

# **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, 2006, with comparative information presented for the fiscal year ended June 30, 2005. 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.

<b>Nashville State Technical Community College</b>			
<b>Statement of Net Assets (in thousands of dollars)</b>			
	<u>2006</u>	<u>2005</u>	<u>2004</u>
<b>Assets:</b>			
Current assets	\$8,638	\$7,163	\$7,659
Capital assets, net	18,340	16,598	15,768
Other assets	11,963	8,741	10,112
<b>Total Assets</b>	<b>\$38,941</b>	<b>\$32,502</b>	<b>\$33,539</b>
<b>Liabilities:</b>			
Current liabilities	\$6,890	\$3,084	\$6,787
Noncurrent liabilities	609	402	251
<b>Total Liabilities</b>	<b>\$7,499</b>	<b>\$3,486</b>	<b>\$7,038</b>
<b>Net Assets:</b>			
Invested in capital assets, net of related debt	\$18,276	\$16,525	\$15,686
Restricted – nonexpendable	5	5	5
Restricted – expendable	374	325	302
Unrestricted	12,787	12,161	10,508
<b>Total Net Assets</b>	<b>\$31,442</b>	<b>\$29,016</b>	<b>\$26,501</b>

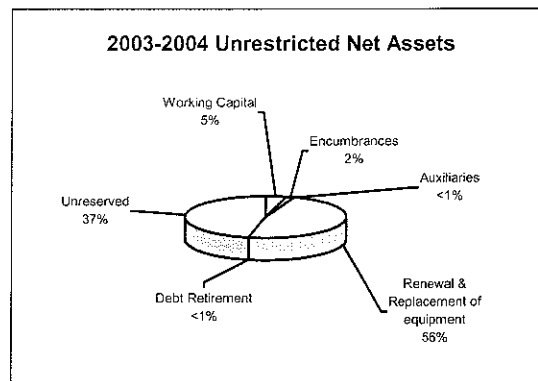
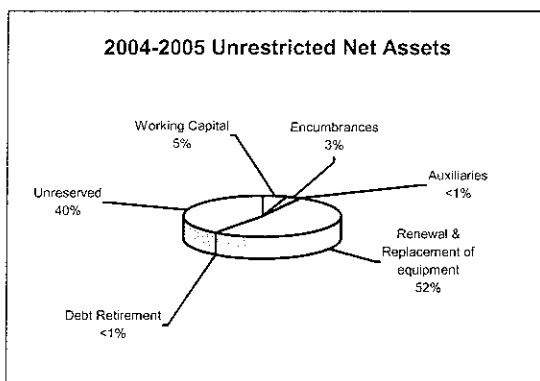
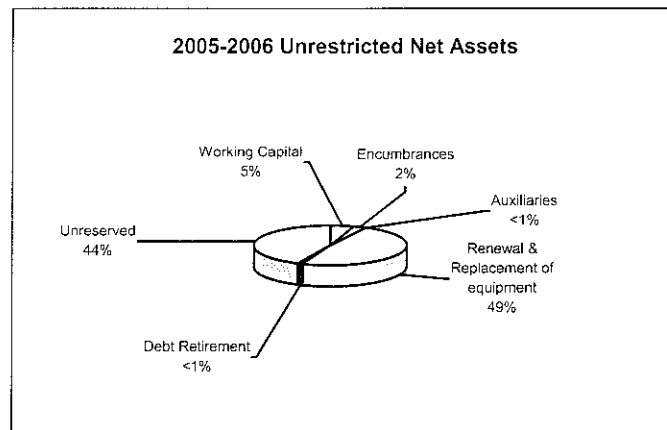
- Non-current liabilities in FY06 increased due to compliance with a recent audit position paper, “Determining the Current and Non-Current Portions of the Compensated Absences Liability,” calculation instructions.
- In FY 2006, restricted expendable funds increased because of the addition of CITE EDS project, SAGE staff development program, and the HCA nursing program.
- Unrestricted net assets increased in FY 2005 due to set-aside funds for Banner implementation.
- An increase in Non-current liabilities-compensated absences in FY 2005 was due to stable employment of staff at the College.

<b>Nashville State Technical Community College Foundation</b>			
<b>Statement of Net Assets (in thousands of dollars)</b>			
	<u>2006</u>	<u>2005</u>	<u>2004</u>
<b>Assets:</b>			
Current assets	\$608	\$665	\$438
<b>Total Assets</b>	<b>\$608</b>	<b>\$665</b>	<b>\$438</b>
<b>Liabilities:</b>			
Current liabilities	\$3	\$5	\$3
<b>Total Liabilities</b>	<b>\$3</b>	<b>\$5</b>	<b>\$3</b>
<b>Net Assets:</b>			
Invested in capital assets, net of related debt			
Restricted – nonexpendable	\$209	\$164	\$134
Restricted – expendable	172	281	137
Unrestricted	224	215	164
<b>Total Net Assets</b>	<b>\$605</b>	<b>\$660</b>	<b>\$435</b>

- The decrease in net assets of the Foundation between FY 2005 and FY 2006 is attributable to the expenditure of the Oprah Winfrey Scholarship funds. The gift of \$140,000 was given in FY 2005 for use in FY 2006.
- Between FY 2005 and FY 2004, increases in current assets and restricted nonexpendable, restricted expendable, and unrestricted net 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 start-up expenses of a nursing program.

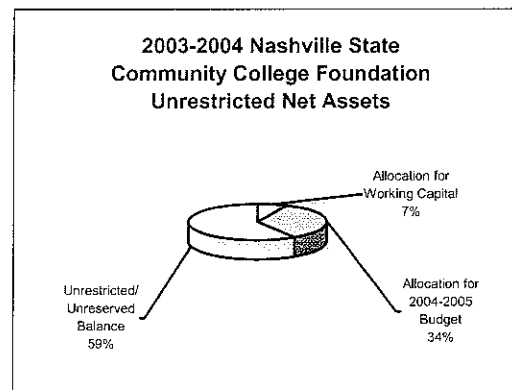
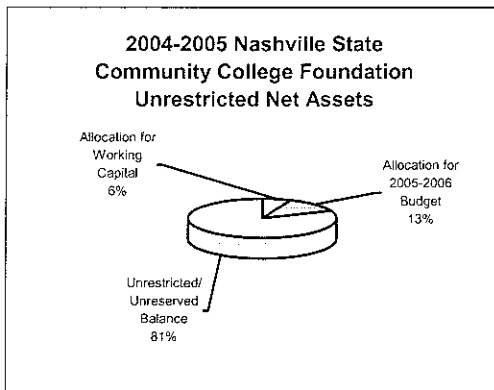
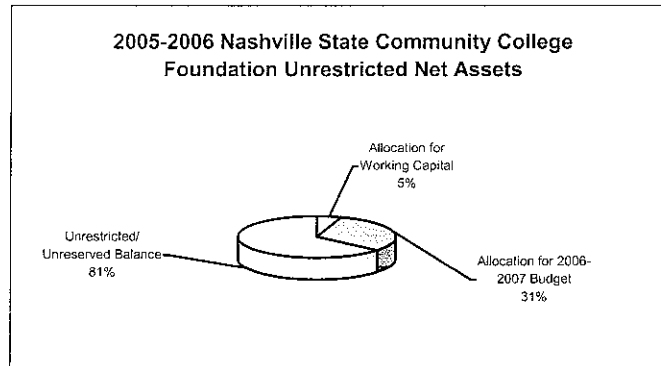
Many of the College's unrestricted net assets have been designated or reserved for specific purposes such as: repairs and replacement of equipment, future debt service, quasi-endowments, capital projects, and student loans. The following graph shows the allocations:

College:



- Software migration project has been on-going during FY 2005 and FY 2006. In FY 2004, funds transferred for this project increased Renewals and Replacements by approximately 20% from FY 2003.

Foundation:



- The allocation for the FY 2007 budget increased \$39,637.72 from the FY 2006 budget. The allocation for the Presidential Scholarship was reduced by \$3,049.00. The allocation for Dual Enrollment scholarships was increased by \$340.00. The allocation for the Development Office operating expenses was increased by \$6,763.72.

**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.

<b>Nashville State Technical Community College</b>			
<b>Statement of Revenues, Expenses, and Changes in Net Assets (in thousands of dollars)</b>			
	<u>2006</u>	<u>2005</u>	<u>2004</u>
<b>Operating revenues:</b>			
Net tuition and fees	\$8,065	\$7,371	\$7,161
Grants and contracts	2,664	3,239	3,507
Auxiliary	224	215	205
Other	329	263	157
<b>Total operating revenues</b>	<b>\$11,282</b>	<b>\$11,088</b>	<b>\$11,030</b>
Operating expenses	\$31,061	\$29,088	\$27,451
<b>Operating loss</b>	<b>(\$19,779)</b>	<b>(\$18,000)</b>	<b>(\$16,421)</b>

<b>Nonoperating revenues and expenses:</b>			
State appropriations	\$14,045	\$13,800	\$13,031
Gifts	127	183	228
Grants & contracts	6,383	6,078	4,748
Investment income	653	283	120
Other revenues and expenses	(7)	(12)	(12)
<b>Total nonoperating revenues and expenses</b>	<b>\$21,201</b>	<b>\$20,332</b>	<b>\$18,115</b>
<b>Income (loss) before other revenues, expenses, gains, or losses</b>	<b>\$1,421</b>	<b>\$2,331</b>	<b>\$1,694</b>
<b>Other revenues, expenses, gains, or losses:</b>			
Capital appropriations	\$1,002	\$295	\$1,028
Other	(1)	(94)	8
<b>Total other revenues, expenses, gains, or losses</b>	<b>\$1,001</b>	<b>\$201</b>	<b>\$1,036</b>
<b>Increase (decrease) in net assets</b>	<b>\$2,422</b>	<b>\$2,532</b>	<b>\$2,731</b>
Net assets at beginning of year, as originally reported	\$29,016	26,501	23,735
<b>Net asset at beginning of period, restated</b>	<b>\$29,016</b>	<b>\$26,501</b>	<b>\$23,735</b>
Prior period adjustment	\$4	(\$17)	\$35
<b>Net assets at end of year</b>	<b>\$31,442</b>	<b>\$29,016</b>	<b>\$26,501</b>

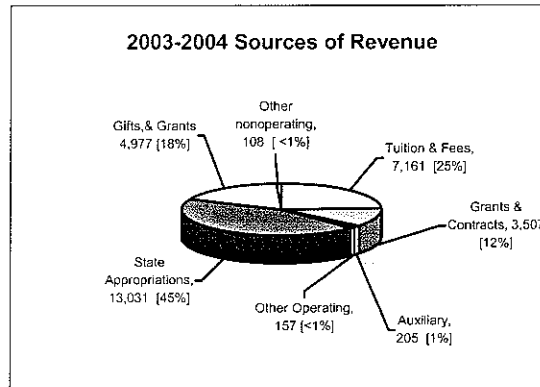
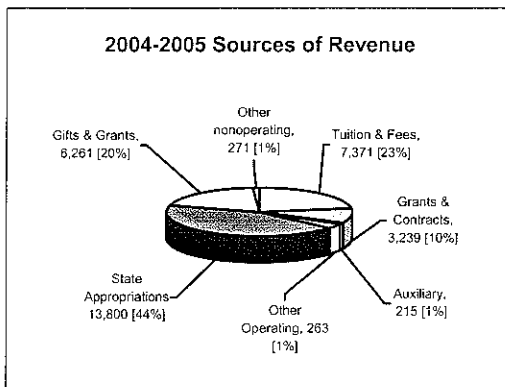
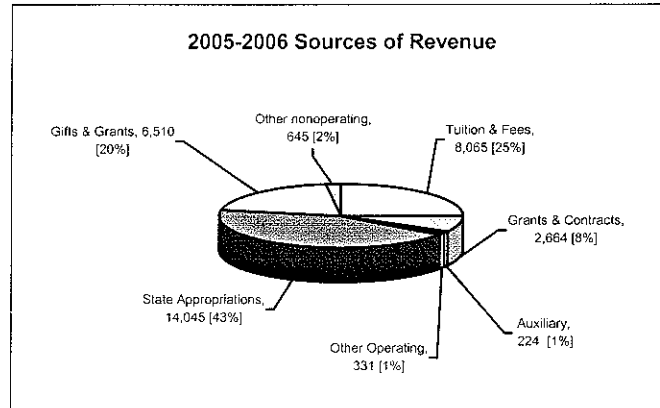
- All revenue source categories increased during FY 2006 except for governmental grants and contracts due to reduced awards of NSF grants.
- Capital assets increased in FY 2006 due to capitalized Banner software. The decrease in capital appropriations in FY 2005 was attributed to expenditures for equipment supplies and maintenance for the Cookeville building project.
- Operating revenues improved due to increases in enrollment and tuition and fee increases.
- The decrease in grants and contracts is attributed to a reduction in funding of NSF grants.
- Gifts in FY 2006 and FY 2005 decreased because of a reduction of in-kind gifts to the College.
- In FY 2006 and FY 2005, investment income has steadily increased due to rising interest rates.
- Other operating revenue in FY 2005 increased due to the reporting of technology center administrative fee as income.
- Other losses decreased in FY 2006 and FY 2005 due to investment of plant adjustments.

<b>Nashville State Technical Community College Foundation</b>			
<b>Statement of Revenues, Expenses, and Changes in Net Assets (in thousands of dollars)</b>			
	<b><u>2006</u></b>	<b><u>2005</u></b>	<b><u>2004</u></b>
<b>Operating revenues:</b>			
Gifts	\$73	\$202	\$142
Grants and contracts	5	39	53
Other	120	105	81
<b>Total operating revenues</b>	<b>\$198</b>	<b>\$346</b>	<b>\$276</b>
Operating expenses	\$307	\$140	\$113
<b>Operating loss</b>	<b>(\$109)</b>	<b>\$206</b>	<b>\$163</b>
<b>Nonoperating revenues and expenses:</b>			
Grants & contracts			
Investment income	\$15	\$4	\$3
<b>Total nonoperating revenues and expenses</b>	<b>\$15</b>	<b>\$4</b>	<b>\$3</b>
<b>Income (loss) before other revenues, expenses, gains, or losses</b>	<b>(\$94)</b>	<b>\$210</b>	<b>\$166</b>
<b>Other revenues, expenses, gains, or losses:</b>			
Additions to permanent endowments	\$39	\$15	
<b>Total other revenues, expenses, gains, or losses</b>	<b>\$39</b>	<b>\$15</b>	
<b>Increase (decrease) in net assets</b>	<b>(\$55)</b>	<b>\$225</b>	<b>\$166</b>
Net assets at beginning of year, as originally reported	660	435	269
<b>Net assets at beginning of period, restated</b>	<b>\$660</b>	<b>\$435</b>	<b>\$269</b>
<b>Net assets at end of year</b>	<b>\$605</b>	<b>\$660</b>	<b>\$435</b>

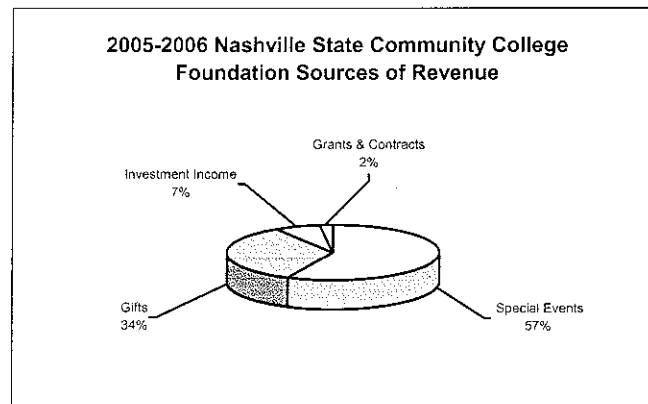
### Revenues

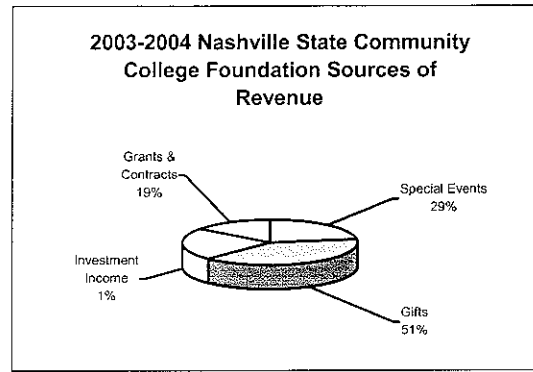
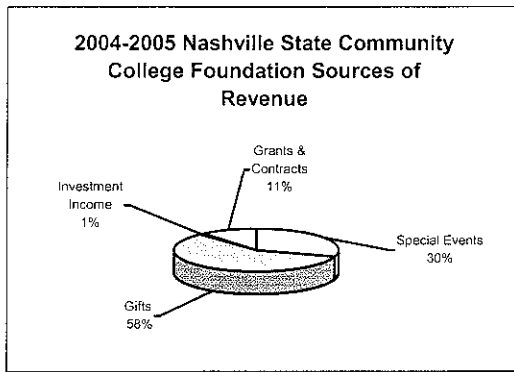
The following is a graphic illustration of revenues by source (both operating and nonoperating), which are used to fund the College's operating activities for the year ended June 30, 2006, the year ended June 30, 2005, and the year ended June 30, 2004 (amounts are presented in thousands of dollars).

College:



- In FY 2006, all revenues sources categories increased except for governmental grants and contracts which dropped only 2% within the overall revenue total.
- Bookstore revenue has remained stable at approximately 1% all three years.
- Increases in state appropriations, grants and contracts, and interest on capital asset-related debt contributed to the increase in non-operating revenues during FY 2006. Non-operating revenue increased in FY 2005 due to increases in the state appropriations and the grant and contracts areas.





- In FY 2006, investment income increased due to better interest rates.
- Other operating revenues in FY 2006 and FY 2005 increased from special event income. In FY 06, the increase was \$15,206.66, and of that increase, \$13,670.00 was attributable to a photography auction held to benefit the O'Bryant Scholarship and the O'Bryant endowment.
- Grants and contracts income decreased from \$39,500.00 in FY 2005 to \$5,000.00 in FY 2006. The Foundation received a \$35,000.00 grant from EDS during FY 2005 that was non-recurring. Grants from TVA increased by \$500.00.
- Gifts decreased from \$202,105.45 in FY 2005 to \$72,992.67. In FY 2005, the Foundation received a non-recurring \$140,000 gift from the Oprah Winfrey Foundation. Other gifts increased by \$10,887.22, which represents a 17.53% increase over the prior year.
- In FY 2006 and FY 2005, operating expenses increased due to an increase in special event expenses and funds available for scholarships.
- In FY 2006, funds were received by the college Foundation for permanent endowments for faculty members.

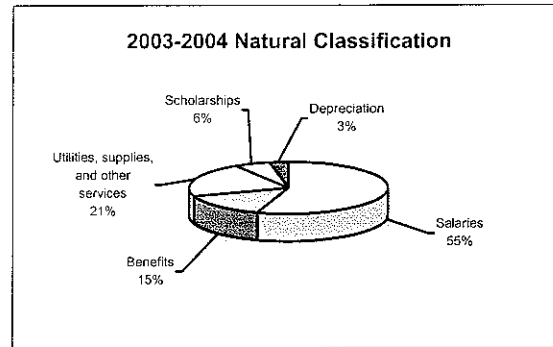
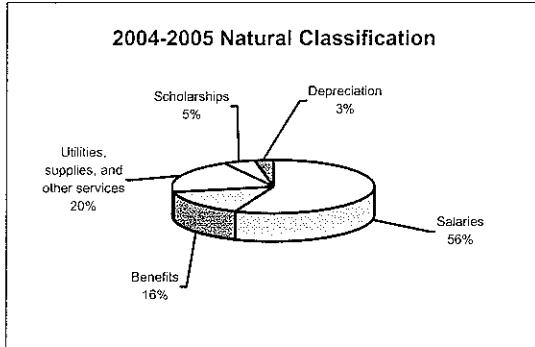
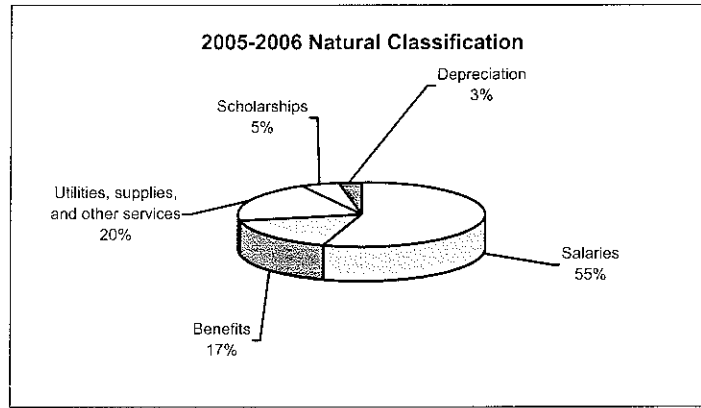
Expenses

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

***Natural Classification  
for the College***

	<b>2006</b>	<b>2005</b>	<b>2004</b>
Salaries	\$17,091	\$16,183	\$15,076
Benefits	5,164	4,665	4,098
Utilities, supplies, and other services	6,142	5,909	5,764
Scholarships	1,580	1,541	1,631
Depreciation	1,085	790	882
<b>TOTAL</b>	<b>\$31,062</b>	<b>\$29,088</b>	<b>\$27,451</b>

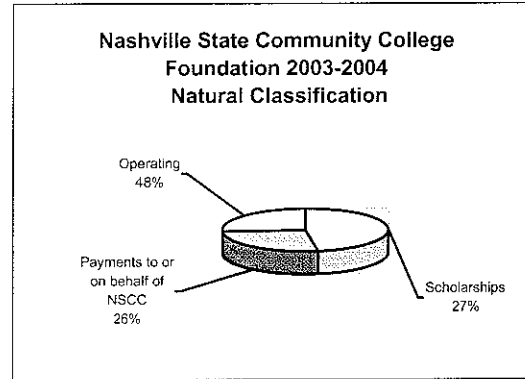
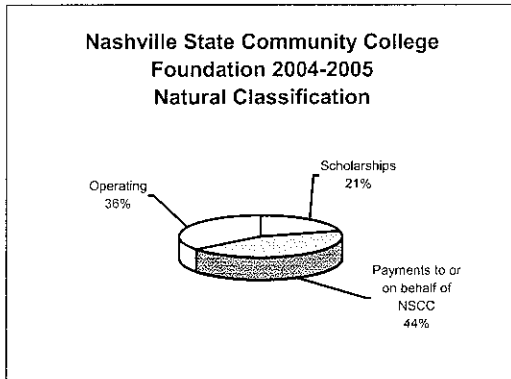
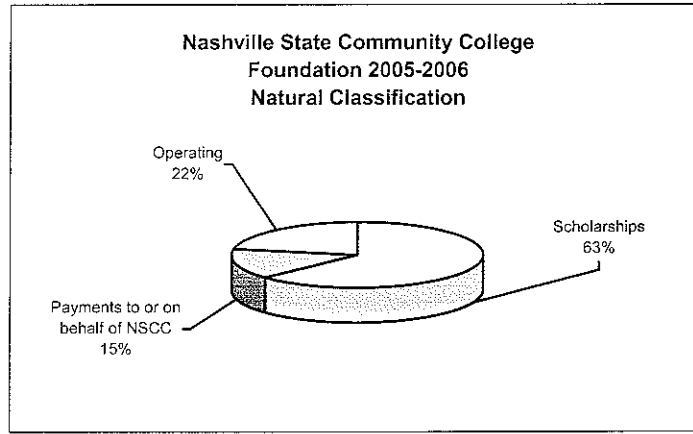




- The largest expense all three years was salaries which accounts for slightly over half of all operating expenditures. A 3% across-the-board and 1% equity salary increases occurred during FY 2006. In FY 2005, a total of 4% across-the-board salary increase occurred. A mid-year health insurance premium increase also increased the cost of benefits in FY 2004.
- Benefits classification has increased only 1% each year for the past three years.
- The utilities, supplies, and other expenses classification includes such items as printing, utilities, classroom and office supplies, and maintenance costs. It has remained around 20% each year.
- Federal grants represent the largest component of the scholarship percentage.

*Natural Classification  
for the Nashville State Community College Foundation*

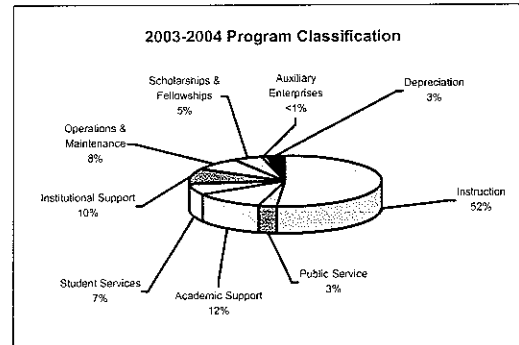
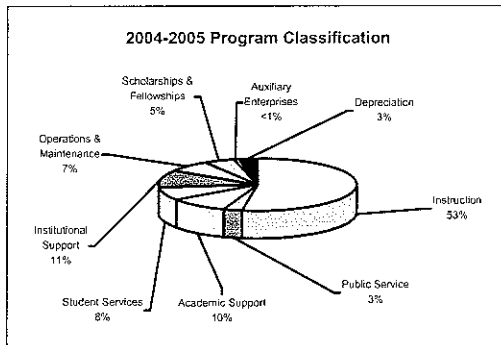
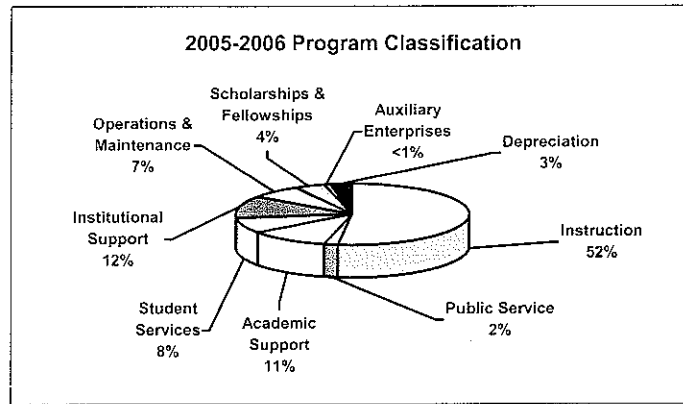
	<u>2006</u>	<u>2005</u>	<u>2004</u>
Utilities, supplies, and other services	\$67	\$50	\$54
Scholarships	194	29	30
Payments to or on behalf of NSCC	46	61	29
TOTAL	\$307	\$140	\$113



- The increase in scholarships in FY 2006 was due primarily to a gift of \$140,000.00 received from the Oprah Winfrey Foundation in FY 2005. Other significant scholarship increases were \$11,750.00 in special event scholarships and \$4,734.00 in Ingram Scholarships.
- The difference in payments on behalf of the College is attributable to the net effect of a \$50,000.00 non-recurring nursing grant that was expended in FY 2005 and a \$34,459.79 grant from EDS for the middle college expended in FY 2006.
- The increase in utilities, supplies and other expenses is due primarily to increased special events expenses. Total expenses associated with special events increased \$17,044.85. Of this amount, \$15,264.18 represents in-kind expenses on donated items.

***Program Classification  
for the College***

<b>Operating Expenses</b>	<b>2006</b>	<b>2005</b>	<b>2004</b>
Instruction	\$16,064	\$15,807	\$14,270
Public Service	701	736	728
Academic Support	3,389	2,788	3,354
Student Services	2,598	2,310	1,953
Institutional Support	3,695	3,291	2,700
Operations & Maintenance	2,107	1,914	2,060
Scholarships & Fellowships	1,420	1,449	1,502
Auxiliary Enterprises	3	3	2
Depreciation	1,085	790	882
<b>TOTAL</b>	<b>\$31,062</b>	<b>\$29,088</b>	<b>\$27,451</b>



- The largest program expense is instruction. This represents instructional salaries, benefits, and supplies used in the classrooms and laboratories.
- General administrative expenses for the College include the program functions of student services, institutional support, academic support and public services, which combined totaled 33% for FY 2006 and 32% for FY 2005 and FY 2004.
- Operations and maintenance expenses include utilities, custodial supplies, and general maintenance support. This category has remained between 7-8% all three years. Utilities make up approximately half of this program area expenses.
- Auxiliary expense has represented 1% or less for the past three years. 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.

<b>Nashville State Technical Community College</b>			
<b>Statement of Cash Flows (in thousands of dollars)</b>			
	<b><u>2006</u></b>	<b><u>2005</u></b>	<b><u>2004</u></b>
<b>Cash provided (used) by:</b>			
Operating activities	(\$18,490)	(\$17,049)	(\$15,213)
Noncapital financing activities	20,367	20,138	18,751
Capital and related financing activities	(1,847)	(1,441)	418
Investing activities	653	284	120
<b>Net increase (decrease) in cash</b>	<b>\$683</b>	<b>\$1,932</b>	<b>\$4,076</b>
<b>Cash, beginning of year</b>	<b>18,369</b>	<b>16,437</b>	<b>12,361</b>
<b>Cash, end of year</b>	<b>\$19,052</b>	<b>\$18,369</b>	<b>\$16,437</b>

- State appropriations and gifts and grants increases contributed to the increase in non-capital financing activities.
- Investing activities improved in FY 2005 and FY 2006 due to improved economic conditions and higher returns on investments.
- The primary source of the College's cash flow is the state appropriation which increased \$251,200.00 in FY 2006, \$759,451.84 in FY 2005, and \$276,722 in FY 2004.
- Over the past three years, the College has maintained a positive cash flow due to fee increases.

### **Capital Assets and Debt Administration**

#### *Capital Assets*

Nashville State Technical Community College had \$18,339,924.93 invested in capital assets, net of accumulated depreciation of \$12,732,060.46 at June 30, 2006; \$16,598,448.77 invested in capital assets, net of accumulated depreciation of \$12,063,981.41 at June 30, 2005; and \$15,767,929.24 invested in capital assets, net of accumulated depreciation of \$11,533,584.45 at June 30, 2004. Depreciation charges totaled \$1,084,514.02, \$886,828.66, and 882,113.94 for the years ended June 30, 2006, June 30, 2005, and June 20, 2004, respectively. Details of these assets are shown below.

<b>Nashville State Technical Community College</b>			
<b>Schedule of Capital Assets, Net of Depreciation (in thousands of dollars)</b>			
	<b><u>2006</u></b>	<b><u>2005</u></b>	<b><u>2004</u></b>
Land	\$1,340	\$1,340	\$1,340
Land improvements & infrastructure	800	866	835
Buildings	11,471	12,058	12,646
Equipment	1,625	1,233	617
Library holdings	305	318	330
Software	555		
Projects in progress	2,245	783	

In FY 2006, projects in progress increased due to the capitalization of software. Equipment increases included upgrades of the campus telephone system, electronic signage, and digital lab equipment.

In FY 2005, an increase in improvements and infrastructure resulted from the addition of the Clement Building cooling tower. There were also increases in equipment from purchases of science lab equipment, firearms training simulator, computer equipment, security system equipment, and Banner hardware equipment. Projects in progress include the A-Building project and Banner software.

In FY 2004, an increase in improvements and infrastructure was from the addition of two boilers and a chiller. There were also increases in equipment from purchases of two tool room lathes, autoclave, robot upgrade system, and computer equipment.

### ***Debt***

The College had \$64,342.85, \$73,347.50, and \$81,947.93 in debt outstanding at June 30, 2006, June 30, 2005, and June 30, 2004, respectively. The table below summarizes these amounts by type of debt instrument.

<b><u>Description of Debt</u></b>	<b><u>2006</u></b>	<b><u>2005</u></b>	<b><u>2004</u></b>
TSSBA Bonds due 2012	\$64,342.85	\$73,347.50	\$81,947.93

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, 2006, was rated as AA by Standard and Poor's. More detailed information about the College's long-term liabilities is presented in Note 6 of the financial statements.

### **Economic Factors That Will Affect the Future**

The College is highly dependent upon state appropriations to offset operating losses. The THEC funding formula is used to establish appropriations recommendations each year. Despite the recent attention to the funding formula, long-term improvement of state appropriations remains unlikely due to the current disparity between funding recommendations and actual funding received.

Inadequate capital financing for space expansion to serve the College's growth 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. The College has received funding for a student services/classroom building effective with the 2006-2007 capital budget. This will reduce, but not eliminate, the space deficits.

During the 2005-2006 fiscal year, the College has been undergoing a science lab renovation at a cost of approximately \$2,300,000 in order to bring the science labs into compliance with building codes and OSHA requirements.

The College has opened a satellite location that includes six classrooms in southeast Davidson County in the old TPS high school in order to provide services during the renovation period and further serve the citizens in the service delivery area. As enrollment growth continues with this campus, additional renovations will be necessary to make the second floor usable.

### **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.