

AUDIT REPORT

Tennessee Board of Regents
Motlow State Community College

For the Years Ended
June 30, 2010, and June 30, 2009



STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY

Department of Audit
Division of State Audit



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September 15, 2011

The Honorable Bill Haslam, Governor
and

Members of the General Assembly
State Capitol
Nashville, Tennessee 37243

and

The Honorable John G. Morgan, Chancellor
Tennessee Board of Regents
1415 Murfreesboro Road, Suite 340
Nashville, Tennessee 37217

and

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

Ladies and Gentlemen:

Transmitted herewith is the financial and compliance audit of the Tennessee Board of Regents, Motlow State Community College, for the years ended June 30, 2010, and June 30, 2009. 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 disclosed a deficiency, which is detailed in the Results of the Audit section of this report. The college's administration has responded to the audit finding; the response is included following the finding. The Division of State Audit will follow up the audit to examine the application of the procedures instituted because of the audit finding.

Sincerely,

Arthur A. Hayes, Jr., CPA
Director

AAH/sds
11/035

State of Tennessee

Audit Highlights

Comptroller of the Treasury

Division of State Audit

Financial and Compliance Audit
Motlow State Community College
For the Years Ended June 30, 2010, and June 30, 2009

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.

INTERNAL CONTROL FINDING

The College Needs Improved Preparation and Review Procedures to Prevent Errors in Its Financial Statements*

Motlow State Community College's procedures for financial statement preparation should be improved to ensure the accuracy of the information presented in its financial statements. This deficiency led to several significant reporting errors. Misclassifications were discovered in the college's statements of cash flows, and as reported in the previous audit, accounting management did not ensure that the financial statements of the college's component unit foundation were accurately prepared (page 9).

The significant deficiency described above was considered a material weakness. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the college's financial statements will not be prevented, or detected and corrected on a timely basis (page 9).

* This finding is repeated from the prior audit.

OPINIONS ON THE FINANCIAL STATEMENTS

The opinions on the financial statements are unqualified.

Audit Report
Tennessee Board of Regents
Motlow State Community College
For the Years Ended June 30, 2010, and June 30, 2009

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**Tennessee Board of Regents
Motlow State Community College
For the Years Ended June 30, 2010, and June 30, 2009**

INTRODUCTION

POST-AUDIT AUTHORITY

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

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

BACKGROUND

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.

On June 13, 1967, the State Board of Education selected Moore County as the site of a community college to be located in Middle Tennessee. Motlow State Community College’s first classes on site began in September 1969.

ORGANIZATION

The governance of Motlow State Community College is vested in the Tennessee Board of Regents. The Governor, the Commissioner of Education, the Commissioner of Agriculture, and the Executive 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, 2008, through June 30, 2010, 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, 2010, and June 30, 2009. Motlow State Community College is an institution of the Tennessee Board of Regents, which is an integral part of state government. As such, the Tennessee Board of Regents has been included as a component unit in the *Tennessee Comprehensive Annual Financial Report*.

OBJECTIVES OF THE AUDIT

The objectives of the audit were

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

PRIOR AUDIT FINDING

Section 8-4-109, *Tennessee Code Annotated*, requires that each state department, agency, or institution report to the Comptroller of the Treasury the action taken to implement the recommendations in the prior audit report. The college filed its report with the Department of Audit on March 1, 2010. A follow-up of the prior audit finding was conducted as part of the current audit.

REPEATED AUDIT FINDING

The prior audit finding concerning classification errors in Motlow College Foundation's financial statements has been repeated.

OBSERVATIONS AND COMMENTS

MANAGEMENT'S RESPONSIBILITY FOR RISK ASSESSMENT

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

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

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

FRAUD CONSIDERATIONS

Statement on Auditing Standards No. 99, *Consideration of Fraud in a Financial Statement Audit*, promulgated by the American Institute of Certified Public Accountants, requires auditors to specifically assess the risk of material misstatement of an audited entity's financial statements due to fraud. The standard also restates the obvious premise that

management, not the auditors, is primarily responsible for preventing and detecting fraud in its own entity. Management's responsibility is fulfilled in part when it takes appropriate steps to assess the risk of fraud within the entity and to implement adequate internal controls to address the results of those risk assessments.

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

TECHNOLOGY CENTERS

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

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, 2010, and June 30, 2009, 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. Consideration of internal control over financial reporting disclosed a material weakness which, along with a recommendation and management's response, is detailed in the Finding and Recommendation section.

Compliance and Other Matters

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.

Fairness of Financial Statement Presentation

The Division of State Audit has rendered unqualified opinions on the college's financial statements.



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

August 5, 2011

The Honorable Bill Haslam, Governor
and

Members of the General Assembly
State Capitol
Nashville, Tennessee 37243

and

The Honorable John G. Morgan, Chancellor
Tennessee Board of Regents
1415 Murfreesboro Road, Suite 340
Nashville, Tennessee 37217

and

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

Ladies and Gentlemen:

We have audited the financial statements of Motlow State Community College, an institution of the Tennessee Board of Regents, which is a component unit of the State of Tennessee, and its discretely presented component unit as of and for the years ended June 30, 2010, and June 30, 2009, and have issued our report thereon dated August 5, 2011. 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 as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the college's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the college's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses, and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified a deficiency in internal control over financial reporting that we consider to be a material weakness.

A deficiency in internal control 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 and correct misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the financial statements will not be prevented, or detected and corrected on a timely basis. We consider the following deficiency to be a material weakness:

- The college needs improved preparation and review procedures to prevent errors in the presentation of its financial statements.

This deficiency is described in the Finding and Recommendation section of this report.

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 its 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.

August 5, 2011
Page Three

The Motlow State Community College's response to the finding identified in our audit is included in the Finding and Recommendation section of this report. We did not audit the college's response and, accordingly, we express no opinion on it.

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 that reads "Arthur A. Hayes, Jr." with a stylized flourish at the end.

Arthur A. Hayes, Jr., CPA
Director

AAH/sds

FINDING AND RECOMMENDATION

The college needs improved preparation and review procedures to prevent errors in its financial statements

Finding

Our audit again found that, as noted in the previous audit, Motlow State Community College's procedures for financial statement preparation should be improved to ensure the accuracy of the information presented in its financial statements. This deficiency resulted in the following significant reporting errors:

College Statements of Cash Flows

- In preparing the college's June 30, 2010, statement of cash flows, the Senior Accountant "netted" a \$2.3 million decrease in American Recovery and Reinvestment Act (ARRA) receivables with a related decrease in accrued liabilities for the college's voluntary buyout program. These decreases in accruals were therefore not used to adjust cash flow amounts. As a result, cash flows from operating activities and cash flows from noncapital financing activities were significantly misstated. Specifically, payments to employees and payments for benefits were understated by \$2,177,275.77 and \$166,561.61, respectively, resulting in a total understatement of cash flows used by operating activities of \$2,343,837.38. There was an equal understatement of cash flows provided by noncapital financing activities as gifts and grants received for other than capital or endowment purposes were understated by \$2,343,837.38. These errors were corrected on the audited financial statements.
- In preparing the college's June 30, 2009, statement of cash flows, the Senior Accountant erroneously deducted the increase in ARRA grants receivable from cash flows from operating activities (grants and contracts). Instead, the adjustment should have been made to cash flows from noncapital financing activities (gifts and grants for other than capital or endowment purposes). As a result, cash flows used by operating activities were overstated by \$2,343,837.38, and cash flows provided by noncapital financing activities were overstated by an equal amount. These errors were corrected on the audited financial statements.

The Vice President for Business Affairs reviewed the statements of cash flows for the years ended June 30, 2009, and June 30, 2010, but did not discover these significant misstatements. According to the Vice President for Business Affairs, the first error was due to confusion regarding the proper accounting for ARRA funds. Therefore, the Senior Accountant netted the \$2.3 million ARRA receivable with the related accrued payroll and benefits liability, and the misstatements were made. The Vice President further stated that the second error was likewise related to confusion regarding ARRA funds. In this instance, the Senior Accountant improperly adjusted operating (grant and contract) cash flows by the \$2.3 million receivable, instead of using it to adjust gifts and grants for other than capital or endowment purposes in cash flows from noncapital financing activities. As mentioned above, because the Vice President for

Business Affairs was unsure of the proper accounting treatment for the ARRA funds, she did not correct the errors made by the Senior Accountant.

Foundation Accounting

As addressed in the prior audit, accounting management at Motlow State Community College did not ensure that the financial statements and disclosures addressing the college's component unit foundation were accurately prepared for the years ended June 30, 2010, and June 30, 2009. The following errors were made in the foundation's statements and the related component unit note:

- On the foundation's statements of net assets at June 30, 2010, and June 30, 2009, cumulative market losses on the foundation's endowment funds totaling \$61,249.75 and \$318,245.63, respectively, were netted against nonexpendable restricted net assets rather than expendable restricted net assets. Income from the college's endowments, including unrealized gains and losses, is temporarily restricted as to use. These cumulative market losses should therefore have been deducted from expendable restricted net assets. Corrections were made to the audited statements.
- In note 17 in the college's 2009 financial report, the schedule of changes in endowment net assets for the Motlow College Foundation contained several significant errors. Beginning net assets were understated by \$257,610.28. Pledges receivable of \$214,116.04 and market gains of \$43,494.24 were not included in the July 1, 2009, balance. Temporarily restricted endowment income (realized and unrealized losses of \$318,245.63) was incorrectly reported as a decrease to permanently restricted net assets. Appropriations of endowment assets for expenditure of \$200,000 were not separately reported. This and other errors were corrected in the audited note.
- In note 17 in the college's 2010 financial report, the schedule of changes in endowment net assets also contained several errors. Temporarily restricted endowment income (realized and unrealized gains of \$262,322.33) was incorrectly reported as an increase to permanently restricted net assets. This and other less significant errors were corrected in the audited note.
- Other classification errors were discovered on the foundation's statement of net assets at June 30, 2009, as \$71,994.62 of restricted expendable net assets – other was incorrectly classified as unrestricted net assets. A correction was made to the audited statement.
- Other classification errors were discovered on the foundation's statement of net assets at June 30, 2010, as \$21,162.35 of unrestricted net assets was incorrectly classified as restricted expendable net assets – other. A correction was made to the audited statement.

These errors occurred because accounting management lacked understanding of endowment accounting and the principles determining net asset classification. In addition, the schedule of changes in endowment net assets was a new requirement under Financial Accounting

Standards Board (FASB) standards [FASB ASC 958-205-50 1B (d)], and the staff had difficulties in understanding what was required in the new disclosure.

These reporting errors in the college's cash flow statements and foundation accounting resulted in significant misclassifications in the college's unaudited financial statements and component unit note. Management is responsible for the fair presentation of the financial statements. Not preventing or detecting and correcting material misstatements in the financial statements could adversely affect users of the financial statements.

Recommendation

Motlow State accounting and supervisory personnel should exercise more care in preparing and reviewing the college's cash flow statements. Specifically, the Vice President for Business Affairs and the Assistant Vice President for Fiscal Services should determine proper accounting treatments for unusual items, conduct thorough reviews of subordinates' work, and ensure that preparers correct any errors detected.

For the college's foundation, the accounting management staff at Motlow State Community College need to improve their understanding of endowment accounting and proper net asset classification. The foundation's statements are prepared under a Financial Accounting Standards Board (FASB) format and then reformatted for presentation with the college's Governmental Accounting Standards Board (GASB) statements. Under FASB standards, endowment income and net assets should be classified based upon the existence and/or nature of donor-imposed restrictions. Additional training and interaction with peer institutions would aid the staff's understanding in this area. Upon completion, the foundation statements should be reviewed by appropriate supervisory personnel.

Management's Comment

We concur with the finding and recommendation. Effective immediately, accounting staff have been instructed to discuss any items that are questionable as to how they be should recorded and classified. With the preparation of the fiscal year 2011 financial statements, a new supporting schedule has been prepared to support the cash flows statement. The supporting schedule details all changes to the cash flows statement and can be traced to the cash flows statement.

Regarding the Motlow College Foundation, a thorough review of each fund has been conducted to determine the proper net asset classification along with research to improve the understanding of endowment accounting. The donor-imposed restrictions have been carefully reviewed to determine the proper classification of endowment income and net assets. The Vice President for Business Affairs will investigate opportunities for training in the areas of endowment accounting.

Additionally, a goal has been established for a week of review by the Assistant Vice President for Fiscal Services and the Vice President for Business Affairs prior to submission to the Tennessee Board of Regents.



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Independent Auditor's Report

August 5, 2011

The Honorable Bill Haslam, Governor
and
Members of the General Assembly
State Capitol
Nashville, Tennessee 37243
and

The Honorable John G. Morgan, Chancellor
Tennessee Board of Regents
1415 Murfreesboro Road, Suite 340
Nashville, Tennessee 37217
and

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

Ladies and Gentlemen:

We have audited the accompanying basic financial statements of Motlow State Community College, an institution of the Tennessee Board of Regents, which is a component unit of the State of Tennessee, and its discretely presented component unit as of and for the years ended June 30, 2010, and June 30, 2009, 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 Motlow State Community College, an institution of the Tennessee Board of Regents, are intended to present the financial position, the changes in financial position, and the cash flows of only Motlow State 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, 2010, and June 30, 2009, and the changes in its financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of Motlow State Community College and its discretely presented component unit as of June 30, 2010, and June 30, 2009, 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 16 through 30 and the schedule of funding progress on page 60 are not a required part of the basic financial statements but are 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. In its management's discussion and analysis, Motlow State Community College has not presented condensed financial information comparing the 2009 and 2008 fiscal years, which is required by accounting principles generally accepted in the United States of America to supplement, although not be a part of, the basic financial statements.

Our audit was conducted for the purpose of forming opinions on the basic financial statements. The accompanying financial information on page 61 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.

August 5, 2011
Page Three

In accordance with generally accepted government auditing standards, we have also issued our report dated August 5, 2011, 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 considered in assessing 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/sds

**Tennessee Board of Regents
Motlow State Community College
Management's Discussion and Analysis**

This section of Motlow State Community College's financial report presents a discussion and analysis of the financial performance of the college during the fiscal year ended June 30, 2010, with comparative information presented for the fiscal year ended June 30, 2009. 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.

The college has one discretely presented component unit, the Motlow College Foundation. More detailed information about the college's component unit is presented in Note 17 to the financial statements. Information regarding the component unit is also included in this section.

Using This Report

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

The Statement of Net Assets

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

Net assets are divided into three major categories. The first category, invested in capital assets, net of related debt, provides the college's equity in property, plant, and equipment owned by the college. The next asset category is restricted net assets, which is divided into two categories, nonexpendable and expendable. The college has no nonexpendable restricted assets. Expendable restricted net assets are available for expenditure by the college but must be spent for purposes as determined by donors and/or external entities that have placed time or purpose restrictions on the use of the assets. The final category is unrestricted net assets. Unrestricted net assets are available to the institution for any lawful purpose of the institution.

**Tennessee Board of Regents
Motlow State Community College
Management's Discussion and Analysis (Cont.)**

**Condensed Statements of Net Assets
(in thousands of dollars)**

	<u>Motlow College</u>		<u>Component Unit</u>	
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
Assets:				
Current assets	\$ 8,599	\$ 10,265	\$ 918	\$ 1,273
Capital assets, net	33,259	33,797	-	-
Other assets	4,360	2,324	4,699	3,904
Total assets	<u>46,218</u>	<u>46,386</u>	<u>5,617</u>	<u>5,177</u>
Liabilities:				
Current liabilities	4,625	7,167	13	22
Noncurrent liabilities	2,047	1,893	-	-
Total liabilities	<u>6,672</u>	<u>9,060</u>	<u>13</u>	<u>22</u>
Net assets:				
Invested in capital assets, net of related debt	32,559	32,833	-	-
Restricted - nonexpendable	-	-	2,944	2,923
Restricted - expendable	185	180	2,494	2,071
Unrestricted	6,802	4,313	166	161
Total net assets	<u>\$ 39,546</u>	<u>\$ 37,326</u>	<u>\$ 5,604</u>	<u>\$ 5,155</u>

**Motlow College
Comparison of Fiscal Year 2010 to Fiscal Year 2009**

- Current assets decreased by \$1.666 million. The majority of the change was due to the accrual in fiscal year 2009 for the Voluntary Buy-Out Plan. (See Note 16 to the financial statements.)
- Capital assets decreased by \$538 thousand, primarily due to depreciation and minimal purchases in fiscal year 2010.
- Total liabilities decreased by \$2.388 million. This decrease primarily resulted from the fiscal year 2009 Voluntary Buy-Out Plan accrual being liquidated in fiscal year 2010.
- Total net assets increased by \$2.220 million, which is primarily attributed to an enrollment increase of approximately 14% and a fee increase of 4%. Additionally, savings were realized from the Voluntary Buy-Out Plan.

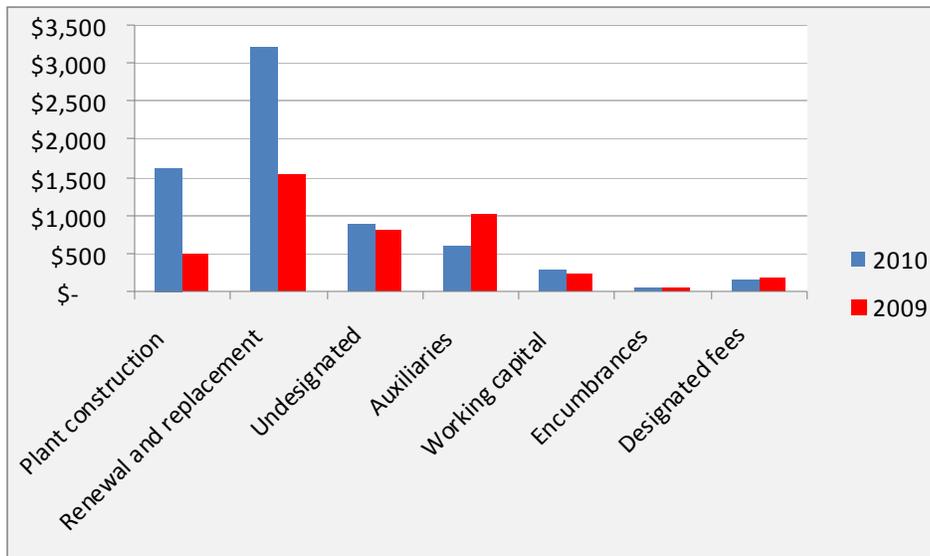
**Tennessee Board of Regents
Motlow State Community College
Management's Discussion and Analysis (Cont.)**

**Component Unit
Comparison of Fiscal Year 2010 to Fiscal Year 2009**

- Current assets decreased by \$355 thousand. This decrease was primarily due to investment managers investing fiscal year 2009 cash into marketable securities during fiscal year 2010.
- Other assets (primarily investments) increased by \$795 thousand. Investment managers invested cash available in fiscal year 2009 in marketable securities during fiscal year 2010. Additionally, the market value of investments rebounded to some degree in fiscal year 2010.
- Total net assets increased by \$449 thousand. The primary factor contributing to this addition was the rebound in the fair market value of investments.

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

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

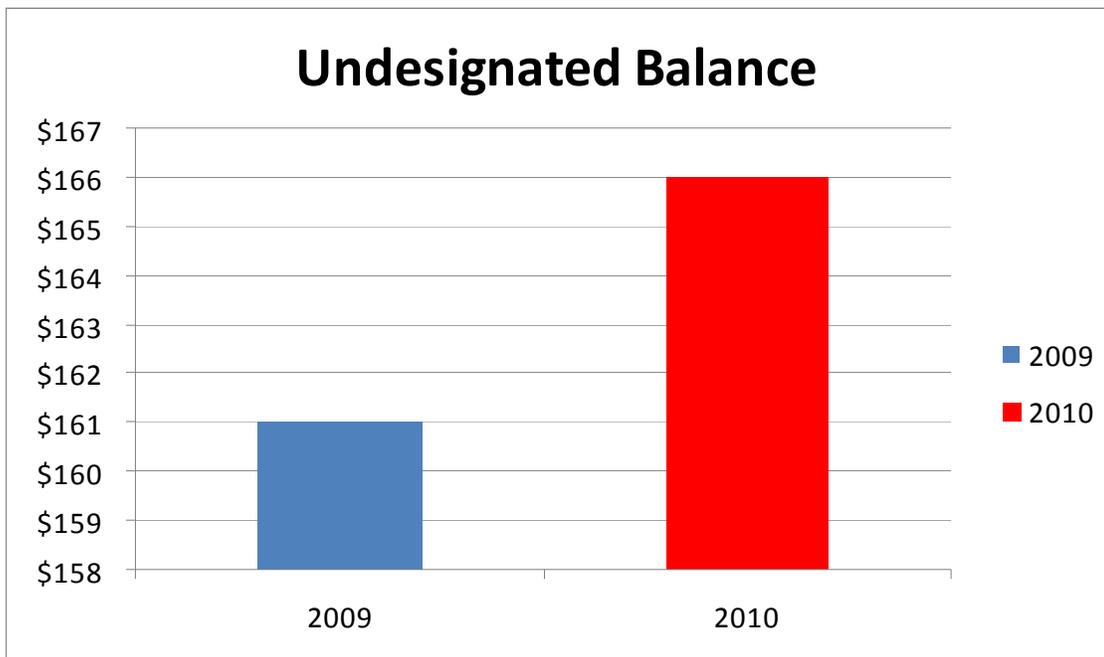


**Tennessee Board of Regents
Motlow State Community College
Management's Discussion and Analysis (Cont.)**

**Motlow College
Comparison of Fiscal Year 2010 to Fiscal Year 2009
(in thousands of dollars)**

- Plant construction increased by \$1.145 million due to a transfer from current funds. This transfer will assist with covering a portion of the renovation of the Ingram Administration Building and other projects.
- Renewal and replacement increased by \$1.654 million, primarily due to a transfer from current funds of \$1.735 million coupled with payments for administrative software and hardware and other computer related items and a transfer to retirement of indebtedness.
- Auxiliaries decreased by \$398 thousand due to a transfer to current funds coupled with fiscal year 2010 commissions.

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



**Tennessee Board of Regents
Motlow State Community College
Management's Discussion and Analysis (Cont.)**

Component Unit

- The undesignated net assets are \$166 thousand at June 30, 2010.

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.

**Tennessee Board of Regents
Motlow State Community College
Management's Discussion and Analysis (Cont.)**

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

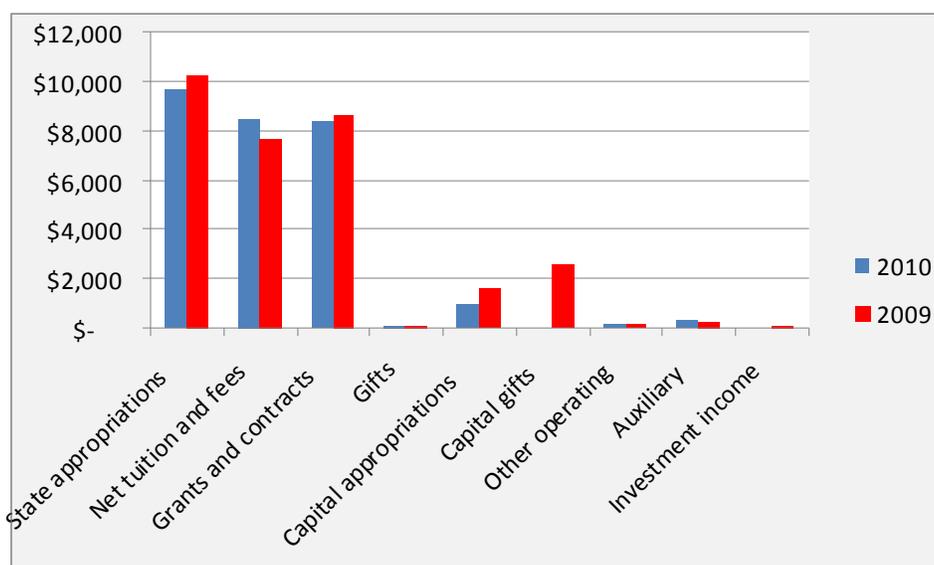
	Motlow College		Component Unit	
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
Operating revenues:				
Net tuition and fees	\$8,429	\$7,686	\$ -	\$ -
Grants and contracts	-	-	317	294
Endowment income per spending plan	-	-	196	163
Auxiliary	284	284	4	5
Grants and contracts	377	423	-	-
Other	139	136	-	-
Total operating revenues	<u>9,229</u>	<u>8,529</u>	<u>517</u>	<u>462</u>
Operating expenses	25,795	27,670	380	390
Operating income (loss)	<u>(16,566)</u>	<u>(19,141)</u>	<u>137</u>	<u>72</u>
Nonoperating revenues and expenses:				
State appropriations	9,700	10,528	-	-
Grants & contracts	8,026	8,221	-	-
Gifts	87	54	-	-
Investment income	23	92	285	(836)
Other revenues and expenses	(38)	36	-	21
Total nonoperating revenues and expenses	<u>17,798</u>	<u>18,931</u>	<u>285</u>	<u>(815)</u>
Income (loss) before other revenues, expenses, gains, or losses	<u>1,232</u>	<u>(210)</u>	<u>422</u>	<u>(743)</u>
Other revenues, expenses, gains, or losses:				
Capital appropriations	987	1,625	-	-
Capital grants and gifts	1	2,578	-	-
Additions to permanent endowments	-	-	27	10
Total other revenues, expenses, gains, or losses	<u>988</u>	<u>4,203</u>	<u>27</u>	<u>10</u>
Increase (decrease) in net assets	<u>2,220</u>	<u>3,993</u>	<u>449</u>	<u>(733)</u>
Net assets at beginning of year	<u>37,326</u>	<u>33,333</u>	<u>5,155</u>	<u>5,888</u>
Net assets at end of year	<u><u>\$39,546</u></u>	<u><u>\$37,326</u></u>	<u><u>\$5,604</u></u>	<u><u>\$5,155</u></u>

**Tennessee Board of Regents
Motlow State Community College
Management's Discussion and Analysis (Cont.)**

Revenues

The following is a graphic illustration of revenues by source (both operating and nonoperating), which are used to fund the college's operating activities for the year ended June 30, 2010, and the year ended June 30, 2009. Amounts are presented in thousands of dollars.

Revenues by Source – Motlow College



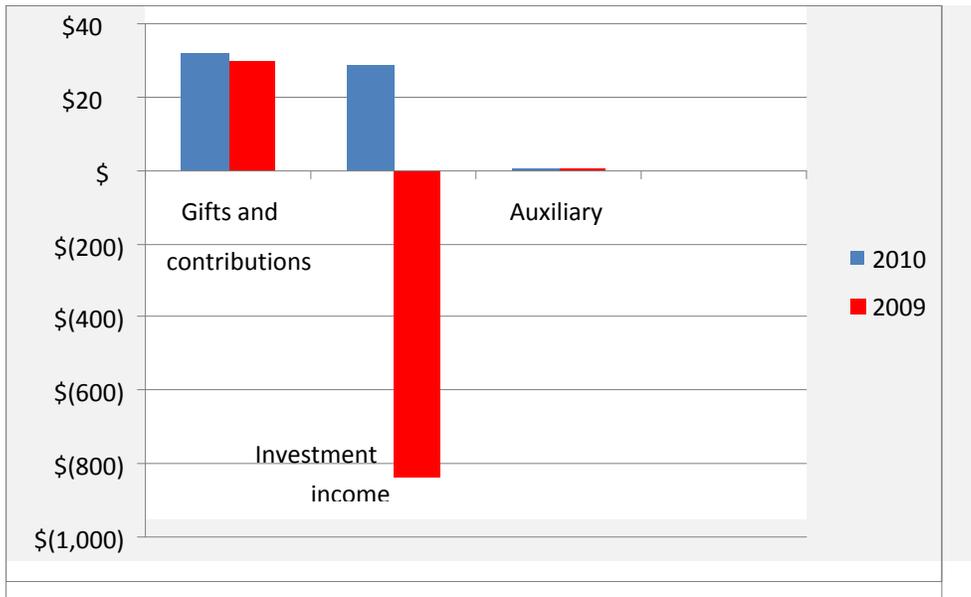
**Motlow College
Comparison of Fiscal Year 2010 to Fiscal Year 2009**

- Net tuition and fees increased by \$743 thousand. This increase primarily resulted from a 4% fee increase, along with a 14% enrollment increase.
- State appropriations decreased by \$828 thousand. The economic conditions in Tennessee continue to decline, and sales tax revenues collected by the state continue to spiral downward, causing the state to reduce state appropriations.
- Capital appropriations decreased by \$638 thousand. This decrease resulted from projects being completed in prior years and less activity in fiscal year 2010.
- Capital gifts decreased by \$2.577 million, primarily due to the land and building donated by the city of Fayetteville and Lincoln County to Motlow College in fiscal year 2009, and no major gifts were received in fiscal year 2010.

**Tennessee Board of Regents
Motlow State Community College
Management's Discussion and Analysis (Cont.)**

- Investment income decreased by \$69 thousand, primarily due to the historically low interest rates.

Revenues by Source – Component Unit



**Component Unit
Comparison of Fiscal Year 2010 to Fiscal Year 2009**

- Gifts and contributions increased by \$23 thousand due to a one-time gift received in the amount of \$100 thousand, which was netted against a decline in pledges.
- Investment income increased by approximately \$1.12 million, primarily due to a rebound in the market dealing with unrealized gains.

**Tennessee Board of Regents
Motlow State Community College
Management's Discussion and Analysis (Cont.)**

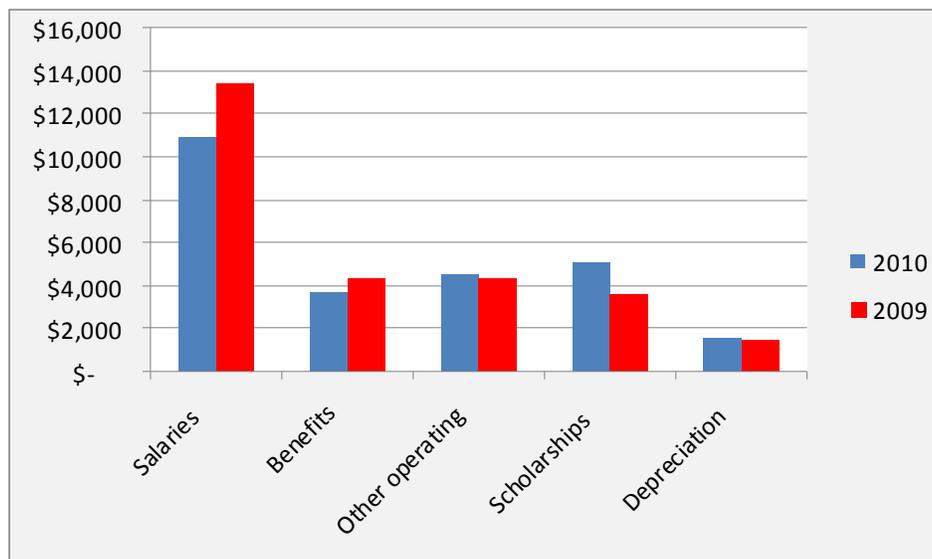
Expenses

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

Natural Classification

	<u>Motlow College</u>		<u>Component Unit</u>	
	2010	2009	2010	2009
Salaries	\$ 10,959	\$ 13,830	\$ -	\$ -
Benefits	3,704	4,376	-	-
Other operating	4,513	4,333	230	178
Scholarships	5,043	3,632	123	179
Payments on behalf of the college	-	-	27	33
Depreciation	1,576	1,499	-	-
Total operating expenses	<u>\$ 25,795</u>	<u>\$ 27,670</u>	<u>\$ 380</u>	<u>\$ 390</u>

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

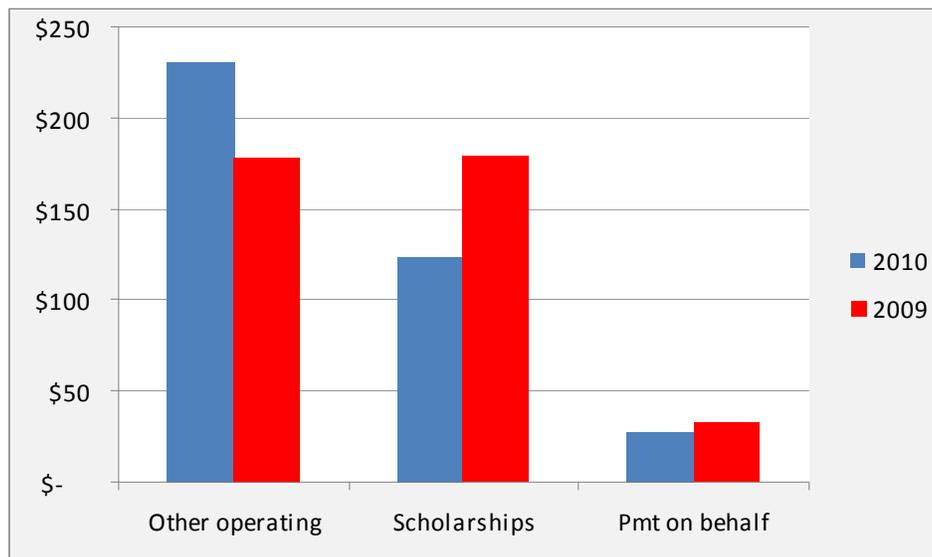


**Tennessee Board of Regents
Motlow State Community College
Management's Discussion and Analysis (Cont.)**

**Motlow College
Comparison of Fiscal Year 2010 to Fiscal Year 2009**

- Salaries and benefits decreased by \$3.543 million. The majority of this decrease is due to recognition of expenses related to the college's Voluntary Buy-Out Plan in fiscal year 2009. Similar expense did not occur in fiscal year 2010.
- Other operating expenses increased by \$180 thousand. Some of the factors that contributed to this increase were supplies and furnishings for the Crouch Center and repairs to underground pipes.
- Scholarships and fellowships increased by \$1.411 million. This increase is primarily a direct result of the enrollment increase and fee increase. In addition, implementation of year round Pell occurred in fiscal year 2010. Approximately 60% of Motlow students are receiving some type of financial aid.

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



**Tennessee Board of Regents
Motlow State Community College
Management's Discussion and Analysis (Cont.)**

**Component Unit
Comparison of Fiscal Year 2010 to Fiscal Year 2009**

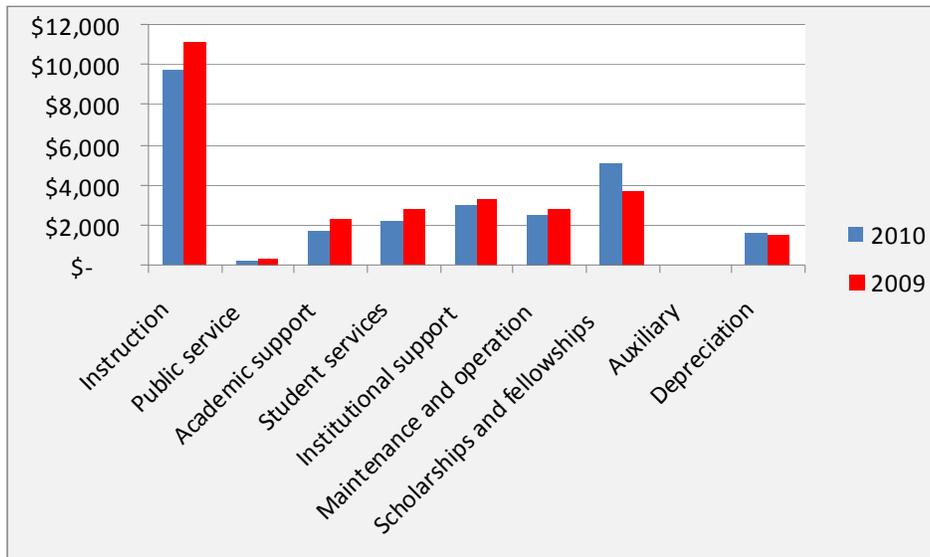
- Other operating expenses increased by \$52 thousand due to purchases for the mechatronics program.
- Scholarships decreased by \$56 thousand due to establishing criteria for new scholarships and not obtaining applications for endowed scholarships which had adequate earnings accumulated for disbursement.

Program Classification – Motlow College

	<u>2010</u>	<u>2009</u>
Instruction	\$ 9,718	\$ 11,117
Public service	187	269
Academic support	1,667	2,312
Student services	2,197	2,759
Institutional support	2,951	3,251
Maintenance and operation	2,448	2,822
Scholarships and fellowships	5,043	3,632
Auxiliary	8	9
Depreciation	<u>1,576</u>	<u>1,499</u>
Total operating expenses	<u>\$ 25,795</u>	<u>\$ 27,670</u>

**Tennessee Board of Regents
Motlow State Community College
Management's Discussion and Analysis (Cont.)**

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



**Operating Expenses by Function - Motlow College
Comparison of Fiscal Year 2010 to Fiscal Year 2009**

- The instructional component of the institution, which includes the functional areas of instruction, academic support, and public service, represented 45% of the total operating expenses in 2010. The total cost of these areas decreased from fiscal year 2009 by \$2.126 million, primarily due to the Voluntary Buy-Out Plan and expenses related to it that were incurred in fiscal year 2009 and not in fiscal year 2010.
- Both student services and institutional support decreased by \$562 thousand and \$300 thousand, respectively. These decreases were primarily due to the Voluntary Buy-Out Plan and expenses related to it that were incurred in fiscal year 2009 and not in fiscal year 2010.
- Scholarships and fellowships increased by \$1.411 million. This increase is primarily a direct result of the enrollment increase and fee increase. In addition, implementation of year round Pell occurred in fiscal year 2010. Approximately 60% of Motlow students are receiving some type of financial aid.

**Tennessee Board of Regents
Motlow State Community College
Management's Discussion and Analysis (Cont.)**

Capital Asset and Debt Administration

Capital Assets

Motlow College had \$33,258,742.96 invested in capital assets, net of accumulated depreciation of \$13,732,031.12 at June 30, 2010, and \$33,796,450.29 invested in capital assets, net of accumulated depreciation of \$12,307,712.51 at June 30, 2009. Depreciation charges totaled \$1,575,969.96 and \$1,499,192.53 for the years ended June 30, 2010, and June 30, 2009. The component unit had no capital assets at June 30, 2010, or June 30, 2009. Details of these assets are shown below.

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

	<u>Motlow College</u>		<u>Component Unit</u>	
	2010	2009	2010	2009
Land	\$ 1,649	\$ 1,649	\$ -	\$ -
Land improvements & infrastructure	1,235	1,332	-	-
Buildings	28,680	28,009	-	-
Equipment	575	606	-	-
Software	926	1,024	-	-
Library holdings	194	189	-	-
Projects in progress	-	988	-	-
Capital assets, net	<u>\$ 33,259</u>	<u>\$ 33,797</u>	<u>\$ -</u>	<u>\$ -</u>

**Motlow College
Comparison of Fiscal Year 2010 to Fiscal Year 2009**

- The major addition to buildings was the Crouch Center renovation at the Moore County campus.
- The projects in progress decreased by \$988 thousand due to the Crouch Center renovation being moved from projects in progress to the asset capitalization account.

**Tennessee Board of Regents
Motlow State Community College
Management's Discussion and Analysis (Cont.)**

Component Unit

- No additions to capital assets occurred over the two-year period.

More detailed information about the college's capital assets is presented in Note 5 to the financial statements.

Debt

The college had \$700,000.00 and \$963,707.00 in debt outstanding at June 30, 2010, and June 30, 2009, respectively. For the two years, the component unit had no debt outstanding. The table below summarizes these amounts by the type of debt instrument.

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

	Motlow College		Component Unit	
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
Bonds	700	964	-	-
Total debt	<u>\$ 700</u>	<u>\$ 964</u>	<u>\$ -</u>	<u>\$ -</u>

**Motlow College
Comparison of Fiscal Year 2010 to Fiscal Year 2009**

- Bonds decreased by \$264 thousand. The Enterprise Resource Planning debt was fully liquidated in fiscal year 2010, and the remaining \$700 thousand is owed on the Rutherford County facility.

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

**Tennessee Board of Regents
Motlow State Community College
Management's Discussion and Analysis (Cont.)**

Economic Factors That Will Affect The Future

The economic outlook for higher education continues to be bleak due to reduced state tax collections. Motlow State Community College will continue to receive additional funds in fiscal year 2011 from the State of Tennessee's participation in the American Recovery and Reinvestment Act (ARRA) by receiving State Fiscal Stabilization Funds. For fiscal year 2011, the college will receive approximately \$1.4 million. These funds will be used to assist with projects that will increase efficiency for the college and assist the college in preparing for fiscal year 2012.

Additionally, a tuition increase of approximately 6% was approved for the academic year of 2011 which will assist to provide revenues for student programs and services. Motlow College is one of five institutions participating in an Enterprise Resource Planning hosting arrangement. The goal is to benefit from sharing cost and enhance services provided by this arrangement. Changes are ahead for the Tennessee Community College System because of the Complete College Act and the economy as a whole. Motlow State Community College will continue to look for ways to streamline processes and enhance student programs and services.

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

**TENNESSEE BOARD OF REGENTS
MOTLOW STATE COMMUNITY COLLEGE
STATEMENTS OF NET ASSETS
JUNE 30, 2010, AND JUNE 30, 2009**

	Motlow State Community College		Component Unit - Motlow College Foundation	
	June 30, 2010	June 30, 2009	June 30, 2010	June 30, 2009
ASSETS				
Current assets:				
Cash and cash equivalents (Notes 2, 3, and 17)	\$ 7,531,598.10	\$ 7,700,734.29	\$ 792,309.81	\$ 1,149,106.74
Accounts and grants receivable (net) (Note 4)	1,039,520.24	662,150.79	3,246.00	3,600.00
Due from primary government	8,329.00	1,887,288.00	-	-
Pledges receivable (net) (Note 17)	-	-	116,234.51	115,326.68
Inventories	2,409.37	994.06	-	-
Prepaid expenses and deferred charges	16,896.26	13,828.32	2,400.00	-
Accrued interest receivable	-	-	3,255.48	4,955.77
Total current assets	<u>8,598,752.97</u>	<u>10,264,995.46</u>	<u>917,445.80</u>	<u>1,272,989.19</u>
Noncurrent assets:				
Cash and cash equivalents (Notes 2, 3, and 17)	4,359,904.64	1,868,406.29	-	-
Investments (Note 17)	-	-	4,595,400.55	3,697,486.97
Due from primary government	-	456,549.38	-	-
Pledges receivable (net) (Note 17)	-	-	103,748.61	207,056.85
Capital assets (net) (Note 5)	<u>33,258,742.96</u>	<u>33,796,450.29</u>	<u>-</u>	<u>-</u>
Total noncurrent assets	<u>37,618,647.60</u>	<u>36,121,405.96</u>	<u>4,699,149.16</u>	<u>3,904,543.82</u>
Total assets	<u>46,217,400.57</u>	<u>46,386,401.42</u>	<u>5,616,594.96</u>	<u>5,177,533.01</u>
LIABILITIES				
Current liabilities:				
Accounts payable (Note 6)	226,426.82	231,064.53	5,344.58	14,752.14
Accrued liabilities	1,035,276.20	3,098,153.80	-	-
Due to primary government	-	487,288.00	-	-
Deferred revenue	707,995.98	473,559.39	-	-
Compensated absences (Note 7)	77,609.09	72,355.16	-	-
Accrued interest payable	2,410.90	3,846.70	-	-
Long-term liabilities, current portion (Note 7)	100,000.00	263,707.00	-	-
Deposits held in custody for others	<u>2,474,386.32</u>	<u>2,537,283.62</u>	<u>7,656.93</u>	<u>7,629.09</u>
Total current liabilities	<u>4,624,105.31</u>	<u>7,167,258.20</u>	<u>13,001.51</u>	<u>22,381.23</u>
Noncurrent liabilities:				
Net OPEB obligation (Notes 7 and 11)	950,398.21	688,422.17	-	-
Compensated absences (Note 7)	496,821.28	504,698.88	-	-
Long-term liabilities (Note 7)	<u>600,000.00</u>	<u>700,000.00</u>	<u>-</u>	<u>-</u>
Total noncurrent liabilities	<u>2,047,219.49</u>	<u>1,893,121.05</u>	<u>-</u>	<u>-</u>
Total liabilities	<u>6,671,324.80</u>	<u>9,060,379.25</u>	<u>13,001.51</u>	<u>22,381.23</u>
NET ASSETS				
Invested in capital assets, net of related debt	32,558,742.96	32,832,743.29	-	-
Restricted for:				
Nonexpendable:				
Scholarships and fellowships	-	-	395,247.70	391,402.44
Other	-	-	2,548,839.99	2,532,166.41
Expendable:				
Instructional department uses	185,087.06	180,166.53	-	-
Scholarships and fellowships	-	-	201,518.29	208,493.80
Other	-	-	2,292,022.48	1,862,159.73
Unrestricted (Note 8)	<u>6,802,245.75</u>	<u>4,313,112.35</u>	<u>165,964.99</u>	<u>160,929.40</u>
Total net assets	<u>\$ 39,546,075.77</u>	<u>\$ 37,326,022.17</u>	<u>\$ 5,603,593.45</u>	<u>\$ 5,155,151.78</u>

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

TENNESSEE BOARD OF REGENTS
MOTLOW STATE COMMUNITY COLLEGE
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2010, AND JUNE 30, 2009

	Motlow State Community College		Component Unit - Motlow College Foundation	
	Year Ended June 30, 2010	Year Ended June 30, 2009	Year Ended June 30, 2010	Year Ended June 30, 2009
REVENUES				
Operating revenues:				
Student tuition and fees (net of scholarship allowances of \$4,228,440.62 for the year ended June 30, 2010, and \$2,962,517.38 for the year ended June 30, 2009)	\$ 8,429,683.83	\$ 7,685,520.17	\$ -	\$ -
Gifts and contributions	-	-	317,191.07	294,177.38
Endowment income per spending plan	-	-	195,906.87	163,126.32
Governmental grants and contracts	376,932.65	423,383.39	-	-
Sales and services of educational departments	-	492.52	-	-
Auxiliary enterprises:				
Bookstore	275,000.00	275,000.00	-	-
Food service	570.37	931.88	-	-
Other	8,028.35	7,770.14	4,315.22	4,441.71
Other operating revenues	138,613.58	136,397.76	-	-
Total operating revenues	<u>9,228,828.78</u>	<u>8,529,495.86</u>	<u>517,413.16</u>	<u>461,745.41</u>
EXPENSES				
Operating expenses (Note 14):				
Salaries and wages	10,959,004.73	13,830,305.60	-	-
Benefits	3,704,078.98	4,375,853.09	-	-
Utilities, supplies, and other services	4,513,136.30	4,333,060.30	230,327.99	177,783.62
Scholarships and fellowships	5,042,894.27	3,631,603.13	122,601.86	179,100.69
Depreciation expense	1,575,969.96	1,499,192.53	-	-
Payments to or on behalf of Motlow State Community College (Note 17)	-	-	27,401.96	32,999.78
Total operating expenses	<u>25,795,084.24</u>	<u>27,670,014.65</u>	<u>380,331.81</u>	<u>389,884.09</u>
Operating income (loss)	<u>(16,566,255.46)</u>	<u>(19,140,518.79)</u>	<u>137,081.35</u>	<u>71,861.32</u>
NONOPERATING REVENUES (EXPENSES)				
State appropriations	9,700,276.00	10,527,876.00	-	-
Gifts (college gifts include \$27,401.96 from component unit in 2010 and \$32,999.78 in 2009)	87,343.18	53,789.94	-	-
Grants and contracts	8,025,669.49	8,221,540.46	-	-
Investment income (for component unit, net of investment expense of \$10,825.25 in 2010 and \$9,432.05 in 2009)	23,284.25	92,495.36	284,482.56	(836,099.06)
Interest on capital asset-related debt	(38,176.28)	(48,637.60)	-	-
Other nonoperating revenues (expenses)	(457.12)	83,198.71	-	21,819.31
Net nonoperating revenues (expenses)	<u>17,797,939.52</u>	<u>18,930,262.87</u>	<u>284,482.56</u>	<u>(814,279.75)</u>
Income (loss) before other revenues, expenses, gains, or losses	<u>1,231,684.06</u>	<u>(210,255.92)</u>	<u>421,563.91</u>	<u>(742,418.43)</u>
Capital appropriations	987,653.23	1,624,522.42	-	-
Capital grants and gifts	716.31	2,578,380.72	-	-
Additions to permanent endowments	-	-	26,877.76	9,540.63
Total other revenues	<u>988,369.54</u>	<u>4,202,903.14</u>	<u>26,877.76</u>	<u>9,540.63</u>
Increase (decrease) in net assets	<u>2,220,053.60</u>	<u>3,992,647.22</u>	<u>448,441.67</u>	<u>(732,877.80)</u>
NET ASSETS				
Net assets - beginning of year	37,326,022.17	33,333,374.95	5,155,151.78	5,888,029.58
Net assets - end of year	<u>\$ 39,546,075.77</u>	<u>\$ 37,326,022.17</u>	<u>\$ 5,603,593.45</u>	<u>\$ 5,155,151.78</u>

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

**TENNESSEE BOARD OF REGENTS
MOTLOW STATE COMMUNITY COLLEGE
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2010, AND JUNE 30, 2009**

	Year Ended June 30, 2010	Year Ended June 30, 2009
CASH FLOWS FROM OPERATING ACTIVITIES		
Tuition and fees	\$ 8,599,911.42	\$ 7,632,762.19
Grants and contracts	382,293.35	437,038.57
Sales and services of educational activities	-	492.52
Payments to suppliers and vendors	(4,559,004.79)	(4,157,784.99)
Payments to employees	(13,012,008.82)	(12,179,515.85)
Payments for benefits	(3,441,524.12)	(3,614,082.04)
Payments for scholarships and fellowships	(5,042,894.27)	(3,631,603.13)
Auxiliary enterprise charges:		
Bookstore	290,000.00	275,000.00
Food services	570.37	931.88
Other	8,028.35	7,770.14
Other receipts	138,613.58	136,397.76
Net cash used by operating activities	<u>(16,636,014.93)</u>	<u>(15,092,592.95)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State appropriations	9,681,500.00	10,514,600.00
Gifts and grants received for other than capital or endowment purposes	9,566,430.55	5,899,132.27
Federal student loan receipts	2,526,131.00	2,117,398.00
Federal student loan disbursements	(2,526,131.00)	(1,936,872.00)
Changes in deposits held for others	(62,897.30)	(557,124.19)
Other noncapital financing receipts	7,493.92	568,056.84
Net cash provided by noncapital financing activities	<u>19,192,527.17</u>	<u>16,605,190.92</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital appropriations	987,653.23	1,624,522.42
Purchases of capital assets and construction	(941,768.48)	(1,620,424.88)
Principal paid on capital debt	(263,707.00)	(257,108.50)
Interest paid on capital debt	(39,612.08)	(50,029.40)
Net cash used by capital and related financing activities	<u>(257,434.33)</u>	<u>(303,040.36)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Income on investments	23,284.25	92,495.36
Net cash provided by investing activities	<u>23,284.25</u>	<u>92,495.36</u>
Net increase in cash	2,322,362.16	1,302,052.97
Cash at beginning of year	9,569,140.58	8,267,087.61
Cash at end of year	<u>\$ 11,891,502.74</u>	<u>\$ 9,569,140.58</u>

**TENNESSEE BOARD OF REGENTS
MOTLOW STATE COMMUNITY COLLEGE
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2010, AND JUNE 30, 2009**

	Year Ended <u>June 30, 2010</u>	Year Ended <u>June 30, 2009</u>
Reconciliation of operating loss to net cash used by operating activities:		
Operating loss	\$ (16,566,255.46)	\$ (19,140,518.79)
Adjustments to reconcile operating loss to net cash used by operating activities:		
Depreciation expense	1,575,969.96	1,499,192.53
Other	(23,680.42)	13,076.00
Change in assets and liabilities:		
Receivables, net	(20,627.33)	(112,473.34)
Inventories	(1,415.31)	4,266.57
Prepaid/deferred items	(6,815.94)	(2,790.41)
Accounts payable	(9,101.79)	59,398.05
Accrued liabilities	(2,062,877.60)	2,108,348.28
Net OPEB obligation	261,976.04	335,997.61
Deferred revenue	219,436.59	187,771.64
Compensated absences	<u>(2,623.67)</u>	<u>(44,861.09)</u>
Net cash used by operating activities	<u>\$ (16,636,014.93)</u>	<u>\$ (15,092,592.95)</u>
Noncash investing, capital, or financing transactions		
Gifts of capital assets	\$ 716.31	\$ 2,578,380.72
Loss on disposal of capital assets	(7,951.04)	(32,828.69)

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

**Tennessee Board of Regents
Motlow State Community College
Notes to the Financial Statements
June 30, 2010, and June 30, 2009**

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 significant 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 Motlow State Community College.

The Motlow College Foundation is considered a component unit of the college. Although the college does not control the timing or amount of receipts from the foundation, the majority of resources, or income thereon, that the foundation holds and invests are restricted to the activities of the college by the donors. Because these restricted resources held by the foundation can only be used by, or for the benefit of, the college, the foundation is considered a component unit of the college and is discretely presented in the college's financial statements. See Note 17 for more detailed information about the component unit and how to obtain the report.

Basis of Presentation

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

Basis of Accounting

For financial statement purposes, the college is considered a special-purpose government engaged only in business-type activities. Accordingly, the financial statements have been prepared using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. All significant interfund transactions have been eliminated.

Tennessee Board of Regents
Motlow State Community College
Notes to the Financial Statements (Cont.)
June 30, 2010, and June 30, 2009

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 and state grants and contracts; (3) sales and services of auxiliary enterprises; and (4) other sources of revenue. Operating expenses for the college include (1) salaries and wages; (2) employee benefits; (3) utilities, supplies, and other services; (4) scholarships and fellowships; and (5) depreciation.

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

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

Inventories

Inventories are valued at the lower of cost or market on a first-in, first-out basis.

Compensated Absences

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

Capital Assets

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

A capitalization threshold of \$100,000 is used for buildings, and \$50,000 is used for infrastructure. Equipment is capitalized when the unit acquisition cost is \$5,000 or

Tennessee Board of Regents
Motlow State Community College
Notes to the Financial Statements (Cont.)
June 30, 2010, and June 30, 2009

greater. The capitalization threshold for additions and improvements to buildings and land is set at \$50,000. The capitalization threshold for intangible assets is set at \$100,000.

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

Net Assets

The college's net assets are classified as follows:

Invested in capital assets, net of related debt - This represents the college's total investment in capital assets, net of outstanding debt obligations related to those capital assets. To the extent debt has been incurred but not yet expended for capital assets, such amounts are not included as a component of invested in capital assets, net of related debt.

Nonexpendable restricted net assets - Nonexpendable restricted net assets consist of endowment and similar type funds in which donors or other outside sources have stipulated, as a condition of the gift instrument, that the principal is to be maintained inviolate and in perpetuity, and invested for the purpose of producing present and future income, which may be expendable or added to principal.

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

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

**Tennessee Board of Regents
Motlow State Community College
Notes to the Financial Statements (Cont.)
June 30, 2010, and June 30, 2009**

Scholarship Discounts and Allowances

Student tuition and fee revenues, and certain other revenues from students, are reported net of scholarship discounts and allowances in the statement of revenues, expenses, and changes in net assets. Scholarship discounts and allowances are the difference between the stated charge for goods and services provided by the college and the amount that is paid by the student and/or third parties making payments on the student's behalf. Certain governmental grants, such as Pell grants, and other federal, state, or nongovernmental programs are recorded as either operating or nonoperating revenues in the college's financial statements. To the extent that revenues from such programs are used to satisfy tuition and fees and other student charges, the college has recorded a scholarship discount and allowance.

NOTE 2. CASH

This classification includes demand deposits and petty cash on hand. At June 30, 2010, cash consisted of \$1,673,083.62 in bank accounts, \$1,000.00 of petty cash on hand, and \$10,217,419.12 in the State of Tennessee Local Government Investment Pool (LGIP) administered by the State Treasurer. At June 30, 2009, cash consisted of \$2,231,323.82 in bank accounts, \$1,000.00 of petty cash on hand, and \$7,336,816.76 in LGIP.

NOTE 3. INVESTMENTS

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The college is authorized by statute to invest funds in accordance with Tennessee Board of Regents policies. Under the current policy, funds other than endowments may be invested only in obligations of the United States or its agencies which are backed by the full faith and credit of the United States, repurchase agreements for United States securities, certificates of deposit in banks and savings and loan associations, banker's acceptances, commercial paper, money market mutual funds, and the State of Tennessee Local Government Investment Pool (LGIP).

Tennessee Board of Regents policy restricts investments in banker's acceptances and commercial paper. The policy requires that prime banker's acceptances must be issued by domestic banks with a minimum AA rating or foreign banks with a AAA long-term

Tennessee Board of Regents
Motlow State Community College
Notes to the Financial Statements (Cont.)
June 30, 2010, and June 30, 2009

debt rating by a majority of the rating services that have rated the issuer. Prime banker's acceptances are required to be eligible for purchase by the Federal Reserve System. To be eligible, the original maturity must not be more than 270 days, and it must 1) arise out of the current shipment of goods between countries or with the United States, or 2) arise out of storage within the United States of goods under contract of sale or expected to move into the channel of trade within a reasonable time and that are secured throughout their life by a warehouse receipt or similar document conveying title to the underlying goods.

Tennessee Board of Regents policy requires that prime commercial paper shall be limited to that of corporations that meet the following criteria: 1) Senior long-term debt, if any, should have a minimum rating of A1 or equivalent, and short-term debt should have a minimum rating of A1 or equivalent, as provided by a majority of the rating services that rate the issuer. If there is no long-term debt rating, the short-term debt rating must be A1 by all rating services (minimum of two). 2) The rating should be based on the merits of the issuer or guaranteed by a nonbank. 3) A financial review should be made to ascertain the issuer's financial strength to cover the debt. 4) Commercial paper of a banking institution should not be purchased. Prime commercial paper shall not have a maturity that exceeds 270 days.

As of June 30, 2010, and June 30, 2009, the college's investments consisted entirely of investments in the Local Government Investment Pool. The fair value of these investments was \$8,240,152.85 at June 30, 2010, and \$5,740,526.99 at June 30, 2009. LGIP investments are not rated by nationally recognized statistical ratings organizations. The LGIP is part of the State Pooled Investment Fund. The fund's required risks disclosures are presented in the *State of Tennessee's Treasurer's Report*. That report is available on the state's website at <http://www.tn.gov/treasury> or by calling (615) 741-2956.

NOTE 4. RECEIVABLES

Receivables included the following:

**Tennessee Board of Regents
Motlow State Community College
Notes to the Financial Statements (Cont.)
June 30, 2010, and June 30, 2009**

	<u>June 30, 2010</u>	<u>June 30, 2009</u>
Student accounts receivable	\$441,418.73	\$304,197.93
Grants receivable	648,817.11	237,832.81
State appropriation receivable	26,700.00	21,000.00
Other receivables	<u>42,048.33</u>	<u>153,037.01</u>
Subtotal	1,158,984.17	716,067.75
Less allowance for doubtful accounts	<u>119,463.93</u>	<u>53,916.96</u>
Total receivables	<u>\$1,039,520.24</u>	<u>\$662,150.79</u>

NOTE 5. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2010, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Transfers</u>	<u>Reductions</u>	<u>Ending Balance</u>
Land	\$1,648,600.00	\$ -	\$ -	\$ -	\$1,648,600.00
Land improvements and infrastructure	2,773,044.64	-	-	-	2,773,044.64
Buildings	36,993,860.96	-	1,828,555.01	-	38,822,415.97
Equipment	1,830,217.61	101,318.93	-	94,925.00	1,836,611.54
Library holdings	450,646.09	48,156.25	-	64,677.39	434,124.95
Intangible assets	1,419,845.12	56,131.86	-	-	1,475,976.98
Projects in progress	<u>987,948.38</u>	<u>840,606.63</u>	<u>(1,828,555.01)</u>	-	-
Total	<u>46,104,162.80</u>	<u>1,046,213.67</u>	-	<u>159,602.39</u>	<u>46,990,774.08</u>
Less accumulated depreciation/amortization:					
Land improvements and infrastructure	1,441,145.56	96,732.66	-	-	1,537,878.22
Buildings	8,984,566.49	1,157,825.28	-	-	10,142,391.77
Equipment	1,224,443.91	123,676.89	-	86,973.96	1,261,146.84
Library holdings	261,837.67	43,412.51	-	64,677.39	240,572.79
Intangible assets	<u>395,718.88</u>	<u>154,322.62</u>	-	-	<u>550,041.50</u>
Total	<u>12,307,712.51</u>	<u>1,575,969.96</u>	-	<u>151,651.35</u>	<u>13,732,031.12</u>
Capital assets, net	<u>\$33,796,450.29</u>	<u>\$ (529,756.29)</u>	<u>\$ -</u>	<u>\$ 7,951.04</u>	<u>\$33,258,742.96</u>

**Tennessee Board of Regents
Motlow State Community College
Notes to the Financial Statements (Cont.)
June 30, 2010, and June 30, 2009**

Capital asset activity for the year ended June 30, 2009, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Transfers</u>	<u>Reductions</u>	<u>Ending Balance</u>
Land	\$1,571,100.00	\$ 77,500.00	\$ -	\$ -	\$1,648,600.00
Land improvements and infrastructure	2,773,044.64	-	-	-	2,773,044.64
Buildings	30,988,132.90	2,500,000.00	3,505,728.06	-	36,993,860.96
Equipment	1,936,562.83	190,697.19	29,950.00	326,992.41	1,830,217.61
Library holdings	483,940.85	44,895.27	-	78,190.03	450,646.09
Intangible assets	1,345,630.77	74,214.35	-	-	1,419,845.12
Projects in progress	<u>3,268,323.45</u>	<u>1,255,302.99</u>	<u>(3,535,678.06)</u>	-	<u>987,948.38</u>
Total	<u>42,366,735.44</u>	<u>4,142,609.80</u>	<u>-</u>	<u>405,182.44</u>	<u>46,104,162.80</u>
Less accumulated depreciation/amortization:					
Land improvements and infrastructure	1,344,720.15	96,425.41	-	-	1,441,145.56
Buildings	7,891,276.95	1,093,289.54	-	-	8,984,566.49
Equipment	1,394,072.00	118,109.19	-	287,737.28	1,224,443.91
Library holdings	294,963.09	45,064.61	-	78,190.03	261,837.67
Intangible assets	<u>249,415.10</u>	<u>146,303.78</u>	<u>-</u>	<u>-</u>	<u>395,718.88</u>
Total	<u>11,174,447.29</u>	<u>1,499,192.53</u>	<u>-</u>	<u>365,927.31</u>	<u>12,307,712.51</u>
Capital assets, net	<u>\$31,192,288.15</u>	<u>\$ 2,643,417.27</u>	<u>\$ -</u>	<u>\$ 39,255.13</u>	<u>\$33,796,450.29</u>

NOTE 6. ACCOUNTS PAYABLE

Accounts payable included the following:

	<u>June 30, 2010</u>	<u>June 30, 2009</u>
Vendors payable	\$226,426.82	\$230,814.53
Other payables	<u>-</u>	<u>250.00</u>
Total accounts payable	<u>\$226,426.82</u>	<u>\$231,064.53</u>

**Tennessee Board of Regents
Motlow State Community College
Notes to the Financial Statements (Cont.)
June 30, 2010, and June 30, 2009**

NOTE 7. LONG-TERM LIABILITIES

Long-term liabilities activity for the year ended June 30, 2010, 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	\$ 163,707.00	\$ -	\$163,707.00	\$ -	\$ -
General obligation debt:					
Bonds	<u>800,000.00</u>	<u>-</u>	<u>100,000.00</u>	<u>700,000.00</u>	<u>100,000.00</u>
Subtotal	<u>963,707.00</u>	<u>-</u>	<u>263,707.00</u>	<u>700,000.00</u>	<u>100,000.00</u>
Other liabilities:					
Compensated absences	577,054.04	411,203.54	413,827.21	574,430.37	77,609.09
Net OPEB obligation	<u>688,422.17</u>	<u>261,976.04</u>	<u>-</u>	<u>950,398.21</u>	<u>-</u>
Subtotal	<u>1,265,476.21</u>	<u>673,179.58</u>	<u>413,827.21</u>	<u>1,524,828.58</u>	<u>77,609.09</u>
Total long-term liabilities	<u>\$2,229,183.21</u>	<u>\$673,179.58</u>	<u>\$677,534.21</u>	<u>\$2,224,828.58</u>	<u>\$177,609.09</u>

Long-term liabilities activity for the year ended June 30, 2009, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Current Portion</u>
Payables:					
Loans	\$ 900,000.00	\$ -	\$ 900,000.00	\$ -	\$ -
TSSBA debt:					
Bonds	320,815.50	-	157,108.50	163,707.00	163,707.00
General obligation debt:					
Bonds	<u>-</u>	<u>900,000.00</u>	<u>100,000.00</u>	<u>800,000.00</u>	<u>100,000.00</u>
Subtotal	<u>1,220,815.50</u>	<u>900,000.00</u>	<u>1,157,108.50</u>	<u>963,707.00</u>	<u>263,707.00</u>
Other liabilities:					
Compensated absences	621,915.13	398,770.86	443,631.95	577,054.04	72,355.16
Net OPEB obligation	<u>352,424.56</u>	<u>335,997.61</u>	<u>-</u>	<u>688,422.17</u>	<u>-</u>
Subtotal	<u>974,339.69</u>	<u>734,768.47</u>	<u>443,631.95</u>	<u>1,265,476.21</u>	<u>72,355.16</u>
Total long-term liabilities	<u>\$2,195,155.19</u>	<u>\$1,634,768.47</u>	<u>\$1,600,740.45</u>	<u>\$2,229,183.21</u>	<u>\$336,062.16</u>

**Tennessee Board of Regents
Motlow State Community College
Notes to the Financial Statements (Cont.)
June 30, 2010, and June 30, 2009**

General Obligation Debt - Bonds

Bonds, with an interest rate of 4.13%, were issued by the Tennessee State Funding Board. The bonds are due serially until 2017 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; see Note 9 for further details.

Debt service requirements to maturity for the college's portion of General Obligation bonds at June 30, 2010, are as follows:

Year Ending <u>June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$100,000.00	\$ 28,930.82	\$128,930.82
2012	100,000.00	24,797.85	124,797.85
2013	100,000.00	20,664.87	120,664.87
2014	100,000.00	16,531.90	116,531.90
2015	100,000.00	12,398.92	112,398.92
2016 - 2017	<u>200,000.00</u>	<u>12,398.92</u>	<u>212,398.92</u>
Total	<u>\$700,000.00</u>	<u>\$115,723.28</u>	<u>\$815,723.28</u>

NOTE 8. 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, 2010</u>	<u>June 30, 2009</u>
Working capital	\$291,481.58	\$235,497.20
Encumbrances	43,862.18	57,258.61
Designated fees	144,545.80	182,408.64
Auxiliaries	609,220.91	1,007,460.51
Plant construction	1,629,251.68	483,688.68
Renewal and replacement of equipment	3,200,460.11	1,545,681.20
Undesignated	<u>883,423.49</u>	<u>801,117.51</u>
Total	<u>\$6,802,245.75</u>	<u>\$4,313,112.35</u>

**Tennessee Board of Regents
Motlow State Community College
Notes to the Financial Statements (Cont.)
June 30, 2010, and June 30, 2009**

NOTE 9. PLEDGED REVENUES

The college has pledged certain revenues and fees, including state appropriations, to repay \$700,000 in revenue bonds. Proceeds from the bonds provided financing for the college's Rutherford County Teaching Facility. The bonds are payable through 2017. Annual principal and interest payments on the bonds are expected to require approximately .6% of available revenues. The total principal and interest remaining to be paid on the bonds is \$815,723.28. Principal and interest paid for 2010 and total available revenues in that year were \$133,063.80 and \$22,263,924.10, respectively. See Note 7 for further detail.

NOTE 10. PENSION PLANS

A. Defined Benefit Plan

Tennessee Consolidated Retirement System

Plan Description - The college contributes to the State Employees, Teachers, and Higher Education Employees Pension Plan (SETHEEPP), a cost-sharing, multiple-employer, defined benefit pension plan administered by the Tennessee Consolidated Retirement System (TCRS). TCRS provides retirement, death, and disability benefits as well as annual cost-of-living adjustments to plan members and their beneficiaries. Title 8, Chapters 34-37, *Tennessee Code Annotated*, establishes benefit provisions. State statutes are amended by the Tennessee General Assembly.

The TCRS issues a publicly available financial report that includes financial statements and required supplementary information for SETHEEPP. That report is available on the state's website at <http://www.state.tn.us/treasury/tcrs/index.html>.

Funding Policy - Plan members are noncontributory. The college is required to contribute an actuarially determined rate. The current rate is 13.02% 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, 2010, 2009, and 2008 were \$903,025.98, \$968,685.59, and \$979,296.10. Contributions met the requirements for each year.

Tennessee Board of Regents
Motlow State Community College
Notes to the Financial Statements (Cont.)
June 30, 2010, and June 30, 2009

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), ING Life Insurance and Annuity Company, and Variable Annuity Life Insurance Company (VALIC). These plans are administered by the Tennessee Department of the Treasury. Each plan provides retirement benefits to faculty and staff who are exempt from the overtime provisions of the Fair Labor Standards Act and who waive membership in the TCRS. Benefits depend solely on amounts contributed to the plan plus investment earnings. Plan provisions are established by state statute in Title 8, Chapter 35, Part 4, *Tennessee Code Annotated*. State statutes are amended by the Tennessee General Assembly.

Funding Policy - Plan members are noncontributory. The college contributes an amount equal to 10% of the employee's base salary up to the social security wage base and 11% above the social security wage base. Contribution requirements are established and amended by state statute. The contribution made by the college to the plans was \$225,833.12 for the year ended June 30, 2010, and \$268,830.38 for the year ended June 30, 2009. Contributions met the requirements for each year.

NOTE 11. OTHER POST-EMPLOYMENT BENEFITS

Healthcare is the only "other postemployment benefit" (OPEB) provided to employees. The State of Tennessee administers a group health insurance program which provides postemployment health insurance benefits to eligible college retirees. This program includes two plans available to higher education employees—the State Employee Group Plan and the Medicare Supplement Plan. For accounting purposes, the plans are agent multiple-employer defined benefit OPEB plans. Benefits are established and amended by an insurance committee created by Section 8-27-101, *Tennessee Code Annotated*. Prior to reaching age 65, retirees may participate in the State Employee Group Plan. Members of this plan have the option of choosing a preferred provider organization (PPO), point of service (POS), or health maintenance organization (HMO) plan for healthcare benefits. The POS and HMO options will no longer be available to members after January 1, 2011. Subsequent to age 65, retirees who are also in the state's retirement system may participate in a state-administered Medicare supplement that does not include pharmacy. The state makes on-behalf

**Tennessee Board of Regents
Motlow State Community College
Notes to the Financial Statements (Cont.)
June 30, 2010, and June 30, 2009**

payments to the Medicare supplement plan for the college's eligible retirees; see Note 15. The plans are reported in the State of Tennessee's *Comprehensive Annual Financial Report* (CAFR). The CAFR is available on the state's website at <http://tennessee.gov/finance/act/cafr.html>.

Special Funding Situation

The State of Tennessee is legally responsible for contributions to the Medicare Supplement Plan that covers the retirees of other governmental entities, including Motlow State Community College. The state is the sole contributor for the college retirees that participate in the Medicare Supplement Plan and, therefore, is acting as the employer.

Funding Policy

The premium requirements of members of the State Employee Group Plan are established and may be amended by the insurance committee. The plan is self-insured and financed on a pay-as-you-go basis with the risk shared equally among the participants. Claims liabilities of the plan are periodically computed using actuarial and statistical techniques to establish premium rates. Administrative costs of the plan are allocated to plan participants. In accordance with Section 8-27-205(b), *Tennessee Code Annotated*, retirees in the State Employee Group Plan pay the same base premium as active employees in the plan adjusted for years of service. Retirees with 30 years of service pay 20% of the total premium. Retirees with 20 years but less than 30 years of service pay 30% of the total premium. Retirees with less than 20 years of service pay 40% of the total premium.

College's Annual OPEB Cost and Net OPEB Obligation
State Employee Group Plan

	<u>2010</u>	<u>2009</u>
Annual required contribution (ARC)	\$424,000.00	\$532,000.00
Interest on the net OPEB obligation	30,979.00	15,859.11
Adjustment to the ARC	<u>(29,343.26)</u>	<u>(15,435.55)</u>
Annual OPEB cost	425,635.74	532,423.56
Amount of contribution	<u>(163,659.70)</u>	<u>(196,425.95)</u>
Increase in net OPEB obligation	261,976.04	335,997.61
Net OPEB obligation – beginning of year	<u>688,422.17</u>	<u>352,424.56</u>
Net OPEB obligation – end of year	<u>\$950,398.21</u>	<u>\$688,422.17</u>

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<u>Year-end</u>	<u>Plan</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation at Year-end</u>
June 30, 2010	State Employee Group Plan	\$425,635.74	38.5%	\$950,398.21
June 30, 2009	State Employee Group Plan	\$532,423.56	36.9%	\$688,422.17
June 30, 2008	State Employee Group Plan	\$526,000.00	33.0%	\$352,424.56

Funded Status and Funding Progress

The funded status of the college's portion of the State Employee Group Plan was as follows:

State Employee Group Plan

	July 1, 2009	July 1, 2007
Actuarial valuation date	July 1, 2009	July 1, 2007
Actuarial accrued liability (AAL)	\$4,697,000.00	\$5,035,000.00
Actuarial value of plan assets	\$ -	\$ -
Unfunded actuarial accrued liability (UAAL)	\$4,697,000.00	\$5,035,000.00
Actuarial value of assets as a percentage of the AAL	0%	0%
Covered payroll (active plan members)	\$8,511,221.79	\$9,057,473.26
UAAL as percentage of covered payroll	55.2%	55.6%

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future, and actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. The schedule of funding progress, presented as RSI following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

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June 30, 2010, and June 30, 2009

Actuarial Methods and Assumptions

Calculations are based on the types of benefits provided under the terms of the substantive plan at the time of each valuation and on the pattern of sharing of costs between the employer and plan members to that point. Actuarial calculations reflect a long-term perspective. Consistent with that perspective, actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets.

In the July 1, 2009, actuarial valuation, the Projected Unit Credit actuarial cost method was used. The actuarial assumptions included a 4.5 percent investment rate of return (net of administrative expenses) and an annual healthcare cost trend rate of 6 percent initially, increased to 10 percent in the second year and then reduced by decrements to an ultimate rate of 5 percent in fiscal year 2021. All rates include a 3 percent inflation assumption. The unfunded actuarial accrued liability is being amortized as a level percentage of payroll on a closed basis over a 30-year period beginning with July 1, 2007.

NOTE 12. INSURANCE-RELATED ACTIVITIES

It is the policy of the state not to purchase commercial insurance for the risks of losses for general liability, automobile liability, professional malpractice, and workers' compensation. The state's management believes it is more economical to manage these risks internally and set aside assets for claim settlement in its internal service fund, the Risk Management Fund. The state purchases commercial insurance for real property, flood, earthquake, and builder's risk losses and surety bond coverage on the state's officials and employees. The amounts of settlements have not exceeded insurance coverage for each 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 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

**Tennessee Board of Regents
Motlow State Community College
Notes to the Financial Statements (Cont.)
June 30, 2010, and June 30, 2009**

regarding the determination of the claims liabilities and the changes in the balances of the claims liabilities for the years ended June 30, 2010, and June 30, 2009, are presented in the *Tennessee Comprehensive Annual Financial Report*. The CAFR is available on the state's website at <http://tennessee.gov/finance/act/cafr.html>. 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, 2010, the Risk Management Fund held \$114.5 million in cash and cash equivalents designated for payment of claims. At June 30, 2009, the Risk Management Fund held \$127.0 million in cash and cash equivalents designated for payment of claims.

At June 30, 2010, the scheduled coverage for the college was \$81,893,500 for buildings and \$28,650,000 for contents. At June 30, 2009, the scheduled coverage for the college was \$83,310,000 for buildings and \$27,350,000 for contents.

The state has also set aside assets in the Employee Group Insurance Fund, an internal service fund, to provide a program of health insurance coverage for the employees of the state with the risk retained by the state. The college participates in the Employee Group Insurance Fund. The fund allocates the cost of providing claims servicing and claims payment by charging a premium to the college based on estimates of the ultimate cost of claims that have been reported but not settled and of claims that have been incurred but not reported. Employees and providers have 13 months to file medical claims.

**Tennessee Board of Regents
Motlow State Community College
Notes to the Financial Statements (Cont.)
June 30, 2010, and June 30, 2009**

NOTE 13. COMMITMENTS AND CONTINGENCIES

Sick Leave

The college records the cost of sick leave when paid. Generally, since sick leave (earned one day per month with unlimited accumulation) is paid only when an employee dies or is absent because of illness, injury, or related family death, there is no liability for sick leave at June 30. The dollar amount of unused sick leave was \$3,729,957.45 at June 30, 2010, and \$3,837,907.40 at June 30, 2009.

Operating Leases

The college has entered into various operating leases for equipment. Such leases will probably continue to be required. Expenses under operating leases for personal property were \$77,376.78 for the year ended June 30, 2010. The amount for the year ended June 30, 2009, was \$76,210.56. All operating leases are cancelable at the lessee's option.

Construction in Progress

At June 30, 2010, outstanding commitments under construction contracts totaled \$93,718.31, of which \$93,718.31 will be funded by future state capital outlay appropriations.

Litigation

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

NOTE 14. NATURAL CLASSIFICATIONS WITH FUNCTIONAL CLASSIFICATIONS

The college's operating expenses for the year ended June 30, 2010, are as follows:

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Notes to the Financial Statements (Cont.)
June 30, 2010, and June 30, 2009**

<u>Functional Classification</u>	<u>Natural Classification</u>					
	<u>Salaries</u>	<u>Benefits</u>	<u>Other Operating</u>	<u>Scholarships</u>	<u>Depreciation</u>	<u>Total</u>
Instruction	\$6,405,004.96	\$1,897,480.92	\$1,415,426.93	\$ -	\$ -	\$9,717,912.81
Public service	126,067.69	28,233.26	32,286.81	-	-	186,587.76
Academic support	1,106,814.06	435,299.14	125,129.15	-	-	1,667,242.35
Student services	1,035,053.46	431,040.59	731,108.09	-	-	2,197,202.14
Institutional support	1,805,435.00	641,676.05	504,256.34	-	-	2,951,367.39
Operation & maintenance	480,629.56	270,349.02	1,696,700.81	-	-	2,447,679.39
Scholarships & fellowships	-	-	-	5,042,894.27	-	5,042,894.27
Auxiliary	-	-	8,228.17	-	-	8,228.17
Depreciation	-	-	-	-	1,575,969.96	1,575,969.96
Total	<u>\$10,959,004.73</u>	<u>\$3,704,078.98</u>	<u>\$4,513,136.30</u>	<u>\$5,042,894.27</u>	<u>\$1,575,969.96</u>	<u>\$25,795,084.24</u>

The college's operating expenses for the year ended June 30, 2009, are as follows:

<u>Functional Classification</u>	<u>Natural Classification</u>					
	<u>Salaries</u>	<u>Benefits</u>	<u>Other Operating</u>	<u>Scholarships</u>	<u>Depreciation</u>	<u>Total</u>
Instruction	\$7,501,049.73	\$2,137,839.74	\$1,477,822.64	\$ -	\$ -	\$11,116,712.11
Public service	199,983.62	45,281.10	24,341.95	-	-	269,606.67
Academic support	1,720,004.76	591,616.31	-	-	-	2,311,621.07
Student services	1,479,702.14	539,731.97	739,966.30	-	-	2,759,400.41
Institutional support	2,074,942.78	701,262.03	474,580.54	-	-	3,250,785.35
Operation & maintenance	854,622.57	360,121.94	1,607,393.27	-	-	2,822,137.78
Scholarships & fellowships	-	-	-	3,631,603.13	-	3,631,603.13
Auxiliary	-	-	8,955.60	-	-	8,955.60
Depreciation	-	-	-	-	1,499,192.53	1,499,192.53
Total	<u>\$13,830,305.60</u>	<u>\$4,375,853.09</u>	<u>\$4,333,060.30</u>	<u>\$3,631,603.13</u>	<u>\$1,499,192.53</u>	<u>\$27,670,014.65</u>

NOTE 15. ON-BEHALF PAYMENTS

During the year ended June 30, 2010, the State of Tennessee made payments of \$13,746.13 on behalf of the college for retirees participating in the Medicare Supplement Plan. The amount for the year ended June 30, 2009, was \$13,076.00. The Medicare Supplement Plan is a postemployment benefit healthcare plan and is discussed further in Note 11. The plan is reported in the *Tennessee Comprehensive Annual Financial Report*. That report is available on the state's website at <http://tennessee.gov/finance/act/cafr.html>.

**Tennessee Board of Regents
Motlow State Community College
Notes to the Financial Statements (Cont.)
June 30, 2010, and June 30, 2009**

NOTE 16. VOLUNTARY BUYOUT PROGRAM

The college implemented a Voluntary Buyout Plan in fiscal year 2009 as a strategy to assist the college in addressing budgetary constraints due to several years of state appropriation reductions and potential budget reductions in the forthcoming fiscal years. The college had 40 employees participate in the Voluntary Buyout Plan with 33 terminating by June 30, 2009, and 7 terminating by June 30, 2010.

Severance pay was payable two months following the employee separation date, between July 2009 and August 2010. Employees could request an exception to be paid in the following calendar year from the date of termination. Severance pay included:

- Base severance payment equal to one year's salary in effect on May 30, 2009.
- Amount equivalent to the employee's next longevity payment based on their years of creditable state service.
- Amount equivalent to six months of the college's portion of the monthly health insurance premium.

As of June 30, 2009, expenditures for payout of annual leave, compensatory time, or worked holidays for the Voluntary Buyout Plan were \$117,812.06. Expenditures for the voluntary buyout plan for the fiscal year ended June 30, 2010, were \$2,281,743.68. Accrued expenses for severance pay were \$103,106.09 at June 30, 2010.

NOTE 17. COMPONENT UNIT

The Motlow College Foundation is a legally separate, tax-exempt organization supporting Motlow State Community College. The foundation acts primarily as a fund-raising organization to supplement the resources that are available to the college in support of its programs. The 60-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

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Notes to the Financial Statements (Cont.)
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college, the foundation is considered a component unit of the college and is discretely presented in the college's financial statements.

The foundation is a nonprofit organization that reports under Financial Accounting Standards Board (FASB) standards. As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features. With the exception of necessary presentation adjustments, no modifications have been made to the foundation's financial information in the college's financial statements for these differences.

During the year ended June 30, 2010, the foundation made distributions of \$27,401.96 to or on behalf of the college for both restricted and unrestricted purposes. During the year ended June 30, 2009, the foundation made distributions of \$32,999.78 to or on behalf of the college for both restricted and unrestricted purposes. Complete financial statements for the foundation can be obtained from Ms. Hilda Tunstill, the college's Vice President for Business Affairs, P.O. Box 8500, Lynchburg, TN 37352.

Fair Value Measurements

The foundation reports certain assets at fair value. Fair value has been determined using quoted prices in active markets for identical assets that are accessible at the measurement date (Level 1), inputs other than quoted market prices included in Level 1 that are directly or indirectly observable for the asset (Level 2), or significant unobservable inputs (Level 3). The following tables categorize the recurring fair value measurements for assets at June 30, 2010, and at June 30, 2009.

**Tennessee Board of Regents
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Notes to the Financial Statements (Cont.)
June 30, 2010, and June 30, 2009**

	Total Fair Value at June 30, 2010	Quoted Prices Level 1	Significant Other Inputs Level 2	Significant Unobservable Inputs Level 3
Assets:				
Investments	\$4,595,400.55	\$3,395,400.55	\$1,200,000.00	\$ -
Pledges receivable	<u>219,983.12</u>	<u>-</u>	<u>-</u>	<u>219,983.12</u>
Total assets	<u>\$4,815,383.67</u>	<u>\$3,395,400.55</u>	<u>\$1,200,000.00</u>	<u>\$219,983.12</u>
	Total Fair Value at June 30, 2009	Quoted Prices Level 1	Significant Other Inputs Level 2	Significant Unobservable Inputs Level 3
Assets:				
Investments	\$3,697,486.97	\$2,497,486.97	\$1,200,000.00	\$ -
Pledges receivable	<u>322,383.53</u>	<u>-</u>	<u>-</u>	<u>322,383.53</u>
Total assets	<u>\$4,019,870.50</u>	<u>\$2,497,486.97</u>	<u>\$1,200,000.00</u>	<u>\$322,383.53</u>

Cash and Cash Equivalents

Cash and cash equivalents consists of demand deposit accounts, petty cash, Local Government Investment Pool (LGIP) deposits, and money market funds. The bank balances of deposits at June 30, 2010, were entirely insured. The bank balances of deposits at June 30, 2009, were entirely insured.

Investments

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

Investments held at June 30, 2010, were as follows:

**Tennessee Board of Regents
Motlow State Community College
Notes to the Financial Statements (Cont.)
June 30, 2010, and June 30, 2009**

	<u>Cost</u>	<u>Fair Value</u>
Certificates of deposit	\$1,200,000.00	\$1,200,000.00
Corporate stock	2,043,656.84	1,992,001.75
Mutual bond funds	809,603.71	813,531.90
Mutual equity funds	<u>629,597.16</u>	<u>589,866.90</u>
Total investments	<u>\$4,682,857.71</u>	<u>\$4,595,400.55</u>

Investments held at June 30, 2009, were as follows:

	<u>Cost</u>	<u>Fair Value</u>
Certificates of deposit	\$1,200,000.00	\$1,200,000.00
Corporate stock	2,555,573.95	2,169,108.34
Mutual bond funds	5,870.88	5,611.24
Mutual equity funds	<u>396,352.69</u>	<u>322,767.39</u>
Total investments	<u>\$4,157,797.52</u>	<u>\$3,697,486.97</u>

Pledges Receivable

Pledges receivable are summarized below net of the estimated uncollectible allowance of \$25,000.00 at June 30, 2010, and \$24,775.00 at June 30, 2009.

	<u>June 30, 2010</u>	<u>June 30, 2009</u>
Current pledges	\$116,234.51	\$115,326.68
Pledges due in one to five years	<u>104,000.00</u>	<u>209,142.90</u>
Subtotal	220,234.51	324,469.58
Less discount to net present value	<u>(251.39)</u>	<u>(2,086.05)</u>
Total pledges receivable, net	<u>\$219,983.12</u>	<u>\$322,383.53</u>

**Tennessee Board of Regents
 Motlow State Community College
 Notes to the Financial Statements (Cont.)
 June 30, 2010, and June 30, 2009**

Endowments

The Motlow College Foundation's endowment consists of approximately 95 individual funds established for a variety of purposes. Its endowment includes only donor-restricted endowment funds. As required by GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of relevant law - The Board of Trustees of the Motlow College Foundation has interpreted the Uniform Prudent Management of Institutional Funds Act (the Act) as adopted by Tennessee as requiring reporting at historical value. As a result of this interpretation, the Motlow College Foundation classifies as permanently restricted net assets (1) the original value of gifts donated to the permanent endowment; (2) the original value of subsequent gifts to the permanent endowment; and (3) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the foundation in a manner consistent with the standard of prudence prescribed by the Act. In accordance with the Act, the foundation considers the following factors in making a determination to appropriate or accumulate donor restricted endowment funds: (1) the duration and preservation of the fund; (2) the purposes of the foundation and the endowment fund; (3) general economic conditions; (4) the possible effect of inflation or deflation; (5) the expected total return from income and the appreciation of investments; (6) other resources of the foundation; and (7) the investment policies of the foundation.

Composition of Endowment by Net Asset Class
 As of June 30, 2010

	Permanently <u>Restricted</u>	Temporarily <u>Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$2,944,087.69	\$1,435,427.57	\$4,379,515.26

**Tennessee Board of Regents
Motlow State Community College
Notes to the Financial Statements (Cont.)
June 30, 2010, and June 30, 2009**

Composition of Endowment by Net Asset Class
As of June 30, 2009

	<u>Permanently Restricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$2,923,568.85	\$1,144,712.17	\$4,068,281.02

Changes in Endowment Net Assets
for the Fiscal Year Ended June 30, 2010

	<u>Permanently Restricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$2,923,568.85	\$1,144,712.17	\$4,068,281.02
Investment return:			
Investment income	10,892.05	77,626.17	88,518.22
Net appreciation/depreciation (realized and unrealized)	<u>(12,994.73)</u>	<u>389,854.16</u>	<u>376,859.43</u>
Total investment return	<u>(2,102.68)</u>	<u>467,480.33</u>	<u>465,377.65</u>
Contributions	24,374.30	5,935.07	30,309.37
Appropriations of endowment assets for expenditure	-	(182,700.00)	(182,700.00)
Amortization of pledge receivable discounts	<u>(1,752.78)</u>	<u> </u>	<u>(1,752.78)</u>
		=	
Endowment net assets, end of year	<u>\$2,944,087.69</u>	<u>\$1,435,427.57</u>	<u>\$4,379,515.26</u>

**Tennessee Board of Regents
Motlow State Community College
Notes to the Financial Statements (Cont.)
June 30, 2010, and June 30, 2009**

Changes in Endowment Net Assets
for the Fiscal Year Ended June 30, 2009

	<u>Permanently Restricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$3,516,628.76	\$1,262,543.82	\$4,779,172.58
Prior period restatement	(488,978.56)	488,978.56	-
Investment return:			
Investment income	7,680.99	70,249.45	77,930.44
Net appreciation/depreciation (realized and unrealized)	<u>(6,429.72)</u>	<u>(788,663.72)</u>	<u>(795,093.44)</u>
Total investment return	<u>1,251.27</u>	<u>(718,414.27)</u>	<u>(717,163.00)</u>
Contributions	191,648.02	14,623.42	206,271.44
Appropriations of endowment assets for expenditure	-	(200,000.00)	(200,000.00)
Transfers	<u>(296,980.64)</u>	<u>296,980.64</u>	<u>-</u>
Endowment net assets, end of year	<u>\$2,923,568.85</u>	<u>\$1,144,712.17</u>	<u>\$4,068,281.02</u>

Return objectives and risk parameters - The foundation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the organization must hold in perpetuity or for a donor-specified period. Under this policy, as approved by the Board of Trustees, the endowment assets are invested in a manner that is intended to produce results that over a market cycle will produce total returns of 5 percent over the inflation rate. Equity investments are expected to produce 7 percent over the inflation rate, and fixed income investments are expected to produce 2.5 percent more than the inflation rate. The foundation expects its endowment funds, over time, to provide an average

Tennessee Board of Regents
Motlow State Community College
Notes to the Financial Statements (Cont.)
June 30, 2010, and June 30, 2009

rate of return of approximately 7 percent annually. Actual returns in any given year may vary from this amount.

Strategies employed for achieving objectives - To satisfy its long-term rate-of-return objectives, the foundation relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The foundation hires investment money managers who target a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk restraints.

Spending policy and how the investment objectives relate - The foundation has a policy of appropriating for distribution each year 5 percent of the prior three-year average market values of investments in the endowment, plus all earnings on restricted endowed scholarship funds. In establishing this policy, the foundation considered the long-term expected return on its endowment. Accordingly, over the long-term, the foundation expects the current spending policy to allow its endowment to grow at an average of 3 percent annually. This is consistent with the foundation's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.

Prior Period Restatement

On the foundation's June 30, 2008, statement of financial position, \$488,978.56 of endowment net assets were misclassified. Permanently restricted net assets of \$488,978.56 should have been classified as temporarily restricted net assets.

**Tennessee Board of Regents
 Motlow State Community College
 Required Supplementary Information
 OPEB Schedule of Funding Progress
 Unaudited**

Actuarial Valuation Date	Plan	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b-a)/c]
July 1, 2009	State Employee Group Plan	\$ -	\$4,697,000.00	\$4,697,000.00	0%	\$8,511,221.79	55.2%
July 1, 2007	State Employee Group Plan	\$ -	\$5,035,000.00	\$5,035,000.00	0%	\$9,057,473.26	55.6%

An additional year will be reported as the data become available. The amount reported here for covered payroll relates to the fiscal year in which the valuations were performed.

**TENNESSEE BOARD OF REGENTS
MOTLOW STATE COMMUNITY COLLEGE
SUPPLEMENTARY INFORMATION
SCHEDULES OF CASH FLOWS - COMPONENT UNIT
FOR THE YEARS ENDED JUNE 30, 2010, AND JUNE 30, 2009**

	<u>Year Ended June 30, 2010</u>	<u>Year Ended June 30, 2009</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Gifts and contributions	\$ 363,591.03	\$ 339,678.43
Payments to suppliers and vendors	(186,095.71)	(197,434.05)
Payments for scholarships and fellowships	(122,601.86)	(179,100.69)
Payments to Motlow State Community College	(27,401.96)	(32,999.78)
Auxiliary enterprise charges	4,315.22	4,441.71
Net cash provided (used) by operating activities	<u>31,806.72</u>	<u>(65,414.38)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Private gifts for endowment purposes	28,630.53	9,540.63
Changes in deposits held for others	27.84	123.35
Net cash provided by noncapital financing activities	<u>28,658.37</u>	<u>9,663.98</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of investments	3,594,453.66	2,523,715.29
Income on investments	301,506.63	263,954.98
Purchases of investments	<u>(4,313,222.31)</u>	<u>(3,726,629.75)</u>
Net cash used by investing activities	<u>(417,262.02)</u>	<u>(938,959.48)</u>
Net decrease in cash and cash equivalents	(356,796.93)	(994,709.88)
Cash and cash equivalents at beginning of year	<u>1,149,106.74</u>	<u>2,143,816.62</u>
Cash and cash equivalents at end of year	<u>\$ 792,309.81</u>	<u>\$ 1,149,106.74</u>
Reconciliation of operating income to net cash provided (used) by operating activities:		
Operating income	\$ 137,081.35	\$ 71,861.32
Adjustments to reconcile operating income to net cash provided (used) by operating activities:		
Endowment income per spending plan	(195,906.87)	(163,126.32)
Change in assets and liabilities:		
Receivables, net	102,400.41	77,071.65
Prepaid expenses	(2,400.00)	-
Accounts payable	(9,407.56)	(73,040.34)
Other	39.39	21,819.31
Net cash provided (used) by operating activities	<u>\$ 31,806.72</u>	<u>\$ (65,414.38)</u>
Noncash investing, capital, or financing transactions		
Unrealized gain (loss) on investments	\$ 372,465.34	\$ (506,293.16)