Tennessee Board of Regents
Tennessee Technology Center at Hohenwald

For the Years Ended
June 30, 1998, and June 30, 1997

Arthur A. Hayes, Jr., CPA
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Staff Auditors

Erica V. Smith, CPA
Technical Analyst

August 18, 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
Mr. Rick C. Brewer, Director
Tennessee Technology Center at Hohenwald
813 West Main Street
Hohenwald, Tennessee 38462

Ladies and Gentlemen:

Transmitted herewith is the financial and compliance audit of the Tennessee Board of Regents, Tennessee Technology Center at Hohenwald, for the years ended June 30, 1998, and June 30, 1997. You will note from the independent auditor's report that an unqualified opinion was given on the fairness of the presentation of the financial statements.

Consideration of internal control over financial reporting and tests of compliance disclosed a 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/klm

State of Tennessee

Audit Highlights

Comptroller of the Treasury — Division of State Audit

Financial and Compliance Audit
Tennessee Technology Center at Hohenwald
For the Years Ended June 30, 1998, and June 30, 1997

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 AND COMPLIANCE FINDING

The director of the child care facility misrepresented child care rates in official documents, resulting in improper payments by the Department of Human Services for child care assistance
The child care facility, in violation of contract terms, charged the Department of Human Services rates higher than those charged to the general public for equivalent child care. In addition, there were inadequate attendance records at the facility. Total costs questioned were $47,591.

OPINION ON THE FINANCIAL STATEMENTS

The opinion on the financial statements is unqualified.

"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 Hohenwald
For the Years Ended June 30, 1998, and June 30, 1997

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Tennessee Board of Regents
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INTRODUCTION

POST-AUDIT AUTHORITY

This is a report on the financial and compliance audit of the Tennessee Board of Regents, Tennessee Technology Center at Hohenwald. 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 Hohenwald began operation in 1967.

ORGANIZATION

The Tennessee Technology Center at Hohenwald operates under a lead institution agreement with Columbia State Community College. Under this agreement, Columbia 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, 1996, through June 30, 1998, and was conducted in accordance with generally accepted government auditing standards. Financial statements are presented for the years ended June 30, 1998, and June 30, 1997. The Tennessee Technology Center at Hohenwald 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 FINDING

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 center filed its report with the Department of Audit on February 2, 1998. A follow-up of the prior audit finding was conducted as part of the current audit.

The current audit disclosed that the center has corrected the previous audit finding concerning the calculation of pro rata refunds.

RESULTS OF THE AUDIT

AUDIT CONCLUSIONS

Internal Control

As part of the audit of the center's financial statements for the years ended June 30, 1998, and June 30, 1997, 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 a recommendation and management's response, is detailed in the finding and recommendation. Consideration of internal control over financial reporting disclosed no material weaknesses.

Compliance

The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. An immaterial instance of noncompliance, along with a recommendation and management's response, is included in the finding and recommendation.

Fairness of Financial Statement Presentation

The Division of State Audit has rendered an unqualified opinion on the center's financial statement.

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

April 27, 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 Hohenwald, 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, 1998, and June 30, 1997, and have issued our report thereon dated April 27, 1999. 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 an immaterial instance of noncompliance that we have included in the Finding and Recommendation section of this report.

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 a 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:

- The child care facility overcharged the Department of Human Services for child care assistance

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 not 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/klm

FINDING AND RECOMMENDATION

<u>The director of the child care facility misrepresented child care rates in official documents, resulting in improper payments by the Department of Human Services for child care assistance</u>

Finding

Based on inquiries made, it appears that since 1990 excessive rates were charged to the Department of Human Services with the knowledge of upper management at the technology center and the staff at the broker agency, South Central Human Resource Agency. This practice has gone undetected because compliance with the requirements of the Child Care Assistance Program was not examined in previous audits.

Tennessee Technology Center at Hohenwald operates a child care facility for students' children and the general public. The child care facility contracted with the Department of Human Services (DHS) in 1990 to become a provider of services for the Child Care Assistance Program. The Child Care Assistance Program assists low-income families in the payment of child care fees. South Central Human Resource Agency acted as the "broker" or intermediary for the contract. Under the contract, DHS pays the child care facility the lesser of the department's maximum applicable rate or the rate charged the public.

The child care facility continually charged DHS the maximum rate, although the rate charged the public was less. The public rate that was reported by the child care director to DHS on the original rate agreement in 1990 was $50 per week. The child care director signed a revised rate agreement in August of 1997, which stated a public rate of $55 per week. The child care director signed another rate agreement in July of 1998, which stated a public rate of $64 per week. However, from 1990 until April of 1998, the child care facility charged public rates of only $45 per week for nonstudents' children and $40 per week for students' children. Beginning in April of 1998, the public rates were increased to $55 per week for nonstudents' children and $45 per week for students' children. The rate agreement signed by the child care director stated "these rates do not exceed what is charged to the general public for equivalent care."

As a result the center overcharged the department $1,187 in May of 1997; $1,146 in March of 1998; and $228 during the week of April 20 through May 1, 1998. Projections of sampled periods to the entire audit period (July 1, 1996, to June 30, 1998) indicated an estimated overcharge to DHS of $26,161. No projections were made for the years ended June 30, 1996, and prior. However, it appears the center has been overcharging DHS for child care fees since the contract began in 1990. In addition to incorrect public rates, the child care director indicated on the rate agreements that no sibling discounts were offered to the public, when in fact they were.

The enrollment form signed by the child care director states that the child care provider agrees to "charge DHS for child care services under the certificate program the rate charged the public or the Department's maximum applicable payment rate, whichever is less." The enrollment form also contains the certification: "I, the authorized representative of the provider agency, understand all terms of this Enrollment Form and the attached Provider Termination and Reinstatement Policy and agree to comply with all Provider requirements."

The child care facility also did not maintain adequate attendance records. There was no daily attendance book available for the majority of the audit period. Of the 74 children sampled, 13 (18%) had no record of attendance during the periods tested. Costs of $21,430 were questioned for the lack of attendance records, bringing the total questioned costs to $47,591.

In addition to repayment of overcharges, the child care facility could face termination from the Child Care Assistance Program.

Recommendation

The director and assistant director of the technology center should not encourage or permit the child care director to sign false statements for the financial benefit of the technology center. They should not enter into verbal agreements with the broker agency to improperly obtain unearned revenue by violating state regulations. The child care director should ensure adequate attendance records exist for all children. The child care director should sign a new rate agreement with DHS that truthfully reflects public rates. Furthermore, the child care center should repay amounts owed to DHS.

Management's Comment

Tennessee Technology Center at Hohenwald

We concur. The director of the child care facility signed official documents misrepresenting child care rates under the instruction of the brokering agency, which resulted in improper payments by the Department of Human Services for child care assistance.

In the years ending June 30, 1998, and June 30, 1997, there was one meeting held on August 12, 1997, in which a rate agreement for subsidized child care was signed. The child care rates set forth on the rate agreement were signed in accordance and under the direction of representatives of the South Central Human Resource Agency, acting as the broker agency for the Tennessee Department of Human Services. The Tennessee Technology Child Care Center Director was instructed by the representative of the broker agency as to the amount to be charged per participant, and additionally, as to the informational box to be checked in reference to whether or not a sibling discount was provided.

On August 13, 1997, the Tennessee Technology Child Care Center Director contacted the broker agency representative in concern of the rates. In turn, the representative contacted management in Fayetteville, Tennessee, and the reply was to “leave it as is since all the paperwork has been completed.” In regard to the sibling discount, the director was instructed that it did not matter either way, that Tennessee Department of Human Services paid anyway. In addition to the representatives of the South Central Human Resource Agency, representatives of the Tennessee Department of Human Services were aware of the questioned rates.

The attendance records prior to October 1997 were kept until examined by an inspector of the Department of Human Services. Once inspected, the attendance was recorded on an invoice for child care services and the daily attendance records were discarded. The invoices were viewed as permanent attendance records and were maintained as such.

The Tennessee Technology Center at Hohenwald Director and Assistant Director will not encourage or permit the director of the Tennessee Technology Child Care Center to sign false statements for the financial benefit of the Tennessee Technology Center at Hohenwald, nor will they enter into verbal agreements with the broker to improperly obtain unearned revenue by violation of state regulations. All enrollment/attendance forms will be maintained in accordance with the requirements and regulations of the Tennessee Department of Human Services and the Tennessee Board of Regents. The director has signed and implemented a new rate agreement with DHS which truthfully reflects public rates.

Department of Human Services

We concur. As noted in the finding, the Department of Human Services does require the child care provider to sign a rate agreement stating that they would charge the rate charged the public or the Department of Human Services maximum applicable rate, whichever is less. The Tennessee Technology Center’s rate agreement showed that they charged the state’s maximum applicable rate. South Central Human Resource Agency is responsible for verifying that providers charge the state the appropriate rate.

We will recoup the questioned costs from the Tennessee Technology Center and the related broker fee payments from South Central Human Resource Agency.

South Central Human Resource Agency

South Central Human Resource Agency management has reviewed the foregoing recommendation and concurs in same.

Independent Auditor's Report

April 27, 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 Hohenwald, 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 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.

In our opinion, 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 Hohenwald, 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.

As discussed in Note 8 to the financial statements, the center implemented GASB 16, *Accounting for Compensated Absences*, in conformity with generally accepted accounting principles. Also, as discussed in Note 7, the center changed the threshold for capitalizing equipment.

The Year 2000 Disclosures on page 25 are not a required part of the basic financial statements but are 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 the center is or will become year 2000 compliant, the center's year 2000 remediation efforts will be successful in whole or in part, or that parties with which the center does business are or will become year 2000 compliant.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 27, 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/klm

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

ASSETS	June 30, 1998	June 30, 1997
Current funds:		
Unrestricted:		
General:		
Cash (Note 2)	$ 45,738.11	$ 63,596.23
Accounts receivable (net of allowance of $429.00 at June 30, 1998)	95.00	15,994.20
Due from restricted current funds	57,450.00	25,500.00
Total general	103,283.11	105,090.43
Auxiliary enterprises:		
Cash (Note 2)	24,198.15	25,583.12
Accounts receivable	402.00	3,535.90
Inventories	21,699.37	21,099.10
Total auxiliary enterprises	46,299.52	50,218.12
Total unrestricted	149,582.63	155,308.55
Restricted:		
Cash (Note 2)	47.01	78.92
Accounts and grants receivable	63,796.06	35,721.34
Total restricted	63,843.07	35,800.26
Total current funds	$ 213,425.70	$ 191,108.81
Plant funds:		
Unexpended plant:		
Cash (Note 2)	$ 127,777.62	$ 121,272.03
Total unexpended plant	127,777.62	121,272.03
Renewals and replacements:		
Cash (Note 2)	104,290.67	98,527.29
Total renewals and replacements	104,290.67	98,527.29

LIABILITIES AND FUND BALANCES	June 30, 1998	June 30, 1997
Current funds:		
Unrestricted:		
General:		
Liabilities:		
Accounts payable	$ 3,922.23	$ 4,389.36
Accrued liabilities	58,793.34	59,894.56
Compensated absences	83,922.13	73,212.51
Total liabilities	146,637.70	137,496.43
Fund balances:		
Nondiscretionary allocations:		
Allocation for working capital	145.00	10,732.20
Allocation for encumbrances	329.00	-
Discretionary allocations:		
Allocation for subsequent budget	40,000.00	30,000.00
Allocation for compensated absences	(83,922.13)	(73,212.51)
Unallocated	93.54	74.31
Total fund balances	(43,354.59)	(32,406.00)
Total general	103,283.11	105,090.43
Auxiliary enterprises:		
Liabilities:		
Accounts payable	2,020.13	1,741.02
Fund balances:		
Nondiscretionary allocation:		
Allocation for working capital	22,101.37	24,635.00
Unallocated	22,178.02	23,842.10
Total fund balances	44,279.39	48,477.10
Total auxiliary enterprises	46,299.52	50,218.12
Total unrestricted	149,582.63	155,308.55
Restricted:		
Liabilities:		
Accounts payable	4,921.77	4,079.99
Due to unrestricted current funds	57,450.00	25,500.00
Total liabilities	62,371.77	29,579.99
Fund balances	1,471.30	6,220.27
Total restricted	63,843.07	35,800.26
Total current funds	$ 213,425.70	$ 191,108.81
Plant funds:		
Unexpended plant:		
Fund balance:		
Unrestricted	$ 127,777.62	$ 121,272.03
Total unexpended plant	127,777.62	121,272.03
Renewals and replacements:		
Fund balance:		
Unrestricted	104,290.67	98,527.29
Total renewals and replacements	104,290.67	98,527.29

TENNESSEE BOARD OF REGENTS
TENNESSEE TECHNOLOGY CENTER AT HOHENWALD
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	20,932.00	20,932.00	Fund balance:		
Buildings	587,953.00	587,953.00	Net investment in plant	4,589,720.65	2,263,757.99
Improvements other than buildings	19,380.00	19,380.00			
Equipment	1,558,411.14	1,419,201.59			
Projects in progress	2,403,044.51	216,291.40			
Total investment in plant	4,589,720.65	2,263,757.99	Total investment in plant	4,589,720.65	2,263,757.99
Total plant funds	$ 4,821,788.94	$ 2,483,557.31	Total plant funds	$ 4,821,788.94	$ 2,483,557.31
Agency funds:			Agency funds:		
Cash (Note 2)	$ 1,441.61	$ 843.70	Deposits held in custody for others	$ 1,441.61	$ 843.70
Total agency funds	$ 1,441.61	$ 843.70	Total agency funds	$ 1,441.61	$ 843.70

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

Exhibit B

TENNESSEE BOARD OF REGENTS
TENNESSEE TECHNOLOGY CENTER AT HOHENWALD
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 fund revenues	$ 1,110,105.58	$ -	$ -	$ -	$ -
Auxiliary enterprise revenues	55,595.25	-	-	-	-
State appropriations	-	-	2,326,615.18	-	-
Federal grants and contracts	-	353,585.90	-	-	-
Private gifts, grants, and contracts	-	62,000.00	-	-	-
Investment income	-	-	6,505.59	5,763.38	-
Expended for plant facilities (including $63,708.05 charged to current fund expenditures)	-	-	-	-	2,384,395.16
Other	-	-	-	-	-
Total revenues and other additions	1,165,700.83	415,585.90	2,333,120.77	5,763.38	2,384,395.16
EXPENDITURES AND OTHER DEDUCTIONS					
Educational and general expenditures	1,130,554.17	419,377.60	-	-	-
Auxiliary enterprise expenditures	50,292.96	-	-	-	-
Indirect costs recovered	-	957.27	-	-	-
Expended for plant facilities	-	-	2,320,687.11	-	-
Expended for noncapital items	-	-	5,928.07	-	-
Total expenditures and other deductions	1,180,847.13	420,334.87	2,326,615.18	-	-
Net increase (decrease) for the year	(15,146.30)	(4,748.97)	6,505.59	5,763.38	2,384,395.16
Fund balances at beginning of year	16,071.10	6,220.27	121,272.03	98,527.29	2,263,757.99
Cumulative effect of change in accounting principle (Note 7)	-	-	-	-	(58,432.50)
Fund balances at beginning of year as restated	16,071.10	6,220.27	121,272.03	98,527.29	2,205,325.49
Fund balances at end of year	$ 924.80	$ 1,471.30	$ 127,777.62	$ 104,290.67	$ 4,589,720.65

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

Exhibit C

TENNESSEE BOARD OF REGENTS
TENNESSEE TECHNOLOGY CENTER AT HOHENWALD
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 fund revenues	$ 1,081,250.25	$ -	$ -	$ -	$ -
Auxiliary enterprise revenues	60,269.07	-	-	-	-
State appropriations	-	-	544,560.27	-	-
Federal grants and contracts	-	312,126.50	-	-	-
Private gifts, grants, and contracts	-	62,200.00	-	-	-
Investment income	-	-	6,347.71	3,904.55	-
Expended for plant facilities (including $25,341.60 charged to current fund expenditures)	-	-	-	-	576,644.05
Other	-	2,162.40	-	-	-
Total revenues and other additions	1,141,519.32	376,488.90	550,907.98	3,904.55	576,644.05
EXPENDITURES AND OTHER DEDUCTIONS					
Educational and general expenditures	1,045,506.51	385,891.85	-	-	-
Auxiliary enterprise expenditures	50,933.27	-	-	-	-
Indirect costs recovered	-	741.45	-	-	-
Expended for plant facilities	-	-	535,240.48	16,061.97	-
Expended for noncapital items	-	-	9,319.79	-	-
Disposal of plant facilities	-	-	-	-	122,605.34
Total expenditures and other deductions	1,096,439.78	386,633.30	544,560.27	16,061.97	122,605.34
TRANSFERS AMONG FUNDS - ADDITIONS (DEDUCTIONS)					
Nonmandatory:					
Renewals and replacements	(36,000.00)	-	-	36,000.00	-
Total transfers	(36,000.00)	-	-	36,000.00	-
Net increase (decrease) for the year	9,079.54	(10,144.40)	6,347.71	23,842.58	454,038.71
Fund balances at beginning of year (Note 8)	6,991.56	16,364.67	114,924.32	74,684.71	1,809,719.28
Fund balances at end of year	$ 16,071.10	$ 6,220.27	$ 121,272.03	$ 98,527.29	$ 2,263,757.99

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

Exhibit D

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

	Unrestricted	Restricted	Total
REVENUES			
Tuition and fees	$ 136,146.30	$ -	$ 136,146.30
State appropriations	795,390.00	-	795,390.00
Federal grants and contracts	1,750.27	352,628.63	354,378.90
Private gifts, grants, and contracts	20,400.00	66,748.97	87,148.97
Sales and services of educational activities	23,545.60	-	23,545.60
Sales and services of auxiliary enterprises	55,595.25	-	55,595.25
Child care fees	125,746.20	-	125,746.20
Other sources	7,127.21	-	7,127.21
Total current revenues	1,165,700.83	419,377.60	1,585,078.43
EXPENDITURES AND TRANSFERS			
Educational and general expenditures:			
Instruction	515,157.76	223,809.66	738,967.42
Student services	256,758.44	21,087.92	277,846.36
Institutional support	206,644.02	-	206,644.02
Operation and maintenance of plant	145,822.20	-	145,822.20
Scholarships and fellowships	6,171.75	174,480.02	180,651.77
Total educational and general expenditures	1,130,554.17	419,377.60	1,549,931.77
Auxiliary enterprises:			
Expenditures	50,292.96	-	50,292.96
Total auxiliary enterprises	50,292.96	-	50,292.96
Total expenditures and transfers	1,180,847.13	419,377.60	1,600,224.73
OTHER TRANSFERS AND ADDITIONS (DEDUCTIONS)			
Excess of transfers to revenues over restricted receipts	-	(3,791.70)	(3,791.70)
Indirect costs recovered	-	(957.27)	(957.27)
Net (decrease) in fund balances	$ (15,146.30)	$ (4,748.97)	$ (19,895.27)

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

Exhibit E

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

	Unrestricted	Restricted	Total
REVENUES			
Tuition and fees	$ 86,199.00	$ -	$ 86,199.00
State appropriations	801,000.00	-	801,000.00
Federal grants and contracts	1,236.45	313,547.45	314,783.90
State gifts, grants, and contracts	11,620.00	-	11,620.00
Private gifts, grants, and contracts	10,400.00	72,344.40	82,744.40
Sales and services of educational activities	20,875.75	-	20,875.75
Sales and services of auxiliary enterprises	60,269.07	-	60,269.07
Child care fees	132,233.43	-	132,233.43
Other sources	17,685.62	-	17,685.62
Total current revenues	1,141,519.32	385,891.85	1,527,411.17
EXPENDITURES AND TRANSFERS			
Educational and general expenditures:			
Instruction	465,507.94	207,850.06	673,358.00
Student services	234,535.28	11,933.07	246,468.35
Institutional support	209,080.73	-	209,080.73
Operation and maintenance of plant	132,582.56	62.72	132,645.28
Scholarships and fellowships	3,800.00	166,046.00	169,846.00
Total educational and general expenditures	1,045,506.51	385,891.85	1,431,398.36
Nonmandatory transfers:			
Renewals and replacements	36,000.00	-	36,000.00
Total educational and general expenditures and transfers	1,081,506.51	385,891.85	1,467,398.36
Auxiliary enterprises:			
Expenditures	50,933.27	-	50,933.27
Total auxiliary enterprises	50,933.27	-	50,933.27
Total expenditures and transfers	1,132,439.78	385,891.85	1,518,331.63
OTHER TRANSFERS AND ADDITIONS (DEDUCTIONS)			
Excess of transfers to revenues over restricted receipts	-	(9,402.95)	(9,402.95)
Indirect costs recovered	-	(741.45)	(741.45)
Net increase (decrease) in fund balances	$ 9,079.54	$ (10,144.40)	$ (1,064.86)

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

Tennessee Board of Regents
Tennessee Technology Center at Hohenwald
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 enterprises activities are included in unrestricted current funds and include 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.

Compensated Absences

The center's employees accrue annual leave at varying rates, depending on length of service or classification. The amount of this liability and its related benefits are recorded in the current funds. Since the liability is expected to be funded primarily from future unrestricted revenue sources, a related allocation has been made to the current fund balances so that these fund balances reflect current available funds.

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. 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 equals 105% of the uninsured deposits. The pledged securities are included with securities pledged for funds on deposit for Columbia State Community College, the center's lead institution. The bank balance of the operating account maintained by the center was entirely insured.

The center also has deposits in the Local Government Investment Pool (LGIP) administered by the State Treasurer. The LGIP is part of the Pooled Investment Fund. The fund's investment policy and custodial credit risk are presented in the *Tennessee Comprehensive Annual Financial Report.*

NOTE 3. 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.

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 contributions to TCRS for the years ended June 30, 1998, 1997, and 1996, were $23,889.55, $49,697.84, and $42,070.17. Contributions met the requirements for each year.

NOTE 4. 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 5. 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 $4,741,900 for buildings and $1,215,400 for contents. At June 30, 1997, the scheduled coverage was $2,563,000 for buildings and $1,215,400 for contents.

The state has set aside assets for claim settlement in an internal service fund, the Claims Award Fund. This fund services all claims for risk of loss to which the state is exposed, including general liability, automotive liability, professional malpractice, and workers' compensation. The center participates in the Claims Award Fund, which 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 6. 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 $283,837.59 at June 30, 1998, and $249,005.46 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 real property were $3,600.00 for the year ended June 30, 1998. All operating leases are cancelable at the lessee's option.

Construction in Progress - At June 30, 1998, outstanding commitments under construction contracts totaled $173,692.81 for building renovation.

Questioned Costs - The following costs were questioned as a result of the current audit.

Program	Amount Questioned
Child Care Assistance Program	$ 47,591.00

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

NOTE 7. 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 $58,432.50. The cumulative effect of this change in accounting principle is reported in the accompanying financial statements as a restatement of the beginning fund balance.

NOTE 8. PRIOR-YEAR RESTATEMENT

The center implemented GASB Statement 16, *Accounting for Compensated Absences.* As a result, the beginning fund balance for unrestricted current funds on Exhibit C was decreased by $ 71,807.88.

Tennessee Board of Regents
Tennessee Technology Center at Hohenwald
Required Supplementary Information
Year 2000 Disclosures

The Year 2000 issue (Y2K) arises because many computer software programs allocate two digits to the data field for year with 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 reprogramming. Y2K affects both computer hardware (i.e., the embedded logic of computer chips) and computer software, and could impact both the ability to enter data into computer programs and the ability of such programs to correctly process data.

Tennessee Technology Center at Hohenwald (TTCH) has established a Y2K Coordinator to facilitate Y2K remediation efforts. TTCH 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.

TTCH 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 TTCH from fulfilling its mission. Critical computer systems are those for which there are manual alternatives, but TTCH 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 TTCH expects to be able to perform such functions manually, if necessary.

TTCH has identified three mission-critical computer application systems: the Financial Records System (FRS), the Human Resource System (HRS), and the Student Information Management System (SIMS). FRS has completed the validation/testing stage. This stage is defined as validating and testing the changes that were 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 year 2000 compliance work is needed. The remediation stage is defined as making changes to systems and equipment. TTCH expects HRS to complete the validation/testing stage by June 1, 1999. SIMS is in the assessment and remediation stages. TTCH expects SIMS to complete the validation/testing stage by June 30, 1999.

FRS and HRS for the TTCH reside on the computer system of Columbia State Community College (CoSCC), our lead institution. CoSCC's mid-level computer system provides the supporting computer system infrastructure upon which the application systems reside and are processed.

Tennessee Board of Regents
Tennessee Technology Center at Hohenwald (Cont.)
Required Supplementary Information
Year 2000 Disclosures

The mid-level system represents multiple hardware and software components to include a central processor, work stations, and network operating system. CoSCC determined that these components are currently in the validation/testing stage. The SIMS resides on a local personal computer, which is in the validation/testing stage.

TTCH identified other electronic equipment items as critical to conducting operations and determined that these systems are currently in the assessment and remediation stages. These items are expected to complete the validation/testing stage by June 30, 1999.

The completion of all stages identified as necessary to address the Y2K issue is not a guarantee that systems and equipment will be year 2000 compliant.

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