

NASHVILLE STATE TECHNICAL COMMUNITY COLLEGE

Management's Discussion and Analysis

This section of Nashville State Technical Community College's annual financial report presents a discussion and analysis of the financial performance of the College during the fiscal year ended June 30, 2005, with comparative information presented for the fiscal year ended June 30, 2004. This discussion has been prepared by management along with the financial statements and related note disclosures and should be read in conjunction with the financial statements and notes. The financial statements, notes, and this discussion are the responsibility of management.

Using This Annual Report

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

The Statement of Net Assets

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

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

Nashville State Technical Community College			
Statement of Net Assets (in thousands of dollars)			
	<u>2005</u>	<u>2004</u>	<u>2003</u>
Assets:			
Current assets	\$8,215	\$7,659	\$7,278
Capital assets, net	16,598	15,768	16,017
Other assets	11,591	10,112	3,722
Total Assets	\$36,404	\$33,539	\$27,017

Liabilities:			
Current liabilities	\$6,986	\$6,787	\$2,939
Noncurrent liabilities	402	251	343
Total Liabilities	\$7,388	\$7,038	\$3,282
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	192
Unrestricted	12,161	10,508	7,612
Total Net Assets	\$29,016	\$26,501	\$23,735

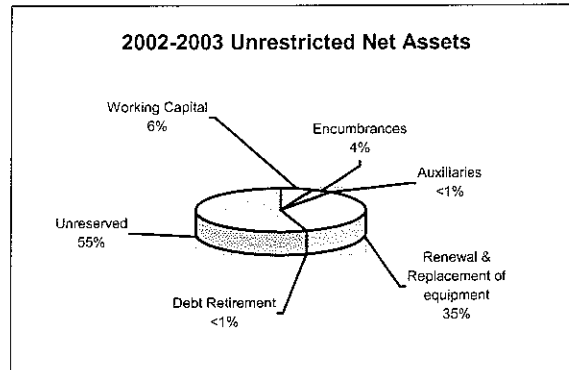
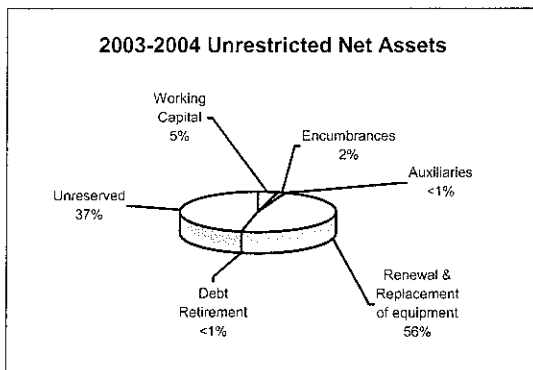
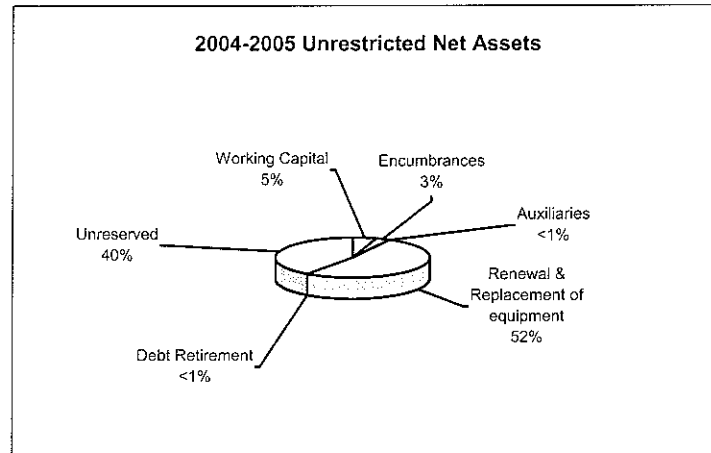
- Current assets increased in FY 2005 compared to FY 2004, with the largest increase being in cash. When compared to FY 2003, FY 2004 current assets decreased due to transfers to non-current for out-year projects.
- Increases in current liabilities in FY05 were due primarily to an increase in accounts payable and accrued liabilities. Accounts payable increased by \$215,814.10 and accrued liabilities by \$61,246.93.
- The increase in net assets was primarily between other assets and unrestricted.

Nashville State Technical Community College Foundation			
Statement of Net Assets (in thousands of dollars)			
	<u>2005</u>	<u>2004</u>	<u>2003</u>
Assets:			
Current assets	\$665	\$438	\$296
Total Assets	\$665	\$438	\$296
Liabilities:			
Current liabilities	\$5	\$3	\$27
Total Liabilities	\$5	\$3	\$27
Net Assets:			
Invested in capital assets, net of related debt			
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.
- 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.

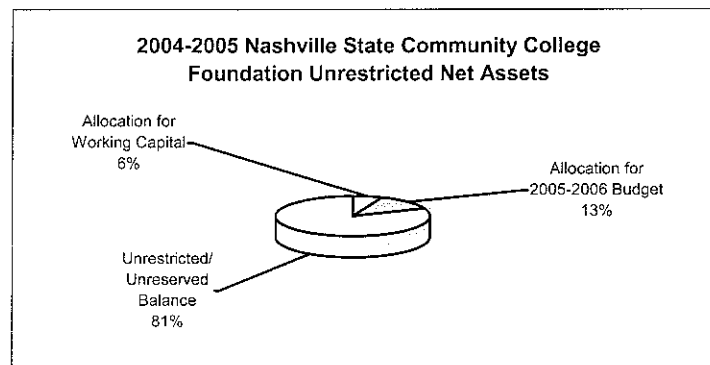
Many of the College's unrestricted net assets have been designated or reserved for specific purposes such as: repairs and replacement of equipment, future debt service, quasi-endowments, capital projects, and student loans. The following graph shows the allocations:

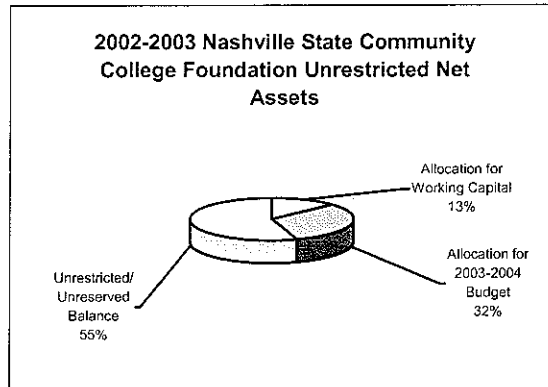
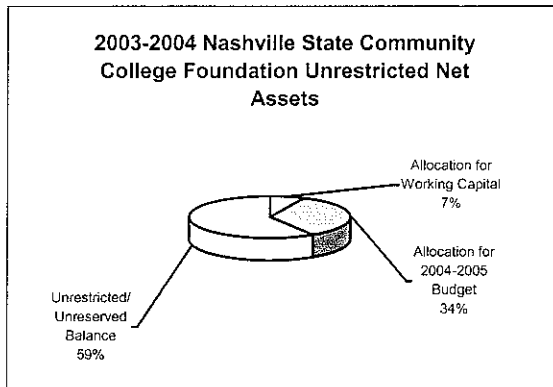
College:



- Software migration project continues in FY 2005. In FY 2004, funds transferred for this project increased Renewals and Replacements by 21% from FY 2003.

Foundation:





- The increase in unrestricted for the past two years is due to increased revenue received from special events combined with lower operating expenses and increased unrestricted giving.
- 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 non-operating revenues according to generally accepted accounting principles.

Nashville State Technical Community College			
Statement of Revenues, Expenses, and Changes in Net Assets (in thousands of dollars)			
	<u>2005</u>	<u>2004</u>	<u>2003</u>
Operating revenues:			
Net tuition and fees	\$7,371	\$7,161	\$5,967
Grants and contracts	3,239	3,507	6,950
Auxiliary	215	205	179
Other	263	157	163
Total operating revenues	\$11,088	\$11,030	\$13,259
Operating expenses	\$29,088	\$27,451	\$26,871
Operating loss	(\$18,000)	(\$16,421)	(\$13,612)
Nonoperating revenues and expenses:			
State appropriations	\$13,800	\$13,031	\$13,231
Gifts	183	228	127
Grants & contracts	6,078	4,748	
Investment income	283	120	141
Other revenues and expenses	(12)	(12)	(9)
Total nonoperating revenues and expenses	\$20,332	\$18,115	\$13,490
Income (loss) before other revenues, expenses, gains, or losses	\$2,331	\$1,694	(\$122)

Other revenues, expenses, gains, or losses:			
Capital appropriations	\$295	\$1,028	\$2,106
Other	(94)	8	8
Total other revenues, expenses, gains, or losses	\$201	\$1,036	\$2,113
Increase (decrease) in net assets	\$2,532	\$2,731	\$1,992
Net assets at beginning of year, as originally reported	\$26,501	23,735	21,377
Net asset at beginning of period, restated	\$26,501	\$23,735	\$21,377
Prior period adjustment	(\$17)	\$35	\$366
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 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)			
	<u>2005</u>	<u>2004</u>	<u>2003</u>
Operating revenues:			
Gifts	\$202	\$142	\$63
Grants and contracts	39	53	50
Other	105	81	
Total operating revenues	\$346	\$276	\$113
Operating expenses	\$140	\$113	\$97
Operating loss	\$206	\$163	\$16

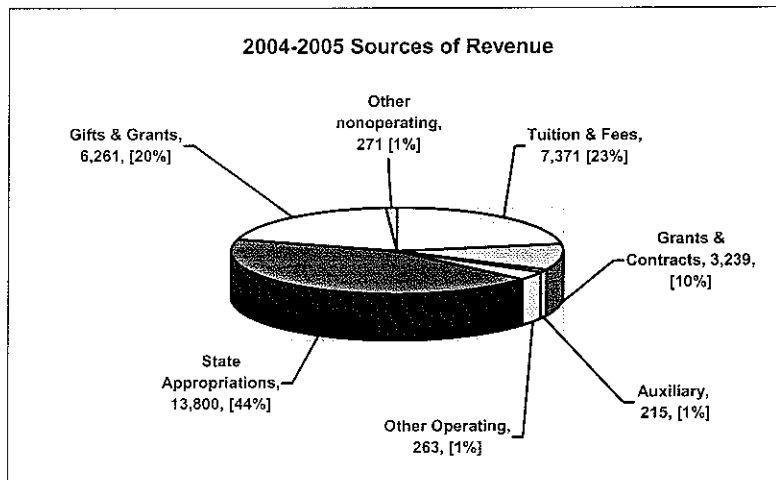
Nonoperating revenues and expenses:			
Investment income	\$4	\$3	\$6
Total nonoperating revenues and expenses	\$4	\$3	\$6
Income (loss) before other revenues, expenses, gains, or losses	\$210	\$166	\$22

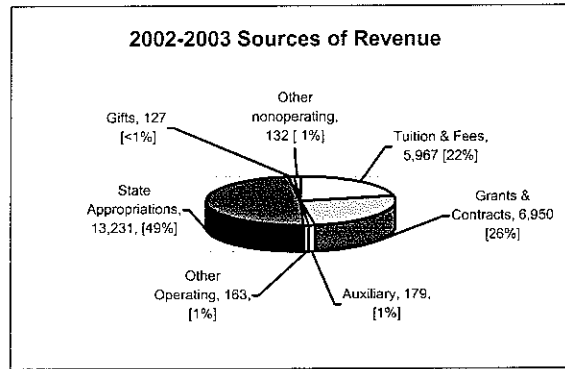
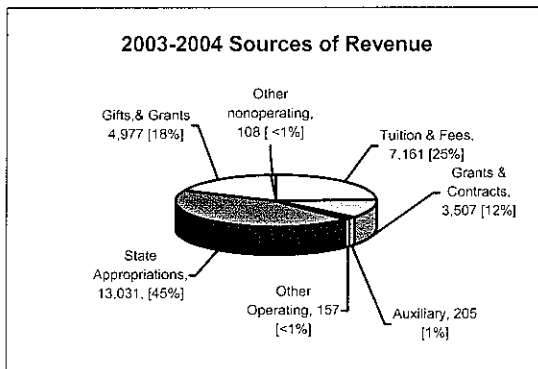
Other revenues, expenses, gains, or losses:			
Additions to permanent endowments	\$15		\$7
Total other revenues, expenses, gains, or losses	\$15		\$7
Increase (decrease) in net assets	\$225	\$166	\$29
Net assets at beginning of year, as originally reported	435	269	240
Net assets at beginning of period, restated	\$435	\$269	\$240
Net assets at end of year	\$660	\$435	\$269

Revenues

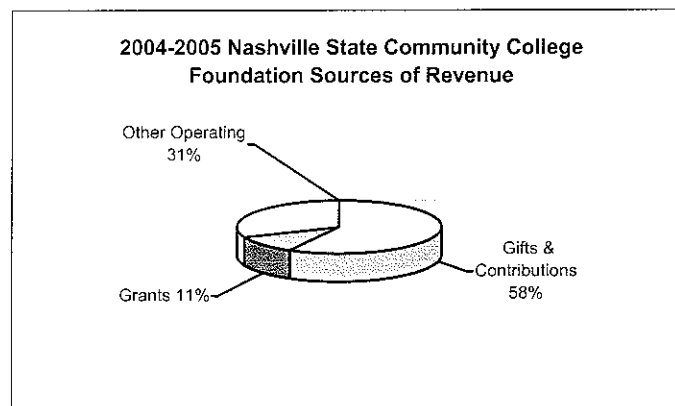
The following is a graphic illustration of revenues by source (both operating and nonoperating), which are used to fund the College's operating activities for the year ended June 30, 2005, the year ended June 30, 2004, and the year ended June 30, 2003 (amounts are presented in thousands of dollars).

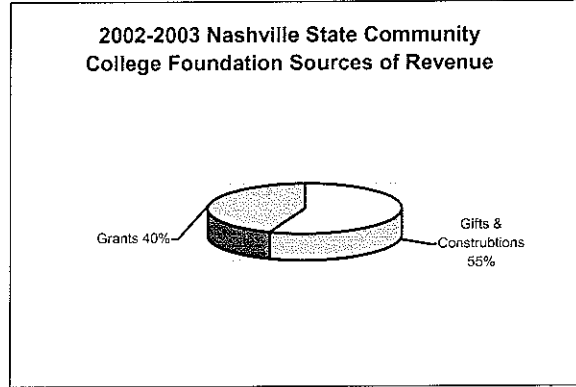
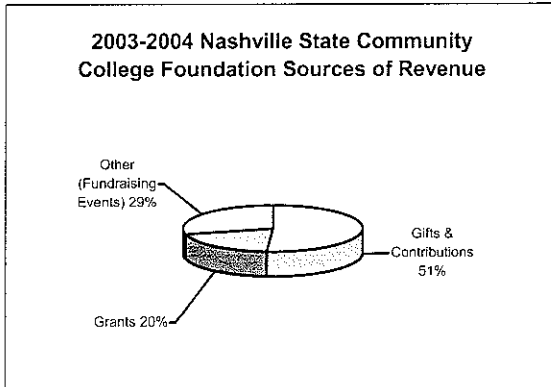
College:





- In FY 2005, grants and contracts remained the same at 12%. From FY 2004, student grants classification changed from current to non-current. This reclassification caused a decrease of 14% in the grants and contracts area from FY 2003.
- Revenues from state grants and contracts increased \$142,222.71 in FY 2005 and \$56,757.06 in FY 2004.
- Revenue from local grants and contracts increased by \$158,199.96 in FY 2005 and \$25,803.82 in FY 2004.
- Bookstore revenue has remained stable at approximately 1% all three years.
- In FY 2005, a total of 4% across-the-board salary increase occurred. In January 2003, salary and benefit expenses were increased due to a raise and a \$10 per credit hour adjunct pay rate increase.
- A mid-year health insurance premium increase also increased the cost of benefits in FY 2004.
- Non-operating revenue increased in FY 2005 due to increases in the state appropriation and the grant and contracts areas.





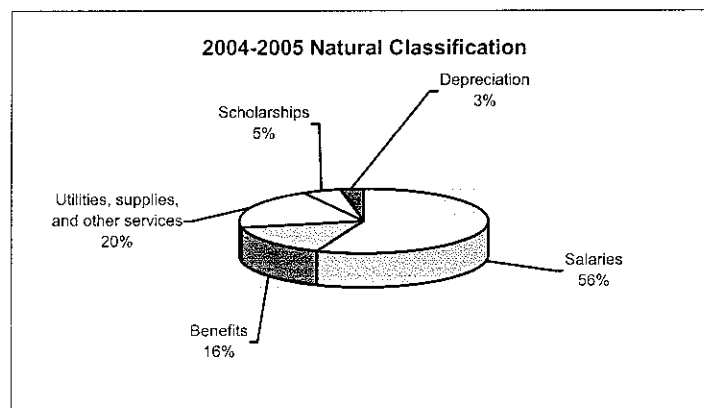
- The increase in gifts and contributions is attributable primarily to increased donations during FY 2005. The largest contribution was \$140,000 from the Oprah Winfrey Foundation.
- The increase in other operating is due to increased gifts received during special fundraising events.

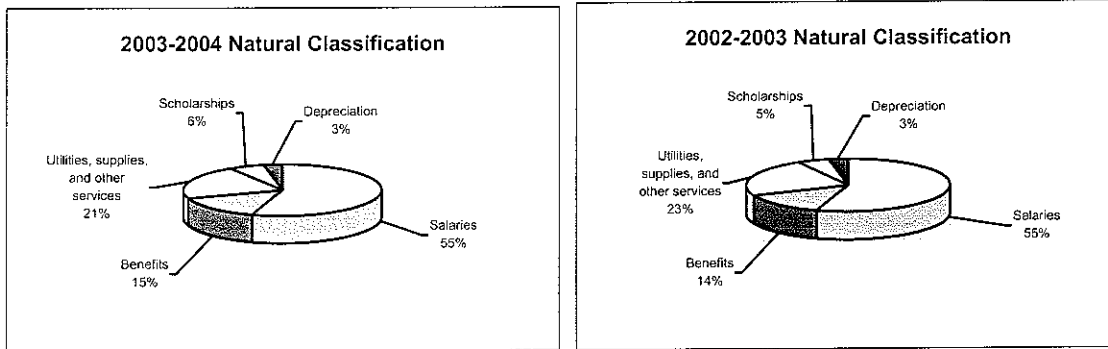
Expenses

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

*Natural Classification
for the College*

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Salaries	\$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	1,541	1,631	1,396
Depreciation	790	882	869
TOTAL	\$29,088	\$27,451	\$26,871

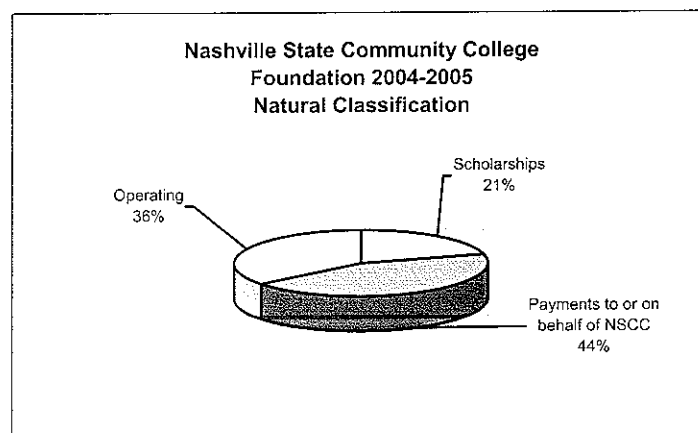


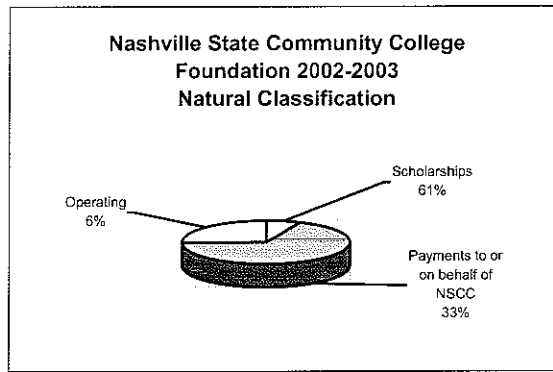
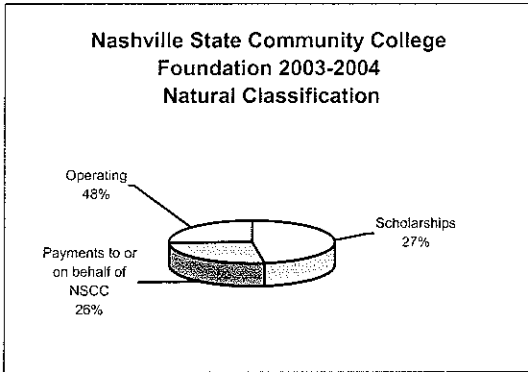


- The largest expense in all three years was salaries, representing 54-56%.
- Benefits rose slightly in FY 2005 to 16%. For the past three years, benefits have increased only 1% each year.
- The utilities, supplies, and other expenses classification includes such items as printing, utilities, classroom 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 Community College Foundation***

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Utilities, supplies, and other services	\$50	\$54	\$6
Scholarships	29	30	59
Payments to or on behalf of NSCC	<u>61</u>	<u>29</u>	<u>32</u>
TOTAL	\$140	\$113	\$97

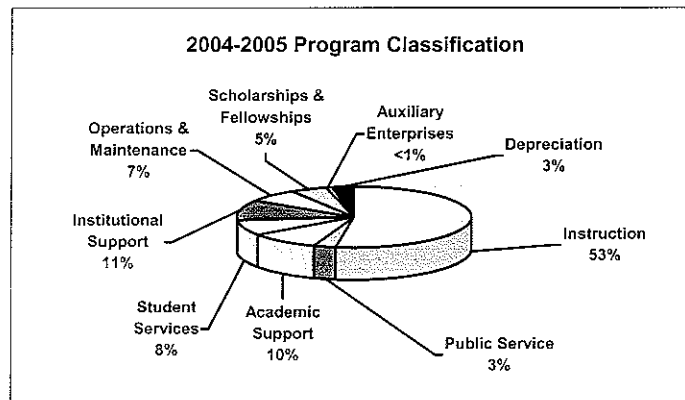


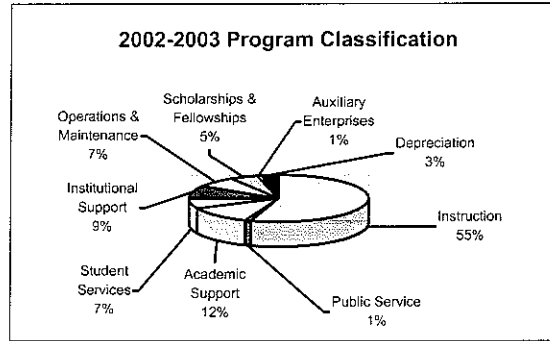
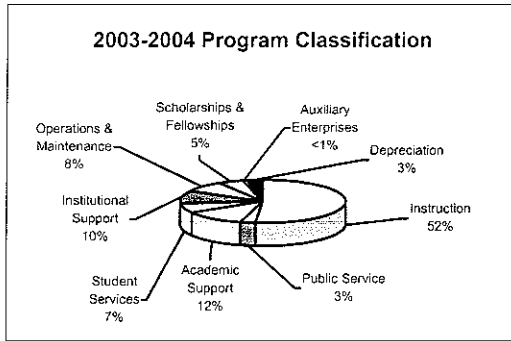


- In FY 2005, additional restricted gifts attributes to the increase in payments on behalf of the College.
- Allocations for scholarships in FY 2004 decreased from FY 2003 because the foundation elected to maintain a minimum of \$100,000 in unrestricted funds in order to finance fundraising events and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

***Program Classification
for the College***

<u>Operating Expenses</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>
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 & Maintenance	1,914	2,060	1,804
Scholarships & Fellowships	1,449	1,502	1,335
Auxiliary Enterprises	3	2	3
Depreciation	790	882	869
TOTAL	\$29,088	\$27,451	\$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 services, 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)			
	<u>2005</u>	<u>2004</u>	<u>2003</u>
Cash provided (used) by:			
Operating activities	(\$17,049)	(\$15,213)	(\$12,526)
Noncapital financing activities	20,138	18,750	12,489
Capital and related financing activities	(1,441)	418	1,447
Investing activities	283	120	141
Net increase (decrease) in cash	\$1,931	\$4,076	\$2,551
Cash, beginning of year	16,437	12,361	6,861
Cash, end of year	\$18,368	\$16,437	\$9,412

- 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 Non-capital 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%. A 7.5% maintenance fee increase was imposed in FY 2003.

- Investing activities improved in FY 2005 due to improved economic conditions and higher returns on investments.
- Capital and related financing activities decreased due to repairs to infrastructure, lab and program equipment purchases, and campus security and Banner hardware equipment purchases.
- The primary source of the College's cash flow is the state appropriation which increased \$759,451.84 in FY 2005. An increase of \$276,722 was reported for FY 2004, and \$2,891,018 was reported in FY 2003.

Nashville State Technical Community College Foundation			
Statement of Cash Flows (in thousands of dollars)			
	<u>2005</u>	<u>2004</u>	<u>2003</u>
Cash provided (used) by:			
Operating activities	\$208	\$145	\$43
Noncapital financing activities	16		
Investing activities	2	108	1
Net increase (decrease) in cash	\$226	\$253	\$44
Cash, beginning of year	\$365	\$112	\$68
Cash, end of year	\$591	\$365	\$112

- Operating activities increased in FY 2005 due to increased gifts and contributions, primarily from a \$140,000 donation from the Oprah Winfrey Foundation.

Capital Assets and Debt Administration

Capital Assets

At June 30, 2005, Nashville State Technical Community College had \$16,598,448.77 invested in capital assets, net of accumulated depreciation of \$12,063,981.41. Depreciation charges totaled \$886,828.66 for the current fiscal year. Details of these assets are shown below.

Nashville State Technical Community College			
Schedule of Capital Assets, Net of Depreciation (in thousands of dollars)			
	<u>2005</u>	<u>2004</u>	<u>2003</u>
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		

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.

During FY 2003, an increase in land was due to a donation from the City of Cookeville for the Don Sundquist campus. Land improvements were made to the parking areas of the Cookeville campus and construction on campus buildings was completed. There were also increases in equipment for purchases of an automobile, piano, and computer equipment.

Debt

At June 30, 2005, the College had \$73,347.50 in debt outstanding. The table below summarizes these amounts by type of debt instrument.

Description of Debt	2005	2004	2003
TSSBA Bonds due 2012	\$73,347.50	\$81,947.93	\$90,201.70

The only debt issuance was TSSBA Bonds to finance a portion of the chiller replacement project. The state bond fund rating as of July 1, 2005, was rated as 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 9 of 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 TPS 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 institution's finances for all those with an interest in the College's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be directed to Dr. George Van Allen, President, Nashville State Technical Community College, 120 White Bridge Road, Nashville, TN, 37209.