

**Tennessee Board of Regents
Nashville State Technical Institute**

**For the Years Ended
June 30, 2001, and June 30, 2000**

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Director

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Assistant Director

Chuck Richardson, CPA, CISA
Audit Manager

Karen Masters, CISA
In-Charge Auditor

Gerry Boaz, CPA
Technical Analyst

Amy Brack
Editor

Comptroller of the Treasury, Division of State Audit
1500 James K. Polk Building, Nashville, TN 37243-0264
(615) 401-7897

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STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY

State Capitol
Nashville, Tennessee 37243-0260
(615) 741-2501

John G. Morgan
Comptroller

November 26, 2002

The Honorable Don Sundquist, Governor
and

Members of the General Assembly
State Capitol
Nashville, Tennessee 37243

and

The Honorable Charles W. Manning, Chancellor
Tennessee Board of Regents
1415 Murfreesboro Road, Suite 350
Nashville, Tennessee 37217

and

Dr. George H. Van Allen, President
Nashville State Technical Community College
120 White Bridge Road
Nashville, Tennessee 37209

Ladies and Gentlemen:

Transmitted herewith is the financial and compliance audit of the Tennessee Board of Regents, Nashville State Technical Institute, for the years ended June 30, 2001, and June 30, 2000. 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 one deficiency, which is detailed in the Results of the Audit section of this report. The institute'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/th
02/078

State of Tennessee

Audit Highlights

Comptroller of the Treasury

Division of State Audit

Financial and Compliance Audit
Nashville State Technical Institute
For the Years Ended June 30, 2001, and June 30, 2000

AUDIT OBJECTIVES

The objectives of the audit were to consider the institute's internal control over financial reporting; to determine compliance with certain provisions of laws, regulations, contracts, and grants; to determine the fairness of the presentation of the financial statements; and to recommend appropriate actions to correct any deficiencies.

INTERNAL CONTROL FINDING

User Authorization for Access to Computer Systems Was Not Adequately Documented

The institute's Computer Services management did not have reliable documentation of authorization for users of the Systems and Computer Technology computer systems. Several user authorization forms selected for examination were missing, some forms were not signed by management, and the access granted on some of the forms was not as great as the user's access (page 6).

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

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Audit Report
Tennessee Board of Regents
Nashville State Technical Institute
For the Years Ended June 30, 2001, and June 30, 2000

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**Tennessee Board of Regents
Nashville State Technical Institute
For the Years Ended June 30, 2001, and June 30, 2000**

INTRODUCTION

POST-AUDIT AUTHORITY

This is a report on the financial and compliance audit of the Tennessee Board of Regents, Nashville State Technical Institute. 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 governmental entity that handles public funds when the Comptroller considers an audit to be necessary or appropriate.

BACKGROUND

In March 1963, the Tennessee General Assembly passed House Bill 633, authorizing the establishment of a statewide system of area vocational-technical schools and regional technical schools. Nashville State Technical Institute opened on White Bridge Road in the fall of 1970. Until 1983, the institute operated under the Tennessee State Board of Vocational Education through the Tennessee Department of Education, Division of Vocational-Technical Education. The 93rd General Assembly transferred the institute to the Tennessee Board of Regents July 1, 1983.

In April 2002, the General Assembly amended Section 49-8-101, *Tennessee Code Annotated*, and changed the name of Nashville State Technical Institute to Nashville State Technical Community College. The change became effective on July 1, 2002, subsequent to the audit period of this audit report.

The institute offers two-year, college-level programs and certificates to prepare adults for employment as technicians in career areas. The programs lead to an Associate of Applied Science degree. Also, the institute offers special programs and courses to meet the needs of industry, business, and government.

ORGANIZATION

The governance of Nashville State Technical Institute is vested in the Tennessee Board of Regents. The Governor, the Commissioner of Education, the Commissioner of Agriculture, and the Director of the Tennessee Higher Education Commission serve *ex officio* on this board. The chief administrative officer of the institute is the president, who is assisted and advised by members of the faculty and administrative staff.

AUDIT SCOPE

The audit was limited to the period July 1, 1999, through June 30, 2001, and was conducted in accordance with government auditing standards generally accepted in the United States of America. Financial statements are presented for the years ended June 30, 2001, and June 30, 2000. Nashville State Technical Institute 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 institute's internal control over financial reporting to determine auditing procedures for the purpose of expressing an opinion on the financial statements;
 2. to determine compliance with certain provisions of laws, regulations, contracts, and grants;
 3. to determine the fairness of the presentation of the financial statements; and
 4. to recommend appropriate actions to correct any deficiencies.
-

PRIOR AUDIT FINDINGS

There were no findings in the prior audit report.

RESULTS OF THE AUDIT

AUDIT CONCLUSIONS

Internal Control

As part of the audit of the institute's financial statements for the years ended June 30, 2001, and June 30, 2000, 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 government auditing standards generally accepted in the United States of America. A reportable condition, along with the recommendation and management's response, is detailed in the finding and recommendation. Consideration of internal control over financial reporting disclosed no material weaknesses.

Compliance

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

Fairness of Financial Statement Presentation

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



**STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
DEPARTMENT OF AUDIT
DIVISION OF STATE AUDIT**

**SUITE 1500
JAMES K. POLK STATE OFFICE BUILDING
NASHVILLE, TENNESSEE 37243-0264
PHONE (615) 401-7897
FAX (615) 532-2765**

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

July 23, 2002

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

Dear Mr. Morgan:

We have audited the financial statements of Nashville State Technical Institute, 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, 2001, and June 30, 2000, and have issued our report thereon dated July 23, 2002. We conducted our audit in accordance with government auditing standards generally accepted in the United States of America. As discussed in Note 9, the institute changed the threshold for capitalizing equipment. Also, the institute implemented GASB 33, *Accounting and Financial Reporting for Nonexchange Transactions*.

Compliance

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

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

The Honorable John G. Morgan
July 23, 2002
Page Two

Internal Control Over Financial Reporting

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

- User authorization for access to computer systems was not adequately documented

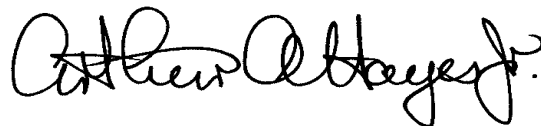
This condition is described in the Finding and Recommendation section of this report.

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 do not believe the reportable condition described above is a material weakness.

We also noted other matters involving the internal control over financial reporting, which we have reported to the institute'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.

Sincerely,



Arthur A. Hayes, Jr., CPA,
Director

AAH/th

FINDING AND RECOMMENDATION

User authorization for access to computer systems was not adequately documented

Finding

The institute's Computer Services management did not have reliable documentation of authorization for users of the Systems and Computer Technology (SCT) computer systems. These systems used by the Tennessee Board of Regents' schools include the Financial Records System (FRS), Human Resource System (HRS), and Student Information System (SIS).

For FRS, 4 of the 15 user authorization forms selected for examination (27%) were missing. Of the 11 forms that were found, one form was not signed by management and the access granted on 2 of the forms was not as great as the user's access. For HRS, 3 of the 10 user authorization forms selected for examination (30%) were missing. Of the 7 forms that were found, one form was not signed by management and the access granted on 2 of the forms was not as great as the user's access. For SIS, 6 of the 20 user authorization forms selected for examination (30%) were missing. Of the 14 forms that were found, 2 forms were not signed by management and the access granted on 8 of the forms was not as great as the user's access.

Management is responsible for appropriate implementation, maintenance, and monitoring of procedures for effective authorization of user access accounts. The failure to prepare, collect, and maintain access authorization forms increases the possibility that access to sensitive systems and information may be granted to ineligible individuals and that authorization may be granted to employees in excess of what is warranted for their job responsibilities.

Recommendation

Computer Services management should implement, maintain, and monitor procedures for effectively authorizing users of the SCT computer systems. Other Tennessee Board of Regents colleges and universities periodically distribute the SCT Security Report (ZBA110) to respective departmental management staff for review and validation of user accounts in their departments. This report provides a detailed account of user authorizations for each of the SCT computer systems. Computer Services management should consider distributing the ZBA110 report to departmental management staff for validation on a quarterly basis to act as a compensating control in the absence of updated user authorization forms. If this control is implemented, a confirmation of the completion of the review and validation process should be required from the departmental managers.

Management's Comment

We concur with the finding and recommendation. Effective May 2002, management distributed the SCT security report to all departmental management staff and corrected the security profiles identified as incorrect by departmental management. Computer services staff also reviewed all access forms for correctness and validity and removed all invalid access. Effective October 2002, management implemented a quarterly review of the ZBA110 security report. Confirmation of the correctness of access is required, in writing, from all departmental managers. In addition, the Director of Computer Services uses the terminal checkout form to determine if someone is leaving the college. If so, the director e-mails access terminations to the help desk so that a task removing access is generated and sent to the systems group.

Documentation supporting the quarterly review will be housed in the office of the secretary of the Computer Services Department. Responsibility for monitoring and compliance is placed with the Director of Computer Services.



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PHONE (615) 401-7897
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Independent Auditor's Report

July 23, 2002

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 Nashville State Technical Institute, an institution of the Tennessee Board of Regents, which is a component unit of the State of Tennessee, as of June 30, 2001, and June 30, 2000, 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 institute's management. Our responsibility is to express an opinion on these financial statements, based on our audit.

We conducted our audit in accordance with government auditing standards generally accepted in the United States of America. 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.

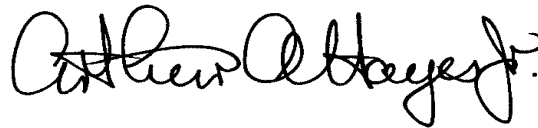
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Tennessee Board of Regents, Nashville State Technical Institute, as of June 30, 2001, and June 30, 2000, and the changes in fund balances and the current funds revenues, expenditures, and other changes for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The Honorable John G. Morgan
July 23, 2002
Page Two

As discussed in Note 9, the institute changed the threshold for capitalizing equipment. Also, the institute implemented GASB 33, *Accounting and Financial Reporting for Nonexchange Transactions*.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 23, 2002, on our consideration of the institute's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Sincerely,

A handwritten signature in black ink that reads "Arthur A. Hayes, Jr." The signature is written in a cursive style with a large initial "A" and a distinct "Jr." at the end.

Arthur A. Hayes, Jr., CPA,
Director

AAH/th

TENNESSEE BOARD OF REGENTS
NASHVILLE STATE TECHNICAL INSTITUTE
BALANCE SHEETS
JUNE 30, 2001, AND JUNE 30, 2000

	June 30, 2001	June 30, 2000		June 30, 2001	June 30, 2000
<u>ASSETS</u>			<u>LIABILITIES AND FUND BALANCES</u>		
Current funds:			Current funds:		
Unrestricted:			Unrestricted:		
General:			General:		
Cash (Notes 2 and 3)	\$ 2,781,394.64	\$ 3,009,566.73	Liabilities:		
Accounts receivable (net of allowance of \$9,408.04 at June 30, 2001, and \$23,872.97 at June 30, 2000)	430,881.19	419,126.55	Accounts payable	\$ 364,424.12	\$ 388,596.98
Due from restricted current funds	-	12,707.02	Accrued liabilities	649,238.20	621,422.02
Prepaid expenses	43,785.56	45,626.59	Deferred revenue	857,281.94	818,891.99
			Compensated absences	512,863.71	492,966.83
			Other liabilities	110,561.50	105,149.60
			Total liabilities	2,494,369.47	2,427,027.42
			Fund balances:		
			Nondiscretionary allocations:		
			Allocation for working capital	256,292.20	262,977.29
			Allocation for encumbrances	107,712.20	53,848.99
			Allocation for designated state appropriations	737.70	117.67
			Discretionary allocation:		
			Allocation for remedial/developmental programs	473,000.00	553,800.00
			Allocation for compensated absences	(512,863.71)	(492,966.83)
			Unallocated	436,813.53	682,222.35
			Total fund balances	761,691.92	1,059,999.47
Total general	3,256,061.39	3,487,026.89	Total general	3,256,061.39	3,487,026.89
Auxiliary enterprises:			Auxiliary enterprises:		
Cash (Notes 2 and 3)	209,484.79	57,484.83	Fund balances:		
Accounts receivable	21,740.68	18,432.92	Nondiscretionary allocation:		
			Allocation for working capital	21,740.68	18,432.92
			Discretionary allocation:		
			Allocation for contingencies	8,345.10	7,484.83
			Unallocated	201,139.69	50,000.00
Total auxiliary enterprises	231,225.47	75,917.75	Total auxiliary enterprises	231,225.47	75,917.75
Total unrestricted	3,487,286.86	3,562,944.64	Total unrestricted	3,487,286.86	3,562,944.64
Restricted:			Restricted:		
Cash (Notes 2 and 3)	3,806.32	-	Liabilities:		
Accounts and grants receivable	461,836.51	588,290.28	Accounts payable	10,332.18	55,513.37
Prepaid expenses	80.00	-	Accrued liabilities	43,860.68	24,391.84
			Due to unrestricted current funds	-	12,707.02
			Compensated absences	70,330.75	85,295.40
			Total liabilities	124,523.61	177,907.63
			Fund balance	341,199.22	410,382.65
Total restricted	465,722.83	588,290.28	Total restricted	465,722.83	588,290.28
Total current funds	\$ 3,953,009.69	\$ 4,151,234.92	Total current funds	\$ 3,953,009.69	\$ 4,151,234.92
Loan funds:			Loan funds:		
Cash (Notes 2 and 3)	\$ 1,008.90	\$ 1,008.90	Fund balance:		
			Unrestricted	\$ 1,008.90	\$ 1,008.90
Total loan funds	\$ 1,008.90	\$ 1,008.90	Total loan funds	\$ 1,008.90	\$ 1,008.90
Endowment and similar funds:			Endowment and similar funds:		
Cash (Notes 2 and 3)	\$ 4,739.67	\$ 4,739.67	Fund balance:		
			Endowment	\$ 4,739.67	\$ 4,739.67
Total endowment and similar funds	\$ 4,739.67	\$ 4,739.67	Total endowment and similar funds	\$ 4,739.67	\$ 4,739.67
Plant funds:			Plant funds:		
Unexpended plant:			Unexpended plant:		
Cash (Notes 2 and 3)	\$ 565,363.31	\$ 871,869.97	Liabilities:		
Accounts receivable	127.73	-	Accounts payable	\$ 6,751.77	\$ 7,082.08
			Fund balance:		
			Unrestricted	558,739.27	864,787.89
Total unexpended plant	565,491.04	871,869.97	Total unexpended plant	565,491.04	871,869.97

TENNESSEE BOARD OF REGENTS
NASHVILLE STATE TECHNICAL INSTITUTE
BALANCE SHEETS
JUNE 30, 2001, AND JUNE 30, 2000

	June 30, 2001	June 30, 2000		June 30, 2001	June 30, 2000
<u>ASSETS</u>			<u>LIABILITIES AND FUND BALANCES</u>		
Renewals and replacements:			Renewals and replacements:		
Cash (Notes 2 and 3)	2,259,065.00	1,424,764.22	Liabilities:		
Other assets	-	2,837.07	Accounts payable	1,200.00	1,200.00
			Fund balance:		
			Unrestricted (Note 6)	2,257,865.00	1,426,401.29
Total renewals and replacements	<u>2,259,065.00</u>	<u>1,427,601.29</u>	Total renewals and replacements	<u>2,259,065.00</u>	<u>1,427,601.29</u>
Investment in plant:			Investment in plant:		
Land	402,740.00	402,740.00	Fund balance:		
Buildings	13,475,170.20	13,002,573.75	Net investment in plant	22,050,068.81	20,250,982.69
Improvements other than buildings	779,523.95	779,523.95			
Equipment	2,341,031.60	2,886,454.06			
Library books	2,250,960.00	2,146,848.00			
Other library holdings	688,937.00	669,313.00			
Construction in progress	2,111,706.06	363,529.93			
Total investment in plant	<u>22,050,068.81</u>	<u>20,250,982.69</u>	Total investment in plant	<u>22,050,068.81</u>	<u>20,250,982.69</u>
Total plant funds	<u>\$ 24,309,133.81</u>	<u>\$ 21,678,583.98</u>	Total plant funds	<u>\$ 24,309,133.81</u>	<u>\$ 21,678,583.98</u>
Agency funds:			Agency funds:		
Foundation funds:			Foundation funds:		
Cash (Notes 2 and 3)	\$ 83,050.13	\$ 75,770.57	Liabilities:		
Investments (Notes 3 and 4)	138,874.80	83,231.02	Accounts payable	\$ 70.97	\$ 0.88
Accounts receivable (Note 5)	-	5,769.09	Deposits held in custody for foundation	224,946.96	166,752.80
Other assets	3,093.00	1,983.00			
Total foundation funds	<u>225,017.93</u>	<u>166,753.68</u>	Total foundation funds	<u>225,017.93</u>	<u>166,753.68</u>
Nonfoundation funds:			Nonfoundation funds:		
Cash (Notes 2 and 3)	2,485,803.51	2,126,938.16	Liabilities:		
Accounts receivable (Note 5)	4,750.10	10,911.70	Accounts payable	120.00	1,665.00
			Deposits held in custody for others	2,490,433.61	2,136,184.86
Total nonfoundation funds	<u>2,490,553.61</u>	<u>2,137,849.86</u>	Total nonfoundation funds	<u>2,490,553.61</u>	<u>2,137,849.86</u>
Total agency funds	<u>\$ 2,715,571.54</u>	<u>\$ 2,304,603.54</u>	Total agency funds	<u>\$ 2,715,571.54</u>	<u>\$ 2,304,603.54</u>

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

TENNESSEE BOARD OF REGENTS
NASHVILLE STATE TECHNICAL INSTITUTE
STATEMENT OF CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2001

	Current Funds			Endowment and Similar Funds	Plant Funds		
	Unrestricted	Restricted	Loan Funds		Unexpended Plant	Renewals and Replacements	Investment In Plant
REVENUES AND OTHER ADDITIONS							
Unrestricted current fund revenues	\$ 20,322,394.78	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Auxiliary enterprise revenues	166,902.17	-	-	-	-	-	-
State appropriations	-	95,070.00	-	-	2,639,113.23	-	-
Federal grants and contracts	-	2,974,261.33	-	-	-	-	-
State grants and contracts	-	1,205,113.88	-	-	-	-	-
Private gifts, grants, and contracts	-	733,732.65	-	-	-	-	-
Endowment income	-	296.14	-	-	-	-	-
Investment income	-	-	-	-	38,181.52	49,449.57	-
Equipment use charges	-	-	-	-	-	214,250.00	-
Expended for plant facilities (including \$128,863.14 charged to current fund expenditures)	-	-	-	-	-	-	2,375,958.72
Library holdings revaluation	-	-	-	-	-	-	56,489.01
Other	-	6,494.62	-	-	-	-	-
Total revenues and other additions	20,489,296.95	5,014,968.62	-	-	2,677,294.75	263,699.57	2,432,447.73
EXPENDITURES AND OTHER DEDUCTIONS							
Educational and general expenditures	19,767,867.11	4,785,387.86	-	-	-	-	-
Auxiliary enterprise expenditures	3,794.45	-	-	-	-	-	-
Indirect costs recovered	-	156,582.49	-	-	-	-	-
Refunded to grantors	-	137,422.12	-	-	-	-	-
Expended for plant facilities	-	-	-	-	2,229,177.58	17,918.00	-
Expended for noncapital items	-	-	-	-	862,664.85	125,253.08	-
Disposal of plant facilities	-	-	-	-	-	-	633,361.61
Other	-	4,759.58	-	-	41,200.94	-	-
Total expenditures and other deductions	19,771,661.56	5,084,152.05	-	-	3,133,043.37	143,171.08	633,361.61
TRANSFERS AMONG FUNDS - ADDITIONS (DEDUCTIONS)							
Nonmandatory:							
Unexpended plant	(149,700.00)	-	-	-	149,700.00	-	-
Renewals and replacements	(710,935.22)	-	-	-	-	710,935.22	-
Total transfers	(860,635.22)	-	-	-	149,700.00	710,935.22	-
Net increases (decreases) for the year	(142,999.83)	(69,183.43)	-	-	(306,048.62)	831,463.71	1,799,086.12
Fund balances at beginning of year	1,135,917.22	410,382.65	1,008.90	4,739.67	864,787.89	1,426,401.29	20,250,982.69
Fund balances at end of year	\$ 992,917.39	\$ 341,199.22	\$ 1,008.90	\$ 4,739.67	\$ 558,739.27	\$ 2,257,865.00	\$ 22,050,068.81

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

TENNESSEE BOARD OF REGENTS
NASHVILLE STATE TECHNICAL INSTITUTE
STATEMENT OF CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2000

	Current Funds				Plant Funds		
	Unrestricted	Restricted	Loan Funds	Endowment and Similar Funds	Unexpended Plant	Renewals and Replacements	Investment In Plant
REVENUES AND OTHER ADDITIONS							
Unrestricted current fund revenues	\$ 18,989,523.97	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Auxiliary enterprise revenues	149,696.51	-	-	-	-	-	-
State appropriations	-	93,550.00	-	-	290,213.33	-	-
Federal grants and contracts	-	3,067,551.74	-	-	-	-	-
State grants and contracts	-	736,959.43	-	-	-	-	-
Private gifts, grants, and contracts	-	1,144,716.29	-	-	-	-	-
Endowment income	-	270.06	-	-	-	-	-
Investment income	-	-	-	-	39,296.27	56,829.85	-
Equipment use charges	-	-	-	-	-	249,750.00	-
Expended for plant facilities (including \$224,343.97 charged to current fund expenditures)	-	-	-	-	-	-	527,325.01
Library holdings revaluation	-	-	-	-	-	-	1,647.67
Other	-	7,013.03	-	-	-	-	3,000.00
Total revenues and other additions	19,139,220.48	5,050,060.55	-	-	329,509.60	306,579.85	531,972.68
EXPENDITURES AND OTHER DEDUCTIONS							
Educational and general expenditures	18,311,118.38	4,791,127.39	-	-	-	-	-
Auxiliary enterprise expenditures	3,257.30	-	-	-	-	-	-
Indirect costs recovered	-	118,190.82	-	-	-	-	-
Refunded to grantors	-	9,471.10	-	-	-	-	-
Expended for plant facilities	-	-	-	-	274,303.04	28,678.00	-
Expended for noncapital items	-	-	-	-	51,939.14	332,353.35	-
Disposal of plant facilities	-	-	-	-	-	-	665,963.52
Other	-	17,922.83	-	-	3,732.87	-	-
Total expenditures and other deductions	18,314,375.68	4,936,712.14	-	-	329,975.05	361,031.35	665,963.52
TRANSFERS AMONG FUNDS - ADDITIONS (DEDUCTIONS)							
Nonmandatory:							
Unexpended plant	(300,000.00)	-	-	-	625,000.00	(325,000.00)	-
Renewals and replacements	(37,800.00)	-	-	-	-	37,800.00	-
Total transfers	(337,800.00)	-	-	-	625,000.00	(287,200.00)	-
Net increases (decreases) for the year	487,044.80	113,348.41	-	-	624,534.55	(341,651.50)	(133,990.84)
Fund balances at beginning of year	648,872.42	297,034.24	1,008.90	4,739.67	240,253.34	1,768,052.79	25,516,688.61
Cumulative effect of a change in accounting principle (Note 9)	-	-	-	-	-	-	(5,131,715.08)
Fund balances at beginning of year, as restated	648,872.42	297,034.24	1,008.90	4,739.67	240,253.34	1,768,052.79	20,384,973.53
Fund balances at end of year	\$ 1,135,917.22	\$ 410,382.65	\$ 1,008.90	\$ 4,739.67	\$ 864,787.89	\$ 1,426,401.29	\$ 20,250,982.69

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

TENNESSEE BOARD OF REGENTS
NASHVILLE STATE TECHNICAL INSTITUTE
STATEMENT OF CURRENT FUNDS REVENUES, EXPENDITURES, AND OTHER CHANGES
FOR THE YEAR ENDED JUNE 30, 2001

	<u>Unrestricted</u>	<u>Restricted</u>	<u>Total</u>
REVENUES			
Tuition and fees	\$ 7,135,513.92	\$ -	\$ 7,135,513.92
State appropriations	12,167,600.00	95,070.00	12,262,670.00
Federal grants and contracts	24,194.48	2,974,261.33	2,998,455.81
State grants and contracts	118,649.80	1,205,113.88	1,323,763.68
Local grants and contracts	42,870.00	-	42,870.00
Private gifts, grants, and contracts	468,372.87	733,732.65	1,202,105.52
Investment income	258,689.65	-	258,689.65
Sales and services of educational activities	1,624.56	-	1,624.56
Sales and services of auxiliary enterprises	166,902.17	-	166,902.17
Other sources	104,879.50	6,790.76	111,670.26
Total current revenues	<u>20,489,296.95</u>	<u>5,014,968.62</u>	<u>25,504,265.57</u>
EXPENDITURES AND TRANSFERS			
Educational and general:			
Expenditures:			
Instruction	12,304,369.98	1,308,606.82	13,612,976.80
Public service	570,389.01	439,424.60	1,009,813.61
Academic support	920,841.96	627,103.72	1,547,945.68
Student services	2,055,013.45	20,353.43	2,075,366.88
Institutional support	2,117,242.38	2,185.01	2,119,427.39
Operation and maintenance of plant	1,341,940.70	117.49	1,342,058.19
Scholarships and fellowships	458,069.63	2,387,596.79	2,845,666.42
Total educational and general expenditures	<u>19,767,867.11</u>	<u>4,785,387.86</u>	<u>24,553,254.97</u>
Nonmandatory transfers for:			
Unexpended plant	149,700.00	-	149,700.00
Renewals and replacements	703,135.22	-	703,135.22
Total educational and general	<u>20,620,702.33</u>	<u>4,785,387.86</u>	<u>25,406,090.19</u>
Auxiliary enterprises:			
Expenditures			
Nonmandatory transfer for:			
Renewals and replacements	7,800.00	-	7,800.00
Total auxiliary enterprises	<u>11,594.45</u>	<u>-</u>	<u>11,594.45</u>
Total expenditures and transfers	<u>20,632,296.78</u>	<u>4,785,387.86</u>	<u>25,417,684.64</u>
OTHER DEDUCTIONS			
Indirect costs recovered	-	(156,582.49)	(156,582.49)
Refunded to grantors	-	(137,422.12)	(137,422.12)
Other deductions	-	(4,759.58)	(4,759.58)
Net decreases in fund balances	<u>\$ (142,999.83)</u>	<u>\$ (69,183.43)</u>	<u>\$ (212,183.26)</u>

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

TENNESSEE BOARD OF REGENTS
NASHVILLE STATE TECHNICAL INSTITUTE
STATEMENT OF CURRENT FUNDS REVENUES, EXPENDITURES, AND OTHER CHANGES
FOR THE YEAR ENDED JUNE 30, 2000

	<u>Unrestricted</u>	<u>Restricted</u>	<u>Total</u>
REVENUES			
Tuition and fees	\$ 6,608,928.44	\$ -	\$ 6,608,928.44
State appropriations	11,655,400.00	93,550.00	11,748,950.00
Federal grants and contracts	24,448.14	3,070,536.50	3,094,984.64
State grants and contracts	138,214.78	736,959.43	875,174.21
Local grants and contracts	10,000.00	-	10,000.00
Private gifts, grants, and contracts	256,420.33	1,148,744.56	1,405,164.89
Investment income	208,336.42	-	208,336.42
Sales and services of educational activities	1,036.00	-	1,036.00
Sales and services of auxiliary enterprises	149,696.51	-	149,696.51
Other sources	86,739.86	270.06	87,009.92
Total current revenues	<u>19,139,220.48</u>	<u>5,050,060.55</u>	<u>24,189,281.03</u>
EXPENDITURES AND TRANSFERS			
Educational and general:			
Expenditures:			
Instruction	11,205,425.52	2,016,554.10	13,221,979.62
Public service	308,045.62	317,370.83	625,416.45
Academic support	989,189.04	407,455.90	1,396,644.94
Student services	2,146,189.53	18,293.62	2,164,483.15
Institutional support	2,002,185.10	1,093.47	2,003,278.57
Operation and maintenance of plant	1,282,506.45	-	1,282,506.45
Scholarships and fellowships	377,577.12	2,030,359.47	2,407,936.59
Total educational and general expenditures	<u>18,311,118.38</u>	<u>4,791,127.39</u>	<u>23,102,245.77</u>
Nonmandatory transfers for:			
Unexpended plant	300,000.00	-	300,000.00
Renewals and replacements	30,000.00	-	30,000.00
Total educational and general	<u>18,641,118.38</u>	<u>4,791,127.39</u>	<u>23,432,245.77</u>
Auxiliary enterprises:			
Expenditures			
Nonmandatory transfer for:			
Renewals and replacements	7,800.00	-	7,800.00
Total auxiliary enterprises	<u>11,057.30</u>	<u>-</u>	<u>11,057.30</u>
Total expenditures and transfers	<u>18,652,175.68</u>	<u>4,791,127.39</u>	<u>23,443,303.07</u>
OTHER DEDUCTIONS			
Indirect costs recovered	-	(118,190.82)	(118,190.82)
Refunded to grantors	-	(9,471.10)	(9,471.10)
Other deductions	-	(17,922.83)	(17,922.83)
Net increases in fund balances	<u>\$ 487,044.80</u>	<u>\$ 113,348.41</u>	<u>\$ 600,393.21</u>

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

**Tennessee Board of Regents
Nashville State Technical Institute
Notes to the Financial Statements
June 30, 2001, and June 30, 2000**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The institute is a 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 have been prepared in conformity with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB). The institute uses the AICPA College Guide model for accounting and financial reporting.

Basis of Accounting

The financial statements 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 or all eligibility requirements have been met. 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 (1) expenditures, for normal replacement of movable equipment and library holdings and (2) nonmandatory transfers for all other cases.

Fund Accounting

To ensure observance of limitations and restrictions placed on the use of the resources available, the institute maintains accounts in accordance with the principles of fund

**Tennessee Board of Regents
Nashville State Technical Institute
Notes to the Financial Statements (Cont.)
June 30, 2001, and June 30, 2000**

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 investments and other noncash assets are accounted for in the fund that owned such assets. Ordinary income derived from investments, receivables, and the like is accounted for in the fund owning such assets, except for income derived from investments of endowment and similar funds. This income is accounted for in the fund to which it is restricted or, if unrestricted, as revenues in unrestricted current funds. All other unrestricted revenue is accounted for in the unrestricted current funds. Restricted gifts, grants, appropriations, endowment income, and other restricted resources are accounted for in the appropriate restricted funds. Restricted current funds are reported as revenues when expended or all eligibility requirements have been met and expenditures when expended for current operating purposes.

Current Funds

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

Loan Funds

Loan funds consist of resources made available for student loans.

**Tennessee Board of Regents
Nashville State Technical Institute
Notes to the Financial Statements (Cont.)
June 30, 2001, and June 30, 2000**

Endowment and Similar Funds

Endowment funds are subject to the restrictions of gift instruments requiring in perpetuity that the principal be invested and only the income be used.

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

Compensated Absences

The institute's employees accrue annual leave at varying rates, depending on length of service or classification. Some employees also earn compensatory time. The amount of these liabilities and their related benefits are recorded in the current funds. Since the liability is expected to be funded primarily from future unrestricted and restricted 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. Library books are valued at \$48 per volume, and other library holdings are valued at various standardized values, which approximate current costs. Depreciation on the physical plant and equipment is not recorded.

**Tennessee Board of Regents
Nashville State Technical Institute
Notes to the Financial Statements (Cont.)
June 30, 2001, and June 30, 2000**

In the case of service departments, the institute charges renewal and replacement of plant assets to current expenditures; these charges are also reported as additions to funds for renewals and replacements.

Under a contract with the Tennessee Department of Labor and Workforce Development, the institute is a service provider for the Local Workforce Investment Area in workforce investment areas 8 and 9 of the State of Tennessee. The title to all the equipment purchased by the institute under the provisions of the Workforce Investment Act resides with the U.S. government. Therefore, this equipment is not included in the institute's plant fund assets.

Nashville Tech Foundation

The institute is the sole beneficiary of the Nashville Tech Foundation. This private, nonprofit foundation is controlled by a board independent of the institute. The financial records, investments, and other financial transactions are handled by the institute, and the assets and liabilities of the foundation are included in the agency funds on the institute's balance sheet.

NOTE 2. CASH

This classification includes demand deposits and petty cash on hand. At June 30, 2001, cash consisted of \$867,698.25 in bank accounts, \$1,400.00 of petty cash on hand, and \$7,524,618.02 in the State of Tennessee Local Government Investment Pool administered by the State Treasurer. At June 30, 2000, cash consisted of \$725,517.26 in bank accounts, \$1,200.00 of petty cash on hand, and \$6,845,425.79 in the State of Tennessee Local Government Investment Pool.

NOTE 3. DEPOSITS

Deposits with financial institutions are required to be categorized to indicate the level of risk assumed by the institute. Category 1 consists of deposits that are insured or collateralized with securities held by the institute or by its agent in the institute's name. Category 2 consists of deposits collateralized with securities held by the pledging financial institution's trust department or agent in the institute's name. Category 3 deposits are uncollateralized. This category includes any bank balance

**Tennessee Board of Regents
Nashville State Technical Institute
Notes to the Financial Statements (Cont.)
June 30, 2001, and June 30, 2000**

that is collateralized with securities held by the pledging financial institution or by its trust department or agent but not in the institute's name.

Some of the institute's deposits are in financial institutions which participate in the bank collateral pool administered by the State Treasurer. The securities pledged to protect these accounts are pledged in the aggregate rather than against each individual account. The members of the pool may be required by agreement to pay an assessment to cover any deficiency. Under this additional assessment agreement, public fund accounts covered by the pool are considered to be insured for purposes of credit risk disclosure.

At June 30, 2001, the carrying amount of the institute's deposits was \$964,573.05, and the bank balance including accrued interest was \$1,211,563.94. Of the bank balance, \$1,211,335.32 was category 1, and \$228.62 was category 3. In May 2001, the institute had uninsured deposits of \$27,716.56.

At June 30, 2000, the carrying amount of the institute's deposits was \$807,791.04, and the bank balance including accrued interest was \$1,110,238.30. The bank balance was category 1.

The laws of the State of Tennessee require that collateral be pledged to secure all uninsured deposits. Tennessee Board of Regents policies require that the market value of collateral pledged equal 115%, 100%, or 90% of the uninsured deposits at financial institutions participating in the collateral pool and 105% of the uninsured deposits at all other financial institutions. The pledge level for financial institutions participating in the collateral pool is based on financial criteria set by the Collateral Pool Board with the financially strongest institutions being eligible for the lowest pledge level.

The institute 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*.

**Tennessee Board of Regents
Nashville State Technical Institute
Notes to the Financial Statements (Cont.)
June 30, 2001, and June 30, 2000**

NOTE 4. INVESTMENTS

The institute is authorized by statute to invest funds in accordance with Tennessee Board of Regents policies. Under the current policy, funds other than endowments may be invested only in obligations of the United States or its agencies backed by the full faith and credit of the United States; repurchase agreements for United States securities; certificates of deposit in banks and savings and loan associations; bankers' acceptances; commercial paper; money market mutual funds; and the State of Tennessee Local Government Investment Pool. The policy requires that investments of endowments in equity securities be limited to funds from private gifts or other sources external to the institute and that endowment investments be prudently diversified. The Nashville Tech Foundation is authorized to invest funds in accordance with its board of directors' policies. All investments permitted to be reported at fair value under GASB Statement 31 are reported at fair value, including those with a maturity date of one year or less at the time of purchase. Certificates of deposit have been included with other deposits in Note 3 to determine the adequacy of collateral security pledged.

The foundation's investments are categorized below to indicate the level of risk assumed by the foundation at year-end. Category 1 consists of insured or registered investments or investments for which the securities are held by the foundation or its agent in the foundation's name.

<u>June 30, 2001</u>	<u>Fair Value</u>
Investments not susceptible to credit risk categorization:	
Mutual funds	\$ 42,000.00
Certificates of deposit classified as investments	<u>96,874.80</u>
Total investments on the balance sheet	<u><u>\$ 138,874.80</u></u>
 <u>June 30, 2000</u>	 <u>Fair Value</u>
Category 1:	
Corporate stocks	\$ 957.24
Certificates of deposit classified as investments	<u>82,273.78</u>
Total investments on the balance sheet	<u><u>\$ 83,231.02</u></u>

**Tennessee Board of Regents
Nashville State Technical Institute
Notes to the Financial Statements (Cont.)
June 30, 2001, and June 30, 2000**

NOTE 5. PLEDGES

For the year ended June 30, 2001, promises of private donations of \$3,685.00 have been reported as accounts receivable and revenue in the agency funds.

NOTE 6. PLANT FUND ENCUMBRANCES

Plant fund encumbrances outstanding at June 30, 2001, amounted to \$565.80 for renewals and replacements. Plant fund encumbrances outstanding at June 30, 2000, amounted to \$4,448.33 for renewals and replacements.

NOTE 7. PENSION PLANS

A. Defined Benefit Plan

Tennessee Consolidated Retirement System

Plan Description - The institute 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 institute is required to contribute an actuarially determined rate. The current rate is 6.19% of annual covered payroll. Contribution requirements for the institute are established and may be amended by the TCRS' Board of Trustees. The institute's contributions to TCRS for the years ended June 30, 2001, 2000, and 1999, were \$448,568.86,

**Tennessee Board of Regents
Nashville State Technical Institute
Notes to the Financial Statements (Cont.)
June 30, 2001, and June 30, 2000**

\$355,637.38, and \$437,195.89. Contributions met the requirements for each year.

B. Defined Contribution Plans

Optional Retirement Plans (ORP)

Plan Description - The institute contributes to three defined contribution plans: Teachers Insurance and Annuity Association—College Retirement Equities Fund (TIAA-CREF), Aetna Life Insurance and Annuity Company, and Variable Annuity Life Insurance Company (VALIC). These plans are administered by the Tennessee Department of the Treasury. Each plan provides retirement benefits to faculty and staff who are exempt from the overtime provisions of the Fair Labor Standards Act and who waive membership in the TCRS. Benefits depend solely on amounts contributed to the plan plus investment earnings. Plan provisions are established by state statute in Title 8, Chapter 35, Part 4, *Tennessee Code Annotated*. State statutes are amended by the Tennessee General Assembly.

Funding Policy - Plan members are noncontributory. The institute contributes an amount equal to 10% of the employee's base salary up to the social security wage base and 11% above the social security wage base. Contribution requirements are established and amended by state statute. The contribution made by the institute to the plans was \$383,603.43 for the year ended June 30, 2001, and \$383,638.00 for the year ended June 30, 2000. Contributions met the requirements for each year.

NOTE 8. OTHER POST-EMPLOYMENT BENEFITS

The State of Tennessee administers a group health insurance program which provides post-employment health insurance benefits to eligible institute retirees. This benefit is provided and administered by the State of Tennessee. The institute 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*.

**Tennessee Board of Regents
Nashville State Technical Institute
Notes to the Financial Statements (Cont.)
June 30, 2001, and June 30, 2000**

NOTE 9. CUMULATIVE EFFECT OF A CHANGE IN ACCOUNTING PRINCIPLE

During the year ended June 30, 2000, the threshold for capitalizing equipment increased from \$1,000 to \$5,000. As a result of the change, equipment decreased by \$5,131,715.08.

NOTE 10. 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. During the year ended June 30, 1999, the state incurred losses in Clarksville and Jackson due to damage from tornadoes. The final settlement of \$8.96 million for the tornado damage in Clarksville was made during the year ended June 30, 2001. In the years ended June 30, 2000, and June 30, 1998, the state did not have any claims filed with the commercial insurer. A designation for casualty losses in the amount of \$8.731 million at June 30, 2001, and \$7.256 million at June 30, 2000, was established in the state's general fund to provide for any property losses not covered by the commercial insurance.

At June 30, 2001, the scheduled coverage for the institute was \$31,518,600 for buildings and \$15,101,500 for contents. At June 30, 2000, the scheduled coverage was \$24,169,600 for buildings and \$15,161,500 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, automobile liability, professional malpractice, and workers' compensation. The institute participates in the Claims Award Fund. The fund allocates the cost of providing claims servicing and claims payment by charging a premium to the institute based on a percentage of the institute'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 institute 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 institute for bodily injury and property damage is limited to \$300,000 per person and \$1,000,000 per occurrence. The limits of liability under

**Tennessee Board of Regents
Nashville State Technical Institute
Notes to the Financial Statements (Cont.)
June 30, 2001, and June 30, 2000**

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 institute 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 institute 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 11. FEDERAL STUDENT FINANCIAL ASSISTANCE

For the year ended June 30, 2001, the restricted expenditure function scholarships and fellowships includes \$2,163,519.94 of federal financial assistance for students. These programs include Federal Pell Grants and Federal Supplemental Educational Opportunity Grants. The amount for the year ended June 30, 2000, was \$1,963,136.00

NOTE 12. COMMITMENTS AND CONTINGENCIES

Sick Leave - The institute 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 \$2,932,111.88 at June 30, 2001, and \$3,705,520.12 at June 30, 2000.

Operating Leases - The institute has entered into various operating leases for equipment. Such leases will probably continue to be required. Expenditures under operating leases were \$70,659.13 for the year ended June 30, 2001, and \$65,397.50 for the year ended June 30, 2000. The following is a schedule of future minimum rental payments required under noncancelable operating leases that have initial or remaining lease terms of more than one year at June 30, 2001:

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Year Ending
June 30

2002

\$6,672.00

Construction in Progress - At June 30, 2001, outstanding commitments under construction contracts totaled \$5,563,174.58 for capital improvements, which will be funded by future state capital outlay appropriations.

NOTE 13. NEW ACCOUNTING PRONOUNCEMENTS

In November 1999, the Governmental Accounting Standards Board (GASB) issued Statement 35, *Basic Financial Statements—and Management’s Discussion and Analysis—for Public Colleges and Universities*, an amendment of GASB Statement No. 34. As originally issued, Statement 34, *Basic Financial Statements—and Management’s Discussion and Analysis—for States and Local Governments* was not applicable to public institutions. Rather than issuing separate standards, GASB decided to provide financial reporting guidance for public institutions by amending Statement 34 to extend its applicability to them. Statement 35 supersedes GASB Statement 15, which currently allows public institutions to choose one of two models when preparing their financial statements—the AICPA College Guide model or the governmental model. As component units of a state government, most public institutions will implement GASB Statement 35 at the same time as the state government implements GASB Statement 34.

Under the provisions of the GASB standards, the institute is permitted to report as a special-purpose government engaged only in business-type activities (BTA). BTA reporting will require the institute to present only the basic financial statements and required supplementary information (RSI) for an enterprise fund that includes management’s discussion and analysis; a statement of net assets or a balance sheet; a statement of revenues, expenses, and changes in net assets; a statement of cash flows; notes to the financial statements; and other applicable RSI. The required basic financial statements described above are prepared using the economic resources measurement focus and the accrual basis of accounting. Fund financial statements are not required for BTA reporting.

Statement 34 will also require the institute to retroactively and prospectively report all capital assets, net of accumulated depreciation, including infrastructure assets (long-

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lived capital assets such as roads and bridges) in the statement of net assets and report depreciation expense in the statement of revenues, expenses, and changes in net assets. Retroactive reporting of capital assets will require a prior-period adjustment to net assets. Management has not yet determined the effect of the implementation of this statement on the institute's financial statements.