AUDIT REPORT

Tennessee Board of Regents
Nashville State Technical Community College

For the Years Ended
June 30, 2005, and June 30, 2004

STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY

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Division of State Audit

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STATE OF TENNESSEE

COMPTROLLER OF THE TREASURY

State Capitol
Nashville, Tennessee 37243-0260
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John G. Morgan
Comptroller

October 5, 2006

The Honorable Phil Bredesen, 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 Community College, for the years ended June 30, 2005, and June 30, 2004. You will note from the independent auditor's report that unqualified opinions were given on the fairness of the presentation of the financial statements.

Consideration of internal control over financial reporting and tests of compliance disclosed certain deficiencies, which are detailed in the Results of the Audit section of this report. The college'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/sah
06/057

State of Tennessee

Audit Highlights

Comptroller of the Treasury — Division of State Audit

Financial and Compliance Audit
Nashville State Technical Community College
For the Years Ended June 30, 2005, and June 30, 2004

AUDIT OBJECTIVES

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

INTERNAL CONTROL FINDING

Management Has Not Assessed and Mitigated the Risks Associated With Its Failure to Approve Employment Contracts Before the Effective Date*
Based on our review of 25 employment contracts, which included eight contracts for adjunct faculty, management had not properly approved two of the eight adjunct faculty contracts before the effective date of the contract. The Vice President approved one of the contracts three days late, and the other contract was approved ten days late. In addition, although authorized personnel approved the remaining six contracts, they did not include the dates of approval. Therefore, we could not determine whether the contracts were properly approved before the effective date.

* This finding is repeated from the prior audit.

OPINIONS ON THE FINANCIAL STATEMENTS

The opinions on the financial statements are unqualified.

Audit Report
Tennessee Board of Regents
Nashville State Technical Community College
For the Years Ended June 30, 2005, and June 30, 2004

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Tennessee Board of Regents
Nashville State Technical Community College
For the Years Ended June 30, 2005, and June 30, 2004

INTRODUCTION

POST-AUDIT AUTHORITY

This is a report on the financial and compliance audit of the Tennessee Board of Regents, Nashville State Technical Community College. 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 in the fall of 1970. Until 1983, the institute operated under the Tennessee State Board 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.

The college offers two-year 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 college offers special programs and courses to meet the needs of industry, business, and government.

ORGANIZATION

The governance of Nashville State Technical Community College 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 college 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, 2003, through June 30, 2005, and was conducted in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Financial statements are presented for the years ended June 30, 2005, and June 30, 2004. Nashville State Technical Community College 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 college's internal control over financial reporting to determine auditing procedures for the purpose of expressing opinions on the financial statements;
2. to determine compliance with certain provisions of laws, regulations, contracts, and grant agreements;
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

Section 8-4-109, *Tennessee Code Annotated*, requires that each state department, agency, or institution report to the Comptroller of the Treasury the action taken to implement the recommendations in the prior audit report. The college filed its report with the Department of Audit on July 12, 2005. A follow-up of all prior audit findings was conducted as part of the current audit.

RESOLVED AUDIT FINDINGS

The current audit disclosed that the college has corrected previous audit findings concerning user authorization for access to computer systems and controls over photography supply purchases and inventory.

REPEATED AUDIT FINDING

The prior audit report also contained a finding concerning employment contracts. A portion of this finding has not been resolved and is repeated in this report.

OBSERVATIONS AND COMMENTS

MANAGEMENT'S RESPONSIBILITY FOR RISK ASSESSMENT

Auditors and management are required to assess the risk of fraud in the operations of the institution. The risk assessment is based on a critical review of operations considering what frauds could be perpetrated in the absence of adequate controls. The auditors' risk assessment is limited to the period during which the audit is conducted and is limited to the transactions that the auditors are able to test during that period. The risk assessment by management is the primary method by which the institution is protected from fraud, waste, and abuse. Since new programs may be established at any time by management or older programs may be discontinued, that assessment is ongoing as part of the daily operations of the institution.

Risks of fraud, waste, and abuse are mitigated by effective internal controls. It is management's responsibility to design, implement, and monitor effective controls in the institution. Although internal and external auditors may include testing of controls as part of their audit procedures, these procedures are not a substitute for the ongoing monitoring required of management. After all, the auditor testing is limited and is usually targeted to test the effectiveness of particular controls. Even if controls appear to be operating effectively during the time of the auditor testing, they may be rendered ineffective the next day by management override or by other circumventions that, if left up to the auditor to detect, will not be noted until the next audit engagement and then only if the auditor tests the same transactions and controls. Furthermore, since staff may be seeking to avoid auditor criticisms, they may comply with the controls during the period that the auditors are on site and revert to ignoring or disregarding the control after the auditors have left the field.

The risk assessments and the actions of management in designing, implementing, and monitoring the controls should be adequately documented to provide an audit trail both for auditors and for management, in the event that there is a change in management or staff, and to maintain a record of areas that are particularly problematic.

FRAUD CONSIDERATIONS

Statement on Auditing Standards No. 99, *Consideration of Fraud in a Financial Statement Audit*, promulgated by the American Institute of Certified Public Accountants, requires auditors to specifically assess the risk of material misstatement of an audited entity's financial statements due to fraud. The standard also restates the obvious premise that management, not the auditors, is primarily responsible for preventing and detecting fraud in its own entity. Management's responsibility is fulfilled in part when it takes appropriate steps to assess the risk of fraud within the entity and to implement adequate internal controls to address the results of those risk assessments.

During our audit, we discussed these responsibilities with management and how management might approach meeting them. We also increased the breadth and depth of our inquiries of management and others in the entity as we deemed appropriate. We obtained formal assurances from top management that management had reviewed the entity's policies and procedures to ensure that they are properly designed to prevent and detect fraud and that management had made changes to the policies and procedures where appropriate. Top management further assured us that all staff had been advised to promptly alert management of all allegations of fraud, suspected fraud, or detected fraud and to be totally candid in all communications with the auditors. All levels of management assured us there were no known instances or allegations of fraud that were not disclosed to us.

TECHNOLOGY CENTERS

Nashville State Technical Community College serves as the lead institution under agreements with the Tennessee Technology Center at Dickson and the Tennessee Technology Center at Nashville. Under these agreements, Nashville State Technical Community College performs the accounting and reporting functions for the centers. The chief administrative officer of each center is the director, who is assisted and advised by members of the faculty and administrative staff. Each director is responsible to the Chancellor of the Tennessee Board of Regents.

RESULTS OF THE AUDIT

AUDIT CONCLUSIONS

Internal Control

As part of the audit of the college's financial statements for the years ended June 30, 2005, and June 30, 2004, we considered internal control over financial reporting to determine auditing procedures for the purpose of expressing opinions on the financial statements, as required by auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 unqualified opinions on the college's financial statements.

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

June 9, 2006

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 Community College, an institution of the Tennessee Board of Regents, which is a component unit of the State of Tennessee, and its discretely presented component unit as of and for the years ended June 30, 2005, and June 30, 2004, and have issued our report thereon dated June 9, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. During the year ended June 30, 2005, the college implemented GASB Statement 40, *Deposit and Investment Risk Disclosures*. During the year ended June 30, 2004, the college implemented GASB Statement 39, *Determining Whether Certain Organizations Are Component Units*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the college's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion 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 college'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:

- Management has not assessed and mitigated the risks associated with its failure to approve employment contracts before the effective date

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

A material weakness is a reportable 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 caused by error or fraud 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 certain matters involving the internal control over financial reporting, which we have reported to the college's management in a separate letter.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the college's financial statements are free of material misstatement, we performed tests of the college's compliance with certain provisions of laws, regulations, contracts, and grant agreements, 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 or other matters that are required to be reported under *Government Auditing Standards*.

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/sah

FINDING AND RECOMMENDATION

<u>Management has not assessed and mitigated the risks associated with its failure to approve employment contracts before the effective date</u>

Finding

As noted in the prior audit, Nashville State Technical Community College management has not always properly approved employment contracts before the beginning of the contract period. Management concurred with the prior finding and stated that beginning with the fall 2004 semester, exact employment start dates would be used rather than the first day of the semester and contracts would be approved before the employee's start date when possible; in cases where this was not possible, a memo would be placed in the employee's file.

Based on our review of 25 employment contracts, which included eight contracts for adjunct faculty, management had not properly approved two of the eight adjunct faculty contracts before the effective date of the contract. The Vice President approved one of the contracts three days late, and the other contract was approved ten days late. Neither of the personnel files included a memo explaining the reason for the delay in approval. In addition, although authorized personnel approved the remaining six contracts, they did not include the dates of approval. Therefore, we could not determine whether the contracts were properly approved before the effective date.

If contracts are not properly approved before the contract effective date, management's risks associated with compensation and administrative duty issues increase.

Recommendation

The Director of Human Resources should ensure that all employment contracts are approved by appropriate personnel before the effective date, and all approval signatures should include the date of the approval. Management should ensure that risks such as these noted in this finding are adequately identified and assessed in their documented risk assessment activities. Management should identify specific staff to be responsible for the design and implementation of internal controls to prevent and detect exceptions timely. Management should also identify staff to be responsible for ongoing monitoring for compliance with all requirements and taking prompt action should exceptions occur.

Management's Comment

Management concurs with the finding and recommendation. Management has added this risk to the risk assessment. Based on the audit finding, the risk has a high probability of occurrence, but because no employee is paid until a fully executed contract is in place, the impact to the college is medium; i.e., there is no possibility of overpaying. The primary consequences of the assessment of this risk by the college include increased oversight, rework, and inefficiency.

Responsibility for monitoring incoming contracts to ensure that all approved signatures occur on or before the effective date has been assigned to the personnel assistant. A Contract Date Exception Explanation form has been developed and given to the deans and directors of divisions that initiate contracts. In cases where a contract is not signed prior to or on the effective date, the form must be completed and attached to the contract. The dean/director will be responsible for monitoring and resolving the problems within the division that caused the exception to occur. The form will require the approval of both the Vice President of the Divison and the Director of Human Resources.

As a preventative measure, annual training sessions are held for contract preparers to ensure they understand that contracts must be signed prior to or on the effective date of the contract. In addition, multiple reminders are sent to all divisions issuing contracts to emphasize the same.

The Director of Human Resources has been assigned oversight responsibility for the process. Once a semester, a sample of contracts will be tested to ensure that the process is working. The monitoring process will be adjusted as needed based on the results of the oversight tests.

STATE OF TENNESSEE
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Independent Auditor's Report

June 9, 2006

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

Dear Mr. Morgan:

We have audited the accompanying basic financial statements of Nashville State Technical Community College, an institution of the Tennessee Board of Regents, which is a component unit of the State of Tennessee, and its discretely presented component unit as of and for the years ended June 30, 2005, and June 30, 2004, as listed in the table of contents. These financial statements are the responsibility of the college's management. Our responsibility is to express opinions on these financial statements, based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 opinions. Tennessee statutes, in addition to audit responsibilities, entrust certain other responsibilities to the Comptroller of the Treasury. Those responsibilities include serving as a member of the board of directors of many agencies, commissions, and component units of the State of Tennessee; managing the state's debt; and making loans to the state's colleges and universities from debt proceeds. Some of the boards of which the Comptroller of the Treasury serves as a member per state statutes include the State Building Commission and the Tennessee Higher Education Commission.

The Honorable John G. Morgan
June 9, 2006
Page Two

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Tennessee Board of Regents, Nashville State Technical Community College, and its discretely presented component unit as of June 30, 2005, and June 30, 2004, and the respective changes in financial position and cash flows thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

During the year ended June 30, 2005, the college implemented GASB Statement 40, *Deposit and Investment Risk Disclosures*. During the year ended June 30, 2004, the college implemented GASB Statement 39, *Determining Whether Certain Organizations Are Component Units*.

The management's discussion and analysis on pages 13 through 27 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the basic financial statements. The accompanying financial information on page 48 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 9, 2006, on our consideration of the college's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. 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,

Arthur A. Hayes, Jr., CPA
Director

AAH/sah

NASHVILLE STATE TECHNICAL COMMUNITY COLLEGE
Management's Discussion and Analysis

This section of Nashville State Technical Community College's report presents a discussion and analysis of the financial performance of the college during the fiscal years ended June 30, 2005, and June 30, 2004, with comparative information presented for the fiscal year ended June 30, 2003. 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 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.

Nashville State Technical Community College
Statement of Net Assets (in thousands of dollars)

	2005	2004	2003
Assets:			
Current assets	$ 8,215	$ 7,659	$ 8,676
Capital assets, net	16,598	15,768	16,017
Other assets	11,591	10,112	5,656
Total assets	**36,404**	**33,539**	**30,349**
Liabilities:			
Current liabilities	6,986	6,787	6,271
Noncurrent liabilities	402	251	343
Total liabilities	**7,388**	**7,038**	**6,614**
Net assets:			
Invested in capital assets, net of related debt	16,525	15,686	15,927
Restricted - nonexpendable	5	5	4
Restricted - expendable	325	302	344
Unrestricted	12,161	10,508	7,460
Total net assets	**$29,016**	**$26,501**	**$23,735**

- Current assets increased in FY 2005 compared to FY 2004 with the largest increase being in cash, which resulted from increases in accounts payable and accrued liabilities. When compared to FY 2003, FY 2004 current assets decreased due to transfers to noncurrent for out-year projects.
- Increases in current liabilities in FY 2005 were due primarily to increases in accounts payable and accrued liabilities. Accounts payable increased by $237,747.82, and accrued liabilities increased by $39,313.21 due to Banner implementation costs, professional services contracts, and an increase in plant fund projects. The increase in current liabilities in FY 2004 was primarily due to an 11% increase in accounts payable due to a large increase in the number of adjunct professors on the payroll and a large increase in deferred revenue caused by a 15% fee increase and moving to the TBR common calendar, which caused the summer term to start later.

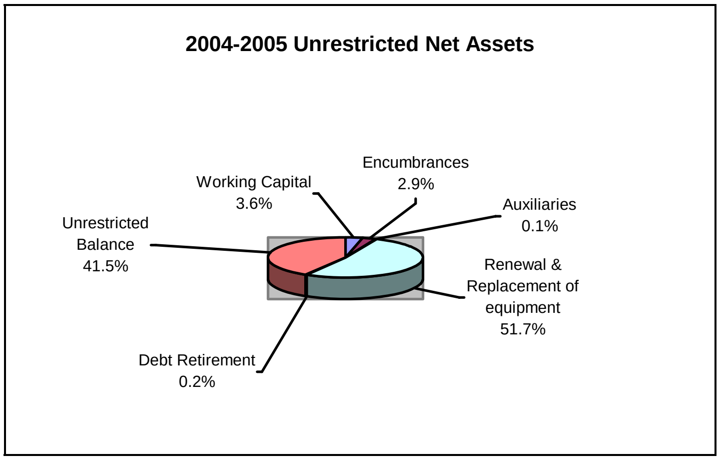
Nashville State Technical Community College Foundation
Statement of Net Assets (in thousands of dollars)

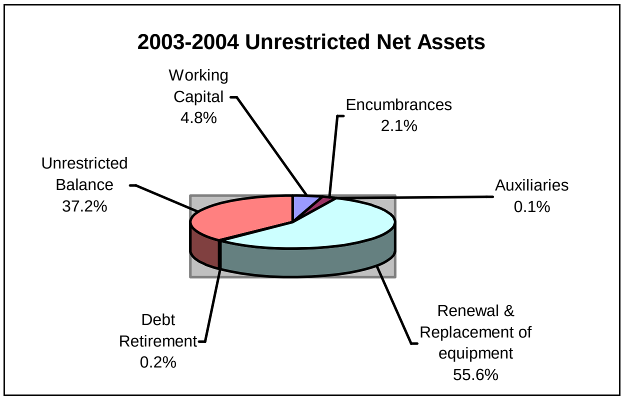
	2005	2004	2003
Assets:			
Current assets	$665	$438	$296
Total assets	**665**	**438**	**296**
Liabilities:			
Current liabilities	5	3	27
Total liabilities	**5**	**3**	**27**
Net assets:			
Restricted - nonexpendable	164	134	66
Restricted - expendable	281	137	69
Unrestricted	215	164	134
Total net assets	**$660**	**$435**	**$269**

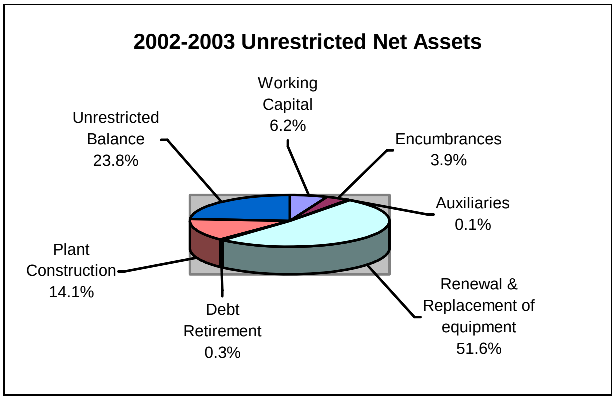
- Total net assets increased due to an increase in current assets. In FY 2005, current assets increased by approximately $227,000 and approximately $142,000 in FY 2004. The FY 2005 increase was due to an increase in funds for scholarships and fellowships. The increases for FY 2004 were attributable to 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.
- Restricted - nonexpendable increased due to an increase in gifts and donations for scholarships.
- An increase in scholarships, mainly due to a donation by the Oprah Winfrey Foundation, contributed to the rise in restricted - expendable funds.

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, and capital projects. The following graphs show the allocations:

College

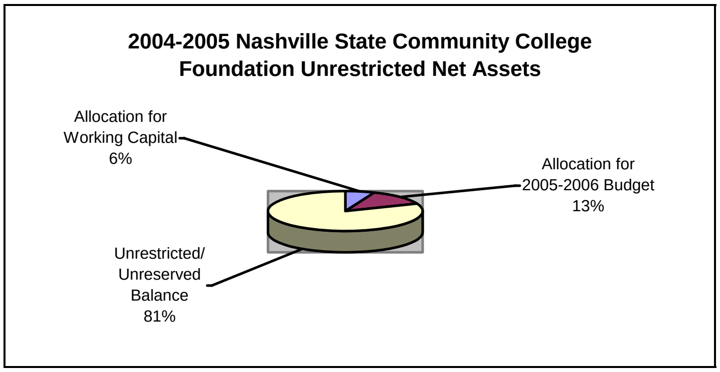


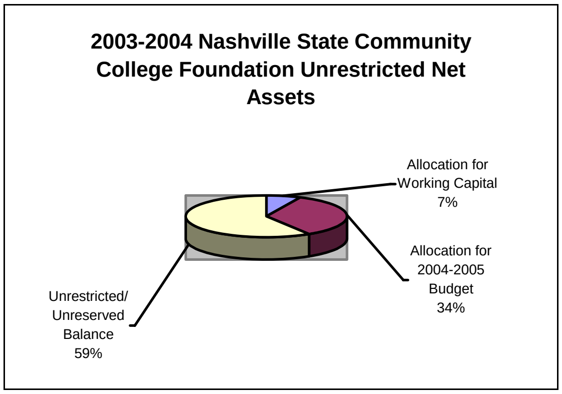


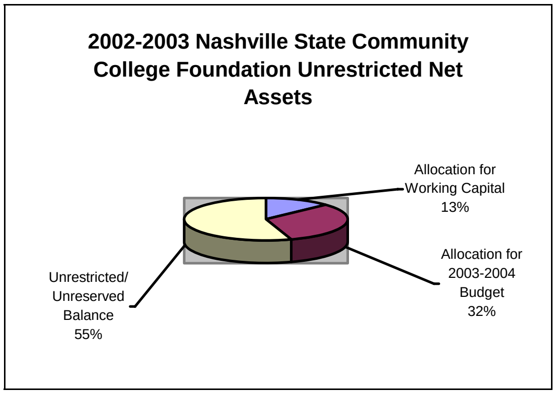


- The software migration project continued in FY 2005. In FY 2004, funds transferred for this project increased renewals and replacements from FY 2003.

Foundation







- The increase in unrestricted net assets for the past two years is due to increased revenue received from special events combined with lower operating expenses and increased unrestricted giving.
- The allocation for working capital is primarily pledges receivable for all three years.

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 nonoperating revenues according to accounting principles generally accepted in the United States of America.

Nashville State Technical Community College
Statement of Revenues, Expenses, and Changes in Net Assets (in thousands of dollars)

	2005	2004	2003
Operating revenues:			
Net tuition and fees	$7,371	$7,016	$5,967
Grants and contracts	3,239	3,503	6,979
Auxiliary	215	205	179
Other	263	162	167
Total operating revenues	**11,088**	**10,886**	**13,292**
Operating expenses	29,185	27,306	26,871
Operating loss	**(18,097)**	**(16,420)**	**(13,579)**
Nonoperating revenues and expenses:			
State appropriations	13,800	13,031	13,231
Gifts	183	228	94
Grants and contracts	6,078	4,748	-
Investment income	283	120	141
Other nonoperating revenues and expenses	(30)	(12)	(8)
Total nonoperating revenues and expenses	**20,314**	**18,115**	**13,458**
Income (loss) before other revenues, expenses, gains, or losses	**2,217**	**1,695**	**(121)**
Other revenues, expenses, gains, or losses:			
Capital appropriations	295	1,028	2,105
Other	3	43	8
Total other revenues, expenses, gains, or losses	**298**	**1,071**	**2,113**
Increase in net assets	**2,515**	**2,766**	**1,992**
Net assets at beginning of year	**26,501**	**23,735**	**21,743**
Net assets at end of year	**$29,016**	**$26,501**	**$23,735**

- In FY 2005, the increase in nonoperating grants and gifts is due to a reporting directive to reclassify TSAC and Hope Scholarship revenue into this category from operating revenues.
- The decrease in capital appropriations was due to a decrease in the expenditures for equipment supplies and maintenance for the Cookeville building project.

Nashville State Technical Community College Foundation
Statement of Revenues, Expenses, and Changes in Net Assets (in thousands of dollars)

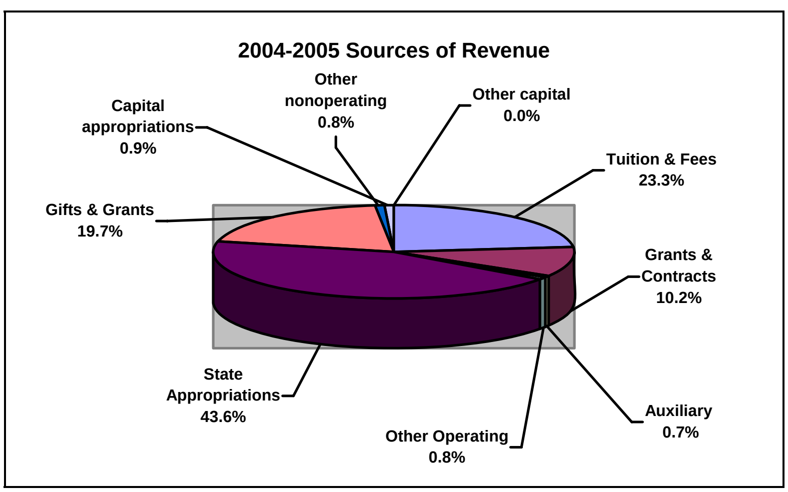
	2005	2004	2003
Operating revenues:			
Gifts	$202	$63	$70

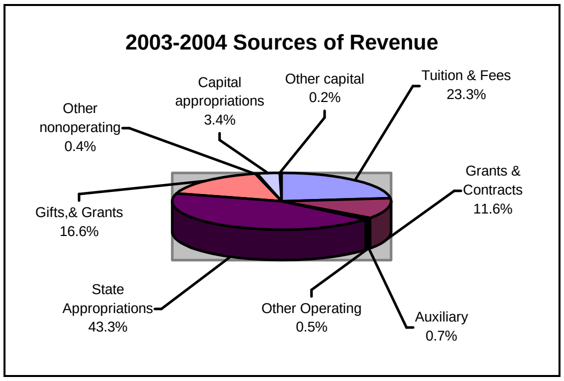
Grants and contracts	39	53	50
Other	105	81	
Total operating revenues	**346**	**197**	**120**
Operating expenses	140	113	97
Operating income	**206**	**84**	**23**
Nonoperating revenues and expenses:			
Investment income	4	3	6
Income before other revenues, expenses, gains, or losses	**210**	**87**	**29**
Other revenues, expenses, gains, or losses:			
Additions to permanent endowments	15	79	-
Increase in net assets	**225**	**166**	**29**
Net assets at beginning of year	**435**	**269**	**240**
Net assets at end of year	**$660**	**$435**	**$269**

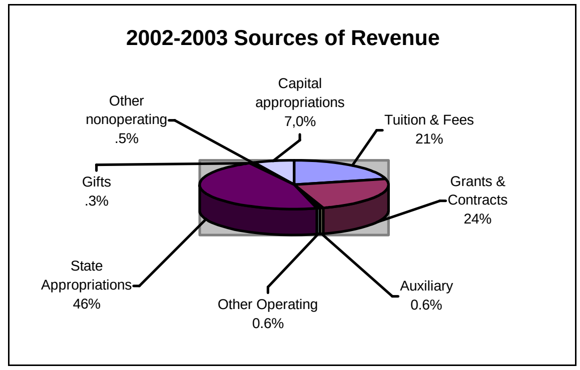
<u>Revenues</u>

The following are graphic illustrations of revenues by source (both operating and nonoperating), which were used to fund the college's operating activities for the years ended June 30, 2005; June 30, 2004; and June 30, 2003.

College

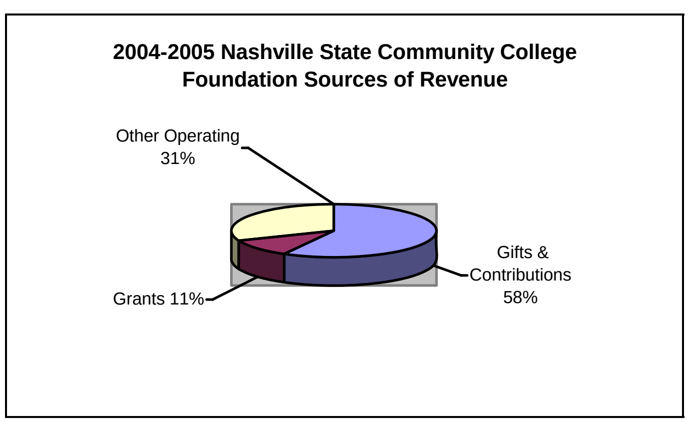


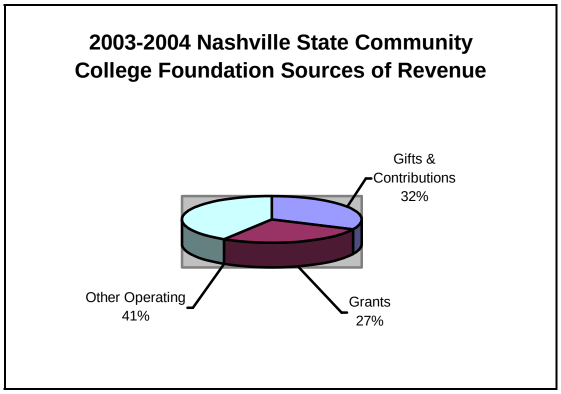


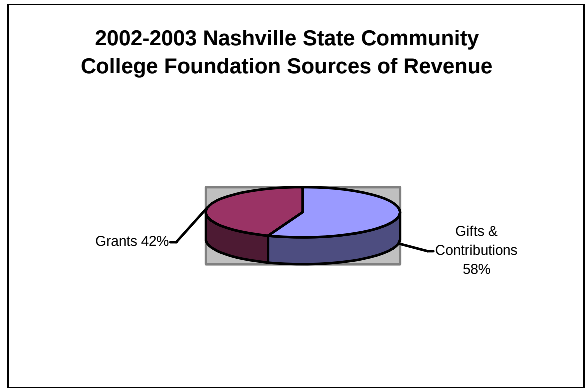


- In FY 2005, grants and contracts decreased slightly. For FY 2004, the student grants classification changed from operating to nonoperating because of a TBR reporting requirement. This reclassification caused a decrease in the grants and contracts and an increase in gifts and grants from FY 2003.
- Williamson County schools reimbursed the college for a secretarial salary during FY 2003; effective FY 2004, Williamson County paid the secretary directly, causing a decrease in private grants and contracts. Also, private grants and contracts decreased in FY 2004 because fewer contract classes were requested by private industry.
- The college increased the in-state and out-of-state maintenance fees 14% during FY 2004. The fee increase coupled with enrollment growth resulted in an overall increase in maintenance fees of $1,388,840.06.
- Nonoperating revenue increased in FY 2005 due to increases in the state appropriations and federal student grant authorizations. Nonoperating revenue decreased in FY 2004 due to reduced operating state appropriations and reduced state appropriations for capital improvements.

Foundation







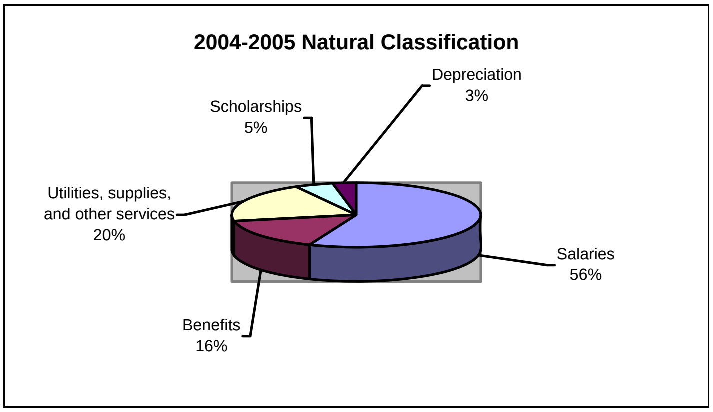
- The increase in gifts and contributions is attributable primarily to increased donations during FY 2005. The largest contribution was $140,000 from the Oprah Winfrey Foundation.
- The increase in other operating is due to increased gifts received during special fundraising events.

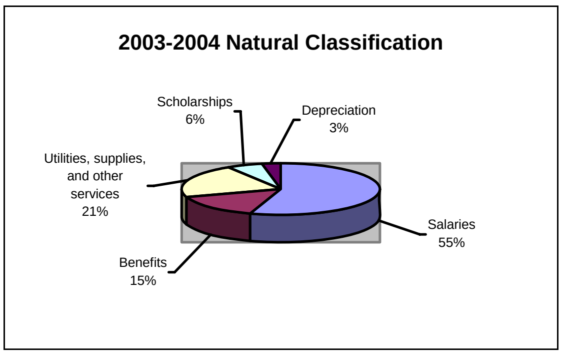
Expenses

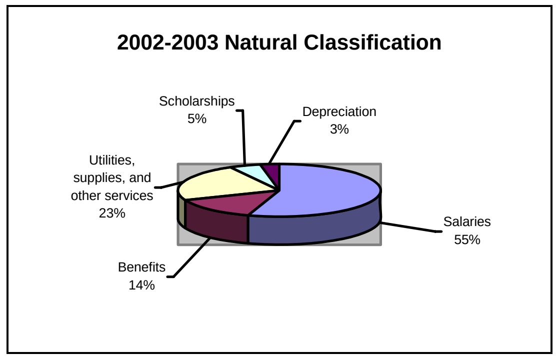
Operating expenses can be displayed in two formats, natural classification and program classification. Both formats are displayed below (in thousands of dollars).

Natural Classification for the College

Operating Expenses	**2005**	**2004**	**2003**
Salaries and wages	$16,183	$15,076	$14,567
Benefits	4,665	4,098	3,881
Utilities, supplies, and other services	5,909	5,764	6,158
Scholarships and fellowships	1,541	1,486	1,396
Depreciation	887	882	869
Total	**$29,185**	**$27,306**	**$26,871**



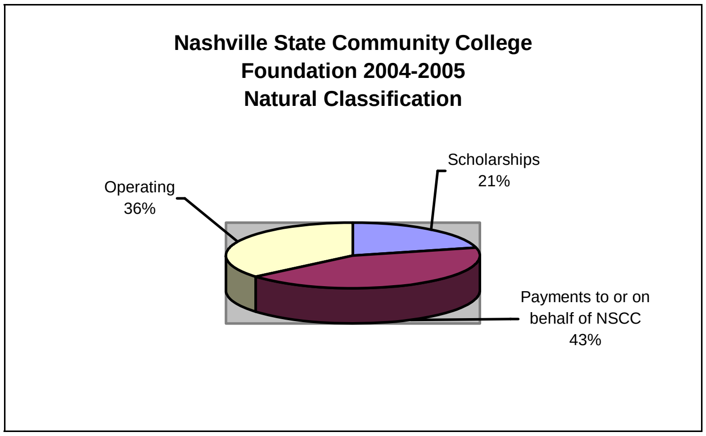


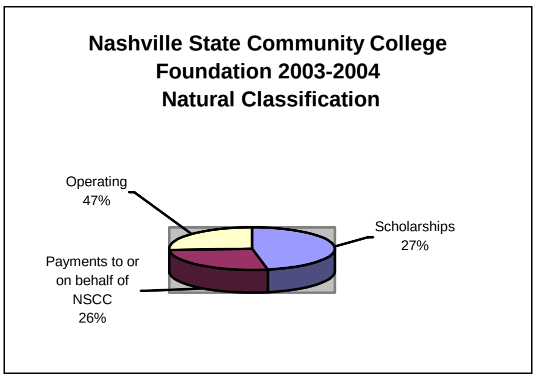


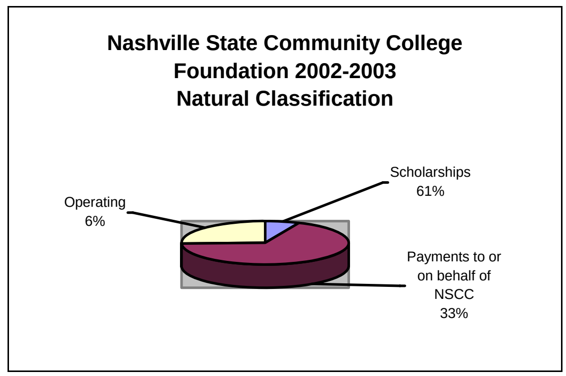
- The largest expense in all three years was salaries, which represented 55-56%.
- Benefits rose slightly in FY 2005 to 16%. For the past three years, benefits have increased only 1% each year.
- The utilities, supplies, and other expenses classification includes such items as printing, utilities, classroom and office supplies, and maintenance costs. It has remained below 25% all three years.
- Depreciation expense remained the same at 3% for all three years.
- Federal grants represent the largest component of the scholarship percentage.

Natural Classification
for the Nashville State Technical Community College Foundation

Operating Expenses	**2005**	**2004**	**2003**
Utilities, supplies, and other services	$ 50	$ 54	$ 6
Scholarships and fellowships	29	30	59
Payments to or on behalf of NSCC	61	29	32
Total	**$140**	**$113**	**$97**



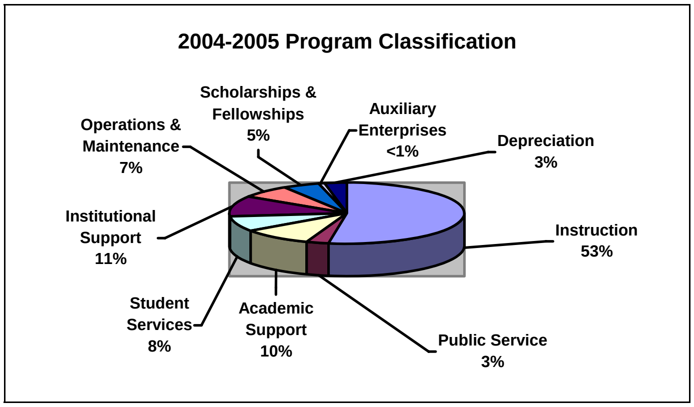


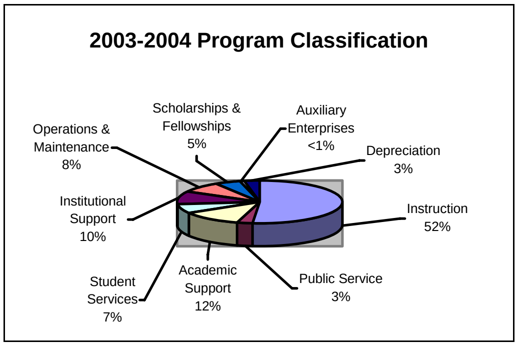


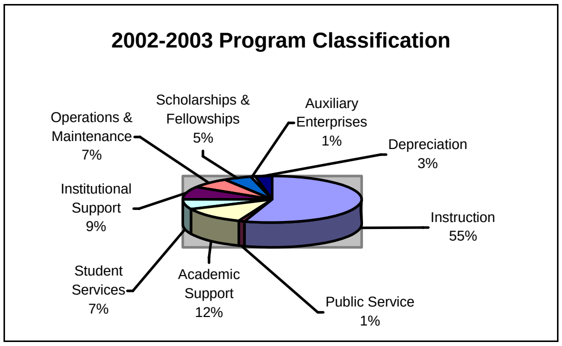
- In FY 2005, additional restricted gifts attributed to the increase in payments on behalf of the college.
- for scholarships in FY 2004 decreased from FY 2003 because the foundation elected to maintain a minimum of $100,000 in unrestricted funds in order to finance fundraising events and to allocate no more than 75% of the previous year's unrestricted gifts.

Program Classification
for the College

Operating Expenses	**2005**	**2004**	**2003**
Instruction	$15,807	$14,270	$14,676
Public service	736	728	495
Academic support	2,788	3,354	3,161
Student services	2,310	1,953	1,981
Institutional support	3,291	2,700	2,547
Operations and maintenance	1,914	2,060	1,804
Scholarships and fellowships	1,449	1,356	1,335
Auxiliary enterprises	3	3	3
Depreciation	887	882	869
Total	**$29,185**	**$27,306**	**$26,871**







- 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 service, which combined totaled 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.

Nashville State Technical Community College
Statement of Cash Flows (in thousands of dollars)

	2005	2004	2003
Cash provided (used) by:			
Operating activities	($17,049)	($15,213)	($12,494)
Noncapital financing activities	20,138	18,497	14,009
Capital and related financing activities	(1,441)	418	1,447
Investing activities	284	121	141
Net increase in cash	**1,932**	**3,823**	**3,103**
Cash, beginning of year	**16,437**	**12,614**	**9,511**
Cash, end of year	**$18,369**	**$16,437**	**$12,614**

- Increases in noncapital financing activities and capital related financing contributed to improving the FY 2005 cash flow. A reporting directive to reclassify TSAC and Hope Scholarship revenues from operating to noncapital financing activities also affected this increase. In FY 2004, the largest factor contributing to the college's improved cash flow was a student maintenance fee increase of 15%.
- Investing activities improved in FY 2005 due to improved economic conditions and higher returns on investments. 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.
- Capital and related financing activities decreased due to repairs to infrastructure, lab and program equipment purchases, and campus security and Banner hardware equipment purchases.

Nashville State Technical Community College Foundation
Statement of Cash Flows (in thousands of dollars)

	2005	2004	2003
Cash provided (used) by:			
Operating activities	$208	$66	$43
Noncapital financing activities	15	79	-
Investing activities	49	124	1
Net increase in cash	**272**	**269**	**44**
Cash, beginning of year	**381**	**112**	**68**
Cash, end of year	**$653**	**$381**	**$112**

- Operating activities increased in FY 2005 due to increased gifts and contributions, primarily from a $140,000 donation from the Oprah Winfrey Foundation.
- During FY 2004, $91,076.69 invested in certificates of deposit matured and were not reinvested due to low interest rates.

- During FY 2004, $34,356.77 of the increase in cash was attributable to the addition of two fund raising events.
- During FY 2004, $79,720 was received in endowment fund contributions.

Capital Assets and Debt Administration

Capital Assets

At June 30, 2005, the college had $16,598,448.77 invested in capital assets, net of accumulated depreciation of $12,063,981.41. At June 30, 2004, the college had $15,767,929.24 invested in capital assets, net of accumulated depreciation of $11,533,584.45. At June 30, 2003, the college had $16,017,407.92 invested in capital assets, net of accumulated depreciation of $10,860,820.92. Depreciation charges totaled $886,828.66 for the current fiscal year; $882,113.94 for the year ended June 30, 2004; and $868,804.65 for the year ended June 30, 2003. Details of these assets are shown below.

Nashville State Technical Community College
Schedule of Capital Assets, Net of Depreciation (in thousands of dollars)

	2005	**2004**	**2003**
Land	$1,340	$1,340	$1,340
Land improvements & infrastructure	866	835	565
Buildings	12,058	12,646	13,233
Equipment	1,233	617	552
Library holdings	318	330	327
Projects in progress	783	-	-
Total	**$16,598**	**$15,768**	**$16,017**

- 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**.**

More detailed information about the college's capital assets is presented in Note 5 to the financial statements.

Debt

At June 30, 2005, the college had $73,347.50 in debt outstanding. At June 30, 2004, the college had $81,947.93 in debt outstanding. At June 30, 2003, the college had $90,201.70 in debt outstanding.

The debt was for bonds issued by the Tennessee State School Bond Authority to finance a portion of the chiller replacement project. The state bond fund rating as of July 1, 2005, was AA by Standard and Poor's with the outlook negative to stable. More detailed information about the college's long-term liabilities is presented in Note 6 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 changing with the 2005-2006 fiscal 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. 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.

During the 2005-2006 fiscal year, the college is 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. This will necessitate the closing of twelve classrooms, and further exacerbate the existing space problems.

The college has opened a satellite location that includes six classrooms in southeast Davidson County in the old Tennessee Preparatory School high school in order to provide services during the renovation period and further serve the citizens in the service delivery area.

Requests for Information

This financial report is designed to provide a general overview of the college'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, Tennessee 37209.

TENNESSEE BOARD OF REGENTS
NASHVILLE STATE TECHNICAL COMMUNITY COLLEGE
STATEMENTS OF NET ASSETS
JUNE 30, 2005, AND JUNE 30, 2004

	Nashville State Technical Community College		Component Unit - Nashville State Technical Community College Foundation	
	June 30, 2005	June 30, 2004	June 30, 2005	June 30, 2004
ASSETS				
Current assets:				
Cash and cash equivalents (Notes 2, 3, and 14)	$ 6,778,110.88	$ 6,325,057.26	$ 653,576.98	$ 381,385.72
Short-term investments (Note 14)	-	-	-	45,166.95
Accounts, notes, and grants receivable (net) (Note 4)	1,322,779.68	1,260,213.94	-	48.16
Pledges receivable (net) (Note 14)	-	-	11,670.24	10,370.20
Prepaid expenses and deferred charges	113,884.08	73,777.55	-	1,500.00
Total current assets	8,214,774.64	7,659,048.75	665,247.22	438,471.03
Noncurrent assets:				
Cash and cash equivalents (Notes 2 and 3)	11,590,531.68	10,111,908.83	-	-
Capital assets (net) (Note 5)	16,598,448.77	15,767,929.24	-	-
Total noncurrent assets	28,188,980.45	25,879,838.07	-	-
Total assets	36,403,755.09	33,538,886.82	665,247.22	438,471.03
LIABILITIES				
Current liabilities:				
Accounts payable	910,853.69	673,105.87	5,000.00	819.85
Accrued liabilities	903,170.15	863,856.94	-	-
Deferred revenue	767,983.33	797,119.54	-	2,500.00
Compensated absences (Note 6)	343,411.04	456,835.47	-	-
Accrued interest payable	620.86	723.51	-	-
Long-term liabilities, current portion (Note 6)	9,004.65	8,600.43	-	-
Deposits held in custody for others	3,945,929.71	3,847,366.06	-	-
Other liabilities	104,565.18	139,663.56	-	-
Total current liabilities	6,985,538.61	6,787,271.38	5,000.00	3,319.85
Noncurrent liabilities:				
Compensated absences (Note 6)	337,615.04	177,081.78	-	-
Long-term liabilities (Note 6)	64,342.85	73,347.50	-	-
Total noncurrent liabilities	401,957.89	250,429.28	-	-
Total liabilities	7,387,496.50	7,037,700.66	5,000.00	3,319.85
NET ASSETS				
Invested in capital assets, net of related debt	16,525,101.27	15,685,981.31	-	-
Restricted for:				
Nonexpendable:				
Scholarships and fellowships	4,739.67	4,739.67	163,896.29	134,175.91
Expendable:				
Scholarships and fellowships (Notes 7 and 14)	5,310.70	5,228.72	236,762.10	70,052.77
Instructional department uses	126,486.02	161,001.59	34,959.79	50,000.00
Loans	1,008.90	1,008.90	-	-
Other	192,170.30	134,711.17	9,197.82	16,999.59
Unrestricted (Note 8)	12,161,441.73	10,508,514.80	215,431.22	163,922.91
Total net assets	$ 29,016,258.59	$ 26,501,186.16	$ 660,247.22	$ 435,151.18

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

Exhibit B

TENNESSEE BOARD OF REGENTS
NASHVILLE STATE TECHNICAL COMMUNITY COLLEGE
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2005, AND JUNE 30, 2004

	Nashville State Technical Community College		Component Unit - Nashville State Technical Community College Foundation	
	Year Ended June 30, 2005	Year Ended June 30, 2004	Year Ended June 30, 2005	Year Ended June 30, 2004
REVENUES				
Operating revenues:				
Student tuition and fees (net of scholarship allowances of $5,149,379.91 for the year ended June 30, 2005, and $4,133,404.05 for the year ended June 30, 2004)	$ 7,371,489.71	$ 7,015,664.12	$ -	$ -
Gifts and contributions	-	-	202,105.45	62,578.71
Governmental grants and contracts	2,676,737.04	3,098,939.83	-	-
Nongovernmental grants and contracts	562,166.10	403,966.14	39,500.00	52,650.00
Sales and services of educational departments	19,802.56	4,147.41	-	-
Auxiliary enterprises:				
Bookstore	215,108.03	204,707.21	-	-
Other operating revenues	242,929.71	157,589.77	104,673.88	81,375.38
Total operating revenues	11,088,233.15	10,885,014.48	346,279.33	196,604.09
EXPENSES				
Operating expenses (Note 13):				
Salaries and wages	16,182,598.89	15,076,175.33	-	-
Benefits	4,665,250.68	4,098,177.14	-	-
Utilities, supplies, and other services	5,909,113.64	5,763,700.65	50,391.40	53,705.55
Scholarships and fellowships	1,541,422.23	1,485,857.25	28,431.25	30,105.30
Depreciation expense	886,828.66	882,113.94	-	-
Payments to or on behalf of Nashville State Technical Community College (Note 14)	-	-	61,273.12	29,034.71
Total operating expenses	29,185,214.10	27,306,024.31	140,095.77	112,845.56
Operating income (loss)	(18,096,980.95)	(16,421,009.83)	206,183.56	83,758.53
NONOPERATING REVENUES (EXPENSES)				
State appropriations	13,800,200.00	13,030,900.00	-	-
Gifts, including $61,273.12 from component unit for the year ended June 30, 2005, and $29,034.71 for the year ended June 30, 2004	183,179.18	228,359.86		-
Grants and contracts	6,077,545.11	4,748,446.70	-	-
Investment income	283,276.71	120,218.81	3,462.48	3,036.06
Interest on capital asset-related debt	(3,880.47)	(4,282.37)	-	-
Other nonoperating revenues (expenses)	(25,952.43)	(8,133.77)	-	-
Net nonoperating revenues	20,314,368.10	18,115,509.23	3,462.48	3,036.06
Income before other revenues, expenses, gains, or losses	2,217,387.15	1,694,499.40	209,646.04	86,794.59
Capital appropriations	295,241.50	1,028,338.13	-	-
Additions to permanent endowments	-	-	15,450.00	79,720.00
Other capital	2,443.78	42,985.71	-	-
Total other revenues	297,685.28	1,071,323.84	15,450.00	79,720.00
Increase in net assets	2,515,072.43	2,765,823.24	225,096.04	166,514.59
NET ASSETS				
Net assets - beginning of year	26,501,186.16	23,735,362.92	435,151.18	268,636.59
Net assets - end of year	$ 29,016,258.59	$ 26,501,186.16	$ 660,247.22	$ 435,151.18

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

Exhibit C

TENNESSEE BOARD OF REGENTS
NASHVILLE STATE TECHNICAL COMMUNITY COLLEGE
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2005, AND JUNE 30, 2004

	Year Ended June 30, 2005	Year Ended June 30, 2004
CASH FLOWS FROM OPERATING ACTIVITIES		
Tuition and fees	$ 7,399,725.77	$ 7,383,403.29
Grants and contracts	3,144,928.97	3,556,268.95
Sales and services of educational activities	19,802.56	4,147.41
Payments to suppliers and vendors	(5,748,774.16)	(5,716,796.72)
Payments to employees	(16,124,794.37)	(15,069,694.47)
Payments for benefits	(4,637,760.03)	(4,084,053.53)
Payments for scholarships and fellowships	(1,559,952.87)	(1,648,353.12)
Auxiliary enterprise charges:		
Bookstore	215,108.03	204,707.21
Other receipts (payments)	242,929.71	157,589.77
Net cash used by operating activities	(17,048,786.39)	(15,212,781.21)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State appropriations	13,794,900.00	13,035,448.16
Gifts and grants received for other than capital purposes, including $61,273.12 from Nashville State Technical Community College Foundation for the year ended June 30, 2005, and $53,949.36 for the year ended June 30, 2004	6,260,724.29	4,976,806.56
Federal student loan receipts	7,304,320.61	5,920,555.40
Federal student loan disbursements	(7,304,320.61)	(5,920,555.40)
Changes in deposits held for others	99,760.75	484,900.34
Other noncapital financing receipts (payments)	(17,352.00)	-
Net cash provided by noncapital financing activities	20,138,033.04	18,497,155.06
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital appropriations	295,241.50	1,028,338.13
Principal paid on capital debt	(8,600.43)	(8,253.77)
Interest paid on capital debt	(3,983.12)	(4,313.45)
Other capital and related financing receipts (payments)	(1,723,504.84)	(597,783.32)
Net cash provided (used) by capital and related financing activities	(1,440,846.89)	417,987.59
CASH FLOWS FROM INVESTING ACTIVITIES		
Income on investments	283,276.71	120,218.81
Net cash provided by investing activities	283,276.71	120,218.81
Net increase in cash	1,931,676.47	3,822,580.25
Cash - beginning of year	16,436,966.09	12,614,385.84
Cash - end of year	$ 18,368,642.56	$ 16,436,966.09

TENNESSEE BOARD OF REGENTS
NASHVILLE STATE TECHNICAL COMMUNITY COLLEGE
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2005, AND JUNE 30, 2004

	Year Ended June 30, 2005	Year Ended June 30, 2004
Reconciliation of operating loss to net cash used by operating activities:		
Operating loss	$ (18,096,980.95)	$ (16,421,009.83)
Adjustments to reconcile operating loss to net cash used by operating activities:		
Depreciation expense	886,828.66	882,113.94
Change in assets and liabilities:		
Receivables, net	(57,826.90)	(28,603.08)
Prepaid/deferred items	(57,025.09)	4,596.21
Accounts payable	179,974.88	48,605.12
Accrued liabilities	61,249.18	25,253.02
Deferred revenue	(12,217.65)	281,245.37
Compensated absences	47,211.48	(4,981.96)
Net cash used by operating activities	$ (17,048,786.39)	$ (15,212,781.21)

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

Tennessee Board of Regents
Nashville State Technical Community College
Notes to the Financial Statements
June 30, 2005, and June 30, 2004

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The college 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*.

The Nashville State Technical Community College Foundation is considered a component unit of the college. Although the college does not control the timing or amount of receipts from the foundation, the majority of resources, or income thereon, that the foundation holds and invests are restricted to the activities of the college by the donors. Because these restricted resources held by the foundation can only be used by, or for the benefit of, the college, the foundation is considered a component unit of the college and is discretely presented in the college's financial statements. See Note 14 for more detailed information about the component unit and how to obtain the 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). In June 1999, the GASB issued Statement 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*. This was followed in November 1999 by GASB Statement 35, *Basic Financial Statements—and Management's Discussion and Analysis—for Public Colleges and Universities*, and in May 2002, by GASB Statement 39, *Determining Whether Certain Organizations Are Component Units*. The financial statement presentation required by those statements provides a comprehensive, entity-wide perspective of the college's, including component unit's, assets, liabilities, net assets, revenues, expenses, changes in net assets, and cash flows.

Basis of Accounting

For financial statement purposes, the college is considered a special-purpose government engaged only in business-type activities. Accordingly, the financial statements have been prepared using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. All significant interfund transactions have been eliminated.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. The college has the option of following private-sector guidance issued subsequent to November 30, 1989, subject to the above limitation. The college has elected not to follow private-sector guidance issued subsequent to November 30, 1989.

Amounts reported as operating revenues include (1) tuition and fees, net of waivers and discounts; (2) certain federal, state, local, and private grants and contracts; (3) sales and services of auxiliary enterprises; and (4) other sources of revenue. Operating expenses for the college include (1) salaries and wages; (2) employee benefits; (3) scholarships and fellowships; (4) depreciation; and (5) utilities, supplies, and other services.

All other activity is nonoperating in nature and includes (1) state appropriations for operations; (2) investment income; (3) bond issuance costs; (4) interest on capital asset-related debt; (5) certain grants and contracts; and (6) gifts and nonexchange transactions.

When both restricted and unrestricted resources are available for use, generally it is the college's policy to use the restricted resources first.

Cash Equivalents

This classification includes instruments which are readily convertible to known amounts of cash and have original maturities of three months or less.

Compensated Absences

The college'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 reported in the statement of net assets.

Capital Assets

Capital assets, which include property, plant, equipment, library holdings, and software are reported in the statement of net assets at historical cost or at fair value at date of donation, less accumulated depreciation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's useful life are not capitalized.

A capitalization threshold of $100,000 is used for buildings, and $50,000 is used for infrastructure. Equipment is capitalized when the unit acquisition cost is $5,000 or greater. The capitalization threshold for additions and improvements to buildings and land is set at $50,000. The capitalization threshold for software is set at $100,000.

These assets, with the exception of land, are depreciated using the straight-line method over the estimated useful lives, which range from 5 to 40 years.

Under a contract with the Tennessee Department of Labor and Workforce Development, the college is the administrative entity and grant recipient 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 college under the provisions of the Workforce Investment Act resides with the U.S. government. Therefore, this equipment is not included in the college's capital assets.

Net Assets

The college's net assets are classified as follows:

<u>Invested in capital assets, net of related debt</u> - This represents the college's total investment in capital assets, net of outstanding debt obligations related to those capital assets. To the extent debt has been incurred but not yet expended for capital assets, such amounts are not included as a component of invested in capital assets, net of related debt.

<u>Nonexpendable restricted net assets</u> - Nonexpendable restricted net assets consist of endowment and similar type funds in which donors or other outside sources have stipulated, as a condition of the gift instrument, that the principal is to be maintained inviolate and in perpetuity, and invested for the purpose of producing present and future income, which may be expendable or added to principal.

<u>Expendable restricted net assets</u> - Expendable restricted net assets include resources which the college is legally or contractually obligated to spend in accordance with restrictions imposed by external third parties.

Unrestricted net assets - Unrestricted net assets represent resources derived from student tuition and fees, state appropriations, and sales and services of educational departments and auxiliary enterprises. These resources are used for transactions relating to the educational and general operations of the college, and may be used at the discretion of the college to meet current expenses for any purpose. The auxiliary enterprises are substantially self-supporting activities that provide services for students, faculty, and staff.

Scholarship Discounts and Allowances

Student tuition and fee revenues, and certain other revenues from students, are reported net of scholarship discounts and allowances in the statement of revenues, expenses, and changes in net assets. Scholarship discounts and allowances are the difference between the stated charge for goods and services provided by the college and the amount that is paid by the student and/or third parties making payments on the student's behalf. Certain governmental grants, such as Pell grants, and other federal, state, or nongovernmental programs, are recorded as either operating or nonoperating revenues in the college's financial statements. To the extent that revenues from such programs are used to satisfy tuition and fees and other student charges, the college has recorded a scholarship discount and allowance.

NOTE 2. CASH

At June 30, 2005, cash consisted of $511,134.89 in bank accounts, $1,600.00 of petty cash on hand, $17,630,499.42 in the State of Tennessee Local Government Investment Pool administered by the State Treasurer, and $225,408.25 in LGIP deposits for capital projects. At June 30, 2004, cash consisted of $395,474.62 in bank accounts, $1,700.00 of petty cash on hand, and $16,039,791.47 in the State of Tennessee Local Government Investment Pool administered by the State Treasurer.

LGIP deposits for capital projects - Payments related to the college's capital projects are made by the State of Tennessee's Department of Finance and Administration. The college's estimated local share of the cost of each project is held in a separate Local Government Investment Pool (LGIP) account. As expenses are incurred, funds are withdrawn from the LGIP account by the Tennessee Board of Regents and transferred to the Department of Finance and Administration. The funds in the account are not available to the college for any other purpose until the project is completed and the Tennessee Board of Regents releases any remaining funds.

NOTE 3. DEPOSITS

During the year ended June 30, 2005, the college implemented GASB Statement 40, *Deposit and Investment Risk Disclosures*. That statement modified the custodial credit risk disclosures of GASB Statement 3 to limit required disclosures to deposits that are not covered by depository insurance and are (a) uncollateralized, (b) collateralized with securities held by the pledging financial institution, or (c) collateralized with securities held by the pledging financial institution's trust department or agent but not in the college's name.

The college's deposits are in financial institutions that 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, 2005, the carrying amount of the college's deposits was $511,134.89, and the bank balance including accrued interest was $1,380,542.62. The bank balance was insured. At June 30, 2004, the carrying amount of the college's deposits was $395,474.62, and the bank balance including accrued interest was $720,496.82. The bank balance was insured.

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. The pledge level is based on financial criteria set by the Collateral Pool Board with the financially strongest institutions being eligible for the lowest pledge level.

The college 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 required risks disclosures are presented in the *Tennessee Comprehensive Annual Financial Report*. That report may be obtained by writing to the Tennessee Department of Finance and Administration, Division of Accounts, 14th Floor William R. Snodgrass Tennessee Tower, 312 Eighth Avenue North, Nashville, Tennessee 37243-0298, or by calling (615) 741-2140.

NOTE 4. RECEIVABLES

Receivables included the following:

	June 30, 2005	June 30, 2004
Student accounts receivable	$ 714,961.63	$ 701,987.66
Grants receivable	623,612.30	529,638.13
State appropriation receivable	47,500.00	45,400.00
Other receivables	37,605.75	62,188.15
Subtotal	1,423,679.68	1,339,213.94
Less allowance for doubtful accounts	(100,900.00)	(79,000.00)
Total receivables	$1,322,779.68	$1,260,213.94

NOTE 5. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2005, was as follows:

	Beginning Balance	Additions	Transfers	Reductions	Ending Balance
Land	$ 1,340,140.00	$ -	$ -	$ -	$ 1,340,140.00
Land improvements and infrastructure	1,470,802.96	106,579.25	-	-	1,577,382.21
Buildings	21,069,601.86	-	-	-	21,069,601.86
Equipment	2,725,212.99	770,015.75	-	266,146.28	3,229,082.46
Library holdings	695,755.88	64,122.91	-	96,661.22	663,217.57
Projects in progress	-	783,006.08	-	-	783,006.08
Total	27,301,513.69	1,723,723.99	-	362,807.50	28,662,430.18
Less accum. depreciation:					
Land improvements and infrastructure	636,074.58	74,653.19	-	-	710,727.77
Buildings	8,423,743.11	587,690.70	-	-	9,011,433.81
Equipment	2,107,560.03	148,496.89	-	259,770.48	1,996,286.44
Library holdings	366,206.73	75,987.88	-	96,661.22	345,533.39
Total accum. depreciation	11,533,584.45	886,828.66	-	356,431.70	12,063,981.41
Capital assets, net	$15,767,929.24	$ 836,895.33	$ -	$ 6,375.80	$16,598,448.77

Capital asset activity for the year ended June 30, 2004, was as follows:

	Beginning Balance	Additions	Transfers	Reductions	Ending Balance
Land	$ 1,340,140.00	$ -	$ -	$ -	$ 1,340,140.00
Land improvements and infrastructure	1,131,290.10	339,512.86	-	-	1,470,802.96
Buildings	21,069,601.86	-	-	-	21,069,601.86
Equipment	2,643,613.88	212,813.84	-	131,214.73	2,725,212.99
Library holdings	693,583.00	80,308.56	-	78,135.68	695,755.88
Total	26,878,228.84	632,635.26	-	209,350.41	27,301,513.69
Less accum. depreciation:					
Land improvements and infrastructure	566,750.35	69,324.23	-	-	636,074.58
Buildings	7,836,052.41	587,690.70	-	-	8,423,743.11
Equipment	2,091,064.91	147,709.85	-	131,214.73	2,107,560.03
Library holdings	366,953.25	77,389.16	-	78,135.68	366,206.73
Total accum. depreciation	10,860,820.92	882,113.94		209,350.41	11,533,584.45
Capital assets, net	$16,017,407.92	$(249,478.68)	$ -	$ -	$15,767,929.24

NOTE 6. LONG-TERM LIABILITIES

Long-term liabilities activity for the year ended June 30, 2005, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Payables:					
Bonds	$ 81,947.93	$ -	$ 8,600.43	$ 73,347.50	$ 9,004.65
Other liabilities:					
Compensated absences	633,917.25	512,614.86	465,506.03	681,026.08	343,411.04
Total long-term liabilities	$715,865.18	$512,614.86	$474,106.46	$754,373.58	$352,415.69

Long-term liabilities activity for the year ended June 30, 2004, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Payables:					
Bonds	$ 90,201.70	$ -	$ 8,253.77	$ 81,947.93	$ 8,600.43
Other liabilities:					
Compensated absences	638,899.21	503,475.24	508,457.20	633,917.25	456,835.47
Total long-term liabilities	$729,100.91	$503,475.24	$516,710.97	$715,865.18	$465,435.90

Bonds Payable

Bond issues, with interest rates ranging from 4.5% to 5% for Tennessee State School Bond Authority bonds, are due serially to 2012 and are secured by pledges of the facilities' revenues to which they relate and certain other revenues and fees of the college, including state appropriations.

Debt service requirements to maturity for bonds payable at June 30, 2005, are as follows:

Year Ending June 30	Principal	Interest	Total
2006	$ 9,004.65	$ 3,597.62	$12,602.27
2007	9,450.38	3,169.90	12,620.28
2008	9,894.55	2,744.62	12,639.17
2009	10,409.06	2,249.90	12,658.96
2010	10,950.33	1,729.44	12,679.77
2011	11,519.75	1,181.92	12,701.67
2012	12,118.78	605.94	12,724.72
	$73,347.50	$15,279.34	$88,626.84

NOTE 7. ENDOWMENTS

If a donor has not provided specific instructions to the college, state law permits the college to authorize for expenditure the earnings of the investments of endowment funds. When administering its power to spend the earnings, the college is required to consider the college's long-term and short-term needs, present and anticipated financial requirements, expected return on its investments, price-level trends, and general economic conditions. Any earnings spent are required to be spent for the purposes for which the endowment was established.

The college chooses to spend only a portion of the investment income each year. Under the spending plan established by the college, a scholarship has been authorized for expenditure. The remaining amount, if any, is retained to be used in future years when the amount computed using the spending plan exceeds the investment income. At June 30, 2005, investment income of $98.13 is available to be spent, which is included in restricted net assets expendable for scholarships and fellowships. At June 30, 2004, investment income of $83.81 is available to be spent, which is included in restricted net assets expendable for scholarships and fellowships.

NOTE 8. UNRESTRICTED NET ASSETS

Unrestricted net assets include funds that have been designated or reserved for specific purposes. The unrestricted net assets are composed of the following:

	June 30, 2005	June 30, 2004
Working capital	$ 440,104.07	$ 505,474.97
Encumbrances	349,154.33	224,821.08
Auxiliaries	9,500.00	9,000.00
Renewal and replacement of equipment	6,283,609.74	5,842,210.93
Debt retirement	27,840.80	24,121.70
Unreserved/undesignated	5,051,232.79	3,902,886.12
Total	$12,161,441.73	$10,508,514.80

NOTE 9. PENSION PLANS

A. Defined Benefit Plan

Tennessee Consolidated Retirement System

Plan Description - The college 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 college is required to contribute an actuarially determined rate. The current rate is 10.54% of annual covered payroll. Contribution requirements for the college are established and may be amended by the TCRS' Board of Trustees. The college's contributions to TCRS for the years ended June 30, 2005, 2004, and 2003 were $776,333.28, $515,155.30, and $518,742.20. Contributions met the requirements for each year.

B. Defined Contribution Plans

Optional Retirement Plans (ORP)

Plan Description - The college 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 college 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 college to the plans was $558,374.54 for the year ended June 30, 2005, and $513,194.10 for the year ended June 30, 2004. Contributions met the requirements for each year.

NOTE 10. OTHER POST-EMPLOYMENT BENEFITS

The State of Tennessee administers a group health insurance program which provides post-employment health insurance benefits to eligible college retirees. This benefit is provided and administered by the State of Tennessee. The college 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*. That report may be obtained by writing to the Tennessee Department of Finance and Administration, Division of Accounts, 14th Floor William R. Snodgrass Tennessee Tower, 312 Eighth Avenue North, Nashville, Tennessee 37243-0298, or by calling (615) 741-2140.

NOTE 11. INSURANCE-RELATED ACTIVITIES

It is the policy of the state not to purchase commercial insurance for the risks of losses for general liability, automobile liability, professional malpractice, and workers' compensation. The state's management believes it is more economical to manage these risks internally and set aside assets for claim settlement in its internal service fund, the Risk Management Fund. The state purchases commercial insurance for real property, flood, earthquake, and builder's risk losses and surety bond coverage on the state's officials and employees. The Risk Management Fund is also responsible for claims for damage to state owned property up to the amount of the property insurance aggregate deductible amount. The insurance policy deductibles vary from $25,000 per occurrence, depending on the type of coverage, to an aggregate of $7.5 million.

The college participates in the Risk Management Fund. The fund allocates the cost of providing claims servicing and claims payment by charging a premium to the college based on a percentage of the college'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. Information regarding the determination of the claims liabilities and the changes in the balances of the claims liabilities for the years ended June 30, 2005, and June 30, 2004, are presented in the *Tennessee Comprehensive Annual Financial Report*. That report may be obtained by writing to the Tennessee Department of Finance and Administration, Division of Accounts, 14th Floor William R. Snodgrass Tennessee Tower, 312 Eighth Avenue North, Nashville, Tennessee 37243-0298, or by calling (615) 741-2140. Since the college participates in the Risk Management 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 college for bodily injury and property damage is limited to $300,000 per person and $1,000,000 per occurrence. The limits of liability under workers' compensation are set forth in *Tennessee Code Annotated*, Section 50-6-101 et seq. Claims are paid through the state's Risk Management Fund. At June 30, 2005, the Risk Management Fund held $114.4 million in cash and cash equivalents designated for payment of claims. At June 30, 2004, the Risk Management Fund held $101.1 million in cash and cash equivalents designated for payment of claims.

At June 30, 2005, the scheduled coverage for the college was $33,392,300 for buildings and $18,143,000 for contents. At June 30, 2004, the scheduled coverage for the college was $32,550,300 for buildings and $17,463,500 for contents.

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 college 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 college 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 12. COMMITMENTS AND CONTINGENCIES

<u>Sick Leave</u> - The college 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 $4,605,736.13 at June 30, 2005, and $4,522,447.65 at June 30, 2004.

Operating Leases - The college has entered into various operating leases for equipment. Such leases will probably continue to be required. Expenses under operating leases were $58,068.05 for the year ended June 30, 2005, and $59,053.98 for the year ended June 30, 2004. The following is a schedule by years 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, 2005:

Year Ending June 30	
2006	$ 2,394.00

Construction in Progress - At June 30, 2005, outstanding commitments under construction contracts totaled $424,147.66 for the A Building Lab, fire alarm/security system, infrastructure, Cookeville building, and ADA improvements of which $397,585.17 will be funded by future state capital outlay appropriations.

Contract - In December 2004, the Tennessee Board of Regents system entered into a contract with SungardSCT for the purchase of a comprehensive enterprise resource planning system. The contract includes a multi-year phase-in of administrative software for financial, human resource, and student systems. The college's outstanding liability for this contract is estimated as $1,487,922.00 at June 30, 2005.

NOTE 13. NATURAL CLASSIFICATIONS WITH FUNCTIONAL CLASSIFICATIONS

The college's operating expenses by functional classification for the year ended June 30, 2005, are as follows:

			Natural Classification			
Functional Classification	Salaries	Benefits	Other Operating	Scholarships	Depreciation	Total
Instruction	$ 9,622,447.73	$2,545,937.59	$3,511,210.61	$ 127,862.28	$ -	$15,807,458.21
Public service	434,369.55	116,084.44	185,244.17	-	-	735,698.16
Academic support	2,519,250.36	718,093.99	(479,385.63)	30,478.00	-	2,788,436.72
Student services	1,215,812.99	466,490.75	604,568.66	22,749.76	-	2,309,622.16
Institutional support	1,900,350.78	646,959.62	733,752.11	10,067.32	-	3,291,129.83
Operation & maintenance	490,367.48	171,684.29	1,252,303.33	-	-	1,914,355.10
Scholar. & fellow.	-	-	98,428.89	1,350,264.87	-	1,448,693.76
Auxiliary	-	-	2,991.50	-	-	2,991.50
Depreciation	-	-	-	-	886,828.66	886,828.66
Total	$16,182,598.89	$4,665,250.68	$5,909,113.64	$1,541,422.23	$886,828.66	$29,185,214.10

The college's operating expenses by functional classification for the year ended June 30, 2004, are as follows:

Functional Classification	Salaries	Benefits	Natural Classification Other Operating	Scholarships	Depreciation	Total
Instruction	$ 9,024,056.15	$2,366,495.01	$2,688,495.46	$ 191,035.02	$ -	$14,270,081.64
Public service	415,784.18	106,715.42	205,978.89	-	-	728,478.49
Academic support	2,386,010.48	563,134.06	380,826.39	23,563.50	-	3,353,534.43
Student services	1,069,080.29	376,851.64	480,155.21	26,887.00	-	1,952,974.14
Institutional support	1,681,491.58	526,279.63	477,324.30	14,880.79	-	2,699,976.30
Operation & maintenance	499,752.65	158,701.38	1,401,690.23	-	-	2,060,144.26
Scholar. & fellow.	-	-	126,548.49	1,229,490.94	-	1,356,039.43
Auxiliary	-	-	2,681.68	-	-	2,681.68
Depreciation	-	-	-	-	882,113.94	882,113.94
Total	$15,076,175.33	$4,098,177.14	$5,763,700.65	$1,485,857.25	$882,113.94	$27,306,024.31

NOTE 14. COMPONENT UNIT

The Nashville State Technical Community College Foundation is a legally separate, tax-exempt organization supporting Nashville State Technical Community College. The foundation acts primarily as a fund-raising organization to supplement the resources that are available to the college in support of its programs. The 29-member board of the foundation is self-perpetuating and consists of graduates and friends of the college. Although the college does not control the timing or amount of receipts from the foundation, the majority of resources, or income thereon, that the foundation holds and invests are restricted to the activities of the college by the donors. Because these restricted resources held by the foundation can only be used by, or for the benefit of, the college, the foundation is considered a component unit of the college and is discretely presented in the college's financial statements.

The foundation is a nonprofit organization that reports under Financial Accounting Standards Board (FASB) standards, including FASB Statement 117, *Financial Statements of Not-for-Profit Organizations*. As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features. With the exception of necessary presentation reformatting, no modifications have been made to the foundation's financial information in the college's financial statements for these differences.

During the year ended June 30, 2005, the foundation made distributions of $61,273.12 to or on behalf of the college for both restricted and unrestricted purposes. During the year ended June 30, 2004, the foundation made distributions of $29,034.71 to or on behalf of the college for both restricted and unrestricted purposes. Complete financial statements for the foundation can be obtained from Debra Bauer, Nashville State Technical Community College, 120 White Bridge Road, Nashville, Tennessee 37209.

Cash and cash equivalents - Cash and cash equivalents consists of demand deposit accounts and money market funds totaling $653,576.98 at June 30, 2005, and $381,385.72 at June 30, 2004. The bank balances of deposits at June 30, 2005, were entirely insured. The bank balances of deposits at June 30, 2004, were entirely insured.

Investments - Investments are recorded on the date of contribution and are stated at market value. Unrealized gains and losses are determined by the difference between market values at the beginning and end of the year.

Investments held at June 30, 2004, were as follows:

	Cost	Market Value
Certificates of deposit	$45,166.95	$45,166.95

Pledges Receivable - Pledges receivable are summarized below net of the allowance for doubtful accounts.

	June 30, 2005	June 30, 2004
Current pledges	$11,670.24	$10,370.20
Pledges due in one to five years	-	-
Pledges due after five years	-	-
Subtotal	11,670.24	10,370.20
Less discounts to net present value	(-)	(-)
Total pledges receivable, net	$11,670.24	$10,370.20

Endowments - If a donor has not provided specific instructions to the foundation, state law permits the foundation to authorize for expenditure the net appreciation (realized and unrealized) of the investments of endowment funds. When administering its power to spend the net appreciation, the foundation is required to consider the foundation's long-term and short-term needs, present and anticipated financial requirements, expected total return on its investments, price-level trends, and general economic conditions. Any net appreciation spent is required to be spent for the purposes for which the endowment was established.

The foundation chooses to spend only a portion of the investment income (including changes in the value of investments) each year. Under the spending plan established by the foundation, 95% of investment earnings on endowments not otherwise specifying a spending plan are available for allocation. The remaining amount, if any, is added to the endowment base. At June 30, 2005, net appreciation of $931.25 is available to be spent. At June 30, 2004, net appreciation of $663.28 is available to be spent. These amounts are included in restricted net assets expendable for scholarships and fellowships.

TENNESSEE BOARD OF REGENTS
NASHVILLE STATE TECHNICAL COMMUNITY COLLEGE
SUPPLEMENTARY INFORMATION
STATEMENTS OF CASH FLOWS - COMPONENT UNIT
FOR THE YEARS ENDED JUNE 30, 2005, AND JUNE 30, 2004

	Year Ended June 30, 2005	Year Ended June 30, 2004
CASH FLOWS FROM OPERATING ACTIVITIES		
Gifts and contributions	$ 200,853.57	$ 70,135.51
Grants and contracts	39,500.00	52,650.00
Payments to suppliers and vendors	(44,711.25)	(55,253.71)
Payments for scholarships and fellowships	(28,431.25)	(31,621.55)
Payments to Nashville State Technical Community College	(61,273.12)	(53,949.36)
Other receipts (payments)	102,173.88	83,875.38
Net cash provided by operating activities	208,111.83	65,836.27
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Private gifts for endowment purposes	15,450.00	79,720.00
Net cash provided by noncapital financing activities	15,450.00	79,720.00
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of investments	46,254.88	122,740.51
Income on investments	2,374.55	1,043.97
Net cash provided by investing activities	48,629.43	123,784.48
Net increase in cash	272,191.26	269,340.75
Cash - beginning of year	381,385.72	112,044.97
Cash - end of year	$ 653,576.98	$ 381,385.72
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	$ 206,183.56	$ 83,758.53
Adjustments to reconcile operating income to net cash provided by operating activities:		
Change in assets and liabilities:		
Receivables, net	(1,251.88)	7,508.64
Prepaid/deferred items	1,500.00	(1,500.00)
Accounts payble	4,180.15	(26,430.90)
Deferred revenue	(2,500.00)	2,500.00
Net cash provided by operating activities	$ 208,111.83	$ 65,836.27
Noncash transactions		
Unrealized gain (loss) on investments	$ 1,087.93	$ (985.07)