Tennessee Board of Regents
Tennessee Technology Center at Athens

For the Year Ended
June 30, 1998

Arthur A. Hayes, Jr., CPA
Director

Charles K. Bridges, CPA
Assistant Director

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Erica V. Smith, CPA
Technical Analyst

Jane Russ
Editor

June 30, 1999

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
Ms. Margaret Mahery, Director
Tennessee Technology Center at Athens
P. O. Box 848
Athens, Tennessee 37371

Ladies and Gentlemen:

Transmitted herewith is the financial and compliance audit of the Tennessee Board of Regents, Tennessee Technology Center at Athens, for the year ended June 30, 1998. You will note from the independent auditor's report that a qualified opinion was given on the fairness of the presentation of the financial statements. The center has elected not to record the liability for accrued compensated absences in its financial statements. In our opinion, accrued compensated absences should be recorded to conform with generally accepted accounting principles.

Consideration of internal control over financial reporting and tests of compliance disclosed one deficiency, which is detailed in the Results of the Audit section of this report. The center'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.

Sincerely,

John G. Morgan
Comptroller of the Treasury

JGM/sdr
99/037

State of Tennessee

Audit Highlights

Comptroller of the Treasury — Division of State Audit

Financial and Compliance Audit
Tennessee Technology Center at Athens
For the Year Ended June 30, 1998

Audit Objectives

The objectives of the audit were to consider the center's internal control over financial reporting; to determine compliance with certain provisions of 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

Failure to Monitor and Update Its Equipment Listing
The center did not remove surplused items from its year-end equipment listing (page 6).

The reportable condition described above was considered a material weakness. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements 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.

Opinion on the Financial Statements

The opinion on the financial statements is qualified. The center omitted the liability for accrued compensated absences from the financial statements.

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

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

Audit Report
Tennessee Board of Regents
Tennessee Technology Center at Athens
For the Year Ended June 30, 1998

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Tennessee Technology Center at Athens
For the Year Ended June 30, 1998

INTRODUCTION

POST-AUDIT AUTHORITY

This is a report on the financial and compliance audit of the Tennessee Board of Regents, Tennessee Technology Center at Athens. 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

A statewide system of area vocational-technical schools was established in 1963 by Section 49-11-401, *Tennessee Code Annotated*, to meet the occupational and technical training needs of the citizens of the state, including employees and future employees of existing and prospective industries and businesses in the state. The area vocational-technical schools were governed by the State Board of Education until July 1, 1983. At that time, governance was transferred by Section 49-11-402, *Tennessee Code Annotated*, to the Tennessee Board of Regents. Effective July 1, 1994, the area vocational-technical schools became state technology centers. The Tennessee Technology Center at Athens began operation in 1966.

ORGANIZATION

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

AUDIT SCOPE

The audit was limited to the period July 1, 1997, through June 30, 1998, and was conducted in accordance with generally accepted government auditing standards. Financial statements are presented for the year ended June 30, 1998, and for comparative purposes, the year ended June 30, 1997. The Tennessee Technology Center at Athens 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 center's internal control over financial reporting to determine auditing procedures for the purpose of expressing an opinion on the financial statements;

2. to determine compliance with certain provisions of 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.

PRIOR AUDIT FINDINGS

There were no findings in the prior audit report.

RESULTS OF THE AUDIT

AUDIT CONCLUSIONS

Internal Control

As part of the audit of the center's financial statements for the year ended June 30, 1998, we considered internal control over financial reporting to determine auditing procedures for the purpose of expressing an opinion on the financial statements, as required by generally accepted government auditing standards. A reportable condition, along with the recommendation and management's response, is detailed in the finding and recommendation. Consideration of internal control over financial reporting disclosed one material weakness.

Compliance

The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Fairness of Financial Statement Presentation

The Division of State Audit has rendered a qualified opinion on the center's financial statements. The center has elected not to accrue the liability for compensated absences, an accounting practice contrary to generally accepted accounting principles.

Report on Compliance and on Internal Control
Over Financial Reporting Based on an Audit of
Financial Statements Performed in Accordance With
Government Auditing Standards

February 12, 1999

The Honorable John G. Morgan
Comptroller of the Treasury
State Capitol
Nashville, Tennessee 37243

Dear Mr. Morgan:

We have audited the financial statements of the Tennessee Technology Center at Athens, an institution of the Tennessee Board of Regents, which is a component unit of the State of Tennessee, as of and for the year ended June 30, 1998, and have issued our report thereon dated February 12, 1999. Our report was qualified. The center omitted the liability for compensated absences from the balance sheets. We conducted our audit in accordance with generally accepted government auditing standards.

Compliance

As part of obtaining reasonable assurance about whether the center's financial statements are free of material misstatement, we performed tests of the center's compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

We did, however, note certain other less significant instances of noncompliance which we have reported to the center's management in a separate letter.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the center's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted one matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the center's ability to record, process, summarize, and report financial data consistent with management's assertions in the financial statements.

The following reportable condition was noted: Failure to monitor and update its equipment listing. This condition is described in the Finding and Recommendation section of this report.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements 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 over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition described above is a material weakness.

We also noted other matters involving the internal control over financial reporting, which we have reported to the center's management in a separate letter.

This report is intended solely for the information and use of the General Assembly of the State of Tennessee and management and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record, and its distribution is not limited.

Sincerely,

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

AAH/sdr

FINDING AND RECOMMENDATION

Failure to monitor and update its equipment listing

Finding

The Tennessee Technology Center at Athens did not prudently manage its equipment records. The center failed to notify its lead institution, Cleveland State Community College, to remove surplused items from the equipment listing.

Six of 29 equipment items tested (20.7%) from the year-end equipment listing had not been removed from the list. The six items totaling $8,893.37 had been either sold at auction or disassembled for parts before the fiscal year ended. Because of the high error rate and the amount of misstatement in the sample, the auditors could not rely on the equipment listing and asked management to revise the listing.

A comparison of the revised equipment listing management provided for June 30, 1998, with the original equipment listing revealed 44 surplused equipment items totaling $121,933.15. The six items discussed in the preceding paragraph were part of the 44 items removed. A new sample of equipment items was selected to test the reliability of the equipment listing. No errors were discovered in the sample. The equipment total on the balance sheet was then adjusted to reflect the items deleted from the original total.

If management does not monitor equipment, items could be misplaced, used for unofficial purposes, or stolen.

Recommendation

Management should periodically review its equipment listing to ensure the listing remains up-to-date and to remove obsolete items.

Management's Comment

We concur. The school had experienced transitions in staff and had undergone a comprehensive renovation which could account for errors in equipment inventories. In order to insure greater accuracy in equipment inventory the assistant director has begun the process of a complete inventory review. A plan for the timely removal or addition of equipment inventory items is being developed.

The purchasing agent at Cleveland State Community College has provided the Tennessee Technology Center at Athens assistant director with a current inventory printout. The inventory items have been sorted by location code and a systematic location inventory is in the process of completion. The assistant director will work with each instructor and department head to determine which items are currently physically present at the school. Items which are present but which are not listed on the equipment inventory will be assigned an inventory number and added to the equipment inventory list. Currently this process is underway and is 30% complete. The inventory process should be complete by the end of July 1999.

Future equipment purchases of $1,000 or more will be assigned an inventory number by the purchasing agent at Cleveland State Community College. Once the inventory number has been assigned it will be permanently attached by the assistant director of Tennessee Technology Center at Athens. A separate equipment inventory list will be kept by each instructor and department head. The individual inventories will be reconciled each March with the master inventory list from the lead institution. The assistant director will be responsible to see that the items listed on the master inventory are in fact in the physical location identified by the master list and that the items are properly identified with inventory control numbers assigned by the Cleveland State Community College purchasing agent.

Independent Auditor's Report

February 12, 1999

The Honorable John G. Morgan
Comptroller of the Treasury
State Capitol
Nashville, Tennessee 37243

Dear Mr. Morgan:

We have audited the accompanying balance sheets of the Tennessee Technology Center at Athens, an institution of the Tennessee Board of Regents, which is a component unit of the State of Tennessee, as of June 30, 1998, and June 30, 1997, and the related statements of changes in fund balances and current funds revenues, expenditures, and other changes for the years then ended. These financial statements are the responsibility of the center's management. Our responsibility is to express an opinion on these financial statements, based on our audit.

We conducted our audits in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

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

The Honorable John G. Morgan
February 12, 1999
Page Two

In our opinion, except for the effects of not including the liability for accrued compensated absences in the accompanying balance sheets, as discussed in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of the Tennessee Board of Regents, Tennessee Technology Center at Athens, as of June 30, 1998, and June 30, 1997, 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.

The Year 2000 Disclosures on page 23 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and do not express an opinion on it. In addition, we do not provide assurance that Tennessee Technology Center at Athens is or will become year 2000 compliant, that Tennessee Technology Center at Athens' year 2000 remediation efforts will be successful in whole or part, or that parties with which Tennessee Technology Center at Athens does business are or will become year 2000 compliant.

As discussed in Note 8 to the financial statements, the center changed the threshold for capitalizing equipment.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 12, 1999, on our consideration of the center's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants.

Sincerely,

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

AAH/sdr

Exhibit A

TENNESSEE BOARD OF REGENTS
TENNESSEE TECHNOLOGY CENTER AT ATHENS
BALANCE SHEETS
JUNE 30, 1998, AND JUNE 30, 1997

ASSETS	June 30, 1998	June 30, 1997
Current funds:		
Unrestricted:		
General:		
Cash (Note 3)	$ 25,689.11	$ 12,592.28
Accounts receivable	12,286.05	23,393.15
Due from restricted current funds	47,069.57	9,862.70
Total general	85,044.73	45,848.13
Auxiliary enterprises:		
Cash (Note 3)	10,523.17	3,927.74
Accounts receivable	1,431.86	658.33
Inventories	15,247.79	13,687.06
Total auxiliary enterprises	27,202.82	18,273.13
Total unrestricted	112,247.55	64,121.26
Restricted:		
Grants receivable	47,258.93	10,035.98
Total restricted	47,258.93	10,035.98
Total current funds	$ 159,506.48	$ 74,157.24
Plant funds:		
Unexpended plant:		
Cash (Note 3)	$ 129.26	$ 129.26
Total unexpended plant	129.26	129.26
Renewals and replacements:		
Cash (Note 3)	29,082.26	45,288.69
Total renewals and replacements	29,082.26	45,288.69

LIABILITIES AND FUND BALANCES	June 30, 1998	June 30, 1997
Current funds:		
Unrestricted:		
General:		
Liabilities:		
Accounts payable	$ 4,239.25	$ 4,661.57
Accrued liabilities	1,209.37	1,119.80
Total liabilities	5,448.62	5,781.37
Fund balances:		
Nondiscretionary allocations:		
Allocation for working capital	12,286.05	23,393.15
Allocation for encumbrances	15,713.10	1,087.00
Discretionary allocations:		
Allocation for subsequent budget	20,400.00	14,300.00
Unallocated	31,196.96	1,286.61
Total fund balances	79,596.11	40,066.76
Total general	85,044.73	45,848.13
Auxiliary enterprises:		
Liabilities:		
Accounts payable	-	27.50
Total liabilities	-	27.50
Fund balances:		
Nondiscretionary allocation:		
Allocation for working capital	16,779.65	14,445.39
Allocation for encumbrances	7,475.01	1,155.13
Discretionary allocation:		
Allocation for contingencies	2,948.16	2,645.11
Total fund balances	27,202.82	18,245.63
Total auxiliary enterprises	27,202.82	18,273.13
Total unrestricted	112,247.55	64,121.26
Restricted:		
Liabilities:		
Accounts payable	189.36	173.28
Due to unrestricted current funds	47,069.57	9,862.70
Total liabilities	47,258.93	10,035.98
Total restricted	47,258.93	10,035.98
Total current funds	$ 159,506.48	$ 74,157.24
Plant funds:		
Unexpended plant:		
Fund balances:		
Unrestricted	129.26	129.26
Total unexpended plant	129.26	129.26
Renewals and replacements:		
Liabilities:		
Accounts payable	-	7,728.54
Fund balance:		
Unrestricted	29,082.26	37,560.15
Total renewals and replacements	29,082.26	45,288.69

Exhibit A (Cont.)

TENNESSEE BOARD OF REGENTS
TENNESSEE TECHNOLOGY CENTER AT ATHENS
BALANCE SHEETS
JUNE 30, 1998, AND JUNE 30, 1997

	June 30, 1998	June 30, 1997		June 30, 1998	June 30, 1997
ASSETS			LIABILITIES AND FUND BALANCES		
Investment in plant:			Investment in plant:		
Land	16,430.00	16,430.00	Fund balance:		
Buildings	614,776.54	614,776.54	Net investment in plant	4,556,451.83	4,546,590.61
Improvements other than buildings	21,500.00	21,500.00			
Equipment	1,316,251.92	1,458,150.92			
Construction in progress	2,587,493.37	2,435,733.15			
Total investment in plant	4,556,451.83	4,546,590.61	Total investment in plant	4,556,451.83	4,546,590.61
Total plant funds	$ 4,585,663.35	$ 4,592,008.56	Total plant funds	$ 4,585,663.35	$ 4,592,008.56
Agency funds:			Agency funds:		
Cash (Note 3)	$ 25,485.94	$ 17,053.19	Liabilities:		
			Deposits held in custody for others	$ 25,485.94	$ 17,053.19
Total agency funds	$ 25,485.94	$ 17,053.19	Total agency funds	$ 25,485.94	$ 17,053.19

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

Exhibit B

TENNESSEE BOARD OF REGENTS
TENNESSEE TECHNOLOGY CENTER AT ATHENS
STATEMENT OF CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 1998

	Current Funds		Plant Funds		
	Unrestricted	Restricted	Unexpended	Renewals and Replacements	Investment In Plant
REVENUES AND OTHER ADDITIONS					
Unrestricted current funds revenues	$ 1,050,896.38	$ -	$ -	$ -	$ -
Auxiliary enterprise revenues	58,963.20	-	-	-	-
State appropriations	-	-	153,336.03	-	-
Federal grants and contracts	-	254,772.30	-	-	-
Interest income	-	-	-	1,781.01	-
Expended for plant facilities (including $37,215.32 charged to current fund expenditures)	-	-	-	-	211,234.44
Total revenues and other additions	1,109,859.58	254,772.30	153,336.03	1,781.01	211,234.44
EXPENDITURES AND OTHER DEDUCTIONS					
Education and general expenditures	1,003,026.70	247,913.30	-	-	-
Auxiliary enterprise expenditures	46,346.34	-	-	-	-
Indirect costs recovered	-	6,859.00	-	-	-
Expended for plant facilities	-	-	151,760.22	22,258.90	-
Expended for noncapital items	-	-	1,575.81	-	-
Disposal of plant facilities	-	-	-	-	137,132.15
Total expenditures and other deductions	1,049,373.04	254,772.30	153,336.03	22,258.90	137,132.15
TRANSFERS AMONG FUNDS - ADDITION AND (DEDUCTION)					
Nonmandatory:					
Renewals and replacements	(12,000.00)	-	-	12,000.00	-
Total transfers	(12,000.00)	-	-	12,000.00	-
Net increases (decrease) for the year	48,486.54	-	-	(8,477.89)	74,102.29
Fund balance at July 1, 1997, restated (Note 8)	58,312.39	-	129.26	37,560.15	4,482,349.54
Fund balance at June 30, 1998	$ 106,798.93	$ -	$ 129.26	$ 29,082.26	$ 4,556,451.83

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

Exhibit C

TENNESSEE BOARD OF REGENTS
TENNESSEE TECHNOLOGY CENTER AT ATHENS
STATEMENT OF CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 1997

	Current Funds		Plant Funds		
	Unrestricted	Restricted	Unexpended	Renewals and Replacements	Investment In Plant
REVENUES AND OTHER ADDITIONS					
Unrestricted current funds revenues	$ 943,560.82	$ -	$ -	$ -	$ -
Auxiliary enterprise revenues	52,902.19	-	-	-	-
State appropriations	-	-	2,742,033.47	-	-
Federal grants and contracts	-	218,180.56	-	-	-
Interest income	-	-	-	2,350.97	-
Expended for plant facilities (including $20,070.00 charged to current fund expenditures)	-	-	-	-	2,766,750.49
Total revenues and other additions	996,463.01	218,180.56	2,742,033.47	2,350.97	2,766,750.49
EXPENDITURES AND OTHER DEDUCTIONS					
Education and general expenditures	954,169.81	220,678.28	-	-	-
Auxiliary enterprise expenditures	50,388.57	-	-	-	-
Indirect costs recovered	-	2,960.34	-	-	-
Expended for plant facilities	-	-	2,738,951.95	7,728.54	-
Expended for noncapital items	-	-	3,081.52	-	-
Disposal of plant facilities	-	-	-	-	100,265.83
Total expenditures and other deductions	1,004,558.38	223,638.62	2,742,033.47	7,728.54	100,265.83
Net increase (decreases) for the year	(8,095.37)	(5,458.06)	-	(5,377.57)	2,666,484.66
Fund balance at July 1, 1996	66,407.76	5,458.06	129.26	42,937.72	1,880,105.95
Fund balance at June 30, 1997	$ 58,312.39	$ -	$ 129.26	$ 37,560.15	$ 4,546,590.61

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

Exhibit D

TENNESSEE BOARD OF REGENTS
TENNESSEE TECHNOLOGY CENTER AT ATHENS
STATEMENT OF CURRENT FUNDS REVENUES, EXPENDITURES, AND OTHER CHANGES
FOR THE YEAR ENDED JUNE 30, 1998

	Unrestricted	Restricted	Total
REVENUES			
Tuition and fees	$ 128,590.50	$ -	$ 128,590.50
State appropriations	844,710.00	-	844,710.00
Federal grants and contracts	6,944.00	247,913.30	254,857.30
Private gifts, grants, and contracts	62,898.00	-	62,898.00
Sales and services of educational activities	570.00	-	570.00
Sales and services of auxiliary enterprises	58,963.20	-	58,963.20
Other sources	7,183.88	-	7,183.88
Total current revenues	1,109,859.58	247,913.30	1,357,772.88
EXPENDITURES AND TRANSFER			
Educational and general expenditures:			
Instruction	591,648.06	76,931.38	668,579.44
Student services	105,860.74	44,639.92	150,500.66
Institutional support	160,608.35	-	160,608.35
Operation and maintenance of plant	143,584.55	-	143,584.55
Scholarships and fellowships	1,325.00	126,342.00	127,667.00
Total educational and general expenditures	1,003,026.70	247,913.30	1,250,940.00
Nonmandatory transfer for:			
Renewals and replacements	12,000.00	-	12,000.00
Total educational and general	1,015,026.70	247,913.30	1,262,940.00
Auxiliary enterprises			
Expenditures	46,346.34	-	46,346.34
Total auxiliary enterprises	46,346.34	-	46,346.34
Total expenditures and transfer	1,061,373.04	247,913.30	1,309,286.34
OTHER ADDITION (DEDUCTION)			
Excess of restricted receipts over transfers to revenues	-	6,859.00	6,859.00
Indirect costs recovered	-	(6,859.00)	(6,859.00)
Net increases in fund balances	$ 48,486.54	$ -	$ 48,486.54

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

Exhibit E

TENNESSEE BOARD OF REGENTS
TENNESSEE TECHNOLOGY CENTER AT ATHENS
STATEMENT OF CURRENT FUNDS REVENUES, EXPENDITURES, AND OTHER CHANGES
FOR THE YEAR ENDED JUNE 30, 1997

	Unrestricted	Restricted	Total
REVENUES			
Tuition and fees	$ 80,801.80	$ -	$ 80,801.80
State appropriations	791,700.00	-	791,700.00
Federal grants and contracts	1,548.65	220,678.28	222,226.93
Private gifts, grants, and contracts	59,118.70	-	59,118.70
Sales and services of educational activities	2,465.00	-	2,465.00
Sales and services of auxiliary enterprises	52,902.19	-	52,902.19
Other sources	7,926.67	-	7,926.67
Total current revenues	996,463.01	220,678.28	1,217,141.29
EXPENDITURES			
Educational and general expenditures:			
Instruction	601,401.12	94,295.41	695,696.53
Student services	111,327.30	27,937.87	139,265.17
Institutional support	149,289.81	-	149,289.81
Operation and maintenance of plant	90,926.58	-	90,926.58
Scholarships and fellowships	1,225.00	98,445.00	99,670.00
Total educational and general	954,169.81	220,678.28	1,174,848.09
Auxiliary enterprises			
Expenditures	50,388.57	-	50,388.57
Total auxiliary enterprises	50,388.57	-	50,388.57
Total expenditures	1,004,558.38	220,678.28	1,225,236.66
OTHER DEDUCTIONS			
Excess of transfers to revenues over restricted receipts	-	(2,497.72)	(2,497.72)
Indirect costs recovered	-	(2,960.34)	(2,960.34)
Net decreases in fund balances	$ (8,095.37)	$ (5,458.06)	$ (13,553.43)

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

Tennessee Board of Regents
Tennessee Technology Center at Athens
Notes to the Financial Statements
June 30, 1998, and June 30, 1997

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The center is part of the State University and Community College System of Tennessee (Tennessee Board of Regents). This system is a component unit of the State of Tennessee because the state appoints a majority of 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 center have been prepared in conformity with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB). The center uses the AICPA College Guide model for accounting and financial reporting.

Basis of Accounting

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

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

Fund Accounting

To ensure observance of limitations and restrictions placed on the use of the resources available, the center maintains accounts in accordance with the principles of fund accounting. With this procedure, resources for various purposes are classified for accounting and reporting purposes into funds for specified activities or objectives.

Separate accounts are maintained for each fund; however, in the accompanying financial statements, funds with similar characteristics have been combined into fund groups. Accordingly, all financial transactions have been recorded and reported by fund group.

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

All gains and losses arising from the sale, collection, or other disposition of noncash assets are accounted for in the fund that owned such assets. Ordinary income derived from receivables and the like is accounted for in the fund owning such assets. All other unrestricted revenue is accounted for in the unrestricted current funds. Restricted gifts, grants, appropriations, and other restricted resources are accounted for in the appropriate restricted funds. Restricted current funds are reported as revenues and expenditures when expended for current operating purposes.

Current Funds

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

Plant Funds

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

Agency Funds

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

Inventories

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

Allocation for Working Capital

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

Plant Assets

The physical plant and equipment are stated at cost at date of purchase or at fair value at date of donation. Interest during construction has not been capitalized. Depreciation on the physical plant and equipment is not recorded.

NOTE 2. COMPENSATED ABSENCES

The center'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 center's policy is to record such benefits as paid. The recognition of this liability for accrued compensated absences and related benefits would have increased the liabilities of the unrestricted current fund by $80,078.34 at June 30, 1998, and $66,232.83 at June 30, 1997, increased the unrestricted current fund expenditures by $13,845.52 for the year ended June 30, 1998, and increased the unrestricted current fund expenditures by $3,597.59 for the year ended June 30, 1997.

NOTE 3. DEPOSITS

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

NOTE 4. PENSION PLAN

Defined Benefit Plan

During the year ended June 30, 1997, the center implemented GASB Statement 27, *Accounting for Pensions by State and Local Government Employers.* In accordance with that statement, at transition it was determined that a pension liability or asset does not exist for this plan.

Tennessee Consolidated Retirement System

Plan Description - The center contributes to the State Employees, Teachers, and Higher Education Employees Pension Plan (SETHEEPP), a cost-sharing, multiple-employer, defined benefit pension plan administered by the Tennessee Consolidated Retirement System (TCRS). TCRS provides retirement, death, and disability benefits as well as annual cost-of-living adjustments to plan members and their beneficiaries. Title 8, Chapters 34-37, *Tennessee Code Annotated,* establishes benefit provisions. State statutes are amended by the Tennessee General Assembly.

The TCRS issues a publicly available financial report that includes financial statements and required supplementary information for SETHEEPP. That report may be obtained by writing to the Tennessee Department of the Treasury, Consolidated Retirement System, 10th Floor Andrew Jackson Building, Nashville, Tennessee 37243-0230, or by calling (615) 741-8202, extension 139.

Funding Policy - Plan members are noncontributory. The center is required to contribute an actuarially determined rate. The current rate is 3.65% of annual covered payroll. Contribution requirements for the center are established and may be amended by the TCRS' Board of Trustees. The center's contribution to TCRS for the year ended June 30, 1998, was $22,477.36; for the year ended June 30, 1997, was $44,192.05; and for the year ended June 30, 1996, was $41,644.13. Contributions met the requirements for each year.

NOTE 5. OTHER POST-EMPLOYMENT BENEFITS

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

NOTE 6. 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, 1998, the scheduled coverage for the center was $4,528,300 for buildings and $1,392,100 for contents. At June 30, 1997, the scheduled coverage was $4,528,300 for buildings and $1,392,100 for contents.

The state has set aside assets for claim settlement in an internal service fund, the Claims Award Fund. This fund services all claims for risk of loss to which the state is exposed, including general liability, automotive liability, professional malpractice, and workers' compensation. The center participates in the Claims Award Fund. The fund allocates the cost of providing claims servicing and claims payment by charging a premium to the center based on a percentage of the center's expected loss costs, which include both experience and exposures. This charge considers recent trends in actual claims experience of the state as a whole. An actuarial valuation is performed as of fiscal year-end to determine the fund liability and premium allocation. Since the center participates in the Claims Award Fund, it is subject to the liability limitations under the provisions of the Tennessee Claims Commission Act, *Tennessee Code Annotated*, Section 9-8-101 et seq. Liability for negligence of the center for bodily injury and property damage is limited to $300,000 per person and $1,000,000 per occurrence. The limits of liability under workers' compensation are set forth in *Tennessee Code Annotated*, Section 50-6-101 et seq. Claims are paid through the state's Claims Award Fund.

The state has also set aside assets in the Employee Group Insurance Fund, an internal service fund, to provide a program of health insurance coverage for the employees of the state with the risk retained by the state. The center participates in the Employee Group Insurance Fund. The fund allocates the cost of providing claims servicing and claims payment by charging a premium to the center based on estimates of the ultimate cost of claims that have been reported but not settled and of claims that have been incurred but not reported. Employees and providers have 13 months to file medical claims.

NOTE 7. COMMITMENTS AND CONTINGENCIES

Sick Leave - The center records the cost of sick leave when paid. Generally, since sick leave (earned one day per month with unlimited accumulation) is paid only when an employee dies or is absent because of illness, injury, or related family death, there is no liability for sick leave at June 30. The dollar amount of unused sick leave was $168,241.37 at June 30, 1998, and $148,731.42 at June 30, 1997.

Operating Leases - The center has entered into various operating leases for buildings and equipment. Such leases will probably continue to be required. Expenditures under operating leases for personal property were $3,640.80 for the year ended June 30, 1998. Expenditures for the year ended June 30, 1997, were $900.00 for real property and $3,369.93 for personal property. All operating leases are cancelable at the lessee's option.

Construction in Progress - At June 30, 1998, outstanding commitments under construction contracts totaled $32,947.43 for Tech Center Renovations, which will be funded by future state capital outlay appropriations.

NOTE 8. CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE

During the year ended June 30, 1998, the threshold for capitalizing equipment increased from $500 to $1,000. As a result of the change, equipment decreased by $79,440.07. The cumulative effect of this change in accounting principle is reported in the accompanying financial statements as a restatement of the beginning fund balance.

Tennessee Board of Regents
Tennessee Technology Center at Athens
Required Supplementary Information
Disclosure of Year-2000 Issues

The Year 2000 Issue (Y2K) arises because many computer software programs allocate two digits to the data field for year on the assumption that the first two digits will be 19. Such programs will thus interpret the year 2000 as the year 1900, the year 2001 as 1901, etc., absent programming. Y2K affects both computer hardware (i.e., the embedded logic of computer chips) and computer software and could affect both the ability to enter data into computer programs and the ability of such programs to correctly process data.

Tennessee Technology Center at Athens has established a Y2K Coordinator to facilitate Y2K remediation efforts. The center has assessed the impact of Y2K on its computer systems and other electronic equipment. Computer systems are defined as both (1) programmed application systems that provide fiscal and administrative services and (2) supporting hardware and software computer systems infrastructure upon which the application systems reside and are processed. Other electronic equipment includes systems and devices other than traditional computer information systems that may utilize embedded chips in their operations.

The center has determined that certain computer systems are mission critical, certain are critical, and certain are supportive. Mission-critical computer systems are those for which there are no reliable manual alternatives and for which failure to be in Y2K compliance would prevent the center from fulfilling its mission. Critical computer systems are those for which there are manual alternatives, but the center would unlikely be able to fully or efficiently perform the functions manually because of the volume of manual activity that would be required. Supportive computer systems are those for which there are manual alternatives and the center expects to be able to perform such functions manually, if necessary.

Tennessee Technology Center at Athens has identified three mission-critical computer application systems: the Financial Records Systems (FRS), the Human Resource System (HRS), and the Student Information System (SIS). FRS and SIS have completed the validation/testing state. This stage is defined as validating and testing the changes made during the remediation stage. HRS is in the assessment and remediation stages. The "assessment stage" is defined as identifying the systems and components for which Y2K compliance work is needed. The "remediation stage" is defined as making changes to systems and equipment. We expect HRS to complete the validation/testing stage by June 1, 1999.

FRS, HHS, and SIS for the center reside on Cleveland State Community College's, our lead institution, computer system. The college's mid-level computer system provides the supporting computer systems infrastructure upon which the application systems reside and are processed. The mid-level system represents multiple hardware and software components to include a central processor, workstations, and network operating system. The center determined that these components are currently in the validation/testing stage.

The center identified other electronic equipment items as critical to conducting operations and determined that these systems are currently in the validation/testing stage.

The completion of all stages identified as necessary to address the Y2K issue is not a guarantee that systems and equipment will be Y2K compliant.

Tennessee Technology Center at Athens' Y2K initiatives did not result in the commitment of significant financial resources as of the end of the reporting period. The center is not aware of any circumstances or significant costs to achieve Y2K compliance that will have a negative impact on the operations or financial status of the institution.