	-	316,140.12
Endowment income	-	2,299.12	2,299.12
Sales and services of educational activities	924.00	-	924.00
Sales and services of auxiliary enterprises	524,610.53	-	524,610.53
Other sources	405,360.80	-	405,360.80
Total current revenues	<u>27,237,981.22</u>	<u>4,235,722.03</u>	<u>31,473,703.25</u>
<b>EXPENDITURES AND TRANSFERS</b>			
Educational and general:			
Expenditures:			
Instruction	15,813,093.73	1,786,610.49	17,599,704.22
Public service	232,595.76	-	232,595.76
Academic support	2,093,053.65	335,792.41	2,428,846.06
Student services	2,519,617.10	85,032.59	2,604,649.69
Institutional support	2,853,303.89	169,546.64	3,022,850.53
Operation and maintenance of plant	1,833,803.80	-	1,833,803.80
Scholarships and fellowships	777,715.74	1,858,739.90	2,636,455.64
Total educational and general expenditures	<u>26,123,183.67</u>	<u>4,235,722.03</u>	<u>30,358,905.70</u>
Nonmandatory transfer for:			
Unexpended plant	451,930.00	-	451,930.00
Total educational and general	<u>26,575,113.67</u>	<u>4,235,722.03</u>	<u>30,810,835.70</u>
Auxiliary enterprises:			
Expenditures			
Nonmandatory transfer for:			
Renewals and replacements	7,527.09	-	7,527.09
Total auxiliary enterprises	<u>363,249.42</u>	<u>-</u>	<u>363,249.42</u>
Total expenditures and transfers	<u>26,938,363.09</u>	<u>4,235,722.03</u>	<u>31,174,085.12</u>
<b>OTHER ADDITION (DEDUCTIONS)</b>			
Excess of restricted receipts over			
transfers to revenues	-	9,685.09	9,685.09
Indirect costs recovered	-	(4,445.99)	(4,445.99)
Refunded to grantors	-	(4,667.76)	(4,667.76)
Other deduction	-	(24,017.00)	(24,017.00)
Net increase (decrease) in fund balances	<u>\$ 299,618.13</u>	<u>\$ (23,445.66)</u>	<u>\$ 276,172.47</u>

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

TENNESSEE BOARD OF REGENTS  
STATE TECHNICAL INSTITUTE AT MEMPHIS  
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>
<b>REVENUES</b>			
Tuition and fees	\$ 7,254,481.93	\$ -	\$ 7,254,481.93
State appropriations	17,549,200.00	76,793.00	17,625,993.00
Federal grants and contracts	7,166.28	4,275,103.92	4,282,270.20
State grants and contracts	-	62,652.34	62,652.34
Local grants and contracts	-	9,735.80	9,735.80
Private gifts, grants, and contracts	511,452.91	252,828.56	764,281.47
Investment income	292,912.35	-	292,912.35
Endowment income	-	2,258.01	2,258.01
Sales and services of educational activities	682.20	-	682.20
Sales and services of auxiliary enterprises	468,471.51	-	468,471.51
Other sources	317,885.07	-	317,885.07
Total current revenues	<u>26,402,252.25</u>	<u>4,679,371.63</u>	<u>31,081,623.88</u>
<b>EXPENDITURES AND TRANSFERS</b>			
Educational and general:			
Expenditures:			
Instruction	15,214,560.22	1,793,794.07	17,008,354.29
Public service	244,668.54	-	244,668.54
Academic support	1,761,344.39	306,678.42	2,068,022.81
Student services	2,254,271.10	78,438.25	2,332,709.35
Institutional support	2,659,049.95	336,002.43	2,995,052.38
Operation and maintenance of plant	1,783,913.23	-	1,783,913.23
Scholarships and fellowships	717,096.40	2,164,458.46	2,881,554.86
Total educational and general expenditures	<u>24,634,903.83</u>	<u>4,679,371.63</u>	<u>29,314,275.46</u>
Nonmandatory transfers for:			
Restricted current funds	14,665.22	-	14,665.22
Unexpended plant	720,884.00	-	720,884.00
Total educational and general	<u>25,370,453.05</u>	<u>4,679,371.63</u>	<u>30,049,824.68</u>
Auxiliary enterprises:			
Expenditures	315,885.45	-	315,885.45
Nonmandatory transfer for:			
Renewals and replacements	5,930.00	-	5,930.00
Total auxiliary enterprises	<u>321,815.45</u>	<u>-</u>	<u>321,815.45</u>
Total expenditures and transfers	<u>25,692,268.50</u>	<u>4,679,371.63</u>	<u>30,371,640.13</u>
<b>OTHER TRANSFER AND ADDITION (DEDUCTIONS)</b>			
Excess of restricted receipts over transfers to revenues	-	69,100.36	69,100.36
Indirect costs recovered	-	(7,166.28)	(7,166.28)
Refunded to grantors	-	(8,125.37)	(8,125.37)
Transfer from unrestricted current funds	-	14,665.22	14,665.22
Other deduction	-	(858.10)	(858.10)
Net increases in fund balances	<u>\$ 709,983.75</u>	<u>\$ 67,615.83</u>	<u>\$ 777,599.58</u>

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

**Tennessee Board of Regents  
State Technical Institute at Memphis  
Notes to the Financial Statements  
June 30, 1996, and June 30, 1995**

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**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**REPORTING ENTITY**

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

**BASIS OF ACCOUNTING**

The financial statements of the institute 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 library holdings, and nonmandatory transfers, for all other cases.

**Tennessee Board of Regents  
State Technical Institute at Memphis  
Notes to the Financial Statements (Cont.)  
June 30, 1996, and June 30, 1995**

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**FUND ACCOUNTING**

To ensure observance of limitations and restrictions placed on the use of the resources available, the institute 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, except for income derived from investments of endowment and similar funds. This income is accounted for in the fund to which it is restricted or, if unrestricted, as revenues in unrestricted current funds. 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 institute 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. Restricted current funds are externally restricted and may be used only in accordance with the purposes established by their source.

**Tennessee Board of Regents  
State Technical Institute at Memphis  
Notes to the Financial Statements (Cont.)  
June 30, 1996, and June 30, 1995**

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Endowment and Similar Funds

Endowment funds are subject to the restrictions of gift instruments requiring in perpetuity that the principal be invested and only the income be used. Term endowment funds are similar to endowment funds, except that after a stated period of time or a particular event, all or part of the principal may be expended.

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

**LGIP DEPOSIT-CAPITAL PROJECTS**

Payments related to the institute's capital projects are made by the State of Tennessee's Department of Finance and Administration. The institute's estimated local share of the cost of each project is held in a separate Local Government Investment Pool (LGIP) account. As expenditures are incurred, funds are withdrawn from the LGIP account by the Tennessee Board of Regents and transferred to the Department of Finance and Administration. The funds in the account are not available to the institute for any other purpose until the project is completed and any remaining funds are released by the Tennessee Board of Regents.

**INVENTORIES**

Inventories are valued at cost, based on the most recent vendor invoice.

**Tennessee Board of Regents**  
**State Technical Institute at Memphis**  
**Notes to the Financial Statements (Cont.)**  
**June 30, 1996, and June 30, 1995**

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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.

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

The title to all the equipment purchased by the institute under the provisions of the Job Training Partnership Act resides with the U. S. Department of Labor. Therefore, this equipment is not included in the institute's plant fund assets.

STATE TECHNICAL INSTITUTE AT MEMPHIS FOUNDATION

The institute is the sole beneficiary of the State Technical Institute at Memphis Foundation. This private, nonprofit foundation is controlled by a board appointed by the institute's president and other members of the foundation's executive committee. The financial records, investments, and other financial transactions are handled by the institute, and the assets and liabilities of the foundation are included in the agency funds on the institute's balance sheet.

**NOTE 2. COMPENSATED ABSENCES**

The institute'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

**Tennessee Board of Regents  
State Technical Institute at Memphis  
Notes to the Financial Statements (Cont.)  
June 30, 1996, and June 30, 1995**

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and related benefits, the effects of which are material to the financial statements, be recorded as earned. The institute'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 \$1,487,431.71 at June 30, 1996, and \$1,439,687.03 at June 30, 1995, and increased the unrestricted current fund expenditures by \$47,744.68 for the year ended June 30, 1996, and \$77,712.72 for the year ended June 30, 1995.

**NOTE 3. CASH**

This classification includes demand deposits and petty cash on hand. At June 30, 1996, cash consisted of \$273,464.58 in bank accounts, \$17,000.00 of petty cash on hand, and \$4,742,756.21 in the State of Tennessee Local Government Investment Pool administered by the State Treasurer. At June 30, 1995, cash consisted of \$85,920.36 in bank accounts, \$17,000.00 of petty cash on hand, and \$4,097,277.18 in the State of Tennessee Local Government Investment Pool.

**NOTE 4. DEPOSITS**

As of March 1, 1996, the institute's bank accounts are in financial institutions which participate in the bank collateral pool administered by the Treasurer of the State of Tennessee. The securities pledged to protect these accounts are pledged in the aggregate rather than against each individual account. The members of the pool may be required by agreement to pay an assessment to cover any deficiency. Under this additional assessment agreement, public fund accounts covered by the pool are considered to be insured for purposes of credit risk disclosure.

At June 30, 1996, the carrying amount of the institute's deposits was \$273,464.58, and the bank balance was \$1,135,296.10. The bank balance was insured. Deposits were undercollateralized by \$3,803.91 one day in January 1996.

At June 30, 1995, the carrying amount of the institute's deposits was \$85,920.36, and the bank balance was \$823,354.70. The bank balance was insured or collateralized with securities held by the institute or by its agent in the institute's name. During the year ended June 30, 1995, the institute had uncollateralized amounts as follows: ranging from \$378,382.95 to \$413,730.18 for two days in August 1994; \$2,651.55 for one day in September 1994; from \$40,008.23 to

**Tennessee Board of Regents  
State Technical Institute at Memphis  
Notes to the Financial Statements (Cont.)  
June 30, 1996, and June 30, 1995**

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\$770,096.87 for four days in January 1995; and \$179,632.81 for one day in March 1995.

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.

**NOTE 5. INVESTMENTS**

The institute is authorized by statute to invest funds in accordance with Tennessee Board of Regents policies. Under the current policy, funds other than endowments may be invested only in obligations of the United States or its agencies backed by the full faith and credit of the United States; repurchase agreements for United States securities; certificates of deposit in banks and savings and loan associations; bankers' acceptances; commercial paper; money market mutual funds; and the State of Tennessee Local Government Investment Pool. The policy requires that investments of endowments in equity securities be limited to funds from private gifts or other sources external to the institute and that endowment investments be prudently diversified. The State Technical Institute at Memphis 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 institute's/foundation's investments are categorized below to indicate the level of risk assumed by the institute /foundation at year-end. Category 1 consists of insured or registered investments or investments for which the securities are held by the institute/foundation or its agent in the institute's/foundation's name. Category 2 consists of uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the institute's/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 institute's/foundation's name.

**Tennessee Board of Regents  
State Technical Institute at Memphis  
Notes to the Financial Statements (Cont.)  
June 30, 1996, and June 30, 1995**

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<u>June 30, 1996</u>	<u>Category</u>	<u>Carrying</u>	<u>Market</u>
	<u>1</u>	<u>Amount</u>	<u>Value</u>
U. S. government securities	\$5,880.00	\$5,880.00	\$7,072.20
Corporate stocks	<u>1,305.00</u>	1,305.00	1,305.00
	<u>\$7,185.00</u>		
Investments not susceptible to credit risk categorization:			
Mutual funds		<u>1,500.00</u>	<u>1,215.47</u>
Total investments on the balance sheet		<u>\$8,685.00</u>	<u>\$9,592.67</u>
 <u>June 30, 1995</u>			
	<u>Category</u>	<u>Carrying</u>	<u>Market</u>
	<u>1</u>	<u>Amount</u>	<u>Value</u>
U. S. government securities	\$5,880.00	\$5,880.00	\$7,383.76
Corporate stocks	<u>940.00</u>	940.00	940.00
	<u>\$6,820.00</u>		
Investments not susceptible to credit risk categorization:			
Mutual funds		<u>1,500.00</u>	<u>1,242.93</u>
Total investments on the balance sheet		<u>\$8,320.00</u>	<u>\$9,566.69</u>

**NOTE 6. PLANT FUND ENCUMBRANCES**

Plant fund encumbrances outstanding at June 30, 1996, amounted to \$10,948.60 for renewals and replacements. Plant fund encumbrances outstanding at June 30, 1995, amounted to \$12,694.00 for unexpended plant.

**Tennessee Board of Regents  
State Technical Institute at Memphis  
Notes to the Financial Statements (Cont.)  
June 30, 1996, and June 30, 1995**

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**NOTE 7. PENSION PLANS**

Defined Benefit Plan

All the institute'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 \$10,282,198.14 for the year ended June 30, 1996, and \$10,398,461.84 for the year ended June 30, 1995. The institute's total payroll was \$17,706,961.28 for the year ended June 30, 1996, and \$17,199,858.40 for the year ended June 30, 1995.

TCRS members may retire at age 60 with five years of service or at any age with 30 years of service. Early retirement with reduced benefits is available to vested members who are at least age 55 or have 25 years of service. 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 institute 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 institute 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, 1996, was \$650,862.45, and for the year ended June 30, 1995, was \$658,222.34, which both represented 6.33% 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

**Tennessee Board of Regents  
State Technical Institute at Memphis  
Notes to the Financial Statements (Cont.)  
June 30, 1996, and June 30, 1995**

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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, 1996, and at June 30, 1995, determined through an actuarial update performed as of June 30, 1996, was \$11,610.6 million and through an actuarial valuation performed as of June 30, 1995, was \$10,697.4 million. The net assets, at cost or amortized cost, available for benefits were \$12,925.0 million at June 30, 1996, and \$11,566.8 million at June 30, 1995, leaving assets in excess of pension benefit obligation of \$1,314.4 million at June 30, 1996, and \$869.4 million at June 30, 1995. The market value of the net assets available for benefits was \$14,100.9 million at June 30, 1996, and \$12,552.1 million at June 30, 1995. The institute's 1996 and 1995 contributions represented .22% and .23% 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, 1996, *Tennessee Consolidated Retirement System Comprehensive Annual Financial Report*.

#### Defined Contribution Plans

The institute 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 institute to contribute an amount equal to 10% of the employee's base salary up to the social security wage base and 11% above the social security wage base. Members are fully vested upon entry into the plans.

The payroll for employees covered by the defined contribution plans was \$4,215,712.31 for the year ended June 30, 1996, and \$4,229,284.25 for the year ended June 30, 1995. The institute's total payroll was \$17,706,961.28 for the year ended June 30, 1996, and \$17,199,858.40 for the year ended June 30, 1995. The required contribution made by the institute for the year ended June 30, 1996, was

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\$422,026.28, and for the year ended June 30, 1995, was \$423,085.30, which both represented 10% of the covered payroll.

Deferred Compensation

Effective January 1996, the institute, through the State of Tennessee, offers its employees a deferred compensation plan established pursuant to *Internal Revenue Code*, Section 401(k). Excluding the \$20 college match discussed below, all costs of administering the plan are the responsibility of plan participants.

Since Section 401(k) plan assets remain the property of contributing employees, they are not presented in the State of Tennessee's financial statements. *Internal Revenue Code*, Section 401(k), establishes participation, contribution, and withdrawal provisions for the plan. Effective for the six-month period January through June 1996, the institute provided a \$20 monthly Section 401(k) match from unrestricted current funds for employees making a minimum monthly contribution of \$20 to the plan. During the year ended June 30, 1996, contributions totaling \$64,701.00 were made by employees participating in the plan with a related match of \$29,050.00 made by the institute. The current covered payroll for participating employees was \$4,345,501.00, while the total payroll for all eligible institute employees during the year was \$9,007,000.79.

**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 institute retirees. This benefit is provided and administered by the State of Tennessee. The institute 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

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the state's general fund to provide for any property losses not covered by the commercial insurance.

At June 30, 1996, the scheduled coverage for the institute was \$35,033,700 for buildings and \$12,252,700 for contents. At June 30, 1995, the scheduled coverage was \$33,365,200 for buildings and \$11,838,700 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 institute participates in the Claims Award Fund. The fund allocates the cost of providing claims servicing and claims payment by charging a premium to the institute based on a percentage of the institute'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 institute 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 institute 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 institute 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 institute 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 institute records the cost of sick leave when paid. Generally, since sick leave (earned one day per month with unlimited accumulation) is paid only when

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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 \$5,531,623.57 at June 30, 1996, and \$5,216,941.64 at June 30, 1995.

Operating Leases - The institute 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 \$269,417.12 and for personal property were \$103,621.14 for the year ended June 30, 1996. The amounts for the year ended June 30, 1995, were \$250,557.80 and \$88,603.91. All operating leases are cancelable at the lessee's option.

Construction in Progress - At June 30, 1996, outstanding commitments under construction contracts totaled \$34,772.26 for reconstructing and paving a parking lot, which will be funded by future state capital outlay appropriations.

Litigation - The institute 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, 1996, the institute had not resolved \$846.83 of questioned costs resulting from prior audits. Final resolution of these questioned costs will be determined by the grantor.

**NOTE 11. PLEDGES**

At June 30, 1996, unrecorded pledges totaled \$60,500 and were restricted to the foundation's Chance for College program and other foundation scholarships and projects. These pledges are due to be collected over the next three fiscal years in the amounts of \$20,500, \$20,000, and \$20,000. It is not practicable to estimate the net realizable value of such pledges; therefore, they are not reflected in the accompanying financial statements.

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**NOTE 12. UNRECORDED DONATION**

Property located at Wilson Road and Bender has been donated to the Tennessee Board of Regents for State Technical Institute at Memphis and Shelby State Community College. The valuation for each institution and the holder of the title have not yet been determined.