

AUDIT REPORT

Tennessee Board of Regents
Motlow State Community College

For the Years Ended
June 30, 2012, and June 30, 2011



STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY

Department of Audit
Division of State Audit



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STATE OF TENNESSEE
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June 14, 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. MaryLou Apple, President
Motlow State Community College
P. O. Box 88100
Tullahoma, Tennessee 37388-8100

Ladies and Gentlemen:

Transmitted herewith is the financial and compliance audit of the Tennessee Board of Regents, Motlow State Community College, for the years ended June 30, 2012, and June 30, 2011. You will note from the independent auditor's report that unqualified opinions were given on the fairness of the presentation of the financial statements.

Consideration of internal control over financial reporting and tests of compliance disclosed a deficiency, which is detailed in the Results of the Audit section of this report. The college's administration has responded to the audit finding; the response is included following the finding. The Division of State Audit will follow up the audit to examine the application of the procedures instituted because of the audit finding.

Sincerely,

Deborah V. Loveless, CPA
Director

DVL/sds
13/039

State of Tennessee

Audit Highlights

Comptroller of the Treasury

Division of State Audit

Financial and Compliance Audit
Motlow State Community College
For the Years Ended June 30, 2012, and June 30, 2011

AUDIT OBJECTIVES

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

INTERNAL CONTROL FINDING

As Reported in the Previous Two Audits, the College Needs Improved Preparation and Review Procedures to Prevent Errors in Its Financial Statements*

Motlow State Community College's procedures for financial statement preparation should be improved to ensure the accuracy and proper classification of information presented in its financial statements. This deficiency led to significant reporting errors. Misclassifications and misstatements were discovered in the college's statements of net assets and statements of revenues, expenses, and changes in net assets. In addition, contributions to the Tennessee Consolidated Retirement System were misstated in the 2012 notes to the financial statements (page 9).

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

* This finding is repeated from prior audits.

OPINIONS ON THE FINANCIAL STATEMENTS

The opinions on the financial statements are unqualified.

Audit Report
Tennessee Board of Regents
Motlow State Community College
For the Years Ended June 30, 2012, and June 30, 2011

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**Tennessee Board of Regents
Motlow State Community College
For the Years Ended June 30, 2012, and June 30, 2011**

INTRODUCTION

POST-AUDIT AUTHORITY

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

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

BACKGROUND

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

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

ORGANIZATION

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

AUDIT SCOPE

The audit was limited to the period July 1, 2010, through June 30, 2012, 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, 2012, and June 30, 2011. Motlow State Community College is an institution of the Tennessee Board of Regents, which is an integral part of state government. As such, the Tennessee Board of Regents has been included as a discretely presented component unit in the *Tennessee Comprehensive Annual Financial Report*.

OBJECTIVES OF THE AUDIT

The objectives of the audit were

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

PRIOR AUDIT FINDING

Section 8-4-109, *Tennessee Code Annotated*, requires that each state department, agency, or institution report to the Comptroller of the Treasury the action taken to implement the recommendations in the prior audit report. The college filed its report with the Department of Audit on March 15, 2012. A follow-up of the prior audit finding was conducted as part of the current audit. The prior audit report contained a finding concerning the need for the college's fiscal staff to improve preparation and review procedures to prevent errors in the college's financial statements. The finding has not been resolved and is repeated in this report.

OBSERVATIONS AND COMMENTS

MANAGEMENT’S RESPONSIBILITY FOR RISK ASSESSMENT

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

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

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

FRAUD CONSIDERATIONS

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

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

TECHNOLOGY CENTERS

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

RESULTS OF THE AUDIT

AUDIT CONCLUSIONS

Internal Control

As part of the audit of the college's financial statements for the years ended June 30, 2012, and June 30, 2011, 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. A material weakness, along with the recommendation and management's response, is detailed in the Finding and Recommendation section of this report.

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

June 10, 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. MaryLou Apple, President
Motlow State Community College
P. O. Box 88100
Tullahoma, Tennessee 37388-8100

Ladies and Gentlemen:

We have audited the financial statements of Motlow State Community College, an institution of the Tennessee Board of Regents, which is a component unit of the State of Tennessee, and its discretely presented component unit as of and for the years ended June 30, 2012, and June 30, 2011, and have issued our report thereon dated June 10, 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.

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the financial statements will not be prevented, or detected and corrected on a timely basis. We consider the following deficiency to be a material weakness:

- As reported in the previous two audits, the college needs improved preparation and review procedures to prevent errors in its financial statements.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the college's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under generally accepted government auditing standards.

June 10, 2013
Page Three

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

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

Sincerely,

A handwritten signature in black ink that reads "Deborah V. Loveless". The signature is written in a cursive style with a large initial 'D'.

Deborah V. Loveless, CPA
Director

DVL/sds

FINDING AND RECOMMENDATION

As reported in the previous two audits, the college needs improved preparation and review procedures to prevent errors in its financial statements

Finding

Motlow State Community College's procedures for financial statement preparation should be improved to ensure the accuracy and proper classification of information presented in its financial statements. Similar findings were reported in the previous two audits. Though the specific errors noted in the prior findings were not repeated, other errors in financial reporting occurred. Control deficiencies resulted in the following significant reporting errors:

- On the college's June 30, 2012, and June 30, 2011, statements of net assets, \$1,186,300 and \$586,300, respectively, of expendable net assets restricted for capital projects were misclassified as unrestricted net assets. These amounts were restricted by external donors for the Rutherford County campus expansion project. In note 8 in the college's 2012 and 2011 financial reports, these amounts were reported as unrestricted net assets designated for plant construction. The audited statements and note were corrected.
- For 2012 and 2011, budgeted capital appropriation revenues and matching budgeted utilities, supplies, and other services expenses of \$268,543.67 and \$46,031.13, respectively, were reported on the statements of revenues, expenses, and changes in net assets. The statements were adjusted to reduce the overstated revenue and expense amounts.
- In note 10 in the college's 2012 financial report, contributions to the Tennessee Consolidated Retirement System (TCRS) were misstated for the year ended June 30, 2012, as \$1,111,405.45, rather than \$1,137,307.06, an error of \$25,901.61. The audited note was corrected.
- On the college's 2011 statement of revenues, expenses, and changes in net assets, in the component unit column, \$27,885.15 of utilities, supplies, and other services expense was misclassified as scholarships expense. The audited statement was corrected.

In the first instance, due to an oversight, the Vice President for Business Affairs reported net assets restricted by external donors for use in a capital project as unrestricted. Historically, amounts in the college's unexpended plant funds have been unrestricted net assets designated for capital projects. The Vice President overlooked the fact that these amounts were obtained from external restricted gifts. None of the funds were spent inappropriately; however, they were misclassified.

In the second instance, the Assistant Vice President for Fiscal Services entered anticipated capital appropriations into the Banner accounting system in order to have ready

access to the information for planning purposes. The budgeted appropriations and related expenses were not removed by adjustment at year-end, as is usually the case. These amounts should not have been reported on the statements of revenues, expenses, and changes in net assets since they did not represent transactions that actually occurred. Review procedures should be designed to ensure that all reported capital appropriation amounts represent actual reportable transactions.

In the third case, a staff accountant mistakenly entered the incorrect amount of \$1,111,401.45 as contributions to TCRS for 2012. The correct amount of \$1,137,307.06 was in the Banner accounting system on form FGIBDSR. A detailed review to compare or reconcile the amount reported in the note with the final general ledger would have uncovered this error.

Finally, the college's Vice President for Business Affairs incorrectly reported \$27,828.15 of utilities, supplies, and other services expense as scholarships in the component unit column of the statement of revenues, expenses, and changes in net assets for 2011. The three items comprising this amount should not have been classified as scholarships since their fund and account numbers indicated that they should be classified otherwise. Again, a detailed review comparing financial statement amounts with the final general ledger would have prevented this error.

These reporting errors resulted in significant misstatements in the college's unaudited financial statements and the note reporting retirement contributions. Management is responsible for the fair presentation of the financial statements, including the notes. Not preventing or detecting and correcting material misstatements in the financial statements could adversely affect the users of the financial statements.

Recommendation

The college's accounting and supervisory personnel should exercise additional care in preparing and reviewing the college's financial statements and notes. Specifically, the Vice President for Business Affairs and the Assistant Vice President for Fiscal Services should conduct thorough reviews of the composition of reported amounts on the financial statements and in the notes, conduct thorough reviews of subordinates' work, and ensure that preparers correct any errors detected.

Management's Comment

We concur with the finding and recommendation. To address the items in the finding, the accounting staff will take the following corrective actions.

- On the unexpended plant fund schedule, the Rutherford County campus expansion project was broken out separately and has its own fund number in Banner. These funds have been earmarked solely for this purpose. They have been reclassified from unrestricted to restricted.

- Capital appropriations will be reviewed closely at year-end to ensure that actual reportable transactions are reported in the financial statements.
- Contributions to the Tennessee Consolidated Retirement System will be verified by reviewing FGIBDSR at year-end.
- Classifications of expenses for the component unit will be verified by generating spreadsheet budgeting to ensure the proper classification at year-end.

The Vice President for Business Affairs and the Assistant Vice President for Fiscal Services will conduct thorough reviews of the reported amounts on the financial statements and in the notes. The accounting staff has been instructed to discuss any items that are questionable as to how they should be recorded and classified.

Additionally, our goal is to have the financial statements prepared in time for a week long supervisory review. In the review process, the Vice President for Business Affairs and the Assistant Vice President for Fiscal Services will ensure that any errors detected are corrected prior to submission to the Tennessee Board of Regents.



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

June 10, 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. MaryLou Apple, President
Motlow State Community College
P. O. Box 88100
Tullahoma, Tennessee 37388-8100

Ladies and Gentlemen:

We have audited the accompanying basic financial statements of Motlow State Community College, an institution of the Tennessee Board of Regents, which is a component unit of the State of Tennessee, and its discretely presented component unit as of and for the years ended June 30, 2012, and June 30, 2011, as listed in the table of contents. These financial statements are the responsibility of the college's management. Our responsibility is to express opinions on these financial statements, based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material

misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As discussed in Note 1, the financial statements of Motlow State Community College, an institution of the Tennessee Board of Regents, are intended to present the financial position, the changes in financial position, and the cash flows of only Motlow State Community College. They do not purport to, and do not, present fairly the financial position of the Tennessee Board of Regents, as of June 30, 2012, and June 30, 2011, and the changes in its financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of Motlow State Community College, and its discretely presented component unit as of June 30, 2012, and June 30, 2011, 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.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 15 through 29 and the schedule of funding progress on page 57 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during the audit of the basic financial statements. Although our opinion on the basic financial statements is not affected, the following material departure from the prescribed guidelines exists. In its management's discussion and analysis, management has omitted condensed financial information comparing the 2011 and 2010 fiscal years. We do not express an opinion or provide any assurance on the information.

Our audit was conducted for the purpose of forming opinions on the basic financial statements as a whole. The accompanying financial information on page 58 is presented for purposes of additional analysis and is not a required part of the basic financial statements. This information is the responsibility of the college's management and was derived from, and relates directly to, the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves and other additional procedures, in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information 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 June 10, 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, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with generally accepted government auditing standards and should be considered in assessing the results of our audit.

Sincerely,



Deborah V. Loveless, CPA
Director

DVL/sds

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

This section of Motlow State Community College's annual financial report presents a discussion and analysis of the financial performance of the college during the fiscal year ended June 30, 2012, with comparative information presented for the fiscal year ended June 30, 2011. This discussion has been prepared by management along with the financial statements and related note disclosures and should be read in conjunction with the independent auditor's report, the audited financial statements, and the accompanying notes. The financial statements, notes, and this discussion are the responsibility of management.

The college has one discretely presented component unit, the Motlow College Foundation. More detailed information about the college's component unit is presented in Note 16 to the financial statements. Information regarding the component unit is also included in this section.

Using This Report

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

The Statement of Net Assets

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

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

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

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

	<u>Motlow College</u>		<u>Component Unit</u>	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
Assets:				
Current assets	\$11,098	\$11,730	\$ 564	\$ 318
Capital assets, net	34,003	34,339	-	-
Other assets	10,565	6,894	5,660	5,569
Total assets	<u>55,666</u>	<u>52,963</u>	<u>6,224</u>	<u>5,887</u>
Liabilities:				
Current liabilities	5,948	5,097	38	24
Noncurrent liabilities	2,080	2,155	-	-
Total liabilities	<u>8,028</u>	<u>7,252</u>	<u>38</u>	<u>24</u>
New assets:				
Invested in capital assets, net of debt	33,503	33,739	-	-
Restricted - nonexpendable	-	-	3,002	2,975
Restricted - expendable	1,344	739	3,038	2,795
Unrestricted	12,791	11,233	146	93
Total net assets	<u>\$47,638</u>	<u>\$45,711</u>	<u>\$6,186</u>	<u>\$5,863</u>

**Motlow College
Comparison of Fiscal Year 2012 to Fiscal Year 2011**

- Current assets decreased by \$632 thousand, primarily due to a reduction in the receivable for Pell from fiscal year 2011 to fiscal year 2012.
- In fiscal year 2012, other assets increased, primarily due to increases in noncurrent cash and cash equivalents throughout the fiscal year.
- Current liabilities increased by \$851 thousand. This increase primarily resulted from an increase in payables for goods and supplies primarily associated with plant projects and an increase in deposits held in custody for others. The liability for compensated absences also increased from fiscal year 2011.
- Unrestricted net assets increased by \$1.558 million, primarily due to increases in discretionary allocations.

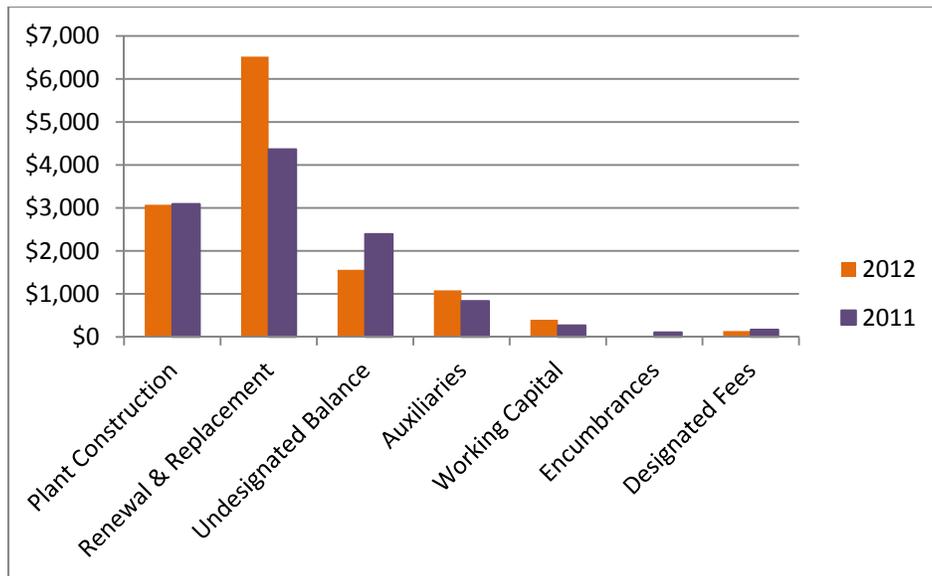
**Tennessee Board of Regents
Motlow State Community College
Management's Discussion and Analysis (Cont.)**

**Component Unit
Comparison of Fiscal Year 2012 to Fiscal Year 2011**

- Current assets increased by \$246 thousand. This increase was due to fundraising activities generating more dollars for restricted uses such as the Smyrna expansion project and workforce development needs.
- Other assets increased by \$91 thousand, primarily due to money managers holding funds in cash and cash equivalents with the intent to invest the funds.
- Total liabilities increased \$14 thousand, primarily due to an increase in amounts due to Motlow State Community College for supporting faculty/staff development, cultural events, and athletics at June 30, 2012.
- Total net assets increased \$323 thousand, primarily due to fundraising activities.

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

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

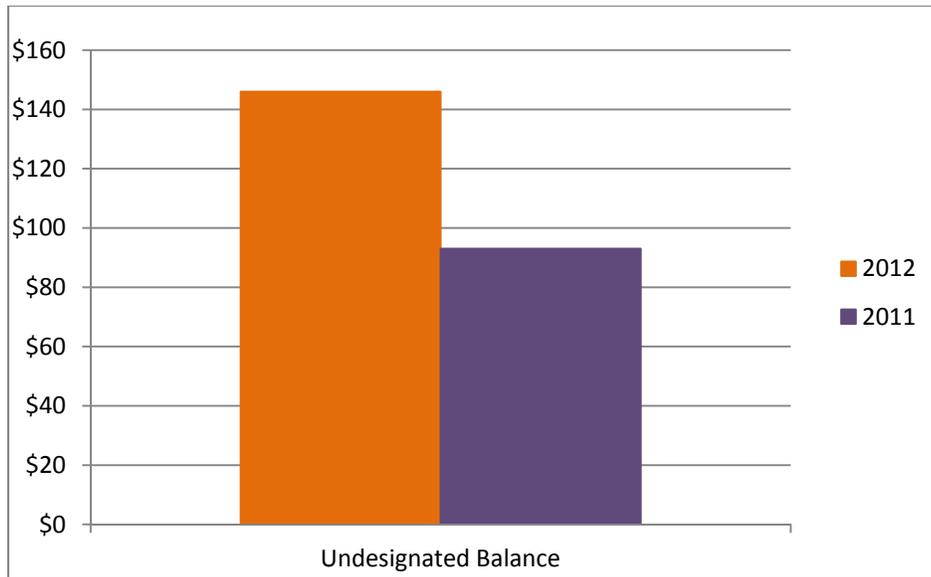


**Tennessee Board of Regents
Motlow State Community College
Management's Discussion and Analysis (Cont.)**

**Motlow College
Comparison of Fiscal Year 2012 to Fiscal Year 2011
(in thousands of dollars)**

- Renewal and replacement increased by \$2.151 million due to a transfer from current funds.
- Encumbrances decreased by \$84 thousand due to fewer open purchase orders at the end of fiscal year 2012 than fiscal year 2011.
- Auxiliaries increased by \$248 thousand due to increasing fiscal year 2012 commissions.
- Undesignated decreased by \$832 thousand due to transfers to plant construction and renewal and replacement in fiscal year 2012.

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



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

**Component Unit
Comparison of Fiscal Year 2012 to Fiscal Year 2011**

- The undesignated balance increased \$53 thousand due to fewer funds being spent from unrestricted in fiscal year 2012, specifically for the Mechatronics program.

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

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

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

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

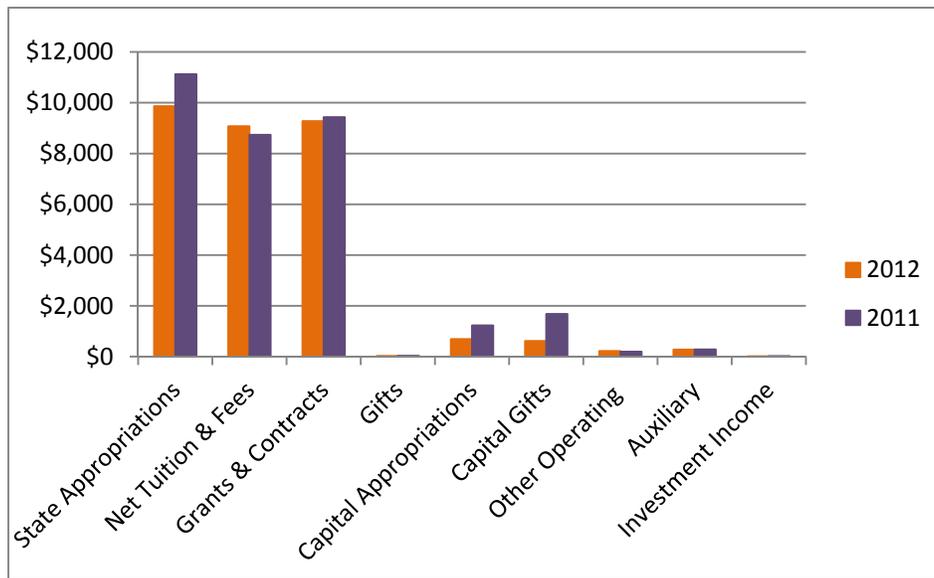
	Motlow College		Component Unit	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
Operating revenues:				
Net tuition and fees	\$ 9,073	\$ 8,740	\$ -	\$ -
Gifts and contributions	-	-	573	614
Endowment income per spending plan	-	-	194	197
Auxiliary	280	286	8	7
Grants and contracts	506	449	-	-
Other	223	198	-	-
Total operating revenues	<u>10,082</u>	<u>9,673</u>	<u>775</u>	<u>818</u>
Operating expenses	<u>28,115</u>	<u>26,561</u>	<u>409</u>	<u>1,061</u>
Operating income (loss)	<u>(18,033)</u>	<u>(16,888)</u>	<u>366</u>	<u>(243)</u>
Nonoperating revenues and expenses:				
State appropriations	9,866	11,123	-	-
Grants and contracts	8,768	8,985	-	-
Gifts	28	32	-	-
Investment income	18	21	(70)	502
Other nonoperating revenues (expenses)	(24)	(22)	-	-
Total nonoperating revenues and expenses	<u>18,656</u>	<u>20,139</u>	<u>(70)</u>	<u>502</u>
Income (loss) before other revenues, expenses, gains, or losses	<u>623</u>	<u>3,251</u>	<u>296</u>	<u>259</u>
Other revenues, expenses, gains, or losses				
Capital appropriations	690	1,232	-	-
Capital grants and gifts	614	1,682	-	-
Additions to permanent endowments	-	-	27	-
Total other revenues, expenses, gains, or losses	<u>1,304</u>	<u>2,914</u>	<u>27</u>	<u>-</u>
Increase in net assets	<u>1,927</u>	<u>6,165</u>	<u>323</u>	<u>259</u>
Net assets at beginning of year	<u>45,711</u>	<u>39,546</u>	<u>5,863</u>	<u>5,604</u>
Net assets at end of year	<u>\$47,638</u>	<u>\$45,711</u>	<u>\$6,186</u>	<u>\$5,863</u>

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

Revenues

The following is a graphic illustration of revenues by source (both operating and nonoperating), which are used to fund the college’s operating activities for the year ended June 30, 2012, and the year ended June 30, 2011. Amounts are in thousands of dollars.

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

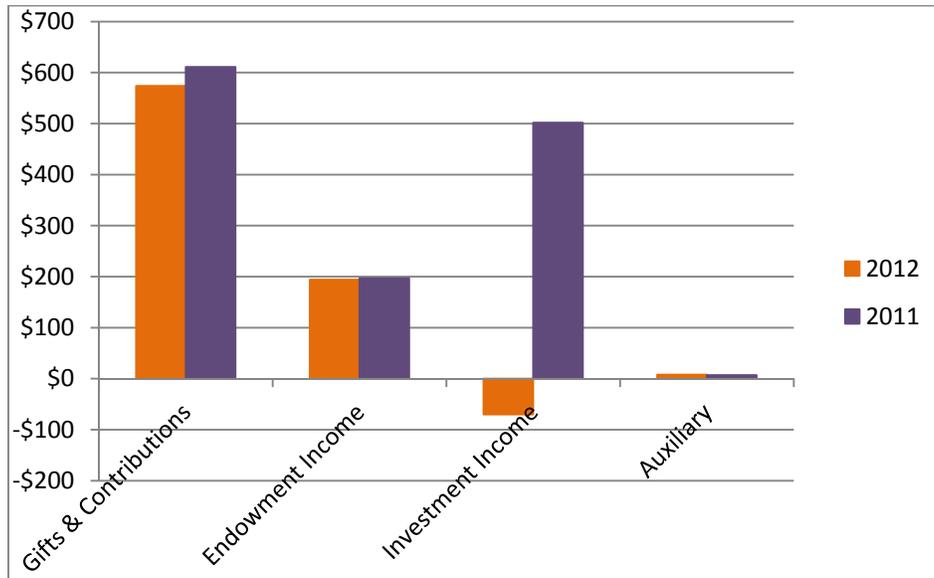


**Motlow College
Comparison of Fiscal Year 2012 to Fiscal Year 2011**

- State appropriations decreased by \$1.257 million due to fiscal year 2011 being the last year to receive non-recurring appropriations associated with the American Recovery Reinvestment Act.
- Capital appropriations decreased by \$542 thousand. This decrease resulted from renovation projects primarily taking place in fiscal year 2011, dealing with the Eoff Building, Ingram Administration Building, and the Fayetteville Building.
- Capital gifts decreased by \$1.068 million in fiscal year 2012 due to a land donation valued at \$1.095 million by the Town of Smyrna in fiscal year 2011.

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

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



**Component Unit
Comparison of Fiscal Year 2012 to Fiscal Year 2011**

- Gifts and contributions decreased by \$41 thousand, primarily due to more funds being generated in fiscal year 2011 to support the special fundraising campaign associated with the Rutherford County teaching campus expansion.
- Investment income decreased by \$572 thousand, primarily due to the reduction in unrealized gains on investments.

Expenses

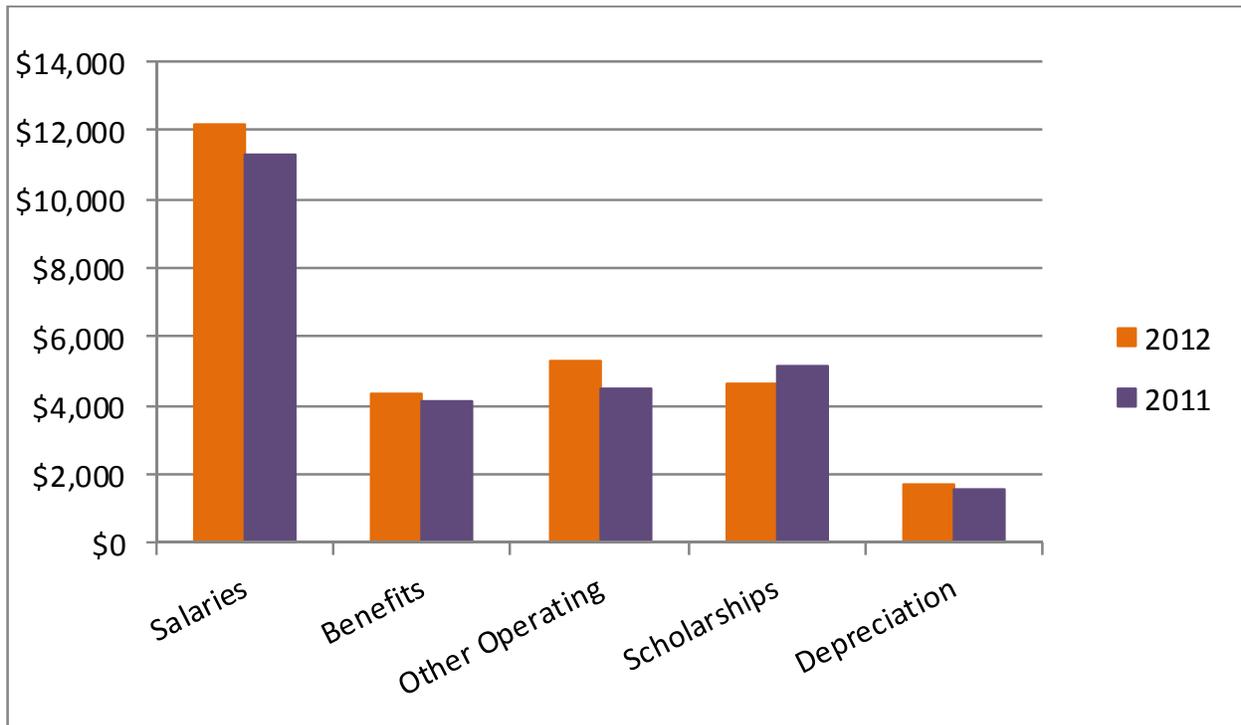
Operating expenses can be displayed in two formats, natural classification and program classification. Both formats are displayed below (amounts are presented in thousands of dollars).

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

Natural Classification

	<u>Motlow College</u>		<u>Component Unit</u>	
	2012	2011	2012	2011
Salaries	\$12,124	\$11,275	\$ -	\$ -
Benefits	4,358	4,087	-	-
Other operating	5,278	4,456	150	275
Scholarships	4,647	5,157	204	167
Gifts of capital assets and payments on behalf of college	-	-	55	619
Depreciation	1,708	1,586	-	-
Total operating expenses	<u>\$28,115</u>	<u>\$26,561</u>	<u>\$409</u>	<u>\$1,061</u>

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



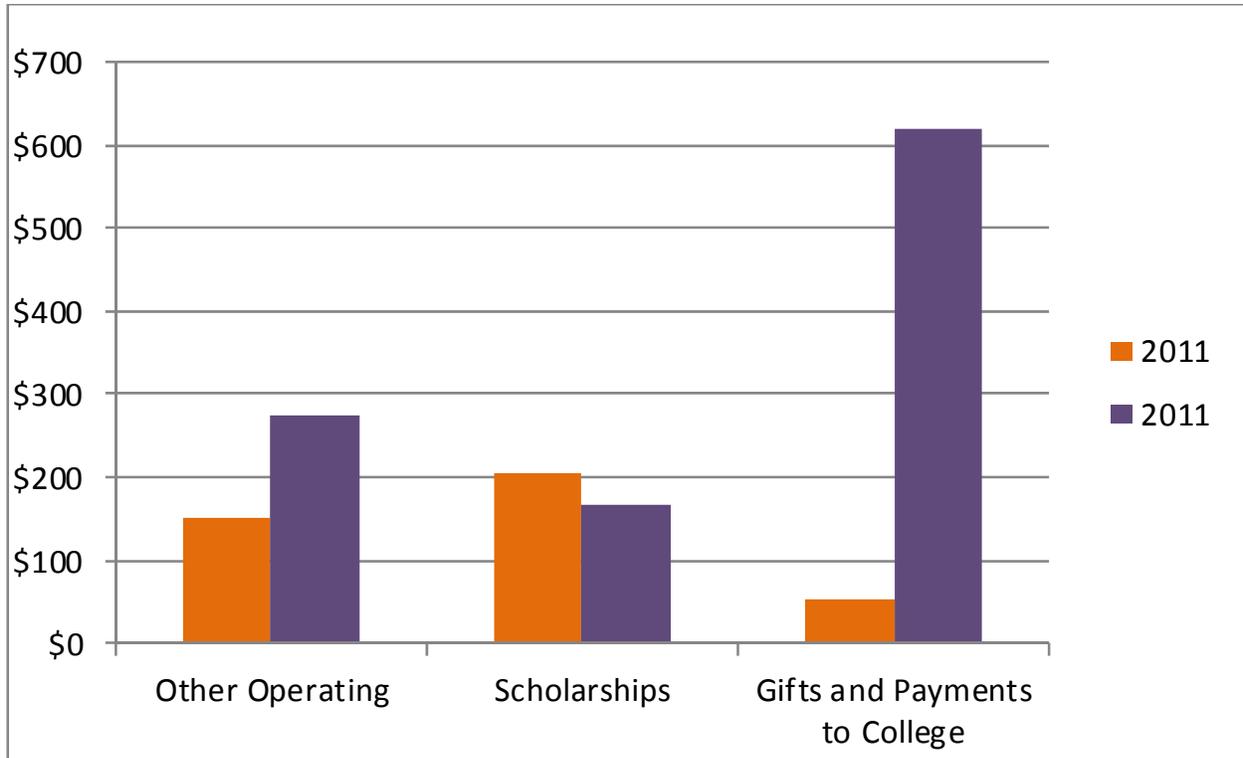
**Tennessee Board of Regents
Motlow State Community College
Management's Discussion and Analysis (Cont.)**

**Motlow College
Comparison of Fiscal Year 2012 to Fiscal Year 2011**

- Salaries increased by \$849 thousand. An across-the-board salary increase of 3% and a \$1 thousand one-time service payment (bonus) was given to eligible employees in fiscal year 2012. In addition, the college had a salary plan completed and made the first payment on this plan in fiscal year 2012 of approximately \$90 thousand. In addition, the college received a Trade Adjustment Assistance Community College and Career Training Grant in October of 2011. This grant included the hiring of a department chair, an administrative assistant, two instructors, a project manager, and a data analyst. To enhance EMS and EMT programs at the college, an allied health instructor was employed in fiscal year 2012. Also, an assistant director of student success was employed to assist with student success initiatives.
- Benefits increased by \$271 thousand. The majority of this increase is due to the salary increases as stated above and employee new hires in fiscal year 2012. In addition, there was also an increase in the net OPEB obligation in fiscal year 2012.
- Other operating expenses increased by \$822 thousand due to restricted grant expenditures, increased instructional supplies, personal computer replacements, consulting services, and capital projects.
- Scholarships decreased by \$511 thousand, primarily due to a decline in enrollment.

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

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



**Component Unit
Comparison of Fiscal Year 2012 to Fiscal Year 2011**

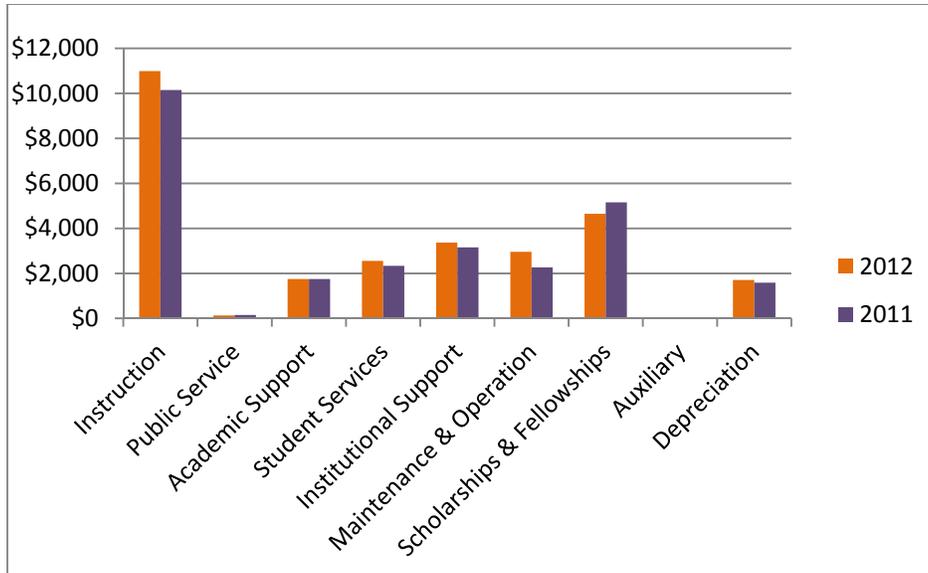
- Gifts of capital assets and payments on behalf of the college decreased by \$564 thousand, primarily due to the special fundraising campaign associated with the Rutherford County campus expansion done in fiscal year 2011 and those funds being paid to Motlow State Community College to support this project.
- Other operating expenses decreased by \$125 thousand. This decrease is associated with no expenses being incurred in fiscal year 2012 for the Mechatronics program.

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

Program Classification – Motlow College

	2012	2011
Instruction	\$11,017	\$10,182
Public service	132	151
Academic support	1,659	1,653
Student services	2,570	2,355
Institutional support	3,377	3,168
Maintenance & operation	2,998	2,301
Scholarships and fellowships	4,646	5,157
Auxiliary	8	8
Depreciation	1,708	1,586
Total operating expenses	\$28,115	\$26,561

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



**Operating Expenses by Function - Motlow College
Comparison of Fiscal Year 2012 to Fiscal Year 2011**

- The instructional component of the institution, which includes the functional areas of instruction, academic support, and public service, represents approximately 45% of the total operating expenses in 2012 and 2011. The total cost of these areas increased by

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

\$822 thousand in fiscal year 2012, primarily due to the salary increases and related benefits in fiscal year 2012 and the new employees hired in Mechatronics and Allied Health.

- Student services increased by \$215 thousand, mainly due to salary increases and related benefits in fiscal year 2012. Also, a new assistant director of student success was hired.
- Institutional support increased by \$209 thousand, primarily due to salary increases and related benefits in fiscal year 2012.
- Maintenance and operation increased by \$697 thousand. This increase resulted from a combination of salary increases and related benefits and capital projects.
- Scholarships decreased by \$511 thousand, primarily due to a decline in enrollment.

Capital Asset and Debt Administration

Capital Assets

Motlow College had \$34,003,391.48 invested in capital assets, net of accumulated depreciation of \$16,312,782.17 at June 30, 2012; and \$34,339,361.82 invested in capital assets, net of accumulated depreciation of \$14,948,379.04 at June 30, 2011. Depreciation charges totaled \$1,708,122.13 and \$1,585,616.75 for the years ended June 30, 2012, and June 30, 2011, respectively. The component unit had no capital assets at both June 30, 2012, and June 30, 2011. Details of these assets are shown below.

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

	<u>Motlow College</u>	
	<u>2012</u>	<u>2011</u>
Land	\$ 2,744	\$ 2,744
Land improvements & infrastructure	1,949	1,139
Buildings	27,305	27,522
Equipment	558	567
Intangible assets	768	848
Library holdings	188	195
Projects in progress	491	1,324
Capital assets, net	<u>\$34,003</u>	<u>\$34,339</u>

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

**Motlow College
Comparison of Fiscal Year 2012 to Fiscal Year 2011**

- Land improvements and infrastructure increased by \$810 thousand due to the Eoff Hall Systems Update project being completed and capitalized in fiscal year 2012.
- The projects in progress decreased by \$833 thousand due to completion of the major renovation projects on the Moore County campus in fiscal year 2012.

**Component Unit
Comparison of Fiscal Year 2012 to Fiscal Year 2011**

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

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

Debt

The college had \$500 thousand and \$600 thousand in debt outstanding at June 30, 2012, and June 30, 2011, respectively. For the two years, the component unit had no debt outstanding. The table below summarizes these amounts by the type of debt instrument.

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

	Motlow College	
	<u>2012</u>	<u>2011</u>
Bonds	<u>\$500</u>	<u>\$600</u>
Total debt	<u>\$500</u>	<u>\$600</u>

**Motlow College
Comparison of Fiscal Year 2012 to Fiscal Year 2011**

- Bonds decreased by \$100 thousand. The remaining balance owed relating to the current Rutherford County facility is \$500 thousand.

The ratings on debt issued by the Tennessee State School Bond Authority at June 30, 2012, were as follows:

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

Fitch	AA+
Moody's Investor Service	Aa1
Standard & Poor's	AA

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

Economic Factors That Will Affect The Future

The economic outlook for Tennessee higher education continues to be one of change. The Complete College Act, changes in the funding formula, and the economy in general impact the community colleges. Motlow State Community College received a Trade Adjustment Assistance Community College and Career Training Grant through the U.S. Department of Labor in October 2011. This grant is in the amount of \$3.2 million spread over a three-year period. The grant will assist the college in expanding the Mechatronics program and providing career readiness skills to assist with workforce needs.

In addition, a tuition increase of approximately 5% was approved for the 2013 academic year. A portion of these funds will be utilized to fund a salary increase for faculty and staff. The salary increase will assist with higher education in recruiting and retaining qualified faculty and staff. Furthermore, a portion of the increase is to replace the 1.6% state appropriation reduction with the balance to cover inflation and to assist with student programs and services.

The college is not aware of any other factors, decisions, or conditions that are expected to have a significant impact on the financial position or results of operations during this fiscal year.

Requests for Information

This financial report is designed to provide a general overview of the institution's finances for all those with an interest in the college's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be directed to Hilda Tunstill, Vice President for Business Affairs, Motlow State Community College, P.O. Box 8500, Lynchburg, Tennessee, 37352.

**TENNESSEE BOARD OF REGENTS
MOTLOW STATE COMMUNITY COLLEGE
STATEMENTS OF NET ASSETS
JUNE 30, 2012, AND JUNE 30, 2011**

	Motlow State Community College		Component Unit - Motlow College Foundation	
	June 30, 2012	June 30, 2011	June 30, 2012	June 30, 2011
ASSETS				
Current assets:				
Cash and cash equivalents (Notes 2, 3, and 16)	\$ 10,205,417.16	\$ 10,044,823.42	\$ 437,179.33	\$ 187,783.61
Accounts and grants receivable (net) (Note 4)	771,899.24	1,650,414.54	2,830.00	900.00
Due from component unit	27,922.99	4,236.95	-	-
Due from primary government	20,800.00	119.00	-	-
Pledges receivable (net) (Note 16)	-	-	122,155.00	125,635.00
Inventories	4,752.16	4,521.16	-	-
Prepaid expenses and deferred charges	67,631.65	25,623.98	-	-
Accrued interest receivable	-	-	1,389.41	3,248.83
Total current assets	<u>11,098,423.20</u>	<u>11,729,739.05</u>	<u>563,553.74</u>	<u>317,567.44</u>
Noncurrent assets:				
Cash and cash equivalents (Notes 2, 3, and 16)	10,564,061.27	6,894,126.90	370,103.06	109,951.15
Investments (Note 16)	-	-	5,290,258.84	5,443,595.22
Pledges receivable (net) (Note 16)	-	-	-	15,977.63
Capital assets (net) (Note 5)	34,003,391.48	34,339,361.82	-	-
Total noncurrent assets	<u>44,567,452.75</u>	<u>41,233,488.72</u>	<u>5,660,361.90</u>	<u>5,569,524.00</u>
Total assets	<u>55,665,875.95</u>	<u>52,963,227.77</u>	<u>6,223,915.64</u>	<u>5,887,091.44</u>
LIABILITIES				
Current liabilities:				
Accounts payable (Note 6)	349,765.47	285,675.50	3,833.00	12,512.97
Due to the college	-	-	27,922.99	4,236.95
Accrued liabilities	993,605.22	930,514.95	-	-
Deferred revenue	763,449.01	785,170.34	-	-
Compensated absences (Note 7)	167,272.72	72,037.31	-	-
Accrued interest payable	1,797.07	2,066.49	-	-
Long-term liabilities, current portion (Note 7)	100,000.00	100,000.00	-	-
Deposits held in custody for others	3,572,268.64	2,922,094.54	5,982.04	6,973.35
Total current liabilities	<u>5,948,158.13</u>	<u>5,097,559.13</u>	<u>37,738.03</u>	<u>23,723.27</u>
Noncurrent liabilities:				
Net OPEB obligation (Note 11)	1,229,977.63	1,135,775.91	-	-
Compensated absences (Note 7)	449,553.35	518,857.93	-	-
Long-term liabilities (Note 7)	400,000.00	500,000.00	-	-
Total noncurrent liabilities	<u>2,079,530.98</u>	<u>2,154,633.84</u>	<u>-</u>	<u>-</u>
Total liabilities	<u>8,027,689.11</u>	<u>7,252,192.97</u>	<u>37,738.03</u>	<u>23,723.27</u>
NET ASSETS				
Invested in capital assets, net of related debt	33,503,391.48	33,739,361.82	-	-
Restricted for:				
Nonexpendable:				
Scholarships and fellowships	-	-	385,011.66	400,698.37
Other	-	-	2,617,141.30	2,574,604.63
Expendable:				
Instructional department uses	157,535.15	152,761.28	-	-
Scholarships and fellowships	-	-	263,445.22	238,904.56
Capital projects	1,186,300.00	586,300.00	-	-
Other	-	-	2,774,520.16	2,556,521.15
Unrestricted (Note 8)	12,790,960.21	11,232,611.70	146,059.27	92,639.46
Total net assets	<u>\$ 47,638,186.84</u>	<u>\$ 45,711,034.80</u>	<u>\$ 6,186,177.61</u>	<u>\$ 5,863,368.17</u>

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

TENNESSEE BOARD OF REGENTS
MOTLOW STATE COMMUNITY COLLEGE
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2012, AND JUNE 30, 2011

	Motlow State Community College		Component Unit - Motlow College Foundation	
	Year Ended June 30, 2012	Year Ended June 30, 2011	Year Ended June 30, 2012	Year Ended June 30, 2011
REVENUES				
Operating revenues:				
Student tuition and fees (net of scholarship allowances of \$4,901,116.80 for the year ended June 30, 2012, and \$4,722,560.03 for the year ended June 30, 2011)	\$ 9,072,951.66	\$ 8,740,317.36	\$ -	\$ -
Gifts and contributions	-	-	573,612.67	614,478.67
Endowment income per spending plan	-	-	193,729.45	197,379.64
Governmental grants and contracts	470,174.87	336,614.41	-	-
Nongovernmental grants and contracts	36,021.95	112,617.79	-	-
Sales and services of educational departments	53,148.00	56,117.00	-	-
Sales and services of other activities	142,265.60	141,613.00	-	-
Auxiliary enterprises:				
Bookstore	272,267.55	277,732.45	-	-
Food service	1,399.70	1,505.42	-	-
Other	7,064.39	6,952.40	7,612.75	6,511.70
Other operating revenues	26,969.64	-	-	30.60
Total operating revenues	<u>10,082,263.36</u>	<u>9,673,469.83</u>	<u>774,954.87</u>	<u>818,400.61</u>
EXPENSES				
Operating expenses (Note 14):				
Salaries and wages	12,124,489.53	11,275,299.85	-	-
Benefits	4,357,921.51	4,087,316.79	-	-
Utilities, supplies, and other services	5,277,866.47	4,456,471.90	150,429.21	275,269.08
Scholarships and fellowships	4,646,453.72	5,156,672.28	203,618.14	167,399.53
Depreciation expense	1,708,122.13	1,585,616.75	-	-
Gifts of capital assets and payments to or on behalf of Motlow State Community College (Note 16)	-	-	54,937.79	618,585.42
Total operating expenses	<u>28,114,853.36</u>	<u>26,561,377.57</u>	<u>408,985.14</u>	<u>1,061,254.03</u>
Operating income (loss)	<u>(18,032,590.00)</u>	<u>(16,887,907.74)</u>	<u>365,969.73</u>	<u>(242,853.42)</u>
NONOPERATING REVENUES (EXPENSES)				
State appropriations	9,865,651.28	11,122,401.00	-	-
Gifts (college gifts include \$27,922.99 from component unit in 2012 and \$32,285.42 in 2011)	27,922.99	32,285.42	-	-
Grants and contracts	8,768,417.50	8,984,840.00	-	-
Investment income (for component unit, net of investment expense of \$13,430.50 in 2012 and \$12,328.90 in 2011)	18,253.77	21,248.07	(70,410.29)	502,628.14
Interest on capital asset-related debt	(24,528.42)	(28,586.41)	-	-
Other nonoperating revenues (expenses)	-	7,138.63	-	-
Net nonoperating revenues (expenses)	<u>18,655,717.12</u>	<u>20,139,326.71</u>	<u>(70,410.29)</u>	<u>502,628.14</u>
Income (loss) before other revenues, expenses, gains, or losses	<u>623,127.12</u>	<u>3,251,418.97</u>	<u>295,559.44</u>	<u>259,774.72</u>
Capital appropriations	689,960.12	1,231,725.52	-	-
Capital grants and gifts (college gifts include \$27,014.80 from component unit in 2012 and \$586,300.00 in 2011)	614,064.80	1,681,814.54	-	-
Additions to permanent endowments	-	-	27,250.00	-
Total other revenues	<u>1,304,024.92</u>	<u>2,913,540.06</u>	<u>27,250.00</u>	<u>-</u>
Increase in net assets	<u>1,927,152.04</u>	<u>6,164,959.03</u>	<u>322,809.44</u>	<u>259,774.72</u>
NET ASSETS				
Net assets - beginning of year	45,711,034.80	39,546,075.77	5,863,368.17	5,603,593.45
Net assets - end of year	<u>\$ 47,638,186.84</u>	<u>\$ 45,711,034.80</u>	<u>\$ 6,186,177.61</u>	<u>\$ 5,863,368.17</u>

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

**TENNESSEE BOARD OF REGENTS
MOTLOW STATE COMMUNITY COLLEGE
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2012, AND JUNE 30, 2011**

	Year Ended June 30, 2012	Year Ended June 30, 2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Tuition and fees	\$ 9,006,266.66	\$ 8,861,838.31
Grants and contracts	554,116.98	373,489.87
Sales and services of educational activities	53,148.00	56,117.00
Sales and services of other activities	142,265.60	141,613.00
Payments to suppliers and vendors	(5,266,543.11)	(4,495,488.35)
Payments to employees	(12,065,207.66)	(11,360,465.75)
Payments for benefits	(4,214,577.28)	(3,887,768.57)
Payments for scholarships and fellowships	(4,646,453.72)	(5,133,872.28)
Auxiliary enterprise charges:		
Bookstore	272,267.55	262,732.45
Food services	1,399.70	1,505.42
Other	7,064.39	6,952.40
Other receipts	26,969.64	-
Net cash used by operating activities	<u>(16,129,283.25)</u>	<u>(15,173,346.50)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State appropriations	9,848,367.00	11,109,000.00
Gifts and grants received for other than capital or endowment purposes	9,622,003.49	8,497,340.42
Federal student loan receipts	2,229,021.00	1,865,336.00
Federal student loan disbursements	(2,135,530.00)	(1,914,658.00)
Changes in deposits held for others	650,174.10	447,708.22
Other noncapital financing receipts	-	9,266.00
Net cash provided by noncapital financing activities	<u>20,214,035.59</u>	<u>20,013,992.64</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital appropriations	689,960.12	1,231,725.52
Capital grants and gifts received	600,000.00	586,300.00
Purchases of capital assets and construction	(1,437,640.28)	(1,503,541.33)
Principal paid on capital debt	(100,000.00)	(100,000.00)
Interest paid on capital debt	(24,797.84)	(28,930.82)
Net cash provided (used) by capital and related financing activities	<u>(272,478.00)</u>	<u>185,553.37</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Income on investments	18,253.77	21,248.07
Net cash provided by investing activities	<u>18,253.77</u>	<u>21,248.07</u>
Net increase in cash	3,830,528.11	5,047,447.58
Cash at beginning of year	16,938,950.32	11,891,502.74
Cash at end of year	<u>\$ 20,769,478.43</u>	<u>\$ 16,938,950.32</u>

**TENNESSEE BOARD OF REGENTS
MOTLOW STATE COMMUNITY COLLEGE
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2012, AND JUNE 30, 2011**

	Year Ended <u>June 30, 2012</u>	Year Ended <u>June 30, 2011</u>
Reconciliation of operating loss to net cash used by operating activities:		
Operating loss	\$ (18,032,590.00)	\$ (16,887,907.74)
Adjustments to reconcile operating loss to net cash used by operating activities:		
Depreciation expense	1,708,122.13	1,585,616.75
Other	19,403.28	17,301.00
Change in assets and liabilities:		
Receivables, net	(82,712.74)	(41,814.25)
Inventories	(231.00)	(2,111.79)
Prepaid/deferred items	(42,007.67)	(8,727.72)
Accounts payable	139,231.26	(9,958.43)
Accrued liabilities	63,090.27	(104,761.25)
Net OPEB obligation	94,201.72	185,377.70
Deferred revenue	(21,721.33)	77,174.36
Compensated absences	25,930.83	16,464.87
Net cash used by operating activities	<u>\$ (16,129,283.25)</u>	<u>\$ (15,173,346.50)</u>
Noncash investing, capital, or financing transactions		
Gifts of capital assets	\$ 14,064.80	\$ 1,095,514.54
Loss on disposal of capital assets	\$ -	\$ (2,127.37)

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

**Tennessee Board of Regents
Motlow State Community College
Notes to the Financial Statements
June 30, 2012, and June 30, 2011**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

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

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

The Motlow College Foundation is considered a component unit of the college. Although the college does not control the timing or amount of receipts from the foundation, the majority of resources, or income thereon, that the foundation holds and invests are restricted to the activities of the college by the donors. Because these restricted resources held by the foundation can only be used by, or for the benefit of, the college, the foundation is considered a component unit of the college and is discretely presented in the college's financial statements. See Note 16 for more detailed information about the component unit and how to obtain the report.

Basis of Presentation

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

Basis of Accounting

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

**Tennessee Board of Regents
Motlow State Community College
Notes to the Financial Statements (Cont.)
June 30, 2012, and June 30, 2011**

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) interest on capital asset-related debt; (4) certain grants and contracts; and (5) gifts and nonexchange transactions.

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

Inventories

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

Compensated Absences

The college's employees accrue annual and sick leave at varying rates, depending on length of service or classification. Some employees also earn compensatory time. The amount of the liabilities for annual leave and compensatory time and their related benefits are reported in the statement of net assets. There is no liability for unpaid accumulated sick leave since the college's policy is to pay this only if the employee dies or is absent because of illness, injury, or related family death.

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

**Tennessee Board of Regents
Motlow State Community College
Notes to the Financial Statements (Cont.)
June 30, 2012, and June 30, 2011**

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.

Net Assets

The college's net assets are classified as follows:

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

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

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

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

**Tennessee Board of Regents
Motlow State Community College
Notes to the Financial Statements (Cont.)
June 30, 2012, and June 30, 2011**

Scholarship Discounts and Allowances

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

NOTE 2. CASH

This classification includes demand deposits and petty cash on hand. At June 30, 2012, cash consisted of \$3,509,929.39 in bank accounts, \$1,100.00 of petty cash on hand, \$15,434,344.47 in the State of Tennessee Local Government Investment Pool (LGIP) administered by the State Treasurer, and \$1,824,104.57 in LGIP deposits for capital projects. At June 30, 2011, cash consisted of \$2,724,306.39 in bank accounts, \$1,000.00 of petty cash on hand, \$12,649,212.21 in LGIP, and \$1,564,431.72 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

**Tennessee Board of Regents
Motlow State Community College
Notes to the Financial Statements (Cont.)
June 30, 2012, and June 30, 2011**

with Tennessee Board of Regents policies. Under the current policy, funds other than endowments may be invested only in obligations of the United States or its agencies which are backed by the full faith and credit of the United States, repurchase agreements for United States securities, certificates of deposit in banks and savings and loan associations, banker's acceptances, commercial paper, money market mutual funds, and the State of Tennessee Local Government Investment Pool (LGIP).

Tennessee Board of Regents policy restricts investments in banker's acceptances and commercial paper. The policy requires that prime banker's acceptances must be issued by domestic banks with a minimum AA rating or foreign banks with a AAA long-term debt rating by a majority of the rating services that have rated the issuer. Prime banker's acceptances are required to be eligible for purchase by the Federal Reserve System. To be eligible, the original maturity must not be more than 270 days, and it must 1) arise out of the current shipment of goods between countries or with the United States, or 2) arise out of storage within the United States of goods under contract of sale or expected to move into the channel of trade within a reasonable time and that are secured throughout their life by a warehouse receipt or similar document conveying title to the underlying goods.

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

As of June 30, 2012, and June 30, 2011, the college's investments consisted entirely of investments in the Local Government Investment Pool. The fair value of these investments was \$17,258,449.04 at June 30, 2012, and \$14,213,643.93 at June 30, 2011. 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 risk disclosures are presented in the *State of Tennessee's Treasurer's Report*. That report is available on the state's website at www.treasury.tn.gov.

**Tennessee Board of Regents
Motlow State Community College
Notes to the Financial Statements (Cont.)
June 30, 2012, and June 30, 2011**

NOTE 4. RECEIVABLES

Receivables included the following:

	<u>June 30, 2012</u>	<u>June 30, 2011</u>
Student accounts receivable	\$416,379.51	\$ 405,984.19
Grants receivable	341,167.19	1,302,275.30
State appropriation receivable	-	22,800.00
Other receivables	<u>122,141.61</u>	<u>61,712.47</u>
Subtotal	879,688.31	1,792,771.96
Less allowance for doubtful accounts	<u>107,789.07</u>	<u>142,357.42</u>
Total receivables	<u>\$771,899.24</u>	<u>\$1,650,414.54</u>

NOTE 5. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2012, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Transfers</u>	<u>Reductions</u>	<u>Ending Balance</u>
Land	\$ 2,743,600.00	\$ -	\$ -	\$ -	\$ 2,743,600.00
Land improvements and infrastructure	2,773,044.64	-	946,696.08	-	3,719,740.72
Buildings	38,822,415.97	-	992,433.58	-	39,814,849.55
Equipment	1,633,092.00	120,864.50	-	291,779.08	1,462,177.42
Library holdings	422,819.47	34,396.20	-	51,939.92	405,275.75
Intangible assets	1,568,372.98	86,634.00	24,960.00	-	1,679,966.98
Projects in progress	<u>1,324,395.80</u>	<u>1,130,257.09</u>	<u>(1,964,089.66)</u>	-	<u>490,563.23</u>
Total	<u>49,287,740.86</u>	<u>1,372,151.79</u>	<u>-</u>	<u>343,719.00</u>	<u>50,316,173.65</u>
Less accumulated depreciation/amortization:					
Land improvements and infrastructure	1,634,303.63	136,225.42	-	-	1,770,529.05
Buildings	11,300,216.99	1,209,786.13	-	-	12,510,003.12
Equipment	1,066,235.02	129,542.25	-	291,779.08	903,998.19
Library holdings	227,859.95	40,527.58	-	51,939.92	216,447.61
Intangible assets	<u>719,763.45</u>	<u>192,040.75</u>	<u>-</u>	<u>-</u>	<u>911,804.20</u>

**Tennessee Board of Regents
Motlow State Community College
Notes to the Financial Statements (Cont.)
June 30, 2012, and June 30, 2011**

Total	<u>14,948,379.04</u>	<u>1,708,122.13</u>	<u> -</u>	<u>343,719.00</u>	<u>16,312,782.17</u>
Capital assets, net	<u>\$34,339,361.82</u>	<u>\$ (335,970.34)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$34,003,391.48</u>

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

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Transfers</u>	<u>Reductions</u>	<u>Ending Balance</u>
Land	\$ 1,648,600.00	\$1,095,000.00	\$ -	\$ -	\$ 2,743,600.00
Land improvements and infrastructure	2,773,044.64	-	-	-	2,773,044.64
Buildings	38,822,415.97	-	-	-	38,822,415.97
Equipment	1,836,611.54	112,881.95	-	316,401.49	1,633,092.00
Library holdings	434,124.95	43,689.23	-	54,994.71	422,819.47
Intangible assets	1,475,976.98	92,396.00	-	-	1,568,372.98
Projects in progress	<u> -</u>	<u>1,324,395.80</u>	<u> -</u>	<u> -</u>	<u>1,324,395.80</u>
Total	<u>46,990,774.08</u>	<u>2,668,362.98</u>	<u> -</u>	<u>371,396.20</u>	<u>49,287,740.86</u>
Less accumulated depreciation/amortization:					
Land improvements and infrastructure	1,537,878.22	96,425.41	-	-	1,634,303.63
Buildings	10,142,391.77	1,157,825.22	-	-	11,300,216.99
Equipment	1,261,146.84	119,362.30	-	314,274.12	1,066,235.02
Library holdings	240,572.79	42,281.87	-	54,994.71	227,859.95
Intangible assets	<u>550,041.50</u>	<u>169,721.95</u>	<u> -</u>	<u> -</u>	<u>719,763.45</u>
Total	<u>13,732,031.12</u>	<u>1,585,616.75</u>	<u> -</u>	<u>369,268.83</u>	<u>14,948,379.04</u>
Capital assets, net	<u>\$33,258,742.96</u>	<u>\$1,082,746.23</u>	<u>\$ -</u>	<u>\$ 2,127.37</u>	<u>\$34,339,361.82</u>

NOTE 6. ACCOUNTS PAYABLE

Accounts payable included the following:

	<u>June 30, 2012</u>	<u>June 30, 2011</u>
Vendors payable	\$316,509.03	\$269,511.41
Other payables	<u>33,256.44</u>	<u>16,164.09</u>
Total accounts payable	<u>\$349,765.47</u>	<u>\$285,675.50</u>

**Tennessee Board of Regents
Motlow State Community College
Notes to the Financial Statements (Cont.)
June 30, 2012, and June 30, 2011**

NOTE 7. LONG-TERM LIABILITIES

Long-term liabilities activity for the year ended June 30, 2012, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Current Portion</u>
General obligation debt:					
Bonds	\$ 600,000.00	\$ -	\$100,000.00	\$ 500,000.00	\$ 100,000.00
Subtotal	<u>600,000.00</u>	<u>-</u>	<u>100,000.00</u>	<u>500,000.00</u>	<u>100,000.00</u>
Other liabilities:					
Compensated absences	<u>590,895.24</u>	<u>465,124.21</u>	<u>439,193.38</u>	<u>616,826.07</u>	<u>167,272.72</u>
Subtotal	<u>590,895.24</u>	<u>465,124.21</u>	<u>439,193.38</u>	<u>616,826.07</u>	<u>167,272.72</u>
Total long-term liabilities	<u>\$1,190,895.24</u>	<u>\$465,124.21</u>	<u>\$539,193.38</u>	<u>\$1,116,826.07</u>	<u>\$267,272.72</u>

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

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Current Portion</u>
General obligation debt:					
Bonds	\$ 700,000.00	\$ -	\$100,000.00	\$ 600,000.00	\$ 100,000.00
Subtotal	<u>700,000.00</u>	<u>-</u>	<u>100,000.00</u>	<u>600,000.00</u>	<u>100,000.00</u>
Other liabilities:					
Compensated absences	<u>574,430.37</u>	<u>410,842.15</u>	<u>394,377.28</u>	<u>590,895.24</u>	<u>72,037.31</u>
Subtotal	<u>574,430.37</u>	<u>410,842.15</u>	<u>394,377.28</u>	<u>590,895.24</u>	<u>72,037.31</u>
Total long-term liabilities	<u>\$1,274,430.37</u>	<u>\$410,842.15</u>	<u>\$494,377.28</u>	<u>\$1,190,895.24</u>	<u>\$172,037.31</u>

General Obligation Debt - Bonds

Bonds, with an interest rate of 4.13%, were issued by the Tennessee State Funding Board. The bonds are due serially until 2017 and are secured by pledges of the facilities' revenues to which they relate and certain other revenues and fees of the college, including state appropriations; see Note 9 for further details.

Debt service requirements to maturity for the college's portion of General Obligation bonds at June 30, 2012, are as follows:

**Tennessee Board of Regents
Motlow State Community College
Notes to the Financial Statements (Cont.)
June 30, 2012, and June 30, 2011**

Year Ending <u>June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$100,000.00	\$20,664.87	\$120,664.87
2014	100,000.00	16,531.90	116,531.90
2015	100,000.00	12,398.92	112,398.92
2016	100,000.00	8,265.95	108,265.95
2017	<u>100,000.00</u>	<u>4,132.97</u>	<u>104,132.97</u>
Total	<u>\$500,000.00</u>	<u>\$61,994.61</u>	<u>\$561,994.61</u>

NOTE 8. UNRESTRICTED NET ASSETS

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

	<u>June 30, 2012</u>	<u>June 30, 2011</u>
Working capital	\$ 398,251.94	\$ 269,844.59
Encumbrances	21,919.46	105,784.85
Designated fees	136,816.17	170,647.35
Auxiliaries	1,082,829.30	835,486.48
Plant construction	3,072,585.85	3,090,785.43
Renewal and replacement of equipment	6,517,530.31	4,366,674.49
Undesignated	<u>1,561,027.18</u>	<u>2,393,388.51</u>
Total	<u>\$12,790,960.21</u>	<u>\$11,232,611.70</u>

NOTE 9. PLEDGED REVENUES

The college has pledged certain revenues and fees, including state appropriations, to repay \$500,000 in general obligation bonds. Proceeds from the bonds provided financing for the college's Rutherford County Teaching Facility. The bonds are payable through 2017. Annual principal and interest payments on the bonds are expected to require .5% of available revenues. The total principal and interest remaining to be paid on the bonds at June 30, 2012, is \$561,994.61. Principal and interest paid for fiscal year 2012 and total available revenues in that year were \$124,797.85 and \$24,267,920.19, respectively. See Note 7 for further detail.

**Tennessee Board of Regents
Motlow State Community College
Notes to the Financial Statements (Cont.)
June 30, 2012, and June 30, 2011**

NOTE 10. PENSION PLANS

A. Defined Benefit Plan

Tennessee Consolidated Retirement System

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

The TCRS issues a publicly available financial report that includes financial statements and required supplementary information for SETHEEPP. That report is available on the state's website at 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 the years ended June 30, 2012, 2011, and 2010 were \$1,137,307.06, \$1,012,935.27, and \$903,025.98. 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 (TIAA-CREF), ING Life Insurance and Annuity Company, and Variable Annuity Life Insurance Company (VALIC). These plans are administered by the Tennessee Department of the Treasury. Each plan provides retirement benefits to faculty and staff who are exempt from the overtime provisions of the Fair Labor Standards Act and who waive membership in the TCRS. Benefits depend solely on amounts contributed to the plan plus investment earnings. Plan provisions are established by state statute in Title 8, Chapter 35, Part 4, *Tennessee Code Annotated*. State statutes are amended by the Tennessee General Assembly.

**Tennessee Board of Regents
Motlow State Community College
Notes to the Financial Statements (Cont.)
June 30, 2012, and June 30, 2011**

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 contributions made by the college to the plans were \$240,132.28 for the year ended June 30, 2012, and \$228,835.14 for the year ended June 30, 2011. Contributions met the requirements for each year.

NOTE 11. OTHER POSTEMPLOYMENT BENEFITS

Healthcare is the only "other postemployment benefit" (OPEB) provided to employees. The State of Tennessee administers a group health insurance program which provides postemployment health insurance benefits to eligible college retirees. This program includes two plans available to higher education employees—the State Employee Group Plan and the Medicare Supplement Plan. For accounting purposes, the plans are agent multiple-employer defined benefit OPEB plans. Benefits are established and amended by an insurance committee created by Section 8-27-101, *Tennessee Code Annotated*. Prior to reaching age 65, all members have the option of choosing between the standard or partnership preferred provider organization (PPO) plan for healthcare benefits. Subsequent to age 65, members 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 www.tn.gov/finance/act/cafr.shtml.

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%; retirees with 20 years of service but less than 30 years of service, 70%; and retirees with less than 20 years of service, 60%. Retirees

**Tennessee Board of Regents
Motlow State Community College
Notes to the Financial Statements (Cont.)
June 30, 2012, and June 30, 2011**

in the Medicare Supplement Plan have flat-rate premium subsidies based on years of service. Retirees with 30 years of service receive \$50 per month; retirees with 20 years of service but less than 30 years of service, \$37.50; and retirees with 15 years of service but less than 20 years of service, \$25.

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

	<u>2012</u>	<u>2011</u>
Annual required contribution (ARC)	\$ 334,000.00	\$ 385,000.00
Interest on the net OPEB obligation	45,431.04	42,767.92
Adjustment to the ARC	<u>(48,224.18)</u>	<u>(40,509.71)</u>
Annual OPEB cost	331,206.86	387,258.21
Amount of contribution	<u>(237,005.14)</u>	<u>(201,880.51)</u>
Increase in net OPEB obligation	94,201.72	185,377.70
Net OPEB obligation – beginning of year	<u>1,135,775.91</u>	<u>950,398.21</u>
Net OPEB obligation – end of year	<u><u>\$1,229,977.63</u></u>	<u><u>\$1,135,775.91</u></u>

<u>Year-end</u>	<u>Plan</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation at Year-end</u>
June 30, 2012	State Employee Group Plan	\$331,206.86	71.6%	\$1,229,977.63
June 30, 2011	State Employee Group Plan	\$387,258.21	52.1%	\$1,135,775.91
June 30, 2010	State Employee Group Plan	\$425,635.74	38.5%	\$950,398.21

Funded Status and Funding Progress

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

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State Employee Group Plan

Actuarial valuation date	July 1, 2011	July 1, 2010
Actuarial accrued liability (AAL)	\$3,166,000.00	\$4,102,000.00
Actuarial value of plan assets	-	-
Unfunded actuarial accrued liability (UAAL)	\$3,166,000.00	\$4,102,000.00
Actuarial value of assets as a percentage of the AAL	0%	0%
Covered payroll (active plan members)	\$8,255,194.34	\$8,511,221.79
UAAL as percentage of covered payroll	38.4%	48.2%

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

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, 2011, actuarial valuation, the Projected Unit Credit actuarial cost method was used. The actuarial assumptions included a 4 percent investment rate of return (net of administrative expenses) and an annual healthcare cost trend rate of 9.25 percent in fiscal year 2012. The rate decreases to 8.75 percent in fiscal year 2013, and then reduces by decrements to an ultimate rate of 5 percent in fiscal year 2021. All rates include a 2.5 percent inflation assumption. The unfunded actuarial accrued liability is being amortized as a level percentage of payroll on a closed basis over a 30-year period beginning with July 1, 2007.

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June 30, 2012, and June 30, 2011**

NOTE 12. INSURANCE-RELATED ACTIVITIES

It is the policy of the state not to purchase commercial insurance for the risks associated with casualty losses for general liability, automobile liability, professional medical 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, builder's risk (for construction projects starting prior to July 1, 2012) and crime and fidelity coverage on the state's officials and employees. The contractor is responsible for acquiring builder's risk insurance for all construction projects after June 30, 2012; thus builder's risk is no longer covered by the Risk Management Fund. For property coverage, the deductible for an individual state agency is the first \$25,000 of losses. The Risk Management Fund is responsible for property losses for the annual aggregate deductible of \$10 million for perils other than earthquakes and flood. Purchased insurance coverage is responsible for losses exceeding the \$10 million annual aggregate deductible. For earthquake and flood, there is a deductible of \$10 million per occurrence. The maximum insurance coverage is \$750 million per year for perils other than earthquake and flood. The maximum flood insurance coverage is \$50 million per occurrence, except there is only \$25 million of coverage in flood zones A and V. The maximum earthquake insurance coverage is \$50 million per occurrence. The amounts of settlements have not exceeded insurance coverage for each of the three past fiscal years.

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, 2012, and June 30, 2011, are presented in the *Tennessee Comprehensive Annual Financial Report*. The CAFR is available on the state's website at www.tn.gov/finance/act/cafr.shtml. Since the college participates in the Risk Management Fund, it is subject to the liability limitations under the provisions of the Tennessee Claims Commission Act, *Tennessee Code Annotated*, Section 9-8-101 et seq. Liability for negligence of the college for bodily injury and property damage is limited to \$300,000 per person and \$1,000,000 per occurrence. The limits of liability under workers' compensation are set forth in *Tennessee Code Annotated*, Section 50-6-101 et seq. Claims are paid through the

**Tennessee Board of Regents
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June 30, 2012, and June 30, 2011**

state's Risk Management Fund. At June 30, 2012, the Risk Management Fund held \$97.2 million in cash and cash equivalents designated for payment of claims. 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, 2012, the scheduled coverage for the college was \$82,813,200.00 for buildings and \$27,650,000.00 for contents. At June 30, 2011, the scheduled coverage for the college was \$82,794,900.00 for buildings and \$28,650,000.00 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 13. COMMITMENTS AND CONTINGENCIES

Sick Leave

The college records the cost of sick leave when paid. The dollar amount of unused sick leave was \$4,203,283.44 at June 30, 2012, and \$3,819,261.01 at June 30, 2011.

Operating Leases

The college has entered into various operating leases for equipment. Such leases will probably continue to be required. Expenses under operating leases for personal property were \$47,461.70 for the year ended June 30, 2012. The amount for the year ended June 30, 2011, was \$62,347.58. All operating leases are cancelable at the lessee's option.

Construction in Progress

At June 30, 2012, outstanding commitments under construction contracts totaled \$371,363.88 for the Rutherford County Teaching Site Expansion project, ADA Adaptations project, Underground Pipe Replacement project, and Building Systems Equipment Replacement project, all of which will be funded by future state capital outlay appropriations.

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Notes to the Financial Statements (Cont.)
June 30, 2012, and June 30, 2011**

NOTE 14. NATURAL CLASSIFICATIONS WITH FUNCTIONAL CLASSIFICATIONS

The college's operating expenses for the year ended June 30, 2012, are as follows:

<u>Functional Classification</u>	<u>Natural Classification</u>					<u>Total</u>
	<u>Salaries</u>	<u>Benefits</u>	<u>Other Operating</u>	<u>Scholarships</u>	<u>Depreciation</u>	
Instruction	\$ 7,059,176.33	\$2,247,208.51	\$1,710,928.25	\$ -	\$ -	\$11,017,313.09
Public service	99,595.12	18,764.83	13,540.16	-	-	131,900.11
Academic support	1,234,493.78	512,837.19	(88,187.54)	-	-	1,659,143.43
Student services	1,174,171.47	486,204.72	909,541.82	-	-	2,569,918.01
Institutional support	2,004,843.75	786,835.34	584,763.76	-	-	3,376,442.85
Operation & maintenance	552,209.08	306,070.92	2,139,180.47	-	-	2,997,460.47
Scholarships & fellowships	-	-	-	4,646,453.72	-	4,646,453.72
Auxiliary	-	-	8,099.55	-	-	8,099.55
Depreciation	-	-	-	-	1,708,122.13	1,708,122.13
Total	<u>\$12,124,489.53</u>	<u>\$4,357,921.51</u>	<u>\$5,277,866.47</u>	<u>\$4,646,453.72</u>	<u>\$1,708,122.13</u>	<u>\$28,114,853.36</u>

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

<u>Functional Classification</u>	<u>Natural Classification</u>					<u>Total</u>
	<u>Salaries</u>	<u>Benefits</u>	<u>Other Operating</u>	<u>Scholarships</u>	<u>Depreciation</u>	
Instruction	\$ 6,558,252.07	\$2,003,935.00	\$1,620,136.25	\$ -	\$ -	\$10,182,323.32
Public service	81,667.20	18,712.21	51,017.96	-	-	151,397.37
Academic support	1,227,557.91	523,399.76	(98,541.18)	-	-	1,652,416.49
Student services	1,057,886.97	482,517.93	814,274.10	-	-	2,354,679.00
Institutional support	1,869,701.56	759,990.47	538,945.35	-	-	3,168,637.38
Operation & maintenance	480,234.14	298,761.42	1,521,868.20	-	-	2,300,863.76
Scholarships & fellowships	-	-	-	5,156,672.28	-	5,156,672.28
Auxiliary	-	-	8,771.22	-	-	8,771.22
Depreciation	-	-	-	-	1,585,616.75	1,585,616.75
Total	<u>\$11,275,299.85</u>	<u>\$4,087,316.79</u>	<u>\$4,456,471.90</u>	<u>\$5,156,672.28</u>	<u>\$1,585,616.75</u>	<u>\$26,561,377.57</u>

Expenses initially incurred by the academic support function as a result of providing internal services to the other functional classifications were allocated to the other functional areas by reducing the academic support function's operating expenses by the total amount of salaries, benefits, and operating expenses incurred in the provision of these services, and allocating this amount to the other functional areas' operating expenses on the basis of usage. As a result of this process, expenses totaling \$1,013,069.60 for the year ended June 30, 2012, and \$809,253.38 for the year ended

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June 30, 2012, and June 30, 2011

June 30, 2011, were reallocated from academic support to the other functional areas and caused academic support operating expenses to appear as a negative amount in the schedule above.

NOTE 15. ON-BEHALF PAYMENTS

During the year ended June 30, 2012, the State of Tennessee made payments of \$19,403.28 on behalf of the college for retirees participating in the Medicare Supplement Plan. The amount for the year ended June 30, 2011, was \$17,301.00. The Medicare Supplement Plan is a postemployment benefit healthcare plan and is discussed further in Note 11. That report is available on the state's website at www.tn.gov/finance/act/cafr.shtml.

NOTE 16. COMPONENT UNIT

The Motlow College Foundation is a legally separate, tax-exempt organization supporting Motlow State Community College. The foundation acts primarily as a fund-raising organization to supplement the resources that are available to the college in support of its programs. The 61-member board of the foundation is self-perpetuating and consists of graduates and friends of the college. Although the college does not control the timing or amount of receipts from the foundation, the majority of resources, or income thereon, that the foundation holds and invests are restricted to the activities of the college by the donors. Because these restricted resources held by the foundation can only be used by, or for the benefit of, the college, the foundation is considered a component unit of the college and is discretely presented in the college's financial statements.

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

During the year ended June 30, 2012, the foundation made distributions of \$54,937.79 to or on behalf of the college for both restricted and unrestricted purposes. During the year ended June 30, 2011, the foundation made distributions of \$618,585.42 to or on behalf of the college for both restricted and unrestricted

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Notes to the Financial Statements (Cont.)
June 30, 2012, and June 30, 2011**

purposes. Complete financial statements for the foundation can be obtained from Ms. Hilda Tunstill, the college's Vice President for Business Affairs, P. O. Box 8500, Lynchburg, TN 37352.

Fair Value Measurements

The foundation reports certain assets at fair value. Fair value has been determined using quoted prices in active markets for identical assets that are accessible at the measurement date (Level 1), inputs other than quoted market prices included in Level 1 that are directly or indirectly observable for the asset (Level 2), or significant unobservable inputs (Level 3). The following tables categorize the recurring fair value measurements for assets at June 30, 2012, and at June 30, 2011.

	Total Fair Value at <u>June 30, 2012</u>	Quoted Prices <u>Level 1</u>	Significant Other Inputs <u>Level 2</u>
Assets:			
Investments	<u>\$5,290,258.84</u>	<u>\$4,390,261.84</u>	<u>\$899,997.00</u>
Total assets	<u>\$5,290,258.84</u>	<u>\$4,390,261.84</u>	<u>\$899,997.00</u>

	Total Fair Value at <u>June 30, 2011</u>	Quoted Prices <u>Level 1</u>	Significant Other Inputs <u>Level 2</u>
Assets:			
Investments	<u>\$5,443,595.22</u>	<u>\$4,343,666.22</u>	<u>\$1,099,929.00</u>
Total assets	<u>\$5,443,595.22</u>	<u>\$4,343,666.22</u>	<u>\$1,099,929.00</u>

Cash and Cash Equivalents

Cash and cash equivalents consist of demand deposit accounts, petty cash, Local Government Investment Pool (LGIP) deposits, and money market funds. The bank balances of deposits at June 30, 2012, were entirely insured. The bank balances of deposits at June 30, 2011, were entirely insured.

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Motlow State Community College
Notes to the Financial Statements (Cont.)
June 30, 2012, and June 30, 2011**

Investments

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

Investments held at June 30, 2012, were as follows:

	<u>Cost</u>	<u>Fair Value</u>
Certificates of deposit	\$ 900,000.00	\$ 899,997.00
Corporate stock	2,735,387.11	2,988,957.40
Mutual bond funds	1,020,822.24	1,025,385.07
Mutual equity funds	<u>333,930.77</u>	<u>375,919.37</u>
Total investments	<u>\$4,990,140.12</u>	<u>\$5,290,258.84</u>

Investments held at June 30, 2011, were as follows:

	<u>Cost</u>	<u>Fair Value</u>
Certificates of deposit	\$1,100,000.00	\$1,099,929.00
Corporate stock	2,355,037.84	2,771,550.75
Mutual bond funds	934,176.76	931,343.30
Mutual equity funds	<u>550,067.44</u>	<u>640,772.17</u>
Total investments	<u>\$4,939,282.04</u>	<u>\$5,443,595.22</u>

Pledges Receivable

Pledges receivable are summarized below net of the estimated uncollectible allowance of \$2,065.00 at June 30, 2012, and \$25,000.00 at June 30, 2011.

**Tennessee Board of Regents
Motlow State Community College
Notes to the Financial Statements (Cont.)
June 30, 2012, and June 30, 2011**

	<u>June 30, 2012</u>	<u>June 30, 2011</u>
Current pledges	\$122,155.00	\$125,635.00
Pledges due in one to five years	<u> -</u>	<u> 16,000.00</u>
Subtotal	122,155.00	141,635.00
Less discount to net present value	<u> -</u>	<u> (22.37)</u>
Total pledges receivable, net	<u>\$122,155.00</u>	<u>\$141,612.63</u>

Endowments

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

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

**Tennessee Board of Regents
Motlow State Community College
Notes to the Financial Statements (Cont.)
June 30, 2012, and June 30, 2011**

Composition of Endowment by Net Asset Class
As of June 30, 2012

	<u>Permanently Restricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$3,002,152.96	\$1,640,860.44	\$4,643,013.40

Composition of Endowment by Net Asset Class
As of June 30, 2011

	<u>Permanently Restricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$2,975,303.00	\$1,729,005.96	\$4,704,308.96

Changes in Endowment Net Assets
for the Fiscal Year Ended June 30, 2012

	<u>Permanently Restricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$2,975,303.00	\$1,729,005.96	\$4,704,308.96
Investment return:			
Investment income	14,313.35	93,325.09	107,638.44
Net appreciation (realized and unrealized)	<u>3,737.30</u>	<u>4,529.39</u>	<u>8,266.69</u>
Total investment return	<u>18,050.65</u>	<u>97,854.48</u>	<u>115,905.13</u>
Contributions	27,250.00	1,000.00	28,250.00
Appropriations of endowment assets for expenditure	-	(187,000.00)	(187,000.00)
Transfers	<u>(18,450.69)</u>	<u>-</u>	<u>(18,450.69)</u>
Endowment net assets, end of year	<u>\$3,002,152.96</u>	<u>\$1,640,860.44</u>	<u>\$4,643,013.40</u>

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Motlow State Community College
Notes to the Financial Statements (Cont.)
June 30, 2012, and June 30, 2011**

Changes in Endowment Net Assets
for the Fiscal Year Ended June 30, 2011

	<u>Permanently Restricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$2,944,087.69	\$1,435,427.57	\$4,379,515.26
Investment return:			
Investment income	12,206.82	104,098.29	116,305.11
Net appreciation (realized and unrealized)	<u>18,769.07</u>	<u>551,408.20</u>	<u>570,177.27</u>
Total investment return	<u>30,975.89</u>	<u>655,506.49</u>	<u>686,482.38</u>
Contributions	-	2,809.55	2,809.55
Appropriations of endowment assets for expenditure	-	(385,900.00)	(385,900.00)
Amortization of pledge receivable discounts	239.42	-	239.42
Transfers	<u>-</u>	<u>21,162.35</u>	<u>21,162.35</u>
Endowment net assets, end of year	<u>\$2,975,303.00</u>	<u>\$1,729,005.96</u>	<u>\$4,704,308.96</u>

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

Strategies employed for achieving objectives - To satisfy its long-term rate-of-return objectives, the foundation relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The foundation hires investment money managers who

**Tennessee Board of Regents
Motlow State Community College
Notes to the Financial Statements (Cont.)
June 30, 2012, and June 30, 2011**

target a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk restraints.

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

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

Actuarial Valuation Date	Plan	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b-a)/c]
July 1, 2011	State Employee Group Plan	\$ -	\$3,166,000.00	\$3,166,000.00	0%	\$8,255,194.34	38.4%
July 1, 2010	State Employee Group Plan	\$ -	\$4,102,000.00	\$4,102,000.00	0%	\$8,511,221.79	48.2%
July 1, 2009	State Employee Group Plan	\$ -	\$4,697,000.00	\$4,697,000.00	0%	\$8,995,015.63	52.2%

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

**TENNESSEE BOARD OF REGENTS
MOTLOW STATE COMMUNITY COLLEGE
SUPPLEMENTARY INFORMATION
SCHEDULES OF CASH FLOWS - COMPONENT UNIT
FOR THE YEARS ENDED JUNE 30, 2012, AND JUNE 30, 2011**

	<u>Year Ended June 30, 2012</u>	<u>Year Ended June 30, 2011</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Gifts and contributions	\$ 519,218.04	\$ 639,902.76
Payments to suppliers and vendors	(77,565.68)	(206,181.74)
Payments for scholarships and fellowships	(203,618.14)	(167,399.53)
Payments to Motlow State Community College	(40,872.99)	(618,585.42)
Auxiliary enterprise charges	7,612.75	6,511.70
Other	-	30.60
Net cash provided (used) by operating activities	<u>204,773.98</u>	<u>(345,721.63)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Private gifts for endowment purposes	27,250.00	239.42
Changes in deposits held for others	(991.31)	(683.58)
Net cash provided by noncapital financing activities	<u>26,258.69</u>	<u>(444.16)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of investments	6,805,443.18	4,635,831.88
Income on investments	119,833.58	132,459.05
Purchases of investments	(6,646,761.80)	(4,916,700.19)
Net cash provided (used) by investing activities	<u>278,514.96</u>	<u>(148,409.26)</u>
Net increase (decrease) in cash and cash equivalents	509,547.63	(494,575.05)
Cash and cash equivalents at beginning of year	297,734.76	792,309.81
Cash and cash equivalents at end of year	<u>\$ 807,282.39</u>	<u>\$ 297,734.76</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:		
Operating income (loss)	\$ 365,969.73	\$ (242,853.42)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Endowment income per spending plan	(193,729.45)	(197,379.64)
Change in assets and liabilities:		
Receivables, net	17,527.63	80,716.49
Prepaid expenses	-	2,400.00
Accounts payable	15,006.07	11,405.34
Other	-	(10.40)
Net cash provided (used) by operating activities	<u>\$ 204,773.98</u>	<u>\$ (345,721.63)</u>
Noncash investing, capital, or financing transactions		
Gifts of capital assets	\$ (14,064.80)	\$ -
Unrealized gain (loss) on investments	\$ (204,194.46)	\$ 591,446.49