

Nashville State Technical Community College 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, 2004, with comparative information presented for fiscal years ended June 30, 2003 and 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)

	<u>Institution</u>			<u>Component Unit</u>		
	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>
Assets:						
Current assets	\$6,666	\$7,278	\$6,152	\$438	\$296	\$240
Capital assets, net	15,768	16,017	15,874			
Other assets	7,733	3,722	4,925			
Total Assets	\$30,167	\$27,017	\$26,951	\$438	\$296	\$240
Liabilities:						
Current liabilities	\$3,416	\$2,939	\$5,433	\$3	\$27	
Noncurrent liabilities	250	343	141			
Total Liabilities	\$3,666	\$3,282	\$5,574	\$3	\$27	
Net Assets:						
Invested in capital assets, net of related debt	\$15,686	\$15,927	\$15,776			
Restricted – nonexpendable	5	4		\$134	\$66	55
Restricted – expendable	302	192	397	137	69	43
Unrestricted	10,508	7,612	5,204	164	134	142
Total Net Assets	\$26,501	\$23,735	\$21,377	\$435	\$269	\$240

College:

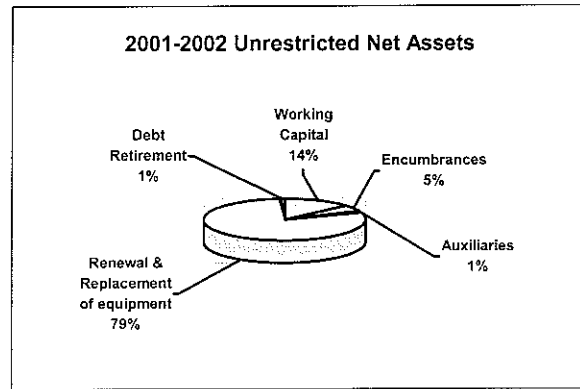
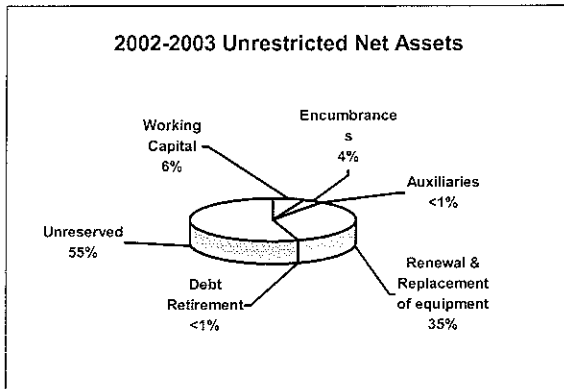
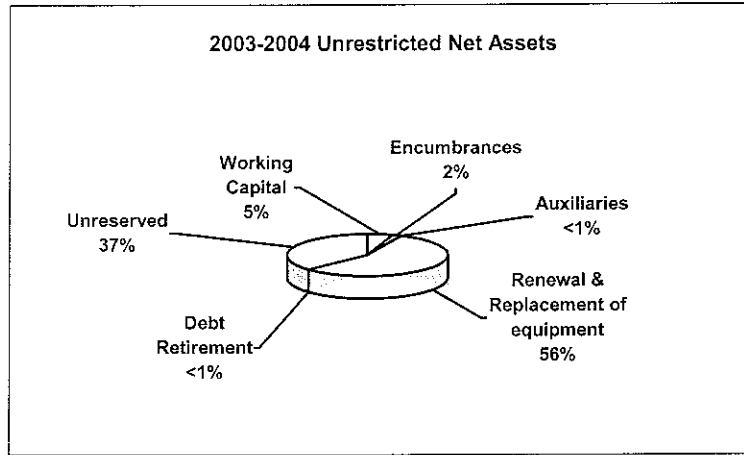
- Current assets decreased due to transfers to non-current for out-year projects. Projects planned from the funds include a \$100,000 upgrade to the electrical system in the Clement building, \$663,600 for the development of an off campus site, \$1,876,580 for an administrative systems software upgrade, \$15,300 for the replacement of a car and \$20,000 to construct designated smoking areas outside of the buildings.
- Increases in current liabilities were due primarily to an 11% increase in accounts payable. The large increase in deferred revenue was caused by a 15% fee increase and moving to the TBR common calendar which caused the summer term to start later.
- The increases in net assets were primarily unrestricted.

Foundation:

- Increases in current assets for the Nashville State Community College foundation were attributable to the addition of two fundraising events, donations to the endowment fund and the receipt of a grant to fund the startup expenses of a nursing program.

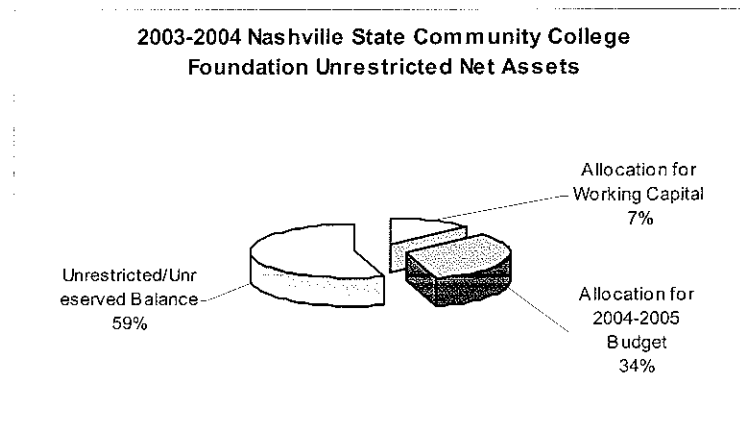
Many of the College's unrestricted net assets have been designated or reserved for specific purposes such as: repairs and replacement of equipment, future debt service, quasi-endowments, capital projects, and student loans. The following graph shows the allocations:

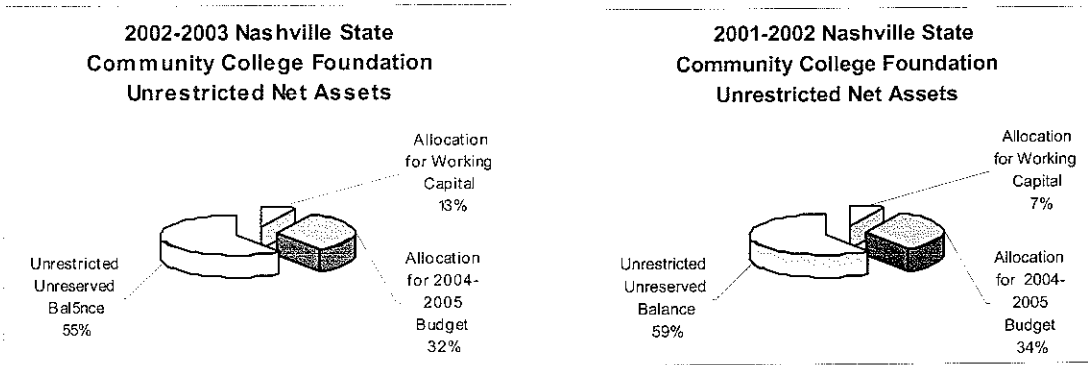
College:



- Funds were transferred to Renewals and Replacement for the software migration project during fiscal year 2003-2004.

Foundation:





- The increase in nonexpendable funds is composed of six new endowments and additions to the endowment base for the O’Bryant endowment.
- The increase in restricted funds is attributable to the receipt of a \$50,000 grant from HCA that is restricted to support of the nursing program and additions to designated restricted funds which are composed primarily of scholarships.
- The increase in unrestricted funds is attributable to the addition of two fundraising events, a golf tournament that occurs in the fall and a scholarship dinner that occurs in February.

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 non-operating 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)

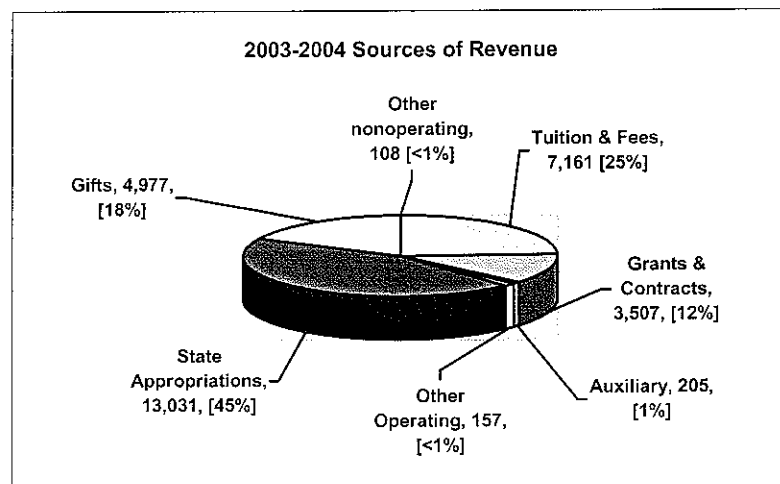
	<u>Institution</u>			<u>Component Unit</u>		
	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>
Operating revenues:						
Net tuition and fees	\$7,161	\$5,967	\$5,820			
Grants and contracts	3,507	6,950	6,030	\$195	\$120	\$72
Auxiliary	205	179	171			
Other	157	163	74	81		
Total operating revenues	\$11,030	\$13,259	\$12,095	\$276	\$120	\$72
Operating expenses	\$27,451	\$26,871	\$24,333	\$112	\$97	\$63
Operating Income (Loss)	(\$16,421)	(\$13,612)	(\$12,238)	\$164	\$23	\$9
Nonoperating revenues and expenses:						
State appropriations	\$13,031	\$13,231	\$12,658			
Gifts	4,976	127	205			
Investment income	120	141	164	\$3	\$6	\$6
Other revenues and expenses	(12)	(9)	(1)			
Total nonoperating revenues and expenses	\$18,115	\$13,490	\$13,026	\$3	\$6	\$6

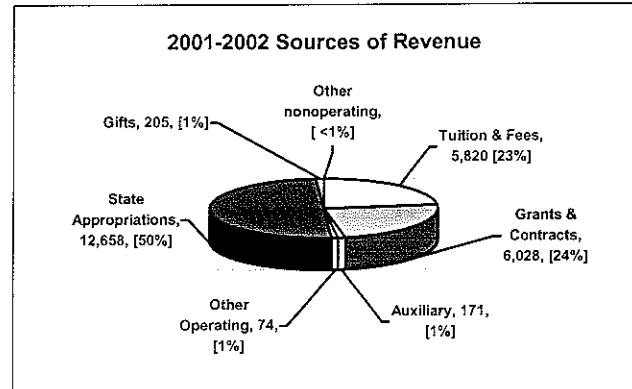
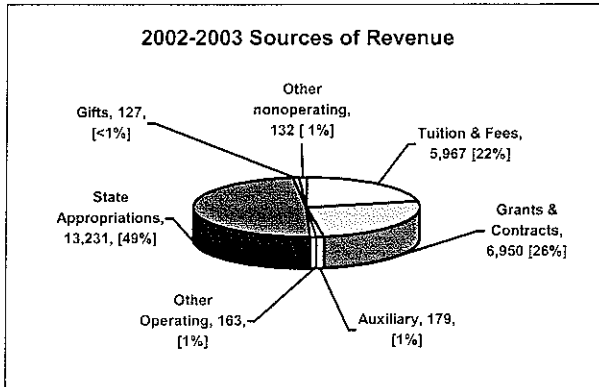
Income (loss) before other revenues, expenses, gains, or losses	\$1,694	(\$122)	\$788	\$167	\$29	\$15
Other revenues, expenses, gains, or losses:						
Capital appropriations	\$1,028	\$2,106	\$6,082			
Other	8	8				
Total other revenues, expenses, gains, or losses	\$1,036	\$2,113	\$6,082			
Increase in net assets	\$2,731	\$1,992	\$6,870	\$167	\$29	\$15
Net assets at beginning of year, as originally reported	23,735	21,377	26,206	269	240	\$225
Cumulative effect of changes in accounting principle			(11,708)			
Net asset at beginning of period, restated	\$23,735	\$21,377	\$14,498	\$269	\$240	\$225
Prior year correction	\$35	\$366	\$9			
Net assets at end of year	\$26,501	\$23,735	\$21,377	\$436	\$269	\$240

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, 2004 and the years ended June 30, 2003 and June 30, 2002 (amounts are presented in thousands of dollars).

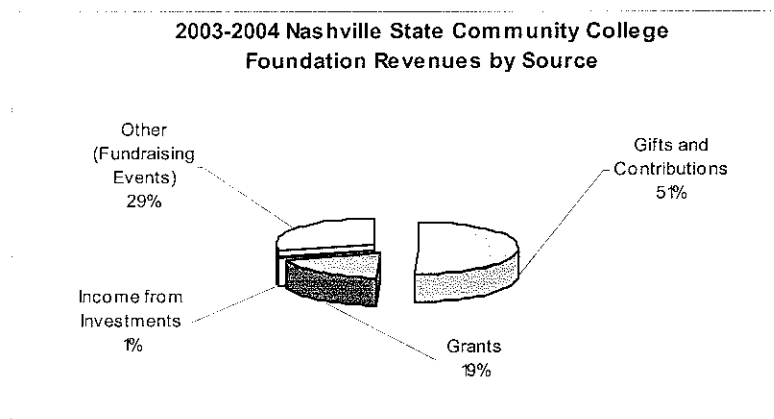
College:



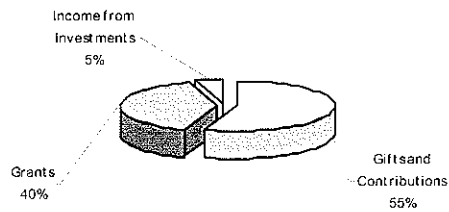


- The decrease in current grants and contracts is attributable to reclassifying amounts received from student grants as non-current.
- Revenue from state grants and contracts increased \$56,757.06.
- Revenue from local grants and contracts decreased \$25,803.82. Williamson County schools reimbursed the college for a secretarial salary during fiscal year 2002-2003. Effective 2003-2004 Williamson County paid the secretary directly.
- Private Gifts and Contracts decreased \$104,620.63. Fewer contract classes were requested by private industry.
- The college increased the in-state and out-of-state maintenance fees 14% during the 2003-2004 year. The fee increase coupled with enrollment growth resulted in an overall increase of \$1,191,045.61.
- Revenue from the bookstore contract increased 14% (\$25,577.82)
- The hiring and salary freeze that was effective for the latter part of 2003 ended, positions previously lapsed were filled resulting in increased expenses for salaries and benefits.
- Salary and benefit expenses were also increased due to a mid-year raise given in January of 2003 and a \$10 per credit hour adjunct pay rate increase.
- A mid year health insurance premium increase also increased the cost of benefits.
- Non-operating revenue decreases were due to a reduced operating state appropriation and reduced state appropriations for capital improvements.

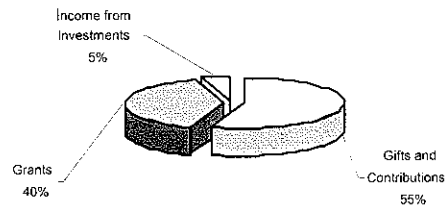
Foundation:



2002-2003 Nashville State Community College Foundation Revenues by Source



2001-2002 Nashville State Community College Foundation Revenues by Source



- The increase of gifts and contributions is attributable to the addition of six endowments.
- The increase in grant revenue is due to the addition of a Frist Technology grant to update the fundraising software.
- The increase in other revenue represents the addition of two fund raising events.

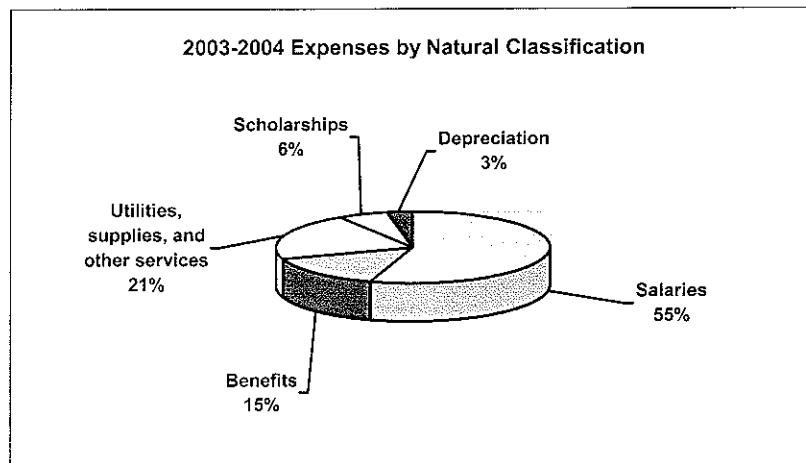
Expenses

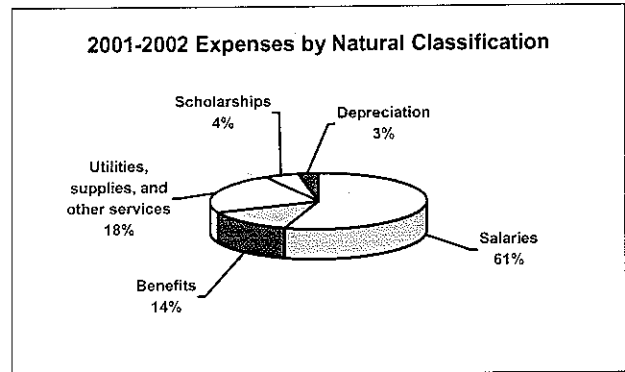
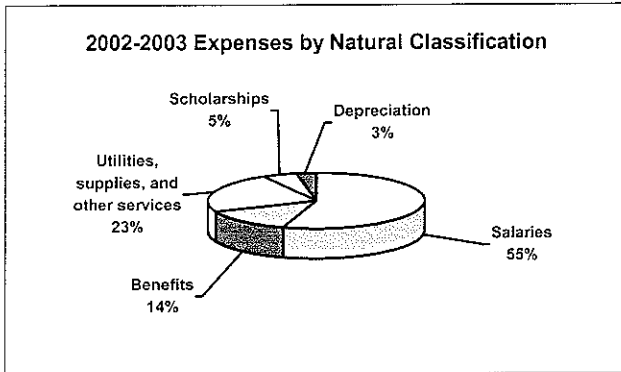
Operating expenses can be displayed in two formats, natural classification and program classification. Both formats are displayed below.

Natural Classification

<u>Operating Expense</u>	<u>Institution</u>			<u>Component Unit</u>		
	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>
Salaries	\$15,076	\$14,567	\$14,834			
Benefits	4,098	3,881	3,473			
Utilities, supplies, and other services	5,764	6,158	4,489	\$54	\$6	\$13
Scholarships	1,631	1,396	877	30	59	48
Depreciation	882	869	660			
Payments to or on behalf of NSCC				29	32	2
TOTAL	\$27,451	\$26,871	\$2,333	\$113	\$97	\$63

2003-2004 Expenses by Natural Classification

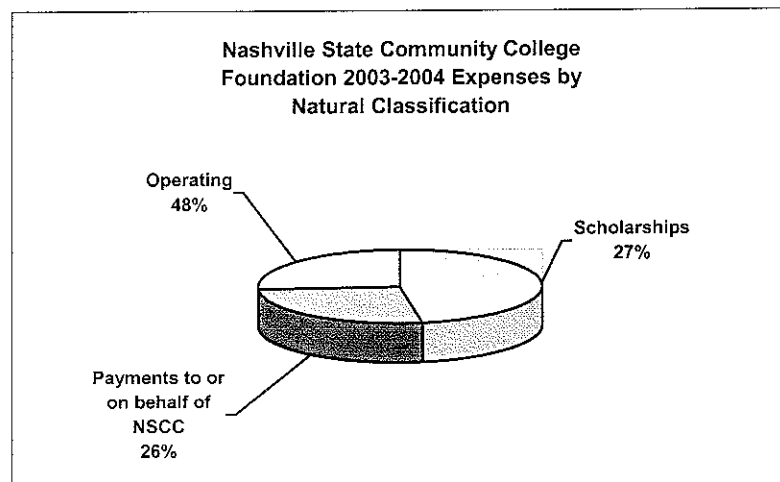


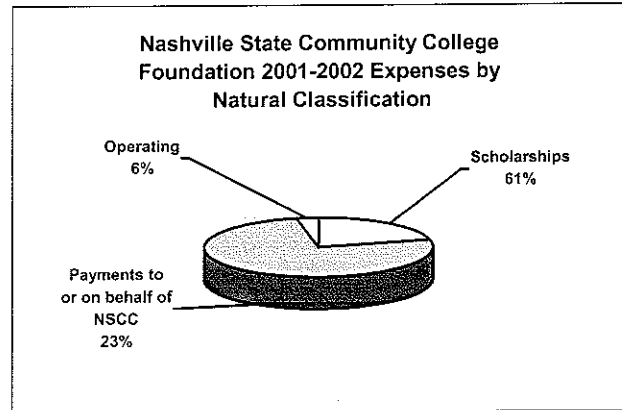
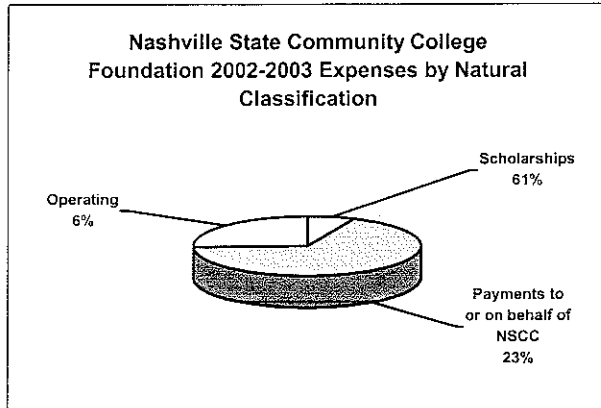


College:

- The largest expense in all three fiscal years was salaries, representing 55% of the total operating expense in fiscal years 2004 and 2003 and 61% in FY 2002.
- The benefit portion rose slightly to 15% of operating expenses in FY 2004, compared to 14% in fiscal years 2003 and 2002.
- The utilities, supplies, and other expenses classification includes such items as printing, utilities, classroom and office supplies, and maintenance costs.
- Depreciation expense also remained steady at 3% for all three fiscal years.
- Federal grants represent the largest component of the scholarship percentage.

Foundation:



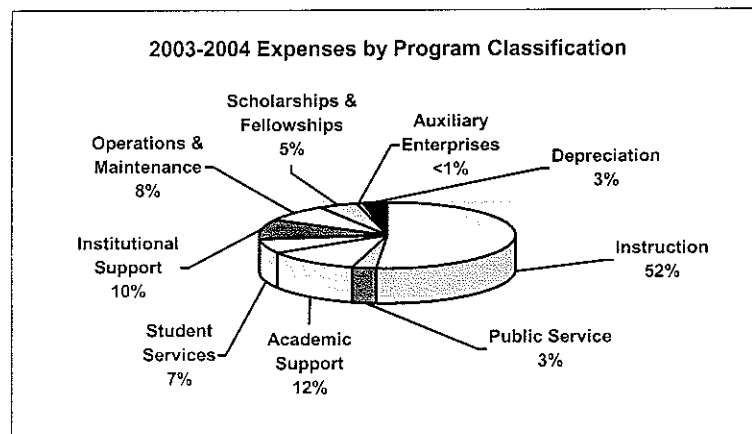


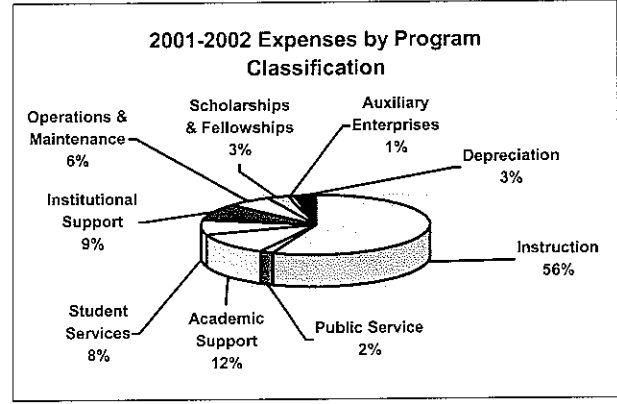
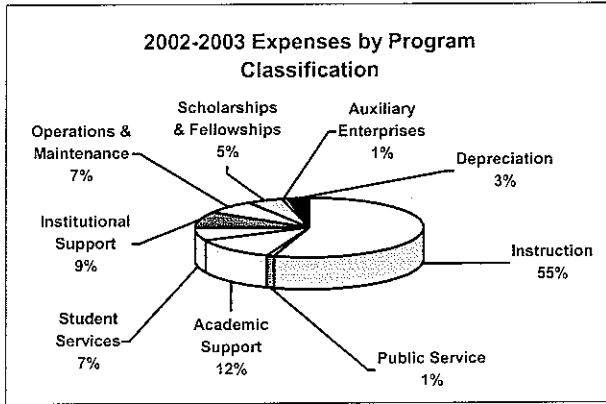
- The addition of two fund raising events increased operating expenses \$47,356.77. The events were a golf tournament and a fund raising dinner. Both events were profitable with the golf event netting \$6,877.93 after expenses and the dinner event raising \$27,140.68 after expenses.
- Allocations for scholarships for 2003-2004 were decreased from 2002-2003 because the foundation elected to maintain a minimum of \$100,000 in unrestricted funds in order to finance fundraising events and to allocate no more than seventy five percent of the previous year's unrestricted gifts.

Program Classification

<u>Operating Expenses</u>	<u>Institution</u>			<u>Component Unit</u>		
	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>
Instruction	\$14,270	\$14,676	\$13,169	\$25	\$25	
Public Service	728	495	857			
Academic Support	3,354	3,161	3,017		1	
Student Services	1,953	1,981	1,953			
Institutional Support	2,700	2,547	2,197	57	7	\$15
Operations & Maintenance	2,060	1,804	1,744	1	5	
Scholarships & Fellowships	1,502	1,335	734	29	59	48
Auxiliary Enterprises	2	3	111			
Depreciation	882	869	660			
TOTAL	\$27,451	\$26,871	\$24,333	\$112	\$97	\$63

College:

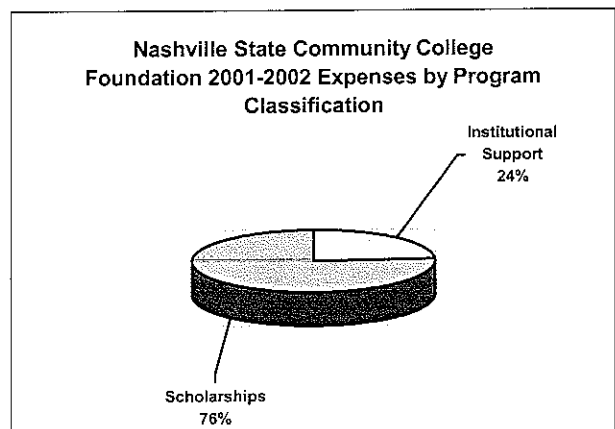
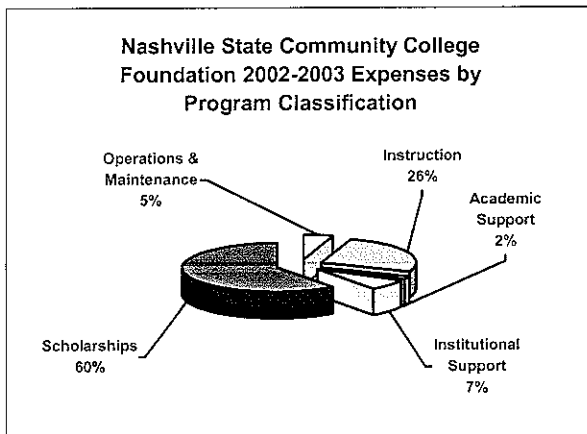
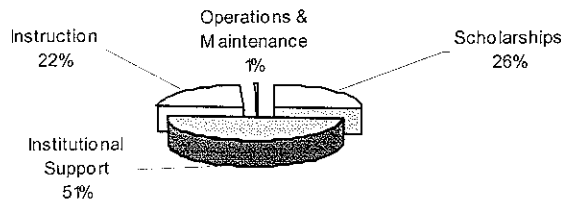




- The largest program expense is instruction. This represents instructional salaries, benefits, and supplies used in the classrooms and laboratories.
- General administrative expenses for Nashville State include the program functions of student services, institutional support, academic support, and public services, which combined total 32% of operating expense for FY 2004, 29% for FY 2003, and 31% for FY 2002.
- Operations and maintenance expenses include utilities, custodial supplies, and general maintenance support. This category increased 1% each year. Utilities make up at least half of the program area expenses.
- Auxiliary expense represents approximately 1% of the program classification. The College contracts the bookstore operation on a commission basis.

Foundation:

**Nashville State Community College Foundation
2003-2004 Expenses by Program Classification**



- The increase in program expenditures in institutional support is attributable to the addition of two fundraising events.
- A major repair was performed on a masonry wall for the college in 2002-2003. There were no major operations and maintenance functions performed in 2003-2004.
- The decrease in scholarship expenses was attributable to the foundation decision to maintain a minimum unrestricted fund balance and to allocate funds based on the prior year's collections.

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)			Component Unit		
	<u>2004</u>	<u>Institution</u> <u>2003</u>	<u>2002</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>
Cash provided (used) by:						
Operating activities	(\$15,213)	(\$12,526)	(\$12,119)	\$145	\$43	(\$2)
Noncapital financing activities	18,267	12,489	12,872			9
Capital and related financing activities	418	1,447	148			
Investing activities	120	141	163	108	1	(75)
Net increase in cash	\$3,592	\$2,551	\$1,064	\$253	\$44	(\$68)
Cash, beginning of year	9,412	6,861	8,447	\$112	\$68	136
Cash, end of year	\$13,004	\$9,412	\$9,511	\$365	\$112	\$68

College:

- The largest factor contributing to the College's improved cash flow in FY 2004 was a student maintenance fee increase of 15%. A 7.5% maintenance fee increase was imposed in FY 2003 as well.
- Interest rates paid by the local government investment pool declined during FY 2003 resulting in an interest income decline of approximately \$21,000 in FY 2004, and \$136,000 decline in the prior year.
- The primary source of the College's cash flow is the state appropriation, which increased approximately \$276,722 in FY 2004, compared to last year's increase of \$2,891,018 in FY 2003, and \$358,000 in FY 2002.

Foundation:

- \$106,567.12 invested in certificates of deposit matured and were not reinvested due to low interest rates.
- \$50,000 was received as a grant for the nursing program.
- \$34,356.77 of the increase in cash was attributable to the addition of two fund raising events.
- \$84,720 was received in endowment fund contributions.
- The Nashville State Community College Foundation's cash liquidity increased during FY 2004.

Capital Assets and Debt Administration

Capital Assets

At June 30, 2004, Nashville State Technical Community College had \$15,767,929.24 invested in capital assets, net of accumulated depreciation of \$11,533,584.45. Depreciation charges totaled \$882,113.94 for the current fiscal year. Details of these assets are shown below.

	<u>Institution</u>		
	<u>2004</u>	<u>2003</u>	<u>2002</u>
Land	\$1,340	\$1,340	\$403
Land improvements & infrastructure	835	565	535
Buildings	12,646	13,233	6,546
Equipment	617	552	443
Library holdings	330	327	336
Projects in progress			7,611

- The College plans the following for the upcoming year: renovation of science labs, upgrade of security and fire systems and the 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.
- In FY 2003, an increase in land was due to a donation from the City of Cookeville for the Don Sundquist campus. Land improvements were made to the parking areas of the Cookeville campus and construction campus buildings were completed. There were also increases in equipment for purchases of an automobile, piano, and computer equipment.
- The College replaced the main chiller in FY 2002. Projects in progress included the construction of the Don Sundquist campus in Cookeville and major equipment purchased was a milling machine for the engineering technologies program.

Debt

At June 30, 2004, the College had \$81,947.93 in debt outstanding. The table below summarizes these amounts by type of debt instrument.

<u>Description of Debt</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>
TSSBA Bonds due 2012	\$81,947.93	\$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, 2004, 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 9 to the financial statements.

Economic Factors That Will Affect the Future

The college is highly dependent upon state appropriations to offset operating losses. The funding formula used to establish appropriations recommendations is currently under review. Despite the recent attention to the funding formula, long term improvement of state appropriations is remains unlikely due to the current disparity between funding recommendations and actual funding received as well as inequities that exist within the current formula.

Technology access fee increases during fiscal year 2003-2004 have enabled to the college to upgrade labs despite reductions received in state appropriations. It is anticipated that all computer labs will be able to move to a three year up-grade cycle as a result of the increased revenues.

The implementation of the lottery scholarship will likely have little to no effect on enrollment at the college. Compliance with reporting requirements for the lottery scholarship has increased the work loads of both the Student Records Office and the Financial Aid Office and has resulted in significant operating cost increases.

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 unlikely due to funding constraints. The college has earmarked funds for the establishment of a rented off campus site as an interim solution to the continuing space problem.

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.