

**Tennessee Board of Regents  
Chattanooga State Technical Community College**

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

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**Leslie Bethea**  
Editor

October 6, 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. James L. Catanzaro, President  
Chattanooga State Technical Community College  
4501 Amnicola Highway  
Chattanooga, Tennessee 37406

Ladies and Gentlemen:

Transmitted herewith is the financial and compliance audit of the Tennessee Board of Regents, Chattanooga State Technical Community College, for the years ended June 30, 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 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 resulted in no audit findings.

Very truly yours,

W. R. Snodgrass  
Comptroller of the Treasury

WRS/sdr  
97/071

State of Tennessee

# **A u d i t   H i g h l i g h t s**

Comptroller of the Treasury

Division of State Audit

Financial and Compliance Audit  
**Chattanooga State Technical Community College**  
For the Years Ended June 30, 1996, and June 30, 1995

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## **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.

## **AUDIT FINDINGS**

The audit report contains no findings.

## **OPINION ON THE FINANCIAL STATEMENTS**

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

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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**  
**Chattanooga State Technical Community College**  
**For the Years Ended June 30, 1996, and June 30, 1995**

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

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

**BACKGROUND**

Chattanooga State Technical Community College began operation as Chattanooga State Technical Institute, which was established by the General Assembly in 1963. In 1973, the General Assembly granted community college status to the institute and changed its name to Chattanooga State Technical Community College. The purpose of the college is to offer highly diversified and comprehensive programs that serve the educational needs of the community; the college’s primary goal is to offer post-secondary occupational and technical training and to provide academic preparation for transfer to four-year institutions.

Pursuant to Chapter 244 of the Public Acts of 1981, Chattanooga State Technical Community College and Chattanooga State Area Vocational-Technical School were consolidated as one institution effective July 1, 1981. Established as a pilot program, the consolidation was to remain in effect for three years, after which designated legislative committees would consider continuation, modification, or termination of the program. Legislation was enacted, effective July 1, 1983, permanently merging Chattanooga State Technical Community College and Chattanooga State Area Vocational-Technical School. The Chattanooga State Area Vocational-Technical School changed its name to the Tennessee Technology Center at Chattanooga effective July 1, 1994.

## **ORGANIZATION**

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

## **AUDIT SCOPE**

The audit was limited to the period July 1, 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. Chattanooga State Technical Community College is an institution of the Tennessee Board of Regents, which is an integral part of state government. As such, the Tennessee Board of Regents has been included as a component unit in the *Tennessee Comprehensive Annual Financial Report*.

## **OBJECTIVES OF THE AUDIT**

The objectives of the audit were

1. to consider the college's internal control 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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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 March 14, 1996. A follow-up of all prior audit findings was conducted as part of the current audit.

## **RESOLVED AUDIT FINDINGS**

The current audit disclosed that the college has corrected previous audit findings concerning the adequacy of collateral securities and the need for improvement over computer system access controls.

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## **RESULTS OF THE AUDIT**

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### **AUDIT CONCLUSIONS**

#### Internal Control Structure

As part of the audit of the college'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. 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 report on the internal control structure.

#### 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***

April 2, 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 Chattanooga 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, 1996, and June 30, 1995, and have issued our report thereon dated April 2, 1997. 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 any evaluation of the structure to future periods is subject to the risk that

The Honorable W. R. Snodgrass  
April 2, 1997  
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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, 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.

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

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

April 2, 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 Chattanooga 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, 1996, and June 30, 1995, and have issued our report thereon dated April 2, 1997. 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  
April 2, 1997  
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We did, however, note certain 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**

April 2, 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 Chattanooga 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, 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 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  
April 2, 1997  
Page Two

cial statements referred to above present fairly, in all material respects, the financial position of the Tennessee Board of Regents, Chattanooga State Technical Community College, 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 April 2, 1997, 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  
CHATTANOOGA STATE TECHNICAL COMMUNITY COLLEGE  
BALANCE SHEETS  
JUNE 30, 1996, AND JUNE 30, 1995

	June 30, 1996	June 30, 1995		June 30, 1996	June 30, 1995
<u>ASSETS</u>			<u>LIABILITIES AND FUND BALANCES</u>		
Current funds:			Current funds:		
Unrestricted:			Unrestricted:		
General:			General:		
Cash and cash equivalents (Notes 3 and 4)	\$ 3,522,383.75	\$ 2,067,456.99	Liabilities:		
Accounts receivable (net of allowance of \$33,478.65 at June 30, 1996, and \$35,991.66 at June 30, 1995)	271,232.73	238,504.43	Accounts payable	\$ 218,328.05	\$ 176,001.73
Inventories	35,863.80	43,302.34	Accrued liabilities	870,538.38	787,355.49
Due from restricted current funds	343,289.06	225,857.68	Deferred revenue	909,094.00	841,034.00
Prepaid expenses and deferred charges	483,943.00	489,614.04	Student deposits	1,762.00	2,940.00
			Checks payable	1,042,246.09	-
			Total liabilities	3,041,968.52	1,807,331.22
			Fund balances:		
			Nondiscretionary allocations:		
			Allocation for working capital	227,869.58	198,301.33
			Allocation for encumbrances	138,297.13	105,951.14
			Allocation for desegregation	1,089.52	2,479.60
			Discretionary allocations:		
			Allocation for subsequent budget	723,200.00	603,500.00
			Allocation for athletic contingencies	2,551.23	2,549.43
			Unallocated	521,736.36	344,622.76
			Total fund balances	1,614,743.82	1,257,404.26
Total general	4,656,712.34	3,064,735.48	Total general	4,656,712.34	3,064,735.48
Auxiliary enterprises:			Auxiliary enterprises:		
Cash and cash equivalents (Notes 3 and 4)	10,559.79	10,183.04	Liabilities:		
Accounts receivable	13,876.99	15,091.13	Accounts payable	-	29.95
			Fund balances:		
			Nondiscretionary allocation:		
			Allocation for working capital	13,876.99	15,091.13
			Discretionary allocation:		
			Allocation for contingencies	10,559.79	10,153.09
			Total fund balances	24,436.78	25,244.22
Total auxiliary enterprises	24,436.78	25,274.17	Total auxiliary enterprises	24,436.78	25,274.17
Total unrestricted	4,681,149.12	3,090,009.65	Total unrestricted	4,681,149.12	3,090,009.65
Restricted:			Restricted:		
Accounts and grants receivable	490,104.43	400,508.91	Liabilities:		
			Accounts payable	27,591.45	9,306.56
			Accrued liabilities	9,541.66	12,187.58
			Due to unrestricted current funds	343,289.06	225,857.68
			Total liabilities	380,422.17	247,351.82
			Fund balances	109,682.26	153,157.09
Total restricted	490,104.43	400,508.91	Total restricted	490,104.43	400,508.91
Total current funds	\$ 5,171,253.55	\$ 3,490,518.56	Total current funds	\$ 5,171,253.55	\$ 3,490,518.56
Loan funds:			Loan funds:		
Cash and cash equivalents (Notes 3 and 4)	\$ 20,361.48	\$ 20,361.48	Fund balance - restricted	\$ 20,361.48	\$ 20,361.48
Total loan funds	\$ 20,361.48	\$ 20,361.48	Total loan funds	\$ 20,361.48	\$ 20,361.48
Plant funds:			Plant funds:		
Unexpended plant:			Unexpended plant:		
Cash and cash equivalents (Notes 3 and 4)	\$ 282,938.81	\$ 288,655.87	Fund balance:		
			Unrestricted (Note 5)	\$ 282,938.81	\$ 288,655.87
Total unexpended plant	282,938.81	288,655.87	Total unexpended plant	282,938.81	288,655.87
Renewals and replacements:			Renewals and replacements:		
Cash and cash equivalents (Notes 3 and 4)	1,222,671.22	1,198,578.24	Liabilities:		
			Accounts payable	-	1,150.20
			Fund balance:		
			Unrestricted (Note 5)	1,222,671.22	1,197,428.04
Total renewals and replacements	1,222,671.22	1,198,578.24	Total renewals and replacements	1,222,671.22	1,198,578.24
Investment in plant:			Investment in plant:		
Land	1,329,000.00	1,329,000.00	Liabilities:		
Buildings	28,191,063.81	28,185,211.96	Notes payable (Note 6)	435,000.00	480,000.00
Improvements other than buildings	1,281,678.93	1,234,220.81			
Equipment	15,291,816.15	14,772,998.44	Fund balance:		
Library holdings	3,213,276.00	3,081,088.00	Net investment in plant	49,331,688.96	48,191,559.08
Construction in progress	459,854.07	69,039.87	Total investment in plant	49,766,688.96	48,671,559.08
Total investment in plant	49,766,688.96	48,671,559.08	Total plant funds	\$ 51,272,298.99	\$ 50,158,793.19
Total plant funds	\$ 51,272,298.99	\$ 50,158,793.19	Agency funds:		
Agency funds:			Cash and cash equivalents (Notes 3 and 4)	\$ 53,621.70	\$ 40,983.01
Cash and cash equivalents (Notes 3 and 4)	\$ 53,621.70	\$ 40,983.01	Total agency funds	\$ 53,621.70	\$ 40,983.01
Total agency funds	\$ 53,621.70	\$ 40,983.01			

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

TENNESSEE BOARD OF REGENTS  
 CHATTANOOGA STATE TECHNICAL COMMUNITY COLLEGE  
 STATEMENT OF CHANGES IN FUND BALANCES  
 FOR THE YEAR ENDED JUNE 30, 1996

	Current Funds			Plant Funds			
	Unrestricted	Restricted	Loan Funds	Unexpended	Renewals and Replacements	Retirement of Indebtedness	Investment In Plant
<b>REVENUES AND OTHER ADDITIONS</b>							
Unrestricted current fund revenues	\$ 28,579,682.39	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Auxiliary enterprise revenues	211,195.84	-	-	-	-	-	-
State appropriations	-	80,800.00	-	839,541.14	-	-	-
Federal grants and contracts	-	4,147,944.18	-	-	-	-	-
State grants and contracts	-	230,906.37	-	-	-	-	-
Private gifts, grants, and contracts	-	113,772.60	-	-	-	-	15,256.42
Expended for plant facilities (including \$510,028.96 charged to current fund expenditures)	-	-	-	-	-	-	1,403,911.44
Retirement of indebtedness	-	-	-	-	-	-	45,000.00
Investment income	-	-	-	15,103.98	63,821.00	-	-
Equipment use charges	-	-	-	-	107,238.00	-	-
Other	-	5,036.83	-	-	-	-	39,853.00
<b>Total revenues and other additions</b>	<b>28,790,878.23</b>	<b>4,578,459.98</b>	<b>-</b>	<b>854,645.12</b>	<b>171,059.00</b>	<b>-</b>	<b>1,504,020.86</b>
<b>EXPENDITURES AND OTHER DEDUCTIONS</b>							
Educational and general expenditures	28,242,238.81	4,579,583.56	-	-	-	-	-
Auxiliary enterprise expenditures	30,587.28	-	-	-	-	-	-
Refunded to grantors	-	19,067.88	-	-	-	-	-
Indirect costs recovered	-	23,283.37	-	-	-	-	-
Expended for plant facilities	-	-	-	741,384.46	152,498.02	-	-
Expended for noncapital items	-	-	-	118,977.72	77,177.59	-	-
Retirement of indebtedness	-	-	-	-	-	45,000.00	-
Disposal of plant facilities	-	-	-	-	-	-	321,237.25
Library holdings revaluation	-	-	-	-	-	-	42,653.73
Interest on indebtedness	-	-	-	-	-	28,805.00	-
Other	3,855.23	-	-	-	-	-	-
<b>Total expenditures and other deductions</b>	<b>28,276,681.32</b>	<b>4,621,934.81</b>	<b>-</b>	<b>860,362.18</b>	<b>229,675.61</b>	<b>73,805.00</b>	<b>363,890.98</b>
<b>TRANSFERS AMONG FUNDS-ADDITIONS (DEDUCTIONS)</b>							
Mandatory:							
Principal and interest	(73,805.00)	-	-	-	-	73,805.00	-
Nonmandatory:							
Renewals and replacements	(83,859.79)	-	-	-	83,859.79	-	-
<b>Total transfers</b>	<b>(157,664.79)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>83,859.79</b>	<b>73,805.00</b>	<b>-</b>
Net increases (decreases) for the year	356,532.12	(43,474.83)	-	(5,717.06)	25,243.18	-	1,140,129.88
Fund balances at beginning of year	1,282,648.48	153,157.09	20,361.48	288,655.87	1,197,428.04	-	48,191,559.08
Fund balances at end of year	\$ 1,639,180.60	\$ 109,682.26	\$ 20,361.48	\$ 282,938.81	\$ 1,222,671.22	\$ -	\$ 49,331,688.96

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

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

	Current Funds			Plant Funds			
	Unrestricted	Restricted	Loan Funds	Unexpended	Renewals and Replacements	Retirement of Indebtedness	Investment In Plant
<b>REVENUES AND OTHER ADDITIONS</b>							
Unrestricted current fund revenues	\$ 27,679,732.02	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Auxiliary enterprise revenues	203,061.81	-	-	-	-	-	-
State appropriations	-	97,900.00	-	1,027,694.50	-	-	-
Federal grants and contracts	-	4,216,753.88	-	-	-	-	-
State grants and contracts	-	231,340.01	-	-	-	-	-
Private gifts, grants, and contracts	-	45,066.10	-	-	-	-	15,006.50
Expended for plant facilities (including \$1,228,059.29 charged to current fund expenditures)	-	-	-	-	-	-	2,170,429.42
Retirement of indebtedness	-	-	-	-	-	-	40,000.00
Investment income	-	-	-	15,950.00	57,205.00	-	-
Equipment use charges	-	-	-	-	96,301.00	-	-
Other	-	-	-	-	-	-	36,060.00
<b>Total revenues and other additions</b>	<b>27,882,793.83</b>	<b>4,591,059.99</b>	<b>-</b>	<b>1,043,644.50</b>	<b>153,506.00</b>	<b>-</b>	<b>2,261,495.92</b>
<b>EXPENDITURES AND OTHER DEDUCTIONS</b>							
Educational and general expenditures	28,217,418.38	4,557,487.02	-	-	-	-	-
Auxiliary enterprise expenditures	30,910.03	-	-	-	-	-	-
Refunded to grantors	-	36,919.00	-	-	-	-	-
Indirect costs recovered	-	36,852.02	-	-	-	-	-
Expended for plant facilities	-	-	-	819,150.48	123,219.65	-	-
Expended for noncapital items	-	-	-	364,624.99	23,645.82	-	-
Retirement of indebtedness	-	-	-	-	-	40,000.00	-
Disposal of plant facilities	-	-	-	-	-	-	95,719.25
Library holdings revaluation	-	-	-	-	-	-	233,171.21
Interest on indebtedness	-	-	-	-	-	31,440.00	-
Equipment inventory adjustments	-	-	-	-	-	-	1,785.01
Other	23,578.42	6,640.06	-	-	-	-	-
<b>Total expenditures and other deductions</b>	<b>28,271,906.83</b>	<b>4,637,898.10</b>	<b>-</b>	<b>1,183,775.47</b>	<b>146,865.47</b>	<b>71,440.00</b>	<b>330,675.47</b>
<b>TRANSFERS AMONG FUNDS-ADDITIONS (DEDUCTIONS)</b>							
Mandatory:							
Principal and interest	(71,440.00)	-	-	-	-	71,440.00	-
Nonmandatory:							
Renewals and replacements	(32,153.09)	-	-	(59,397.84)	91,550.93	-	-
<b>Total transfers</b>	<b>(103,593.09)</b>	<b>-</b>	<b>-</b>	<b>(59,397.84)</b>	<b>91,550.93</b>	<b>71,440.00</b>	<b>-</b>
Net increases (decreases) for the year	(492,706.09)	(46,838.11)	-	(199,528.81)	98,191.46	-	1,930,820.45
Fund balances at beginning of year	1,775,354.57	199,995.20	20,361.48	488,184.68	1,099,236.58	-	46,260,738.63
<b>Fund balances at end of year</b>	<b>\$ 1,282,648.48</b>	<b>\$ 153,157.09</b>	<b>\$ 20,361.48</b>	<b>\$ 288,655.87</b>	<b>\$ 1,197,428.04</b>	<b>\$ -</b>	<b>\$ 48,191,559.08</b>

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

TENNESSEE BOARD OF REGENTS  
 CHATTANOOGA STATE TECHNICAL COMMUNITY COLLEGE  
 STATEMENT OF CURRENT FUNDS REVENUES, EXPENDITURES, AND OTHER CHANGES  
 FOR THE YEAR ENDED JUNE 30, 1996

	Unrestricted	Restricted	Total
<b>REVENUES</b>			
Tuition and fees	\$ 7,482,134.79	\$ -	\$ 7,482,134.79
State appropriations	20,137,000.00	97,613.29	20,234,613.29
Federal grants and contracts	36,029.81	4,194,421.80	4,230,451.61
State grants and contracts	756.29	212,822.08	213,578.37
Private gifts, grants, and contracts	231,224.89	74,726.39	305,951.28
Sales and services of educational activities	341,229.05	-	341,229.05
Sales and services of auxiliary enterprises	211,195.84	-	211,195.84
Interest income	231,561.70	-	231,561.70
Other sources	119,745.86	-	119,745.86
Total current revenues	<u>28,790,878.23</u>	<u>4,579,583.56</u>	<u>33,370,461.79</u>
<b>EXPENDITURES AND TRANSFERS</b>			
Educational and general expenditures:			
Instruction	16,413,726.51	961,240.58	17,374,967.09
Public service	110,280.00	366,732.38	477,012.38
Academic support	2,834,351.89	1,803.59	2,836,155.48
Student services	2,590,348.77	2,015.22	2,592,363.99
Institutional support	3,395,106.02	27,344.17	3,422,450.19
Operation and maintenance of plant	2,472,513.58	-	2,472,513.58
Scholarships and fellowships	425,912.04	3,220,447.62	3,646,359.66
Total educational and general expenditures	<u>28,242,238.81</u>	<u>4,579,583.56</u>	<u>32,821,822.37</u>
Mandatory transfer for:			
Principal and interest	73,805.00	-	73,805.00
Nonmandatory transfer for:			
Renewals and replacements	73,300.00	-	73,300.00
Total educational and general expenditures and transfers	<u>28,389,343.81</u>	<u>4,579,583.56</u>	<u>32,968,927.37</u>
Auxiliary enterprises:			
Expenditures	30,587.28	-	30,587.28
Nonmandatory transfer for:			
Renewals and replacements	10,559.79	-	10,559.79
Total auxiliary enterprises	<u>41,147.07</u>	<u>-</u>	<u>41,147.07</u>
Total expenditures and transfers	<u>28,430,490.88</u>	<u>4,579,583.56</u>	<u>33,010,074.44</u>
<b>OTHER DEDUCTIONS</b>			
Excess of transfers to revenues over restricted receipts	-	(1,123.58)	(1,123.58)
Refunded to grantors	-	(19,067.88)	(19,067.88)
Indirect costs recovered	-	(23,283.37)	(23,283.37)
Other deductions	(3,855.23)	-	(3,855.23)
Net increase (decrease) in fund balances	<u>\$ 356,532.12</u>	<u>\$ (43,474.83)</u>	<u>\$ 313,057.29</u>

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

TENNESSEE BOARD OF REGENTS  
 CHATTANOOGA 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>
<b>REVENUES</b>			
Tuition and fees	\$ 7,334,158.18	\$ -	\$ 7,334,158.18
State appropriations	19,612,600.00	102,204.39	19,714,804.39
Federal grants and contracts	22,731.00	4,208,390.18	4,231,121.18
State grants and contracts	4,878.96	207,845.69	212,724.65
Private gifts, grants, and contracts	38,648.33	39,046.76	77,695.09
Sales and services of educational activities	339,597.29	-	339,597.29
Sales and services of auxiliary enterprises	203,061.81	-	203,061.81
Interest income	239,727.75	-	239,727.75
Other sources	87,390.51	-	87,390.51
Total current revenues	<u>27,882,793.83</u>	<u>4,557,487.02</u>	<u>32,440,280.85</u>
<b>EXPENDITURES AND TRANSFERS</b>			
Educational and general expenditures:			
Instruction	16,842,991.52	893,290.91	17,736,282.43
Public service	82,466.15	300,521.75	382,987.90
Academic support	2,826,954.84	4,682.62	2,831,637.46
Student services	2,377,711.19	120,668.95	2,498,380.14
Institutional support	3,381,737.83	16,650.22	3,398,388.05
Operation and maintenance of plant	2,462,265.68	-	2,462,265.68
Scholarships and fellowships	243,291.17	3,221,672.57	3,464,963.74
Total educational and general expenditures	<u>28,217,418.38</u>	<u>4,557,487.02</u>	<u>32,774,905.40</u>
Mandatory transfer for:			
Principal and interest	71,440.00	-	71,440.00
Nonmandatory transfer for:			
Renewals and replacements	22,000.00	-	22,000.00
Total educational and general expenditures and transfers	<u>28,310,858.38</u>	<u>4,557,487.02</u>	<u>32,868,345.40</u>
Auxiliary enterprises:			
Expenditures	30,910.03	-	30,910.03
Nonmandatory transfer:			
Renewals and replacements	10,153.09	-	10,153.09
Total auxiliary enterprises	<u>41,063.12</u>	<u>-</u>	<u>41,063.12</u>
Total expenditures and transfers	<u>28,351,921.50</u>	<u>4,557,487.02</u>	<u>32,909,408.52</u>
<b>OTHER ADDITION/(DEDUCTIONS)</b>			
Excess of restricted receipts over transfers to revenues	-	33,572.97	33,572.97
Refunded to grantors	-	(36,919.00)	(36,919.00)
Indirect costs recovered	-	(36,852.02)	(36,852.02)
Other deductions	(23,578.42)	(6,640.06)	(30,218.48)
Net decreases in fund balances	<u>\$ (492,706.09)</u>	<u>\$ (46,838.11)</u>	<u>\$ (539,544.20)</u>

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

**Tennessee Board of Regents**  
**Chattanooga State Technical Community College**  
**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 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**  
**Chattanooga State Technical Community College**  
**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 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 investments, receivables, and the like is accounted for in the fund owning such assets. All other unrestricted revenue is accounted for in the unrestricted current funds. Restricted gifts, grants, appropriations, and other restricted resources are accounted for in the appropriate restricted funds. Restricted current funds are reported as revenues and expenditures when expended for current operating purposes.

Current Funds

Unrestricted current funds consist of those funds over which the 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 the cafeteria and bookstore. Restricted current funds are externally restricted and may be used only in accordance with the purposes established by their source.

**Tennessee Board of Regents**  
**Chattanooga State Technical Community College**  
**Notes to the Financial Statements (Cont.)**  
**June 30, 1996, and June 30, 1995**

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Loan Funds

Loan funds consist of resources made available for student loans.

Plant Funds

The plant funds group consists of (1) funds set aside for the acquisition of physical properties for institutional purposes, (2) funds set aside for the renewal and replacement of institutional properties, (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 items are maintained on a first-in, first-out basis.

**CHECKS PAYABLE**

These amounts represent the sum of checks written in excess of the college's checking account balance because of the college's use of a sweep account. Each evening amounts exceeding a predetermined balance are automatically invested in overnight repurchase agreements to maximize interest income.

**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,

**Tennessee Board of Regents**  
**Chattanooga State Technical Community College**  
**Notes to the Financial Statements (Cont.)**  
**June 30, 1996, and June 30, 1995**

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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 college charges renewal and replacement of plant assets to current expenditures; these charges are also reported as additions to funds for renewals and replacements.

**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 \$1,090,840.77 at June 30, 1996, and \$1,016,040.78 at June 30, 1995, and increased the unrestricted current fund expenditures by \$74,799.99 for the year ended June 30, 1996, and by \$29,223.91 for the year ended June 30, 1995.

**NOTE 3. CASH AND CASH EQUIVALENTS**

In addition to demand deposits and petty cash on hand, this classification includes instruments which are readily convertible to known amounts of cash and which have original maturities of three months or less. At June 30, 1996, cash and cash equivalents consisted of \$3,845.00 in petty cash on hand, \$1,221,242.11 in overnight repurchase agreements, and \$3,887,449.64 in the State of Tennessee Local Government

**Tennessee Board of Regents**  
**Chattanooga State Technical Community College**  
**Notes to the Financial Statements (Cont.)**  
**June 30, 1996, and June 30, 1995**

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Investment Pool administered by the State Treasurer. At June 30, 1995, cash and cash equivalents consisted of \$168,011.99 in bank accounts, \$3,845.00 of petty cash on hand, and \$3,454,361.64 in the State of Tennessee Local Government Investment Pool.

The college is authorized by statute to invest funds in accordance with Tennessee Board of Regents policies. Under the current policy, funds other than endowments may be invested only in obligations of the United States or its agencies 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.

Excess balances in the college's operating account, a "sweep" account, were automatically invested in overnight repurchase agreements during the years ended June 30, 1996, and June 30, 1995. The college had \$1,221,242.11 invested in overnight repurchase agreements at June 30, 1996. This amount is classified as cash and cash equivalents on the college's financial statements. The market value of the securities underlying the repurchase agreements at June 30, 1996, was \$1,245,666.96. No excess funds were invested in overnight repurchase agreements at June 30, 1995.

Investments are categorized to indicate the level of risk assumed by the college. Category 1 consists of insured or registered investments or investments for which the securities are held by the college or its agent in the college's name. Category 2 consists of uninsured or unregistered investments for which the securities are held by the counterparty's trust department or agent in the college'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 college's name.

The college's investments in overnight repurchase agreements at June 30, 1996, are reported as category 3. In all cases, during the years ended June 30, 1996, and June 30, 1995, the underlying securities were held by the financial institution's dealer but not in the college's name.

**Tennessee Board of Regents**  
**Chattanooga State Technical Community College**  
**Notes to the Financial Statements (Cont.)**  
**June 30, 1996, and June 30, 1995**

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**NOTE 4. DEPOSITS**

Deposits with financial institutions are required to be categorized to indicate the level of risk assumed by the college. Category 1 consists of deposits that are insured or collateralized with securities held by the college or by its agent in the college's name. Category 2 consists of deposits collateralized with securities held by the pledging financial institution's trust department or agent in the college's name. Category 3 deposits are uncollateralized. This category includes any bank balance that is collateralized with securities held by the pledging financial institution or by its trust department or agent but not in the college's name.

Effective November 1, 1995, three of the college'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. Two other small depository accounts are covered by FDIC insurance.

At June 30, 1996, the carrying amount of the college's deposits was zero, and the bank balance was \$2,920.41. The bank balance was category 1.

At June 30, 1995, the carrying amount of the college's deposits was \$168,011.99, and the bank balance was \$1,198,756.35. The bank balance was category 1.

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. PLANT FUND ENCUMBRANCES**

Plant fund encumbrances outstanding at June 30, 1996, amounted to \$53,083.26 for renewals and replacements. Plant fund encumbrances outstanding at June 30, 1995, amounted to \$432.00 for unexpended plant and \$28,829.00 for renewals and replacements.

## NOTE 6. NOTES PAYABLE

The Tennessee Board of Regents, on behalf of the college, borrowed funds to purchase a building for instructional use. The notes, with interest rates ranging from 6.2% to 6.6%, are due serially to the year 2003. The balance owed by the college was \$435,000 at June 30, 1996, and \$480,000 at June 30, 1995.

The college's debt service requirements to maturity for all notes payable at June 30, 1996, are as follows:

<u>Year Ending</u> <u>June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
1997	\$ 45,000	\$ 26,015	\$ 71,015
1998	45,000	23,225	68,225
1999	50,000	20,280	70,280
2000	55,000	17,025	72,025
2001	55,000	13,615	68,615
2002-2003	<u>185,000</u>	<u>18,375</u>	<u>203,375</u>
	<u>\$435,000</u>	<u>\$118,535</u>	<u>\$553,535</u>

## NOTE 7. 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 \$10,278,878.15 for the year ended June 30, 1996, and \$10,071,141.54 for the year ended June 30, 1995. The college's total payroll was \$18,679,882.33 for the year ended June 30, 1996, and \$17,982,081.74 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 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, 1996, was \$650,666.92, and for the year ended June 30, 1995, was \$637,504.63, 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 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 college'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 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 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 \$5,882,352.40 for the year ended June 30, 1996, and \$5,517,783.44 for the year ended June 30, 1995. The college's total payroll was \$18,679,882.33 for the year ended June 30, 1996, and \$17,982,081.74 for the year ended June 30, 1995. The required contribution made by the college for the year ended June 30, 1996, was \$588,761.01, and for the year ended June 30, 1995, was \$552,149.11, which both represented 10% of the covered payroll.

#### Deferred Compensation

Effective January 1996, the college, 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 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 college 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 \$95,322.00 were made by employees participating in the plan with a related match of \$30,260.00 made by the college. The current covered payroll for participating employees was \$5,441,573.69, while the total payroll for all eligible college employees during the year was \$7,534,756.45.

A second plan is administered by the college and was established in accordance with *Internal Revenue Code*, Section 403(b). All costs of administering and funding these plans are the responsibility of plan participants. In accordance with the *Internal Revenue Code*, employee contributions through the 403(b) plan remain the assets of the employee; therefore, these employee contributions are not reflected in the college's financial statements.

**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 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 9. INSURANCE-RELATED ACTIVITIES**

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

At June 30, 1996, the scheduled coverage for the college was \$45,310,200 for buildings and \$23,876,000 for contents. At June 30, 1995, the scheduled coverage was \$43,941,600 for buildings and \$20,743,900 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 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 10. 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 \$5,150,420.80 at June 30, 1996, and \$4,971,510.71 at June 30, 1995.

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 \$325,775.39 for the year ended June 30, 1996. The amount for the year ended June 30, 1995, was \$312,941.20. All operating leases are cancelable at the lessee's option.

Construction in Progress - At June 30, 1996, outstanding commitments under construction contracts totaled \$1,937,658.90 for the warehouse and the diesel shop, all of which 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, 1996, the college had not resolved \$252.00 of questioned costs resulting from prior audits. Final resolution of these questioned costs will be determined by the grantor.

#### **NOTE 11. AFFILIATED ENTITY NOT INCLUDED**

The college is the sole beneficiary of the Chattanooga State Technical Community College Foundation. This private, nonprofit foundation is controlled by a board inde-

## CSTCC

Items Discussed at Exit

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pendent of the college. The financial records, investments, and other financial transactions are not handled by the college, and these amounts are not included in the college's financial statements. As reported in the foundation's most recently audited financial report, at June 30, 1996, the foundation's assets totaled \$3,145,121.50, liabilities were \$29,368.87, and the fund balance amounted to \$3,115,752.63.