AUDIT REPORT

Tennessee Board of Regents
Southwest Tennessee Community College

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

STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY

Department of Audit

Division of State Audit

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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 15, 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. Nathan L. Essex, President
Southwest Tennessee Community College
5983 Macon Cove
Memphis, Tennessee 38314

Ladies and Gentlemen:

Transmitted herewith is the financial and compliance audit of the Tennessee Board of Regents, Southwest Tennessee 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 resulted in no audit findings.

Sincerely,

John G. Morgan
Comptroller of the Treasury

JGM/ddb
06/042

State of Tennessee

Audit Highlights

Comptroller of the Treasury | Division of State Audit

Financial and Compliance Audit
Southwest Tennessee 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.

AUDIT FINDINGS

The audit report contains no findings.

OPINIONS ON THE FINANCIAL STATEMENTS

The opinions on the financial statements are unqualified.

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

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Tennessee Board of Regents
Southwest Tennessee 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, Southwest Tennessee 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

The idea for Tennessee's community college system was conceived in 1957 when the state legislature ordered a study of community college programs, a study which resulted in the Pierce-Albright Report. Acting on the recommendation of the Governor and the Department of Education, the General Assembly authorized the Department of Education to establish several community colleges throughout Tennessee.

During the 1999 session, the 101st General Assembly amended *Tennessee Code Annotated*, Title 39, Chapter 8, to create a new community college subsequently named Southwest Tennessee Community College. The legislation abolished Shelby State Community College and State Technical Institute at Memphis as of July 1, 2000, and transferred its campuses, property, programs, assets, rights, duties, obligations, and debts to Southwest Tennessee Community College.

ORGANIZATION

The governance of Southwest Tennessee 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. Southwest Tennessee 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

There were no findings in the prior audit 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

Southwest Tennessee Community College serves as the lead institution under an agreement with the Tennessee Technology Center at Memphis. 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.

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. 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
COMPTROLLER OF THE TREASURY
DEPARTMENT OF AUDIT
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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*

May 25, 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 Southwest Tennessee 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 May 25, 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. 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 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. 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 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*.

We noted certain other less significant instances of noncompliance, which we have reported to the college's management in a separate letter.

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

Sincerely,

Arthur A. Hayes, Jr.

Arthur A. Hayes, Jr., CPA
Director

AAH/ddb

STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
DEPARTMENT OF AUDIT
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Independent Auditor's Report

May 25, 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 Southwest Tennessee 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.

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, Southwest Tennessee 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 9 through 24 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 49 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 May 25, 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.

Arthur A. Hayes, Jr., CPA
Director

AAH/ddb

Southwest Tennessee Community College
Management's Discussion and Analysis
For the Years Ended June 30, 2005, and June 30, 2004

This section of Southwest Tennessee 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 years ended June 30, 2004, and 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 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 Southwest Tennessee 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.

The Southwest Tennessee Community College Foundation is a legally separate, tax exempt organization supporting Southwest Tennessee 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. 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.

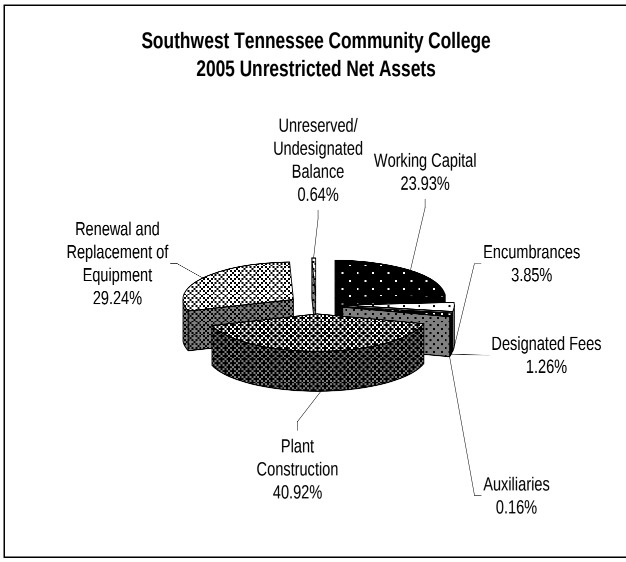
Statement of Net Assets (in thousands of dollars)

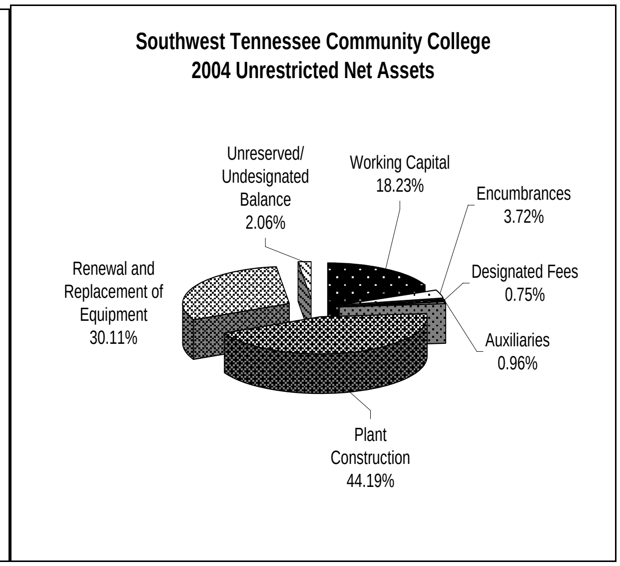
	Southwest Tennessee Community College			Southwest Tennessee Community College Foundation		
	2005	2004	2003	2005	2004	2003
Assets:						
Current assets	$ 12,830	$ 11,296	$ 5,363	$ 211	$ 164	$ 1,061
Capital assets, net	38,516	39,069	40,038	-	-	-
Other assets	12,535	14,087	18,385	1,460	1,273	-
Total assets	63,881	64,452	63,786	1,671	1,437	1,061
Liabilities:						
Current liabilities	4,896	4,513	5,363	-	-	-
Noncurrent liabilities	3,775	3,710	4,119	-	-	-
Total liabilities	8,671	8,223	9,482	-	-	-
Net assets:						
Invested in capital assets, net of related debt	36,956	37,376	38,250	-	-	-
Restricted–nonexpendable	41	96	97	642	420	398
Restricted–expendable	463	548	732	907	837	511
Unrestricted	17,750	18,209	15,225	122	180	152
Total net assets	$ 55,210	$ 56,229	$ 54,304	$ 1,671	$ 1,437	$ 1,061

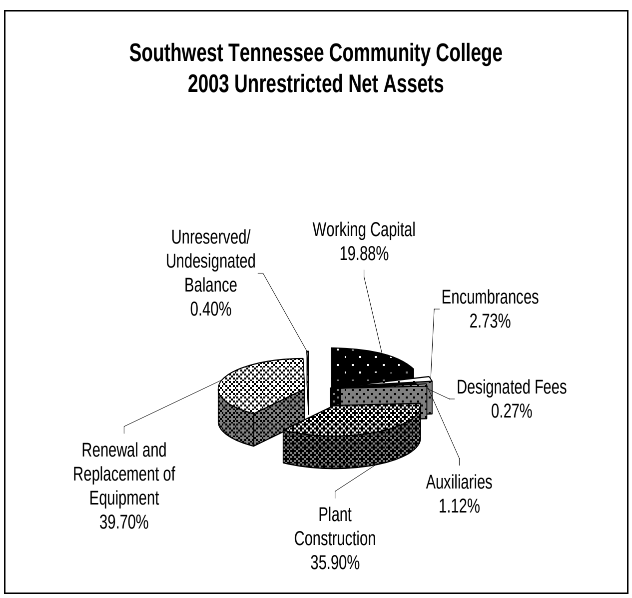
- There were no appreciable changes in Southwest's assets and liabilities from fiscal year 2004 to 2005.
- Restricted expendable net assets decreased 15.6% from fiscal year 2004 to 2005 due to an additional award to the TECTA program, granted in fiscal year 2004 and expensed in fiscal year 2005.
- Restricted expendable net assets of the college decreased 25.1% from fiscal year 2003 to 2004 due to decreases in the balances of grant accounts, principally in the Workforce Investment Network (WIN) and Work Keys programs.
- While total assets of the college increased by only 1% from fiscal year 2003 to 2004, all receivables were reclassified as current assets from other assets.
- Current liabilities decreased 15.9% from 2003 to 2004 due to the removal of foundation accounts from deposits held in custody. The removal of foundation accounts was required by GASB 39.
- Unrestricted net assets increased 19.6% from fiscal year 2003 to fiscal year 2004 due to increased requirements for working capital, encumbrances, and increased plant construction.
- Southwest's foundation embarked on an aggressive fund raising effort and major gifts campaign. As a result, current assets increased from fiscal year 2004 to 2005 by 28.8% due to increases in cash as well as pledges.
- The foundation began an investment program during the fiscal year ending June 30, 2005, thus increasing other assets by 14.6%.

- Restricted expendable and nonexpendable net assets of the foundation increased 23.2% from fiscal year 2004 to 2005 due to scholarships and balances in project accounts.
- The foundation's current assets decreased from fiscal year 2003 to 2004 as cash and cash equivalents were utilized for investment activities thereby increasing other assets.
- The expendable assets of the foundation increased by 63.8% from fiscal year 2003 to 2004 due to scholarships and instructional uses.

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 graph shows the allocations:







- Working capital requirements increased 24.3% from 2004 to 2005 due to an increase in accounts receivable for tuition and fees.
- The allocation for renewal and replacements decreased by 8% from fiscal year 2004 to 2005 by the following:
  - Transfer of $756,529 from unexpended plant funds for the Banner implementation project less Banner expenditures of $560,923 for the fiscal year ending June 30, 2005.
  - Less expenditures of $1,155,708 for designated service centers.
- The allocation for plant construction decreased by 12.3% from fiscal year 2004 to 2005 by the following:
  - A transfer from the current general fund to unexpended plant funds of $833,485 and an intrafund transfer of $756,529 to renewal and replacement for the Banner implementation project.
  - Expenditures for plant fund projects of $1,033,436 included most notably office/classroom upgrades/replacements, building maintenance and property improvements, the closed circuit TV surveillance system, and renovation of the Verties Sales gymnasium.
- In fiscal year 2003-2004, college management made an ongoing commitment to the improvement and expansion of physical plant, service center equipment, and classroom/office furniture upgrades and replacements.
- The allocation for renewals and replacements decreased 6.2% from fiscal year 2004 to 2005 for the following:
  - An increase of $794,600 in departmental charges for information systems equipment to fund the college's ongoing PC replacement program and infrastructure improvements, the motor pool vehicle replacement program, and the addition of print shop equipment.
  - Expenditures for service center equipment were $1,143,855.
- The allocation for unexpended plant increased 52.3% from fiscal year 2003 to 2004. College management allocated $3,640,000 from general funds to plant funds for future furniture replacements, campus card project, closed circuit TV surveillance system for the Macon and Union campuses, property acquisitions for the Union Avenue campus expansion, and physical plant maintenance and improvements. Expenditures for these projects for fiscal year ending June 30, 2004, were $758,411.

The Statement of Revenues, Expenses, and Changes in Net Assets

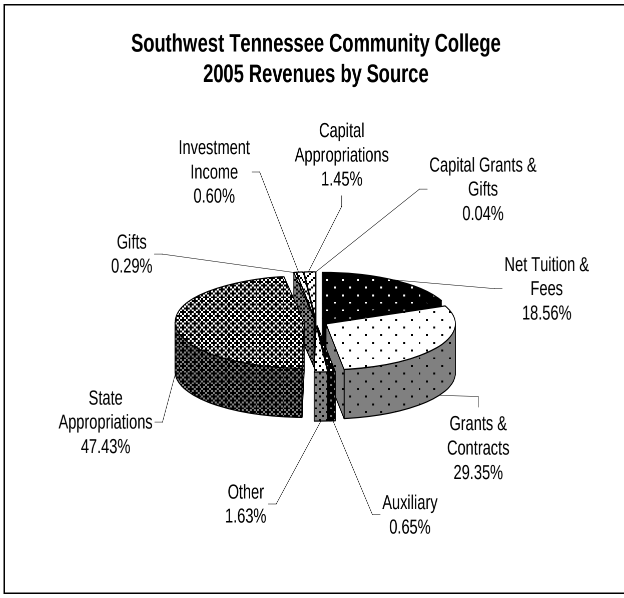
The statement of revenues, expenses, and changes in net assets presents the operating results of the college, as well as, the nonoperating revenues and expenses. Annual state appropriations, while budgeted for operations, are considered nonoperating revenues according to accounting principles generally accepted in the United States of America.

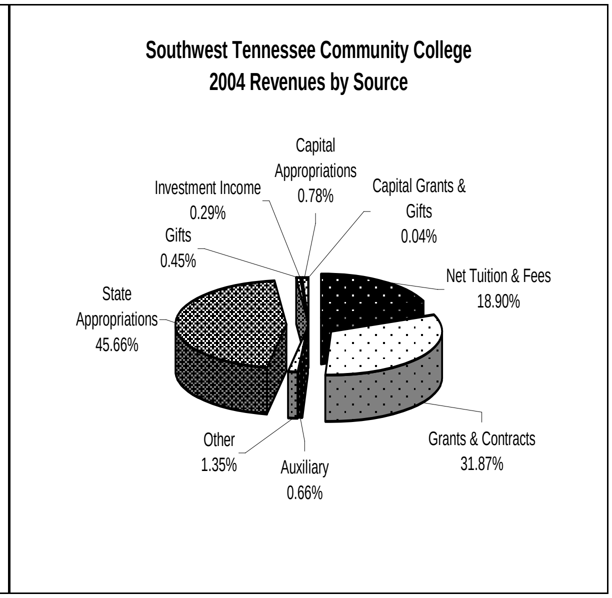
Statement of Revenues, Expenses, and Changes in Net Assets (in thousands of dollars)

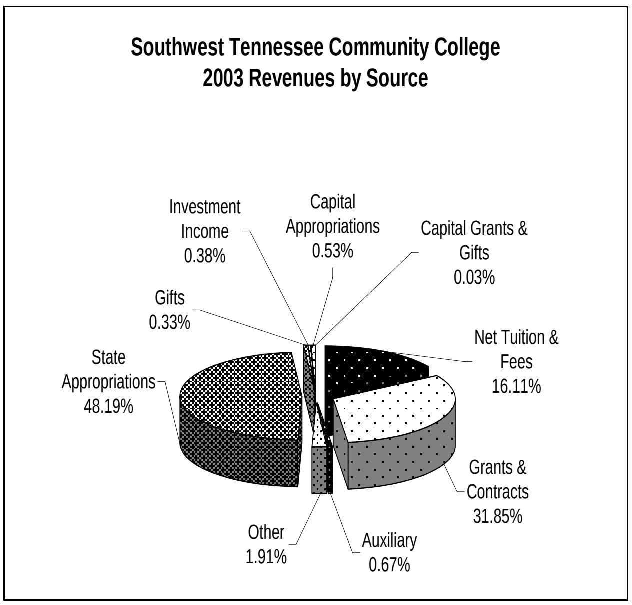
	Southwest Tennessee Community College			Southwest Tennessee Community College Foundation		
	2005	2004	2003	2005	2004	2003
Operating revenues:						
Net tuition and fees	$ 14,314	$ 14,303	$ 11,769	$ -	$ -	$ -
Gifts	-	-	-	476	718	448
Grants and contracts	4,039	8,766	23,258	100	77	-
Auxiliary	504	502	491	-	-	-
Other	1,249	1,023	1,398	62	29	-
Total operating revenues	20,106	24,594	36,916	638	824	448
Operating expenses	77,975	73,274	70,719	587	487	440
Operating income (loss)	(57,869)	(48,680)	(33,803)	51	337	8
Nonoperating revenues and expenses:						
State appropriations	36,578	34,552	35,195	-	-	-
Gifts	220	339	241	-	-	-
Grants and contracts	18,596	15,346	-	-	-	-
Investment income	462	216	278	35	12	11
Other revenues and expenses	(132)	(194)	(213)	(3)	-	-
Total nonoperating revenues and expenses	55,724	50,259	35,501	32	12	11
Income (loss) before other revenues, expenses, gains, or losses	(2,145)	1,579	1,698	83	349	19
Other revenues, expenses, gains, or losses:						
Capital appropriations	1,121	590	385	-	-	-
Capital grants and gifts	29	33	20	-	-	-
Additions to permanent endowments	-	-	-	151	27	207
Other	(24)	-	-	-	-	-
Total other revenues, expenses, gains, or losses	1,126	623	405	151	27	207
Increase (decrease) in net assets	(1,019)	2,202	2,103	234	376	226
Net assets at beginning of year	56,229	54,304	52,201	1,437	1,061	835
Prior period adjustments	-	(277)	-	-	-	-
Net assets at end of year	$ 55,210	$ 56,229	$ 54,304	$ 1,671	$ 1,437	$ 1,061

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 years ended June 30, 2005; June 30, 2004; and June 30, 2003.



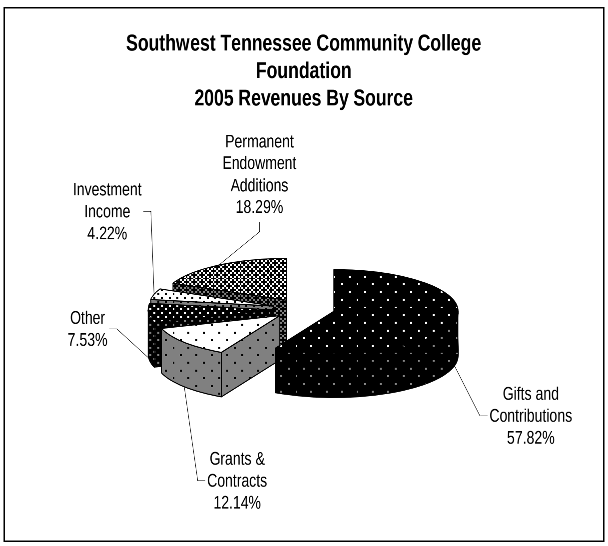


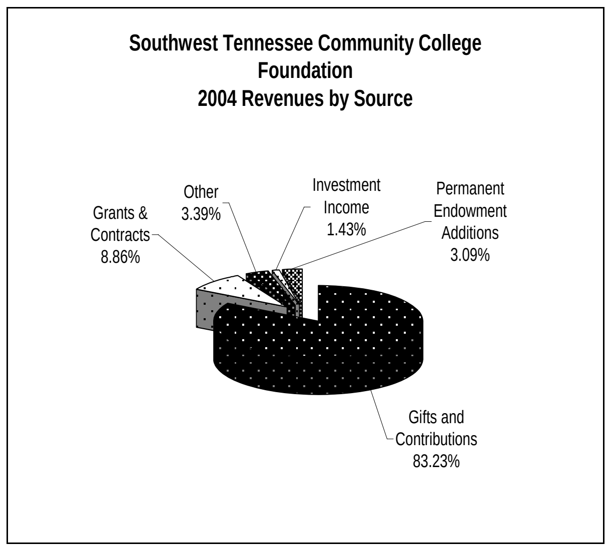


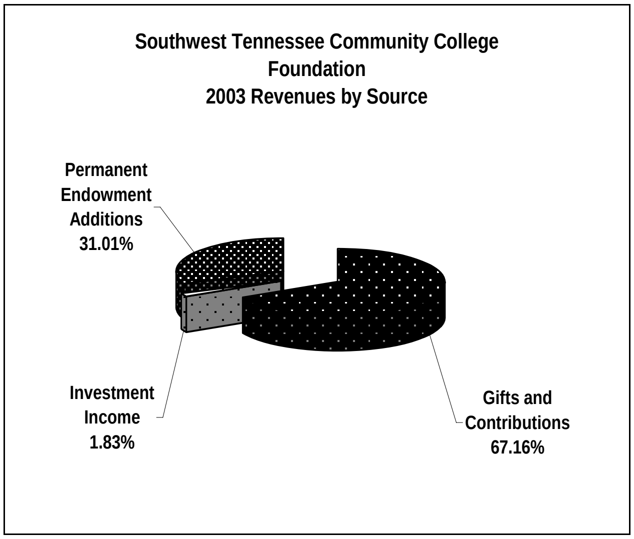
- Net tuition and fees remain almost unchanged from fiscal year 2004 to 2005. Net tuition and fees is the total of all tuition and fees reduced by the scholarship allowance, which is a calculated percentage of financial aid received by the students. Tuition and fees increased approximately 1.3 million dollars (5.6%) due to fee increases, while scholarship allowances also increased by 1.3 million dollars (14%).
- The 2005 state appropriation increased 5.9% for benefit increases among other adjustments.
- State grants and contracts decreased 53.9% from fiscal year 2004 to 2005, due to additional decreases in Families First programs and the reclassification of Hope scholarship/Tennessee Student Assistance Corporation (TSAC) scholarship revenues in the amount of $1,615,795 from operating to nonoperating grants and contracts.

- During fiscal year 2005, investment income more than doubled due to increased availability of funds for investment activities and higher rates of return.
- Capital appropriations increased by 89.8% from fiscal year 2004 to 2005 for state bond project expenditures including funds for the addition of the third main campus.
- Tuition and fees, net of scholarship allowances, increased from fiscal year 2003 to fiscal year 2004 by 21.5% due to a 14.7% rate increase in maintenance fees and an 80% increase in technology access fees.
- Pell and SEOG grant revenues were reclassified in fiscal year 2004 from operating to nonoperating revenue.
- Capital appropriations increased from fiscal year 2003 to 2004 by 53.6% for state bond project expenditures.

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







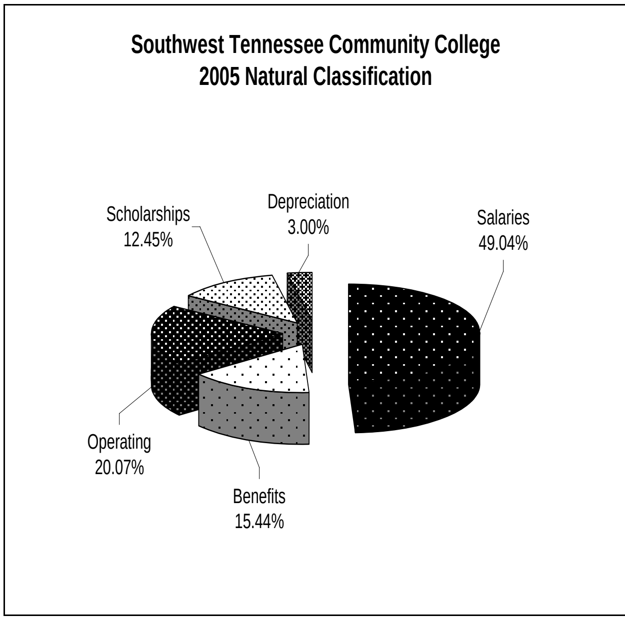
- The foundation's total 2005 operating revenues decreased from fiscal year 2004 to 2005 by 22.6% due to decreases in gifts-in-kind.
- The foundation's total operating revenues increased from fiscal year 2003 to 2004 by 83.8% due to increased fund raising activities.
- Foundation additions to permanent endowments decreased 87.1% in fiscal year 2004. A major contribution of $200,000 was recorded in fiscal year 2003 as an addition to endowment assets.

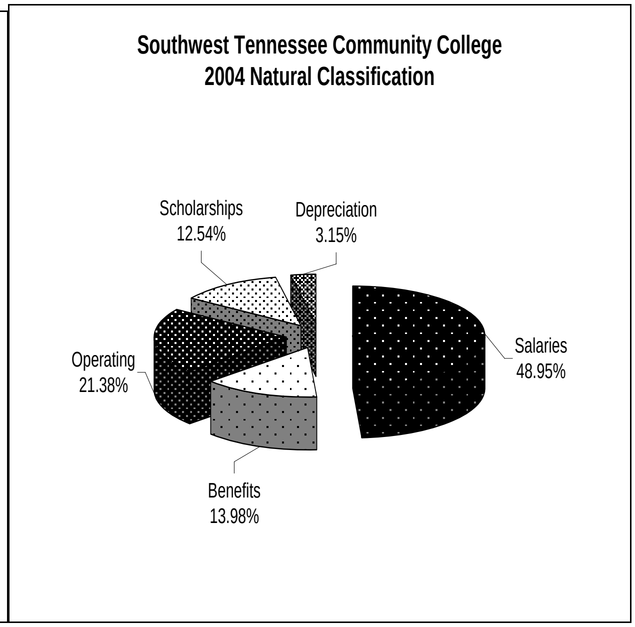
Expenses

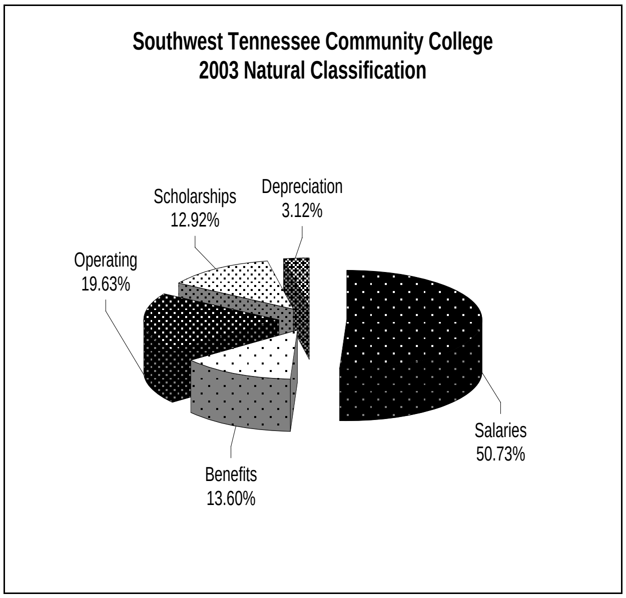
Operating expenses can be displayed in two formats: natural classification and program classification. Both formats are displayed below.

Natural Classification – Southwest Tennessee Community College
(in thousands of dollars)

	2005	2004	2003
Salaries	$ 38,237	$ 35,868	$ 35,879
Benefits	12,040	10,241	9,617
Operating	15,649	15,667	13,881
Scholarships	9,710	9,187	9,137
Depreciation	2,339	2,311	2,205
Total expenses	$ 77,975	$ 73,274	$ 70,719



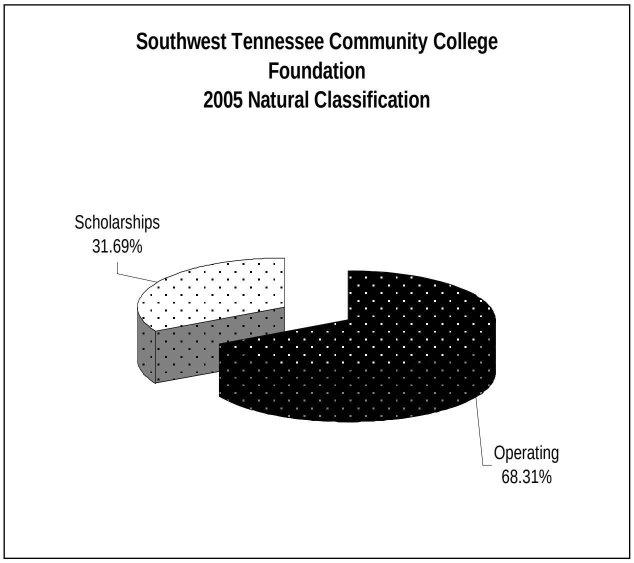


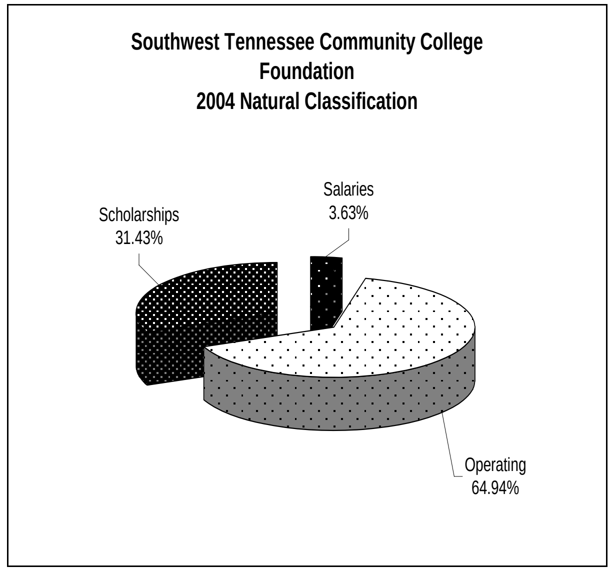


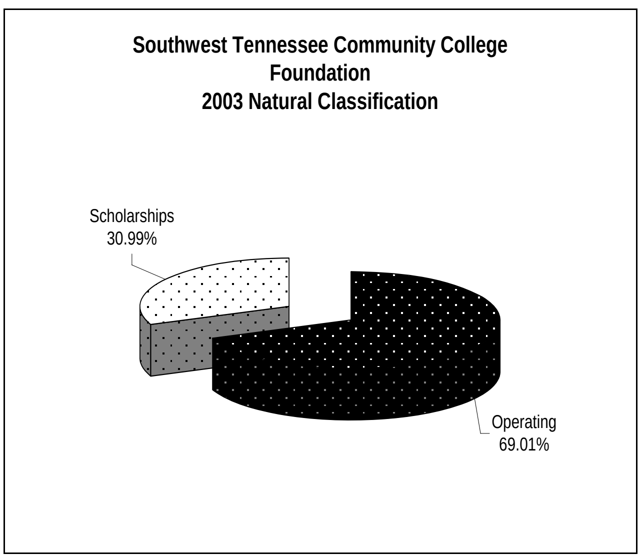
- Salaries increased by 6.6% from fiscal year 2004 to 2005 due to the implementation of the college's salary equity program and an increase in adjunct faculty rates of pay, net of attrition.
- Benefits increased by 17.6% in 2005 due to increases in retirement rates and health benefit contributions and in support of the salary equity program, net of attrition.
- Operating expenses increased 12.9% from fiscal year 2003 to 2004 due primarily to increased local plant fund expenditures.

Natural Classification – Southwest Tennessee Community College Foundation
(in thousands of dollars)

	2005	2004	2003
Salaries	$ -	$ 18	$ -
Operating	402	316	304
Scholarships	185	153	136
Total expenses	$ 587	$ 487	$ 440



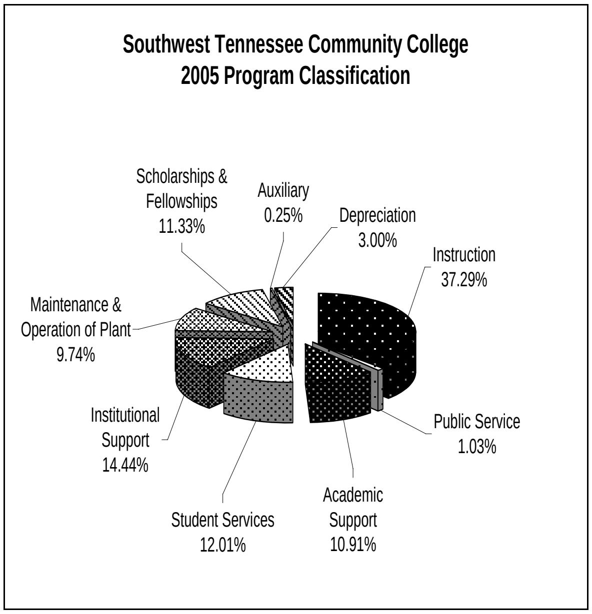


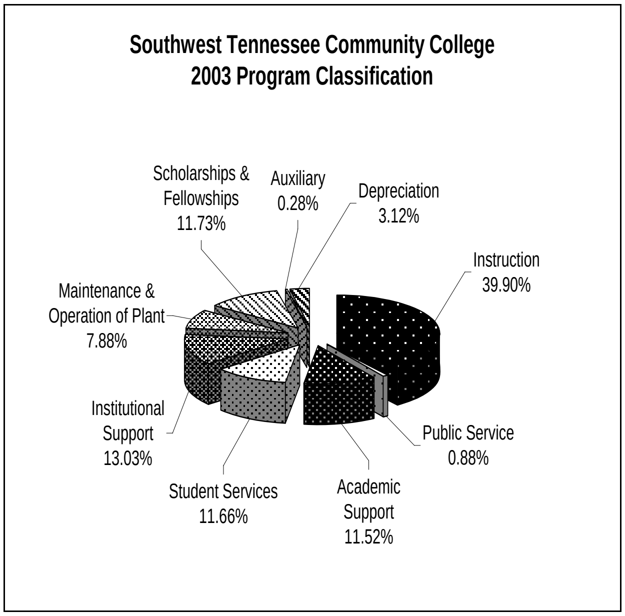


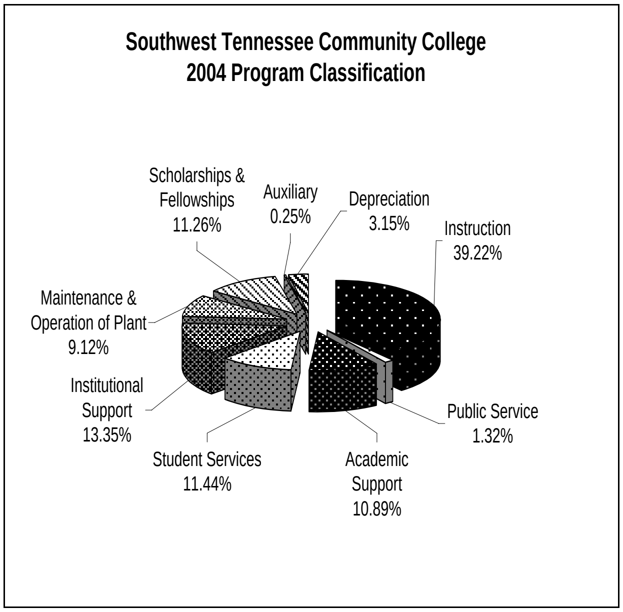
- The foundation's changes in expenses by natural classification between fiscal years 2003, 2004, and 2005 are not material.

Program Classification – Southwest Tennessee Community College
(in thousands of dollars)

	2005	2004	2003
Instruction	$ 29,078	$ 28,741	$ 28,214
Public service	805	965	624
Academic support	8,509	7,977	8,148
Student services	9,368	8,386	8,248
Institutional support	11,256	9,782	9,212
Maintenance and operation plant	7,589	6,682	5,573
Scholarships and fellowships	8,836	8,247	8,295
Auxiliary	195	183	200
Depreciation	2,339	2,311	2,205
Total expenses	$ 77,975	$ 73,274	$ 70,719







- Instruction increased by 1.2% due to an increase in faculty equity adjustments net of faculty attrition.
- Public service decreased 16.6% principally due to decreases in the Families First programs.
- Academic support increased 6.7% due to increases in technology access fee expenditures and information systems service center charge-backs.
- Student services increased 11.7% due to salary equity adjustments, reallocation of clerical/support positions to financial aid, and increased information systems service center charge-backs.
- Institutional support increased 15.1% due to salary equity adjustments and increased information systems service center charge-backs.
- Maintenance and operation of plant increased 13.6% due to salary equity adjustments, increased utilities, plant fund projects and increased plant maintenance and repair costs.
- Scholarships and fellowships increased 7.1% due to increased Pell and SEOG awards.
- Public service increased by 54.6% from fiscal year 2003 to 2004 due to additional and increased grants in restricted funds.
- Maintenance and operation of plant increased 19.9% from fiscal year 2003 to 2004 due to increases in state bond fund projects, utilities, and routine maintenance.
- Southwest's utilization of funds by program classification demonstrates its financial commitment to the college's basic mission and defines the scope of instructional programs and support services.

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.

Statement of Cash Flows
(in thousands of dollars)

	Southwest Tennessee Community College			Southwest Tennessee Community College Foundation		
	2005	2004	2003	2005	2004	2003
Cash provided (used) by:						
Operating activities	$ (54,260)	$ (46,933)	$ (31,059)	$ 15	$ 286	$ 17
Noncapital financing activities	54,892	49,086	36,455	148	27	207
Capital and related financing activities	(928)	(1,006)	(1,531)	-	-	-
Investing activities	482	216	279	(596)	9	12
Net increase (decrease) in cash	186	1,363	4,144	(433)	322	236
Cash, beginning of year	19,618	18,255	14,111	1,293	971	735
Cash, end of year	$ 19,804	$ 19,618	$ 18,255	$ 860	$ 1,293	$ 971

- Cash flows used by operating activities of the college increased from fiscal year 2004 to fiscal year 2005 by 15.6% due to student tuition/fee and grants/contracts revenue increases, net of increased personnel costs and scholarships and fellowships.
- Cash flows from noncapital financing activities increased from fiscal year 2004 to 2005 by 11.8% for increases in state appropriation and gifts and grants.
- Hope scholarship and TSAC scholarship revenues in the amount of $1,615,795 were reclassified from operating to nonoperating in fiscal year 2004-2005.
- Cash flows from capital and related financing activities decreased 7.75% due to increases in purchases of capital assets and construction/capital appropriations.
- Cash flows from investing activities more than doubled in fiscal year 2005 due to increased interest income.
- Cash flows used by operating activities of the college increased from fiscal year 2003 to 2004 due to fee increases and by the reclassification of Pell and SEOG grant revenues to noncapital financing activities from operating activities.
- Cash flows used by capital and related financing activities of the college decreased 34.3% from fiscal year 2003 to 2004 due to an increase in capital appropriation for state bond fund projects and a decrease in the purchase of capital assets and construction.
- Cash and cash equivalents increased by 7.4% from fiscal year 2003 to 2004, thereby increasing the college's liquidity.
- Foundation operating activities increased from fiscal year 2003 to 2004 due to increased cash contributions from fund-raising activities.

- The foundation's noncapital financing activities decreased in fiscal year 2004 from 2003 by 87%. A major contribution of $200,000 was recorded in fiscal year 2003 as an addition to permanent endowment.

Capital Assets and Debt Administration

Capital assets

At June 30, 2005, Southwest Tennessee Community College had $38,515,483.78 invested in capital assets, net of accumulated depreciation of $28,937,169.86. At June 30, 2004, the college had $39,068,574.62 invested in capital assets, net of accumulated depreciation of $27,703,761.28. Depreciation charges totaled $2,339,206.63 for fiscal year 2005; $2,311,147.84 for fiscal year 2004; and $2,204,772.07 for fiscal year 2003. Details of these assets are shown below.

Schedule of Capital Assets, Net of Depreciation
(in thousands of dollars)

	2005	2004	2003
Land	$ 4,824	$ 4,824	$ 4,824
Land improvements & infrastructure	1,587	1,731	1,881
Buildings	24,611	25,753	26,896
Equipment	2,897	2,772	2,521
Library holdings	1,239	1,267	1,293
Projects in progress	3,357	2,721	2,623
Totals	$ 38,515	$ 39,068	$ 40,038

Southwest's administration has made a major commitment to improving physical plant and equipment. A major 2005 project addition is the implementation of the Banner software. This project is being funded by internal reallocations within existing plant funds for a total project budget of $2,273,600.

An addition of $833,485 from general funds was dedicated to local plant fund projects in fiscal year 2005. The local unexpended plant fund balance at June 30, 2005, is $7,355,181. Major expenditures for fiscal year 2005 included:

- Property renovations – $211,579
- Banner implementation – $756,529
- Classroom furniture improvements – $202,464
- Building maintenance – $81,423
- Closed circuit TV surveillance system – $247,357
- Office furniture improvements – $122,914

- Renovate Verties Sails gym – $73,741

An additional $500,000 from general funds was dedicated to the renewal and replacement fund in fiscal year 2005. The total renewal and replacement fund balance at June 30, 2005, is $5,257,957. Expenditures for fiscal year 2005 included:

- Printing equipment – $119,940
- Motor vehicles – $70,212
- Renewals and replacements equipment – $365,110
- Information systems – $591,028
- Banner implementation – $560,293

The college's foundation does not have any capital assets. More detailed information about the college's capital assets is presented in note 6 to the financial statements.

Debt

The college had debt outstanding of $1,559,468.20 at June 30, 2005; $1,692,994.84 at June 30, 2004; and $1,788,203.60 at June 30, 2003. The debt was related to Tennessee State School Bond Authority bonds.

The college did not incur any additional debt in fiscal year 2005. A debt repayment of $99,497.82 was made during fiscal year 2005 and a debt repayment of $95,208.76 was made during fiscal year 2004. The Tennessee State School Bond Authority's revenue bond rating with Standard & Poor's was AA; stable outlook.

The foundation did not have any debt outstanding at June 30, 2005, June 30, 2004, or June 30, 2003.

More detailed information about the college's long-term liabilities is presented in note 7 to the financial statements.

Economic Factors That Will Affect the Future

The financial stability of Southwest is closely tied to that of the State of Tennessee. State appropriations for fiscal year 2005 comprise 57.4% of total unrestricted revenues, compared to 68.7% in fiscal year 2004. Tuition and fee revenues are the second largest source of revenue at 39.6% for fiscal year 2005, compared to 28.5% for fiscal year 2004. The future effect of this continuing shift of the cost of higher education from the state to students, and its long-term effect on student enrollment and accessibility, is unknown.

The continued escalation of accounts receivable balances, which increased 25% (there were no write-offs of receivables in fiscal year 2005) from fiscal year 2004 to 2005, reduces the availability of unrestricted net assets for current operations. These increases in receivables are due, in most part, to federal financial aid repayment/refund regulations. Financial aid recipients comprise 42% of the college's student population.

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 Susan Rains, Executive Director of Finance, 5983 Macon Cove, Memphis, Tennessee 38134.

Exhibit A

TENNESSEE BOARD OF REGENTS
SOUTHWEST TENNESSEE COMMUNITY COLLEGE
STATEMENTS OF NET ASSETS
JUNE 30, 2005, AND JUNE 30, 2004

	Southwest		Component Unit - Southwest Foundation	
	2005	2004	2005	2004
ASSETS				
Current assets:				
Cash (Notes 2, 3, and 16)	$ 7,268,754.16	$ 5,550,965.39	$ 121,928.93	$ 105,090.70
Short-term investments (Note 16)	-	-	25,222.00	-
Accounts, notes, and grants receivable (net) (Note 5)	5,511,663.56	5,664,651.42	-	-
Pledges receivable (net) (Note 16)	-	-	63,550.00	58,500.00
Inventories (at lower of cost or market)	46,197.09	62,414.31	-	-
Prepaid expenses and deferred charges	1,784.40	17,200.00	-	-
Accrued interest receivable	1,643.05	766.68	-	43.19
Total current assets	12,830,042.26	11,295,997.80	210,700.93	163,633.89
Noncurrent assets:				
Cash (Notes 2, 3, and 16)	12,534,934.73	14,067,216.61	737,952.09	1,188,246.01
Investments (Note 16)	-	20,307.30	629,684.88	24,058.48
Pledges receivable (net) (Note 16)	-	-	92,308.93	61,500.00
Capital assets (net) (Note 6)	38,515,483.78	39,068,574.62	-	-
Total noncurrent assets	51,050,418.51	53,156,098.53	1,459,945.90	1,273,804.49
Total assets	63,880,460.77	64,452,096.33	1,670,646.83	1,437,438.38
LIABILITIES				
Current liabilities:				
Accounts payable	292,339.34	202,447.30	-	-
Accrued liabilities	1,477,260.73	1,425,288.76	-	-
Deferred revenue	1,947,266.51	1,618,044.19	-	-
Compensated absences (Note 7)	803,694.07	649,019.25	-	-
Accrued interest payable	11,590.47	13,757.77	-	-
Long-term liabilities, current portion (Note 7)	103,936.54	99,497.82	-	-
Deposits held in custody for others	219,807.99	438,944.56	-	-
Other liabilities	40,465.99	65,776.12	-	-
Total current liabilities	4,896,361.64	4,512,775.77	-	-
Noncurrent liabilities:				
Compensated absences (Note 7)	2,318,951.38	2,116,602.33	-	-
Long-term liabilities (Note 7)	1,455,531.66	1,593,497.02	-	-
Total noncurrent liabilities	3,774,483.04	3,710,099.35	-	-
Total liabilities	8,670,844.68	8,222,875.12	-	-
NET ASSETS				
Invested in capital assets, net of related debt	36,956,015.58	37,375,579.78	-	-
Restricted for:				
Nonexpendable:				
Scholarships and fellowships	-	61,167.62	641,525.60	407,485.55
Other	40,739.60	34,812.61	-	12,370.55
Expendable:				
Scholarships and fellowships	148,617.19	135,980.50	259,779.79	270,431.51
Instructional department uses	202,695.85	279,962.14	-	373,506.81
Other	111,663.92	132,412.04	647,412.51	193,522.47
Unrestricted (Notes 9)	17,749,883.95	18,209,306.52	121,928.93	180,121.49
Total net assets	$ 55,209,616.09	$ 56,229,221.21	$ 1,670,646.83	$ 1,437,438.38

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

Exhibit B

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

	Southwest		Component Unit - Southwest Foundation	
	2005	2004	2005	2004
REVENUES				
Operating revenues:				
Student tuition and fees (net of scholarship allowances of $10,665,753.24 for the year ended June 30, 2005, and $9,359,781.99 for the year ended June 30, 2004)	$ 14,314,351.70	$ 14,303,245.67	$ -	$ -
Gifts and contributions	-	-	476,104.86	718,277.14
Governmental grants and contracts	3,744,330.31	8,168,298.41	-	375.00
Nongovernmental grants and contracts	294,680.46	597,593.64	100,000.00	76,080.00
Sales and services of educational departments	5,090.35	5,264.16	-	-
Auxiliary enterprises:				
Bookstore	503,743.19	500,723.75	-	-
Food service	-	683.36	-	-
Other operating revenues	1,244,371.47	1,018,063.23	62,012.62	29,236.84
Total operating revenues	20,106,567.48	24,593,872.22	638,117.48	823,968.98
EXPENSES				
Operating expenses: (Note 14)				
Salaries and wages	38,236,471.13	35,867,587.71	-	9,873.97
Benefits	12,039,940.24	10,241,335.50	-	-
Utilities, supplies, and other services	15,649,311.17	15,666,981.50	401,963.47	301,938.56
Scholarships and fellowships	9,710,278.36	9,186,845.63	175,107.37	3,550.63
Depreciation expense	2,339,206.63	2,311,147.84	-	-
Payments to or on behalf of Southwest	-	-	10,023.24	171,178.73
Total operating expenses	77,975,207.53	73,273,898.18	587,094.08	486,541.89
Operating income (loss)	(57,868,640.05)	(48,680,025.96)	51,023.40	337,427.09
NONOPERATING REVENUES (EXPENSES)				
State appropriations	36,577,800.00	34,552,300.00	-	-
Gifts, including $10,023.24 from component unit in fiscal year 2005 and $171,178.73 from component unit in fiscal year 2004	220,091.62	338,778.48	-	-
Grants and contracts	18,595,728.27	15,345,534.16	-	-
Investment income	461,883.32	216,017.66	34,776.62	12,361.02
Interest on capital asset-related debt	(77,527.68)	(83,089.88)	-	-
Other nonoperating revenues/(expenses)	(54,212.78)	(110,947.49)	(3,211.07)	-
Net nonoperating revenues	55,723,762.75	50,258,592.93	31,565.55	12,361.02
Income before other revenues, expenses, gains, or losses	(2,144,877.30)	1,578,566.97	82,588.95	349,788.11
Capital appropriations	1,121,152.29	590,687.09	-	-
Capital grants and gifts	28,773.75	33,446.00	-	-
Additions to permanent endowments	-	-	150,619.50	26,651.78
Other capital	(24,653.86)	-	-	-
Total other revenues	1,125,272.18	624,133.09	150,619.50	26,651.78
Increase (decrease) in net assets	(1,019,605.12)	2,202,700.06	233,208.45	376,439.89
NET ASSETS				
Net assets - beginning of year	56,229,221.21	54,303,870.31	1,437,438.38	1,060,998.49
Prior period adjustment	-	(277,349.16)	-	-
Net assets - end of year	$ 55,209,616.09	$ 56,229,221.21	$ 1,670,646.83	$ 1,437,438.38

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

Exhibit C

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

	2005	2004
CASH FLOWS FROM OPERATING ACTIVITIES		
Tuition and fees	$ 13,784,469.45	$ 14,059,002.11
Grants and contracts	5,153,650.72	8,689,537.29
Sales and services of educational activities	12,391.97	(20,743.68)
Payments to suppliers and vendors	(15,544,792.95)	(15,523,467.35)
Payments to employees	(38,160,978.89)	(35,907,987.19)
Payments for benefits	(11,658,698.58)	(10,393,454.43)
Payments for scholarships and fellowships	(9,571,371.16)	(8,977,932.28)
Auxiliary enterprise charges:		
Bookstore	659,465.76	460,801.45
Food services	(1,998.92)	5,751.17
Other receipts (payments)	1,068,099.09	675,931.50
Net cash flows provided (used) by operating activities	(54,259,763.51)	(46,932,561.41)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State appropriations	36,572,900.00	34,543,700.00
Gifts and grants received for other than capital or endowment purposes, including $10,023.24 from Southwest Foundation for the year ended June 30, 2005, and $171,178.73 from Southwest Foundation for the year ended June 30, 2004)	18,815,819.89	15,684,312.64
Changes in deposits held for others	(219,136.57)	(1,143,528.71)
Other noncapital financing receipts (payments)	(277,349.16)	1,332.78
Net cash flows provided (used) by noncapital financing activities	54,892,234.16	49,085,816.71
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital state appropriations	1,121,152.29	590,687.09
Purchase of capital assets and construction	(1,781,995.90)	(1,307,939.65)
Principal paid on capital debt and lease	(99,497.82)	(95,208.76)
Interest paid on capital debt and lease	(79,694.98)	(83,724.60)
Other capital and related financing receipts (payments)	(88,241.60)	(109,861.26)
Net cash flow provided (used) by capital and related financing activities	(928,278.01)	(1,006,047.18)
CASH FLOWS FROM INVESTING ACTIVITIES		
Income on investments	461,006.95	215,895.21
Other investing receipts (payments)	20,307.30	-
Net cash provided (used) by investing activities	481,314.25	215,895.21
Net increase (decrease) in cash	185,506.89	1,363,103.33
Cash - beginning of year	19,618,182.00	18,255,078.67
Cash - end of year (Notes 2, 3, and 16)	$ 19,803,688.89	$ 19,618,182.00

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

	2005	2004
RECONCILIATION OF OPERATING INCOME/(LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
Operating income (loss)	$ (57,868,640.05)	$ (48,680,025.96)
Adjustments to reconcile operating loss to net cash provided (used) by operating activities		
Depreciation expense	2,339,206.63	2,311,147.84
Changes in assets and liabilities		
Receivables, net	381,510.40	(595,912.25)
Inventories	16,217.22	(4,748.05)
Prepaid/deferred items	69,142.22	(33,078.98)
Accounts payable	89,892.04	4,133.18
Accrued liabilities	26,661.84	(9,166.38)
Deferred revenue	329,222.32	162,003.81
Compensated absences	357,023.87	(86,914.62)
Net cash provided (used) by operating activities	$ (54,259,763.51)	$ (46,932,561.41)
Noncash transactions:		
Gifts-in-kind	$ 220,091.62	$ 167,599.75
Gifts-in-kind - capital	$ 28,773.75	$ 33,446.00
Unrealized gains/losses on investments	$ -	$ 2,045.92
Loss on disposal of capital assets	$ 24,653.86	$ -
Pledges	$ -	$ 120,000.00

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

Tennessee Board of Regents
Southwest Tennessee 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*.

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) 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; and (5) 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.

Inventories

Inventories are valued at the lower of cost. All items are maintained on an average cost or first-in, first-out basis.

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 a service provider for the Local Workforce Investment Area in workforce investment area 13 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.

<u>Unrestricted net assets</u> - 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

This classification includes demand deposits and petty cash on hand. At June 30, 2005, cash consisted of $179,302.51 in bank accounts, $10,000 of petty cash on hand, $19,611,880.82 in the State of Tennessee Local Government Investment Pool administered by the State Treasurer, $2,505.56 in LGIP deposits for capital projects. At June 30, 2004, cash consisted of $113,492.63 in bank accounts, $10,000 of petty cash on hand, $19,494,689.37 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 $179,302.51, and the bank balance including accrued interest was $2,169,551.09. The bank balance was insured. At June 30, 2004, the carrying amount of the college's deposits was $113,492.63, and the bank balance including accrued interest was $1,740,794.37. 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 investment policy and required risk 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. INVESTMENTS

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 investment securities that are uninsured, are not registered in the name of the college, and are held by either (a) the counterparty or (b) the counterparty's trust department or agent but not in the college's name.

All investments permitted to be reported at fair value under GASB Statement 31 are reported at fair value, including those with a maturity date of one year or less at the time of purchase.

At June 30, 2005, the college had no investments.

The college's investments at June 30, 2004, are categorized below to indicate the level of risk assumed by the college at year-end. Category 1 consists of insured or registered investments or investments for which the securities are held by the college or its agent in the college's name. Category 2 consists of uninsured and unregistered investments for which the securities are held by the counterparty's/counterparties' trust department or agent in the college's name. Category 3 consists of uninsured and unregistered investments for which the securities are held by the counterparty or by its trust department or agent but not in the college's name.

Investments not susceptible to credit risk categorization:	
Insurance	$ 20,307.30
Total	$ 20,307.30

NOTE 5. RECEIVABLES

Receivables included the following:

	June 30, 2005	June 30, 2004
Student accounts receivable	$ 5,435,027.02	$ 4,283,769.11
Grants receivable	737,077.04	1,651,764.82
State appropriation receivable	45,300.00	40,400.00
Other receivables	195,859.50	408,117.49
Subtotal	6,413,263.56	6,384,051.42
Less allowance for doubtful accounts	(901,600.00)	(719,400.00)
Total receivables	$ 5,511,663.56	$ 5,664,651.42

NOTE 6. CAPITAL ASSETS

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

	Beginning Balance	Additions	Transfers	Reductions	Ending Balance
Land	$ 4,824,088.63	$ -	$ -	$ -	$ 4,824,088.63
Land improvements and infrastructure	3,824,530.11	-	-	-	3,824,530.11
Buildings	44,597,765.47	-	-	-	44,597,765.47
Equipment	8,126,658.01	958,203.47	-	891,326.70	8,193,534.78
Library holdings	2,678,545.95	215,845.63	-	239,125.21	2,655,266.37
Projects in progress	2,720,747.73	636,720.55	-	-	3,357,468.28
Total	66,772,335.90	1,810,769.65	-	1,130,451.91	67,452,653.64
Less accum. depreciation:					
Land improvements and infrastructure	2,093,536.68	144,294.62	-	-	2,237,831.30
Buildings	18,844,440.87	1,142,633.02	-	-	19,987,073.89
Equipment	5,354,405.44	808,336.92	-	866,672.84	5,296,069.52
Library holdings	1,411,378.29	243,942.07	-	239,125.21	1,416,195.15
Total accum. depreciation	27,703,761.28	2,339,206.63	-	1,105,798.05	28,937,169.86
Capital assets, net	$ 39,068,574.62	$ (528,436.98)	$ -	$ 24,653.86	$ 38,515,483.78

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

	Beginning Balance	Additions	Transfers	Reductions	Ending Balance
Land	$ 4,824,088.63	$ -	$ -	$ -	$ 4,824,088.63
Land improvements and infrastructure	3,824,530.11	-	-	-	3,824,530.11
Buildings	44,597,765.47	-	-	-	44,597,765.47
Equipment	7,917,429.03	1,024,155.86	-	814,926.88	8,126,658.01
Library holdings	2,606,108.47	219,707.62	-	147,270.14	2,678,545.95
Projects in progress	2,623,225.56	97,522.17	-	-	2,720,747.73
Total	66,393,147.27	1,341,385.65	-	962,197.02	66,772,335.90
Less accum. depreciation:					
Land improvements and infrastructure	1,943,965.17	149,571.51	-	-	2,093,536.68
Buildings	17,701,807.81	1,142,633.06	-	-	18,844,440.87
Equipment	5,396,272.89	773,059.43	-	814,926.88	5,354,405.44
Library holdings	1,312,764.59	245,883.84	-	147,270.14	1,411,378.29
Total accum. depreciation	26,354,810.46	2,311,147.84	-	962,197.02	27,703,761.28
Capital assets, net	$ 40,038,336.81	$ (969,762.19)	$ -	$ -	$ 39,068,574.62

NOTE 7. 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	$ 1,692,994.84	$ -	$ 133,526.64	$ 1,559,468.20	$ 103,936.54
Other liabilities:					
Compensated absences	2,765,621.58	357,023.87	-	3,122,645.45	803,694.07
Total long-term liabilities	$ 4,458,616.42	$ 357,023.87	$ 133,526.64	$ 4,682,113.65	$ 907,630.61

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

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Payables:					
Bonds	$ 1,788,203.60	$ -	$ 95,208.76	$ 1,692,994.84	$ 99,497.82
Other liabilities:					
Compensated absences	2,852,536.20	-	86,914.62	2,765,621.58	649,019.25
Total long-term liabilities	$ 4,640,739.80	$ -	$ 182,123.38	$ 4,458,616.42	$ 748,517.07

Bonds Payable

Bond issues, with interest rates ranging from 3.25% to 5.0% for Tennessee State School Bond Authority bonds, are due serially to 2018 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	$ 103,936.54	$ 65,475.74	$ 169,412.28
2007	109,004.41	65,013.93	174,018.34
2008	113,807.60	60,277.60	174,085.20
2009	119,450.57	55,203.80	174,654.37
2010	123,981.88	50,848.03	174,829.91
2011-2015	598,331.20	180,560.13	778,891.33
2016-2018	390,956.00	39,755.40	430,711.40
	$ 1,559,468.20	$ 517,134.63	$ 2,076,602.83

NOTE 8. ENDOWMENTS

If a donor has not provided specific instructions to the college, state law permits the college to authorize for expenditure the net appreciation (realized and unrealized) of the investments of endowment funds. When administering its power to spend net appreciation, the college is required to consider the college'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.

At June 30, 2005, the college did not have an endowment fund. The Jess Parrish Endowment, valued at $61,167.62 on June 30, 2004 was transferred to the college foundation at the behest of the donor during the fiscal year ending June 30, 2005. At June 30, 2004, the college had not yet adopted a spending plan for the cash portion of the endowment other than that the funds are restricted for student loans and/or scholarships. At June 30, 2004, net appreciation of $67,167.62 is restricted for specific purposes, of which $67,167.62 is included in restricted net assets.

NOTE 9. 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	$ 4,302,947.68	$ 3,462,028.64
Encumbrances	691,551.70	705,769.42
Designated fees	226,892.18	141,707.39
Auxiliaries	27,964.80	181,688.45
Plant construction	7,357,686.63	8,391,123.42
Renewal and replacement of equipment	5,257,956.58	5,717,429.62
Unreserved/undesignated	(115,115.62)	(390,440.42)
Total	$ 17,749,883.95	$ 18,209,306.52

NOTE 10. 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 $2,263,419.03, $1,581,128.15, and $1,522,862.83. 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 $1,143,545.66 for the year ended June 30, 2005, and $1,077,089.78 for the year ended June 30, 2004. Contributions met the requirements for each year.

NOTE 11. 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 12. 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 $86,111,500 for buildings and $15,866,743 for contents. At June 30, 2004, the scheduled coverage for the college was $86,289,715 for buildings and $33,920,833 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 13. COMMITMENTS AND CONTINGENCIES

Sick Leave - 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 $15,397,578.04 at June 30, 2005, and $13,565,556.87 at June 30, 2004.

Operating Leases - The college has entered into various operating leases for buildings and equipment. Such leases will probably continue to be required. Expenses under operating leases for real property were $1,061,551.95 and for personal property were $298,388.39 for the year ended June 30, 2005. Amounts for the year ended June 30, 2004, were $977,520.24 and $494,834.39. All operating leases are cancelable at the lessee's option.

Construction in Progress - At June 30, 2005, outstanding commitments under construction contracts totaled $618,684.73 for Mechanical and Safety Upgrade, New Campus Planning, and Roof Replacements, of which $618,684.73 will be funded by future state capital outlay appropriations.

Litigation - The college is involved in several lawsuits, none of which are expected to have a material effect on the accompanying financial statements.

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 $1,434,639.04 at June 30, 2005.

NOTE 14. NATURAL CLASSIFICATIONS WITH FUNCTIONAL CLASSIFICATIONS

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

Functional Classification	Salaries	Benefits	Natural Classification Other Operating	Scholarships	Depreciation	Total
Instruction	$20,325,627.48	$ 5,661,266.53	$ 2,921,832.23	$ 169,140.68	$ -	$29,077,866.92
Public service	453,200.89	138,579.18	212,907.19	500.00	-	805.187.26
Academic support	3,952,077.19	1,357,619.96	3,108,705.79	90,884.15	-	8,509,287.09
Student services	4,658,014.39	1,506,864.78	2,653,196.82	550,033.12	-	9,368,109.11
Institutional support	7,367,410.94	2,742,323.02	1,085,906.38	59,949.66	-	11,255,590.00
Operation & maintenance	1,480,140.24	633,286.77	5,471,111.25	4,346.87	-	7,588,885.13
Scholar. & fellow.	-	-	663.93	8,835,423.88	-	8,836,087.81
Auxiliary	-	-	194,987.58	-	-	194,987.58
Depreciation	-	-	-	-	2,339,206.63	2,339,206.63
Total	$38,236,471.13	$ 12,039,940.24	$ 15,649,311.17	$ 9,710,278.36	$ 2,339,206.63	$77,975,207.53

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	$19,909,334.72	$ 5,335,877.14	$ 3,260,029.94	$ 236,322.63	$ -	$28,741,564.43
Public service	593,934.70	193,935.86	153,941.45	22,807.54	-	964,619.55
Academic support	3,408,682.03	982,912.19	3,439,303.85	145,726.70	-	7,976,624.77
Student services	4,163,315.08	1,138,042.57	2,586,250.98	498,397.35	-	8,386,005.98
Institutional support	6,567,703.54	2,135,091.54	1,042,902.84	36,428.01	-	9,782,125.93
Operation & maintenance	1,224,617.64	455,476.20	5,001,512.44	-	-	6,681,606.28
Scholar. & fellow.	-	-	-	8,247,163.40	-	8,247,163.40
Auxiliary	-	-	183,040.00	-	-	183,040.00
Depreciation	-	-	-	-	2,311,147.84	2,311,147.84
Total	$35,867,587.71	$ 10,241,335.50	$15,666,981.50	$ 9,186,845.63	$ 2,311,147.84	$73,273,898.18

NOTE 15. PRIOR-YEAR ADJUSTMENT

A prior period adjustment of $277,349.16 is due to the elimination of accounts receivable that were no liquidated when revenues were received as follows: Child Care Center - $77,396.99 and Families First - $199,952.17.

NOTE 16. COMPONENT UNIT

The Southwest Tennessee Community College Foundation is a legally separate, tax-exempt organization supporting Southwest Tennessee 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.

During the year ended June 30, 2005, the foundation made distributions of $10,023.24 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 $171,178.73 to or on behalf of the college for both restricted and unrestricted purposes. Complete financial statements for the foundation can be obtained from Karen Nippert, 5893 Macon Cove, Memphis, Tennessee 38134.

<u>Cash and cash equivalents</u> - In addition to demand deposits and petty cash on hand, this classification includes instruments which are readily convertible to known amounts of cash and which have original maturities of three months or less. At June 30, 2005, cash and cash equivalents consisted of $134,598.53 in bank accounts, and $725,282.49 in the State of Tennessee Local Government Investment Pool administered by the State Treasurer. At June 30, 2004, cash and cash equivalents consisted of $29,337.26 in bank accounts, and $1,263,999.45 in the State of Tennessee Local Government Investment Pool administered by the State Treasurer.

<u>Deposits</u> - At June 30, 2005, the carrying amount of the foundation's deposits was $134,598.53, and the bank balance was $97,917.71. The bank balance was insured.

For the year ended June 30, 2004, deposits with financial institutions are required to be categorized to indicate the level of risk assumed by the foundation. Category 1 consists of deposits that are insured or collateralized with securities held by the foundation or by its agent in the foundation's name. Category 2 consists of deposits collateralized with securities held by the pledging financial institution's trust department or agent in the foundation's name. Category 3 deposits are uncollateralized. This category includes any bank balance that is collateralized with securities held by the pledging financial institution or by its trust department or agent but not in the foundation's name.

At June 30, 2004, the carrying amount of the foundation's deposits was $29,337.26, and the bank balance including accrued interest was $29,337.26. Of the bank balance, $29,337.26 was category 1.

The foundation 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 required risk 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.

Investments - The foundation is authorized to invest funds in accordance with its board of directors' policies. All investments permitted to be reported at fair value under GASB Statement 31 are reported at fair value, including those with a maturity date of one year or less at the time of purchase.

At June 30, 2005, the foundation had the following investments and maturities.

		Investment Maturities (in Years)			
Investment Type	Fair Value	Less than 1	1 to 5	6 to 10	More than 10
Federal Home Loan Bank	$ 89,651.00	$ 25,222.00	$ 43,989.00	$ 20,440.00	$ -
Mutual funds:					
VanGuard	22,623.63	-	-	-	-
Legacy Wealth	368,281.00	-	-	-	-
Other:					
Life Insurance – Southwestern Life	19,421.25	-	-	-	-
Government securities:					
Virginia Beach VA Dev Auth	20,333.00	-	20,333.00	-	-
High Point NJ Regional High School	24,808.00	-	24,808.00	-	-
Lewiston ME	20,996.00	-	-	20,996.00	-
Ewing Twp NJ School District	20,598.00	-	-	20,598.00	-
Philadelphia PA School District	20,273.00	-	-	20,273.00	-
Kansas State Dev. Fin.	20,095.00	-	-	20,095.00	-
Fort Worth Texas	27,827.00	-	-	27,827.00	-
Total	$ 654,906.88	$ 25,222.00	$ 89,130.00	$ 130,229.00	$ -

Interest rate risk – Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of a debt investment. The foundation does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates

Credit risk – It is expected that the largest percentage of fixed income investments shall be invested in portfolios of high quality (primarily A to AAA rated) corporate bonds, U.S. Treasury securities, or fixed income issue of foreign sovereigns. It is expected that not more than 30% of fixed income investments should be in entities not within the United States or its territories. At June 30, 2005, the foundation's investments were rated as follows by nationally recognized statistical rating organizations:

Investment Type	Moody's	Standard and Poor's	Fitch	Fair Value
LGIP	unrated	unrated	unrated	$ 725,282.49
Federal Home Loan Bank	AAA	AAA	AAA	$ 89,651.00
Mutual Funds:				
VanGuard	n/a	n/a	n/a	$ 22,623.63
Legacy Wealth	n/a	n/a	n/a	$ 368,281.00
Government securities				
Virginia Beach VA Dev Auth	Aa3	AA	AA-	$ 20,333.00
High Point NJ Regional High School	Aaa	AAA	AAA	$ 24,808.00
Lewiston ME	Aa3	unrated	unrated	$ 20,996.00
Ewing Twp NJ School District	Aa2	unrated	unrated	$ 20,598.00
Philadelphia PA School District	Aaa	AAA	AAA	$ 20,273.00
Kansas State Dev Fin.	Aaa	AAA	AAA	$ 20,095.00
Fort Worth Texas	Aa1	AA+	AA+	$ 27,827.00

Custodial credit risk – For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the foundation will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The foundation does not have a policy for custodial credit risk. At June 30, 2005, the foundation had $ 635,485.63 of uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent but not in the foundation's name.

Concentration of credit risk – The general policy shall be to diversify investments within cash/cash equivalents, fixed income, equity and real estate/tangibles asset classes so as to provide a balance that will enhance total return while avoiding undue risk concentration in any single asset class or investment category.

As a long-term policy guideline, cash investments will normally constitute less than 15%, fixed income between 30 -70%, equity investments between 25-65% and real estate/tangibles less than 15% of managed endowments assets. Cash and cash equivalent investments may include short-term, money market securities, which historically have produced the lowest return of available investment options over the long term. Such investments, however, shall be kept at the minimum level which the

Finance Committee considers necessary to meet foreseeable short-term liquidity requirements, not normally exceeding 15% of the total fund. Such investments shall be made in pooled money market funds with demonstrably high-quality credit standards and proven records of superior performance over time.

It is expected that the largest percentage of fixed income investments shall be invested in portfolios of high-quality (primarily A to AAA rated) corporate bonds, U.S. Treasury securities, or fixed income issues of foreign sovereigns. It is expected that not more than 30% of fixed income investments should be in entities not within the United States or its territories.

The principal category of equity investments will be common stocks or common stock mutual funds with primary emphasis on high quality, investment grade, dividend paying stocks in companies that are financially sound and that have favorable prospects for earnings growth.

Stock investments should be diversified in terms of industry and capital size. It is expected that not more than 20% of stock investments should be in companies not within the United States, that no more than 5% of the equity portion of the endowment's assets should be invested in any one stock issue, and that investment of more than 20% of the portfolio in any one industry sector should be avoided.

Real estate and/or tangible investments shall be made in liquid Real Estate Investment Trusts (REITS) or real estate/tangibles focused on mutual funds. Such investments shall be utilized to improve the portfolio's risk-reward parameters. Typically, this asset class shall constitute less than 15% of the endowment fund.

At June 30, 2005, the foundation did not have more than 5% invested in any single issuer.

Foreign currency risk – Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment. It is expected that the largest percentage of fixed income investments shall be invested in portfolios of high-quality (primarily A to AAA) corporate bonds, U.S. Treasury securities, or fixed income issues of foreign sovereigns. It is expected that not more than 30% of fixed income investments should be in entities not within the United States or its territories. At June 30, 2005, the foundation had no exposure to foreign currency risk.

The foundation's investments at June 30, 2004, are categorized below to indicate the level of risk assumed by the foundation at year-end. Category 1 consists of insured or registered investments or investments for which the securities are held by the foundation or its agent in the foundation's name. Category 2 consists of uninsured and unregistered investments for which the securities are held by the counterparty's/counterparties' trust department or agent in the foundation's name. Category 3 consists of uninsured and unregistered investments for which the securities are held by the counterparty or by its trust department or agent but not in the foundation's name

Category 1:	
Corporate stocks	$ 3,596.00
Investments not susceptible to credit risk categorization:	
Mutual funds	20,462.48
Total	$ 24,058.48

<u>Pledges Receivable</u> - Pledges receivable are summarized below net of the allowance for doubtful accounts.

	June 30, 2005	June 30, 2004
Current pledges	$ 63,550.00	$ 58,500.00
Pledges due in one to five years	87,308.93	54,000.00
Pledges due after five years	5,000.00	7,500.00
Total pledges receivable, net	$ 155,858.93	$ 120,000.00

<u>Endowments</u> - 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 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, 5% of a trailing three-year average of the endowment's total asset value has been authorized for expenditure. The objective is that this spending rate plus inflation will not normally exceed the nominal total return (appreciation/depreciation plus income) from the endowment fund. This trailing three-year average shall be set back six months from the time of current-year calculations for the purpose of spending, with the three-year average being that of either calendar or fiscal-year periods according to the requirements of the budgetary process. 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, net appreciation of $9,438.14 is available to be spent, of which $9,438.14 is included in restricted net assets expendable for specific purposes.

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

	2005	2004
CASH FLOWS FROM OPERATING ACTIVITIES		
Gifts and contributions	$ 189,395.57	$ 464,731.39
Grants and contracts	100,000.00	76,455.00
Payments to suppliers and vendors	(151,113.11)	(99,392.81)
Payments to employees	-	(9,873.97)
Payments for scholarships and fellowships	(175,107.37)	(3,550.63)
Payments to Southwest Tennessee Community College	(10,023.24)	(171,178.73)
Other receipts (payments)	62,012.62	29,236.84
Net cash flows provided (used) by operating activities	15,164.47	286,427.09
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Private gifts for endowment purposes	150,619.50	26,651.78
Other noncapital financing receipts (payments)	(3,211.07)	-
Net cash flows provided (used) by noncapital financing activities	147,408.43	26,651.78
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of investments	3,596.00	-
Income on investments	20,682.71	9,225.58
Purchase of investments	(600,000.00)	-
Other investing receipts (payments)	(20,307.30)	-
Net cash provided (used) by investing activities	(596,028.59)	9,225.58
Net increase (decrease) in cash	(433,455.69)	322,304.45
Cash - beginning of year	1,293,336.71	971,032.26
Cash - end of year (Notes 2, 3, and 16)	$ 859,881.02	$ 1,293,336.71
RECONCILIATION OF OPERATING INCOME/(LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
Operating income (loss)	$ 51,023.40	$ 337,427.09
Adjustments to reconcile operating loss to net cash provided (used) by operating activities:		
Changes in assets and liabilities:		
Receivables, net	(35,858.93)	(51,000.00)
Net cash provided (used) by operating activities	$ 15,164.47	$ 286,427.09
Noncash transactions:		
Gifts-in-kind	$ 250,850.36	$ 202,545.75
Pledges	$ 55,858.93	$ 51,000.00
Unrealized gains/losses on investments	$ 14,137.10	$ 3,132.15