Management's Discussion and Analysis

This section of Nashville State Technical Community College's annual financial report presents a discussion and analysis of the financial performance of the College during the fiscal year ended June 30, 2003, with comparative information presented for the fiscal year ended June 30, 2002. This discussion has been prepared by management along with the financial statements and related note disclosures and should be read in conjunction with the financial statements and notes. The financial statements, notes, and this discussion are the responsibility of management.

Using This Annual Report

This report consists of three basic financial statements. The Statement of Net Assets; the Statement of Revenues, Expenses, and Changes in Net Assets; and the Statement of Cash Flows provide information on Nashville State Technical Community College as a whole and present a long-term view of the College's finances.

The Statement of Net Assets

The Statement of Net Assets presents the financial position of the College at the end of the fiscal year and includes all assets and liabilities of the College. The difference between total assets and total liabilities – net assets – is an indicator of the current financial condition of the College. Assets and liabilities are generally measured using current values. One notable exception is capital assets, which are stated at historical cost less an allowance for depreciation.

Net assets are divided into three major categories. The first category, invested in capital assets, net of related debt, provides the College's equity in property, plant, and equipment owned by the College. The next asset category is restricted net assets, which is divided into two categories, nonexpendable and expendable. The corpus of nonexpendable restricted resources is only available for investment purposes. Expendable restricted net assets are available for expenditure by the College but must be spent for purposes as determined by donors and/or external entities that have placed time or purpose restrictions on the use of the assets. The final category is unrestricted net assets. Unrestricted net assets are available to the institution for any lawful purpose of the institution.

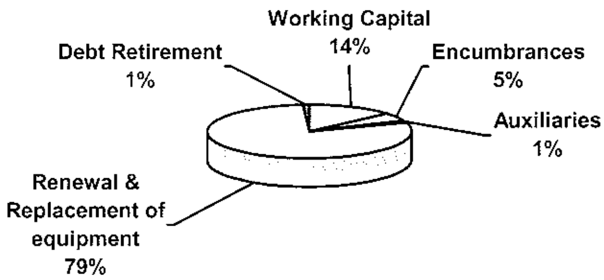
Statement of Net Assets
(in thousands of dollars)

	2003	2002
Assets:		
Current assets	$8,676	$6,152
Capital assets, net	16,017	15,874
Other assets	5,656	4,925
Total Assets	$30,349	$26,951
Liabilities:		
Current liabilities	$6,271	$5,433
Noncurrent liabilities	343	141
Total Liabilities	**$6,614**	**$5,574**
Net Assets:		
Invested in capital assets, net of related debt	$15,927	$15,776
Restricted – nonexpendable	4	
Restricted – expendable	192	397
Unrestricted	7,612	5,204
Total Net Assets	**$23,735**	**$21,377**

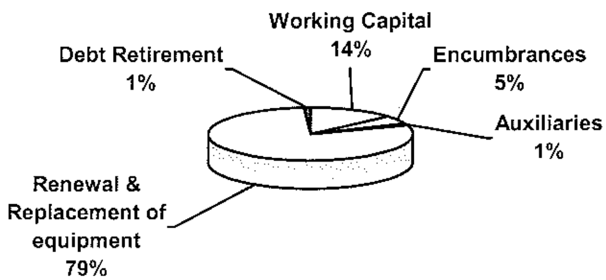
- Total liabilities represent 28% of total assets, which increase slightly from fiscal year 2002 (26%). The College maintains the ability to satisfactorily meet long-term obligations as disclosed in the financial statement notes.
- Cash and cash equivalents for fiscal year 2002-2003 represent 81% of current assets and 23% of total assets, compared to 75% of current assets and 17% of total assets in fiscal year 2001-2002.
- Current liabilities represent 95% of total liabilities. The three largest components are compensated absences, accrued liabilities, and accounts payable.
- TSSBA bonds issued to replace the main campus chiller represent 24% of the College's long-term liabilities. The remaining 76% is attributable to compensated absences.

Many of the College's unrestricted net assets have been designated or reserved for specific purposes such as: repairs and replacement of equipment, future debt service, quasi-endowments, capital projects, and student loans. The following graph shows the allocations:

2002-2003 Unrestricted Net Assets



2001-2002 Unrestricted Net Assets



- There were no material changes in Unrestricted Net Assets during fiscal year 2002-2003.

The Statement of Revenues, Expenses, and Changes in Net Assets

The Statement of Revenues, Expenses, and Changes in Net Assets presents the operating results of the College, as well as the nonoperating revenues and expenses. Annual state appropriations, while budgeted for operations, are considered non-operating revenues according to generally accepted accounting principles.

Statement of Revenues, Expenses, and Changes in Net Assets
(in thousands of dollars)

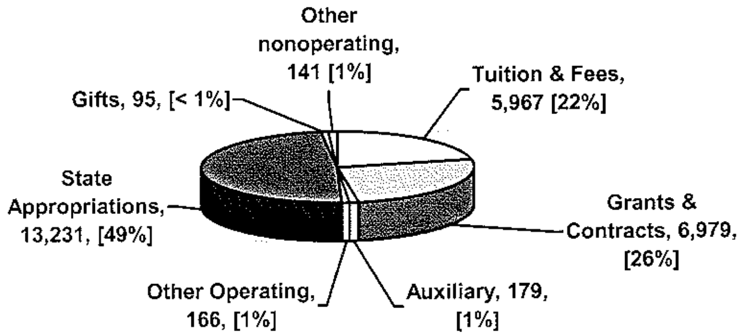
	2003	2002
Operating revenues:		
Net tuition and fees	$5,967	$5,820
Grants and contracts	6,979	6,030
Auxiliary	179	171
Other	167	74

Total operating revenues	**$13,292**	**$12,095**
Operating expenses	$26,871	$24,333
Operating loss	**($13,579)**	**($12,238)**
Nonoperating revenues and expenses:		
State appropriations	$13,231	$12,658
Gifts	94	205
Investment income	141	164
Other revenues and expenses	(8)	(1)
Total nonoperating revenues and expenses	**$13,458**	**$13,026**
Income (loss) before other revenues, expenses, gains, or losses	**($122)**	**$788**
Other revenues, expenses, gains, or losses:		
Capital appropriations	$2,106	$6,082
Capital grants and gifts		
Additions to permanent endowments		
Other	8	
Total other revenues, expenses, gains, or losses	**$2,113**	**$6,082**
Increase (decrease) in net assets	**$1,992**	**$6,870**
Net assets at beginning of year, as originally reported	21,377	26,206
Cumulative effect of changes in accounting principle		(11,708)
Net asset at beginning of period, restated	**$21,377**	**$14,498**
Prior year correction	$366	$9
Net assets at end of year	**$23,735**	**$21,377**

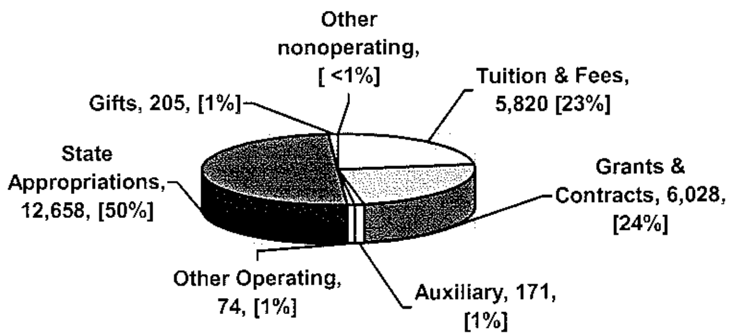
Revenues

The following is a graphic illustration of revenues by source (both operating and nonoperating), which are used to fund the College's operating activities for the year ended June 30, 2003 and the year ended June 30, 2002 (amounts are presented in thousands of dollars).

2002-2003 Sources of Revenue



2001-2002 Sources of Revenue



- The College is highly dependent on state appropriations as a revenue source. State appropriations represented 49% of total revenue in fiscal year 2003 and 50% in fiscal year 2002.
- Grants and contracts represent 26% of total revenue in fiscal year 2003 and 24% in fiscal year 2002. The largest component of grants and contracts is federal funding in the form of student financial aid.
- Student tuition and fees represent 22% of total revenue in fiscal year 2003 and 23% in fiscal year 2002.
- Gifts to the College represent a relatively minor portion of revenues. The College exists in a difficult gift market. The College has chosen to pursue cost recoveries from grants and contracts to augment inadequate gift donations.

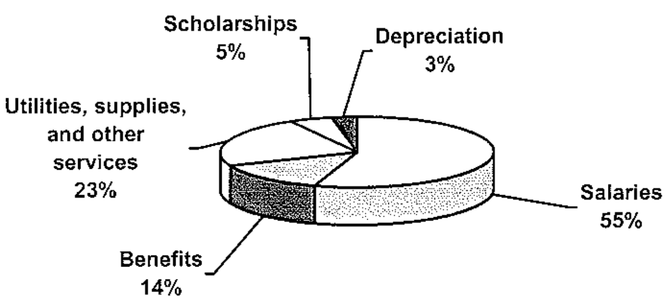
Expenses

Operating expenses can be displayed in two formats, natural classification and program classification. Both formats are displayed below.

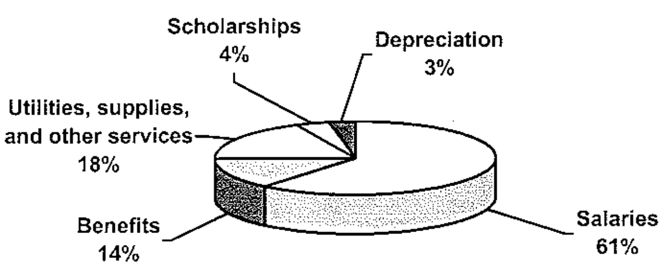
Natural Classification

Operating Expense	2003	2002
Salaries	$14,567	$14,834
Benefits	3,881	3,473
Utilities, supplies, and other services	6,158	4,489
Scholarships	1,396	877
Depreciation	869	660
TOTAL	$26,871	$24,333

2002-2003 Expenses by Natural Classification



2001-2002 Expenses by Natural Classification

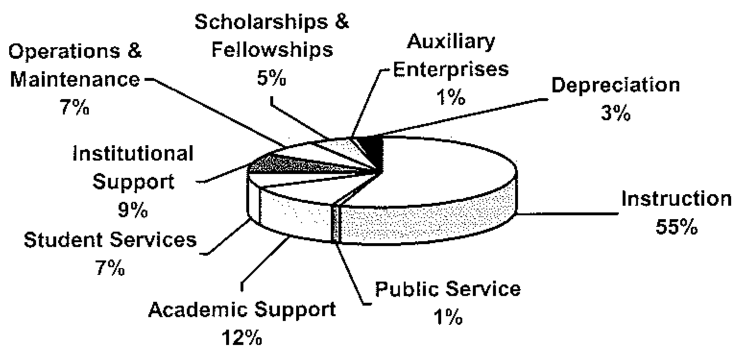


- The largest expense was salaries, representing 55% of the total operating expense. This was down slightly from 61% reported in fiscal year 2002.
- A hiring freeze implemented in response to a state appropriation reduction of 5% resulted in reduced salary expense.
- The combined salary and benefit expenses represented 69% of operating expenses, compared to 75% in fiscal year 2002.
- The utilities, supplies, and other expenses classification includes such items as printing, utilities, classroom and office supplies, and maintenance costs.
- Buildings were the largest depreciation expense representing 72% of the total depreciation and 49% in fiscal year 2003.
- Federal grants represent the largest component of the scholarship percentage.

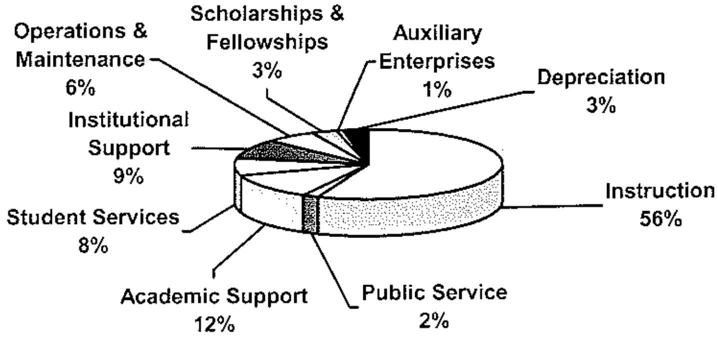
Program Classification

Operating Expenses	2003	2002
Instruction	$14,676	$13,169
Public Service	495	857
Academic Support	3,161	3,017
Student Services	1,981	1,953
Institutional Support	2,547	2,197
Operations & Maintenance	1,804	1,744
Scholarships & Fellowships	1,335	734
Auxiliary Enterprises	3	111
Depreciation	869	660
TOTAL	$26,871	$24,333

2002-2003 Expenses by Program Classification



2001-2002 Expenses by Program Classification



- The largest program expense is instruction. This represents instructional salaries, benefits, and supplies used in the classrooms and laboratories.
- General administrative expenses for Nashville State include the program functions of student services, institutional support, academic support, and public services, which combined total 29% of operating expense for fiscal year 2003 and 31% for fiscal year 2002.
- Operations and maintenance expenses include utilities, custodial supplies, and general maintenance support. Of this 6%, utilities make up at least half.
- Auxiliary expense represents 1% of the program classification. The College contracts the bookstore operation on a commission basis.

The Statement of Cash Flows

The Statement of Cash Flows provides information about cash receipts and cash payments during the year. This statement also assists users in assessing the College's ability to generate net cash flows, its ability to meet its obligations as they come due, and its need for external financing.

Statement of Cash Flows
(in thousands of dollars)

	2003	2002
Cash provided (used) by:		
Operating activities	($12,494)	($12,119)
Noncapital financing activities	14,121	12,872
Capital and related financing activities	1,447	148
Investing activities	141	163
Net increase (decrease) in cash	**$3,215**	**$1,064**
Cash, beginning of year	**9,511**	**8,447**
Cash, end of year	**$12,726**	**$9,511**

- The largest factor contributing to the College's improved cash flow was a student maintenance fee increase of 7.5%
- Interest rates paid by the local government investment pool declined during fiscal year 2003 resulting in an interest income decline of approximately $136,000.
- The primary source of the College's cash flow is the state appropriation, which increased approximately $2,891,018 in fiscal year 2003, compared to $358,000 in fiscal year 2002. Of the 2003 increase, 75% of this state appropriation was reserved for capital projects funding for Cookeville.
- The cash position of the College improved 34% between fiscal years 2003 and 2002.

Capital Assets and Debt Administration

Capital Assets

At June 30, 2003, Nashville State Technical Community College had $16,017,407.92 invested in capital assets, net of accumulated depreciation of $10,860,820.92. Depreciation charges totaled $1,739,316.92 for the current fiscal year. Details of these assets are shown below.

Schedule of Capital Assets, Net of Depreciation
(in thousands of dollars)

	2003	**2002**
Land	$1,340	$403
Land improvements & infrastructure	565	535
Buildings	13,233	6,546
Equipment	552	443
Library holdings	327	336
Projects in progress		7,611

- The increase in land resulted from a land donation from the City of Cookeville to house the Don Sundquist campus. The land donation was recorded as a prior year correction to fund balance.
- Land Improvements include the parking areas to the Don Sundquist campus.
- The increase in buildings is due to the completion of the Don Sundquist campus.
- Equipment increases include the purchase of one automobile, a piano, and computer equipment with a unit value greater than $5,000.

The College plans the following for the upcoming year: renovation of science labs, upgrades to the electrical system in the Clement Building, and the possible renovation of off-campus space for classroom usage. More detailed information about the College's capital assets is presented in Note 7 to the financial statements.

Debt

At June 30, 2003, the College had $90,201.70 in debt outstanding. The table below summarizes these amounts by type of debt instrument.

Description of Debt	2003	2002
TSSBA Bonds due 2012	$90,201.70	$97,962.50

The only debt issuance was TSSBA Bonds to finance a portion of the chiller replacement project. The state bond fund rating as of July 1, 2003, was rated as AA by Standard and Poor's with the outlook changed from stable to negative. More detailed information about the College's long-term liabilities is presented in Note 8 to the financial statements.

Economic Factors That Will Affect the Future

The College is highly dependent upon state appropriations to offset operating losses. State appropriations were reduced 5% during the 2002-2003 fiscal year. A permanent reduction of 9% was effected July 1, 2003, long-term improvement of state appropriations is unlikely.

The Tennessee Board of Regents approved a 14.5% fee increase effective fall semester 2003. The fee increase will lessen the impact of the appropriation reduction.

The Tennessee Board of Regents approved a 100% technology access fee increase effective fall semester 2003. The fee increase will ensure that classroom technology equipment remains current despite the permanent appropriation reduction.

Inadequate capital financing for space expansion to serve the College's growing population severely limits the College's ability to serve the citizens of the service delivery area. The most noticeable space deficiencies are in student services, faculty offices, and physical education, which all fall below 50% of the standard. Although the College has been recommended for additional space by the Tennessee Higher Education Commission, funding in the near future is highly unlikely due to funding constraints.

Requests for Information

This financial report is designed to provide a general overview of the institution's finances for all those with an interest in the College's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be directed to Dr. George Van Allen, President, Nashville State Technical Community College, 120 White Bridge Road, Nashville, TN, 37209.