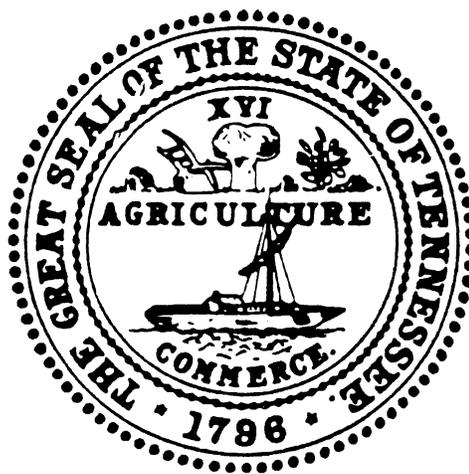


AUDIT REPORT

Tennessee Board of Regents
Motlow State Community College

For the Years Ended
June 30, 2006, and June 30, 2005



STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY

Department of Audit
Division of State Audit



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

Kandi Thomas, CPA, CFE
Assistant Director

Robert D. Hunter, Jr., CPA
Audit Manager

Jeffrey G. Lafever, CFE
In-Charge Auditor

Adrian Davis
Jeffrey McClanahan, CPA, CFE
LaShanda Mott, CFE
Valerie Petty, CFE
Michael Wilbanks, CFE
Jennifer Whitsel, CPA, CFE
Staff Auditors

Gerry Boaz, CPA
Technical Analyst

Amy Brack
Editor

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

Financial/compliance audits of colleges and universities are available on-line at
www.comptroller.state.tn.us/sa/reports/index.html.
For more information about the Comptroller of the Treasury, please visit our website at
www.comptroller.state.tn.us.



STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY

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

John G. Morgan
Comptroller

March 2, 2007

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. MaryLou Apple, President
Motlow State Community College
P. O. Box 88100
Tullahoma, Tennessee 37388-8100

Ladies and Gentlemen:

Transmitted herewith is the financial and compliance audit of the Tennessee Board of Regents, Motlow State Community College, for the years ended June 30, 2006, and June 30, 2005. 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,

A handwritten signature in black ink that reads "John G. Morgan".

John G. Morgan
Comptroller of the Treasury

JGM/sds
07/040

State of Tennessee

A u d i t H i g h l i g h t s

Comptroller of the Treasury

Division of State Audit

Financial and Compliance Audit
Motlow State Community College
For the Years Ended June 30, 2006, and June 30, 2005

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
Motlow State Community College
For the Years Ended June 30, 2006, and June 30, 2005

TABLE OF CONTENTS

	<u>Exhibit</u>	<u>Page</u>
INTRODUCTION		1
Post-Audit Authority		1
Background		1
Organization		1
AUDIT SCOPE		2
OBJECTIVES OF THE AUDIT		2
PRIOR AUDIT FINDINGS		2
OBSERVATIONS AND COMMENTS		3
Management's Responsibility for Risk Assessment		3
Fraud Considerations		3
Technology Centers		4
Internal Audit Investigation		4
RESULTS OF THE AUDIT		6
Audit Conclusions		6
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i>		7
FINANCIAL SECTION		9
Independent Auditor's Report		9
Management's Discussion and Analysis		12

TABLE OF CONTENTS (Cont.)

	<u>Exhibit</u>	<u>Page</u>
Financial Statements		30
Statements of Net Assets	A	30
Statements of Revenues, Expenses, and Changes in Net Assets	B	31
Statements of Cash Flows	C	32
Notes to the Financial Statements		34
Supplementary Information		
Statements of Cash Flows - Component Unit		51

**Tennessee Board of Regents
Motlow State Community College
For the Years Ended June 30, 2006, and June 30, 2005**

INTRODUCTION

POST-AUDIT AUTHORITY

This is a report on the financial and compliance audit of the Tennessee Board of Regents, Motlow State 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

Tennessee’s community college system was created in 1967 when the General Assembly authorized the State Department of Education to establish several community colleges throughout the state. On June 13, 1967, the State Board of Education selected Moore County as the site of a community college to be located in Middle Tennessee. Motlow State Community College’s first classes on site began in September 1969.

ORGANIZATION

The governance of Motlow State 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, 2004, through June 30, 2006, 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, 2006, and June 30, 2005. Motlow State 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

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

INTERNAL AUDIT INVESTIGATION

Motlow State Community College contracted with Middle Tennessee State University to provide audit services relating to allegations of impropriety within the Athletics Department. The audit, which began on January 26, 2006, and covered the period July 1, 2005, to May 31, 2006, centered on allegations that the men's basketball coach obtained and benefited from payments made to students who were receiving either work study or athletic scholarships. Because the Athletics Department consists of four sports, the scope of the audit was expanded to the entire department. The audit resulted in six findings summarized below.

1. The basketball coach approved time sheets for a student worker that contained hours the student did not work. The coach instructed the student to endorse the resulting checks and return them to the coach. The coach would then give the student an amount less than what he earned, and a portion of the remaining funds was given to a student not eligible or approved for work study. Accountability has not been established for all funds received by the coach.
2. The basketball coach violated the National Junior College Athletic Association (NJCAA) rules by handling money for student athletes. The coach stated that since the students did not have bank accounts, he would make payments on their behalf. However, the coach did not keep detailed records of what he received and what he spent. Accountability has not been established for all amounts received by the coach.

3. The basketball coach collected cash for shoes, travel bags, and sweatsuits from student athletes that was not receipted. The players had to sell ads for the media guide or pay \$150 to cover the cost of these items. The funds were to be placed in a restricted account for the basketball teams. There were five cash payments identified totaling \$750, but there was no documentation of the cash being receipted by college personnel.
4. Improvement is needed in the team travel-meal disbursement process. Student athletes are generally disbursed funds per player while the team travels. The men's basketball team would sign the required meal form indicating receipt of funds, but the basketball coach held the funds and instead purchased meals for them. He had the students sign a blank form stating the amount received. He did not provide documentation supporting the actual amount spent on meals.
5. Athletic fundraising activities should be reviewed to ensure compliance with applicable policies and procedures. The activities were planned and directed by the coaches with assistance from student athletes. The documentation required by the college was either not completed or appeared incomplete.
6. The baseball coach violated NJCAA rules by leasing housing to student athletes. He collected \$17,352.50 in lease payments from student athletes, of which \$8,762.50 (approximately 50% of the lease payments) were scholarships awarded by the coach to the students.

The final report was issued on February 2, 2007. As a result, on February 12, 2007, we followed up on the report to ensure that Motlow State Community College concurred with the recommendations and enacted them. Based on interviews with management and examination of records and documents, we concluded that Motlow State Community College enacted all of the recommendations in the report fully and completely.

To obtain a complete copy of the report, please contact Mr. Mike Posey, Vice President for Business Affairs, Motlow State Community College, P. O. Box 8500, Lynchburg, TN 37352.

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, 2006, and June 30, 2005, 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
DIVISION OF STATE AUDIT
SUITE 1500
JAMES K. POLK STATE OFFICE BUILDING
NASHVILLE, TENNESSEE 37243-0264
PHONE (615) 401-7897
FAX (615) 532-2765

**Report on 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***

March 1, 2007

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

Dear Mr. Morgan:

We have audited the financial statements of Motlow State 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, 2006, and June 30, 2005, and have issued our report thereon dated March 1, 2007. 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, 2006, the college implemented GASB Statement 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*. During the year ended June 30, 2005, the college implemented GASB Statement 40, *Deposit and Investment Risk Disclosures*.

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

The Honorable John G. Morgan
March 1, 2007
Page Two

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*.

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

Sincerely,

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

Arthur A. Hayes, Jr., CPA
Director

AAH/sds



STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
DEPARTMENT OF AUDIT
DIVISION OF STATE AUDIT
SUITE 1500
JAMES K. POLK STATE OFFICE BUILDING
NASHVILLE, TENNESSEE 37243-0264
PHONE (615) 401-7897
FAX (615) 532-2765

Independent Auditor's Report

March 1, 2007

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 Motlow State 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, 2006, and June 30, 2005, 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

The Honorable John G. Morgan
March 1, 2007
Page Two

making loans to the state's colleges and universities from debt proceeds. Some of the boards on 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, Motlow State Community College, and its discretely presented component unit as of June 30, 2006, and June 30, 2005, 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, 2006, the college implemented GASB Statement 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*. During the year ended June 30, 2005, the college implemented GASB Statement 40, *Deposit and Investment Risk Disclosures*.

The management's discussion and analysis on pages 12 through 29 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 51 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 March 1, 2007, 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,

The Honorable John G. Morgan
March 1, 2007
Page Three

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,

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

Arthur A. Hayes, Jr., CPA
Director

AAH/sds

Management's Discussion and Analysis

This section of Motlow State 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, 2006, with comparative information presented for the fiscal years ended June 30, 2005, and June 30, 2004. This discussion has been prepared by management along with the financial statements and related note disclosures and should be read in conjunction with the financial statements and notes. The financial statements, notes, and this discussion are the responsibility of management.

The college has one discretely presented component unit, the Motlow College Foundation. More detailed information about the college's component unit is presented in Note 12 to the financial statements. Information regarding the component unit is also included in this section.

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 Motlow 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 college has no nonexpendable restricted net assets. 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.

Statements of Net Assets
(in thousands of dollars)

	<u>Motlow College</u>			<u>Component Unit</u>		
	2006	2005	2004	2006	2005	2004
Assets:						
Current assets	\$ 4,156	\$ 4,255	\$ 3,559	\$ 2,117	\$ 1,725	\$ 1,521
Capital assets, net	21,681	19,726	17,667	-	123	126
Other assets	1,307	1,693	1,026	3,432	3,186	3,275
Total assets	<u>\$ 27,144</u>	<u>\$ 25,674</u>	<u>\$ 22,252</u>	<u>\$ 5,549</u>	<u>\$ 5,034</u>	<u>\$ 4,922</u>
Liabilities:						
Current liabilities	\$ 3,017	\$ 2,975	\$ 2,622	\$ 7	\$ 12	\$ 37
Noncurrent liabilities	2,832	1,442	425	-	-	-
Total liabilities	<u>\$ 5,849</u>	<u>\$ 4,417</u>	<u>\$ 3,047</u>	<u>\$ 7</u>	<u>\$ 12</u>	<u>\$ 37</u>
Net assets:						
Invested in capital assets, net of related debt	\$ 19,061	\$ 18,670	\$ 17,667	\$ -	\$ 123	\$ 126
Restricted - nonexpendable	-	-	-	2,746	2,215	1,965
Restricted - expendable	168	181	154	2,218	2,065	2,082
Unrestricted	2,066	2,406	1,384	578	619	712
Total net assets	<u>\$ 21,295</u>	<u>\$ 21,257</u>	<u>\$ 19,205</u>	<u>\$ 5,542</u>	<u>\$ 5,022</u>	<u>\$ 4,885</u>

Motlow College
Comparison of FY 2006 to FY 2005

- Current assets decreased by \$99 thousand primarily due to accounts and grants receivable increasing by \$58 thousand and cash decreasing by \$158 thousand. The remaining amount in current assets resulted from an increase in prepaid expenses of \$1 thousand.
- Capital assets increased by \$1.955 million primarily due to projects in progress. The major projects are the Library project, McMinnville Expansion project, Chiller project, and Sungard SCT software project, including costs associated with training and implementation. Also, the component unit gave the college a softball practice facility.
- Other assets decreased by \$386 thousand due to a reduction in noncurrent cash.
- Total liabilities increased by \$1.432 million. The increase is primarily due to a \$1.396 million loan from the State of Tennessee to build the Rutherford County Teaching Facility.
- Total net assets increased by \$38 thousand as there was an increase in invested in capital assets, net of related debt, of \$391 thousand and a decrease in unrestricted net assets of \$340 thousand.

Comparison of FY 2005 to FY 2004

- Current assets increased by \$696 thousand primarily due to cash and cash equivalents increasing by \$803 thousand and accounts and grants receivable decreasing by \$102 thousand. The remaining reduction in current assets resulted from a \$9 thousand decrease in inventories and a \$4 thousand increase in prepaid expenses.
- Invested in capital assets, net of debt increased by \$1.003 million due to four major projects in progress. The four projects are the Rutherford County Teaching Facility, Library, Chiller, and Sungard SCT software projects. The software is an administrative package of a comprehensive enterprise resource planning system. The package includes administrative software for financial, human resource, and student systems.
- Other assets increased by \$667 thousand resulting from an increase in cash and cash equivalents.
- Total liabilities increased by \$1.370 million. This increase is primarily attributed to Motlow incurring liabilities for commercial paper in the amount of \$452 thousand, as issued by the Tennessee State School Bond Authority, and a loan from the State of Tennessee in the amount of \$604 thousand to pay for the SCT software and the Rutherford County Teaching Facility, respectively. Additionally, payables were established for the Banner hardware purchased and the SCT training and implementation costs.
- Total net assets increased by \$2.052 million primarily due to capital projects, the purchase of SCT software, the related hardware, and implementation and training costs.

Component Unit

Comparison of FY 2006 to FY 2005

- Current assets increased by \$392 thousand due to cash and cash equivalents increasing by \$653 thousand and receivables decreasing by \$261 thousand. The majority of the decrease in current receivables was due to the prior-year pledges being paid.
- Capital assets decreased by \$123 thousand. The component unit gave the college a softball practice facility.
- Total net assets increased by \$520 thousand primarily due to an increase in cash contributions and an increase in the market value of investments.

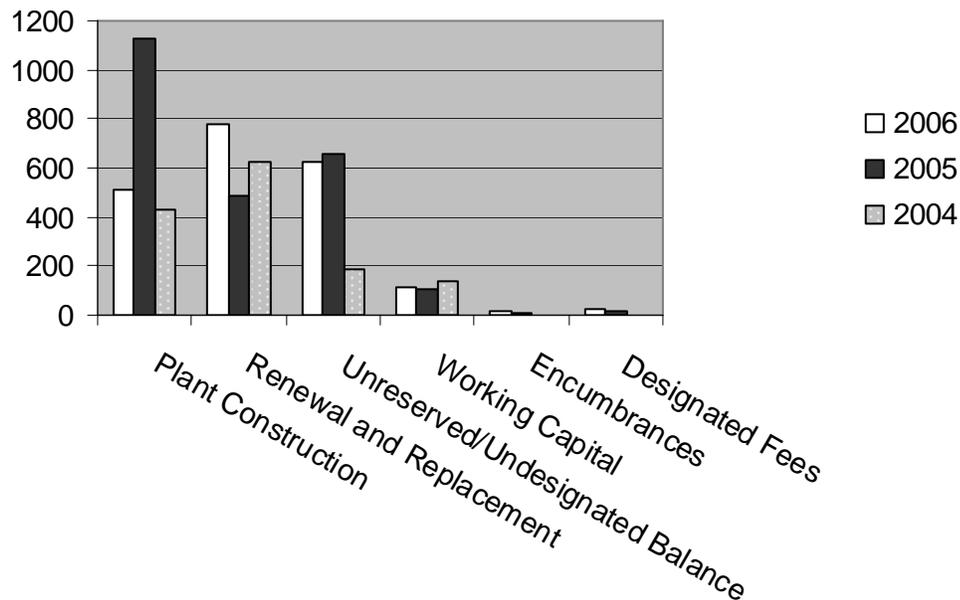
Comparison of FY 2005 to FY 2004

- Current assets increased by \$204 thousand. Of the increase, \$153 thousand was in cash and cash equivalents. The remainder of the increase was primarily due to pledges receivable.
- Other assets decreased by \$89 thousand due to the allowance for doubtful accounts.

- Accounts payable decreased by \$25 thousand because the foundation paid Motlow College prior to June 30 for the majority of the program costs of the foundation.
- Total net assets increased by \$137 thousand primarily due to an increase in cash contributions.

Many of the college's unrestricted net assets have been designated or reserved for specific purposes such as: working capital, encumbrances, designated fees, plant construction, and renewal and replacement of equipment. The following graphs show the allocations:

**Allocations of Unrestricted Net Assets – Motlow College
(in thousands of dollars)**



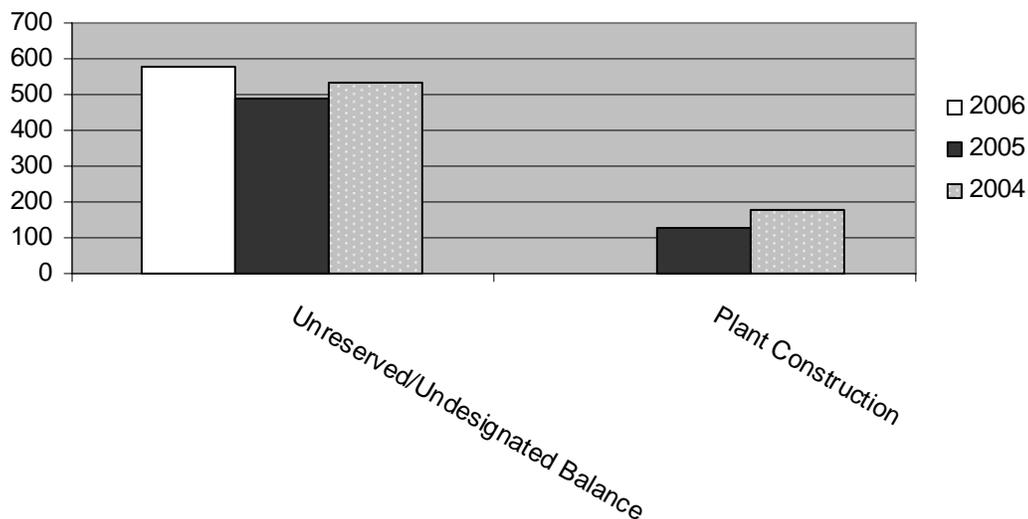
**Motlow College
Comparison of FY 2006 to FY 2005**

- Plant construction decreased primarily due to the Rutherford County Teaching Facility being substantially completed.
- Renewal and replacement increased by \$289 thousand with the majority due to a current fund transfer of \$482 thousand and a decrease due to a transfer to retirement of indebtedness of \$173 thousand. Another decrease of \$20 thousand was due to the netting of investment income and for equipment purchases.

Comparison of FY 2005 to FY 2004

- Plant construction increased by \$702 thousand due to three major capital projects: Rutherford County Teaching Facility, Library, and Chiller. Also, the SCT project was started in 2004-05.
- The unreserved/undesignated balance increased by \$476 thousand due to an increase in unallocated balances for current and auxiliary funds.

Allocations of Unrestricted Net Assets – Component Unit (in thousands of dollars)



Component Unit Comparison of FY 2006 to FY 2005

- The amount designated for plant construction was eliminated with the gift of the softball practice facility to the college.
- The unreserved/undesignated fund balance is \$578 thousand at June 30, 2006.

Comparison of FY 2005 to FY 2004

- The unreserved/undesignated fund balance is \$490 thousand at June 30, 2005.

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.

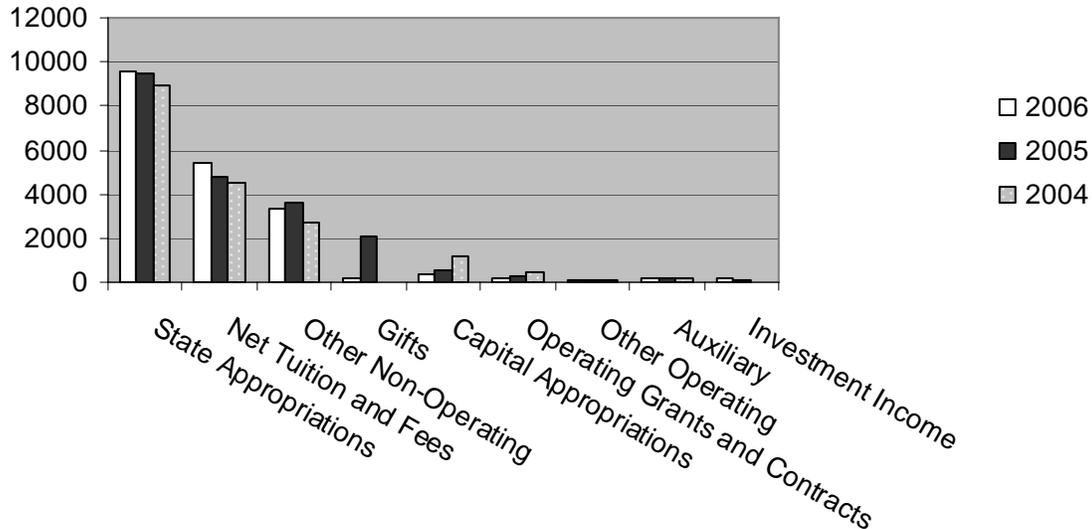
Statements of Revenues, Expenses, and Changes in Net Assets
(in thousands of dollars)

	Motlow College			Component Unit		
	2006	2005	2004	2006	2005	2004
Operating revenues:						
Net tuition and fees	\$ 5,391	\$ 4,750	\$ 4,511	\$ -	\$ -	\$ -
Gifts and contributions	-	-	-	620	900	1,332
Endowment income (per spending plan)	-	-	-	76	19	40
Auxiliary	182	182	148	5	5	4
Grants and contracts	158	227	432	-	-	-
Other	110	115	130	-	1	4
Total operating revenues	<u>5,841</u>	<u>5,274</u>	<u>5,221</u>	<u>701</u>	<u>925</u>	<u>1,380</u>
Operating expenses	19,408	19,017	17,660	537	1,048	420
Operating (loss)/gain	<u>(13,567)</u>	<u>(13,743)</u>	<u>(12,439)</u>	<u>164</u>	<u>(123)</u>	<u>960</u>
Nonoperating revenues and expenses:						
State appropriations	9,585	9,489	8,892	-	-	-
Gifts	190	668	38	-	-	-
Investment income	183	71	35	273	166	259
Other revenues and expenses	3,308	3,629	2,707	-	-	-
Total nonoperating revenues and expenses	<u>13,266</u>	<u>13,857</u>	<u>11,672</u>	<u>273</u>	<u>166</u>	<u>259</u>
Income (loss) before other revenues, expenses, gains, or losses	<u>(301)</u>	<u>114</u>	<u>(767)</u>	<u>437</u>	<u>43</u>	<u>1,219</u>
Other revenues, expenses, gains, or losses:						
Capital appropriations	346	540	1,206	-	-	-
Capital grants and gifts	-	1,400	1	-	-	-
Additions to permanent endowments	-	-	-	83	94	5
Other	(7)	(2)	-	-	-	-
Total other revenues, expenses, gains, or losses	<u>339</u>	<u>1,938</u>	<u>1,207</u>	<u>83</u>	<u>94</u>	<u>5</u>
Increase (decrease) in net assets	<u>38</u>	<u>2,052</u>	<u>440</u>	<u>520</u>	<u>137</u>	<u>1,224</u>
Net assets at beginning of year	<u>21,257</u>	<u>19,205</u>	<u>18,765</u>	<u>5,022</u>	<u>4,885</u>	<u>3,661</u>
Net assets at end of year	<u>\$ 21,295</u>	<u>\$ 21,257</u>	<u>\$ 19,205</u>	<u>\$ 5,542</u>	<u>\$ 5,022</u>	<u>\$ 4,885</u>

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, 2006; June 30, 2005; and June 30, 2004.

**Revenues by Source – Motlow College
(in thousands of dollars)**



Motlow College Comparison of FY 2006 to FY 2005

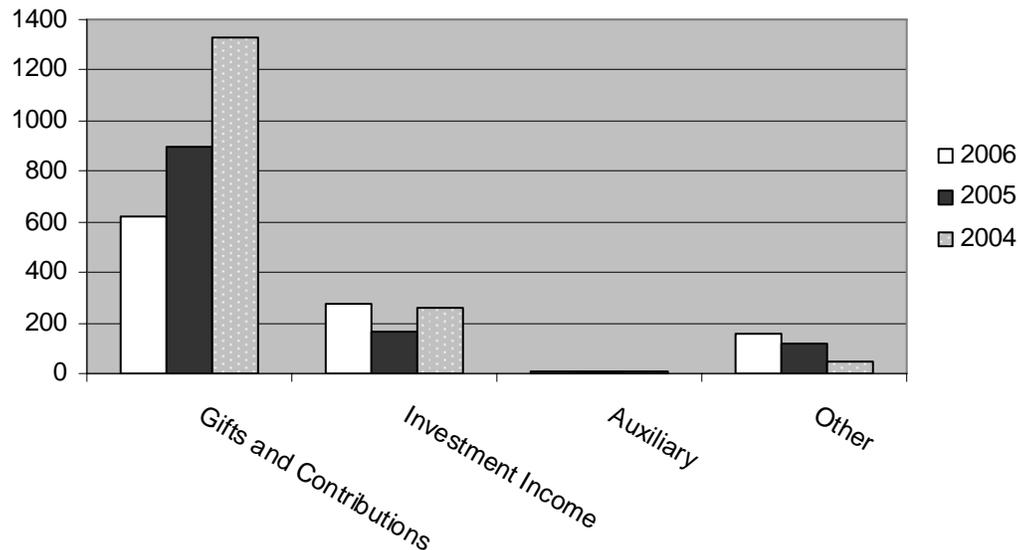
- Net tuition and fees increased by \$641 thousand. This increase was primarily due to a 9.7% fee increase along with a slight enrollment decrease.
- State appropriations increased by \$96 thousand primarily due to the funding of approximately 2% of the 3% salary increase and the amount received for half a year health insurance increase.
- Gifts decreased by \$1.878 million primarily resulting from land given by the Town of Smyrna for the Rutherford County Teaching Facility.
- Investment income increased by \$112 thousand due to increasing interest rates.
- Other nonoperating revenue decreased by \$321 thousand due to the decreases in financial aid based on an enrollment decrease for 2005-06.

Comparison of FY 2005 to FY 2004

- Net tuition and fees increased by \$239 thousand. This increase was due to a 7% fee increase and a slight enrollment increase.

- Auxiliary income increased by \$34 thousand due to additional funds received from the college's contracted bookstore.
- State appropriations increased by \$597 thousand. This increase was due to a \$74 thousand restoration of the college's base reduction, \$112 thousand in salary increases, \$206 thousand in a one-time bonus, and \$205 thousand in benefits.
- Grants and contracts decreased by \$205 thousand due to TSAC funds being reclassified to the nonoperating section.
- The college received a gift of property for the Rutherford County Teaching Facility. This property is valued at \$1.4 million. Additionally, the college received \$600 thousand from the Motlow College Foundation to support the Rutherford County Teaching Facility. Of the \$600 thousand, \$400 thousand was from the Christy-Houston Foundation.
- Other nonoperating revenues increased by \$922 thousand due to the Lottery funds received in 2004-05 in the amount of \$795 thousand, and the balance is due to TSAC funds being included in the nonoperating section.

**Revenues by Source – Component Unit
(in thousands of dollars)**



**Component Unit
Comparison of FY 2006 to FY 2005**

- The major source of revenue for the foundation is gifts and contributions. Gifts and contributions decreased by \$280 thousand. This decrease is mainly due to the payment of prior-year pledges during 2005-06.
- Investment income increased by \$107 thousand due to the market value of investments and the earnings on investments during the year.

Comparison of FY 2005 to FY 2004

- Gifts and contributions decreased by \$432 thousand due to a decline in giving.
- Investment income declined by \$93 thousand due to a stale market environment where the investments are housed.

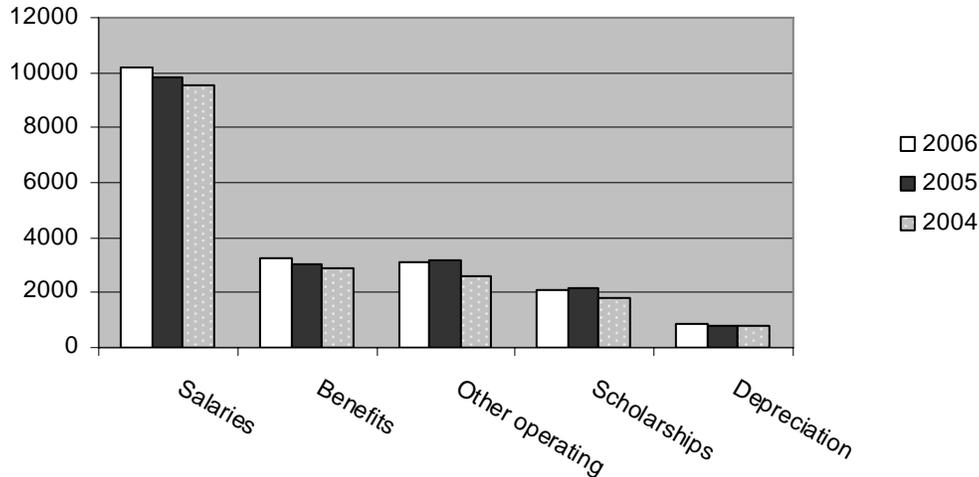
Expenses

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

*Natural Classification
(in thousands of dollars)*

	<u>Motlow College</u>			<u>Component Unit</u>		
	2006	2005	2004	2006	2005	2004
Salaries	\$ 10,173	\$ 9,853	\$ 9,519	-	-	-
Benefits	3,238	3,032	2,873	-	-	-
Other operating	3,090	3,166	2,623	251	313	270
Scholarships	2,064	2,187	1,832	126	101	120
Payments on behalf of college	-	-	-	160	631	27
Depreciation	843	779	813	-	3	3
Total operating expenses	<u>\$ 19,408</u>	<u>\$ 19,017</u>	<u>\$ 17,660</u>	<u>\$ 537</u>	<u>\$ 1,048</u>	<u>\$ 420</u>

**Operating Expenses by Natural Classification
Motlow College
(in thousands of dollars)**



**Motlow College
Comparison of FY 2006 to FY 2005**

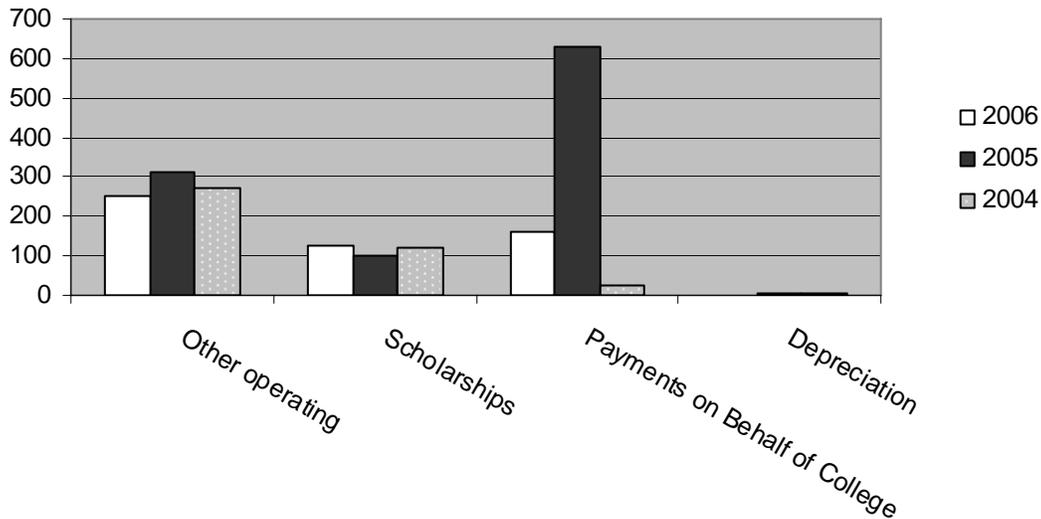
- For fiscal year 2006, salaries and benefits comprise 69% of the institution's total operating expenses. Salaries include salary payments to regular full-time faculty and staff, regular part-time faculty and staff, adjunct faculty, student salaries, and temporary staff.
- Salaries and benefits increased by \$526 thousand. A 3% across-the-board salary increase was effective July 1, 2005. Additionally, a one-time bonus (the greater of 1% of the salary amount or \$500) was given in October 2005.
- Scholarships decreased by \$123 thousand due to a decrease in enrollment; therefore, the amount of financial aid decreased.
- Depreciation increased by \$64 thousand due to the addition of the Rutherford County Teaching Facility and the gift of the Softball Practice Facility from the component unit, which increased the depreciation expense.

Comparison of FY 2005 to FY 2004

- Salaries and benefits increased by \$493 thousand due to a 3% across-the-board salary increase which was given in July 2004 along with a one-time bonus in October 2004. The one-time bonus was in the amount of \$70 per year of service or a minimum of \$210, whichever was greater. Additionally, Motlow College gave an extra bonus of \$500 or 1% of a person's salary, whichever was greater. The benefits increase was primarily due to a 9% insurance increase and a 3.24% increase in retirement. The insurance rate adjustment was effective in December 2004, and the retirement adjustment was effective July 1, 2004.

- Operating expenses increased by \$543 thousand due to three major capital projects.
- Scholarships increased by approximately \$355 thousand, which resulted from the fee increase and increases in financial aid, primarily due to the Lottery Scholarships.

**Operating Expenses by Natural Classification
Component Unit
(in thousands of dollars)**



**Component Unit
Comparison of FY 2006 to FY 2005**

- The foundation pays no salaries.
- Other operating expenses decreased by \$62 thousand.
- Payments on behalf of Motlow College decreased by \$471 thousand because no additional component unit funds were required to construct the Rutherford County Teaching Facility.
- The component unit gave the Softball Practice Facility to the college; therefore, no depreciation was reflected.

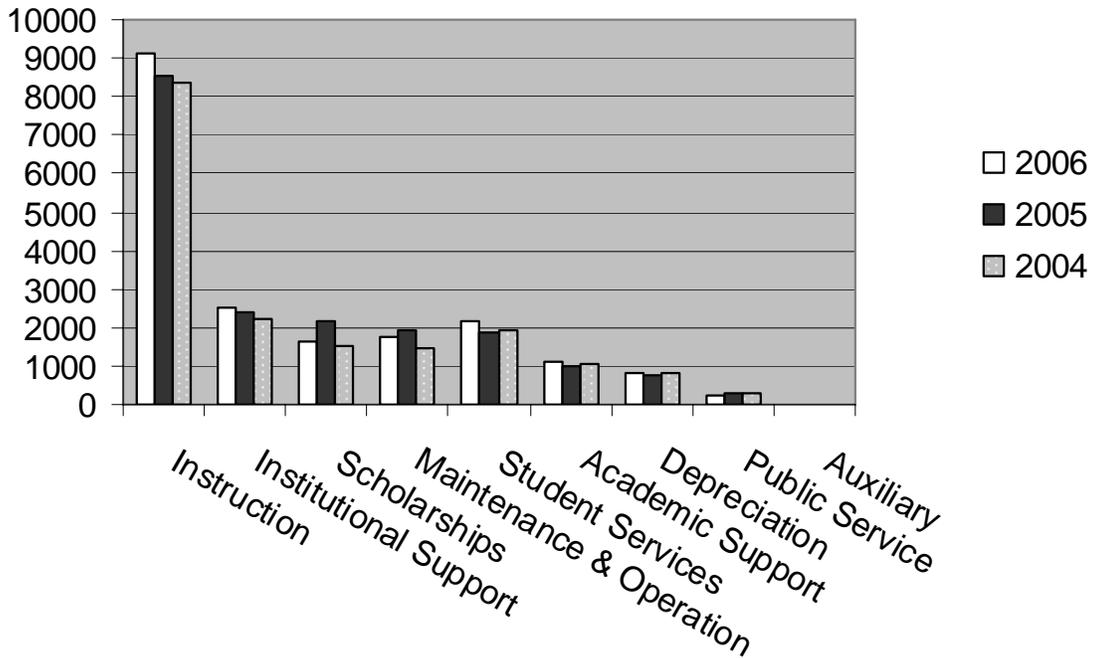
Comparison of FY 2005 to FY 2004

- Payments on behalf of Motlow College increased by \$604 thousand due to funds given to the college to support the Rutherford County Teaching Facility.

*Program Classification – Motlow College
(in thousands of dollars)*

	2006	2005	2004
Instruction	\$ 9,124	\$ 8,533	\$ 8,362
Public service	218	278	267
Academic support	1,108	1,022	1,033
Student services	2,181	1,853	1,946
Institutional support	2,506	2,420	2,243
Maintenance & operation	1,773	1,944	1,472
Scholarships and fellowships	1,648	2,188	1,524
Auxiliary	7	-	-
Depreciation	843	779	813
Total operating expenses	<u>\$ 19,408</u>	<u>\$ 19,017</u>	<u>\$ 17,660</u>

**Operating Expenses by Function
(in thousands of dollars)**



**Operating Expenses by Function - Motlow College
Comparison of FY 2006 to FY 2005**

- For fiscal year 2006, the instructional component of the institution which includes the functional areas of instruction, academic support, and public service represents 54% of the total operating expenses. This represents an increase of \$617 thousand. This increase was mainly due to the salary and benefit increases.

- Public service decreased by \$60 thousand, which was primarily due to unfilled positions.
- The areas of academic support, student services, and institutional support increased by \$86 thousand, \$328 thousand, and \$86 thousand, respectively. These increases were mainly due to salary and benefit increases and Banner training costs.
- For fiscal year 2006, maintenance and operation of physical plant represents 9% of the total operating expenses. This represents a decrease of \$171 thousand primarily due to the completion and capitalization of projects.
- Scholarships and fellowships decreased by \$540 thousand. This decrease results from a decrease in headcount for 2005-06.

Comparison of FY 2005 to FY 2004

- For fiscal year 2005, the instructional component of the institution represents 52% of the total operating expenses. This represents an increase of \$171 thousand. The majority of the increase was due to a 3% across-the-board salary increase and the one-time bonus. Also, insurance and retirement benefits increased due to rate adjustments.
- Maintenance and operation increased by \$472 thousand primarily due to capital projects.
- Scholarships and fellowships increased by \$664 thousand due to the implementation of the Lottery Scholarship program in fall 2004 and increases in our forms of financial aid such as Pell and SEOG.

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.

Statements of Cash Flows (in thousands of dollars)

	<u>Motlow College</u>		
	<u>2006</u>	<u>2005</u>	<u>2004</u>
Cash provided (used) by:			
Operating activities	\$ (12,561)	\$ (13,011)	\$ (11,520)
Noncapital financing activities	12,791	13,930	11,421
Investing activities	184	70	35
Capital and related financing activities	(959)	481	21
Net increase (decrease) in cash	\$ (545)	\$ 1,470	\$ (43)
Cash, beginning of year	5,621	4,151	4,194
Cash, end of year	\$ 5,076	\$ 5,621	\$ 4,151

Motlow College
Comparison of FY 2006 to FY 2005

- The material sources of cash from current operations are maintenance fees, other student fees, and tuition. The material uses of cash for current operations are for salaries and benefits, purchasing operational supplies, payment for contracted services, and scholarships to students. Cash used by operating activities decreased by \$450 thousand. This decrease was primarily due to a reduction in scholarships and allowances resulting in a larger amount for tuition and fees and a lesser amount paid for scholarships.
- Noncapital financing activities decreased by \$1.139 million mainly due to decreases in grants and gifts received.
- Cash from investing activities increased by \$114 thousand due to an increase in interest rates.
- The use of cash for capital and related financing activities increased by \$1.440 million by the netting of borrowings against the purchase of capital assets.
- The cash decreased by \$545 thousand for the year.

Comparison of FY 2005 to FY 2004

- The material sources of cash from current operations are maintenance fees, other student fees, and tuition. The material uses of cash for current operations are for salaries and benefits, purchasing operational supplies, payment for contracted services, and scholarships to students.
- Noncapital financing activities increased by \$2.509 million mainly due to increases in state appropriations and grants and contracts.
- Cash from investing activities increased by \$35 thousand due to an increase in interest rates.
- Cash provided by capital and related financing activities increased by \$460 thousand. This increase is primarily due to capital debt proceeds during the 2005 fiscal year
- The cash increased by \$1.470 million for the year.

Capital Asset and Debt Administration

Capital Assets

Motlow College had \$21,680,856.59 invested in capital assets, net of accumulated depreciation of \$9,161,108.21 at June 30, 2006; \$19,725,813.68 invested in capital assets, net of accumulated depreciation of \$8,402,818.04 at June 30, 2005; and \$17,666,674.01 invested in capital assets, net of accumulated depreciation of \$7,785,751.05 at June 30, 2004. Depreciation charges totaled \$842,952.88, \$779,161.38, and \$813,312.09 for the years ended June 30, 2006, June 30, 2005, and June 30, 2004. The component unit had no capital assets at June 30, 2006; \$122,533.84 invested in capital assets, net of accumulated depreciation of \$6,449.16 at June 30, 2005; and \$125,758.42 invested in

capital assets, net of accumulated depreciation of \$3,224.58 at June 30, 2004. Details of these assets are shown below.

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

	<u>Motlow College</u>			<u>Component Unit</u>		
	2006	2005	2004	2006	2005	2004
Land	\$ 1,571	\$ 1,571	\$ 171	\$ -	\$ -	\$ -
Land improvements & infrastructure	673	738	802	-	-	-
Buildings	17,354	15,195	15,762	-	123	126
Equipment	559	594	391	-	-	-
Library holdings	192	209	239	-	-	-
Projects in progress	1,332	1,419	302	-	-	-
Capital assets, net	<u>\$21,681</u>	<u>\$19,726</u>	<u>\$17,667</u>	<u>\$ -</u>	<u>\$ 123</u>	<u>\$ 126</u>

**Motlow College
Comparison of FY 2006 to FY 2005**

- The Rutherford County Teaching Facility was completed in the amount of \$2.672 million. A large portion of this was transferred from projects in progress. The source for funding was a loan from the State of Tennessee. Also, the component unit gave the Softball Practice Facility to Motlow College valued at \$123 thousand.
- One project, the Rutherford County Teaching Facility was completed; therefore, this project was eliminated from projects in progress. The major projects in progress are the Library project and the McMinnville expansion project. Funding for these projects will be from the state capital appropriations. Also, the SCT Banner project is in progress and will be paid from institutional funds.

Comparison of FY 2005 to FY 2004

- In 2004-05, Motlow College received the property for the Rutherford County Teaching Facility valued at \$1.4 million.
- Projects in progress increased by \$1.117 million due to the additions of the following projects: Rutherford County Teaching Facility, Library, Chiller, and Sungard SCT.

**Component Unit
FY 2006 and FY 2005**

- No additions to capital assets occurred in 2005-06.

FY 2005 and FY 2004

- No additions to capital assets occurred in 2004-05.

More detailed information about the college’s capital assets is presented in Note 4 to the financial statements and Note 12 for the component unit.

Debt

The college had \$2,620,317.50, \$1,056,042.95, and \$0 in debt outstanding at June 30, 2006, June 30, 2005, and June 30, 2004, respectively. For the three years, the component unit had no debt outstanding. The table below summarizes these amounts by the type of debt instrument.

**Outstanding Debt Schedule
(in thousands of dollars)**

	2006	2005	2004	2006	2005	2004
Loans	\$ 2,000	\$ 604	\$ -	\$ -	\$ -	\$ -
Commercial paper	-	452	-	-	-	-
Bonds	620	-	-	-	-	-
Total debt	<u>\$ 2,620</u>	<u>\$ 1,056</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

**Motlow College
Comparison from FY 2006 to FY 2005**

- In 2005-06, debt increased by \$1.564 million. A loan was incurred for the Rutherford County Teaching Facility in the amount of \$1.396 million and commercial paper for the SCT software and Sun hardware system was converted to bonds in the amount of \$620 thousand.

Comparison from FY 2005 to FY 2004

- The commercial paper was issued by the Tennessee State School Bond Authority (TSSBA). This commercial paper was issued to fund the SCT software.

The TSSBA must authorize all capital long-term debt on behalf of the college. The current rating of TSSBA by Standard & Poor is AA-. More detailed information about the college’s long-term liabilities is presented in Note 5 to the financial statements.

Economic Factors That Will Affect the Future

During 2005-2006, base state appropriations remained constant (at the 2003-2004 level, when a 9% permanent reduction in state appropriations was experienced.) A student fee increase of 9.7% in fiscal year 2006 assisted the college in maintaining a stable budget.

The state appropriation for 2006-2007 will provide approximately \$478,000 more revenue for the institution. The appropriation increase represents a 57% restoration of the 2003-2004, 9% permanent reduction in appropriations. The student fee increase for 2006-2007 will be 4.1% and the majority of funds generated from this increase will be applied to the state mandated 2% salary increase for all higher education employees.

Preliminary enrollment data is reflecting an enrollment increase for the fall 2006 term. There are several reasons that an enrollment increase is expected but a couple are:

1. This is the first fall semester in the new facility constructed in Smyrna.
2. More students are expected to enroll in Warren County due to plant closures.

With enrollment increases, expectations of additional funding should materialize.

The increasing cost of implementing the new SCT Banner software continues to be a fiscal drain on the institution. The majority of the increase in the 2006-2007 appropriation increase will be applied to the cost of the Banner software. Motlow has bonded the cost of the software and hardware (\$772,134.26) and will pay the bond issue off over the next 5 years.

The loan for the new facility constructed in Smyrna (\$2,000,000) will be paid off over a 20 year period and the foundation has collected about \$900,000 in restricted funds to assist the college in offsetting the debt for the next several years. When the foundation funds are depleted; hopefully, the college will have completed paying the majority of the cost of the Banner software implementation. At that point, the college can redirect its payments from paying the software implementation to paying the bond issue on the Smyrna facility.

During 2006-2007, Motlow College will have at least three capital projects underway which include the construction of a new library, the McMinnville Center expansion, and a replacement of underground piping for heating and cooling water. With the additional square footage provided with the capital projects, enrollment in the following year is expected to increase. However, the challenge will be providing a quality education to a growing enrollment, with no expected state appropriation increases.

During 2006-2007, we expect interest rates to increase, gas prices to exceed \$3.00 per gallon, inflation to reduce our buying power, utility rates to increase, and several other fixed costs to increase. Improved funding for higher education must be available to offset these increases and if the state appropriation does not continue to increase, student fees will have to increase to offset the increased expenses.

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 Mike Posey, Vice President for Business Affairs, Motlow State Community College, P.O. Box 8500, Lynchburg, Tennessee, 37352.

**TENNESSEE BOARD OF REGENTS
MOTLOW STATE COMMUNITY COLLEGE
STATEMENTS OF NET ASSETS
JUNE 30, 2006, AND JUNE 30, 2005**

	Motlow State Community College		Component Unit - Motlow College Foundation	
	June 30, 2006	June 30, 2005	June 30, 2006	June 30, 2005
ASSETS				
Current assets:				
Cash and cash equivalents (Notes 2 and 12)	\$ 3,769,069.46	\$ 3,927,379.08	\$ 2,013,813.84	\$ 1,360,568.62
Accounts, notes, and grants receivable (net) (Note 3)	377,233.41	319,460.16	12,208.42	1,547.00
Pledges receivable (net) (Note 12)	-	-	87,877.50	357,972.50
Inventories	1,299.81	1,187.08	-	-
Prepaid expenses and deferred charges	8,543.86	6,685.77	-	-
Accrued interest receivable	-	641.34	3,197.75	4,861.52
Total current assets	<u>4,156,146.54</u>	<u>4,255,353.43</u>	<u>2,117,097.51</u>	<u>1,724,949.64</u>
Noncurrent assets:				
Cash and cash equivalents (Note 2)	1,306,427.13	1,693,812.16	-	-
Investments (Note 12)	-	-	3,341,984.99	2,906,240.04
Pledges receivable (net) (Note 12)	-	-	89,497.65	280,289.38
Capital assets (net) (Notes 4 and 12)	21,680,856.59	19,725,813.68	-	122,533.84
Total noncurrent assets	<u>22,987,283.72</u>	<u>21,419,625.84</u>	<u>3,431,482.64</u>	<u>3,309,063.26</u>
Total assets	<u>27,143,430.26</u>	<u>25,674,979.27</u>	<u>5,548,580.15</u>	<u>5,034,012.90</u>
LIABILITIES				
Current liabilities:				
Accounts payable	279,180.69	361,146.46	-	4,855.66
Accrued liabilities	851,462.42	799,827.76	-	-
Deferred revenue	156,710.47	147,388.63	-	-
Compensated absences (Note 5)	161,231.74	83,764.68	-	-
Long-term liabilities, current portion (Note 5)	219,484.89	90,440.00	-	-
Deposits held in custody for others	1,348,512.69	1,492,652.35	7,046.92	6,747.19
Total current liabilities	<u>3,016,582.90</u>	<u>2,975,219.88</u>	<u>7,046.92</u>	<u>11,602.85</u>
Noncurrent liabilities:				
Compensated absences (Note 5)	431,156.69	476,663.47	-	-
Long-term liabilities (Note 5)	2,400,832.61	965,602.95	-	-
Total noncurrent liabilities	<u>2,831,989.30</u>	<u>1,442,266.42</u>	<u>-</u>	<u>-</u>
Total liabilities	<u>5,848,572.20</u>	<u>4,417,486.30</u>	<u>7,046.92</u>	<u>11,602.85</u>
NET ASSETS				
Invested in capital assets, net of related debt	19,060,539.09	18,669,770.73	-	122,533.84
Restricted for:				
Nonexpendable:				
Scholarships and fellowships	-	-	264,296.41	209,143.60
Other	-	-	2,481,301.02	2,006,741.50
Expendable:				
Instructional department uses	165,614.54	176,506.52	-	-
Loans	2,227.19	2,227.19	-	-
Debt service	-	2,500.92	-	-
Other	-	-	2,218,307.91	2,064,928.37
Unrestricted (Note 6)	<u>2,066,477.24</u>	<u>2,406,487.61</u>	<u>577,627.89</u>	<u>619,062.74</u>
Total net assets	<u>\$ 21,294,858.06</u>	<u>\$ 21,257,492.97</u>	<u>\$ 5,541,533.23</u>	<u>\$ 5,022,410.05</u>

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

**TENNESSEE BOARD OF REGENTS
MOTLOW STATE COMMUNITY COLLEGE
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2006, AND JUNE 30, 2005**

	Motlow State Community College		Component Unit - Motlow College Foundation	
	Year Ended June 30, 2006	Year Ended June 30, 2005	Year Ended June 30, 2006	Year Ended June 30, 2005
REVENUES				
Operating revenues:				
Student tuition and fees (net of scholarship allowances of \$1,827,845.49 for the year ended June 30, 2006, and \$1,902,973.98 for the year ended June 30, 2005)	\$ 5,390,572.55	\$ 4,750,007.35	\$ -	\$ -
Gifts and contributions	-	-	620,207.54	900,326.21
Endowment income per spending plan	-	-	75,417.53	18,924.91
Governmental grants and contracts	157,725.67	227,285.91	-	-
Sales and services of educational departments	283.68	382.53	-	-
Auxiliary enterprises:				
Bookstore	175,158.10	174,907.00	-	-
Other	7,314.03	6,520.45	5,013.38	4,496.50
Other operating revenues	110,379.50	114,883.97	0.91	836.73
Total operating revenues	<u>5,841,433.53</u>	<u>5,273,987.21</u>	<u>700,639.36</u>	<u>924,584.35</u>
EXPENSES				
Operating expenses (Note 11):				
Salaries and wages	10,173,555.45	9,852,656.97	-	-
Benefits	3,237,561.14	3,031,557.44	-	-
Utilities, supplies, and other services	3,090,361.24	3,165,820.47	251,038.73	313,066.96
Scholarships and fellowships	2,063,948.08	2,187,550.32	126,445.14	100,940.84
Depreciation expense	842,952.88	779,161.38	-	3,224.58
Payments to or on behalf of Motlow State Community College	-	-	159,612.47	630,518.98
Total operating expenses	<u>19,408,378.79</u>	<u>19,016,746.58</u>	<u>537,096.34</u>	<u>1,047,751.36</u>
Operating income (loss)	<u>(13,566,945.26)</u>	<u>(13,742,759.37)</u>	<u>163,543.02</u>	<u>(123,167.01)</u>
NONOPERATING REVENUES (EXPENSES)				
State appropriations	9,585,100.00	9,488,900.00	-	-
Gifts (college gifts include \$159,612.47 from component unit in 2006 and \$630,518.98 in 2005)	189,325.53	667,930.05	-	-
Grants and contracts	3,331,230.44	3,628,988.85	-	-
Investment income (for component unit, net of investment expense of \$14,964.18 in 2006 and \$12,764.96 in 2005; for college, net of investment expense of \$5,742.17 in 2005)	183,193.64	70,633.32	272,633.17	165,919.69
Interest on capital asset-related debt	(21,700.92)	-	-	-
Bond issuance costs	(2,603.24)	-	-	-
Other nonoperating revenues (expenses)	1,573.04	-	-	-
Net nonoperating revenues	<u>13,266,118.49</u>	<u>13,856,452.22</u>	<u>272,633.17</u>	<u>165,919.69</u>
Income (loss) before other revenues, expenses, gains, or losses	<u>(300,826.77)</u>	<u>113,692.85</u>	<u>436,176.19</u>	<u>42,752.68</u>
Capital appropriations	346,268.28	540,455.50	-	-
Capital gifts and grants	-	1,400,000.00	-	-
Additions to permanent endowments	-	-	82,946.99	95,114.77
Other capital	(8,076.42)	(1,756.91)	-	-
Total other revenues	<u>338,191.86</u>	<u>1,938,698.59</u>	<u>82,946.99</u>	<u>95,114.77</u>
Increase (decrease) in net assets	<u>37,365.09</u>	<u>2,052,391.44</u>	<u>519,123.18</u>	<u>137,867.45</u>
NET ASSETS				
Net assets - beginning of year	21,257,492.97	19,205,101.53	5,022,410.05	4,884,542.60
Net assets - end of year	<u>\$ 21,294,858.06</u>	<u>\$ 21,257,492.97</u>	<u>\$ 5,541,533.23</u>	<u>\$ 5,022,410.05</u>

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

**TENNESSEE BOARD OF REGENTS
MOTLOW STATE COMMUNITY COLLEGE
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2006, AND JUNE 30, 2005**

	Year Ended <u>June 30, 2006</u>	Year Ended <u>June 30, 2005</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Tuition and fees	\$ 5,401,185.41	\$ 4,727,934.09
Grants and contracts	146,428.32	236,054.15
Sales and services of educational activities	283.68	382.53
Payments to suppliers and vendors	(3,010,389.78)	(3,139,555.54)
Payments to employees	(10,134,023.89)	(9,849,447.08)
Payments for benefits	(3,193,497.76)	(3,095,380.56)
Payments for scholarships and fellowships	(2,063,948.08)	(2,187,550.32)
Auxiliary enterprise charges:		
Bookstore	175,158.10	174,907.00
Other	7,314.03	6,520.45
Other receipts (payments)	110,379.50	114,883.97
Net cash used by operating activities	<u>(12,561,110.47)</u>	<u>(13,011,251.31)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State appropriations	9,587,300.00	9,488,500.00
Gifts and grants received for other than capital or endowment purposes	3,351,358.83	4,356,952.33
Federal student loan receipts	976,325.00	869,949.00
Federal student loan disbursements	(976,325.00)	(869,949.00)
Changes in deposits held for others	(144,139.66)	84,721.30
Other non-capital receipts (payments)	(3,519.71)	-
Net cash provided by noncapital financing activities	<u>12,790,999.46</u>	<u>13,930,173.63</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from capital debt	1,718,694.55	1,056,042.95
Capital appropriations	346,268.28	540,455.50
Purchases of capital assets and construction	(2,849,170.01)	(1,120,932.82)
Principal paid on capital debt	(154,420.00)	-
Interest paid on capital debt	(18,188.20)	-
Bond issue costs paid on new debt issue	(2,603.24)	-
Other capital and related financing receipts (payments)	-	5,998.10
Net cash provided (used) by capital and related financing activities	<u>(959,418.62)</u>	<u>481,563.73</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Income on investments	183,834.98	70,027.13
Net cash provided by investing activities	<u>183,834.98</u>	<u>70,027.13</u>
Net increase (decrease) in cash and cash equivalents	(545,694.65)	1,470,513.18
Cash and cash equivalents at beginning of year	5,621,191.24	4,150,678.06
Cash and cash equivalents at end of year	<u>\$ 5,075,496.59</u>	<u>\$ 5,621,191.24</u>

**TENNESSEE BOARD OF REGENTS
MOTLOW STATE COMMUNITY COLLEGE
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2006, AND JUNE 30, 2005**

	<u>Year Ended June 30, 2006</u>	<u>Year Ended June 30, 2005</u>
Reconciliation of operating loss to net cash used by operating activities:		
Operating loss	\$ (13,566,945.26)	\$ (13,742,759.37)
Adjustments to reconcile operating loss to net cash used by operating activities:		
Depreciation expense	842,952.88	779,161.38
Change in assets and liabilities:		
Receivables, net	(11,288.25)	37,216.77
Inventories	(112.73)	8,902.43
Prepaid/deferred items	(1,119.89)	(3,530.72)
Accounts payable	82,486.00	(1,011.28)
Accrued liabilities	51,634.66	(49,935.29)
Deferred revenue	9,321.84	(28,617.29)
Compensated absences	31,960.28	(10,677.94)
Net cash used by operating activities	<u>\$ (12,561,110.47)</u>	<u>\$ (13,011,251.31)</u>
Noncash transactions		
Gifts of capital assets	\$ 123,472.64	\$ 1,400,796.57

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

**Tennessee Board of Regents
Motlow State Community College
Notes to the Financial Statements
June 30, 2006, and June 30, 2005**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

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

The Motlow College Foundation is considered a component unit of the college. Although the college does not control the timing or amount of receipts from the foundation, the majority of resources, or income thereon, that the foundation holds and invests are restricted to the activities of the college by the donors. Because these restricted resources held by the foundation can only be used by, or for the benefit of, the college, the foundation is considered a component unit of the college and is discretely presented in the college's financial statements. See Note 12 for more detailed information about the component unit and how to obtain the report.

Basis of Presentation

The financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) applicable to governmental colleges and universities engaged in business-type activities as prescribed by the Governmental Accounting Standards Board (GASB).

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

**Tennessee Board of Regents
Motlow State Community College
Notes to the Financial Statements (Cont.)
June 30, 2006, and June 30, 2005**

conflict with or contradict guidance of the Governmental Accounting Standards Board. The college has the option of following private-sector guidance issued subsequent to November 30, 1989, subject to the above limitation. The college has elected not to follow private-sector guidance issued subsequent to November 30, 1989.

Amounts reported as operating revenues include (1) tuition and fees, net of waivers and discounts; (2) certain federal and state 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) utilities, supplies, and other services; (4) scholarships and fellowships; and (5) depreciation.

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

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

Inventories

Inventories are valued at the lower of cost or market on a 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

**Tennessee Board of Regents
Motlow State Community College
Notes to the Financial Statements (Cont.)
June 30, 2006, and June 30, 2005**

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/amortized using the straight-line method over the estimated useful lives, which range from 5 to 40 years.

Net Assets

The college's net assets are classified as follows:

Invested in capital assets, net of related debt - 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.

Nonexpendable restricted net assets - 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.

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

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

Scholarship Discounts and Allowances

Student tuition and fee revenues, and certain other revenues from students, are reported net of scholarship discounts and allowances in the statement of revenues, expenses, and changes in net assets. Scholarship discounts and allowances are the difference between the stated charge for goods and services provided by the college and the amount that is paid by the student and/or third parties making payments on the student's behalf. Certain governmental grants, such as Pell grants, and other federal,

**Tennessee Board of Regents
 Motlow State Community College
 Notes to the Financial Statements (Cont.)
 June 30, 2006, and June 30, 2005**

state, or nongovernmental programs are recorded as either operating or nonoperating revenues in the college's financial statements. To the extent that revenues from such programs are used to satisfy tuition and fees and other student charges, the college has recorded a scholarship discount and allowance.

NOTE 2. CASH

At June 30, 2006, cash consisted of \$426,908.16 in bank accounts, \$850.00 of petty cash on hand, \$4,519,114.10 in the State of Tennessee Local Government Investment Pool administered by the State Treasurer, and \$128,624.33 in LGIP deposits for capital projects. At June 30, 2005, cash consisted of \$277,414.35 in bank accounts, \$850.00 of petty cash on hand, \$4,643,426.89 in the State of Tennessee Local Government Investment Pool administered by the State Treasurer, and \$699,500.00 in LGIP deposits for capital projects.

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. RECEIVABLES

Receivables included the following:

	<u>June 30, 2006</u>	<u>June 30, 2005</u>
Student accounts receivable	\$208,147.95	\$201,284.33
Grants receivable	143,877.41	100,028.03
Notes receivable	3,725.00	3,725.00
State appropriation receivable	18,600.00	20,800.00
Other receivables	82,641.27	65,875.96

**Tennessee Board of Regents
Motlow State Community College
Notes to the Financial Statements (Cont.)
June 30, 2006, and June 30, 2005**

Subtotal	456,991.63	391,713.32
Less allowance for doubtful accounts	<u>79,758.22</u>	<u>72,253.16</u>
 Total receivables	 <u>\$377,233.41</u>	 <u>\$319,460.16</u>

NOTE 4. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2006, was as follows:

	Beginning <u>Balance</u>	Additions	Transfers	Reductions	Ending <u>Balance</u>
Land	\$1,571,100.00	\$ -	\$ -	\$ -	\$1,571,100.00
Land improvements and infrastructure	1,861,756.25	-	-	-	1,861,756.25
Buildings	20,995,345.25	122,533.84	2,672,373.78	-	23,790,252.87
Equipment	1,741,566.58	64,233.69	-	37,595.83	1,768,204.44
Library holdings	539,436.04	34,381.92	-	55,143.30	518,674.66
Projects in progress	<u>1,419,427.60</u>	<u>2,584,922.76</u>	<u>(2,672,373.78)</u>	<u>-</u>	<u>1,331,976.58</u>
 Total	 <u>28,128,631.72</u>	 <u>2,806,072.21</u>	 <u>-</u>	 <u>92,739.13</u>	 <u>30,841,964.80</u>
 Less accum. depreciation:					
Land improvements and infrastructure	1,124,184.04	64,304.80	-	-	1,188,488.84
Buildings	5,799,616.69	636,379.13	-	-	6,435,995.82
Equipment	1,148,969.92	90,401.48	-	29,519.41	1,209,851.99
Library holdings	<u>330,047.39</u>	<u>51,867.47</u>	<u>-</u>	<u>55,143.30</u>	<u>326,771.56</u>
 Total accum. depreciation	 <u>8,402,818.04</u>	 <u>842,952.88</u>	 <u>-</u>	 <u>84,662.71</u>	 <u>9,161,108.21</u>
 Capital assets, net	 <u>\$19,725,813.68</u>	 <u>\$1,963,119.33</u>	 <u>\$ -</u>	 <u>\$ 8,076.42</u>	 <u>\$21,680,856.59</u>

**Tennessee Board of Regents
Motlow State Community College
Notes to the Financial Statements (Cont.)
June 30, 2006, and June 30, 2005**

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

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Transfers</u>	<u>Reductions</u>	<u>Ending Balance</u>
Land	\$171,100.00	\$1,400,000.00	\$ -	\$ -	\$1,571,100.00
Land improvements and infrastructure	1,861,756.25	-	-	-	1,861,756.25
Buildings	20,995,345.25	-	-	-	20,995,345.25
Equipment	1,519,527.55	296,681.00	-	74,641.97	1,741,566.58
Library holdings	603,037.07	23,851.39	-	87,452.42	539,436.04
Projects in progress	<u>301,658.94</u>	<u>1,117,768.66</u>	<u>-</u>	<u>-</u>	<u>1,419,427.60</u>
Total	<u>25,452,425.06</u>	<u>2,838,301.05</u>	<u>-</u>	<u>162,094.39</u>	<u>28,128,631.72</u>
Less accum. depreciation:					
Land improvements and infrastructure	1,059,879.26	64,304.78	-	-	1,124,184.04
Buildings	5,233,110.29	566,506.40	-	-	5,799,616.69
Equipment	1,129,205.31	94,406.58	-	74,641.97	1,148,969.92
Library holdings	<u>363,556.19</u>	<u>53,943.62</u>	<u>-</u>	<u>87,452.42</u>	<u>330,047.39</u>
Total accum. depreciation	<u>7,785,751.05</u>	<u>779,161.38</u>	<u>-</u>	<u>162,094.39</u>	<u>8,402,818.04</u>
Capital assets, net	<u>\$17,666,674.01</u>	<u>\$2,059,139.67</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$19,725,813.68</u>

NOTE 5. LONG-TERM LIABILITIES

Long-term liabilities activity for the year ended June 30, 2006, was as follows:

**Tennessee Board of Regents
Motlow State Community College
Notes to the Financial Statements (Cont.)
June 30, 2006, and June 30, 2005**

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Current Portion</u>
Payables:					
Loans	\$603,842.95	\$1,396,157.05	\$ -	\$2,000,000.00	\$70,758.39
Bonds	-	620,317.50	-	620,317.50	148,726.50
Commercial paper	<u>452,200.00</u>	<u>319,934.26</u>	<u>772,134.26</u>	<u>-</u>	<u>-</u>
Subtotal	<u>1,056,042.95</u>	<u>2,336,408.81</u>	<u>772,134.26</u>	<u>2,620,317.50</u>	<u>219,484.89</u>
Other liabilities:					
Compensated absences	<u>560,428.15</u>	<u>455,281.51</u>	<u>423,321.23</u>	<u>592,388.43</u>	<u>161,231.74</u>
Subtotal	<u>560,428.15</u>	<u>455,281.51</u>	<u>423,321.23</u>	<u>592,388.43</u>	<u>161,231.74</u>
Total long-term liabilities	<u>\$1,616,471.10</u>	<u>\$2,791,690.32</u>	<u>\$1,195,455.49</u>	<u>\$3,212,705.93</u>	<u>\$380,716.63</u>

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

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Current Portion</u>
Payables:					
Loans	\$ -	\$ 603,842.95	\$ -	\$ 603,842.95	\$ -
Commercial paper	<u>-</u>	<u>452,200.00</u>	<u>-</u>	<u>452,200.00</u>	<u>90,440.00</u>
Subtotal	<u>-</u>	<u>1,056,042.95</u>	<u>-</u>	<u>1,056,042.95</u>	<u>90,440.00</u>
Other liabilities:					
Compensated absences	<u>571,106.09</u>	<u>440,239.34</u>	<u>450,917.28</u>	<u>560,428.15</u>	<u>83,764.68</u>
Subtotal	<u>571,106.09</u>	<u>440,239.34</u>	<u>450,917.28</u>	<u>560,428.15</u>	<u>83,764.68</u>
Total long-term liabilities	<u>\$571,106.09</u>	<u>\$1,496,282.29</u>	<u>\$450,917.28</u>	<u>\$1,616,471.10</u>	<u>\$174,204.68</u>

Loans Payable

The Tennessee Board of Regents, on behalf of the college, borrowed funds from the State of Tennessee to build the Rutherford County Teaching Facility. The loan bears a variable interest rate of from 4% to 5%, has a principal amount of \$2,000,000.00, and a due date of June 30, 2027. The balance owed by the college was \$2,000,000.00 at June 30, 2006, and \$603,842.95 at June 30, 2005.

Debt service requirements to maturity for loans payable at June 30, 2006, are as follows:

**Tennessee Board of Regents
Motlow State Community College
Notes to the Financial Statements (Cont.)
June 30, 2006, and June 30, 2005**

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$70,758.39	\$70,471.46	\$141,229.85
2008	100,000.00	85,335.65	185,335.65
2009	100,000.00	80,591.51	180,591.51
2010	100,000.00	75,701.16	175,701.16
2011	100,000.00	70,847.37	170,847.37
2012 – 2016	500,000.00	280,432.53	780,432.53
2017 – 2021	500,000.00	169,474.60	669,474.60
2022 – 2026	500,000.00	61,020.69	561,020.69
2027	<u>29,241.61</u>	<u>621.38</u>	<u>29,862.99</u>
	<u>\$2,000,000.00</u>	<u>\$894,496.35</u>	<u>\$2,894,496.35</u>

TSSBA Debt - Bonds

Bonds, with an interest rate of 4%, were issued by the Tennessee State School Bond Authority (TSSBA). The bonds are due serially to 2010 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 the college's portion of TSSBA bonds at June 30, 2006, are as follows:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$148,726.50	\$20,815.10	\$169,541.60
2008	150,775.50	18,863.64	169,639.14
2009	157,108.50	12,832.62	169,941.12
2010	<u>163,707.00</u>	<u>6,548.28</u>	<u>170,255.28</u>
	<u>\$620,317.50</u>	<u>\$59,059.64</u>	<u>\$679,377.14</u>

**Tennessee Board of Regents
 Motlow State Community College
 Notes to the Financial Statements (Cont.)
 June 30, 2006, and June 30, 2005**

TSSBA Debt - Commercial Paper

The Tennessee State School Bond Authority issues commercial paper to finance the costs of various capital projects during their construction phase. When projects are placed in service, long-term, fixed-rate debt is issued by TSSBA to finance the project over its useful payback period and the commercial paper is redeemed. The amount issued for projects at the college was \$452,200.00 at June 30, 2005.

For the commercial paper program, the Tennessee State School Bond Authority maintains an interest rate reserve fund. The college contributes amounts to the reserve fund based on the amounts drawn. The principal of the reserve will be contributed to pay off notes or credited back to the college when the notes are converted to bonds. The interest earned on the reserve is used to pay interest due during the month.

More detailed information regarding the bonds and commercial paper can be found in the notes to the financial statements in the financial report for the Tennessee State School Bond Authority. That report may be obtained by writing to the Director of Bond Finance, Suite 1600, James K. Polk Building, Nashville, Tennessee 37243-0273, or by calling (615) 401-7872.

NOTE 6. 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:

	<u>June 30, 2006</u>	<u>June 30, 2005</u>
Working capital	\$113,779.84	\$106,575.93
Encumbrances	20,015.70	9,057.71
Designated fees	24,613.93	13,441.13
Plant construction	507,400.47	1,130,227.26
Renewal and replacement of equipment	777,299.53	487,784.16
Unreserved/undesignated	<u>623,367.77</u>	<u>659,401.42</u>
Total	<u>\$2,066,477.24</u>	<u>\$2,406,487.61</u>

**Tennessee Board of Regents
Motlow State Community College
Notes to the Financial Statements (Cont.)
June 30, 2006, and June 30, 2005**

NOTE 7. 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 10.31% 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, 2006, 2005, and 2004 were \$675,104.42, \$640,728.29, and \$439,794.74. 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

Tennessee Board of Regents
Motlow State Community College
Notes to the Financial Statements (Cont.)
June 30, 2006, and June 30, 2005

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 \$260,839.63 for the year ended June 30, 2006, and \$273,542.17 for the year ended June 30, 2005. Contributions met the requirements for each year.

NOTE 8. OTHER POST-EMPLOYMENT BENEFITS

The State of Tennessee administers a group health insurance program which provides post-employment health insurance benefits to eligible 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 9. 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 damages to state-owned property up to the amount of the property insurance aggregate deductible amount. The insurance policy deductibles vary from

Tennessee Board of Regents
Motlow State Community College
Notes to the Financial Statements (Cont.)
June 30, 2006, and June 30, 2005

\$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, 2006, and June 30, 2005, 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, 2006, the Risk Management Fund held \$133.2 million in cash and cash equivalents designated for payment of claims. 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, 2006, the scheduled coverage for the college was \$28,129,300 for buildings and \$11,170,000 for contents. At June 30, 2005, the scheduled coverage for the college was \$21,673,115 for buildings and \$8,770,000 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.

**Tennessee Board of Regents
Motlow State Community College
Notes to the Financial Statements (Cont.)
June 30, 2006, and June 30, 2005**

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 \$4,301,026.08 at June 30, 2006, and \$3,985,704.75 at June 30, 2005.

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 \$44,793.63 and for personal property were \$31,699.65 for the year ended June 30, 2006. Amounts for the year ended June 30, 2005, were \$60,372.00 and \$2,852.33. All operating leases are cancelable at the lessee's option.

Construction in Progress - At June 30, 2006, outstanding commitments under construction contracts totaled \$13,368,483.47 for the Library Building project, the McMinnville Center Expansion project, and the Chiller project, of which \$13,368,483.37 will be funded by future state capital outlay appropriations.

Contract - In December 2004, the Tennessee Board of Regents system entered into a contract with SungardSCT for the purchase of a comprehensive enterprise resource planning system. The contract includes a multi-year phase-in of administrative software for financial, human resource, and student systems. The college's outstanding liability for this contract is estimated as \$961,471.00 at June 30, 2006.

NOTE 11. NATURAL CLASSIFICATIONS WITH FUNCTIONAL CLASSIFICATIONS

The college's operating expenses by functional classification for the year ended June 30, 2006, are as follows:

**Tennessee Board of Regents
Motlow State Community College
Notes to the Financial Statements (Cont.)
June 30, 2006, and June 30, 2005**

<u>Functional Classification</u>	<u>Natural Classification</u>					
	<u>Salaries</u>	<u>Benefits</u>	<u>Other Operating</u>	<u>Scholarships</u>	<u>Depreciation</u>	<u>Total</u>
Instruction	\$5,973,458.68	\$1,764,662.38	\$1,235,420.97	\$149,680.00	\$ -	\$9,123,222.03
Public service	159,040.37	43,429.87	14,084.44	1,650.00	-	218,204.68
Academic support	812,560.29	275,296.36	-	20,083.50	-	1,107,940.15
Student services	1,039,039.57	383,511.25	524,640.40	234,018.62	-	2,181,209.84
Institutional support	1,637,873.94	508,819.09	349,327.52	10,269.50	-	2,506,290.05
Operation & maintenance of plant	551,582.60	261,842.19	959,499.54	-	-	1,772,924.33
Scholarships & fellowships	-	-	-	1,648,246.46	-	1,648,246.46
Auxiliary	-	-	7,388.37	-	-	7,388.37
Depreciation	-	-	-	-	<u>842,952.88</u>	<u>842,952.88</u>
Total	<u>\$10,173,555.45</u>	<u>\$3,237,561.14</u>	<u>\$3,090,361.24</u>	<u>\$2,063,948.08</u>	<u>\$842,952.88</u>	<u>\$19,408,378.79</u>

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

<u>Functional Classification</u>	<u>Natural Classification</u>					
	<u>Salaries</u>	<u>Benefits</u>	<u>Other Operating</u>	<u>Scholarships</u>	<u>Depreciation</u>	<u>Total</u>
Instruction	\$5,782,589.51	\$1,575,944.97	\$1,173,997.44	\$ -	\$ -	\$8,532,531.92
Public service	169,405.06	49,832.34	58,848.72	-	-	278,086.12
Academic support	752,896.43	269,110.90	-	-	-	1,022,007.33
Student services	1,027,203.33	360,320.22	465,816.91	-	-	1,853,340.46
Institutional support	1,583,450.77	509,747.33	326,717.42	-	-	2,419,915.52
Operation & maintenance of plant	537,111.87	266,601.68	1,140,439.98	-	-	1,944,153.53
Scholarships & fellowships	-	-	-	2,187,550.32	-	2,187,550.32
Depreciation	-	-	-	-	<u>779,161.38</u>	<u>779,161.38</u>
Total	<u>\$9,852,656.97</u>	<u>\$3,031,557.44</u>	<u>\$3,165,820.47</u>	<u>\$2,187,550.32</u>	<u>\$779,161.38</u>	<u>\$19,016,746.58</u>

**Tennessee Board of Regents
Motlow State Community College
Notes to the Financial Statements (Cont.)
June 30, 2006, and June 30, 2005**

NOTE 12. COMPONENT UNIT

The Motlow College Foundation is a legally separate, tax-exempt organization supporting Motlow State 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 69-member board of the foundation is self-perpetuating and consists of graduates and friends of the college. Although the college does not control the timing or amount of receipts from the foundation, the majority of resources, or income thereon, that the foundation holds and invests are restricted to the activities of the college by the donors. Because these restricted resources held by the foundation can only be used by, or for the benefit of, the college, the foundation is considered a component unit of the college and is discretely presented in the college's financial statements.

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

During the year ended June 30, 2006, the foundation made distributions of \$159,612.47 to or on behalf of the college for both restricted and unrestricted purposes. During the year ended June 30, 2005, the foundation made distributions of \$630,518.98 to or on behalf of the college for both restricted and unrestricted purposes. Complete financial statements for the foundation can be obtained from Mike Posey, Motlow College Foundation, P. O. Box 8500, Lynchburg, Tennessee 37352.

Cash and cash equivalents - Cash and cash equivalents consists of a demand deposit account, petty cash, deposits in the State of Tennessee Local Government Investment Pool administered by the State Treasurer, and money market funds. At June 30, 2006, bank balances totaling \$1,221,471.42 were uninsured. At June 30, 2005, bank balances totaling \$530,992.47 were uninsured.

**Tennessee Board of Regents
Motlow State Community College
Notes to the Financial Statements (Cont.)
June 30, 2006, and June 30, 2005**

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

Investments held at June 30, 2006, were as follows:

	<u>Cost</u>	<u>Market Value</u>
Certificates of deposit	\$ 700,000.00	\$ 700,000.00
Mutual funds	2,438,835.74	2,828,775.12
Less cash equivalents	<u>186,790.13</u>	<u>186,790.13</u>
Total investments	<u>\$2,952,045.61</u>	<u>\$3,341,984.99</u>

Investments held at June 30, 2005, were as follows:

	<u>Cost</u>	<u>Market Value</u>
Certificates of deposit	\$ 700,000.00	\$ 700,000.00
Mutual funds	2,213,516.11	2,456,976.67
Less cash equivalents	<u>250,736.63</u>	<u>250,736.63</u>
Total investments	<u>\$2,662,779.48</u>	<u>\$2,906,240.04</u>

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

	<u>June 30, 2006</u>	<u>June 30, 2005</u>
Current pledges	\$87,877.50	\$357,972.50
Pledges due in one to three years	89,497.65	294,475.00
Less discount to net present value	<u>-</u>	<u>14,185.62</u>
Total pledges receivable, net	<u>\$177,375.15</u>	<u>\$638,261.88</u>

**Tennessee Board of Regents
 Motlow State Community College
 Notes to the Financial Statements (Cont.)
 June 30, 2006, and June 30, 2005**

Capital assets - Capital assets at June 30, 2005, were as follows:

	<u>June 30, 2005</u>
Buildings	\$128,983.00
Less accumulated depreciation:	
Buildings	6,449.16
Capital assets, net	<u>\$122,533.84</u>

Endowments – If a donor has not provided specific instructions to Motlow College 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 that is 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, the annual budget (restricted and unrestricted) which includes a transfer from the estimated earnings on investments has been authorized for expenditure. At June 30, 2006, net appreciation of \$389,939.38 is available to be spent, of which \$103,723.87 is included in restricted net assets expendable for scholarships and fellowships and \$286,215.51 is included in unrestricted net assets. At June 30, 2005, net appreciation of \$243,460.56 is available to be spent, of which \$63,543.20 is included in restricted net assets expendable for scholarships and fellowships and \$179,917.36 is included in unrestricted net assets.

**TENNESSEE BOARD OF REGENTS
MOTLOW STATE COMMUNITY COLLEGE
SUPPLEMENTARY INFORMATION
STATEMENTS OF CASH FLOWS - COMPONENT UNIT
FOR THE YEARS ENDED JUNE 30, 2006, AND JUNE 30, 2005**

	<u>Year Ended June 30, 2006</u>	<u>Year Ended June 30, 2005</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Gifts and contributions	\$ 853,933.39	\$ 850,374.57
Endowment income per spending plan	75,417.53	18,924.91
Payments to suppliers and vendors	(79,692.94)	(116,248.43)
Payments for scholarships and fellowships	(126,445.14)	(100,940.84)
Payments to Motlow State Community College	(36,521.63)	(630,518.98)
Auxiliary enterprise charges	5,013.38	4,496.50
Other receipts	0.91	836.73
Net cash provided by operating activities	<u>691,705.50</u>	<u>26,924.46</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Private gifts for endowment purposes	122,688.00	56,661.28
Changes in deposits held for others	(352.09)	(352.09)
Net cash provided by noncapital financing activities	<u>122,335.91</u>	<u>56,309.19</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of investments	409,065.39	531,310.91
Income on investments	78,622.93	41,521.57
Purchases of investments	(648,484.51)	(503,076.30)
Net cash provided (used) by investing activities	<u>(160,796.19)</u>	<u>69,756.18</u>
Net increase (decrease) in cash and cash equivalents	653,245.22	152,989.83
Cash and cash equivalents at beginning of year	1,360,568.62	1,207,578.79
Cash and cash equivalents at end of year	<u>\$ 2,013,813.84</u>	<u>\$ 1,360,568.62</u>
Reconciliation of operating income (loss) to net cash provided by operating activities:		
Operating income (loss)	\$ 163,543.02	\$ (123,167.01)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
Depreciation expense	-	3,224.58
Gift of capital asset to Motlow College	122,533.84	-
Change in assets and liabilities:		
Receivables, net	410,484.30	171,898.52
Accounts payable	(4,855.66)	(25,031.63)
Net cash provided by operating activities	<u>\$ 691,705.50</u>	<u>\$ 26,924.46</u>
Noncash transactions		
Gifts in-kind	\$ 176,758.45	\$ 221,850.16
Unrealized gains on investments	146,478.82	54,756.49