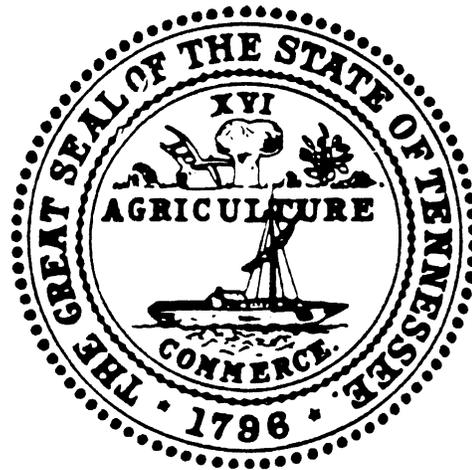


AUDIT REPORT

Tennessee Board of Regents
Southwest Tennessee Community College

For the Years Ended
June 30, 2007, and June 30, 2006



STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY

Department of Audit
Division of State Audit



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STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY

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

John G. Morgan
Comptroller

October 28, 2008

The Honorable Phil Bredesen, Governor
and

Members of the General Assembly
State Capitol
Nashville, Tennessee 37243

and

The Honorable Charles W. Manning, Chancellor
Tennessee Board of Regents
1415 Murfreesboro Road, Suite 350
Nashville, Tennessee 37217

and

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

Ladies and Gentlemen:

Transmitted herewith is the financial and compliance audit of the Tennessee Board of Regents, Southwest Tennessee Community College, for the years ended June 30, 2007, and June 30, 2006. You will note from the independent auditor's report that unqualified opinions were given on the fairness of the presentation of the financial statements.

Consideration of internal control over financial reporting and tests of compliance resulted in no audit findings.

Sincerely,

John G. Morgan
Comptroller of the Treasury

JGM/ddb
08/038

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
Southwest Tennessee Community College
For the Years Ended June 30, 2007, and June 30, 2006

AUDIT OBJECTIVES

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

AUDIT FINDINGS

The audit report contains no findings.

OPINIONS ON THE FINANCIAL STATEMENTS

The opinions on the financial statements are unqualified.

Audit Report
Tennessee Board of Regents
Southwest Tennessee Community College
For the Years Ended June 30, 2007, and June 30, 2006

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**Tennessee Board of Regents
Southwest Tennessee Community College
For the Years Ended June 30, 2007, and June 30, 2006**

INTRODUCTION

POST-AUDIT AUTHORITY

This is a report on the financial and compliance audit of the Tennessee Board of Regents, Southwest Tennessee Community College. The audit was conducted pursuant to Section 4-3-304, *Tennessee Code Annotated*, which authorizes the Department of Audit to “perform currently a post-audit of all accounts and other financial records of the state government, and of any department, institution, office, or agency thereof in accordance with generally accepted auditing standards and in accordance with such procedures as may be established by the comptroller.”

Section 8-4-109, *Tennessee Code Annotated*, authorizes the Comptroller of the Treasury to audit any books and records of any governmental entity that handles public funds when the Comptroller considers an audit to be necessary or appropriate.

BACKGROUND

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

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

ORGANIZATION

The governance of Southwest Tennessee Community College is vested in the Tennessee Board of Regents. The Governor, the Commissioner of Education, the Commissioner of Agriculture, and the Director of the Tennessee Higher Education Commission serve *ex officio* on this board. The chief administrative officer of the college is the president, who is assisted and advised by members of the faculty and administrative staff.

AUDIT SCOPE

The audit was limited to the period July 1, 2005, through June 30, 2007, 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 generally accepted government auditing standards. Financial statements are presented for the years ended June 30, 2007, and June 30, 2006. Southwest Tennessee Community College is an institution of the Tennessee Board of Regents, which is an integral part of state government. As such, the Tennessee Board of Regents has been included as a component unit in the *Tennessee Comprehensive Annual Financial Report*.

OBJECTIVES OF THE AUDIT

The objectives of the audit were

1. to consider the college's internal control over financial reporting to determine auditing procedures for the purpose of expressing opinions on the financial statements;
 2. to determine compliance with certain provisions of laws, regulations, contracts, and grant agreements;
 3. to determine the fairness of the presentation of the financial statements; and
 4. to recommend appropriate actions to correct any deficiencies.
-

PRIOR AUDIT FINDINGS

There were no findings in the prior audit report.

OBSERVATIONS AND COMMENTS

MANAGEMENT'S RESPONSIBILITY FOR RISK ASSESSMENT

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

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

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

FRAUD CONSIDERATIONS

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

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

TECHNOLOGY CENTERS

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

RESULTS OF THE AUDIT

AUDIT CONCLUSIONS

Internal Control

As part of the audit of the college's financial statements for the years ended June 30, 2007, and June 30, 2006, we considered internal control over financial reporting as a basis for designing 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 generally accepted government auditing standards. No significant deficiencies were noted. 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 generally accepted 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

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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***

August 11, 2008

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

Dear Mr. Morgan:

We have audited the financial statements of Southwest Tennessee Community College, an institution of the Tennessee Board of Regents, which is a component unit of the State of Tennessee, and its discretely presented component unit as of and for the years ended June 30, 2007, and June 30, 2006, and have issued our report thereon dated August 11, 2008. 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 generally accepted government auditing standards.

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.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the college's ability to initiate, authorize, record, process, or report financial data reliably in accordance with accounting principles generally accepted in the United States of America such that there is more than a remote likelihood that a

The Honorable John G. Morgan
August 11, 2008
Page Two

misstatement of the college's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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 generally accepted government auditing standards.

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

This report is intended solely for the information and use of the General Assembly of the State of Tennessee, the Tennessee Board of Regents, 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, appearing to read "Arthur A. Hayes, Jr.", written in a cursive style.

Arthur A. Hayes, Jr., CPA
Director

AAH/ddb



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

August 11, 2008

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

Dear Mr. Morgan:

We have audited the accompanying basic financial statements of Southwest Tennessee Community College, an institution of the Tennessee Board of Regents, which is a component unit of the State of Tennessee, and its discretely presented component unit as of and for the years ended June 30, 2007, and June 30, 2006, 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 generally accepted government auditing standards. 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.

As discussed in Note 1, the financial statements of Southwest Tennessee Community College, an institution of the Tennessee Board of Regents, are intended to present the financial position, the changes in the financial position, and the cash flows of only Southwest Tennessee Community College. They do not purport to, and do not, present fairly the financial position of the Tennessee Board of Regents as of June 30, 2007, and June 30, 2006, the changes in its financial position, and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The Honorable John G. Morgan
August 11, 2008
Page Two

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Tennessee Board of Regents, Southwest Tennessee Community College, and its discretely presented component unit as of June 30, 2007, and June 30, 2006, 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.

The management's discussion and analysis on pages 9 through 27 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the basic financial statements. The accompanying financial information on page 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 generally accepted government auditing standards, we have also issued our report dated August 11, 2008, on our consideration of the college's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with generally accepted 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, appearing to read "Arthur A. Hayes, Jr.", written in a cursive style.

Arthur A. Hayes, Jr., CPA
Director

AAH/ddb

**Tennessee Board of Regents
Southwest Tennessee Community College
Management's Discussion and Analysis
June 30, 2007, and June 30, 2006**

This section of Southwest Tennessee Community College's annual financial report presents a discussion and analysis of the financial performance of the college during the fiscal year ended June 30, 2007, with comparative information presented for the fiscal years ended June 30, 2006, and June 30, 2005. This discussion has been prepared by management along with the financial statements and related note disclosures and should be read in conjunction with the Independent Auditor's Report, the audited financial statements, and the accompanying notes. The financial statements, notes, and this discussion are the responsibility of management.

Using This Annual Report

This report consists of three basic financial statements. The statement of net assets; the statement of revenues, expenses, and changes in net assets; and the statement of cash flows provide information on Southwest Tennessee Community College as a whole and present a long-term view of the college's finances.

The Statement of Net Assets

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

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

**Tennessee Board of Regents
Southwest Tennessee Community College
Management's Discussion and Analysis (Cont.)
June 30, 2007, and June 30, 2006**

Condensed Statement of Net Assets (in thousands of dollars)

	Southwest Tennessee Community College			Southwest Tennessee Community College Foundation		
	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>
Assets:						
Current assets	\$ 14,235	\$ 13,360	\$ 12,830	\$ 1,107	\$ 279	\$ 211
Capital assets, net	45,976	44,435	38,516	-	-	-
Other assets	<u>10,357</u>	<u>11,496</u>	<u>12,535</u>	<u>3,628</u>	<u>2,143</u>	<u>1,460</u>
Total assets	<u>70,568</u>	<u>69,291</u>	<u>63,881</u>	<u>4,735</u>	<u>2,422</u>	<u>1,671</u>
Liabilities:						
Current liabilities	4,656	5,072	4,896	43	78	-
Noncurrent liabilities	<u>3,651</u>	<u>3,873</u>	<u>3,775</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total liabilities	<u>8,307</u>	<u>8,945</u>	<u>8,671</u>	<u>43</u>	<u>78</u>	<u>-</u>
Net assets:						
Invested in capital assets, net of related debt	44,629	42,979	36,956	-	-	-
Restricted – nonexpendable	46	43	41	845	667	642
Restricted – expendable	839	651	463	3,690	1,539	907
Unrestricted	<u>16,747</u>	<u>16,673</u>	<u>17,750</u>	<u>157</u>	<u>138</u>	<u>122</u>
Total net assets	<u>\$ 62,261</u>	<u>\$ 60,346</u>	<u>\$ 55,210</u>	<u>\$ 4,692</u>	<u>\$ 2,344</u>	<u>\$ 1,671</u>

Comparison of FY 2007 to FY 2006 for Southwest

- Restricted expendable net assets increased 29% from fiscal year 2006 to 2007 due to additional awards to the Work Keys Service Center, and an increase in performance funding for the Families First Program.

Comparison of FY 2006 to FY 2005 for Southwest

- Noncurrent capital assets (net) increased by \$5,919,257 (15.4%) due to increased purchases of capital assets for construction/capital activities. Major projects include the renovation of Verties Sails Gym and the Macon Cove Academic Building.
- 2006 restricted, expendable net assets increased 40.6% due to an increased fund balance in the Families First Training Program.
- The net changes in assets and liabilities from fiscal year 2005 to 2006 had no material effect on the college's liquidity position.

**Tennessee Board of Regents
Southwest Tennessee Community College
Management's Discussion and Analysis (Cont.)
June 30, 2007, and June 30, 2006**

Comparison of FY 2007 to FY 2006 for Southwest Foundation

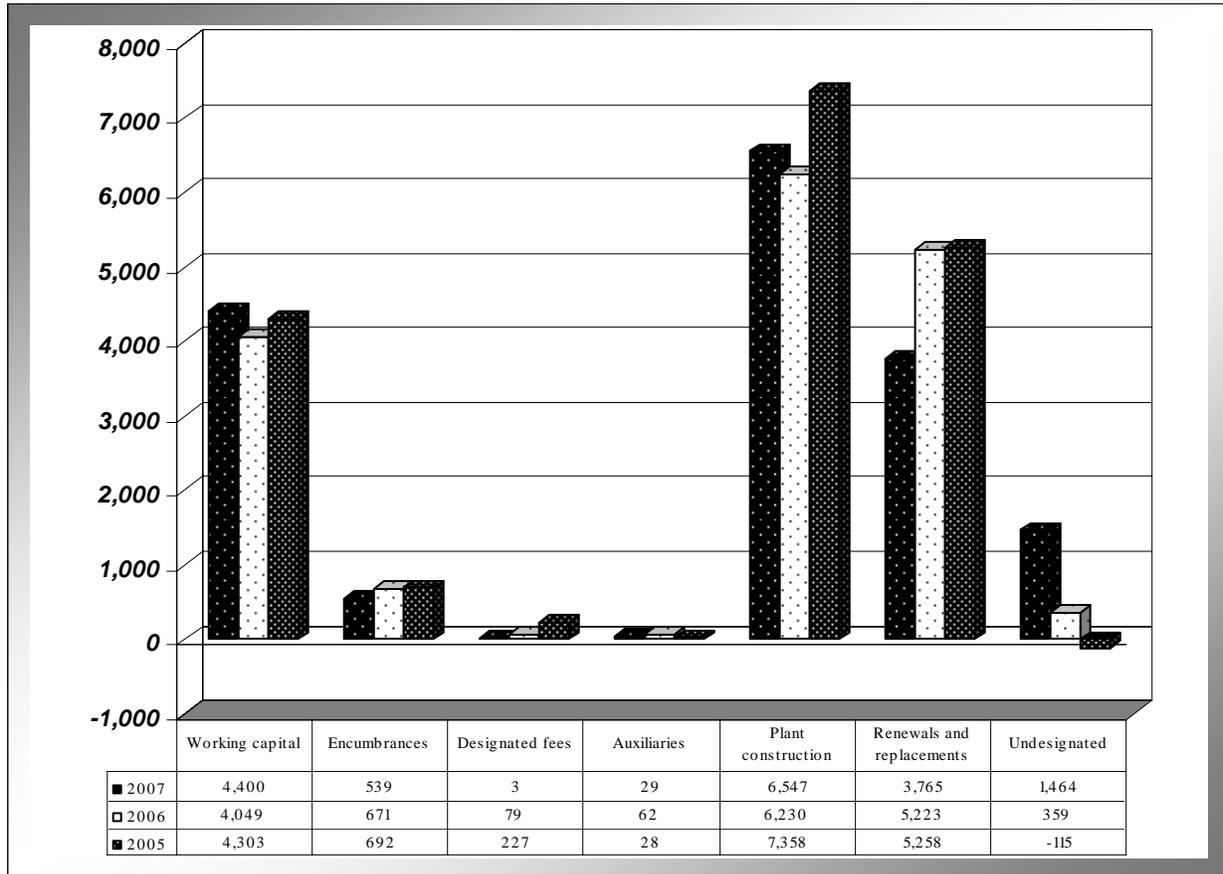
- The foundation's total assets increased by \$2,313,268.72 (95.5%) from fiscal year 2006 to fiscal year 2007 with substantial increase in pledges receivable due to fundraising efforts focused on larger gifts associated with the capital campaign.
- The foundation's restricted expendable net assets increased by 139.8% from fiscal year 2006 to 2007 principally due to donations for the new Nursing, Biotechnology, and Natural Science Building.
- Current liabilities decreased by 44.9% from fiscal year 2006 to 2007 due to a decrease in student scholarship awards processed by the foundation and the college.
- Restricted nonexpendable net assets increased by 26.7% due to a significant donation from Bornblum Brothers which is to be used for scholarships.
- Unrestricted net assets increased 14.2% due to an increase in interest earned on funds deposited in the Local Government Investment Pool from 2006 to 2007.

Comparison of FY 2006 to FY 2005 for Southwest Foundation

- The foundation's total assets increased \$750,886 (44.9%) with substantial increases in cash and cash equivalents and pledges receivable in noncurrent assets due to fundraising efforts.
- The Southwest Foundation's restricted, expendable net assets increased 69.7% from fiscal year 2005 to 2006 due to instructional departmental uses principally for the new Nursing-Bio-Tech program.
- Total net assets increased \$672,866 (40.3%) from 2005 due to increased assets.
- Unrestricted net assets increased 12.9% in fiscal year 2006 due to a decrease in operating expenses for supplies and services and an increase in investment income.

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

**Tennessee Board of Regents
Southwest Tennessee Community College
Management's Discussion and Analysis (Cont.)
June 30, 2007, and June 30, 2006**



Comparison of FY 2007 to FY 2006 for Southwest

- The allocation for designated fees decreased \$76,053.15 due to an increase in spending of technology access fee funding.
- The allocation for encumbrances decreased 19.7% from fiscal year 2006 to 2007 due to a decrease in outstanding purchase orders from fiscal year 2006 to 2007.
- The allocation for unexpended plant fund projects increased from fiscal year 2006 to 2007 due to a transfer to plant fund from unrestricted and renewals and replacements totaling \$1,818,800, net of \$1,474,091.51 in expenditures. Major local expenditures included building maintenance/replacement, closed circuit TV surveillance system on the Macon Cove campus, and property renovation.

**Tennessee Board of Regents
Southwest Tennessee Community College
Management's Discussion and Analysis (Cont.)
June 30, 2007, and June 30, 2006**

- The 2007 allocation for renewals and replacements decreased 27.9% due to the net transfer out of transfers/departmental charges of \$403,000, plus \$1,553,365.54 in expenditures. These expenditures were for motor pool vehicle replacements, Banner implementation projects, and information systems renewals and replacements.
- The auxiliary fund balance decreased from fiscal year 2006 to 2007 by 53.4%. This reduction can be attributed to a decrease in accounts receivable which caused a decrease in the allocation for working capital.

Comparison of FY 2006 to FY 2005 for Southwest

- Working capital requirements decreased by 5.9% due to decreased accounts receivable; the allocation for encumbrances decreased 2.9% due to fewer outstanding purchase orders at year end.
- The allocation for designated fees decreased \$147,685 due to increased technology access fee expenditures.
- The 2006 allocation for renewals and replacements decreased slightly due to the net of a total of transfers/departmental charges of \$1,275,000 less \$1,309,914 in expenditures for motor pool vehicle replacements, the Banner implementation project, and information systems renewals and replacements.
- The allocation for unexpended plant fund projects in 2006 increased slightly due to a transfer to plant of \$850,991, net of \$1,844,628 in expenditures. Major local expenditures included office/classroom furniture upgrades/replacements, closed circuit TV surveillance system on the Macon Cove campus, renovation of Verties Sails Gym, and the purchase of property adjacent to the Union Avenue campus.

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 (GAAP).

**Tennessee Board of Regents
Southwest Tennessee Community College
Management's Discussion and Analysis (Cont.)
June 30, 2007, and June 30, 2006**

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

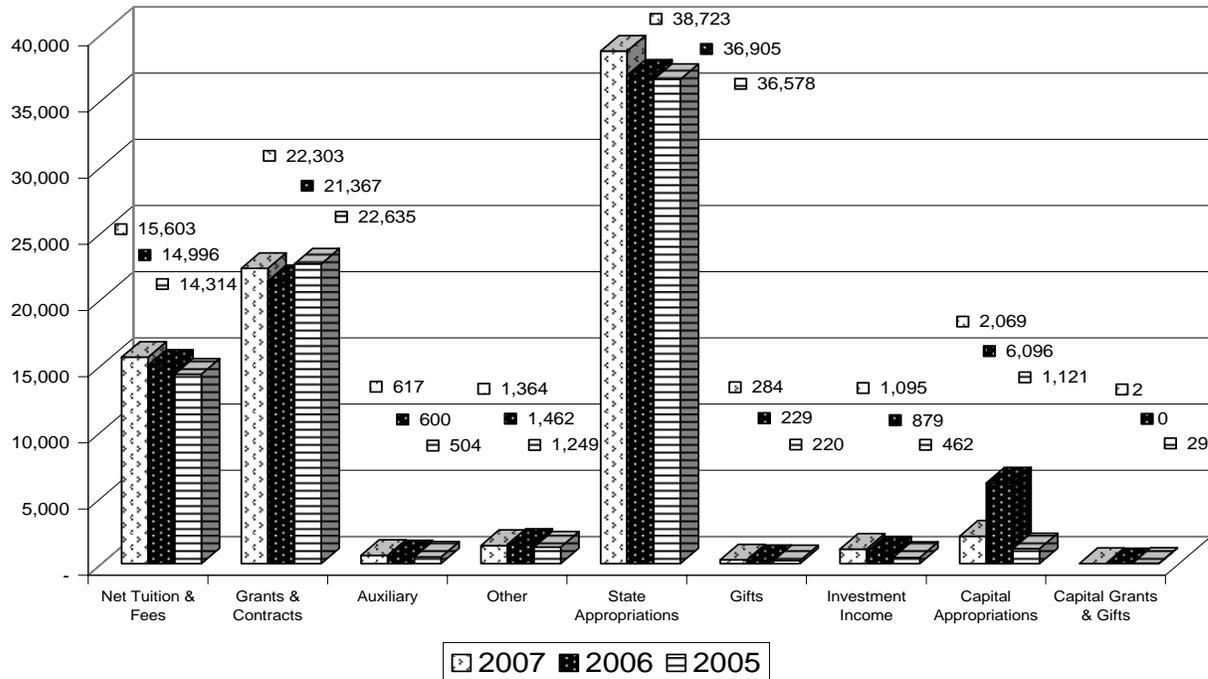
	Southwest Tennessee Community College			Southwest Tennessee Community College Foundation		
	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>
Operating revenues:						
Net tuition and fees	\$ 15,603	\$ 14,996	\$ 14,314	\$ -	\$ -	\$ -
Gifts	-	-	-	2,566	956	476
Grants and contracts	4,458	3,438	4,039	-	10	100
Auxiliary	617	600	504	-	-	-
Other	<u>1,364</u>	<u>1,462</u>	<u>1,249</u>	<u>-</u>	<u>-</u>	<u>62</u>
Total operating revenues	<u>22,042</u>	<u>20,496</u>	<u>20,106</u>	<u>2,566</u>	<u>966</u>	<u>638</u>
Operating expenses	<u>79,739</u>	<u>77,168</u>	<u>77,975</u>	<u>492</u>	<u>371</u>	<u>587</u>
Operating income (loss)	<u>(57,697)</u>	<u>(56,672)</u>	<u>(57,869)</u>	<u>2,074</u>	<u>595</u>	<u>51</u>
Nonoperating revenues and expenses:						
State appropriations	38,723	36,905	36,578	-	-	-
Gifts	284	228	220	-	-	-
Grants and contracts	17,845	17,929	18,596	-	-	-
Investment income	1,095	880	462	158	78	35
Other revenues and expenses	<u>(406)</u>	<u>(66)</u>	<u>(132)</u>	<u>-</u>	<u>-</u>	<u>(3)</u>
Total nonoperating revenues and expenses	<u>57,541</u>	<u>55,876</u>	<u>55,724</u>	<u>158</u>	<u>78</u>	<u>32</u>
Income (loss) before other revenues, expenses, gains, or losses	<u>(156)</u>	<u>(796)</u>	<u>(2,145)</u>	<u>2,232</u>	<u>673</u>	<u>83</u>
Other revenues, expenses, gains, or losses:						
Capital appropriations	2,069	6,096	1,121	-	-	-
Capital grants and gifts	2	-	29	-	-	-
Additions to permanent endowments	-	-	-	116	-	151
Other	<u>-</u>	<u>(238)</u>	<u>(24)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total other revenues, expenses, gains, or losses	<u>2,071</u>	<u>5,858</u>	<u>1,126</u>	<u>116</u>	<u>-</u>	<u>151</u>
Increase (decrease) in net assets	<u>1,915</u>	<u>5,062</u>	<u>(1,019)</u>	<u>2,348</u>	<u>673</u>	<u>234</u>
Net assets at beginning of year	<u>60,346</u>	<u>55,210</u>	<u>56,229</u>	<u>2,344</u>	<u>1,671</u>	<u>1,437</u>
Prior year adjustment	<u>-</u>	<u>74</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net assets at end of year	<u>\$ 62,261</u>	<u>\$ 60,346</u>	<u>\$ 55,210</u>	<u>\$ 4,692</u>	<u>\$ 2,344</u>	<u>\$ 1,671</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, 2007; June 30, 2006; and June 30, 2005 (amounts are presented in thousands of dollars).

**Tennessee Board of Regents
Southwest Tennessee Community College
Management's Discussion and Analysis (Cont.)
June 30, 2007, and June 30, 2006**

**Southwest Tennessee Community College
Revenues by Source (in thousands of dollars)**



Comparison of FY 2007 to FY 2006 for Southwest

- Investment income increased by 24.4% due to an increase in funds invested in the Local Government Investment Pool (LGIP) as well as an increase in the interest rate.
- Capital appropriations decreased 66.1% from fiscal year 2006 to 2007 due to a decrease in the renovation of Verties Sails Gym and replacement of campus capital projects.
- Gifts increased by 24.6% from fiscal year 2006 to 2007 due to an increase in gifts-in-kind from the foundation.

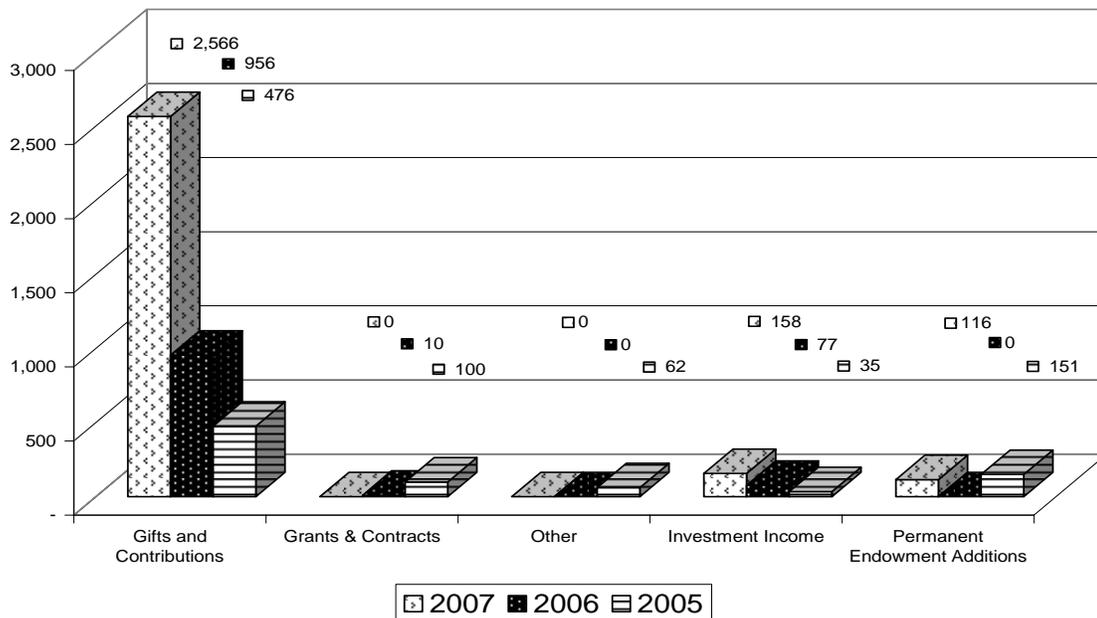
Comparison of FY 2006 to FY 2005 for Southwest

- Net tuition and fees increased by only 4.8% from fiscal year 2005 to 2006. However, tuition and fees increased \$1,995,591 (7.8%) due to fee increases, while scholarship allowances increased by approximately \$1,247,265 (11.9%).

**Tennessee Board of Regents
Southwest Tennessee Community College
Management's Discussion and Analysis (Cont.)
June 30, 2007, and June 30, 2006**

- Federal grants and contracts decreased 25% from 2005 to 2006 due, in most part, to decreased Title IV Pell Grant awards resulting from increased part-time recipients over full-time recipients.
- Fiscal year 2006 auxiliary enterprises revenue increased by 19.1% due to a higher minimum guarantee from the contracted bookstore vendor.
- Other operating revenues increased by 15.6% from fiscal year 2005 to 2006 due to increased child care center fee revenues and facility rental income.
- State appropriations increased a negligible amount, less than 1%, from fiscal year 2005 to 2006.
- Fiscal year 2006 investment income more than doubled over 2005 due to increased availability of funds for investment activities and higher rate of return on investments.
- Capital appropriations increased from approximately \$1,121,152 in 2005 to \$6,095,852 in 2006 due to state bond fund projects including funds for purchase of land for the third main campus.

**Southwest Tennessee Community College
Foundation
Revenues by Source (in thousands of dollars)**



**Tennessee Board of Regents
Southwest Tennessee Community College
Management's Discussion and Analysis (Cont.)
June 30, 2007, and June 30, 2006**

Comparison of FY 2007 to FY 2006 for Southwest Foundation

- Southwest Foundation's increase in total operating revenue by 165.6%, from fiscal year 2006 to fiscal year 2007 was due to an increase in pledge contributions from Methodist Healthcare, Baptist Memorial Health Care, and Medtronic Sofamor Danek. These pledges were made toward the foundation's major gifts campaign. The campaign's three major initiatives are Nursing, Natural Sciences, and Biotechnology Facility.
- The foundation's operating gifts revenues increased from fiscal year 2006 to 2007 by 168.3% due to increased gifts in the continuation of the foundation's major gifts campaign.
- Endowment gift and contracts increased by \$116,370.65 due primarily to a major gift from Bornblum Brothers.
- Investment income increased from 2006 to 2007 by 103.1% due to an increase in funds invested in the Local Government Investment Pool (LGIP) as well as an increase in the interest rate.

Comparison of FY 2006 to FY 2005 for Southwest Foundation

- The foundation's 2006 operating gifts revenues increased by over 100% from fiscal year 2005 due to increased gifts and contributions in the continuation of the foundation's major gifts campaign.
- Southwest Foundation's grants decreased 90% from 2005 to 2006. In fiscal year 2005 the foundation received a grant of \$100,000 from a local civic foundation for the duration of one year.
- Other revenues decreased due to a transfer of the Jess Parrish restricted account to the endowment.
- Additions to permanent endowment decreased due to one-time contributions from various donors.
- Investment income increased from 2005 to 2006 by 124% due to an increase in funds invested in the Local Government Investment Pool (LGIP).

Expenses

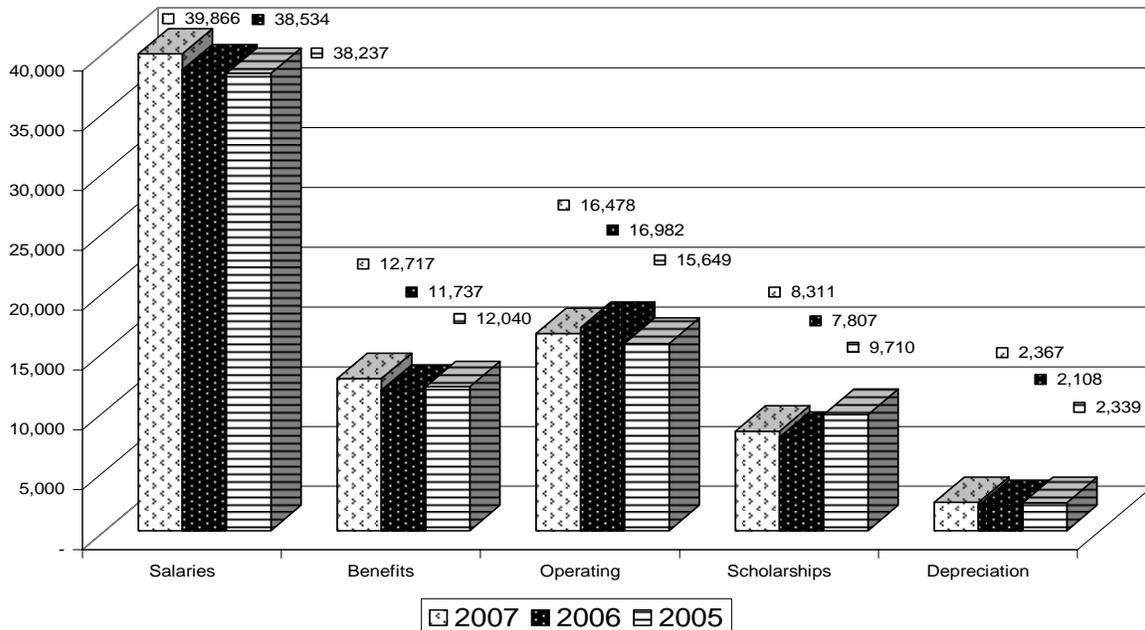
Operating expenses can be displayed in two formats: natural classification and program classification. Both formats are displayed below.

**Tennessee Board of Regents
Southwest Tennessee Community College
Management's Discussion and Analysis (Cont.)
June 30, 2007, and June 30, 2006**

Natural Classification (in thousands of dollars)

	Southwest Tennessee Community College			Southwest Tennessee Community College Foundation		
	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>
Salaries	\$ 39,866	\$ 38,534	\$ 38,237	\$ -	\$ -	\$ -
Benefits	12,717	11,737	12,040	-	-	-
Operating	16,478	16,982	15,649	346	280	402
Scholarships	8,311	7,807	9,710	139	84	175
Depreciation	2,367	2,108	2,339	-	-	-
Payments to or on behalf of Southwest	-	-	-	7	7	10
Total expenses	<u>\$ 79,739</u>	<u>\$ 77,168</u>	<u>\$ 77,975</u>	<u>\$ 492</u>	<u>\$ 371</u>	<u>\$ 587</u>

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



**Tennessee Board of Regents
Southwest Tennessee Community College
Management's Discussion and Analysis (Cont.)
June 30, 2007, and June 30, 2006**

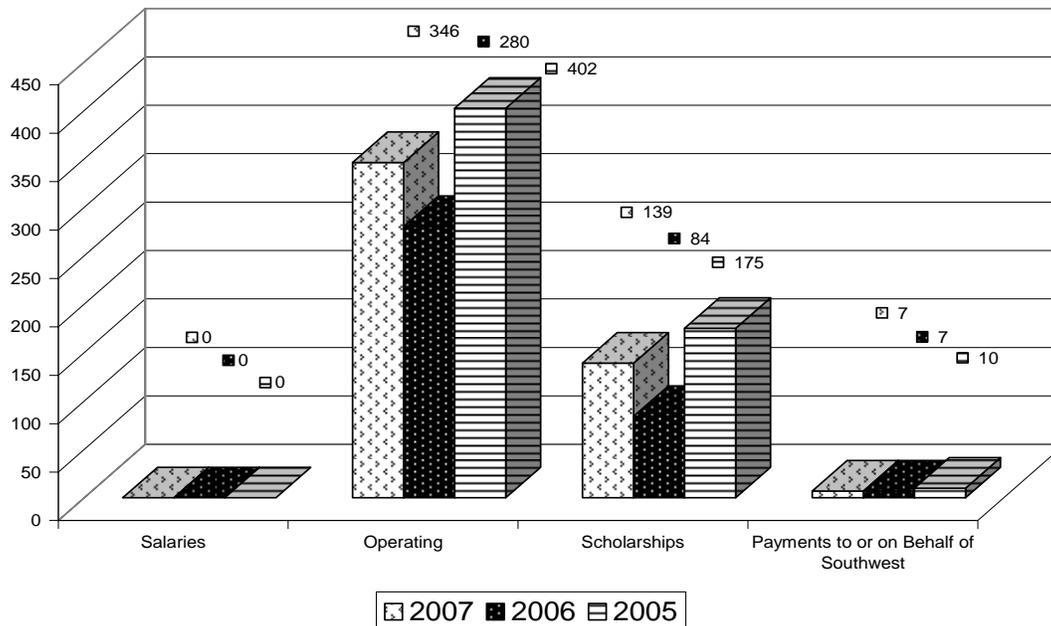
Comparison of FY 2007 to FY 2006 for Southwest

- Benefits increased by \$979,992.37 from fiscal year 2006 to 2007 which can be attributed to an across-the-board salary increase, health insurance, and retirement increase.
- Due to the purchase of new equipment and the amortization of capital software during fiscal year 2006 to 2007, depreciation increased by \$259,342.54 (12.3%).
- Total expenses increased from fiscal year 2006 to 2007 due to a legal settlement, an increase of bad debt, and redistribution of funds due to zero based budgeting.

Comparison of FY 2006 to FY 2005 for Southwest

- There were no appreciable percentage changes in total operating expenses (1%), or in individual classifications with the exception of scholarships, which decreased 19.6% due to a decrease in Title IV Pell Grant awards.
- Depreciation expenses decreased \$231,088 (9.9%) due to equipment that has been fully depreciated net of the amortization of capital software.

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



**Tennessee Board of Regents
Southwest Tennessee Community College
Management's Discussion and Analysis (Cont.)
June 30, 2007, and June 30, 2006**

Comparison of FY 2007 to FY 2006 for Southwest Foundation

- Scholarship expenditures increased by \$55,673.43 (66.4%) from fiscal year 2006 to 2007 due to an increase in overall student awards with a significant amount awarded from the foundation's Bornblum account.
- Operating expenses increased in fiscal year 2007 by 23.4% due to an increase in the purchase of supplies and materials.

Comparison of FY 2006 to FY 2005 for Southwest Foundation

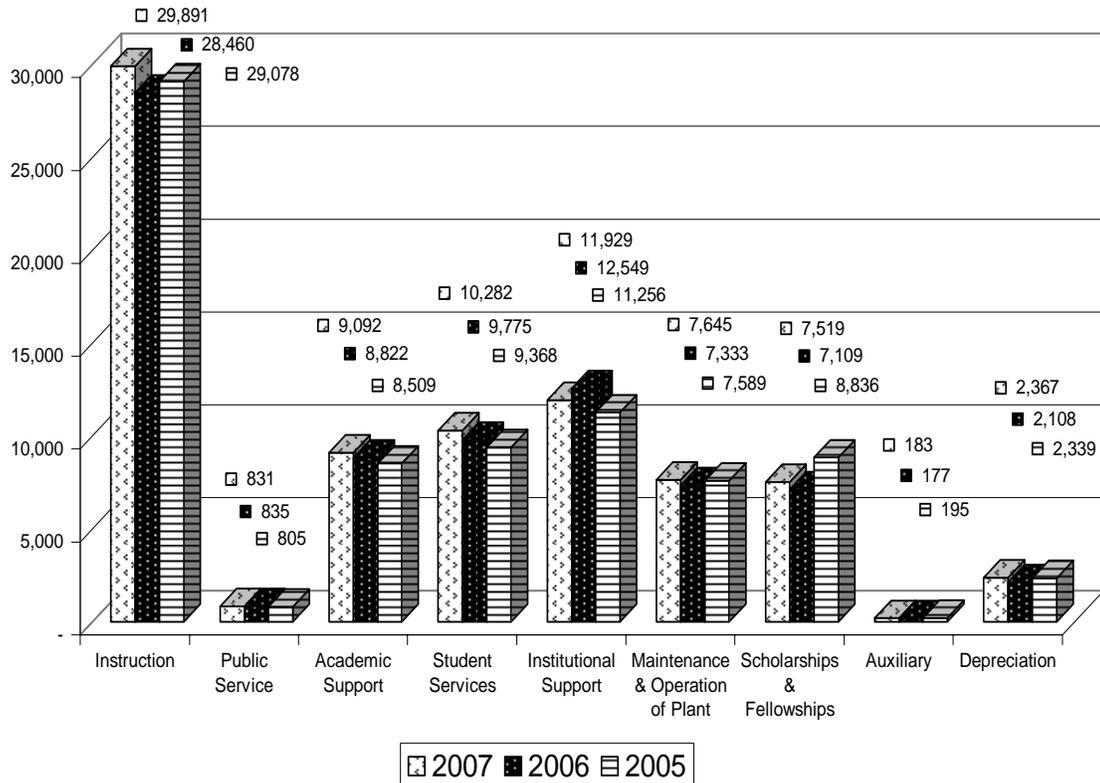
- The foundation's 2006 operating expenses decreased 36.7% from 2005 due to decreases in both gifts-in-kind and scholarships awarded.
- The Southwest Foundation's decrease in scholarship expenditures of \$91,244.95 (52%) was due to an emphasis from donations for annual scholarships to endowed scholarships.

Program Classification (in thousands of dollars)

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Instruction	\$ 29,891	\$ 28,460	\$ 29,078
Public service	831	835	805
Academic support	9,092	8,822	8,509
Student services	10,282	9,775	9,368
Institutional support	11,929	12,549	11,256
Maintenance & operation of plant	7,645	7,333	7,589
Scholarships & fellowships	7,519	7,109	8,836
Auxiliary	183	177	195
Depreciation	<u>2,367</u>	<u>2,108</u>	<u>2,339</u>
Totals	<u>\$ 79,739</u>	<u>\$ 77,168</u>	<u>\$ 77,975</u>

**Tennessee Board of Regents
Southwest Tennessee Community College
Management's Discussion and Analysis (Cont.)
June 30, 2007, and June 30, 2006**

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



Comparison of FY 2007 to FY 2006 for Southwest

- Due to the purchase of new equipment and the amortization of capital software during fiscal year 2006 to 2007, depreciation increased by \$259,342.54 (12.3%).

Comparison of FY 2006 to FY 2005 for Southwest

- There were no material changes in expenditures for instruction, public service, academic support, student services, and operation and maintenance of plant.
- Institutional support increased approximately \$1,293,000 (11.5%) substantially due to write-off's of accounts receivable, net of allowance for doubtful accounts of approximately \$1,597,000.

**Tennessee Board of Regents
Southwest Tennessee Community College
Management's Discussion and Analysis (Cont.)
June 30, 2007, and June 30, 2006**

- Scholarships and fellowships decreased 19.5% due, in most part, to decreased Title IV Pell Grant awards resulting from increased part-time recipients over full-time recipients.
- Fiscal year 2006 depreciation decreased 9.9% from 2005 due to equipment that has been fully depreciated, net of the amortization of capital software.

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

Condensed Statement of Cash Flows (in thousands of dollars)

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Cash provided (used) by:			
Operating activities	\$ (55,787)	\$ (54,372)	\$ (54,260)
Noncapital financing activities	56,001	55,480	54,892
Capital and related financing activities	(2,065)	(2,262)	(928)
Investing activities	<u>1,095</u>	<u>881</u>	<u>482</u>
Net increase (decrease) in cash	<u>(756)</u>	<u>(273)</u>	<u>186</u>
Cash, beginning of year	<u>19,531</u>	<u>19,804</u>	<u>19,618</u>
Cash, end of year	<u>\$ 18,775</u>	<u>\$ 19,531</u>	<u>\$ 19,804</u>

Comparison of FY 2007 to FY 2006 for Southwest

- There were no material changes in cash flows used by operating activities, by noncapital financing activities and by capital and related financing activities of the college from fiscal year 2006 to 2007.
- Capital activities decreased 8.7% from fiscal year 2006 to 2007 due to the completion of several capital projects; renovation of Verties Sails Gym and replacement of campus.
- Cash flows from investing activities increased by 24.3% due to an increase in funds invested in the Local Government Investment Pool (LGIP) as well as an increase in the interest rate.

**Tennessee Board of Regents
Southwest Tennessee Community College
Management's Discussion and Analysis (Cont.)
June 30, 2007, and June 30, 2006**

Comparison of FY 2006 to FY 2005 for Southwest

- There were no material changes in cash flows used by operating activities or by noncapital financing activities of the college from fiscal year 2005 to 2006.
- Cash flows from capital and related financing activities increased \$1,357,425 (twofold) from fiscal year 2005 to 2006 due to increases in purchases of capital assets and construction/capital activities. Included is the purchase of land, \$5,184,955, for the addition of a third major campus in southeast Shelby County.
- Investing activities increased by 82.8% from fiscal year 2005 to 2006 due to both an increase in funds available for investment and a substantial increase in interest rates.
- Total cash and cash equivalents decreased only 1.4% from 2005 to 2006 which did not materially affect the liquidity of the college.

Capital Assets and Debt Administration

Capital Assets

Southwest Tennessee Community College had \$45,975,780.47 invested in capital assets, net of accumulated depreciation of \$32,154,405.04 at June 30, 2007; \$44,434,740.95 invested in capital assets, net of accumulated depreciation of \$30,770,826.62 at June 30, 2006; and \$38,515,483.78 invested in capital assets, net of accumulated depreciation of \$28,937,169.86 at June 30, 2005. Depreciation charges totaled \$2,367,460.79, \$2,108,118.25 and \$2,339,206.63 for the years ended June 30, 2007, June 30, 2006, and June 30, 2005, respectively. Details of these assets are shown below.

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

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Land	\$ 10,009	\$ 10,009	\$ 4,824
Land improvements & infrastructure	1,303	1,442	1,587
Buildings	23,244	24,378	24,611
Equipment	3,018	2,815	2,897
Library holdings	1,135	1,192	1,239
Projects in progress	5,511	3,516	3,357
Software	<u>1,756</u>	<u>1,083</u>	<u>-</u>
Totals	<u>\$ 45,976</u>	<u>\$ 44,435</u>	<u>\$ 38,515</u>

**Tennessee Board of Regents
Southwest Tennessee Community College
Management's Discussion and Analysis (Cont.)
June 30, 2007, and June 30, 2006**

Comparison of FY 2007 to FY 2006 for Southwest

- Software increased from fiscal year 2006 to 2007 by 62% due to the purchase of Banner training and implementation software.
- Expenditures were transferred to projects in progress totaling \$1,995,427.33. These projects with transfers were replacement of campus, Farris Complex fire system, Macon new library, Macon new academic building, and Macon new entrance.
- Southwest Tennessee Community College continues to commit local funds to improving physical plant, infrastructure, and equipment. In 2007 the college has continued its commitment of completing the two new entrances for the Macon Cove and Union Avenue Campuses. Major expenditures for fiscal year 2007 included:
 - Building maintenance/replacement projects \$399,031.59
 - Classroom furniture replacement 110,510.72
 - Property renovations 326,796.09
- The fund balance for renewals and replacements decreased for fiscal year 2007 by 27.9%, expenditures included:
 - Information systems \$499,176.83
 - Banner implementation 884,895.33

Comparison of FY 2006 to FY 2005 for Southwest

- Land increased in 2006 by 107.5% due to the purchase of 100 acres of land in the amount of \$5,184,955 for the addition of a third major campus in southeast Shelby County.

Southwest's management has made a major commitment of local funds to improving physical plant, infrastructure, and equipment, including a major construction project of the addition of new entrances to both existing main campuses. An addition of \$850,991 from general funds was dedicated to local plant fund projects in fiscal year 2006. The local unexpended plant fund balance at year-end 2006 is \$6,226,544; the balance at year-end 2005 was \$7,355,181. Major expenditures for fiscal year 2006 included:

- Property renovations \$362,133
- Furniture replacements \$221,093
- Closed circuit TV surveillance system Macon Campus \$236,583 (The Union Campus system was completed in 2005 - \$247,357)
- Renovation Verties Sails Gym \$565,099
- Property acquisitions \$324,577

**Tennessee Board of Regents
Southwest Tennessee Community College
Management's Discussion and Analysis (Cont.)
June 30, 2007, and June 30, 2006**

An additional \$500,000 from general funds was dedicated to the renewal and replacement of information technology and an additional \$775,000 was transferred for completion of the implementation of the SunGard Higher Education software project. The total renewals and replacements fund balance at year-end 2006 is \$5,223,042; the balance at year-end 2005 was \$5,257,957. Expenditures for fiscal year 2006 included:

- Motor vehicles \$139,085
- Information technology \$316,583
- Banner implementation \$815,020

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

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

- Property renovations \$211,579
- Banner implementation \$756,529
- Classroom furniture improvements \$202,464
- Building maintenance \$81,423
- Closed circuit TV surveillance system \$247,357
- Office furniture improvements \$122,914
- Renovate Verties Sails Gym \$73,741

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

- Printing equipment \$119,940
- Motor vehicles \$70,212
- R&R equipment \$365,110
- Information systems \$591,028
- Banner implementation \$560,293

**Tennessee Board of Regents
Southwest Tennessee Community College
Management's Discussion and Analysis (Cont.)
June 30, 2007, and June 30, 2006**

The college's foundation does not have any capital assets. More detailed information about the college's capital assets is presented in Note 4 to the financial statements.

Debt

The college had \$1,346,527.25; \$1,455,531.66; and \$1,559,468.20 in debt outstanding at June 30, 2007, June 30, 2006, and June 30, 2005, respectively. The table below summarizes these amounts by type of debt instrument.

Tennessee State School Bond Authority Bonds

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Property acquisition I	\$ 793,190.24	\$ 848,823.58	\$ 901,881.29
Property acquisition II	410,616.53	439,416.61	466,883.35
Chillers CFC conversion	<u>142,720.48</u>	<u>167,291.47</u>	<u>190,703.56</u>
Totals	<u>\$ 1,346,527.25</u>	<u>\$ 1,455,531.66</u>	<u>\$ 1,559,468.20</u>

The college did not incur any additional debt in fiscal year 2006 to 2007. A debt repayment of \$109,004.41 was made during the year.

The Tennessee State School Bond Authority's revenue bond rating with Standard & Poor's is AA-; Stable Outlook.

The foundation did not have any debt outstanding at June 30, 2007.

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

The financial stability of Southwest Tennessee Community College is closely tied to that of the State of Tennessee. State appropriations for fiscal year 2007 comprises 56.4% of total unrestricted revenues, compared to 55.4% in fiscal year 2006 and 57.4% in fiscal year 2005. Tuition and fees revenues are the second largest source of revenue at 39.9% for fiscal year 2007.

Tennessee Board of Regents
Southwest Tennessee Community College
Management's Discussion and Analysis (Cont.)
June 30, 2007, and June 30, 2006

The future of this continuing shift of the cost of public higher education from the state to students, and its long term effect on student enrollment and accessibility, is unknown.

The continued escalation of account receivable balances reduces the availability of unrestricted net assets for current operations. Student accounts receivable are due, in most part, to federal financial aid refund/repayment regulations. Financial aid recipients comprise 41% of the college's student population. Write-offs of student receivables, net of allowance for doubtful accounts, were approximately \$950,486.28 in fiscal year 2007. However, unrestricted student account receivables are \$5,379,698.78 at 2007 fiscal year end compared to \$5,120,156.18 at fiscal 2006 year end.

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 Ronald G. Parr, Vice President of Financial and Administrative Services, 5983 Macon Cove, Memphis, Tennessee 38134.

TENNESSEE BOARD OF REGENTS
SOUTHWEST TENNESSEE COMMUNITY COLLEGE
STATEMENTS OF NET ASSETS
JUNE 30, 2007, AND JUNE 30, 2006

	Southwest		Component Unit - Southwest Foundation	
	2007	2006	2007	2006
ASSETS				
Current assets:				
Cash and cash equivalents (Notes 2 and 13)	\$ 8,417,974.51	\$ 8,034,744.41	\$ 168,416.94	\$ 215,726.13
Short-term investments (Note 13)	-	-	44,936.98	-
Accounts, notes, and grants receivable (net) (Note 3)	5,727,028.45	5,234,393.12	-	-
Pledges receivable (net) (Note 13)	-	-	893,437.33	62,764.00
Inventories (at lower of cost or market)	65,811.38	85,102.24	-	-
Prepaid expenses and deferred charges	23,898.57	5,897.19	-	-
Total current assets	<u>14,234,712.91</u>	<u>13,360,136.96</u>	<u>1,106,791.25</u>	<u>278,490.13</u>
Noncurrent assets:				
Cash and cash equivalents (Notes 2 and 13)	10,357,435.02	11,496,130.93	961,743.77	841,061.25
Investments (Note 13)	-	-	1,404,526.10	673,715.13
Pledges receivable (net) (Note 13)	-	-	1,261,740.45	628,266.34
Capital assets (net) (Note 4)	45,975,780.47	44,434,740.95	-	-
Total noncurrent assets	<u>56,333,215.49</u>	<u>55,930,871.88</u>	<u>3,628,010.32</u>	<u>2,143,042.72</u>
Total assets	<u>70,567,928.40</u>	<u>69,291,008.84</u>	<u>4,734,801.57</u>	<u>2,421,532.85</u>
LIABILITIES				
Current liabilities:				
Accounts payable	460,850.45	293,502.97	42,997.51	78,019.89
Accrued liabilities	1,569,250.61	1,519,632.19	-	-
Deferred revenue	1,849,842.87	1,813,065.92	-	-
Compensated absences (Note 5)	591,347.75	671,154.95	-	-
Accrued interest payable	14,574.64	11,474.55	-	-
Long-term liabilities, current portion (Note 5)	113,807.60	109,004.41	-	-
Deposits held in custody for others	56,316.20	625,245.59	-	-
Other liabilities	-	28,736.29	-	-
Total current liabilities	<u>4,655,990.12</u>	<u>5,071,816.87</u>	<u>42,997.51</u>	<u>78,019.89</u>
Noncurrent liabilities:				
Compensated absences (Note 5)	2,418,676.77	2,526,693.66	-	-
Long-term liabilities (Note 5)	1,232,719.65	1,346,527.25	-	-
Total noncurrent liabilities	<u>3,651,396.42</u>	<u>3,873,220.91</u>	<u>-</u>	<u>-</u>
Total liabilities	<u>8,307,386.54</u>	<u>8,945,037.78</u>	<u>42,997.51</u>	<u>78,019.89</u>
NET ASSETS				
Invested in capital assets, net of related debt	44,629,253.22	42,979,209.29	-	-
Restricted for:				
Nonexpendable:				
Scholarships and fellowships	-	-	844,767.96	666,848.25
Other	45,417.18	43,379.94	-	-
Expendable:				
Scholarships and fellowships	245,108.10	178,555.78	395,945.24	439,169.44
Instructional department uses	234,050.82	200,776.63	1,357,891.55	904,180.61
Other	359,835.94	271,262.46	1,935,928.15	195,608.42
Unrestricted (Note 6)	<u>16,746,876.60</u>	<u>16,672,786.96</u>	<u>157,271.16</u>	<u>137,706.24</u>
Total net assets	<u>\$ 62,260,541.86</u>	<u>\$ 60,345,971.06</u>	<u>\$ 4,691,804.06</u>	<u>\$ 2,343,512.96</u>

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

**TENNESSEE BOARD OF REGENTS
SOUTHWEST TENNESSEE COMMUNITY COLLEGE
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2007, AND JUNE 30, 2006**

	Southwest		Component Unit - Southwest Foundation	
	2007	2006	2007	2006
REVENUES				
Operating revenues:				
Student tuition and fees (net of scholarship allowances of \$11,636,563.93 for the year ended June 30, 2007, and \$11,940,017.98 for the year ended June 30, 2006)	\$ 15,602,821.26	\$ 14,995,678.20	\$ -	\$ -
Gifts and contributions	-	-	2,566,377.61	956,442.22
Governmental grants and contracts	4,089,451.48	3,068,581.28	-	-
Nongovernmental grants and contracts	368,848.19	369,111.56	-	10,000.00
Sales and services of educational departments	16,673.90	24,065.50	-	-
Auxiliary enterprises:				
Bookstore	617,124.00	600,000.00	-	-
Other operating revenues	1,347,368.48	1,438,635.03	-	-
Total operating revenues	<u>22,042,287.31</u>	<u>20,496,071.57</u>	<u>2,566,377.61</u>	<u>966,442.22</u>
EXPENSES				
Operating expenses: (Note 11)				
Salaries and wages	39,865,865.11	38,533,994.24	-	-
Benefits	12,716,988.57	11,736,996.20	-	-
Utilities, supplies, and other services	16,478,440.39	16,981,781.06	346,054.95	280,447.15
Scholarships and fellowships	8,310,572.93	7,807,294.14	139,535.85	83,862.42
Depreciation expense	2,367,460.79	2,108,118.25	-	-
Payments to or on behalf of Southwest TN Community College	-	-	6,881.82	7,056.16
Total operating expenses	<u>79,739,327.79</u>	<u>77,168,183.89</u>	<u>492,472.62</u>	<u>371,365.73</u>
Operating income (loss)	<u>(57,697,040.48)</u>	<u>(56,672,112.32)</u>	<u>2,073,904.99</u>	<u>595,076.49</u>
NONOPERATING REVENUES (EXPENSES)				
State appropriations	38,723,000.00	36,905,300.00	-	-
Gifts, including \$6,881.82 from Southwest Foundation for the year ended June 30, 2007, and \$7,056.16 from Southwest Foundation for the year ended June 30, 2006	284,385.13	228,295.17	-	-
Grants and contracts	17,844,608.79	17,928,908.97	-	-
Investment income	1,094,862.43	879,930.72	158,015.46	77,789.64
Interest on capital asset-related debt	(68,050.44)	(65,359.81)	-	-
Other nonoperating revenues/(expenses)	(338,141.73)	-	-	-
Net nonoperating revenues	<u>57,540,664.18</u>	<u>55,877,075.05</u>	<u>158,015.46</u>	<u>77,789.64</u>
Income before other revenues, expenses, gains, or losses	<u>(156,376.30)</u>	<u>(795,037.27)</u>	<u>2,231,920.45</u>	<u>672,866.13</u>
Capital appropriations	2,068,721.10	6,095,851.66	-	-
Capital grants and gifts	2,226.00	-	-	-
Additions to permanent endowments	-	-	116,370.65	-
Other capital	-	(238,200.36)	-	-
Total other revenues	<u>2,070,947.10</u>	<u>5,857,651.30</u>	<u>116,370.65</u>	<u>-</u>
Increase (decrease) in net assets	<u>1,914,570.80</u>	<u>5,062,614.03</u>	<u>2,348,291.10</u>	<u>672,866.13</u>
NET ASSETS				
Net assets - beginning of year	60,345,971.06	55,209,616.09	2,343,512.96	1,670,646.83
Prior period adjustment (Note 12)	-	73,740.94	-	-
Net assets - end of year	<u>\$ 62,260,541.86</u>	<u>\$ 60,345,971.06</u>	<u>\$ 4,691,804.06</u>	<u>\$ 2,343,512.96</u>

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

**TENNESSEE BOARD OF REGENTS
SOUTHWEST TENNESSEE COMMUNITY COLLEGE
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2007, AND JUNE 30, 2006**

	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES		
Tuition and fees	\$ 15,464,504.60	\$ 15,133,783.15
Grants and contracts	4,170,033.81	3,489,199.42
Sales and services of educational activities	16,696.59	21,585.62
Payments to suppliers and vendors	(16,402,298.96)	(17,069,308.91)
Payments to employees	(39,817,227.69)	(38,490,637.35)
Payments for benefits	(12,884,991.72)	(11,675,363.84)
Payments for scholarships and fellowships	(8,310,810.25)	(7,795,871.85)
Auxiliary enterprise charges:		
Bookstore	650,325.38	568,313.92
Food services	-	(2,568.80)
Other receipts (payments)	1,327,225.17	1,449,086.20
Net cash flows provided (used) by operating activities	<u>(55,786,543.07)</u>	<u>(54,371,782.44)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State appropriations	38,725,800.00	36,917,100.00
Gifts and grants received for other than capital or endowment purposed, including \$6,881.82 from Southwest Foundation for the year ended June 30, 2007, and \$7,056.16 from Southwest Foundation for the year ended June 30, 2006	17,844,608.79	18,157,204.14
Changes in deposits held for others	<u>(568,929.40)</u>	<u>405,437.60</u>
Net cash flows provided (used) by noncapital financing activities	<u>56,001,479.39</u>	<u>55,479,741.74</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital - state appropriation	2,068,721.10	6,095,851.66
Purchase of capital assets and construction	(3,960,030.91)	(8,191,834.84)
Principal paid on capital debt	(109,004.41)	(103,936.54)
Interest paid on capital debt	<u>(64,950.35)</u>	<u>(62,426.90)</u>
Net cash flows provided (used) by capital and related financing activities	<u>(2,065,264.57)</u>	<u>(2,262,346.62)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Income on Investments	<u>1,094,862.43</u>	<u>881,573.77</u>
Net cash provided (used) by investing activities	<u>1,094,862.43</u>	<u>881,573.77</u>
Net increase (decrease) in cash	(755,465.82)	(272,813.55)
Cash - beginning of year	<u>19,530,875.34</u>	<u>19,803,688.89</u>
Cash - end of year	<u>\$ 18,775,409.52</u>	<u>\$ 19,530,875.34</u>

**TENNESSEE BOARD OF REGENTS
SOUTHWEST TENNESSEE COMMUNITY COLLEGE
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2007, AND JUNE 30, 2006**

	<u>2007</u>	<u>2006</u>
RECONCILIATION OF OPERATING INCOME/(LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
Operating income (loss)	\$ (57,697,040.48)	\$ (56,672,112.32)
Adjustments to reconcile operating loss to net cash		
Provided (used) by operating activities:		
Depreciation expense	2,367,460.79	2,108,118.25
Other adjustments	-	(3,048.83)
Changes in assets and liabilities:		
Receivables, net	(495,435.33)	265,470.44
Inventories	19,290.86	(38,905.15)
Prepaid/deferred items	(18,001.38)	(4,112.79)
Accounts payable	167,347.48	1,163.63
Accrued liabilities	49,618.42	42,371.46
Deferred revenues	36,776.95	(134,200.59)
Compensated absences	(187,824.09)	75,203.16
Other	(28,736.29)	(11,729.70)
Net cash provided (used) by operating activities	<u>\$ (55,786,543.07)</u>	<u>\$ (54,371,782.44)</u>
Noncash transactions:		
Gifts-in-kind	\$ 284,385.13	\$ 221,239.01
Gifts-in-kind - capital	\$ 2,226.00	\$ -
Loss on disposal of capital assets	\$ 51,530.60	\$ 238,200.36
Credit from trustee	\$ -	\$ 3,048.83

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

Tennessee Board of Regents
Southwest Tennessee Community College
Notes to the Financial Statements
June 30, 2007, and June 30, 2006

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 financial statements present only that portion of the Tennessee Board of Regents' activities that is attributable to the transactions of Southwest Tennessee Community College.

The Southwest Tennessee Community College Foundation is considered a component unit of the college. Although the college does not control the timing or amount of receipts from the foundation, the majority of resources, or income thereon, that the foundation holds and invests are restricted to the activities of the college by the donors. Because these restricted resources held by the foundation can only be used by, or for the benefit of, the college, the foundation is considered a component unit of the college and is discretely presented in the college's financial statements. See Note 13 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

Tennessee Board of Regents
Southwest Tennessee Community College
Notes to the Financial Statements (Cont.)
June 30, 2007, and June 30, 2006

requirements imposed by the provider have been met. All significant interfund transactions have been eliminated.

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

Amounts reported as operating revenues include (1) tuition and fees, net of waivers and discounts; (2) certain federal, state, local, and private grants and contracts; (3) sales and services of auxiliary enterprises; and (4) other sources of revenue. Operating expenses for the college include (1) salaries and wages; (2) employee benefits; (3) 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. All other items are maintained on an average cost or first-in, first-out basis.

Compensated Absences

The college's employees accrue annual leave at varying rates, depending on length of service or classification. Some employees also earn compensatory time. The amount of these liabilities and their related benefits are reported in the statement of net assets.

Tennessee Board of Regents
Southwest Tennessee Community College
Notes to the Financial Statements (Cont.)
June 30, 2007, and June 30, 2006

Capital Assets

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

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

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

LWIA Equipment

Under a contract with the Tennessee Department of Labor and Workforce Development, the college is the administrative entity and grant recipient for the Local Workforce Investment Area (LWIA) in workforce investment area Number 13 of the State of Tennessee. The title to all the equipment purchased by Southwest Tennessee Community College under the provisions of the Workforce Investment Act resides with the U.S. Government. Therefore, this equipment is not included in Southwest Tennessee Community College capital assets.

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.

Tennessee Board of Regents
Southwest Tennessee Community College
Notes to the Financial Statements (Cont.)
June 30, 2007, and June 30, 2006

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, 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, 2007, cash consisted of \$1,109,073.09 in bank accounts, \$10,000 of petty cash on hand, \$17,373,237.08 in the State of Tennessee Local Government Investment Pool (LGIP) administered by the State Treasurer, and \$283,099.36 in LGIP deposits for capital projects. At June 30, 2006, cash consisted of \$460,624.09 in bank accounts, \$10,000 of petty cash on hand, \$19,057,086.69 in the State of Tennessee Local Government Investment Pool administered by the State Treasurer, and \$3,164.56 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 account. As expenses are incurred, funds are

**Tennessee Board of Regents
Southwest Tennessee Community College
Notes to the Financial Statements (Cont.)
June 30, 2007, and June 30, 2006**

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, 2007</u>	<u>June 30, 2006</u>
Student accounts receivable	\$ 5,379,698.78	\$ 5,120,156.18
Grants receivable	973,836.32	685,570.46
State appropriation receivable	30,700.00	33,500.00
Other receivables	<u>276,888.06</u>	<u>244,166.48</u>
Subtotal	6,661,123.16	6,083,393.12
Less allowance for doubtful accounts	<u>(934,094.71)</u>	<u>(849,000.00)</u>
Total receivables	<u>\$ 5,727,028.45</u>	<u>\$ 5,234,393.12</u>

NOTE 4. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2007, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Transfers</u>	<u>Reductions</u>	<u>Ending Balance</u>
Land	\$ 10,009,043.57	\$ -	\$ -	\$ -	\$ 10,009,043.57
Land improvements and infrastructure	3,824,530.11	-	-	-	3,824,530.11
Buildings	45,555,556.37	60,667.00	-	-	45,616,223.37
Equipment	8,524,902.08	850,145.62	-	764,945.85	8,610,101.85
Library holdings	2,572,181.68	172,595.24	-	270,467.12	2,474,309.80
Software	1,203,392.87	881,195.72	-	-	2,084,588.59
Projects in progress	<u>3,515,960.89</u>	<u>1,995,427.33</u>	<u>-</u>	<u>-</u>	<u>5,511,388.22</u>
Total	<u>75,205,567.57</u>	<u>3,960,030.91</u>	<u>-</u>	<u>1,035,412.97</u>	<u>78,130,185.51</u>

Tennessee Board of Regents
Southwest Tennessee Community College
Notes to the Financial Statements (Cont.)
June 30, 2007, and June 30, 2006

Less accum. depreciation:					
Land improvements and infrastructure	2,382,125.92	139,173.71	-	-	2,521,299.63
Buildings	21,177,608.16	1,194,578.72	-	-	22,372,186.88
Equipment	5,710,939.10	595,078.04	-	713,415.25	5,592,601.89
Library holdings	1,379,814.15	230,171.46	-	270,467.12	1,339,518.49
Software	<u>120,339.29</u>	<u>208,458.86</u>	<u>-</u>	<u>-</u>	<u>328,798.15</u>
Total accum. depreciation	<u>30,770,826.62</u>	<u>2,367,460.79</u>	<u>-</u>	<u>983,882.37</u>	<u>32,154,405.04</u>
Capital assets, net	<u>\$ 44,434,740.95</u>	<u>\$ 1,592,570.12</u>	<u>\$ -</u>	<u>\$ 51,530.60</u>	<u>\$ 45,975,780.47</u>

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

	Beginning Balance	Additions	Transfers	Reductions	Ending Balance
Land	\$ 4,824,088.63	\$ 5,184,954.94	\$ -	\$ -	\$ 10,009,043.57
Land improvements and infrastructure	3,824,530.11	-	-	-	3,824,530.11
Buildings	44,597,765.47	957,790.90	-	-	45,555,556.37
Equipment	8,193,534.78	569,567.66	-	238,200.36	8,524,902.08
Library holdings	2,655,266.37	191,376.80	-	274,461.49	2,572,181.68
Software	-	643,100.17	560,292.70	-	1,203,392.87
Projects in progress	<u>3,357,468.28</u>	<u>718,785.31</u>	<u>(560,292.70)</u>	<u>-</u>	<u>3,515,960.89</u>
Total	<u>67,452,653.64</u>	<u>8,265,575.78</u>	<u>-</u>	<u>512,661.85</u>	<u>75,205,567.57</u>
Less accum. depreciation:					
Land improvements and infrastructure	2,237,831.30	144,294.62	-	-	2,382,125.92
Buildings	19,987,073.89	1,190,534.27	-	-	21,177,608.16
Equipment	5,296,069.52	414,869.58	-	-	5,710,939.10
Software	-	120,339.29	-	-	120,339.29
Library holdings	<u>1,416,195.15</u>	<u>238,080.49</u>	<u>-</u>	<u>274,461.49</u>	<u>1,379,814.15</u>
Total accum. depreciation	<u>28,937,169.86</u>	<u>2,108,118.25</u>	<u>-</u>	<u>274,461.49</u>	<u>30,770,826.62</u>
Capital assets, net	<u>\$ 38,515,483.78</u>	<u>\$ 6,157,457.53</u>	<u>\$ -</u>	<u>\$ 238,200.36</u>	<u>\$ 44,434,740.95</u>

**Tennessee Board of Regents
Southwest Tennessee Community College
Notes to the Financial Statements (Cont.)
June 30, 2007, and June 30, 2006**

NOTE 5. LONG-TERM LIABILITIES

Long-term liabilities activity for the year ended June 30, 2007, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Current Portion</u>
Payables:					
TSSBA debt:					
Bonds	\$ 1,455,531.66	\$ -	\$ 109,004.41	\$ 1,346,527.25	\$ 113,807.60
Subtotal	<u>1,455,531.66</u>	<u>-</u>	<u>109,004.41</u>	<u>1,346,527.25</u>	<u>113,807.60</u>
Other liabilities:					
Compensated absences	<u>3,197,848.61</u>	<u>1,873,247.74</u>	<u>2,061,071.83</u>	<u>3,010,024.52</u>	<u>591,347.75</u>
Subtotal	<u>3,197,848.61</u>	<u>1,873,247.74</u>	<u>2,061,071.83</u>	<u>3,010,024.52</u>	<u>591,347.75</u>
Total long-term liabilities	<u>\$ 4,653,380.27</u>	<u>\$ 1,873,247.74</u>	<u>\$ 2,170,076.24</u>	<u>\$ 4,356,551.77</u>	<u>\$ 705,155.35</u>

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

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Current Portion</u>
Payables:					
TSSBA debt:					
Bonds	\$ 1,559,468.20	\$ -	\$ 103,936.54	\$ 1,455,531.66	\$ 109,004.41
Subtotal	<u>1,559,468.20</u>	<u>-</u>	<u>103,936.54</u>	<u>1,455,531.66</u>	<u>109,004.41</u>
Other liabilities:					
Compensated absences	<u>3,122,645.45</u>	<u>1,540,847.15</u>	<u>1,465,643.99</u>	<u>3,197,848.61</u>	<u>671,154.95</u>
Subtotal	<u>3,122,645.45</u>	<u>1,540,847.15</u>	<u>1,465,643.99</u>	<u>3,197,848.61</u>	<u>671,154.95</u>
Total long-term liabilities	<u>\$ 4,682,113.65</u>	<u>\$ 1,540,847.15</u>	<u>\$ 1,569,580.53</u>	<u>\$ 4,653,380.27</u>	<u>\$ 780,159.36</u>

TSSBA Debt - Bonds

Bonds, with interest rates ranging from 4.00% to 5.00%, were issued by the Tennessee State School Bond Authority (TSSBA). The bonds are due serially to 2018 and are secured by pledges of the facilities' revenues to which they relate and certain other revenues and fees of the college, including state appropriations.

**Tennessee Board of Regents
Southwest Tennessee Community College
Notes to the Financial Statements (Cont.)
June 30, 2007, and June 30, 2006**

Debt service requirements to maturity for the college's portion of TSSBA bonds at June 30, 2007, are as follows:

Year Ending <u>June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	\$ 113,807.60	\$ 60,277.60	\$ 174,085.20
2009	119,450.57	55,203.80	174,654.37
2010	123,981.88	50,848.04	174,829.92
2011	128,930.36	46,320.40	175,250.76
2012	133,879.84	41,482.28	175,362.12
2013-2017	589,583.00	125,668.20	715,251.20
2018	<u>136,894.00</u>	<u>6,844.65</u>	<u>143,738.65</u>
Total	<u>\$ 1,346,527.25</u>	<u>\$ 386,644.97</u>	<u>\$ 1,733,172.22</u>

More detailed information regarding the bonds 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 for specific purposes. The unrestricted net assets are composed of the following:

	<u>June 30, 2007</u>	<u>June 30, 2006</u>
Working capital	\$ 4,400,102.59	\$ 4,048,630.28
Encumbrances	538,888.68	671,332.55
Designated fees	3,154.30	79,207.45
Auxiliaries	29,018.30	62,219.68
Plant construction	6,546,773.04	6,229,708.65
Renewal and replacement of equipment	3,765,244.80	5,223,042.34
Undesignated	<u>1,463,694.89</u>	<u>358,646.01</u>
Total	<u>\$ 16,746,876.60</u>	<u>\$ 16,672,786.96</u>

**Tennessee Board of Regents
Southwest Tennessee Community College
Notes to the Financial Statements (Cont.)
June 30, 2007, and June 30, 2006**

NOTE 7. PENSION PLANS

A. Defined Benefit Plans

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 13.66% 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, 2007, 2006, and 2005 were \$3,211,668.71, \$3,666,809.27, and \$2,263,419.03. Contributions met the requirements for each year.

B. Defined Contribution Plans

Optional Retirement Plans (ORP)

Plan Description - The college contributes to three defined contribution plans: Teachers Insurance and Annuity Association-College Retirement Equities Fund (TIAA-CREF), Aetna Life Insurance and Annuity Company, and Variable Annuity Life Insurance Company (VALIC). These plans are administered by the Tennessee Department of the Treasury. Each plan provides retirement benefits to faculty and staff who are exempt from the overtime provisions of the Fair Labor Standards Act and who waive membership in the TCRS. Benefits depend

Tennessee Board of Regents
Southwest Tennessee Community College
Notes to the Financial Statements (Cont.)
June 30, 2007, and June 30, 2006

solely on amounts contributed to the plan plus investment earnings. Plan provisions are established by state statute in Title 8, Chapter 35, Part 4, *Tennessee Code Annotated*. State statutes are amended by the Tennessee General Assembly.

Funding Policy - Plan members are noncontributory. The college contributes an amount equal to 10% of the employee's base salary up to the social security wage base and 11% above the social security wage base. Contribution requirements are established and amended by state statute. The contribution made by the college to the plans was \$1,157,752.36 for the year ended June 30, 2007, and \$1,671,367.24 for the year ended June 30, 2006. 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 Rosa L. Parks Avenue, 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. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years. The Risk Management Fund is also responsible for claims for damages to state-owned property up to the amount of the

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Southwest Tennessee Community College
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property insurance aggregate deductible amount. The insurance policy deductibles vary from \$25,000 per occurrence, depending on the type of coverage, to an aggregate of \$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, 2007, and June 30, 2006, 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 Rosa L. Parks Avenue, 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, 2007, the Risk Management Fund held \$116.7 million in cash and cash equivalents designated for payment of claims. 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, 2007, the scheduled coverage for the college was \$172,413,600 for buildings and \$15,225,599.72 for contents. At June 30, 2006, the scheduled coverage for the college was \$90,616,500 for buildings and \$15,249,004 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

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been incurred but not reported. Employees and providers have 13 months to file medical claims.

NOTE 10. COMMITMENTS AND CONTINGENCIES

Sick Leave - The college records the cost of sick leave when paid. Generally, since sick leave (earned one day per month with unlimited accumulation) is paid only when an employee dies or is absent because of illness, injury, or related family death, there is no liability for sick leave at June 30. The dollar amount of unused sick leave was \$15,678,623.99 at June 30, 2007, and \$16,803,177.50 at June 30, 2006.

Operating Leases - The college has entered into various operating leases for buildings and equipment. Such leases will probably continue to be required. Expenses under operating leases for real property were \$1,076,906.56 and for personal property were \$140,180.08 for the year ended June 30, 2007. Comparative amounts for the year ended June 30, 2006, were \$1,060,629.06 and \$186,862.41. All operating leases are cancelable at the lessee's option.

Construction in Progress - At June 30, 2007, outstanding commitments under construction contracts totaled \$11,621,721.31 for accessibility adaptations, replacement of campus, Farris Complex fire system, new library, and new academic building, of which \$11,621,721.31 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 \$523,091 at June 30, 2007, and \$1,261,795 at June 30, 2006.

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

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Notes to the Financial Statements (Cont.)
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NOTE 11. NATURAL CLASSIFICATIONS WITH FUNCTIONAL CLASSIFICATIONS

The college's operating expenses by functional classification for the year ended June 30, 2007, are as follows:

Functional Classification	Natural Classification					Total
	Salaries	Benefits	Other Operating	Scholarships	Depreciation	
Instruction	\$ 20,965,383.67	\$ 5,972,843.81	\$ 2,768,686.98	\$ 183,704.61	\$ -	\$ 29,890,619.07
Public service	472,550.75	137,812.35	215,293.65	5,571.00	-	831,227.75
Academic support	4,052,094.86	1,303,805.14	3,639,380.90	96,666.58	-	9,091,947.48
Student services	4,846,002.75	1,826,118.12	3,071,371.08	538,160.08	-	10,281,652.03
Institutional support	7,872,024.07	2,775,679.85	1,210,195.14	71,669.89	-	11,929,568.95
Operation & maintenance	1,649,580.84	700,729.30	5,292,873.60	1,489.00	-	7,644,672.74
Scholar. & fellow.	8,228.17	-	97,940.39	7,413,311.77	-	7,519,480.33
Auxiliary	-	-	182,698.65	-	-	182,698.65
Depreciation	-	-	-	-	2,367,460.79	2,367,460.79
Total	<u>\$ 39,865,865.11</u>	<u>\$ 12,716,988.57</u>	<u>\$ 16,478,440.39</u>	<u>\$ 8,310,572.93</u>	<u>\$ 2,367,460.79</u>	<u>\$ 79,739,327.79</u>

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

Functional Classification	Natural Classification					Total
	Salaries	Benefits	Other Operating	Scholarships	Depreciation	
Instruction	\$ 20,319,526.99	\$ 5,369,348.61	\$ 2,686,810.18	\$ 84,119.51	\$ -	\$ 28,459,805.29
Public service	530,836.52	136,970.26	167,231.70	280.00	-	835,318.48
Academic support	4,051,550.20	1,289,411.59	3,395,249.57	85,475.95	-	8,821,687.31
Student services	4,609,704.09	1,644,577.94	2,999,646.86	521,217.65	-	9,775,146.54
Institutional support	7,456,678.03	2,687,462.47	2,359,668.12	45,143.13	-	12,548,951.75
Operation & maintenance	1,565,698.41	609,225.33	5,157,201.98	665.00	-	7,332,790.72
Scholar. & fellow.	-	-	38,812.30	7,070,392.90	-	7,109,205.20
Auxiliary	-	-	177,160.35	-	-	177,160.35
Depreciation	-	-	-	-	2,108,118.25	2,108,118.25
Total	<u>\$ 38,533,994.24</u>	<u>\$ 11,736,996.20</u>	<u>\$ 16,981,781.06</u>	<u>\$ 7,807,294.14</u>	<u>\$ 2,108,118.25</u>	<u>\$ 77,168,183.89</u>

NOTE 12. PRIOR PERIOD ADJUSTMENT

In the fiscal year ended June 30, 2005, renovation expenses for the Verties Sails Gym on the Union Avenue Campus included a portion of the cost of replacing the bleachers and upgrading the lighting. These costs were not capitalized at fiscal year end. During the fiscal year ended June 30, 2006, the scope of the project was expanded to include a

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total renovation of the gymnasium, locker rooms, and adjoining athletic space. The prior period adjustment recognizes the 2005 expenditures in the total project cost as a capital addition to buildings.

NOTE 13. COMPONENT UNIT

The Southwest Tennessee Community College Foundation is a legally separate, tax-exempt organization supporting Southwest Tennessee Community College. The foundation acts primarily as a fund-raising organization to supplement the resources that are available to the college in support of its programs. The 24-member board of the foundation is self-perpetuating and consists of graduates and friends of the college. Although the college does not control the timing or amount of receipts from the foundation, the majority of resources, or income thereon, that the foundation holds and invests are restricted to the activities of the college by the donors. Because these restricted resources held by the foundation can only be used by, or for the benefit of, the college, the foundation is considered a component unit of the college and is discretely presented in the college's financial statements.

During the year ended June 30, 2007, the foundation made distributions of \$6,881.82 to or on behalf of the college for both restricted and unrestricted purposes. During the year ended June 30, 2006, the foundation made distributions of \$7,056.16 to or on behalf of the college for both restricted and unrestricted purposes. Complete financial statements for the foundation can be obtained from Karen Nippert, Vice President for Institutional Advancement, 5983 Macon Cove, Memphis, Tennessee 38134.

Cash and cash equivalents - In addition to demand deposits and petty cash on hand, this classification includes instruments which are readily convertible to known amounts of cash and which have original maturities of three months or less. At June 30, 2007, cash and cash equivalents consisted of \$581,287.93 in bank accounts and \$548,872.78 in the State of Tennessee Local Government Investment Pool (LGIP) administered by the State Treasurer. At June 30, 2006, cash and cash equivalents consisted of \$75,583.63 in bank accounts and \$981,203.75 in the State of Tennessee Local Government Investment Pool administered by the State Treasurer.

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

At June 30, 2007, the foundation had the following investments and maturities.

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities (in Years)</u>				<u>No Maturity Date</u>
		<u>Less than 1</u>	<u>1 to 5</u>	<u>6 to 10</u>	<u>More than 10</u>	
U.S. Agencies	\$ 160,424.19	\$ -	\$ 67,226.02	\$ 93,198.17	\$ -	\$ -
Mutual Equity Fund:						
Charles Schwab	923,876.02	-	-	-	-	923,876.02
Other:						
Life Insurance:						
Valley Forge Life Ins.	17,075.07	-	-	-	-	17,075.07
Government securities:						
Univ Okla Revs	25,094.75	-	-	25,094.75	-	-
Aspen CO Pub Facs	24,801.35	-	-	-	24,801.35	-
Gulf Shores, AL	23,736.65	-	-	-	23,736.65	-
NY Urban Dev Corp	24,873.29	24,873.29	-	-	-	-
Yough Sch Dist PA	25,755.49	-	-	25,755.49	-	-
Newton Iowa Cap	24,597.44	-	-	24,597.44	-	-
El Paso, TX	25,160.58	-	25,160.58	-	-	-
Virginia Beach Dev	20,063.69	20,063.69	-	-	-	-
High Pt. NJ Reg HS	24,850.08	-	24,850.08	-	-	-
Lewiston, ME	20,008.35	-	20,008.35	-	-	-
Ewing Twp NJ Sch						
Dist	19,536.93	-	19,536.93	-	-	-
Kansas St Dev Fin	19,205.70	-	19,205.70	-	-	-
Philadelphia, PA Sch						
Dist	19,482.04	-	-	19,482.04	-	-
Fort Worth, TX	25,876.58	-	-	25,876.58	-	-
OK Cap Impt Auth	25,044.88	-	-	25,044.88	-	-
Total	\$ 1,449,463.08	\$44,936.98	\$ 175,987.66	\$239,049.35	\$ 48,538.00	\$ 940,951.09

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Southwest Tennessee Community College
Notes to the Financial Statements (Cont.)
June 30, 2007, and June 30, 2006**

At June 30, 2006, the foundation had the following investments and maturities.

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities (in Years)</u>				<u>No Maturity Date</u>
		<u>Less than 1</u>	<u>1 to 5</u>	<u>6 to 10</u>	<u>More than 10</u>	
U.S. Agencies	\$ 84,425.51	\$ -	\$ 60,605.98	\$ 23,819.53	\$ -	\$ -
Mutual Equity Funds:						
Charles Schwab	401,167.54	-	-	-	-	401,167.54
Other:						
Life insurance:						
Southwestern Life	18,358.13	-	-	-	-	18,358.13
Government securities:						
Virginia Beach Auth	19,702.40	-	19,702.40	-	-	-
High Point NJ HS	23,886.75	-	23,886.75	-	-	-
Lewiston, ME	19,705.20	-	19,705.20	-	-	-
Ewing Twp sch dis	19,227.60	-	-	19,227.60	-	-
Kansas Dev Fin	18,806.40	-	-	18,806.40	-	-
Philadelphia Sch Dis	18,777.60	-	-	18,777.60	-	-
Fort Worth, TX	25,536.25	-	-	25,536.25	-	-
OK Cap Imp Auth	<u>24,121.75</u>	<u>-</u>	<u>-</u>	<u>24,121.75</u>	<u>-</u>	<u>-</u>
Total	<u>\$673,715.13</u>	<u>\$ -</u>	<u>\$ 123,900.33</u>	<u>\$130,289.13</u>	<u>\$ -</u>	<u>\$ 419,525.67</u>

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

Credit risk - Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Securities are rated using Standard and Poor's, Moody's, and/or Fitch and are presented below using the Standard and Poor's rating scale. The foundation has no investment policy limiting its investment choices based on ratings issued by nationally recognized statistical rating organizations.

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Notes to the Financial Statements (Cont.)
June 30, 2007, and June 30, 2006**

At June 30, 2007, the foundation's investments were rated as follows:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Credit Quality Rating</u>			
		AAA	AA	A	Unrated
LGIP	\$ 548,872.78	\$ -	\$ -	\$ -	\$ 548,872.78
U.S. Agencies	160,424.19	160,424.19	-	-	-
Other:					
Government securities:					
Univ Okla Revs	25,094.75	-	25,094.75	-	-
Aspen CO Pub Facs	24,801.35	24,801.35	-	-	-
Gulf Shores, AL	23,736.65	23,736.65	-	-	-
New York St	24,873.29	24,873.29	-	-	-
Yough Sch Dist PA	25,755.49	25,755.49	-	-	-
Newton Iowa Cap	24,597.44	-	-	24,597.44	-
El Paso, TX	25,160.58	25,160.58	-	-	-
Virginia Beach Dev	20,063.69	-	20,063.69	-	-
High Pt. NJ Reg HS	24,850.08	24,850.08	-	-	-
Lewiston, ME	20,008.35	-	20,008.35	-	-
Ewing Twp NJ Sch Dist	19,536.93	-	19,536.93	-	-
Kansas St Dev Fin	19,205.70	19,205.70	-	-	-
Philadelphia Sch	19,482.04	19,482.04	-	-	-
Fort Worth, TX	25,876.58	-	25,876.58	-	-
OK Cap Impt Auth	<u>25,044.88</u>	<u>25,044.88</u>	-	-	-
Total	<u>\$ 1,057,384.77</u>	<u>\$ 373,334.25</u>	<u>\$ 110,580.30</u>	<u>\$ 24,597.44</u>	<u>\$ 548,872.78</u>

At June 30, 2006, the foundation's investments were rated as follows:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Credit Quality Rating</u>		
		AAA	AA	Unrated
LGIP	\$ 981,203.75	\$ -	\$ -	\$ 981,203.75
U.S. Agencies	84,425.51	84,425.51	-	-
Other:				
Government securities:				
Virginia Bch Auth	19,702.40	-	19,702.40	-
High Point NJ HS	23,886.75	23,886.75	-	-
Lewiston, ME	19,705.20	-	19,705.20	-
Ewing Twp Dist	19,227.60	-	19,227.60	-
Kansas Dev Fin	18,806.40	18,806.40	-	-
Philadelphia Sch	18,777.60	18,777.60	-	-
Fort Worth, TX	25,536.25	-	25,536.25	-
OK Cap Imp Auth	<u>24,121.75</u>	<u>24,121.75</u>	-	-
Total	<u>\$ 1,235,393.21</u>	<u>\$ 170,018.01</u>	<u>\$ 84,171.45</u>	<u>\$ 981,203.75</u>

Custodial credit risk - For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the foundation will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The foundation does not have a policy for custodial credit risk. At June 30,

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Notes to the Financial Statements (Cont.)
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2007, the foundation had \$508,511.99 of uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent but not in the foundation's name. At June 30, 2006, the foundation had \$254,189.46 of uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent but not in the foundation's name.

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

	<u>June 30, 2007</u>	<u>June 30, 2006</u>
Current pledges	\$ 893,437.33	\$ 62,764.00
Pledges due in one to five years	1,242,140.45	598,866.34
Pledges due after five years	<u>19,600.00</u>	<u>29,400.00</u>
Subtotal	2,155,177.78	691,030.34
Less discount to net present value	<u>(0.00)</u>	<u>(0.00)</u>
 Total pledges receivable, net	 <u>\$ 2,155,177.78</u>	 <u>\$ 691,030.34</u>

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

The foundation chooses to spend only a portion of the investment income (including changes in the value of investments) each year. Under the spending plan established by the foundation, 5% of a trailing three-year average of the endowment's total asset value has been authorized for expenditure. The objective is that this spending rate plus inflation will not normally exceed the nominal total return (appreciation/depreciation plus income) from the endowment fund. This trailing three-year average shall be set back six months from the time of the current year calculations for the purpose of spending, with the three-year average being that of either calendar or fiscal-year periods according to the requirements of the budgetary process. The remaining amount, if any, is retained to be used in future years when the

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amount computed using the spending plan exceeds the investment income. At June 30, 2007, net appreciation of \$21,806.23 is available to be spent, of which \$21,806.23 is included in restricted net assets expendable for scholarships and fellowships. At June 30, 2006, net appreciation of \$22,656.17 is available to be spent, of which \$22,656.17 is included in restricted net assets expendable for scholarships and fellowships.

SUPPLEMENTARY INFORMATION
TENNESSEE BOARD OF REGENTS
SOUTHWEST TENNESSEE COMMUNITY COLLEGE FOUNDATION
STATEMENTS OF CASH FLOWS - COMPONENT UNIT
FOR THE YEARS ENDED JUNE 30, 2007, AND JUNE 30, 2006

	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES		
Gifts and contributions	\$ 1,102,230.17	\$ 421,270.81
Grants and contracts	-	10,000.00
Payments to suppliers and vendors	(381,077.33)	(202,427.26)
Payments for scholarships and fellowships	(139,535.85)	(83,862.42)
Payments to Southwest TN Community College	(6,881.82)	(7,056.16)
Net cash flows provided by operating activities	574,735.17	137,924.97
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Private gifts for endowment purposes	116,370.65	-
Net cash flows provided by noncapital financing activities	116,370.65	-
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of investments	-	22,623.63
Income on investments	38,215.12	78,852.76
Purchase of investments	(655,947.61)	(42,495.00)
Net cash provided (used) by investing activities	(617,732.49)	58,981.39
Net increase in cash and cash equivalents	73,373.33	196,906.36
Cash and cash equivalents - beginning of year	1,056,787.38	859,881.02
Cash and cash equivalents - end of year	\$ 1,130,160.71	\$ 1,056,787.38
RECONCILIATION OF OPERATING INCOME/(LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
Operating income	\$ 2,073,904.99	\$ 595,076.49
Adjustments to reconcile operating income to net cash provided (used) by operating activities:		
Changes in assets and liabilities:		
Receivables, net	(1,464,147.44)	(535,171.41)
Accounts payable	(35,022.38)	78,019.89
Net cash provided by operating activities	\$ 574,735.17	\$ 137,924.97
Noncash transactions		
Gifts-in-kind	\$ 279,729.31	\$ 222,157.51
Pledges	\$ 1,464,147.44	\$ 535,171.41
Unrealized gains on investments	\$ 119,800.34	\$ 41,431.88