AUDIT REPORT

Tennessee Board of Regents
Southwest Tennessee Community College

For the Years Ended
June 30, 2011, and June 30, 2010

STATE OF TENNESSEE

COMPTROLLER OF THE TREASURY

Department of Audit

Division of State Audit

TENNESSEE COMPTROLLER OF THE TREASURY

Deborah V. Loveless, CPA, CGFM
Director

Edward Burr, CPA, CGFM
Assistant Director

Derek Martin, CPA, CFE
Audit Manager

Wendi Scott
In-Charge Auditor

Brandi Boles
Michael Campbell
Angela Courtney
Patricia L. Wakefield, CPA, CFE
Chelon Wilson, CFE
Staff Auditors

Gerry Boaz, CPA, CGFM
Technical Manager

Amy Brack
Editor

Amanda Adams
Assistant Editor

Comptroller of the Treasury, Division of State Audit
1500 James K. Polk Building, Nashville, TN 37243-1402
(615) 401-7897

Financial/compliance audits of colleges and universities are available online at
www.comptroller.tn.gov/sa/AuditReportCategories.asp.
For more information about the Comptroller of the Treasury, please visit our website at
www.comptroller.tn.gov.

STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
DEPARTMENT OF AUDIT
DIVISION OF STATE AUDIT
SUITE 1500
JAMES K. POLK STATE OFFICE BUILDING
NASHVILLE, TENNESSEE 37243-1402
PHONE (615) 401-7897
FAX (615) 532-2765

February 6, 2014

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. Nathan Essex, President
Southwest Tennessee Community College
5983 Macon Cove
Memphis, Tennessee 38134

Ladies and Gentlemen:

Transmitted herewith is the financial and compliance audit of the Tennessee Board of Regents, Southwest Tennessee Community College, for the years ended June 30, 2011, and June 30, 2010. You will note from the independent auditor's report that unqualified opinions were given on the fairness of the presentation of the financial statements.

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

Sincerely,

Deborah V. Loveless

Deborah V. Loveless, CPA
Director

DVL/ddm
12/057

State of Tennessee

Audit Highlights

Comptroller of the Treasury | Division of State Audit

Financial and Compliance Audit
Southwest Tennessee Community College
For the Years Ended June 30, 2011, and June 30, 2010

AUDIT OBJECTIVES

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

AUDIT FINDINGS

The audit report contains no findings.

OPINIONS ON THE FINANCIAL STATEMENTS

The opinions on the financial statements are unqualified.

Audit Report
Tennessee Board of Regents
Southwest Tennessee Community College
For the Years Ended June 30, 2011, and June 30, 2010

TABLE OF CONTENTS

TABLE OF CONTENTS (CONT.)

Tennessee Board of Regents
Southwest Tennessee Community College
For the Years Ended June 30, 2011, and June 30, 2010

INTRODUCTION

POST-AUDIT AUTHORITY

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

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

BACKGROUND

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

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

ORGANIZATION

The governance of Southwest Tennessee Community College is vested in the Tennessee Board of Regents. The Governor, the Commissioner of Education, the Commissioner of Agriculture, and the 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, 2009, through June 30, 2011, 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, 2011, and June 30, 2010. Southwest Tennessee Community College is an institution of the Tennessee Board of Regents, which is an integral part of state government. As such, the Tennessee Board of Regents has been included as a component unit in the *Tennessee Comprehensive Annual Financial Report.*

OBJECTIVES OF THE AUDIT

The objectives of the audit were

1. to consider the college's internal control over financial reporting to determine auditing procedures for the purpose of expressing opinions on the financial statements;

2. to determine compliance with certain provisions of laws, regulations, contracts, and grant agreements;

3. to determine the fairness of the presentation of the financial statements; and

4. to recommend appropriate actions to correct any deficiencies.

PRIOR AUDIT FINDINGS

There were no findings in the prior audit report.

OBSERVATIONS AND COMMENTS

MANAGEMENT'S RESPONSIBILITY FOR RISK ASSESSMENT

Auditors and management are required to assess the risk of fraud in the operations of the institution. The risk assessment is based on a critical review of operations that considers 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 CENTER

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

RESULTS OF THE AUDIT

AUDIT CONCLUSIONS

Internal Control

As part of the audit of the college's financial statements for the years ended June 30, 2011, and June 30, 2010, 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 no material weaknesses.

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.

STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
DEPARTMENT OF AUDIT
DIVISION OF STATE AUDIT
SUITE 1500
JAMES K. POLK STATE OFFICE BUILDING
NASHVILLE, TENNESSEE 37243-1402
PHONE (615) 401-7897
FAX (615) 532-2765

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

November 27, 2013

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. Nathan Essex, President
Southwest Tennessee Community College
5983 Macon Cove
Memphis, Tennessee 38134

Ladies and Gentlemen:

We have audited the financial statements of Southwest Tennessee Community College, an institution of the Tennessee Board of Regents, which is a component unit of the State of Tennessee, and its discretely presented component unit as of and for the years ended June 30, 2011, and June 30, 2010, and have issued our report thereon dated November 27, 2013. 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

Management of the college is responsible for establishing and maintaining effective 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.

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.

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

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.

We noted certain matters that we reported to the management of Southwest Tennessee Community College in a separate letter.

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

Sincerely,

Deborah V. Loveless

Deborah V. Loveless, CPA
Director

DVL/ddm

STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
DEPARTMENT OF AUDIT
DIVISION OF STATE AUDIT
SUITE 1500
JAMES K. POLK STATE OFFICE BUILDING
NASHVILLE, TENNESSEE 37243-1402
PHONE (615) 401-7897
FAX (615) 532-2765

Independent Auditor's Report

November 27, 2013

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. Nathan Essex, President
Southwest Tennesse Community College
5983 Macon Cove
Memphis, Tennessee 38134

Ladies and Gentlemen:

We have audited the accompanying basic financial statements of Southwest Tennessee Community College, an institution of the Tennessee Board of Regents, which is a component unit of the State of Tennessee, and its discretely presented component unit as of and for the years ended June 30, 2011, and June 30, 2010, as listed in the table of contents. These financial statements are the responsibility of the college's management. Our responsibility is to express opinions on these financial statements, based on our audit.

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

As discussed in Note 1, the financial statements of Southwest Tennesse 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 Southwest Tennessee Community College. They do not purport to, and do not, present fairly the financial position of the Tennessee Board of Regents, as of June 30, 2011, and June 30, 2010, 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 Southwest Tennessee Community College, and its discretely presented component unit as of June 30, 2011, and June 30, 2010, 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 11 through 27 and the schedule of funding progress on page 56 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.

Our audit was conducted for the purpose of forming opinions on the basic financial statements. The accompanying financial information on page 57 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with generally accepted government auditing standards, we have also issued our report dated November 27, 2013, 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, 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,

Deborah V. Loveless

Deborah V. Loveless, CPA
Director

DVL/ddm

Tennessee Board of Regents
Southwest Tennessee Community College
Management's Discussion and Analysis

This section of Southwest Tennessee Community College's annual financial report presents a discussion and analysis of the financial performance of the college during the fiscal years ended June 30, 2011, and June 30, 2010, with comparative information presented for the fiscal year ended June 30, 2009. This discussion, along with the financial statements and related note disclosures, has been prepared by management 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 Southwest Tennessee Community 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 Southwest Tennessee Community College as a whole and present a long-term view of the college's finances.

The Statement of Net Assets

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

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

Condensed Statement of Net Assets
(in thousands of dollars)

	Southwest Tennessee Community College			Southwest Tennessee Community College Foundation		
	2011	2010	2009	2011	2010	2009
Assets:						
Current assets	$ 34,895	$ 28,205	$ 22,135	$ 6,694	$ 6,287	$ 4,463
Capital assets, net	92,544	92,133	84,705	-	-	921
Other assets	28,296	22,153	15,942	2,166	2,317	2,727
Total assets	155,735	142,491	122,782	8,860	8,604	8,111
Liabilities:						
Current liabilities	11,814	8,632	8,978	146	209	96
Noncurrent liabilities	9,026	8,945	8,716	-	-	-
Total liabilities	20,840	17,577	17,694	146	209	96
Net assets:						
Invested in capital assets, net of related debt	91,684	91,144	81,512	-	-	921
Restricted – nonexpendable	-	-	-	1,598	1,507	1,427
Restricted – expendable	1,111	981	971	6,916	6,691	5,666
Unrestricted	42,100	32,788	22,605	200	197	1
Total net assets	$ 134,895	$ 124,913	$ 105,088	$ 8,714	$ 8,395	$ 8,015

Comparison of FY 2011 to FY 2010 for Southwest

- Total assets for the college are approximately $155.7 million as of June 30, 2011, of which approximately $92.5 million are in capital assets, $54.5 million in cash, $8.4 million in accounts receivable, and the remaining amount in miscellaneous assets.
- Current assets increased 24% from fiscal year 2010 to fiscal year 2011 due to an increase in cash. This increase can be directly associated with an increase in enrollment and Pell grant awards.
- Current liabilities consist primarily of accrued liabilities, accounts payable, deferred revenues, the current portion of bonds payable, accrued compensation, and deposits held in custody for others. Total current liabilities increased from $8.6 million to $11.8 million at June 30, 2011, primarily due to liabilities incurred in conjunction to the college implementing a voluntary buyout plan to faculty and staff.
- Other assets increased 27%, due to an increase in cash and cash equivalents within unexpended plant fund and renewal and replacement. Funds were transferred from unrestricted to unexpended plant to fund approved local projects. Major local projects

included property acquisitions, a building maintenance/replacement project, and classroom furniture replacement.

- Unrestricted net assets increased 28% due to an increase in enrollment and an increase in federal Pell grant awards.

Comparison of FY 2010 to FY 2009 for Southwest

- Total assets for the college are approximately $142.5 million as of June 30, 2010, of which approximately $92.1 million are in capital assets, $40.5 million in cash, $8.5 million in accounts receivable, and the remaining amount in miscellaneous assets.
- Current assets increased from 27% fiscal year 2009 to 2010 due to an increase in cash. This increase can be directly associated with an increase in tuition and fees and an increase in enrollment.
- Current liabilities consist primarily of accrued liabilities, accounts payable, deferred revenues, the current portion of bonds payable, accrued compensation, and deposits held in custody for others. Total current liabilities decreased from $8.9 million to $8.6 million primarily due to the decrease in funds due to primary government. State Fiscal Stabilization Funds of $1,903,306.00 were returned on July 13, 2009.
- Investment in capital assets, net of related debt increased due to construction/capital activities. Major projects included the Macon Cove academic building, the new Macon Cove library, and the replacement campus.
- Unrestricted net assets increased 45% due to an increase in tuition and fees, an increase in enrollment, and a reduction in operating expenses.
- Other assets increased due to an increase in cash and within unexpended plant fund and funds held for others. Funds were transferred from unrestricted to unexpended plant to fund approved local projects. Major local projects included property acquisitions, a building maintenance/replacement project, and classroom furniture replacement. The Technology Center at Memphis also experienced an increase in cash of approximately $1.5 million.

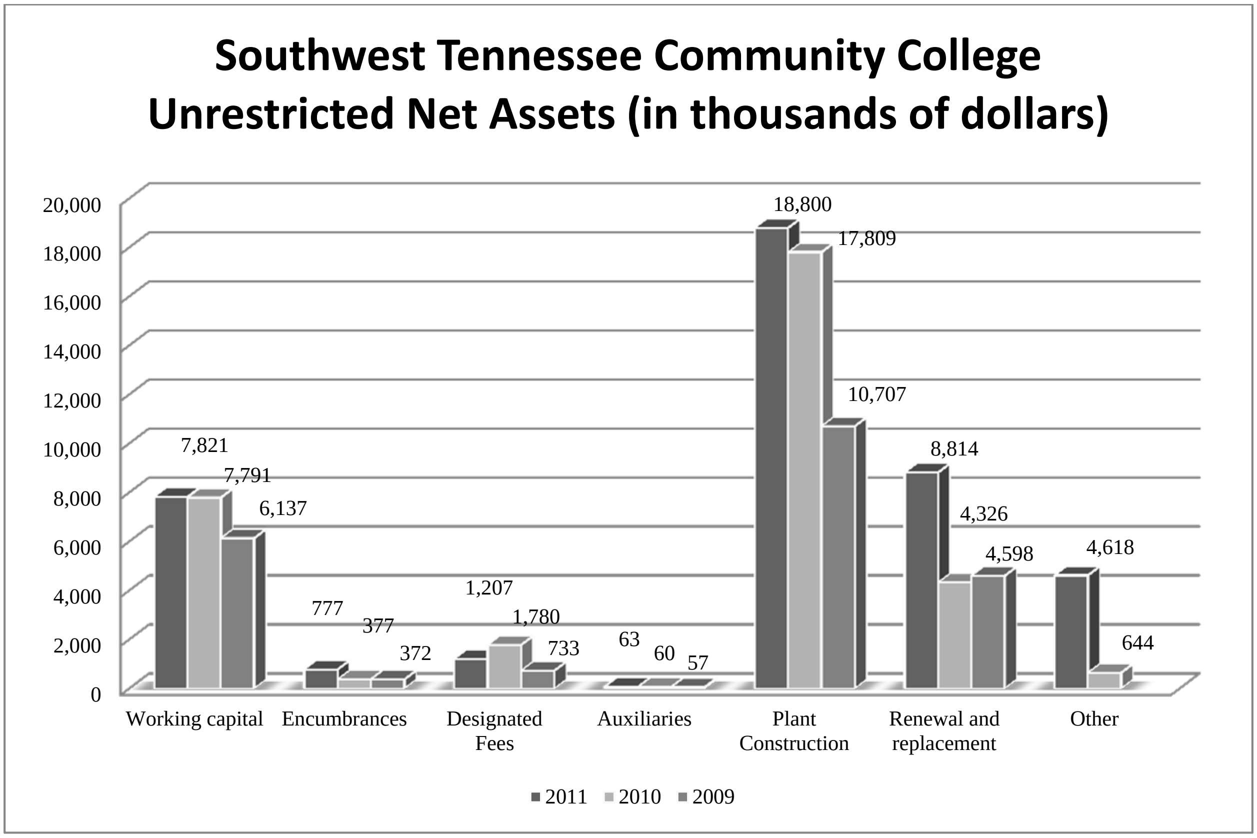
Comparison of FY 2011 to FY 2010 for Southwest Foundation

- The foundation's current liabilities decreased 30% from fiscal year 2010 to 2011 due to a decrease in the outstanding scholarship obligation due the college.

Comparison of FY 2010 to FY 2009 for Southwest Foundation

- Current assets increased 41% from fiscal year 2009 to 2010 due to the sale of land and building to the college. The foundation also transferred funds from the Raymond James Investment Group back to the foundation's Local Government Investment Pool (LGIP) to ensure a greater rate of return on investments. This transfer caused a shift in current and noncurrent assets.
- Current liabilities increased 118% as a result of scholarship awards by the college on behalf of the foundation that have not been reimbursed.
- Restricted expendable net assets increased 18% due to the sale of land and building to the college.
- Capital assets, net, and investment in capital assets, net of related debt, decreased 100% due to the sale of land and building to the college.
- Unrestricted net assets increased due to the sale of land and building to the college.
- Other assets decreased 15% due to a decrease in investments. The foundation transferred funds from the Raymond James Investment Group back to the foundation's LGIP to ensure a greater rate of return on investments. This transfer caused a shift in current and other assets.

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



<u>Comparison of FY 2011 to FY 2010 for Southwest</u>

- The allocation for renewal and replacement projects increased 104% from fiscal year 2010 to 2011 due to the transfer to the plant fund from unrestricted. Major local projects included information systems, motor vehicles, and the Culinary Arts Lab.
- Designated fees decreased 32% due to an increase in the spending practices of technology access fees funding.
- Encumbrances increased 106% due to outstanding commitments expected to be completed within the next fiscal year.

<u>Comparison of FY 2010 to FY 2009 for Southwest</u>

- Working capital requirements increased 27% from fiscal year 2009 to 2010 due to an increase in student accounts receivables and inventories. A significant number of Title IV recipients failed to meet the regulatory requirement of 60% attendance in enrolled courses.

- The allocation for designated fees increased 143% due to a decrease in the spending practices of technology access fees funding.
- The allocation for unexpended plant fund projects increased 66% due to the transfer to the plant fund from unrestricted. Major local projects included property acquisitions, a building maintenance/replacement project, and classroom furniture replacement.

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

The statement of revenues, expenses, and changes in net assets presents the college's operating results, 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.

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

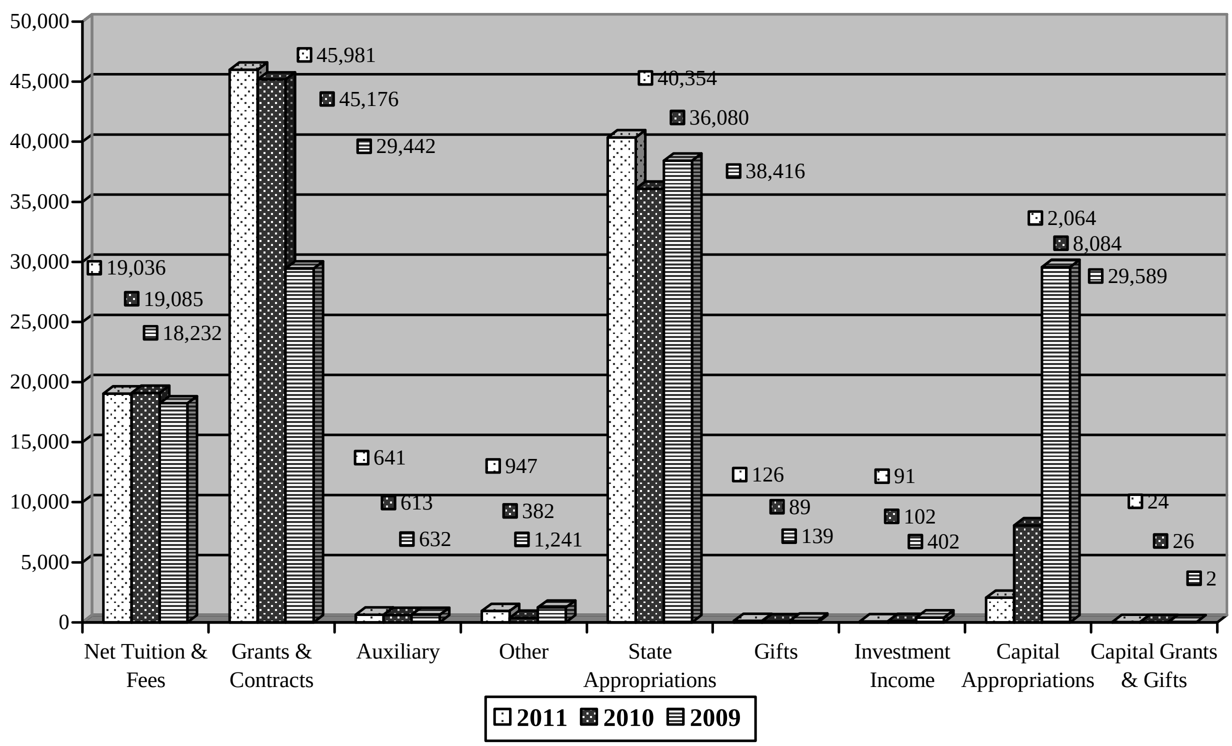
	Southwest Tennessee Community College			Southwest Tennessee Community College Foundation		
	2011	2010	2009	2011	2010	2009
Operating revenues:						
Net tuition and fees	$ 19,036	$ 19,085	$ 18,232	$ -	$ -	$ -
Gifts	-	-	-	339	435	2,295
Grants and contracts	6,359	5,034	4,639	-	-	-
Auxiliary	641	613	632	-	-	-
Other	947	382	1,241	-	-	6
Total operating revenues	26,983	25,114	24,744	339	435	2,301
Operating expenses	98,969	89,975	86,839	352	319	374
Operating income (loss)	(71,986)	(64,861)	(62,095)	(13)	116	1,927
Nonoperating revenues and expenses:						
State appropriations	40,354	36,080	38,416	-	-	-
Gifts	126	89	139	-	-	-
Grants and contracts	39,622	40,142	24,803	-	-	-
Investment income	91	102	402	263	171	(160)
Other revenues and expenses	(313)	163	(235)	-	4	-
Total nonoperating revenues and expenses	79,880	76,576	63,525	263	175	(160)
Income (loss) before other revenues, expenses, gains, or losses	7,894	11,715	1,430	250	291	1,767
Other revenues, expenses, gains, or losses:						
Capital appropriations	2,064	8,084	29,589	-	-	-
Capital grants and gifts	24	26	2	-	-	-
Additions to permanent endowments	-	-	-	69	89	160

Total other revenues, expenses, gains, or losses	2,088	8,110	29,591	69	89	160
Increase (decrease) in net assets	9,982	19,825	31,021	319	380	1,927
Net assets at beginning of year	124,913	105,088	74,067	8,395	8,015	6,088
Net assets at end of year	$134,895	$124,913	$105,088	$8,714	$8,395	$8,015

Revenues

The following is a graphic illustration of revenues by source (both operating and nonoperating), which are used to fund the college's operating activities for the years ended June 30, 2011; June 30, 2010; and June 30, 2009.

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



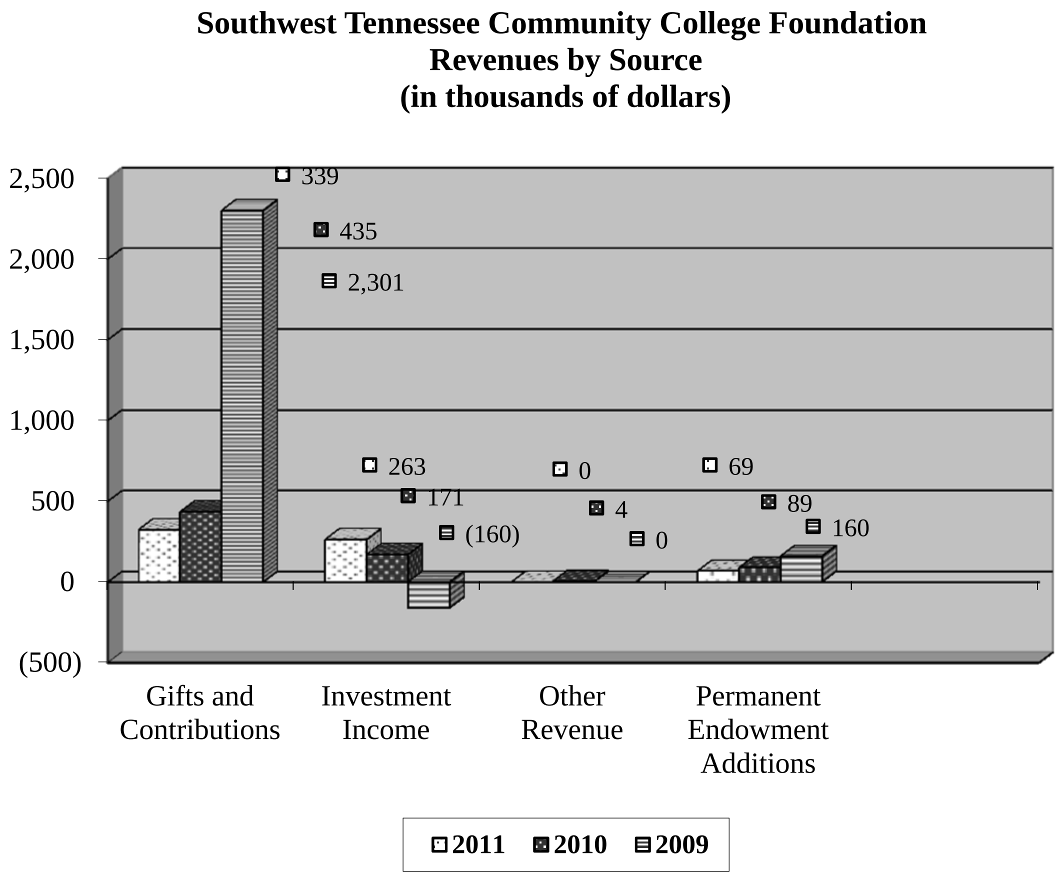
Comparison of FY 2011 to FY 2010 for Southwest

- Gifts increased 41.6% from fiscal year 2010 to 2011 due to an increase in capital and noncapital in-kind gifts from the foundation.

- Other operating income increased 148% due to revenues collected for the Educational Broadband Service agreement.
- State Fiscal Stabilization Funds were converted to non-recurring state funds in fiscal year 2011, causing an 11.8% increase in state appropriations.
- Capital appropriations decreased 74% due to the near completion of the replacement campus and the new Macon academic building projects.

Comparison of FY 2010 to FY 2009 for Southwest

- Grants and contracts increased 53% from fiscal year 2009 to 2010 due to an increase in federal grants and contracts, primarily Pell grant and Supplemental Educational Opportunity Grant awards.
- Other income decreased 69% due to the reclassification of child care revenue and rental of facilities from operating to nonoperating revenue.
- Gifts decreased 36% due to a decrease in noncapital in-kind gifts from the foundation.
- Investment income decreased 75% due to a decrease in the banking and LGIP interest rates.
- Capital appropriations decreased over $21 million dollars due to the near completion of the new Macon library and the new Macon academic building.
- Capital grants and gifts increased 1,200% due to an increase in capital in-kind gifts from the foundation.



<u>Comparison of FY 2011 to FY 2010 for Southwest Foundation</u>

- Gifts and contributions decreased from fiscal year 2010 to 2011 due to a decrease in pledge contributions to the Nursing, Natural Sciences, and Biotechnology Building.
- Endowment funds decreased 22% due to a reduction in gifts.
- Investment income increased 54% due to the overall performance of the Charles Schwab investment portfolio.
- Other revenues decreased 100% due to a gain on the sale of land and building to Southwest in 2010.

Comparison of FY 2010 to FY 2009 for Southwest Foundation

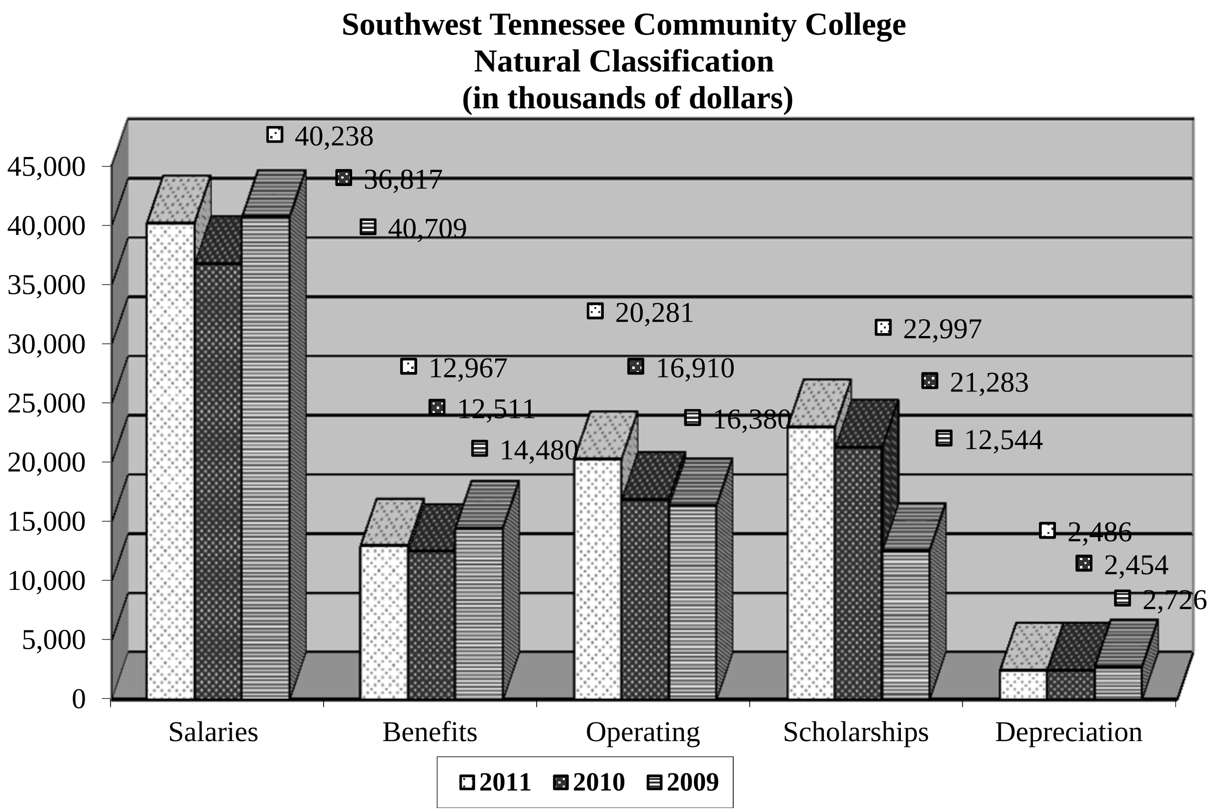
- Gifts and contributions decreased from fiscal year 2009 to 2010 due to a decrease in pledge contributions from the Federal Express Corporation and the Inman Construction Company. These donors made a one-time pledge in fiscal year 2009 in support of the foundation's ongoing major gifts campaign directed toward the future construction of the Nursing, Natural Sciences, and Biotechnology Building.
- Endowment funds decreased 44% due to a one-time gift by Randle Knowles in fiscal year 2009.
- Investment income increased 206% due to the overall performance of the Charles Schwab investment portfolio.
- Other revenues increased due to a gain on the sale of land and building to Southwest for future construction.

Expenses

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

Natural Classification
(in thousands of dollars)

	Southwest Tennessee Community College			Southwest Tennessee Community College Foundation		
	2011	**2010**	**2009**	**2011**	**2010**	**2009**
Salaries	$ 40,238	$ 36,817	$ 40,709	$ -	$ -	$ -
Benefits	12,967	12,511	14,480	-	-	-
Operating	20,281	16,910	16,380	189	149	189
Scholarships	22,997	21,283	12,544	161	145	176
Depreciation	2,486	2,454	2,726	-	-	7
Payments to or on behalf of Southwest	-	-	-	3	25	2
Total Expenses	$ 98,969	$ 89,975	$ 86,839	$ 353	$ 319	$ 374



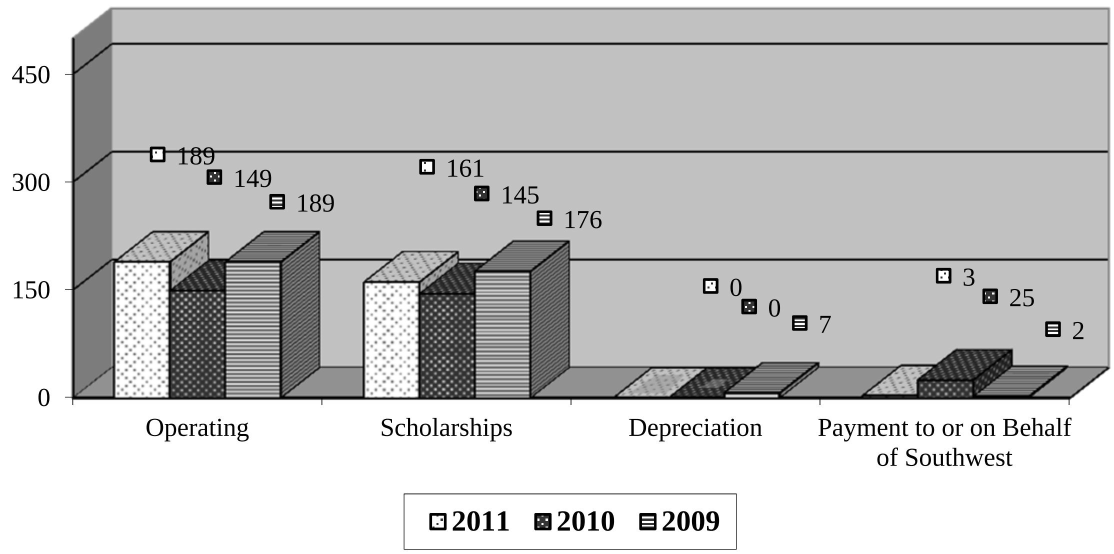
<u>Comparison of FY 2011 to FY 2010 for Southwest</u>

- Operating expenses increased 20% in fiscal year 2011 due to increased purchases of computers, the write-off of bad debt, and other professional administrative services.

<u>Comparison of FY 2010 to FY 2009 for Southwest</u>

- Benefits decreased from fiscal year 2009 to 2010 due to a decrease in OPEB attrition and retirement.
- Scholarships and fellowships increased 70%, which can be attributed to an increase in Pell grant awards.

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



<u>Comparison of FY 2011 to FY 2010 for Southwest Foundation</u>

- Scholarship expenses increased 11% from fiscal year 2010 to 2011 as a result of increased awards from Endowment Bornblum Nursing Student, FND Endowment; First Tennessee Business, FND Endowment; Knowles, Randall E.; and FND Unrestricted General.
- Payments on behalf of the college decreased 92% as the result of a one-time significant grant contribution from the Southwest Foundation in 2010.
- Operating expenses increased 27% due to an increase in the purchase of operating supplies and materials.

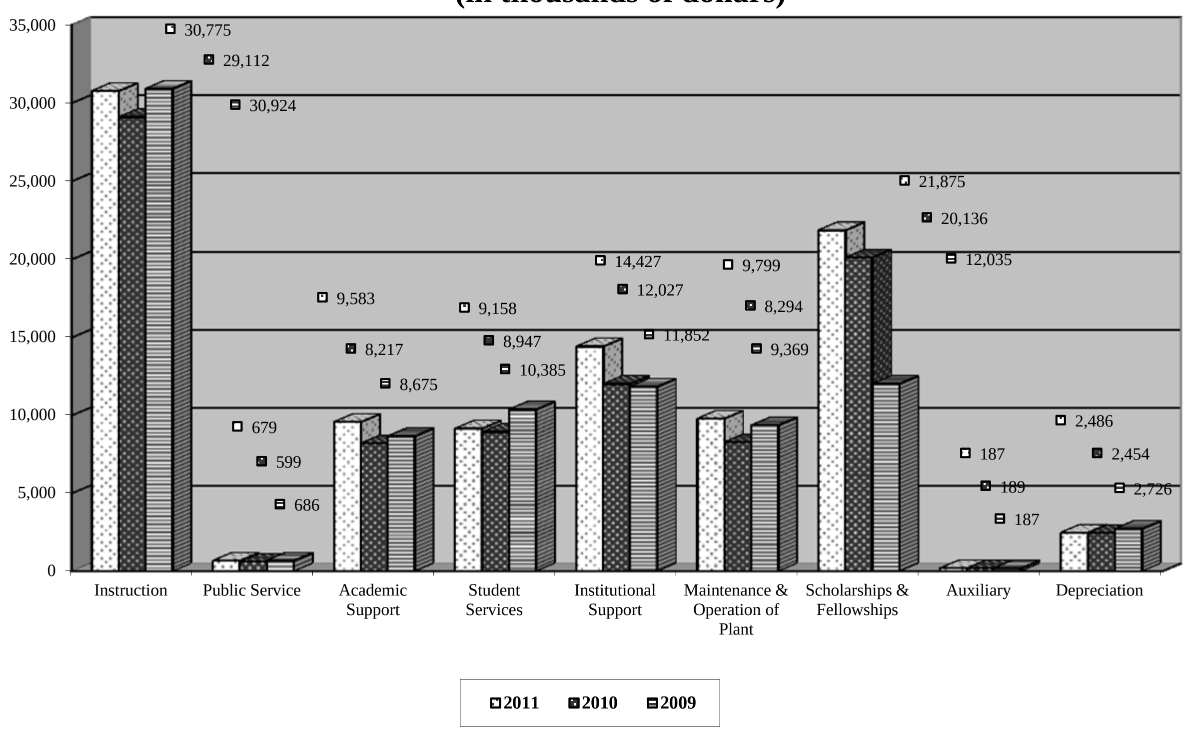
<u>Comparison of FY 2010 to FY 2009 for Southwest Foundation</u>

- Scholarship expenses decreased 18% from fiscal year 2009 to 2010 as a result of the non-renewal of the foundation's Assisi Fire Fighter's Grant.
- Payments on behalf of the college increased as a result of a significant grant contribution from the Southwest Foundation via the Dollar General Literacy Foundation and the purchase of library books.
- Operating expenses decreased 21% due to a decrease in the purchase of operating supplies and materials.

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

	2011	2010	2009
Instruction	$30,775	$29,112	$30,924
Public Service	679	599	686
Academic Support	9,583	8,217	8,675
Student Services	9,158	8,947	10,385
Institutional Support	14,427	12,027	11,852
Maintenance & Operation Plant	9,799	8,294	9,369
Scholarships & Fellowships	21,875	20,136	12,035
Auxiliary	187	189	187
Depreciation	2,486	2,454	2,726
Totals	$98,969	$89,975	$86,839

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



Comparison of FY 2011 to FY 2010 for Southwest

- Public service expenditures increased 13% from fiscal year 2010 to 2011 due to an increase in salaries and wages in college work study and part-time support expenditures.
- Academic support expenses increased 17% due to an increase in salaries and wages for part-time support and technology access fees expenditures.
- Maintenance and operation of plant increased 18% due to starting new projects.
- Institutional support expenditures increased 20% due to an increase in salaries and wages in college work study and part-time support expenditures.

Comparison of FY 2010 to FY 2009 for Southwest

- Public service expenditures decreased 13% from fiscal year 2009 to 2010 due to a decrease in OPEB expenditures and attrition/retirement.
- Student service expenditures decreased 14% due to a decrease in OPEB expenditures and attrition/retirement.
- Maintenance and operation of plant decreased 11% due to the expiration of the lease for the rental of the Southeast Center. This space was no longer needed as a result of the opening of the new Maxine Smith Center.
- Scholarships and fellowships increased 67%, which can be attributed to an increase in Pell grant awards.

Capital Assets and Debt Administration

Capital Assets

Southwest Tennessee Community College had $92,544,496.72 invested in capital assets, net of accumulated depreciation of $38,402,534.55 at June 30, 2011; $92,133,431.74 invested in capital assets, net of accumulated depreciation of $38,116,325.01 at June 30, 2010; and $84,705,075.77 invested in capital assets, net of accumulated depreciation of $36,269,547.09 at June 30, 2009. Depreciation charges totaled $2,485,824.96; $2,454,160.61; and $2,725,948.06; for the years ended June 30, 2011; June 30, 2010; and June 30, 2009, respectively. Details of these assets are shown below.

Southwest Tennessee Community College
Schedule of Capital Assets, Net of Depreciation
(in thousands of dollars)

	2011	2010	2009
Land	$11,174	$10,511	$10,009
Land Improvements & Infrastructure	2,766	3,025	3,283
Buildings	19,476	20,732	20,998
Equipment	2,976	2,558	2,780
Library Holdings	896	903	932
Projects in Progress	53,673	52,590	44,847
Software	1,583	1,814	1,856
Totals	$92,544	$92,133	$84,705

Comparison of FY 2011 to FY 2010 for Southwest

- Equipment purchases increased from fiscal year 2010 to 2011 due to the oncoming replacement of furniture and equipment. Funds that were expended included current funds of $997,205.77; renewals and replacements of $51,932.00; and unexpended plant of $56,100.00.
- Southwest Tennessee Community College continues to commit local funds to improve physical plant, infrastructure, and equipment. In 2011, the college has continued its commitment of completing the new entrance for the Macon Cove campus. Other major expenditures for fiscal year 2011 included building maintenance/replacement projects of $240,997.18, property acquisitions of $436,030.48, the razing of 675 Beale of $227,338.80, and the renovation of E-Building of $78,484.

Comparison of FY 2010 to FY 2009 for Southwest

- Expenditures for projects in progress increased 17% from fiscal year 2009 to 2010 due to several ongoing capital projects. The expenditures transferred to projects in progress were the new Macon library; the new Macon academic building; the Farris Complex fire system; the replacement campus; Macon Mechanical & Electrical; and the Nursing, Natural Sciences, and Biotechnology Building.
- Southwest Tennessee Community College continues to commit local funds to improve physical plant, infrastructure, and equipment. In 2010, the college has continued its commitment of completing the new entrance for the Macon Cove campus. Other major

expenditures for fiscal year 2010 included building maintenance/replacement projects of $179,785.59, classroom furniture replacement of $162,941.50, property acquisitions of $1,433,723.62, and office furniture replacement of $75,796.02.

- With board approval the foundation sold real property to the college at cost for the construction of a new Nursing, Natural Sciences, and Biotechnology Building.

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

Debt

The college had $2,737,469.22; $2,986,369.61; and $3,192,651.48 in debt outstanding at June 30, 2011; June 30, 2010; and June 30, 2009, respectively. The table below summarizes these amounts by project:

Tennessee State School Bond Authority Bonds

	2011	2010	2009
Property Acquisition I	$546,130.00	$ 611,347.00	$ 674,279.00
Property Acquisition II	282,718.00	316,480.00	349,059.01
Chillers CFC Conversion	31,508.84	61,460.20	89,931.08
Energy Savings Performance Contract	1,877,112.38	1,997,082.41	2,079,382.39
Totals	$2,737,469.22	$2,986,369.61	$3,192,651.48

The college did not incur any additional debt during fiscal year 2011 or 2010. Debt repayments of $248,963.68 and $237,227.75 were made during fiscal year 2011 and fiscal year 2010, respectively.

The ratings on debt issued by the Tennessee State School Bond Authority at June 30, 2011, were as follows:

Fitch	AA
Moody's Investor Service	Aa2
Standard & Poor's	AA

The foundation did not have any debt outstanding at June 30, 2011.

More detailed information about the college's long-term liabilities is presented in Note 6 to the financial statements.

Economic Factors That Will Affect the Future

The financial stability of Southwest Tennessee Community College is closely tied to that of the State of Tennessee. State appropriations for fiscal year 2011 comprised 49.2% of total unrestricted revenues for fiscal year 2011 and 47.9% for fiscal year 2010. Tuition and fees revenues are another of the largest sources of revenue, at 48.9% for fiscal year 2011 and 50.5% for fiscal year 2010. The future of this continuing shift of the cost of public higher education from the state to students, as well as its long-term effect on student enrollment and accessibility, is unknown.

The continued escalation of accounts receivable balances reduces the availability of unrestricted net assets for current operations. Student account receivables are due, in most part, to federal financial aid refund/repayment regulations. Financial aid recipients comprise over 40% of the college's student population. Unrestricted student account receivables are $7,469,719.27 at 2011 fiscal year-end, compared to $7,442,947.38 at 2010 fiscal year-end.

Requests for Information

This financial report is designed to provide a general overview of the institution's finances for all those with an interest in the college's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be directed to Ronald G. Parr, Vice President for Financial and Administrative Services, 5983 Macon Cove, Memphis, Tennessee 38134, (901) 333-4737.

Exhibit A

TENNESSEE BOARD OF REGENTS
SOUTHWEST TENNESSEE COMMUNITY COLLEGE
STATEMENTS OF NET ASSETS
JUNE 30, 2011, AND JUNE 30, 2010

	Southwest		Component Unit - Southwest Foundation	
	2011	2010	2011	2010
ASSETS				
Current assets:				
Cash (Notes 2, 3, and 17)	$ 26,198,327.01	$ 18,392,234.15	$ 5,010,228.79	$ 4,049,038.78
Short-term investments (Note 17)	-	-	66,339.00	20,628.00
Accounts, notes, and grants receivable (net) (Note 4)	8,426,078.97	8,510,499.55	-	-
Due from primary government	-	1,089,877.72	-	-
Pledges receivable (net) (Note 17)	-	-	1,617,129.20	2,217,311.96
Inventories (at lower of cost or market)	84,449.97	51,171.12	-	-
Prepaid expenses and deferred charges	186,432.36	161,036.05	-	-
Total current assets	34,895,288.31	28,204,818.59	6,693,696.99	6,286,978.74
Noncurrent assets:				
Cash (Notes 2, 3, and 17)	28,295,301.49	22,152,467.56	-	-
Investments (Note 17)	-	-	2,023,536.78	1,819,781.36
Pledges receivable (net) (Note 17)	-	-	142,983.62	496,927.24
Capital assets (net) (Note 5)	92,544,496.72	92,133,431.74	-	-
Total noncurrent assets	120,839,798.21	114,285,899.30	2,166,520.40	2,316,708.60
Total assets	155,735,086.52	142,490,717.89	8,860,217.39	8,603,687.34
LIABILITIES				
Current liabilities:				
Accounts payable	1,090,160.75	1,068,512.59	146,570.35	208,558.54
Accrued liabilities	4,786,849.29	1,629,987.11	-	-
Deferred revenue	3,063,458.99	3,310,415.48	-	-
Compensated absences (Note 6)	517,811.69	568,222.43	-	-
Accrued interest payable	18,228.52	18,504.88	-	-
Long-term liabilities, current portion (Note 6)	256,485.33	248,900.39	-	-
Deposits held in custody for others	2,081,414.13	1,787,874.86	-	-
Total current liabilities	11,814,408.70	8,632,417.74	146,570.35	208,558.54
Noncurrent liabilities:				
Net OPEB obligation (Note 10)	4,975,097.64	4,305,066.10	-	-
Compensated absences (Note 6)	1,569,557.23	1,902,228.01	-	-
Long-term liabilities (Note 6)	2,480,983.89	2,737,469.22	-	-
Total noncurrent liabilities	9,025,638.76	8,944,763.33	-	-
Total liabilities	20,840,047.46	17,577,181.07	146,570.35	208,558.54
NET ASSETS				
Invested in capital assets, net of related debt	91,684,139.88	91,144,144.54	-	-
Restricted for:				
Nonexpendable:				
Scholarships and fellowships	-	-	1,597,072.24	1,506,513.77
Expendable:				
Scholarships and fellowships	178,551.40	325,544.26	435,842.02	351,930.47
Instructional department uses	365,975.41	254,210.26	-	59,497.85
Loans	-	-	62,531.61	-
Other	566,803.20	401,133.30	6,417,288.93	6,279,524.36
Unrestricted (Note 7)	42,099,569.17	32,788,504.46	200,912.24	197,662.35
Total net assets	$ 134,895,039.06	$ 124,913,536.82	$ 8,713,647.04	$ 8,395,128.80

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

Exhibit B

TENNESSEE BOARD OF REGENTS
SOUTHWEST TENNESSEE COMMUNITY COLLEGE
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2011, AND JUNE 30, 2010

	Southwest		Component Unit - Southwest Foundation	
	2011	2010	2011	2010
REVENUES				
Operating revenues:				
Student tuition and fees (net of scholarship allowances of $21,027,448.88 for the year ended June 30, 2011, and $18,843,324.60 for the year ended June 30, 2010)	$ 19,036,184.31	$ 19,085,332.82	$ -	$ -
Gifts and contributions	-	-	338,687.74	435,457.84
Governmental grants and contracts	6,120,722.97	4,753,376.10	-	-
Nongovernmental grants and contracts	237,791.15	280,808.46	-	-
Sales and services of educational departments	411,001.10	11,186.20	-	-
Auxiliary enterprises:				
Bookstore	641,040.80	612,990.00	-	-
Other operating revenues	536,465.01	370,221.73	-	-
Total operating revenues	26,983,205.34	25,113,915.31	338,687.74	435,457.84
EXPENSES				
Operating expenses (Note 13):				
Salaries and wages	40,237,977.64	36,816,671.93	-	-
Benefits	12,967,531.36	12,511,449.61	-	-
Utilities, supplies, and other services	20,281,054.68	16,909,795.55	188,986.56	148,321.49
Scholarships and fellowships	22,996,900.33	21,282,698.60	161,097.92	145,382.44
Depreciation expense	2,485,824.96	2,454,160.61	-	-
Payments to or on behalf of Southwest TN Community College	-	-	2,500.00	24,818.80
Total operating expenses	98,969,288.97	89,974,776.30	352,584.48	318,522.73
Operating income (loss)	(71,986,083.63)	(64,860,860.99)	(13,896.74)	116,935.11
NONOPERATING REVENUES (EXPENSES)				
State appropriations	40,354,099.00	36,080,422.50	-	-
Gifts, including $2,500.00 from Southwest Foundation for the year ended June 30, 2011, and $24,818.80 from Southwest Foundation for the year ended June 30, 2010	125,699.84	88,872.59	-	-
Grants and contracts	39,621,730.19	40,141,690.26	-	-
Investment income	91,241.16	102,211.05	263,092.60	169,998.04
Interest on capital asset-related debt	(387,791.32)	(342,281.20)	-	-
Bond issuance costs	-	(29,199.60)	-	-
Other nonoperating revenues	74,615.00	534,586.33	-	3,961.34
Net nonoperating revenues	79,879,593.87	76,576,301.93	263,092.60	173,959.38
Income before other revenues, expenses, gains, or losses	7,893,510.24	11,715,440.94	249,195.86	290,894.49
Capital appropriations	2,064,059.00	8,084,283.96	-	-
Capital grants and gifts	23,933.00	26,246.80	-	-
Additions to permanent endowments	-	-	69,322.38	89,403.01
Total other revenues	2,087,992.00	8,110,530.76	69,322.38	89,403.01
Increase in net assets	9,981,502.24	19,825,971.70	318,518.24	380,297.50
NET ASSETS				
Net assets - beginning of year	124,913,536.82	105,087,565.12	8,395,128.80	8,014,831.30
Net assets - end of year	$ 134,895,039.06	$ 124,913,536.82	$ 8,713,647.04	$ 8,395,128.80

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

Exhibit C

TENNESSEE BOARD OF REGENTS
SOUTHWEST TENNESSEE COMMUNITY COLLEGE
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2011, AND JUNE 30, 2010

	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Tuition and fees	$ 18,803,327.16	$ 18,517,083.55
Grants and contracts	6,469,408.82	5,494,713.42
Sales and services of educational activities	411,001.10	11,186.20
Payments to suppliers and vendors	(20,266,982.68)	(18,332,853.98)
Payments to employees	(40,274,574.74)	(36,816,671.93)
Payments for benefits	(9,523,719.16)	(13,620,024.86)
Payments for scholarships and fellowships	(22,996,900.33)	(21,282,698.60)
Auxiliary enterprise charges:		
Bookstore	633,595.81	614,580.31
Other receipts (payments)	536,465.01	370,221.73
Net cash flows used by operating activities	(66,208,379.01)	(65,044,464.16)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State appropriations	40,309,500.00	36,053,900.00
Gifts and grants received for other than capital or endowment purposed, including $2,500 from Southwest Foundation for the year ended June 30, 2011, and $24,818.80 from Southwest Foundation for the year ended June 30, 2010	40,837,307.75	40,973,120.77
Other noncapital financing receipts (payments)	293,539.27	1,456,541.65
Changes in deposits held for others	309,305.21	567,653.48
Net cash flows provided by noncapital financing activities	81,749,652.23	79,051,215.90
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital - state appropriation	2,064,059.00	8,084,283.96
Purchase of capital assets and construction	(3,127,043.77)	(9,948,171.91)
Principal paid on capital debt and lease	(248,963.68)	(318,090.48)
Interest paid on capital debt and lease	(371,575.85)	(90,478.26)
Other capital and related financing receipts (payments)	(63.29)	(29,199.60)
Net cash flows used by capital and related financing activities	(1,683,587.59)	(2,301,656.29)
CASH FLOWS FROM INVESTING ACTIVITIES		
Income on investments	91,241.16	102,211.05
Net cash provided by investing activities	91,241.16	102,211.05
Net increase in cash	13,948,926.79	11,807,306.50
Cash - beginning of year	40,544,701.71	28,737,395.21
Cash - end of year (Note 2)	$ 54,493,628.50	$ 40,544,701.71
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES		
Operating loss	$ (71,986,083.63)	$ (64,860,860.99)
Adjustments to reconcile operating loss to net cash used by operating activities:		
Depreciation expense	2,485,824.96	2,454,160.61
Other adjustments	51,099.00	41,022.50
Changes in assets and liabilities:		
Receivables, net	80,951.95	(1,145,791.62)
Inventories	(33,278.85)	16,227.83
Prepaid/deferred items	(25,396.31)	(150,791.45)
Accounts payable	21,648.16	(1,319,272.71)
Accrued liabilities	3,826,893.72	(817,339.20)
Deferred revenues	(246,956.49)	1,029,416.92
Compensated absences	(383,081.52)	(291,236.05)
Net cash used by operating activities	$ (66,208,379.01)	$ (65,044,464.16)
NON-CASH TRANSACTIONS		
Gifts-in-kind - capital	$ 23,933.00	$ 26,246.80
Unrealized gains on investments	$ 234,690.21	$ 33,067.15

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

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 Southwest Tennessee Community College.

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

Basis of Presentation

The college and foundation'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.

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

Amounts reported as operating revenues include (1) tuition and fees, net of waivers and discounts; (2) certain federal, state, local, and private grants and contracts; (3) sales and services of auxiliary enterprises; and (4) other sources of revenue. Operating expenses for the college include (1) salaries and wages; (2) employee benefits; (3) utilities, supplies, and other services; (4) scholarships and fellowships; and (5) depreciation.

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

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

Inventories

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

Compensated Absences

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

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 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.

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

Net Assets

The college's net assets are classified as follows:

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

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

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

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

Scholarship Discounts and Allowances

Student tuition and fee revenues, as well as 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, 2011, cash consisted of $832,554.44 in bank accounts, $10,000.00 of petty cash on hand, $51,557,803.51 in the State of Tennessee Local Government Investment Pool (LGIP) administered by the State Treasurer, and $2,093,270.55 in LGIP deposits for capital projects. At June 30, 2010, cash consisted of $4,315,762.96 in bank accounts, $10,000.00 of petty cash on hand, $35,234,502.81 in LGIP, and $984,435.94 in LGIP deposits for capital projects.

LGIP deposits for capital projects - Payments related to the college's capital projects are made by the State of Tennessee's Department of Finance and Administration. The college's estimated local share of the cost of each project is held in a separate LGIP account. As expenses are incurred, funds are withdrawn from the LGIP account by the Tennessee Board of Regents and transferred to the Department of Finance and Administration. The funds in the account are not available to the college for any other purpose until the project is completed and the Tennessee Board of Regents releases any remaining funds.

NOTE 3. 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 that 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; bankers' acceptances; commercial paper; money market mutual funds; and the State of Tennessee LGIP. The policy requires that investments of endowments in equity securities be limited to funds from private gifts or other sources external to the college and that endowment investments be prudently diversified.

Tennessee Board of Regents policy restricts investments in bankers' acceptances and commercial paper. The policy requires that prime bankers' acceptances must be issued by domestic banks with a minimum AA rating or foreign banks with a AAA long-term debt rating by a majority of the rating services that have rated the issuer. Prime bankers' 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 or 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, 2011, and June 30, 2010, the college's investments consisted entirely of investments in the Local Government Investment Pool. The fair value of these investments was $53,651,074.06 at June 30, 2011, and $36,218,938.75 at June 30, 2010. 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:

	June 30, 2011	June 30, 2010
Student accounts receivable	$ 9,841,473.84	$10,198,016.57
Grants receivable	893,215.99	1,006,956.62
State appropriation receivable	22,600.00	26,600.00
Other receivables	94,584.80	55,648.72
Subtotal	10,851,874.63	11,287,221.91
Less allowance for doubtful accounts	(2,425,795.66)	(2,776,722.36)
Total receivables	$ 8,426,078.97	$ 8,510,499.55

NOTE 5. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2011, was as follows:

	Beginning Balance	Additions	Transfers	Reductions	Ending Balance
Land	$ 10,510,892.61	$ 663,369.28	$ -	$ -	$ 11,174,261.89
Land improvements and infrastructure	6,469,441.90	-	-	-	6,469,441.90
Buildings	46,464,374.33	-	-	1,270,770.00	45,193,604.33
Equipment	9,072,399.92	1,105,237.77	-	643,837.17	9,533,800.52
Library holdings	2,183,868.19	208,860.91	-	519,698.46	1,873,030.64
Intangible assets	2,958,029.19	71,699.18	-	-	3,029,728.37
Projects in progress	52,590,750.61	1,082,413.01	-	-	53,673,163.62
Total	130,249,756.75	3,131,580.15	-	2,434,305.63	130,947,031.27
Less accumulated depreciation/ amortization:					
Land improvements and infrastructure	3,444,588.16	258,465.93	-	-	3,703,054.09
Buildings	25,732,299.81	1,111,597.54	-	1,126,263.72	25,717,633.63
Equipment	6,514,407.10	596,960.40	-	553,653.24	6,557,714.26
Library holdings	1,281,041.56	215,828.25	-	519,698.46	977,171.35
Intangible assets	1,143,988.38	302,972.84	-	-	1,446,961.22
Total	38,116,325.01	2,485,824.96	-	2,199,615.42	38,402,534.55
Capital assets, net	$ 92,133,431.74	$ 645,755.19	$ -	$ 234,690.21	$ 92,544,496.72

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

	Beginning Balance	Additions	Transfers	Reductions	Ending Balance
Land	$ 10,009,043.57	$ 501,849.04	$ -	$ -	$ 10,510,892.61
Land improvements and infrastructure	6,469,441.90	-	-	-	6,469,441.90
Buildings	45,616,223.37	848,150.96	-	-	46,464,374.33
Equipment	9,069,613.74	378,277.87	-	375,491.69	9,072,399.92
Library holdings	2,259,167.52	189,658.82	-	264,958.15	2,183,868.19
Intangible assets	2,704,031.46	253,997.73	-	-	2,958,029.19
Projects in progress	44,847,101.30	7,743,649.31	-	-	52,590,750.61
Total	120,974,622.86	9,915,583.73	-	640,449.84	130,249,756.75
Less accumulated depreciation/ amortization:					
Land improvements and infrastructure	3,186,122.23	258,465.93	-	-	3,444,588.16
Buildings	24,618,036.60	1,114,263.21	-	-	25,732,299.81
Equipment	6,289,589.90	567,241.74	-	342,424.54	6,514,407.10
Library holdings	1,327,612.90	218,386.81	-	264,958.15	1,281,041.56
Intangible assets	848,185.46	295,802.92	-	-	1,143,988.38
Total	36,269,547.09	2,454,160.61	-	607,382.69	38,116,325.01
Capital assets, net	$84,705,075.77	$7,461,423.12	$ -	$ 33,067.15	$92,133,431.74

NOTE 6. LONG-TERM LIABILITIES

Long-term liabilities activity for the year ended June 30, 2011, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Payables:					
TSSBA debt:					
Bonds	$ 2,986,369.61	$ 63.29	$ 248,963.68	$ 2,737,469.22	$ 256,485.33
Subtotal	2,986,369.61	63.29	248,963.68	2,737,469.22	256,485.33
Other liabilities:					
Compensated absences	$ 2,470,450.44	$1,585,414.17	$1,968,495.69	$ 2,087,368.92	$ 517,811.69

Subtotal	2,470,450.44	1,585,414.17	1,968,495.69	2,087,368.92	517,811.69
Total long-term liabilities	$ 5,456,820.05	$ 1,585,477.46	$ 2,217,459.37	$ 4,824,838.14	$774,297.02

Long-term liabilities activity for the year ended June 30, 2010, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Payables:					
TSSBA debt:					
Bonds	$3,192,651.48	$ 30,945.88	$ 237,227.75	$ 2,986,369.61	$248,900.39
Subtotal	3,192,651.48	30,945.88	237,227.75	2,986,369.61	248,900.39
Other liabilities:					
Compensated absences	2,761,686.49	1,565,169.47	1,856,405.52	2,470,450.44	568,222.43
Subtotal	2,761,686.49	1,565,169.47	1,856,405.52	2,470,450.44	568,222.43
Total long-term liabilities	$5,954,337.97	$ 1,596,115.35	$ 2,093,633.27	$ 5,456,820.05	$817,122.82

TSSBA Debt - Bonds

Bonds, with interest rates ranging from 3.25% to 5.00%, were issued by the Tennessee State School Bond Authority (TSSBA). The bonds are due serially to 2024 and are secured by pledges of the facilities' revenues to which they relate (see Note 8 for further detail) and certain other revenues and fees of the college, including state appropriations. The bonded indebtedness with the TSSBA included in long-term liabilities on the statement of net assets is shown net of assets held by the authority in the debt service reserve and unexpended debt proceeds. The reserve amount was $199,448.30 at June 30, 2011, and $199,448.30 at June 30, 2010.

Debt service requirements to maturity for the college's portion of TSSBA bonds at June 30, 2011, are as follows:

Year Ending June 30	Principal	Interest	Total
2012	$ 256,485.33	$133,449.56	$ 389,934.89
2013	232,801.67	124,612.95	357,414.62
2014	244,875.78	112,972.87	357,848.65
2015	254,469.90	103,391.27	357,861.17
2016	266,414.42	92,037.52	358,451.94
2017 – 2021	1,085,402.55	282,521.72	1,367,924.27
2022 – 2024	397,019.57	55,952.54	452,972.11
Total	$2,737,469.22	$904,938.43	$ 3,642,407.65

More detailed information regarding the bonds can be found in the notes to the financial statements in the financial report for the TSSBA. That report is available on the state's website at http://tn.gov/comptroller/bf/tssbacafr.htm.

NOTE 7. UNRESTRICTED NET ASSETS

Unrestricted net assets include funds that have been designated for specific purposes. The unrestricted net assets are composed of the following:

	June 30, 2011	June 30, 2010
Working capital	$ 7,820,844.52	$ 7,791,313.41
Encumbrances	776,780.73	377,390.04
Designated fees	1,207,322.20	1,780,224.34
Auxiliaries	63,143.71	60,595.55
Plant construction	18,799,727.15	17,809,443.48
Renewal and replacement of equipment	8,813,731.13	4,325,748.74
Debt retirement	404,900.39	-
Undesignated	4,213,119.34	643,788.90
Total	$42,099,569.17	$32,788,504.46

NOTE 8. PLEDGED REVENUES

The college has pledged certain revenues and fees, including state appropriations, to repay $2,737,469.22 in revenue bonds issued from April 2002 to April 2009 (see Note 6 for further detail). Proceeds from the bonds provided financing for Property

Acquisition I, Property Acquisition II, chillers, and an energy saving performance contract. The bonds are payable through 2024. Annual principal and interest payments on the bonds are expected to require 3% of available revenues. The total principal and interest remaining to be paid on the bonds at June 30, 2011, is $3,642,407.65. Principal and interest paid and total available revenues for fiscal year 2011 were $248,963.68 and $81,620,024.69, respectively. Principal and interest paid and total available revenues in fiscal year 2010 were $340,534.92 and $74,834,549.52, respectively. See Note 6 for further detail.

NOTE 9. 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 www.treasury.tn.gov/tcrs.

Funding Policy - Plan members are noncontributory. The college is required to contribute an actuarially determined rate. The current rate is 14.91% 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 fiscal years 2011, 2010, and 2009 were $3,047,788.85, $2,667,382.75, and $3,014,377.10, respectively. Contributions met the requirements for each year.

B. Defined Contribution Plans

Optional Retirement Plans

Plan Description - The college contributes to three defined contribution plans: Teachers Insurance and Annuity Association–College Retirement Equities Fund, ING Life Insurance and Annuity Company, and Variable Annuity Life Insurance Company. 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 college's contributions to the plans were $1,076,875.91 for fiscal year 2011, and $1,118,572.25 for fiscal year 2010. Contributions met the requirements for each year.

NOTE 10. OTHER POSTEMPLOYMENT BENEFITS

Healthcare is the only "other postemployment benefit" (OPEB) provided to employees. The State of Tennessee administers a group health insurance program that 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. In previous fiscal years, prior to reaching the age of 65, all members had the option of choosing a preferred provider organization (PPO), point of service (POS), or health maintenance organization (HMO) plan for healthcare benefits. However, as of January 1, 2011, the insurance plan structure was changed and, as a result, all members now have the option of choosing between the standard or PPO organization plan for healthcare benefits. 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 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, which covers the retirees of other governmental entities, including Southwest Tennessee 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 are subsidized 80%; 25 years, 70%; and 20 years, 60%. Retirees who are 65 years of age or older have flat-rate premium subsidies based on years of service. Retirees with 30 years of service receive \$50 per month; 25 years, \$37.50; and 20 years, \$25.

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

	2011	2010
Annual required contribution (ARC)	$1,273,000.00	$1,403,000.00
Interest on the net OPEB obligation	193,727.97	152,058.16
Adjustment to the ARC	(183,498.83)	(144,029.25)
Annual OPEB cost	1,283,229.14	1,411,028.91
Amount of contribution	(613,197.60)	(485,032.97)
Increase in net OPEB obligation	670,031.54	925,995.94
Net OPEB obligation – beginning of year	4,305,066.10	3,379,070.16
Net OPEB obligation – end of year	$4,975,097.64	$4,305,066.10

Year-end	Plan	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation at Year-end
June 30, 2011	State Employee Group Plan	$1,283,229.14	47.8%	$4,975,097.64
June 30, 2010	State Employee Group Plan	$1,411,028.91	34.4%	$4,305,066.10
June 30, 2009	State Employee Group Plan	$2,286,069.79	27.5%	$3,379,070.16

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

Actuarial valuation date	July 1, 2010	July 1, 2009
Actuarial accrued liability (AAL)	$12,779,000.00	$14,365,000.00
Actuarial value of plan assets	-	-
Unfunded actuarial accrued liability (UAAL)	$12,779,000.00	$14,365,000.00
Actuarial value of assets as a percentage of the AAL	0.0%	0.0%
Covered payroll (active plan members)	$21,859,909.92	$21,647,081.51
UAAL as percentage of covered payroll	58.5%	66.4%

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 required supplementary information 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.

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, 2010, actuarial valuation, the Projected Unit Credit actuarial cost method was used. The actuarial assumptions included a 4.5% investment rate of return (net of administrative expenses) and an annual healthcare cost trend rate of 10% in fiscal year 2011. The rate decreases to 9.5% in fiscal year 2012, and then is reduced by decrements of 0.5% per year to an ultimate rate of 5% in fiscal year 2021. All rates include a 3% 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 11. 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 regarding the determination of the claims liabilities and the changes in the balances of the claims liabilities for the years ended June 30, 2011, and June 30, 2010, 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, Section 9-

8-101 et seq, *Tennessee Code Annotated*. 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 Section 50-6-101 et seq, *Tennessee Code Annotated.* Claims are paid through the state's Risk Management Fund. At June 30, 2011, the Risk Management Fund held $107.6 million in cash and cash equivalents designated for payment of claims. 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, 2011, the scheduled coverage for the college was $202,290,500 for buildings and $18,133,100 for contents. At June 30, 2010, the scheduled coverage for the college was $212,475,700 for buildings and $17,890,900 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, including the cost of claims that have been reported but not settled and of claims that have been incurred but not reported. Employees and providers have 13 months to file medical claims.

NOTE 12. 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 $12,469,970.83 at June 30, 2011, and $14,543,266.12 at June 30, 2010.

Operating Leases

The college has entered into various operating leases for buildings and equipment. Such leases will probably continue to be required. Expenses under operating leases for real property were $562,963.99 and were $267,447.98 for personal property for the year ended June 30, 2011. The amounts for the year ended June 30, 2010, were $615,891.30 and $261,710.13. All operating leases are cancelable at the lessee's option.

Construction in Progress

At June 30, 2011, outstanding commitments under construction contracts totaled $1,710,104.47 for the replacement campus; the new Macon library; the new Macon academic building; Macon Mechanical and Electrical; elevator accessibility; Culinary Lab renovation; Verties Sails weight room; warehouse renovations; Nursing, Natural Sciences, and Biotechology building; mechanical system modernization; roof replacement of several buildings; M-Building renovations; and Macon Cove campus parking, of which $752,861.48 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 13. NATURAL CLASSIFICATIONS WITH FUNCTIONAL CLASSIFICATIONS

The college's operating expenses for the year ended June 30, 2011, are as follows:

	Natural Classification					
Functional Classification	Salaries	Benefits	Other Operating	Scholarships	Depreciation	Total
Instruction	$ 20,425,964.65	$ 5,866,230.34	$ 4,017,611.30	$ 465,179.78	$ -	$ 30,774,986.07
Public service	461,217.79	136,172.87	81,285.58	200.00	-	678,876.24
Academic support	3,787,504.35	1,362,254.85	4,368,550.47	64,805.15	-	9,583,114.82
Student services	5,006,613.05	1,928,638.52	1,642,543.81	580,607.08	-	9,158,402.46
Institutional support	8,870,869.38	3,102,109.08	2,248,192.80	205,581.51	-	14,426,752.77
Maintenance & operation	1,628,284.91	559,649.24	7,611,217.92	65.00	-	9,799,217.07
Scholarships & fellowships	57,523.51	12,476.46	124,414.28	21,680,461.81	-	21,874,876.06
Auxiliary	-	-	187,238.52	-	-	187,238.52
Depreciation	-	-	-	-	2,485,824.96	2,485,824.96
Total	$ 40,237,977.64	$12,967,531.36	$20,281,054.68	$ 22,996,900.33	$ 2,485,824.96	$ 98,969,288.97

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

Functional Classification	Natural Classification Salaries	Benefits	Other Operating	Scholarships	Depreciation	Total
Instruction	$ 19,699,973.41	$ 5,481,206.93	$ 3,525,535.97	$ 404,866.66	$ -	$29,111,582.97
Public service	364,678.60	136,923.66	97,167.03	620.00	-	599,389.29
Academic support	3,466,629.83	1,343,350.62	3,281,283.93	125,951.45	-	8,217,215.83
Student services	4,550,440.87	1,942,578.74	1,703,888.29	749,565.06	-	8,946,472.96
Institutional support	7,191,478.23	2,931,063.75	1,823,573.65	80,447.05	-	12,026,562.68
Operation & maintenance	1,481,905.39	669,285.03	6,142,463.83	489.00	-	8,294,143.25
Scholarships & fellowships	61,565.60	7,040.88	146,888.27	19,920,759.38	-	20,136,254.13
Auxiliary	-	-	188,994.58	-	-	188,994.58
Depreciation	-	-	-	-	2,454,160.61	2,454,160.61
Total	$ 36,816,671.93	$12,511,449.61	$16,909,795.55	$21,282,698.60	$2,454,160.61	$89,974,776.30

NOTE 14. CHANGE IN ACCOUNTING PRINCIPLE

During the year ended June 30, 2010, the college implemented Governmental Accounting Standards Board's Statement 51, *Accounting and Financial Reporting for Intangible Assets*. The statement was implemented retroactively.

NOTE 15. ON-BEHALF PAYMENTS

During the year ended June 30, 2011, the State of Tennessee made payments of $48,599.00 on behalf of the college for retirees participating in the Medicare Supplement Plan. The amount for the year ended June 30, 2010, was $38,522.50. The Medicare Supplement Plan is a postemployment benefit healthcare plan and is discussed further in Note 10. 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.

NOTE 16. VOLUNTARY BUYOUT PROGRAM

The college implemented a Voluntary Buyout Plan in fiscal year 2011 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 89 employees participate in the Voluntary Buyout Plan, with 79 terminating by June 30, 2011; 3 terminating by June 30, 2012; and 7 terminating by June 30, 2013.

Severance pay was payable the month following the employee separation date. Severance pay included

- a base severance payment equal to three times the employee's monthly rate of pay in effect on the separation date,
- a severance payment of $500 for each full or partial year of college service as of the separation date,
- the amount equivalent to six months of the college's portion of the monthly health insurance premium, and
- the amount equivalent to the employee's next longevity payment based on their years of creditable state service.

As of June 30, 2011, expenses for payout of accrued annual leave, compensatory time, or worked holidays for the Voluntary Buyout Plan and Post-Retirement Service Program were $384,327.00. Accrued expenses for severance pay were $2,593,081.00 at June 30, 2011.

NOTE 17. COMPONENT UNIT

The Southwest Tennessee Community College Foundation is a legally separate, tax-exempt organization supporting Southwest Tennessee Community College. The foundation acts primarily as a fund-raising organization to supplement the resources that are available to the college in support of its programs. The 21-member board of the foundation is self-perpetuating and consists of graduates and friends of the college. Although the college does not control the timing or amount of receipts from the foundation, the majority of resources, or income thereon, that the foundation holds and invests are restricted to the activities of the college by the donors. Because these restricted resources held by the foundation can only be used by, or for the benefit of, the college, the foundation is considered a component unit of the college and is discretely presented in the college's financial statements.

The foundation reports under Governmental Accounting Standards Board's (GASB) guidelines. According to paragraph 1.01 of the *Audit and Accounting Guide for State and Local Governments*, governmental entities are subject to GASB reporting if the "popular election of officers or appointment (or approval) of a controlling majority of the members of the organization's governing body [is performed] by officals of one or more state or local governments." The foundation's board of trustees is appointed by the president of Southwest Tennessee Community College.

During the year ended June 30, 2011, the foundation made distributions of $2,500.00 to or on behalf of the college for both restricted and unrestricted purposes. During the year ended June 30, 2010, the foundation made distributions of $24,818.80 to or on behalf of the college for both restricted and unrestricted purposes. Complete financial statements for the foundation can be obtained from Karen Nippert, Vice President for Institutional Advancement, 5983 Macon Cove, Memphis, Tennessee 38134.

Cash

In addition to demand deposits and petty cash on hand, this classification includes instruments that are readily convertible to known amounts of cash and that have original maturities of three months or less. At June 30, 2011, cash consisted of $81,063.92 in bank accounts, and $4,929,164.87 in the State of Tennessee Local Government Investment Pool (LGIP) administered by the State Treasurer. At June 30, 2010, cash consisted of $104,305.36 in bank accounts and $3,944,733.42 in the LGIP.

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.

Investments

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

At June 30, 2011, the foundation had the following investments and maturities:

Tennessee Board of Regents
Southwest Tennessee Community College
Notes to the Financial Statements (Cont.)
June 30, 2011, and June 30, 2010

		Investment Maturities (in Years)				
Investment Type	Fair Value	Less than 1	1 to 5	6 to 10	More than 10	No Maturity Date
US Agencies	$ 232,103.00	$ -	$ 197,322.00	$ 34,781.00	$ -	$ -
Mutual Equity Fund						
Charles Schwab	1,266,516.59	-	-	-	-	1,266,516.59
Other Life Insurance						
Reassure America Life Insurance Co.	5,483.19	-	-	-	-	5,483.19
Government Securities						
Alhamra Calif. Uni. School Dist.	31,286.00	-	-	31,286.00	-	-
Aspen Colo. Pub. Facs. Auth.	26,778.00	-	-	26,778.00	-	-
Connecticut St. Build America	33,111.00	-	-	33,111.00	-	-
El Paso, Texas	25,161.00	25,161.00	-	-	-	-
Ewing Twp, NJ School District	20,619.00	20,619.00	-	-	-	-
Fort Worth Texas	27,709.00	-	27,709.00	-	-	-
Gen. Elec. Cap.	35,837.00	-	35,837.00	-	-	-
Kansas St. Dev. Fin.	20,558.00	20,558.00	-	-	-	-
Lubbock Tex Build America	26,175.00	-	-	26,175.00	-	-
Milwaukee, Wis. Taxable	35,972.00	-	-	35,972.00	-	-
Mississippi St.	33,103.00	-	-	33,103.00	-	-
Montgomery Ctny. Tn. Gen. Obligation	32,781.00	-	-	32,781.00	-	-
New York, NY City	32,025.00	-	-	32,025.00	-	-
Newton Iowa Cap.	26,437.00	-	26,437.00	-	-	-
Ohio State Build America	42,733.00	-	-	42,733.00	-	-
Oklahoma St. Capitol Impt. Auth.	27,457.00	-	27,457.00	-	-	-
Philadelphia, Pa. School District	20,700.00	-	20,700.00	-	-	-
Snohomish Cnty. Was Build America	35,218.00	-	35,218.00	-	-	-
Southern Calif. Public Power	25,035.00	-	-	25,035.00	-	-
Yough Sch. Dist., Pa.	27,078.00	-	27,078.00	-	-	-
Total	$ 2,089,875.78	$66,338.00	$ 397,758.00	$353,780.00	$ -	$1,271,999.78

At June 30, 2010, the foundation had the following investments and maturities:

		Investment Maturities (in Years)				
Investment Type	Fair Value	Less than 1	1 to 5	6 to 10	More than 10	No Maturity Date
US Agencies	$ 265,575.00	$ -	$ 117,462.00	$ 148,113.00	$ -	$ -
Mutual Equity Fund						
Charles Schwab	1,095,166.15	-	-	-	-	1,095,166.15
Other						
Life Insurance						
Reassure America	9,502.21	-	-	-	-	9,502.21
Life Insurance Co.						
Government						
Securities						
Aspen, Colo. Pub.	27,189.00	-	-	27,189.00	-	-
Facs. Auth.						
El Paso, Texas	26,387.00	-	26,387.00	-	-	-
Ewing Twp, NJ	20,646.00	-	20,646.00	-	-	-
School Distict						
Fort Worth, Texas	28,404.00	-	28,404.00	-	-	-
Montgomery Ctny.	33,336.00	-	-	33,336.00	-	-
Tn. Gen. Obligation						
Gen. Elec. Cap.	35,935.00	-	35,935.00	-	-	-
Gulf Shores, Ala.	26,195.00	-	-	26,195.00	-	-
Kansas St. Dev. Fin.	21,124.00	-	21,124.00	-	-	-
Lewiston, Me.	20,628.00	20,628.00	-	-	-	-
Lubbock, Tex. Build	26,465.00	-	-	26,465.00	-	-
America						
Milwaukee, Wis.	36,399.00	-	-	36,399.00	-	-
Taxable						
Mississippi St.	32,877.00	-	-	32,877.00	-	-
New York, NY City	31,678.00	-	-	31,678.00	-	-
Newton, Iowa Cap.	26,968.00	-	26,968.00	-	-	-
Oklahoma St.	27,355.00	-	27,355.00	-	-	-
Capitol Impt. Auth.						
Philadelphia, Pa.	21,083.00	-	21,083.00	-	-	-
School District						
Yough Sch. Dist., Pa.	27,497.00	-	-	27,497.00	-	-
Total	$ 1,840,409.36	$20,628.00	$ 325,364.00	$389,749.00	$ -	$1,104,668.36

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

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

At June 30, 2011, the foundation’s investments were rated as follows:

		Credit Quality Rating				
Investment Type	Fair Value	AAA	AA	A	BBB	Unrated
LGIP	$ 4,929,164.87	$ -	$ -	$ -	$ -	$4,929,164.87
US Agencies	232,103.00	232,103.00	-	-	-	-
Other Government Securities						
Alhamrac, Calif. Uni. School Dist.	31,286.00	-	-	31,286.00	-	-
Aspen, Colo. Pub. Facs. Auth.	26,778.00	-	26,778.00	-	-	-
Connecticut St. Build America	33,111.00	-	33,111.00	-	-	-
El Paso, Texas	25,161.00	-	25,161.00	-	-	-
Ewing Twp, NJ School District	20,619.00	-	20,619.00	-	-	-
Fort Worth, Texas	27,709.00	-	27,709.00	-	-	-
Gen. Elec. Cap.	35,837.00	35,837.00	-	-	-	-
Kansas St. Dev. Fin.	20,558.00	-	20,558.00	-	-	-
Lubbock, Tex. Build America	26,175.00	-	26,175.00	-	-	-
Milwaukee, Wis. Taxable	35,972.00	-	35,972.00	-	-	-
Mississippi St.	33,103.00	-	33,103.00	-	-	-
Montogmery Ctny. Tn. Gen. Obligation	32,781.00	-	32,781.00	-	-	-
New York, NY City	32,025.00	32,025.00	-	-	-	-
Newton, Iowa Cap.	26,437.00	-	26,437.00	-	-	-
Ohio State Build America	42,733.00	42,733.00	-	-	-	-
Oklahoma St. Capitol Impt. Auth.	27,457.00	-	27,457.00	-	-	-
Philadelphia, Pa. School Distict	20,700.00	-	20,700.00	-	-	-
Snohomish Cnty. Was Build America	35,218.00	-	35,218.00	-	-	-
Southern Calif. Public Power	25,035.00	-	25,035.00	-	-	-
Yough Sch. Dist., Pa.	27,078.00	-	-	27,078.00	-	-
Total	$ 5,747,040.87	$342,698.00	$ 416,814.00	$ 58,364.00	$ -	$4,929,164.87

At June 30, 2010, the foundation's investments were rated as follows:

		Credit Quality Rating				
Investment Type	Fair Value	AAA	AA	A	BBB	Unrated
LGIP	$ 3,944,733.42	$ -	$ -	$ -	$ -	$3,944,733.42
US Agencies	265,575.00	265,575.00	-	-	-	-
Other Government Securities						
Aspen, Colo. Pub. Facs. Auth.	27,189.00	-	27,189.00	-	-	-
El Paso, Texas	26,387.00	-	26,387.00	-	-	-
Ewing Twp, NJ School District	20,646.00	-	20,646.00	-	-	-
Fort Worth, Texas	28,404.00	-	28,404.00	-	-	-
Gen. Elec. Cap.	35,935.00	35,935.00	-	-	-	-
Gulf Shores, Ala.	26,195.00	-	26,195.00	-	-	-
Kansas St. Dev. Fin.	21,124.00	21,124.00	-	-	-	-
Lewiston, Me.	20,628.00	-	20,628.00	-	-	-
Lubbock, Tex. Build America	26,465.00	-	26,465.00	-	-	-
Milwaukee, Wis. Taxable	36,399.00	-	36,399.00	-	-	-
Mississippi St.	32,877.00	-	32,877.00	-	-	-
Montgomery Ctny. Tn. Gen. Obligation	33,336.00	-	33,336.00	-	-	-
Newton, Iowa Cap.	26,968.00	-	26,968.00	-	-	-
New York, NY City	31,678.00	31,678.00	-	-	-	-
Oklahoma St. Capitol	27,355.00	-	27,355.00	-	-	-
Philadelphia, Pa. School District	21,083.00	21,083.00	-	-	-	-
Yough Sch. Dist, Pa.	27,497.00	-	-	27,497.00	-	-
Total	$ 4,680,474.42	$375,395.00	$ 332,849.00	$27,497.00	$ -	$3,944,733.42

Custodial credit risk - For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the foundation will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The foundation does not have a policy for custodial credit risk. At June 30, 2011, the foundation had $817,876.00 of uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent but not in the foundation's name. At June 30, 2010, the foundation had $735,741.00 of uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent but not in the foundation's name.

Pledges Receivable

Pledges receivable are summarized below, net of the estimated uncollectible allowance:

	June 30, 2011	June 30, 2010
Current pledges	$1,617,129.20	$2,217,311.96
Pledges due in one to five years	133,183.62	487,127.24
Pledges due after five years	9,800.00	9,800.00
Subtotal	1,760,112.82	2,714,239.20
Less discount to net present value	(-)	(-)
Total pledges receivable, net	$1,760,112.82	$2,714,239.20

Capital Assets

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

	Beginning Balance	Additions	Transfers	Reductions	Ending Balance
Land	$ 77,109.12	$ -	$ -	$ 77,109.12	$ -
Buildings	851,021.38	-	-	851,021.38	-
Total	928,130.50	-	-	928,130.50	-
Less accumulated depreciation/ amortization:					
Buildings	7,091.84	-	-	7,091.84	-
Total	7,091.84	-	-	7,091.84	-
Capital assets, net	$921,038.66	$ -	$ -	$921,038.66	$ -

Endowments

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

The foundation chooses to spend only a portion of the investment income (including changes in the value of investments) each year. Under the spending plan established by the foundation, 5% of a trailing three-year average of the endowment's total asset value has been authorized for expenditure. The remaining amount, if any, is retained to be used in future years when the amount computed using the spending plan exceeds the investment income. At June 30, 2011, net appreciation of $73,533.70 is available to be spent, of which $73,533.70 is included in restricted net assets expendable for scholarships and fellowships. At June 30, 2010, net appreciation of $62,168.40 is available to be spent, of which $62,168.40 is included in restricted net assets expendable for scholarships and fellowships.

Tennessee Board of Regents
Southwest Tennessee 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 Percent age of Covere d Payroll [(b-a)/c)]
July1, 2010	State Employee Group Plan	-	$12,779,000.00	$12,779,000.00	0%	$21,859,909.92	58.5%
July 1, 2009	State Employee Group Plan	-	$14,365,000.00	$14,365,000.00	0%	$21,647,081.51	66.4%
July 1, 2007	State Employee Group Plan	-	$19,527,000.00	$19,527,000.00	0%	$22,689,690.68	86.1%

The amount reported here for covered payroll relates to the fiscal year in which the valuations were performed.

TENNESSEE BOARD OF REGENTS
SOUTHWEST TENNESSEE COMMUNITY COLLEGE FOUNDATION
SUPPLEMENTARY INFORMATION
SCHEDULES OF CASH FLOWS - COMPONENT UNIT
FOR THE YEARS ENDED JUNE 30, 2011, AND JUNE 30, 2010

	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Gifts and contributions	$ 1,221,862.12	$ 847,343.02
Payments to suppliers and vendors	(250,974.75)	(35,539.75)
Payments for scholarships and fellowships	(150,317.92)	(142,442.44)
Payments to Southwest TN Community College	(2,500.00)	(24,813.80)
Net cash provided by operating activities	818,069.45	644,547.03
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Private gifts for endowment purposes	129,494.38	89,403.01
Net cash provided by noncapital financing activities	129,494.38	89,403.01
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from sale of capital assets	-	925,000.00
Net cash provided by capital and related financing activities	-	925,000.00
CASH FLOWS FROM INVESTING ACTIVITIES		
Income on investments	13,626.18	10,330.75
Proceeds from sales and maturities of investments	-	509,967.14
Net cash provided by investing activities	13,626.18	520,297.89
Net increase in cash	961,190.01	2,179,247.93
Cash - beginning of year	4,049,038.78	1,869,790.85
Cash - end of year	$ 5,010,228.79	$ 4,049,038.78
RECONCILIATION OF OPERATING INCOME/(LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income (loss)	$ (13,896.74)	$ 116,935.11
Adjustments to reconcile operating income to net cash provided (used) by operating activities:		
Changes in assets and liabilities:		
Receivables, net	893,954.38	414,825.18
Accrued liabilities	(61,988.19)	112,786.74
Net cash provided by operating activities	$ 818,069.45	$ 644,547.03
Noncash investing, capital, and financing transactions		
Unrealized gains on investments	$ 249,466.42	$ 143,267.67