

**Tennessee Board of Regents
Tennessee Technology Center at Memphis**

**For the Year Ended
June 30, 2001**

Arthur A. Hayes, Jr., CPA, JD, CFE

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STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
State Capitol
Nashville, Tennessee 37243-0260
(615) 741-2501

John G. Morgan
Comptroller

August 29, 2002

The Honorable Don Sundquist, Governor
and
Members of the General Assembly
State Capitol
Nashville, Tennessee 37243
and
The Honorable Charles W. Manning, Chancellor
Tennessee Board of Regents
1415 Murfreesboro Road, Suite 350
Nashville, Tennessee 37217
and
Mr. Russell Shelton, Director
Tennessee Technology Center at Memphis
550 Alabama Avenue
Memphis, Tennessee 38015

Ladies and Gentlemen:

Transmitted herewith is the financial and compliance audit of the Tennessee Board of Regents, Tennessee Technology Center at Memphis, for the year ended June 30, 2001. You will note from the independent auditor's report that an unqualified opinion was given on the fairness of the presentation of the financial statements.

Consideration of internal control over financial reporting and tests of compliance disclosed a deficiency, which is detailed in the Results of the Audit section of this report. The center's administration has responded to the audit finding; the response is included following the finding. The Division of State Audit will follow up the audit to examine the application of the procedures instituted because of the audit finding.

Sincerely,

John G. Morgan
Comptroller of the Treasury

JGM/th
02/048

State of Tennessee

Audit Highlights

Comptroller of the Treasury

Division of State Audit

Financial and Compliance Audit
Tennessee Technology Center at Memphis
For the Year Ended June 30, 2001

AUDIT OBJECTIVES

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

COMPLIANCE FINDING

The Center Did Not Comply with the Tennessee Board of Regents' Conflict of Interest Policy

The center did not comply with the Tennessee Board of Regents' conflict of interest policy. Employees reporting to the center's director did not complete a disclosure statement each January as required by the policy (page 6).

OPINION ON THE FINANCIAL STATEMENTS

The opinion on the financial statements is unqualified.

"Audit Highlights" is a summary of the audit report. To obtain the complete audit report, which contains all findings, recommendations, and management comments, please contact

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Audit Report
Tennessee Board of Regents
Tennessee Technology Center at Memphis
For the Year Ended June 30, 2001

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**Tennessee Board of Regents
Tennessee Technology Center at Memphis
For the Year Ended June 30, 2001**

INTRODUCTION

POST-AUDIT AUTHORITY

This is a report on the financial and compliance audit of the Tennessee Board of Regents, Tennessee Technology Center at Memphis. 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

A statewide system of area vocational-technical schools was established in 1963 by Section 49-11-401, *Tennessee Code Annotated*, to meet the occupational and technical training needs of the citizens of the state, including employees and future employees of existing and prospective industries and businesses in the state. The area vocational-technical schools were governed by the State Board of Education until July 1, 1983. At that time, governance was transferred by Section 49-11-402, *Tennessee Code Annotated*, to the Tennessee Board of Regents. Effective July 1, 1994, the area vocational-technical schools became technology centers. The Tennessee Technology Center at Memphis began operation in 1963.

ORGANIZATION

The Tennessee Technology Center at Memphis operates under a lead institution agreement with Southwest Tennessee Community College. Under this agreement, Southwest Tennessee Community College performs the accounting and reporting functions for the center. The chief administrative officer of the center is the director, who is assisted and advised by members of the faculty and administrative staff. The director is responsible to the Chancellor of the Tennessee Board of Regents.

AUDIT SCOPE

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

PRIOR AUDIT FINDINGS

There were no findings in the prior audit report.

RESULTS OF THE AUDIT

AUDIT CONCLUSIONS

Internal Control

As part of the audit of the center's financial statements for the year ended June 30, 2001, we considered internal control over financial reporting to determine auditing procedures for the purpose of expressing an opinion on the financial statements, as required by government auditing standards generally accepted in the United States of America. 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*. An immaterial instance of noncompliance, along with a recommendation and management's response, is included in the finding and recommendation section of this report.

Fairness of Financial Statement Presentation

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



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

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FAX (615) 532-2765**

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

June 14, 2002

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

Dear Mr. Morgan:

We have audited the financial statements of the Tennessee Technology Center at Memphis, an institution of the Tennessee Board of Regents, which is a component unit of the State of Tennessee, as of and for the year ended June 30, 2001, and have issued our report thereon dated June 14, 2002. We conducted our audit in accordance with government auditing standards generally accepted in the United States of America. Also, as discussed in Note 10, the center implemented GASB 33, *Accounting and Financial Reporting for Nonexchange Transactions*.

Compliance

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

The Honorable John G. Morgan
June 14, 2002
Page Two

We did, however, note an immaterial instance of noncompliance that we have included in the Finding and Recommendation section of this report. We also noted a less significant instance of noncompliance, which we have reported to the center's management in a separate letter.

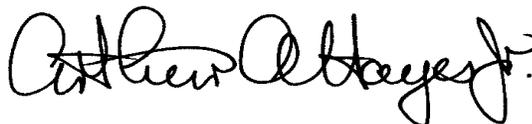
Internal Control Over Financial Reporting

In planning and performing our audit, we considered the center's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

However, we noted certain matters involving the internal control over financial reporting, which we have reported to the center's management in a separate letter.

This report is intended solely for the information and use of the General Assembly of the State of Tennessee and management and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record.

Sincerely,

A handwritten signature in black ink that reads "Arthur A. Hayes, Jr." with a stylized, cursive script.

Arthur A. Hayes, Jr., CPA,
Director

AAH/th

FINDING AND RECOMMENDATION

The center did not comply with the Tennessee Board of Regents' conflict of interest policy

Finding

The center did not comply with the Tennessee Board of Regents' conflict of interest policy, 1:02:03:10. This policy requires all employees who report directly to the technology center director to file formal disclosure statements each January with the director's office. None of the required disclosure statements for employees reporting to the director were completed for January 2002 when the Division of State Audit requested them. In addition, none of the required disclosure statements for employees reporting to the director were completed for January 2001.

Recommendation

The director should ensure that all applicable employees complete conflict of interest disclosure statements each January and file them with the director's office.

Management's Comment

Management concurs. All employees who report directly to the director will sign conflict of interest form 1:02:03:10 each January. These forms will be disbursed by the business office to the appropriate personnel.



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

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Independent Auditor's Report

June 14, 2002

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

Dear Mr. Morgan:

We have audited the accompanying balance sheets of the Tennessee Technology Center at Memphis, an institution of the Tennessee Board of Regents, which is a component unit of the State of Tennessee, as of June 30, 2001, and June 30, 2000, and the related statements of changes in fund balances and current funds revenues, expenditures, and other changes for the years then ended. These financial statements are the responsibility of the center's management. Our responsibility is to express an opinion on these financial statements, based on our audits.

We conducted our audits in accordance with government auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

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

The Honorable John G. Morgan
June 14, 2002
Page Two

As discussed in Note 6, the center changed the threshold for capitalizing equipment. Also, as discussed in Note 10, the center implemented GASB 33, *Accounting and Financial Reporting for Nonexchange Transactions*.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 14, 2002, on our consideration of the center's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Sincerely,

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

Arthur A. Hayes, Jr., CPA,
Director

AAH/th

TENNESSEE BOARD OF REGENTS
TENNESSEE TECHNOLOGY CENTER AT MEMPHIS
BALANCE SHEETS
JUNE 30, 2001, AND JUNE 30, 2000

ASSETS	June 30, 2001	June 30, 2000	LIABILITIES AND FUND BALANCES	June 30, 2001	June 30, 2000
Current funds:			Current funds:		
Unrestricted:			Unrestricted:		
General:			General:		
Cash (Notes 2 and 3)	\$ 10,500.00	\$ 51,536.78	Liabilities:		
Accrued interest receivable	11.27	16.13	Accounts payable	\$ 13,949.66	\$ 22,726.58
Accounts receivable (net of allowance of \$15,400.00 at June 30, 2001, and \$11,600.00 at June 30, 2000)	38,815.63	15,512.85	Accrued liabilities	7,407.68	7,660.79
Inventories	11,262.98	9,999.90	Student deposits	2,360.16	3,705.16
Prepaid expenses and deferred charges	5,530.00	5,285.00	Compensated absences	229,692.04	198,512.76
Due from restricted current funds	267,885.85	410,970.05	Other liabilities	10.92	4.67
			Total liabilities	253,420.46	232,609.96
			Fund balances:		
			Nondiscretionary allocations:		
			Allocation for working capital	56,030.93	31,231.96
			Allocation for encumbrances	1,830.63	19,507.87
			Allocation for technology access fees	67,421.55	84,510.32
			Allocation for compensated absences	(229,692.04)	(198,512.76)
			Unallocated	184,994.20	323,973.36
			Total fund balances	80,585.27	260,710.75
Total general	334,005.73	493,320.71	Total general	334,005.73	493,320.71
Auxiliary enterprises:			Auxiliary enterprises:		
Cash (Notes 2 and 3)	7,334.38	13,054.50	Liabilities:		
Accounts receivable	12,093.52	11,240.57	Accounts payable	714.77	-
			Fund balances:		
			Nondiscretionary allocation:		
			Allocation for working capital	12,093.52	11,240.57
			Unallocated	6,619.61	13,054.50
			Total fund balances	18,713.13	24,295.07
Total auxiliary enterprises	19,427.90	24,295.07	Total auxiliary enterprises	19,427.90	24,295.07
Total unrestricted	353,433.63	517,615.78	Total unrestricted	353,433.63	517,615.78
Restricted:			Restricted:		
Accounts and grants receivable	351,283.95	459,681.09	Liabilities:		
			Accounts payable	14,804.24	14,582.73
			Accrued liabilities	7,836.13	6,677.84
			Due to unrestricted current funds	267,885.85	410,970.05
			Due to renewals and replacements	49,508.04	-
			Total liabilities	340,034.26	432,230.62
			Fund balance	11,249.69	27,450.47
Total restricted	351,283.95	459,681.09	Total restricted	351,283.95	459,681.09
Total current funds	\$ 704,717.58	\$ 977,296.87	Total current funds	\$ 704,717.58	\$ 977,296.87
Plant funds:			Plant funds:		
Renewals and replacements:			Renewals and replacements:		
Cash (Notes 2 and 3)	\$ 225,627.81	\$ 238,845.26	Fund balance:		
Due from restricted current funds	49,508.04	-	Unrestricted	\$ 275,135.85	\$ 238,845.26
Total renewals and replacements	275,135.85	238,845.26	Total renewals and replacements	275,135.85	238,845.26
Investment in plant:			Investment in plant:		
Land	237,144.83	237,144.83	Fund balance:		
Buildings	7,133,577.60	7,133,577.60	Net investment in plant	14,962,698.19	14,746,725.49
Improvements other than buildings	191,540.16	191,540.16			
Equipment	1,918,612.33	1,741,612.33			
Construction in progress	5,481,823.27	5,442,850.57			
Total investment in plant	14,962,698.19	14,746,725.49	Total investment in plant	14,962,698.19	14,746,725.49
Total plant funds	\$ 15,237,834.04	\$ 14,985,570.75	Total plant funds	\$ 15,237,834.04	\$ 14,985,570.75

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

TENNESSEE BOARD OF REGENTS
 TENNESSEE TECHNOLOGY CENTER AT MEMPHIS
 STATEMENT OF CHANGES IN FUND BALANCES
 FOR THE YEAR ENDED JUNE 30, 2001

	Current Funds		Plant Funds		
	Unrestricted	Restricted	Unexpended	Renewals and Replacements	Investment In Plant
<u>REVENUES AND OTHER ADDITIONS</u>					
Unrestricted current fund revenues	\$ 4,486,427.49	\$ -	\$ -	\$ -	\$ -
Auxiliary enterprise revenues	6,619.61	-	-	-	-
State appropriations	-	-	38,972.70	-	-
Federal grants and contracts	-	1,497,732.16	-	-	-
State grants and contracts	-	273,095.52	-	-	-
Local grants and contracts	-	540,916.99	-	-	-
Private gifts, grants, and contracts	-	106,649.03	-	-	-
Expended for plant facilities (including \$177,000.00 charged to current fund expenditures)	-	-	-	-	215,972.70
Other revenues	-	408.16	-	-	-
Total revenues and other additions	<u>4,493,047.10</u>	<u>2,418,801.86</u>	<u>38,972.70</u>	<u>-</u>	<u>215,972.70</u>
<u>EXPENDITURES AND OTHER DEDUCTIONS</u>					
Educational and general expenditures	4,633,854.52	2,344,317.64	-	-	-
Indirect costs recovered	-	90,685.00	-	-	-
Expended for plant facilities	-	-	38,972.70	-	-
Expended for noncapital items	-	-	-	8,609.41	-
Total expenditures and other deductions	<u>4,633,854.52</u>	<u>2,435,002.64</u>	<u>38,972.70</u>	<u>8,609.41</u>	<u>-</u>
<u>TRANSFER BETWEEN FUNDS - ADDITION (DEDUCTION)</u>					
Nonmandatory:					
Renewals and replacements	<u>(44,900.00)</u>	<u>-</u>	<u>-</u>	<u>44,900.00</u>	<u>-</u>
Net increases (decreases) for the year	<u>(185,707.42)</u>	<u>(16,200.78)</u>	<u>-</u>	<u>36,290.59</u>	<u>215,972.70</u>
Fund balances at beginning of year	<u>285,005.82</u>	<u>27,450.47</u>	<u>-</u>	<u>238,845.26</u>	<u>14,746,725.49</u>
Fund balances at end of year	\$ <u>99,298.40</u>	\$ <u>11,249.69</u>	\$ <u>-</u>	\$ <u>275,135.85</u>	\$ <u>14,962,698.19</u>

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

TENNESSEE BOARD OF REGENTS
TENNESSEE TECHNOLOGY CENTER AT MEMPHIS
STATEMENT OF CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2000

	Current Funds		Plant Funds		
	Unrestricted	Restricted	Unexpended	Renewals and Replacements	Investment In Plant
<u>REVENUES AND OTHER ADDITIONS</u>					
Unrestricted current fund revenues	\$ 3,765,723.93	\$ -	\$ -	\$ -	\$ -
Auxiliary enterprise revenues	81,234.88	-	-	-	-
State appropriations	-	-	126,743.25	-	-
Federal grants and contracts	-	1,517,820.66	-	-	-
State grants and contracts	-	176,872.65	-	-	-
Local grants and contracts	-	417,685.29	-	-	-
Private gifts, grants, and contracts	-	127,752.37	-	-	-
Investment income	-	333.99	-	-	-
Expended for plant facilities (including \$22,992.73 charged to current fund expenditures)	-	-	-	-	149,735.98
Total revenues and other additions	<u>3,846,958.81</u>	<u>2,240,464.96</u>	<u>126,743.25</u>	<u>-</u>	<u>149,735.98</u>
<u>EXPENDITURES AND OTHER DEDUCTIONS</u>					
Educational and general expenditures	3,551,210.77	2,151,923.19	-	-	-
Auxiliary enterprise expenditures	68,180.38	-	-	-	-
Indirect costs recovered	-	67,686.06	-	-	-
Expended for plant facilities	-	-	126,743.25	-	-
Total expenditures and other deductions	<u>3,619,391.15</u>	<u>2,219,609.25</u>	<u>126,743.25</u>	<u>-</u>	<u>-</u>
<u>TRANSFER BETWEEN FUNDS - ADDITION (DEDUCTION)</u>					
Nonmandatory:					
Renewals and replacements	<u>(62,500.00)</u>	<u>-</u>	<u>-</u>	<u>62,500.00</u>	<u>-</u>
Net increases for the year	<u>165,067.66</u>	<u>20,855.71</u>	<u>-</u>	<u>62,500.00</u>	<u>149,735.98</u>
Fund balances at beginning of year	119,938.16	6,594.76	-	176,345.26	15,278,327.89
Cumulative effect of a change in accounting principle (Note 6)	-	-	-	-	(681,338.38)
Fund balances at beginning of year, as restated	<u>119,938.16</u>	<u>6,594.76</u>	<u>-</u>	<u>176,345.26</u>	<u>14,596,989.51</u>
Fund balances at end of year	<u>\$ 285,005.82</u>	<u>\$ 27,450.47</u>	<u>\$ -</u>	<u>\$ 238,845.26</u>	<u>\$ 14,746,725.49</u>

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

TENNESSEE BOARD OF REGENTS
TENNESSEE TECHNOLOGY CENTER AT MEMPHIS
STATEMENT OF CURRENT FUNDS REVENUES, EXPENDITURES, AND OTHER CHANGES
FOR THE YEAR ENDED JUNE 30, 2001

	<u>Unrestricted</u>	<u>Restricted</u>	<u>Total</u>
<u>REVENUES</u>			
Tuition and fees	\$ 964,124.25	\$ -	\$ 964,124.25
State appropriations	3,125,700.00	-	3,125,700.00
Federal grants and contracts	25,211.10	1,497,732.16	1,522,943.26
State grants and contracts	-	273,095.52	273,095.52
Local grants and contracts	27,832.91	540,916.99	568,749.90
Private gifts, grants, and contracts	282,590.99	106,649.03	389,240.02
Sales and services of educational activities	24,411.06	-	24,411.06
Sales and services of auxiliary enterprises	6,619.61	-	6,619.61
Investment income	16,523.79	-	16,523.79
Other sources	20,033.39	408.16	20,441.55
Total current revenues	<u>4,493,047.10</u>	<u>2,418,801.86</u>	<u>6,911,848.96</u>
<u>EXPENDITURES AND TRANSFER</u>			
Educational and general:			
Expenditures:			
Instruction	2,650,328.95	1,733,513.64	4,383,842.59
Student services	540,540.03	-	540,540.03
Institutional support	767,704.23	-	767,704.23
Operation and maintenance of plant	601,051.31	-	601,051.31
Scholarships and fellowships (Note 8)	74,230.00	610,804.00	685,034.00
Total educational and general expenditures	<u>4,633,854.52</u>	<u>2,344,317.64</u>	<u>6,978,172.16</u>
Nonmandatory transfer for:			
Renewals and replacements	44,900.00	-	44,900.00
Total expenditures and transfer	<u>4,678,754.52</u>	<u>2,344,317.64</u>	<u>7,023,072.16</u>
<u>OTHER DEDUCTION</u>			
Indirect costs recovered	-	(90,685.00)	(90,685.00)
Net decreases in fund balances	<u>\$ (185,707.42)</u>	<u>\$ (16,200.78)</u>	<u>\$ (201,908.20)</u>

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

TENNESSEE BOARD OF REGENTS
TENNESSEE TECHNOLOGY CENTER AT MEMPHIS
STATEMENT OF CURRENT FUNDS REVENUES, EXPENDITURES, AND OTHER CHANGES
FOR THE YEAR ENDED JUNE 30, 2000

	<u>Unrestricted</u>	<u>Restricted</u>	<u>Total</u>
<u>REVENUES</u>			
Tuition and fees	\$ 778,283.75	\$ -	\$ 778,283.75
State appropriations	2,875,490.00	-	2,875,490.00
Federal grants and contracts	11,870.96	1,517,820.66	1,529,691.62
State grants and contracts	1,077.04	176,872.65	177,949.69
Local grants and contracts	28,949.69	417,685.29	446,634.98
Private gifts, grants, and contracts	22,788.37	127,752.37	150,540.74
Investment income	10,545.76	-	10,545.76
Sales and services of educational activities	21,113.15	-	21,113.15
Sales and services of auxiliary enterprises	81,234.88	-	81,234.88
Other sources	15,605.21	333.99	15,939.20
Total current revenues	<u>3,846,958.81</u>	<u>2,240,464.96</u>	<u>6,087,423.77</u>
<u>EXPENDITURES AND TRANSFER</u>			
Educational and general:			
Expenditures:			
Instruction	1,901,114.49	1,713,893.19	3,615,007.68
Student services	404,678.80	-	404,678.80
Institutional support	698,088.89	-	698,088.89
Operation and maintenance of plant	513,316.09	-	513,316.09
Scholarships and fellowships	34,012.50	438,030.00	472,042.50
Total educational and general expenditures	<u>3,551,210.77</u>	<u>2,151,923.19</u>	<u>5,703,133.96</u>
Nonmandatory transfer for:			
Renewals and replacements	62,500.00	-	62,500.00
Total educational and general	<u>3,613,710.77</u>	<u>2,151,923.19</u>	<u>5,765,633.96</u>
Auxiliary enterprises:			
Expenditures	68,180.38	-	68,180.38
Total auxiliary enterprises	<u>68,180.38</u>	<u>-</u>	<u>68,180.38</u>
Total expenditures and transfer	<u>3,681,891.15</u>	<u>2,151,923.19</u>	<u>5,833,814.34</u>
<u>OTHER DEDUCTION</u>			
Indirect costs recovered	-	(67,686.06)	(67,686.06)
Net increases in fund balances	<u>\$ 165,067.66</u>	<u>\$ 20,855.71</u>	<u>\$ 185,923.37</u>

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

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NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The center is a part of the State University and Community College System of Tennessee (Tennessee Board of Regents). This system is a component unit of the State of Tennessee because the state appoints a majority of the system's governing body and provides financial support; the system is discretely presented in the *Tennessee Comprehensive Annual Financial Report*.

Basis of Presentation

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

Basis of Accounting

The financial statements have been prepared on the accrual basis, except that depreciation on plant assets is not recorded and revenues and expenditures of an academic term encompassing more than one fiscal year are reported solely in the fiscal year in which the term is predominantly conducted. All restricted resources are recorded as additions to the fund balances of the appropriate fund groups. Restricted current resources are then recorded as revenues during the period in which they are expended or all eligibility requirements have been met. The statement of current funds revenues, expenditures, and other changes is a statement of financial activities of current funds related to the current reporting period. It does not purport to present the results of operations or the net income or loss for the period, as would a statement of income or a statement of revenues and expenses.

To the extent that current funds are used to finance plant assets, the funds are accounted for as expenditures, for normal replacement of movable equipment, and nonmandatory transfers, for all other cases.

Fund Accounting

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

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Notes to the Financial Statements (Cont.)
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accounting. With this procedure, resources for various purposes are classified for accounting and reporting purposes into funds for specified activities or objectives. Separate accounts are maintained for each fund; however, in the accompanying financial statements, funds with similar characteristics have been combined into fund groups. Accordingly, all financial transactions have been recorded and reported by fund group.

Within each fund group, fund balances restricted by outside sources are so indicated and are distinguished from unrestricted funds which are allocated to specific purposes by the governing board. Externally restricted funds may be used only in accordance with the purposes established by the source of such funds and contrast with unrestricted funds over which the governing board retains full control to use in achieving any of its institutional purposes.

All gains and losses arising from the sale, collection, or other disposition of noncash assets are accounted for in the fund that owned such assets. Ordinary income derived from receivables and the like is accounted for in the fund owning such assets. All other unrestricted revenue is accounted for in the unrestricted current funds. Restricted gifts, grants, appropriations, and other restricted resources are accounted for in the appropriate restricted funds. Restricted current funds are reported as revenues when expended or all eligibility requirements have been met and expenditures when expended for current operating purposes.

Current Funds

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

Plant Funds

The plant funds group consists of (1) funds set aside for the acquisition of physical properties for institutional purposes; (2) funds set aside for the renewal and replacement of institutional properties; and (3) funds expended for, and thus invested in, institutional properties.

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Notes to the Financial Statements (Cont.)
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Inventories

Inventories are valued at cost. Central supply inventories are recorded on a first-in, first-out basis.

Compensated Absences

The center's employees accrue annual leave at varying rates, depending on length of service or classification. The amount of these liabilities and their related benefits are recorded in the current funds. Since the liability is expected to be funded primarily from future unrestricted revenue sources, a related allocation has been made to the current fund balances so that these fund balances reflect current available funds.

Allocation for Working Capital

The unrestricted fund balance is allocated for the amount of working capital. "Working capital" is defined as the total of all petty cash, accounts receivable, inventories, and prepaid expenses in the unrestricted fund at the balance sheet date, except for student receivables credited to deferred revenue, accrued interest, and amounts due on federal letters of credit, less the accrued benefits on accrued faculty salaries.

Plant Assets

The physical plant and equipment are stated at cost at date of purchase or at fair value at date of donation. Depreciation on the physical plant and equipment is not recorded.

NOTE 2. CASH

This classification includes demand deposits and petty cash on hand. At June 30, 2001, cash consisted of \$10,000.00 in bank accounts, \$500.00 of petty cash on hand, and \$232,962.19 in the State of Tennessee Local Government Investment Pool administered by the State Treasurer. At June 30, 2000, cash consisted of \$16,792.81 in bank accounts, \$500.00 of petty cash on hand, and \$286,143.73 in the State of Tennessee Local Government Investment Pool.

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Notes to the Financial Statements (Cont.)
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NOTE 3. DEPOSITS

The laws of the State of Tennessee require that collateral be pledged to secure all uninsured deposits. Tennessee Board of Regents policies require that the market value of collateral pledged equal 115%, 100%, or 90% of the uninsured deposits at financial institutions participating in the collateral pool and 105% of the uninsured deposits at all other financial institutions. The pledge level for financial institutions participating in the collateral pool is based on financial criteria set by the Collateral Pool Board with the financially strongest institutions being eligible for the lowest pledge level. The pledged securities are included with securities pledged for funds on deposit for Southwest Tennessee Community College, the center's lead institution. For the year ended June 30, 2000, pledged securities were included with securities pledged for funds on deposit for State Technical Institute at Memphis, the center's lead institution. Effective July 1, 2000, legislation abolished State Technical Institute at Memphis and transferred its campuses, property, programs, assets, rights, duties, obligations, and debts to a new institution, Southwest Tennessee Community College. Southwest Tennessee Community College became the lead institution for the technology center. The bank balance of the operating account maintained by the center was entirely insured.

The center also has deposits in the Local Government Investment Pool (LGIP) administered by the State Treasurer. The LGIP is part of the Pooled Investment Fund. The fund's investment policy and custodial credit risk are presented in the *Tennessee Comprehensive Annual Financial Report*.

NOTE 4. DEFINED BENEFIT PENSION PLAN

Plan Description - The center 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

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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 center is required to contribute an actuarially determined rate. The current rate is 6.19% of annual covered payroll. Contribution requirements for the center are established and may be amended by the TCRS' Board of Trustees. The center's contributions to TCRS for the years ended June 30, 2001, 2000, and 1999, were \$183,597.75, \$144,420.18, and \$132,796.07. Contributions met the requirements for each year.

NOTE 5. OTHER POST-EMPLOYMENT BENEFITS

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

NOTE 6. CUMULATIVE EFFECT OF A CHANGE IN ACCOUNTING PRINCIPLE

During the year ended June 30, 2000, the threshold for capitalizing equipment increased from \$1,000 to \$5,000. As a result of the change, equipment decreased by \$681,338.38.

NOTE 7. INSURANCE-RELATED ACTIVITIES

The state purchases commercial insurance for real property losses above \$5 million per year and surety bond coverage on the state's officials and employees. During the year ended June 30, 1999, the state incurred losses in Clarksville and Jackson due to damage from tornadoes. The final settlement of \$8.96 million for the tornado damage in Clarksville was made during the year ended June 30, 2001. In the years ended June 30, 2000, and June 30, 1998, the state did not have any claims filed with the commercial insurer. A designation for casualty losses in the amount of \$8.731 million at June 30, 2001, and \$7.256 million at June 30, 2000, was established in the

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state's general fund to provide for any property losses not covered by the commercial insurance.

At June 30, 2001, the scheduled coverage for the center was \$14,583,100 for buildings and \$1,813,400 for contents. At June 30, 2000, the scheduled coverage was \$14,583,100 for buildings and \$1,813,400 for contents.

The state has set aside assets for claim settlement in an internal service fund, the Claims Award Fund. This fund services all claims for risk of loss to which the state is exposed, including general liability, automobile liability, professional malpractice, and workers' compensation. The center participates in the Claims Award Fund. The fund allocates the cost of providing claims servicing and claims payment by charging a premium to the center based on a percentage of the center's expected loss costs, which include both experience and exposures. This charge considers recent trends in actual claims experience of the state as a whole. An actuarial valuation is performed as of fiscal year-end to determine the fund liability and premium allocation. Since the center participates in the Claims Award Fund, it is subject to the liability limitations under the provisions of the Tennessee Claims Commission Act, *Tennessee Code Annotated*, Section 9-8-101 et seq. Liability for negligence of the center 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 Claims Award Fund.

The state has also set aside assets in the Employee Group Insurance Fund, an internal service fund, to provide a program of health insurance coverage for the employees of the state with the risk retained by the state. The center 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 center 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.

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NOTE 8. FEDERAL STUDENT FINANCIAL ASSISTANCE

The restricted expenditure function scholarships and fellowships includes \$590,014.00 of federal financial assistance for students. The federal financial assistance provided consists of Federal Pell Grants.

NOTE 9. COMMITMENTS AND CONTINGENCIES

Sick Leave - The center 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 \$599,260.91 at June 30, 2001, and \$539,716.52 at June 30, 2000.

Operating Leases - The center has entered into various operating leases for buildings and equipment. Such leases will probably continue to be required. Expenditures under operating leases for real property were \$13,068.00 and for personal property were \$62,155.05 for the year ended June 30, 2001. The amounts for the year ended June 30, 2000, were \$13,068.00 and \$76,226.04. All operating leases are cancelable at the lessee's option.

Construction in Progress - At June 30, 2001, outstanding commitments under construction contracts totaled \$7,682.00 for the renovations and additions project, of which \$7,682.00 will be funded by future state capital outlay appropriations.

Litigation - The center is involved in one lawsuit, which is not expected to have a material effect on the accompanying financial statements.

NOTE 10. PRIOR-YEAR RESTATEMENT

During the year ended June 30, 2001, the center implemented GASB Statement 33, *Accounting and Financial Reporting for Nonexchange Transactions*. As a result, prior-year amounts were restated as noted below:

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Notes to the Financial Statements (Cont.)
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<u>Fund</u>	<u>Account</u>	<u>Amount</u>
Exhibit E		
Restricted	Federal grants and contracts	\$ 11,870.96
Restricted	State grants and contracts	\$ 875.16
Restricted	Local grants and contracts	\$ 31,049.69
Restricted	Private gifts, grants, and contracts	\$ 44,411.97
Restricted	Other sources	\$ 333.99
Restricted	Excess of restricted receipts over transfers to revenues	\$(88,541.77)

NOTE 11. NEW ACCOUNTING PRONOUNCEMENTS

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

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

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Statement 34 will also require the center to retroactively and prospectively report all capital assets, net of accumulated depreciation, including infrastructure assets (long-lived capital assets such as roads and bridges) in the statement of net assets and report depreciation expense in the statement of revenues, expenses, and changes in net assets. Retroactive reporting of capital assets will require a prior-period adjustment to net assets. Management has not yet determined the effect of the implementation of this statement on the center's financial statements.