STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY

TENNESSEE BOARD OF REGENTS
SOUTHWEST TENNESSEE COMMUNITY COLLEGE

Financial and Compliance Audit Report

June 30, 2013, and June 30, 2012

Justin P. Wilson, Comptroller

Division of State Audit
Financial and Compliance Section

Deborah V. Loveless, CPA, CGFM, CGMA
Director

<u>FINANCIAL AND COMPLIANCE</u>

Edward Burr, CPA, CGFM
Assistant Director

Derek D. Martin, CPA, CFE, CGFM
Audit Manager

Angela Courtney
In-Charge Auditor

Brandi Boles
Tiffany Tanner, CFE
Tyler Trout, CPA
Staff Auditors

<u>INFORMATION SYSTEMS</u>

Daniel V. Willis, CPA, CISA, CGFM
Assistant Director

Brent L. Rumbley, CPA, CISA, CFE
Audit Manager

Timothy J. Hollar
In-Charge Auditor

Robby Bayless
Andrew E. Moss, CISA
Staff Auditors

Gerry Boaz, CPA, CGFM
Technical Manager

Amy Brack
Editor

Amanda Adams
Assistant Editor

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

Reports are available at
www.comptroller.tn.gov/sa/AuditReportCategories.asp.

Mission Statement
The mission of the Comptroller's Office is to improve the quality of life for all Tennesseans by making government work better.

Comptroller Website
www.comptroller.tn.gov

STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
DEPARTMENT OF AUDIT
DIVISION OF STATE AUDIT
SUITE 1500, JAMES K. POLK STATE OFFICE BUILDING
505 DEADERICK STREET
NASHVILLE, TENNESSEE 37243-1402

PHONE (615) 401-7897
FAX (615) 532-2765

September 3, 2015

The Honorable Bill Haslam, Governor
Members of the General Assembly
The Honorable John G. Morgan, Chancellor
Dr. Tracy D. Hall, President

Ladies and Gentlemen:

Transmitted herewith is the financial and compliance audit of the Tennessee Board of Regents, Southwest Tennessee Community College, for the years ended June 30, 2013, and June 30, 2012. You will note from the independent auditor's report that unmodified opinions were given on the fairness of the presentation of the financial statements.

Consideration of the internal control over financial reporting and tests of compliance disclosed certain deficiencies, which are detailed in the Findings and Recommendations section of this report. The college's management has responded to the audit findings; the responses are included following each finding. The Division of State Audit will follow up the audit to examine the application of the procedures instituted because of the audit findings.

Sincerely,

Deborah V. Loveless

Deborah V. Loveless, CPA
Director

14/046

Audit Report
Tennessee Board of Regents
Southwest Tennessee Community College
For the Years Ended June 30, 2013, and June 30, 2012

TABLE OF CONTENTS

TABLE OF CONTENTS (Continued)

State of Tennessee

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

Comptroller of the Treasury   Division of State Audit

Financial and Compliance Audit

Tennessee Board of Regents

Southwest Tennessee Community College

For the Years Ended June 30, 2013, and June 30, 2012

Opinions on the Financial Statements

The opinions on the financial statements are unmodified.

Audit Findings

Management needs to improve procedures for preparing and reviewing financial statements to prevent errors

Management's procedures for financial statement preparation should be improved to ensure the accuracy and proper classification of information presented in its financial statements. Auditors found 16 reporting errors that resulted in significant misstatements in the financial statements (page 42).

Southwest Tennessee Community College did not provide adequate internal controls in five specific areas

The college did not design and monitor internal controls in five specific areas. We observed five conditions in violation of college policies and/or industry-accepted best practices. The details of this finding are confidential pursuant to Section 10-7-504(i), *Tennessee Code Annotated* (page 45).

STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
DEPARTMENT OF AUDIT
DIVISION OF STATE AUDIT
SUITE 1500, JAMES K. POLK STATE OFFICE BUILDING
505 DEADRICK STREET
NASHVILLE, TENNESSEE 37243-1402

PHONE (615) 401-7897
FAX (615) 532-2765

Independent Auditor's Report

The Honorable Bill Haslam, Governor
Members of the General Assembly
The Honorable John G. Morgan, Chancellor
Dr. Tracy D. Hall, President

Report on the Financial Statements

We have audited the accompanying financial statements of Southwest Tennessee Community College, an institution of the Tennessee Board of Regents, which is a component unit of the State of Tennessee, and its discretely presented component unit as of and for the years ended June 30, 2013, and June 30, 2012, and the related notes to the financial statements, which collectively comprise the basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements, based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of Southwest Tennessee Community College, and its discretely presented component unit as of June 30, 2013, and June 30, 2012, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

As discussed in Note 1, the financial statements of Southwest Tennessee Community College, an institution of the Tennessee Board of Regents, are intended to present the financial position, the changes in financial position, and the cash flows of only Southwest Tennessee Community College. They do not purport to, and do not, present fairly the financial position of the Tennessee Board of Regents, as of June 30, 2013, and June 30, 2012, and the changes in financial position and cash flows thereof for the years then ended, in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

As discussed in Note 1, the college implemented GASB Statement 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, during the year ended June 30, 2013. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 through 15 and the schedule of funding progress on page 38 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, which 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. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the college's basic financial statements. The schedules of cash flows – component unit on page 39 are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The schedules of cash flows – component unit are the responsibility of the college's management and were derived from, and relate directly to, the underlying accounting and other records used to prepare the basic 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 basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedules of cash flows – component unit are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 27, 2015, on our consideration of the college's internal control over financial reporting and on 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 *Government Auditing Standards* in considering the college's internal control over financial reporting and compliance.

Deborah V. Loveless, CPA
Director
May 27, 2015

Tennessee Board of Regents
SOUTHWEST TENNESSEE COMMUNITY COLLEGE
Management's Discussion and Analysis

This section of Southwest Tennessee Community College's report presents a discussion and analysis of the financial performance of the college during the fiscal years ended June 30, 2013, and June 30, 2012, with comparative information presented for the fiscal year ended June 30, 2011. This discussion, along with the financial statements and related note disclosures, has been prepared by management and should be read in conjunction with the independent auditor's report, the audited financial statements, and the accompanying notes. The financial statements, notes, and this discussion are the responsibility of management.

The college has a discretely presented component unit, the Southwest Tennessee Community College Foundation. More detailed information about the college's component unit is included in Note 16 of the financial statements. This discussion and analysis focuses on Southwest Tennessee Community College and does not include the component unit.

Overview of the Financial Statements

The financial statements have been prepared in accordance with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB), which establishes standards for external financial reporting for public colleges and universities. The financial statements are presented on a consolidated basis to focus on Southwest Tennessee Community College as a whole. The full scope of Southwest Tennessee Community College's activities is considered to be a single business-type activity, and accordingly, is reported within a single column in the basic financial statements.

Southwest Tennessee Community College's financial report includes the statement of net position; the statement of revenues, expenses, and changes in net position; and the statement of cash flows. Notes to the financial statements are also presented to provide additional information that is essential to a full understanding of the financial statements.

The Statement of Net Position

The statement of net position is a point-in-time financial statement. The statement of net position presents the financial position of Southwest Tennessee Community College at the end of the fiscal year. To aid the reader in determining Southwest Tennessee Community College's ability to meet immediate and future obligations, the statement includes all assets, liabilities, deferred outflows/inflows of resources, and net position of Southwest Tennessee Community College and segregates the assets and liabilities into current and noncurrent components. Current assets are those that are available to satisfy current liabilities, inclusive of assets that will be converted to cash within one year. Current liabilities are those that will be paid within one year. The statement of net position is prepared under the accrual basis of accounting; assets and liabilities are recognized when goods or services are provided or received, despite when cash is actually exchanged.

From the data presented, readers of the statement are able to determine the assets available to continue the operations of Southwest Tennessee Community College. They are also able to determine how much Southwest Tennessee Community College owes vendors, lenders, and others. Net position represents the difference between Southwest Tennessee Community College's assets and liabilities, along with the difference between deferred outflows and deferred inflows of resources, and is one indicator of Southwest Tennessee Community College's current financial condition.

The statement of net position also indicates the availability of net position for expenditure by Southwest Tennessee Community College. Net position is divided into three major categories. The first category, net investment in capital assets, represents Southwest Tennessee Community College's total investment in property, plant, and equipment, net of outstanding debt obligations related to these capital assets. To the extent debt or deferred inflows of resources has been incurred but not yet expended for capital assets, such amounts are not included. The next category is restricted net position, which is sub-divided into two categories, nonexpendable and expendable. Nonexpendable restricted net position includes endowment and similar resources whose use is limited by donors or other outside sources and as a condition of the gift, the principal is to be maintained in perpetuity. Expendable restricted net position is available for expenditure by Southwest Tennessee Community 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 resources. The final category is unrestricted net position. Unrestricted net position is available to Southwest Tennessee Community College for any lawful purpose of Southwest Tennessee Community College.

The following table summarizes Southwest Tennessee Community College's assets, liabilities, deferred outflows/inflows of resources, and net position at June 30, 2013; June 30, 2012; and June 30, 2011.

Statements of Net Position Summary
(in thousands of dollars)

	2013	2012	2011
Assets:			
Current assets	$ 33,177	$ 35,466	$ 34,895
Capital assets, net	93,230	92,475	92,544
Other assets	50,126	39,328	28,296
Total Assets	176,533	167,269	155,735
Liabilities:			
Current liabilities	11,017	10,297	11,814
Noncurrent liabilities	9,600	9,382	9,026
Total Liabilities	20,617	19,679	20,840
Net Position:			
Net investment in capital assets	92,787	91,722	91,684
Restricted - expendable	1,826	1,277	1,111
Unrestricted	61,303	54,591	42,100
Total Net Position	$155,916	$147,590	$134,895

Comparison of FY 2013 to FY 2012

- The 27.4% increase in other assets is attributed to a transfer of approximately $10 million from unrestricted funds to unexpended plant to fund future capital projects. Of the approximate $10 million, $5,122,000 was donated by the Southwest Tennessee Community College Foundation. In addition, the voluntary buyout payment in fiscal year 2012 was nearly $2 million greater than the payment in fiscal year 2013.
- The college received several new federal grants resulting in an increase in budgets for administrative and indirect cost allocations, thereby contributing to the 43% increase in restricted-expendable in fiscal year 2013. PBI Competitive, PBI Formula, and RX-TN are three of the major grants received in fiscal year 2013.
- Unrestricted net position increased 12.3% due to unfilled budgeted positions and salary and benefit savings attributed to attrition.

Comparison of FY 2012 to FY 2011

- Total assets for the college are approximately $167.3 million as of June 30, 2012, of which approximately $92.5 million is in capital assets, $61.1 million in cash, $12.9 million in accounts receivable, and the remaining amount in miscellaneous assets.

- Other assets increased 39% from fiscal year 2011 to fiscal year 2012 due to an increase in cash within unexpended plant fund and renewal and replacement. Funds were transferred from unrestricted to unexpended plant to fund approved local projects. Major local projects included property acquisitions, a building maintenance/replacement project, and classroom furniture replacement.
- Current liabilities decreased 12.84% due to a reduction in the liability for the voluntary buyout program accrued salaries from fiscal year 2011 to 2012.
- Unrestricted net position increased 29.67% due to the reduction in the purchase of computer items related to the technology access fee. The increase can also be attributed to the implementation of the college's reduction in force plan in anticipation of the loss of state appropriations. As a result of this plan, the college experienced a decrease in salaries, wages, and benefits expenses.

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

The statement of revenues, expenses, and changes in net position presents the results of operations for the fiscal year. Revenues and expenses are recognized when earned or incurred, regardless of when cash is received. The statement indicates whether Southwest Tennessee Community College's financial condition has improved or deteriorated during the fiscal year. The statement presents the revenues received by Southwest Tennessee Community College, both operating and nonoperating; the expenses paid by Southwest Tennessee Community College, operating and nonoperating; and any other revenues, expenses, gains, or losses received or spent by Southwest Tennessee Community College.

Generally speaking, operating revenues are received for providing goods and services to the various customers and constituencies of Southwest Tennessee Community College. Operating expenses are those expenses paid to acquire or produce the goods and services provided in return for the operating revenues, and to carry out the mission of Southwest Tennessee Community College. Nonoperating revenues are revenues received for which goods and services are not provided directly to the payer. Although Southwest Tennessee Community College is dependent upon state appropriations and gifts to fund educational and general operations, under GASB standards these funding sources are reported as nonoperating revenues, as is investment income. As a result, Southwest Tennessee Community College has historically reported an excess of operating expenses over operating revenues, resulting in an operating loss. Therefore, the "increase in net position" is more indicative of overall financial results for the year.

A summary of Southwest Tennessee Community College's revenues, expenses, and changes in net position for the years ended June 30, 2013; June 30, 2012; and June 30, 2011, follows:

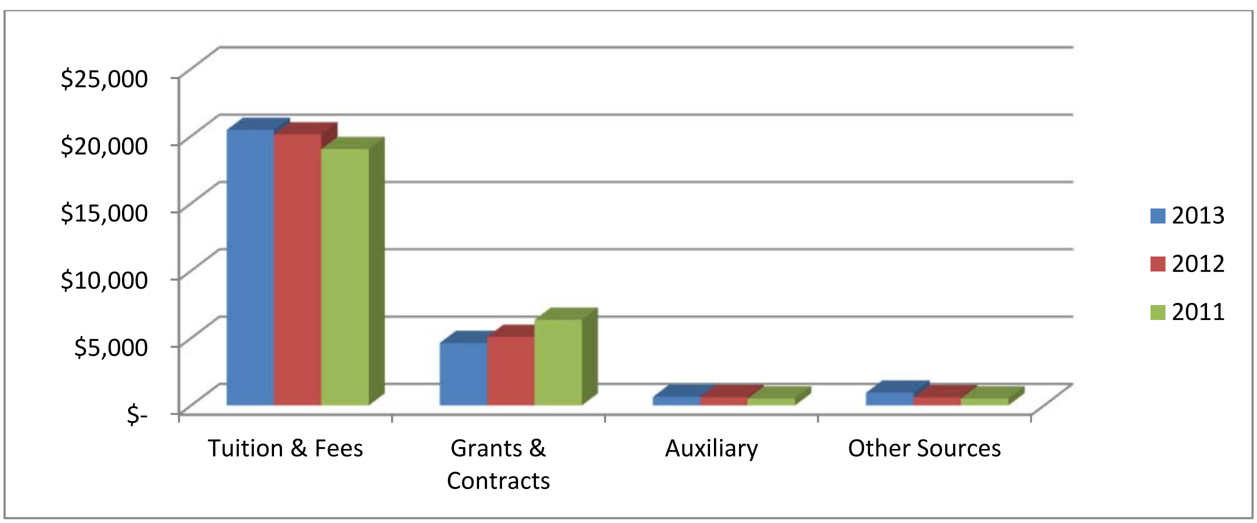
Statements of Revenues, Expenses, and Changes in Net Position Summary
(in thousands of dollars)

	2013	2012	2011
Operating revenues	$ 26,145	$ 26,452	$ 26,983
Operating expenses	(89,304)	(83,030)	(98,969)
Operating loss	(63,159)	(56,578)	(71,986)
Nonoperating revenues and expenses	69,319	68,510	79,880
Income before other revenues, expenses, gains, or losses	6,160	11,932	7,894
Other revenues, expenses, gains, or losses	2,166	763	2,088
Increase in net position	8,326	12,695	9,982
Net position, July 1	147,590	134,895	124,913
Net position, June 30	$155,916	$147,590	$134,895

Operating Revenues

The following summarizes the operating revenues by source that were used to fund operating activities for the last three fiscal years:

Operating Revenues
(in thousands of dollars)



Comparison of FY 2013 to FY 2012

- The 16.5% decrease in auxiliary revenues occurred as a result of a contractual change in the amount the college receives from Follett, the college's bookstore vendor.

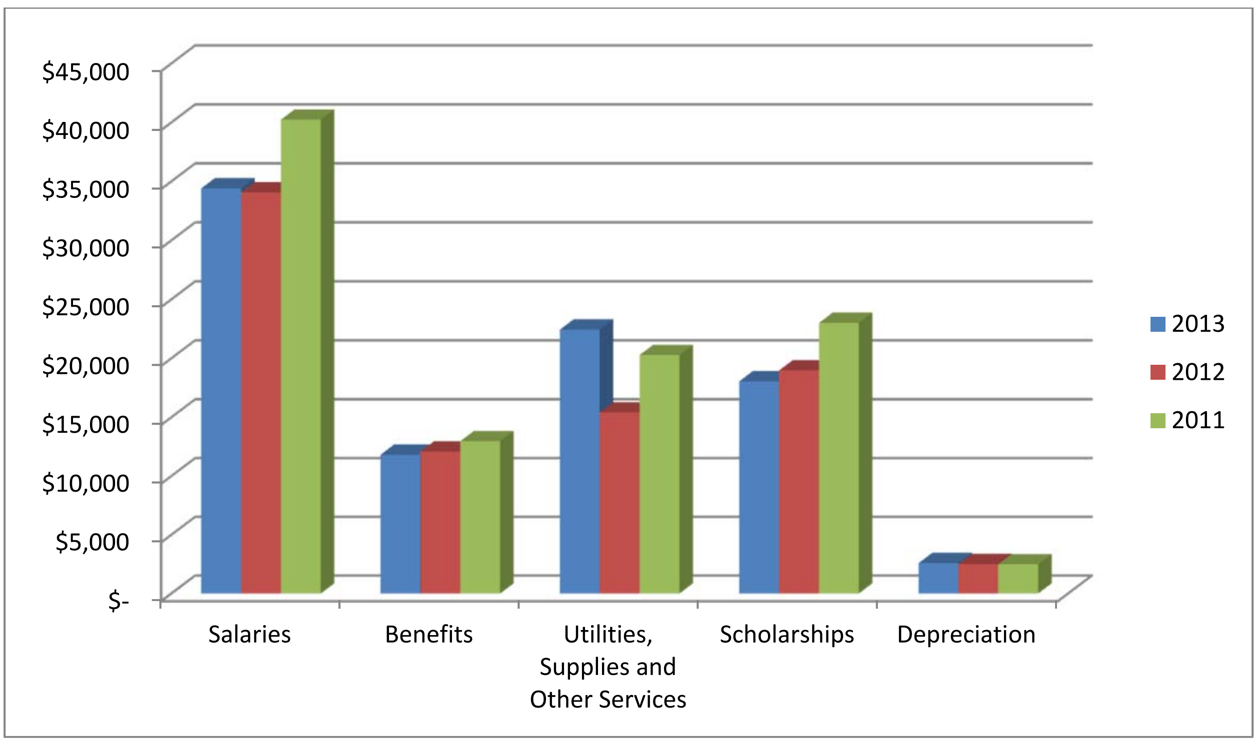
Comparison of FY 2012 to FY 2011

- Other sources decreased 36% due to lump sum revenues collected for the Education Broadband Service Agreement in fiscal year 2011.

Operating Expenses

Operating expenses may be reported by nature or function. Southwest Tennessee Community College has chosen to report the expenses in their natural classification on the statement of revenues, expenses, and changes in net position and has displayed the functional classification in the notes to the financial statements. The following summarizes the operating expenses by natural classifications for the last three fiscal years:

Natural Classification
(in thousands of dollars)



Comparison of FY 2013 to FY 2012

- The 45.6% increase in utilities, supplies and other expenses in fiscal year 2013 is attributed to a combination of the following occurrences:

- an approved write-off of $5 million in student receivables;
- an increase in technology access fees expenses for computers and equipment; and
- marginal increases in the purchase of supplies, sensitive items, and communications and computer-allocated charges in the areas of student services, academic support, and institutional support.

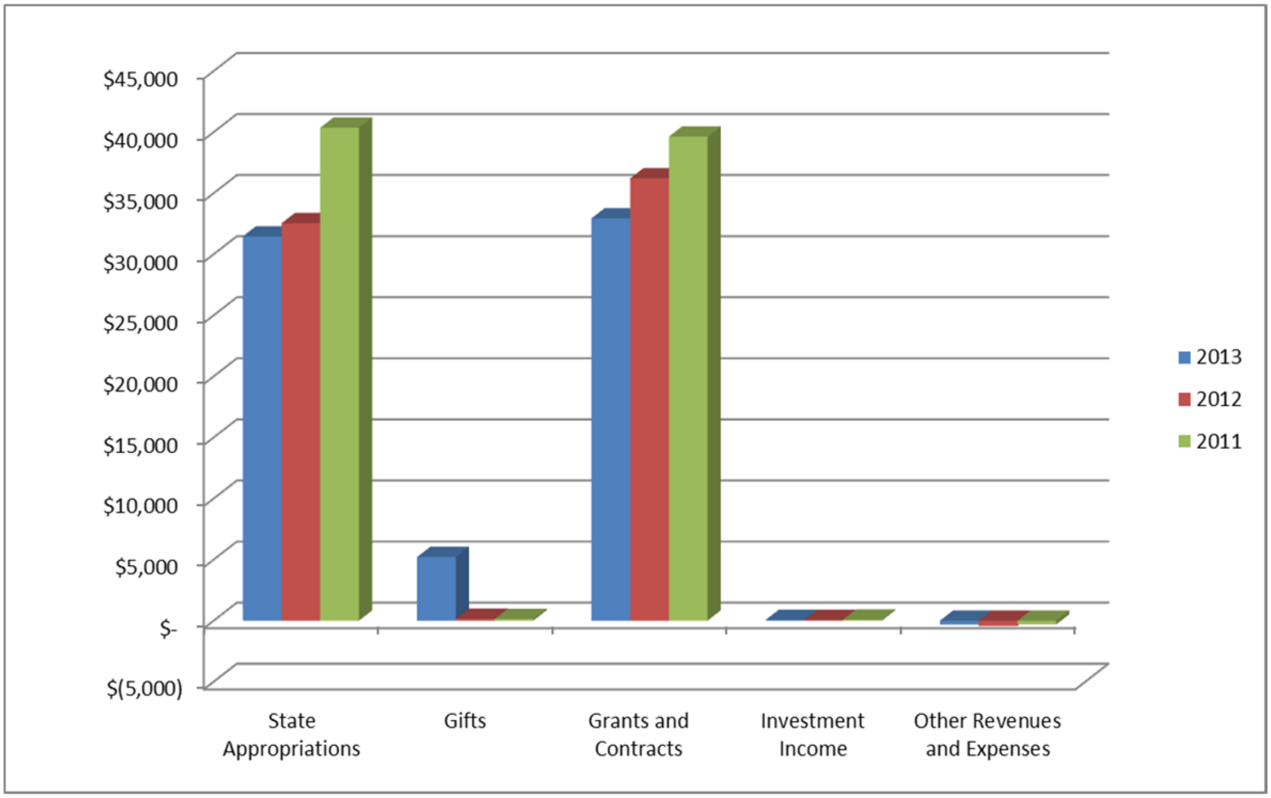
Comparison of FY 2012 to FY 2011

- Operating expenses decreased 16% in fiscal year 2012 due to a decrease in technology access fees, purchases of computers and equipment, American Recovery and Reinvestment Act projects, and other professional services.
- Salaries decreased 15.3% due to the implementation of the college reduction in force and voluntary buyout plans.
- The Department of Education discontinued summer Pell awards in fiscal year 2012, causing scholarships to decrease 17.5%.

Nonoperating Revenues and Expenses

Certain revenue sources that Southwest Tennessee Community College relies on to provide funding for operations, including state noncapital appropriations, certain gifts and grants, and investment income, are defined by the GASB as nonoperating. Nonoperating expenses include capital financing costs and other costs related to capital assets. The following summarizes Southwest Tennessee Community College's nonoperating revenues and expenses for the last three fiscal years:

Nonoperating Revenues and Expenses
(in thousands of dollars)



Comparison of FY 2013 to FY 2012

- The significant increase in gifts in fiscal year 2013 is attributed to a gift of $5.1 million from the foundation for construction of the Nursing Biotech Building.

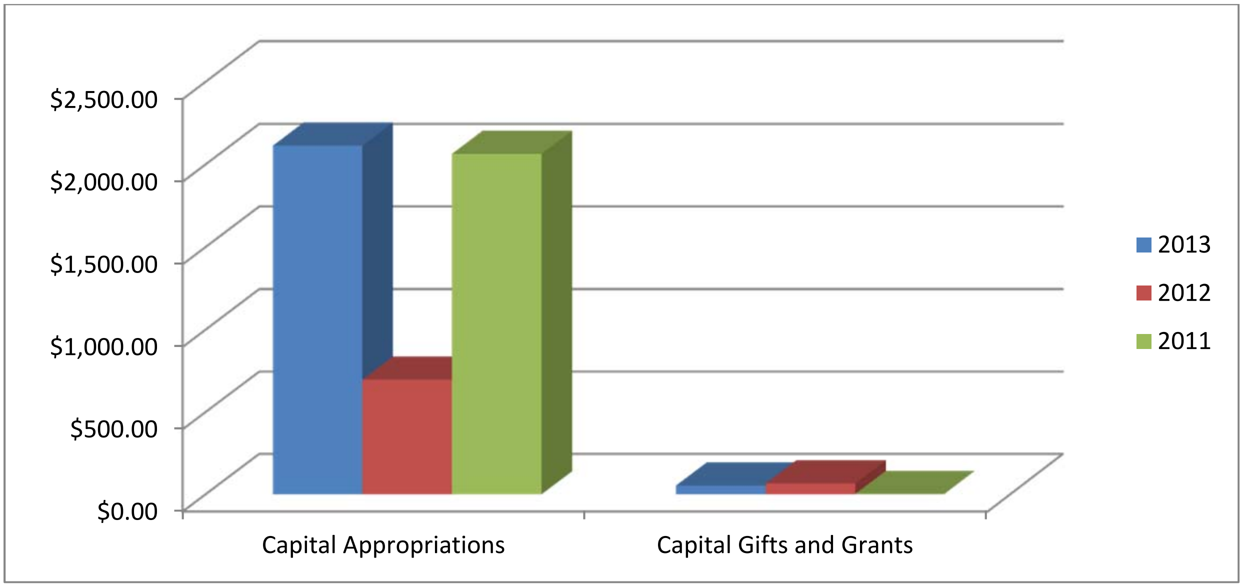
Comparison of FY 2012 to FY 2011

- A reduction in nonrecurring state funds in fiscal year 2012 caused a 19.4% decrease in state appropriations.
- The Department of Education discontinued summer Pell awards in fiscal year 2012, causing grants and contracts to decrease 8.6%.
- Investment income decreased 29.6% in fiscal year 2012 due to a decrease in interest earned on the bank and Local Government Investment Pool accounts.
- Gifts increased 17.5% from 2011 to 2012 due to a one-time gift from the foundation in the amount of $50,000.

Other Revenues

This category is composed of state appropriations for capital purposes and capital gifts and grants. These amounts were as follows for the last three fiscal years:

Other Revenues
(in thousands of dollars)



<u>Comparison of FY 2013 to FY 2012</u>

- The sizable increase of 203.2% in capital appropriations in fiscal year 2013 is attributed to expenses related to construction costs for the new Nursing Biotech Facility, as well as ADA adaptations and the Union-Mech system updates.

- The 20.6% decrease in capital grants and gifts occurred as a result of a decrease in capital in-kind gifts from the foundation.

<u>Comparison of FY 2013 to FY 2012</u>

- The sizable increase of 203.2% in capital appropriations in fiscal year 2013 is attributed to expenses related to construction costs for the new Nursing Biotech Facility, as well as ADA adaptations and the Union-Mech system updates.
- The 20.6% decrease in capital grants and gifts occurred as a result of a decrease in capital in-kind gifts from the foundation.

<u>Comparison of FY 2012 to FY 2011</u>

- Capital appropriations decreased 66.2% from fiscal year 2011 to fiscal year 2012 due to the near completion of the mechanical system modernization project.

Capital Assets and Debt Administration

Capital Assets

Southwest Tennessee Community College had $93,230,420.47 invested in capital assets, net of accumulated depreciation of $42,448,704.45, at June 30, 2013; and $92,474,741.54 invested in capital assets, net of accumulated depreciation of $40,115,343.60, at June 30, 2012. The college had $92,544,496.72 invested in capital assets, net of accumulated depreciation of $38,402,534.55, at June 30, 2011. Depreciation charges totaled $2,591,407.53; $2,501,278.70; and $2,485,824.96 for the years ended June 30, 2013; June 30, 2012; and June 30, 2011, respectively.

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

	2013	2012	2011
Land	$12,228	$11,174	$11,174
Land improvements and infrastructure	2,771	3,036	2,766
Buildings	17,255	18,365	19,476
Equipment	5,130	3,455	2,976
Library holdings	573	667	896
Intangible assets	1,263	1,358	53,673
Projects in progress	54,010	54,420	1,583
Total	$93,230	$92,475	$92,544

Significant additions to capital assets, specifically equipment, occurred in fiscal year 2013. These additions were from the purchase of instructional and operational equipment funded primarily from technology access fees.

At June 30, 2013, outstanding commitments under construction contracts totaled $14,938,321.97 for various renovations and repairs of buildings and infrastructure. Future state capital outlay appropriations will fund $9,937,473.51 of these costs.

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

Debt

The college had $2,348,420.48; $2,599,026.11; and $2,737,469.22 in debt outstanding at June 30, 2013; June 30, 2012; and June 30, 2011, respectively.

The Tennessee State School Bond Authority issued bonds with interest rates ranging from 3% to 5% due serially until 2024 on behalf of Southwest Tennessee Community College. The college is responsible for the debt service of these bonds. The current portion of the $2,348,420.48 outstanding at June 30, 2013, is $244,875.78.

The ratings on debt issued by the Tennessee State School Bond Authority at June 30, 2013, were as follows:

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

More 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 financial stability of Southwest Tennessee Community College is closely tied to that of the State of Tennessee and overall economic conditions. Tuition and fees, the college’s largest source of total revenues, compose 78% of total operating revenues in fiscal year 2013, while grants and contracts compose 47% of total nonoperating revenues and expenses. State appropriations compose 45% of nonoperating revenues and expenses in fiscal year 2013. The future of this continuing shift of the cost of public higher education from the state to students, and its long-term effect on student enrollment and accessibility, are unknown.

The continued escalation of accounts receivable balances reduces the availability of unrestricted net position for current operations. Student accounts receivable are due, in most part, to federal financial aid refund/repayment regulations. Financial aid recipients compose over 50% of the college’s student population. Unrestricted student accounts receivable were $7,066,380.27 at June 30, 2013, compared to $11,085,256.24 at June 30, 2012.

The new Tennessee Promise Program, which offers two years of community or technical college tuition-free, may have an impact on the number of students enrolling in the future.

Tennessee Board of Regents
SOUTHWEST TENNESSEE COMMUNITY COLLEGE
Statements of Net Position
June 30, 2013, and June 30, 2012

	Southwest Tennessee Community College		Component Unit - Southwest Tennessee Community College Foundation	
	June 30, 2013	June 30, 2012	June 30, 2013	June 30, 2012
Assets				
Current assets:				
Cash (Notes 2 and 16)	$ 22,018,917.44	$ 21,788,706.50	$ 783,220.30	$4,538,062.57
Short-term investments (Note 16)	-	-	-	26,211.00
Accounts, notes, and grants receivable (net) (Note 4)	8,593,803.86	12,919,655.33	-	-
Due from primary government	-	27,000.00	-	-
Due from component unit	2,237,269.29	-	-	-
Pledges receivable (net) (Note 16)	-	-	272,633.96	393,242.13
Inventories (at lower of cost or market)	59,060.37	62,309.56	-	-
Prepaid expenses	268,098.16	668,636.25	595,654.19	-
Total current assets	33,177,149.12	35,466,307.64	1,651,508.45	4,957,515.70
Noncurrent assets:				
Cash (Notes 2 and 16)	50,125,593.36	39,327,990.36	850,939.68	772,082.10
Investments (Note 16)	-	-	2,210,908.48	2,043,152.86
Pledges receivable (net) (Note 16)	-	-	519,400.00	33,320.00
Capital assets (net) (Note 5)	93,230,420.47	92,474,741.54	-	1,053,899.66
Total noncurrent assets	143,356,013.83	131,802,731.90	3,581,248.16	3,902,454.62
Total assets	176,533,162.95	167,269,039.54	5,232,756.61	8,859,970.32
Liabilities				
Current liabilities:				
Accounts payable (Note 6)	1,452,372.45	1,539,726.38	67,920.59	168,289.35
Accrued liabilities	3,052,486.13	2,211,675.90	-	-
Due to primary government	-	-	2,237,269.29	-
Unearned revenue	2,196,121.79	2,557,036.87	-	-
Compensated absences (Note 7)	450,555.37	498,561.83	-	-
Accrued interest payable	18,892.38	38,921.18	-	-
Long-term liabilities, current portion (Note 7)	244,875.78	232,801.67	-	-
Deposits held in custody for others	3,601,906.03	3,218,444.24	-	-
Total current liabilities	11,017,209.93	10,297,168.07	2,305,189.88	168,289.35
Noncurrent liabilities:				
Net OPEB obligation (Note 10)	5,910,320.78	5,405,736.31	-	-
Compensated absences (Note 7)	1,586,052.45	1,609,452.35	-	-
Long-term liabilities (Note 7)	2,103,544.70	2,366,224.44	-	-
Total noncurrent liabilities	9,599,917.93	9,381,413.10	-	-
Total liabilities	20,617,127.86	19,678,581.17	2,305,189.88	168,289.35
Net Position				
Net investment in capital assets	92,786,865.91	91,721,575.00	-	1,053,899.66
Restricted for:				
Nonexpendable:				
Scholarships and fellowships	-	-	1,325,112.03	1,601,917.47
Expendable:				
Scholarships and fellowships	508,557.86	414,902.81	1,354,622.03	454,643.70
Instructional department uses	315,145.33	256,218.98	66,322.48	66,347.09
Other	1,002,884.31	606,459.74	58,280.11	5,362,510.97
Unrestricted	61,302,581.68	54,591,301.84	123,230.08	152,362.08
Total net position	$155,916,035.09	$147,590,458.37	$2,927,566.73	$8,691,680.97

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

Tennessee Board of Regents
SOUTHWEST TENNESSEE COMMUNITY COLLEGE
Statements of Revenues, Expenses, and Changes in Net Position
For the Years Ended June 30, 2013, and June 30, 2012

	Southwest Tennessee Community College		Component Unit - Southwest Tennessee Community College Foundation	
	Year Ended June 30, 2013	Year Ended June 30, 2012	Year Ended June 30, 2013	Year Ended June 30, 2012
Revenues				
Operating revenues:				
Student tuition and fees (net of scholarship allowances of $18,411,929.34 for the year ended June 30, 2013, and $20,624,000.32 for the year ended June 30, 2012)	$ 20,457,425.80	$ 20,129,801.38	$ -	$ -
Gifts and contributions	-	-	1,351,756.93	431,919.59
Governmental grants and contracts	4,406,017.33	4,871,213.39	-	-
Non-governmental grants and contracts (including from component unit)	234,493.06	222,477.83	2,299.00	-
Sales and services of educational activities	224,018.18	245,204.14	-	-
Sales and services of other activities	171,539.87	263,699.60	-	-
Auxiliary enterprises:				
Bookstore	520,111.56	623,129.79	-	-
Other operating revenues	131,835.02	96,894.84	-	-
Total operating revenues	26,145,440.82	26,452,420.97	1,354,055.93	431,919.59
Expenses				
Operating expenses (Note 13)				
Salaries and wages	34,415,885.11	34,062,924.41	-	-
Benefits	11,815,693.02	12,085,311.50	-	-
Utilities, supplies, and other services	22,432,620.76	15,410,074.81	1,962,905.69	196,606.73
Scholarships and fellowships	18,049,331.14	18,970,578.65	240,711.07	199,170.08
Depreciation expense	2,591,407.53	2,501,278.70	-	-
Payments to or on behalf of Southwest TN Community College (Note 16)	-	-	5,177,231.69	52,500.00
Total operating expenses	89,304,937.56	83,030,168.07	7,380,848.45	448,276.81
Operating loss	(63,159,496.74)	(56,577,747.10)	(6,026,792.52)	(16,357.22)
Nonoperating revenues (expenses)				
State appropriations	31,456,011.00	32,531,289.62	-	-
Gifts, including $5,124,500 from Southwest Foundation for the year ended June 30, 2013, and $52,500 from Southwest Foundation for the year ended June 30, 2012	5,209,485.67	147,759.26	-	-
Grants and contracts	32,928,802.22	36,201,080.00	-	-
Investment income	61,065.00	64,267.72	145,030.46	(14,309.89)
Interest on capital asset-related debt	(336,292.77)	(405,109.29)	-	-
Bond issuance costs	-	(29,399.14)	-	-
Net nonoperating revenues (expenses)	69,319,071.12	68,509,888.17	145,030.46	(14,309.89)
Income (loss) before other revenues, expenses, gains or losses	6,159,574.38	11,932,141.07	(5,881,762.06)	(30,667.11)
Capital appropriations	2,113,270.65	696,902.67	-	-
Capital grants and gifts (from component unit)	52,731.69	66,375.57	-	-
Additions to permanent endowments	-	-	117,647.82	8,701.04
Total other revenues	2,166,002.34	763,278.24	117,647.82	8,701.04
Increase (decrease) in net position	8,325,576.72	12,695,419.31	(5,764,114.24)	(21,966.07)
Net position - beginning of year	147,590,458.37	134,895,039.06	8,691,680.97	8,713,647.04
Net position - end of year	$155,916,035.09	$147,590,458.37	$2,927,566.73	$8,691,680.97

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

Tennessee Board of Regents
SOUTHWEST TENNESSEE COMMUNITY COLLEGE
Statements of Cash Flows
For the Years Ended June 30, 2013, and June 30, 2012

	Year Ended June 30, 2013	Year Ended June 30, 2012
Cash flows from operating activities		
Tuition and fees	$24,121,593.24	$15,914,676.27
Grants and contracts	4,955,110.64	4,247,685.28
Sales and services of educational activities	224,018.18	245,204.14
Sales and services of other activities	171,539.87	263,699.60
Payments to suppliers and vendors	(24,353,456.70)	(15,420,572.66)
Payments to employees	(34,374,374.11)	(34,026,327.31)
Payments for benefits	(10,541,704.68)	(14,166,868.90)
Payments for scholarships and fellowships	(18,049,331.14)	(18,970,578.65)
Auxiliary enterprise charges:		
Bookstore	527,880.26	624,533.89
Other receipts	131,835.02	96,894.84
Net cash used by operating activities	(57,186,889.42)	(61,191,653.50)
Cash flows from noncapital financing activities		
State appropriations	31,419,900.00	32,484,557.56
Gifts and grants received for other than capital or endowment purposes, including $5,124,500 from Southwest Foundation for the year ended June 30, 2013, and $52,500 from Southwest Foundation for the year ended June 30, 2012	38,138,287.89	36,348,839.26
Changes in deposits held for others	382,961.79	1,137,303.11
Net cash provided by noncapital financing activities	69,941,149.68	69,970,699.93
Cash flows from capital and related financing activities		
Capital - state appropriation	-	696,902.67
Proceeds from capital debt	2,113,270.65	-
Purchase of capital assets and construction	(3,544,460.40)	(2,532,731.83)
Principal paid on capital debt and lease	(232,801.67)	(256,485.33)
Interest paid on capital debt and lease	(123,519.90)	(132,106.46)
Other capital and related financing receipts	-	4,175.16
Net cash used by capital and related financing activities	(1,787,511.32)	(2,220,245.79)
Cash flows from investing activities		
Proceeds from sales and maturities of investments	61,065.00	64,267.72
Net cash provided by investing activities	61,065.00	64,267.72
Net increase in cash	11,027,813.94	6,623,068.36
Cash - beginning of year	61,116,696.86	54,493,628.50
Cash - end of year	$72,144,510.80	$61,116,696.86
Reconciliation of operating loss to net cash used by operating activities		
Operating loss	($63,159,496.74)	($56,577,747.10)
Adjustments to reconcile operating loss to net cash used by operating activities:		
Depreciation expense	2,591,407.53	2,501,278.70
Other adjustments	41,511.00	42,332.06
Change in assets and liabilities:		
Receivables, net	4,347,451.47	(4,516,707.73)
Inventories	3,249.19	22,140.41
Prepaid items	(1,836,731.20)	(482,203.89)
Accounts payable	(87,353.93)	449,565.63
Accrued liabilities	1,345,394.70	(2,144,534.72)
Unearned revenues	(360,915.08)	(506,422.12)
Compensated absences	(71,406.36)	20,645.26
Net cash used by operating activities	($57,186,889.42)	($61,191,653.50)
Noncash investing, capital, and financing activities		
Gifts in-kind - capital	$ 52,731.69	$ 66,375.77
Loss on disposal of capital assets	$ -	$ (29,399.14)

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

Note 1. Summary of Significant Accounting Policies

Reporting Entity

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

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

The Southwest Tennessee Community College Foundation is considered a component unit of the college. Although the college does not control the timing or amount of receipts from the foundation, the majority of resources, or income thereon, that the foundation holds and invests are restricted to the activities of the college by its 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 and the foundation's financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America 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 of the provider's eligibility requirements have been met. All significant interfund transactions have been eliminated.

The college has classified its revenues and expenses as either operating or nonoperating according to the following criteria: Operating revenues and expenses are those that have the characteristics of exchange transactions. Operating revenues include (1) tuition and fees, net of scholarship discounts and allowances; (2) certain federal, state, local, and private grants and contracts; (3) sales and services of auxiliary enterprises; and (4) interest on institutional loans. Operating expenses include (1) salaries and wages; (2) employee benefits; (3) utilities, supplies, and other services; (4) scholarships and fellowships; and (5) depreciation.

Nonoperating revenues and expenses include activities that have the characteristics of nonexchange transactions, such as gifts and contributions, and other activities that are defined as nonoperating by GASB Statement 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities that Use Proprietary Fund Accounting*, and GASB Statement 34, such as state appropriations and investment income.

When both restricted and unrestricted resources are available for use, it is the college's policy to determine which to use first, depending upon existing facts and circumstances.

Inventories

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

Compensated Absences

The college's employees accrue annual 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 position. 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 position at historical cost or at fair value at date of donation, less accumulated depreciation/amortization. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's useful life are not capitalized.

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

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

Net Position

The college's net position is classified as follows:

Net investment in capital assets – This represents the college's total investment in capital assets, net of accumulated depreciation and net of outstanding debt obligations and deferred outflows/inflows of resources 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 net investment in capital assets.

Nonexpendable restricted net position – Nonexpendable restricted net position consists 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 position – Expendable restricted net position includes resources that the college is legally or contractually obligated to spend in accordance with restrictions imposed by external third parties.

Unrestricted net position – Unrestricted net position represents resources derived from student tuition and fees; state appropriations; sales and services of educational departments and 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 college's discretion to meet current expenses for any purpose. The auxiliary enterprises are substantially self-supporting activities that provide services for students, faculty, and staff.

Scholarship Discounts and Allowances

Student tuition and fee revenues, as well as certain other revenues from students, are reported net of scholarship discounts and allowances in the statement of revenues, expenses, and changes in net position. 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.

Accounting Change

The college implemented GASB Statement 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, during the year ended June 30, 2013. The effect on the college was the renaming of the residual of all other elements in the statement of financial position as net position, rather than net assets. Amounts on the statement of net position and statement of revenues, expenses, and changes in net position, have been restated for comparative purposes for the year ended June 30, 2012.

Early Implementation of Accounting Pronouncement

In March 2012, GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities; it also recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. The provisions of this statement are effective for financial statements for periods beginning after December 15, 2012. However, the college has elected to implement the provisions of this statement for fiscal year 2013. Amounts on the statement of net position and statement of revenues, expenses, and changes in net position have been restated for comparative purposes for the year ended June 30, 2012.

Note 2. Cash

This classification includes demand deposits and petty cash on hand. At June 30, 2013, cash consisted of $2,453,689.07 in bank accounts; $10,000 of petty cash on hand; $62,102,660.56 in the State of Tennessee Local Government Investment Pool (LGIP) administered by the State Treasurer; and $7,578,161.17 in LGIP deposits for capital projects. At June 30, 2012, cash consisted of $3,542,383.05 in bank accounts; $10,000.00 of petty cash on hand; $54,467,131.68 in the State of Tennessee Local Government Investment Pool (LGIP) administered by the State Treasurer; and $3,097,182.13 in LGIP deposits for capital projects.

The college has deposits in the LGIP, which is administered by the State Treasurer. The LGIP is part of the State Pooled Investment Fund. The fund's required risk disclosures are presented in the *State of Tennessee Treasurer's Report*. That report is available on the state's website at www.treasury.tn.gov.

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, the Tennessee Board of Regents withdraws funds from the LGIP account and transfers them to the Department of Finance and Administration. The funds in the account are not available to the college for any other purpose until the project is completed and the Tennessee Board of Regents releases any remaining funds.

Note 3. Investments

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The college is authorized by statute to invest funds in accordance with Tennessee Board of Regents policies. Under the current policy, funds other than endowments may be invested only in obligations of the United States or its agencies 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; bankers' acceptances; commercial paper; money market mutual funds; and the State of Tennessee Local Government Investment Pool.

Tennessee Board of Regents policy restricts investments in bankers' acceptances and commercial paper. The policy requires that prime bankers' acceptances must be issued by domestic banks with a minimum AA rating or foreign banks with an AAA long-term debt rating by a majority of the rating services that have rated the issuer. Prime bankers' acceptances are required to be eligible for purchase by the Federal Reserve System. To be eligible, the original maturity must not be more than 270 days, and it must 1) arise out of the current shipment of goods between countries or with the United States, or 2) arise out of storage within the United States of goods that are under contract of sale or are 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 guarantee 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, 2013, and June 30, 2012, the college's investments consisted entirely of investments in the Local Government Investment Pool. The fair value of these investments was $69,680,821.73 at June 30, 2013, and $57,564,313.81 at June 30, 2012. 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 Treasurer's Report*. That report is available on the state's website at www.treasury.tn.gov.

Note 4. Receivables

Receivables included the following:

	June 30, 2013	June 30, 2012
Student accounts receivable	$ 9,675,692.93	$12,898,633.54
Grants receivable	1,424,140.31	1,738,740.56
Other receivables	92,688.72	84,412.12
Subtotal	11,192,521.96	14,721,786.22
Less allowance for doubtful accounts	(2,598,718.10)	(1,802,130.89)
Total receivables	$ 8,593,803.86	$12,919,655.33

Federal Perkins Loan Program funds included the following:

	June 30, 2013	June 30, 2012
Perkins loans receivable	$ 214,175.58	$ 338,884.48
Less allowance for doubtful accounts	(214,175.58)	(338,884.48)
Total	$ -	$ -

Note 5. Capital Assets

Capital asset activity for the year ended June 30, 2013, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance
Land	$ 11,174,261.89	$1,053,899.66	$ -	$ 12,228,161.55
Land improvements and infrastructure	7,024,868.31	-	-	7,024,868.31
Buildings	45,193,604.33	-	-	45,193,604.33
Equipment	10,249,107.12	2,409,592.16	39,156.80	12,619,542.48
Library holdings	1,412,802.37	101,566.58	269,707.62	1,244,661.33
Intangible assets	3,116,015.38	241,770.96	-	3,357,786.34
Projects in progress	54,419,425.74	1,669,938.72	2,078,863.88	54,010,500.58
Total	132,590,085.14	5,476,768.08	2,387,728.30	135,679,124.92
Less accumulated depreciation/amortization				
Land improvements and infrastructure	3,989,291.34	264,937.25	-	4,254,228.59
Buildings	26,828,234.62	1,110,600.97	-	27,938,835.59
Equipment	6,793,872.47	733,651.76	38,337.06	7,489,187.17
Library holdings	745,382.41	146,438.91	219,709.62	672,111.70
Intangible assets	1,758,562.76	335,778.64	-	2,094,341.40
Total accumulated depreciation	40,115,343.60	2,591,407.53	258,046.68	42,448,704.45
Capital assets, net	$ 92,474,741.54	$2,885,360.55	$ 2,129,681.62	$ 93,230,420.47

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

	Beginning Balance	Additions	Transfers	Reductions	Ending Balance
Land	$ 11,174,261.89	$ -	$ -	$ -	$11,174,261.89
Land improvements and infrastructure	6,469,441.90	-	555,426.41	-	7,024,868.31
Buildings	45,193,604.33	-	-	-	45,193,604.33
Equipment	9,533,800.52	1,132,014.32	-	416,707.72	10,249,107.12
Library holdings	1,873,030.64	163,997.79	-	624,226.06	1,412,802.37
Intangible assets	3,029,728.37	86,287.01	-	-	3,116,015.38
Projects in progress	53,673,163.62	1,301,688.53	(555,426.41)	-	54,419,425.74
Total	130,947,031.27	2,683,987.65	-	1,040,933.78	132,590,085.14
Less accumulated depreciation/amortization					
Land improvements and infrastructure	3,703,054.09	286,237.25	-	-	3,989,291.34
Buildings	25,717,633.63	1,110,600.99	-	-	26,828,234.62
Equipment	6,557,714.26	623,466.79	-	387,308.58	6,793,872.47
Library holdings	977,171.35	169,372.13	-	401,161.07	745,382.41
Intangible assets	1,446,961.22	311,601.54	-	-	1,758,562.76
Total accumulated depreciation	38,402,534.55	2,501,278.70	-	788,469.65	40,115,343.60
Capital assets, net	$ 92,544,496.72	$ 182,708.95	$ -	$ 252,464.13	$92,474,741.54

Note 6. Accounts Payable

Accounts payable included the following:

	June 30, 2013	June 30, 2012
Vendors payable	$1,115,103.81	$ 975,984.55
Other payables	337,268.64	563,741.83
Total accounts payable	$1,452,372.45	$1,539,726.38

Note 7. Long-term Liabilities

Long-term liabilities activity for the year ended June 30, 2013, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Payables					
TSSBA debt:					
Bonds	$2,480,983.89	$ -	$ 232,801.67	$2,248,182.22	$244,875.78
Unamortized bond premium	118,042.22	-	17,803.96	100,238.26	-
Subtotal	2,599,026.11	-	250,605.63	2,348,420.48	244,875.78
Other liabilities					
Compensated absences	2,108,014.18	1,343,773.32	1,415,179.68	2,036,607.82	450,555.37
Subtotal	2,108,014.18	1,343,773.32	1,415,179.68	2,036,607.82	450,555.37
Total long-term liabilities	$4,707,040.29	$1,343,773.32	$1,665,785.31	$4,385,028.30	$695,431.15

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

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Payables					
TSSBA debt:					
Bonds	$2,737,469.22	$ -	$ 256,485.33	$2,480,983.89	$232,801.67
Unamortized bond premium	-	228,985.52	110,943.30	118,042.22	-
Subtotal	2,737,469.22	228,985.52	367,428.63	2,599,026.11	232,801.67
Other liabilities					
Compensated absences	2,087,368.92	1,371,260.18	1,350,614.92	2,108,014.18	498,561.83
Subtotal	2,087,368.92	1,371,260.18	1,350,614.92	2,108,014.18	498,561.83
Total long-term liabilities	$4,824,838.14	$1,600,245.70	$1,718,043.55	$4,707,040.29	$731,363.50

TSSBA Debt – Bonds

Bonds, with interest rates ranging from 3% to 5%, were issued by the Tennessee State School Bond Authority (TSSBA). The bonds are due serially to 2024 and are secured by pledges of the facilities' revenues to which they relate and certain other revenues and fees of the college, including state appropriations; see Note 8 for further details. The bonded indebtedness with the Tennessee State School Bond Authority included in long-term liabilities on the statement of net position is shown net of assets held by the authority in the debt service reserve and unexpended debt proceeds. The reserve amount was $199,448.30 at June 30, 2013, and $199,448.30 at June 30, 2012.

Debt service requirements to maturity for the college's portion of TSSBA bonds at June 30, 2013, are as follows:

	Principal	Interest	Total
2014	$ 244,875.78	$112,972.84	$ 357,848.62
2015	254,469.90	103,391.26	357,861.16
2016	266,414.42	92,037.48	358,451.90
2017	280,514.45	78,716.76	359,231.21
2018	292,603.55	66,943.30	359,546.85
2019-2023	899,765.78	183,932.14	1,083,697.92
2024	9,538.34	8,881.94	18,420.28
Total	$2,248,182.22	$646,875.72	$2,895,057.94

Note 8. Pledged Revenues

The college has pledged certain revenues and fees, including state appropriations, to repay $2,248,182.22 in revenue bonds issued from September 1998 to April 2009 (see Note 7 for further detail). Proceeds from the bonds provided financing for Property Acquisition I, Property Acquisition II, chillers, and an energy savings performance contract. The bonds are payable through 2024. Annual principal and interest payments on the bonds are expected to require 1% of available revenues. The total principal and interest remaining to be paid on the bonds at June 30, 2013, is $2,895,057.94. Principal and interest paid for fiscal year 2013 and total available revenues were $353,893.06 and $71,007,817.65, respectively. Principal and interest paid for fiscal year 2012 and total available revenues were $409,284.45 and $74,375,308.30, respectively.

Note 9. Pension Plans

Defined Benefit Plans

Tennessee Consolidated Retirement System

Plan description – The State of Tennessee provides a pension plan that covers state and higher education employees. That plan is a part of the Public Employee Retirement Plan, an agent 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.

TCRS issues a publicly available financial report that includes financial statements and required supplementary information for the Public Employee Retirement Plan. 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 15.03% of annual covered payroll. Contribution requirements for the college are established and may be amended by TCRS' Board of Trustees.

Annual pension cost – For the years ended June 30, 2013, and June 30, 2012, the college's contributions equaled the annual pension cost of $2,449,323.71 and $2,495,366.84, respectively.

Trend Information

Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
June 30, 2013	$2,449,323.71	100%	$0
June 30, 2012	$2,495,366.84	100%	$0
June 30, 2011	$3,047,788.85	100%	$0

Additional information - Information about the funded status of the plan as of the most recent valuation date, information about the actuarial methods and assumptions used in the valuations, and required supplementary information are available in the *Tennessee Comprehensive Annual Financial Report*. A copy of that report is available on the state's website at www.tn.gov/finance/act/cafr.shtml.

Defined Contribution Plans

Optional Retirement Plans

Plan description – The college contributes to three defined contribution plans: Teachers Insurance and Annuity Association–College Retirement Equities Fund, ING Life Insurance and Annuity Company, and Variable Annuity Life Insurance Company. These plans are administered by the Tennessee Department of the Treasury. Each plan provides retirement benefits to faculty and staff who are exempt from the overtime provisions of the Fair Labor Standards Act and who waive membership in the TCRS. Benefits depend solely on amounts contributed to the plan plus investment earnings. Plan provisions are established by state statute in Section 8-35-4, *Tennessee Code Annotated*. State statutes are amended by the Tennessee General Assembly.

Funding policy – Plan members are noncontributory. The college contributes an amount equal to 10% of the employee's base salary up to the social security wage base and 11% above the social security wage base. Contribution requirements are established and amended by state statute. The contributions made by the college to the plans were $1,112,763.32 for the year ended June 30, 2013, and $1,074,858.03 for the year ended June 30, 2012. Contributions met the requirements for each year.

Note 10. Other Postemployment Benefits

Health care 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 plan for health care 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 14. The plans are reported in the *Tennessee Comprehensive Annual Financial Report* (CAFR). The CAFR is available on the state's website at www.tn.gov/finance/act/cafr.shtml.

Special Funding Situation

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

Funding Policy

The premium requirements of members of the State Employee Group Plan are established and may be amended by the insurance committee. The plan is self-insured and financed on a pay-as-you-go basis with the risk shared equally among the participants. The plan's claims liabilities are periodically computed using actuarial and statistical techniques to establish premium rates. The plan's administrative costs 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, adjusted for years of service, as active employees. 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 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

	2013	2012
Annual required contribution (ARC)	$1,074,000.00	$1,062,000.00
Interest on the net OPEB obligation	216,229.45	199,003.91
Adjustment to the ARC	(229,523.45)	(211,238.86)
Annual OPEB cost	1,060,706.00	1,049,765.05
Amount of contribution	(556,121.53)	(619,126.38)
Increase in net OPEB obligation	504,584.47	430,638.67
Net OPEB obligation - beginning of year	5,405,736.31	4,975,097.64
Net OPEB obligation - end of year	$5,910,320.78	$5,405,736.31

Year-end	Plan	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation at Year-end
June 30, 2013	State Employee Group Plan	$1,060,706.00	52.43%	$5,910,320.78
June 30, 2012	State Employee Group Plan	$1,049,765.05	59.98%	$5,405,736.31
June 30, 2011	State Employee Group Plan	$1,283,229.14	47.80%	$4,975,097.64

Funded Status and Funding Progress

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

State Employee Group Plan

Actuarial valuation date	July 1, 2011
Actuarial accrued liability (AAL)	$10,278,000.00
Actuarial value of plan assets	-
Unfunded actuarial accrued liability (UAAL)	$10,278,000.00
Actuarial value of assets as the percentage of the AAL	0%
Covered payroll (active plan members)	$21,859,909.92
UAAL as percentage of covered payroll	47%

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

Actuarial Methods and Assumptions

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

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

Note 11. Insurance-related Activities

It is the policy of the state not to purchase commercial insurance for the risks 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 year ended June 30, 2013, is presented in the *Tennessee Comprehensive Annual Financial Report* (CAFR). 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, Section 9-8-101 et seq., *Tennessee Code Annotated*. Liability for negligence of the college for bodily injury and property damage is limited to $300,000 per person and $1,000,000 per occurrence. The limits of liability under workers' compensation are set forth in Section 50-6-101 et seq., *Tennessee Code Annotated*. Claims are paid through the state's Risk Management Fund. At June 30, 2013, the Risk Management Fund held $108.5 million in cash designated for payment of claims. At June 30, 2012, the Risk Management Fund held $97.2 million in cash designated for payment of claims.

At June 30, 2013, the scheduled coverage for the college was $200,490,400 for buildings and $18,592,000 for contents. At June 30, 2012, the scheduled coverage for the college was $200,490,400 for buildings and $18,591,821 for contents.

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

Note 12. Commitments and Contingencies

Sick Leave

The college records the cost of sick leave when paid. The dollar amount of unused sick leave was $12,593,638.39 at June 30, 2013, and $13,383,132.55 at June 30, 2012.

Operating Leases

The college has entered into various operating leases for buildings and equipment. Such leases will probably continue to be required. Expenses under operating leases for real property were $468,500.29 and expenses for personal property were $201,823.50 for the year ended June 30, 2013. The amounts for the year ended June 30, 2012, were $474,761.48 and $209,181.24. All operating leases are cancelable at the lessee's option.

Construction in Progress

At June 30, 2013, outstanding commitments under construction contracts totaled $14,938,321.97 for Replace Campus, Macon New Library, Macon New Academic Building, Verties Sails Weight Room, Warehouse Renovations, Nursing and Biotech Facilities, M-Building Renovations, ADA Adaptions, Union Campus Mechanical Systems Updates, Union Campus Parking Structure, and Macon Cover Campus Parking, of which $9,937,473.51 will be funded by future state capital outlay appropriations.

Litigation

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

Note 13. Natural Classification With Functional Classifications

The college's operating expenses for the year ended June 30, 2013, are as follows:

	Natural Classification					
Functional Classification	Salaries	Benefits	Other Operating	Scholarships	Depreciation	Total
Instruction	$19,794,772.14	$ 5,845,629.85	$ 3,476,898.37	$ -	$ -	$29,117,300.36
Public service	386,777.11	70,480.25	119,576.26	-	-	576,833.62
Academic support	3,649,384.18	1,273,054.98	4,250,684.63	-	-	9,173,123.79
Student services	3,554,955.90	1,512,538.47	2,766,652.90	-	-	7,834,147.27
Institutional support	5,866,431.88	2,492,008.75	8,094,014.81	-	-	16,452,455.44
Maintenance & operation	882,416.97	546,976.65	3,539,451.54	-	-	4,968,845.16
Scholarships & fellowships	281,146.93	75,004.07	-	18,049,331.14	-	18,405,482.14
Auxiliary	-	-	185,342.25	-	-	185,342.25
Depreciation	-	-	-	-	2,591,407.53	2,591,407.53
Total	$34,415,885.11	$11,815,693.02	$22,432,620.76	$18,049,331.14	$2,591,407.53	$89,304,937.56

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

	Natural Classification					
Functional Classification	Salaries	Benefits	Other Operating	Scholarships	Depreciation	Total
Instruction	$19,469,447.58	$ 5,817,616.63	$ 3,643,233.53	$ -	$ -	$28,930,297.74
Public service	362,820.54	131,417.77	96,934.88	-	-	591,173.19
Academic support	3,149,750.45	1,265,141.20	3,021,978.39	-	-	7,436,870.04
Student services	3,947,972.89	1,700,813.69	1,347,337.46	-	-	6,996,124.04
Institutional support	6,216,415.75	2,702,469.17	282,682.79	-	-	9,201,567.71
Maintenance & operation	870,730.94	519,026.52	6,102,205.40	-	-	7,491,962.86
Scholarships & fellowships	45,786.26	(51,173.48)	721,639.78	18,970,578.65	-	19,686,831.21
Auxiliary	-	-	194,062.58	-	-	194,062.58
Depreciation	-	-	-	-	2,501,278.70	2,501,278.70
Total	$34,062,924.41	$12,085,311.50	$15,410,074.81	$18,970,578.65	$2,501,278.70	$83,030,168.07

Note 14. On-behalf Payments

During the year ended June 30, 2013, the State of Tennessee made payments of $41,511 on behalf of the college for retirees participating in the Medicare Supplement Plan. The amount for the year ended June 30, 2012, was $42,332.06. The Medicare Supplement Plan is a postemployment benefit health care plan and is discussed further in Note 10. The plan is reported in the *Tennessee Comprehensive Annual Financial Report*. That report is available on the state's website at www.tn.gov/finance/act/cafr.shtml.

Note 15. Voluntary Buyout Program

The college implemented a Voluntary Buyout Plan in fiscal year 2011 as a strategy to assist the college in addressing budgetary constraints due to several years of state appropriation reductions and potential budget reductions in the forthcoming fiscal years. The college had 89 employees participate in the Voluntary Buyout Program, with 79 terminating by June 30, 2011; 3 terminating by June 30, 2012; and 7 terminating by June 30, 2013.

Participating employees received a severance payout in an amount equivalent to

- three months' base salary,
- $500 for each full or partial year of full-time employment with the college,
- six months of the college's portion of the employee health insurance premium, and
- the employee's next longevity payment.

Expenses for payout of accrued annual leave, compensatory time, or worked holidays for the Voluntary Buyout Plan were $242,969.70 as of June 2013, and $2,505,208.48 as of June 30, 2012. Accrued expenses for severance pay were $260,992.73 at June 30, 2012, and $18,023.03 at June 30, 2013.

Note 16. Component Unit

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

During the year ended June 30, 2013, the foundation made distributions of $5,177,231.69 to or on behalf of the college for both restricted and unrestricted purposes. During the year ended June 30, 2012, the foundation made distributions of $52,500.00 to or on behalf of the college for both restricted and unrestricted purposes. Complete financial statements for the foundation can be obtained from Karen Nippert, Vice President for Institutional Advancement, 5983 Macon Cove, Memphis, Tennessee 38134.

Cash and Cash Equivalents

This classification includes demand deposits and petty cash on hand. At June 30, 2013, cash consisted of $17,197.86 in bank accounts and $1,616,962.12 in the Local Government Investment Pool (LGIP) administered by the State Treasurer. At June 30, 2012, cash consisted of $883,896.49 in bank accounts and $4,426,248.18 in the LGIP.

Deposits

At June 30, 2012, the foundation's bank balance was $883,896.49. Of that amount, $633,896.49 was uninsured and uncollateralized.

The foundation also has deposits in the Local Government Investment Pool (LGIP) administered by the State Treasurer. The LGIP is part of the State Pooled Investment Fund. The fund's required risks disclosures are presented in the *State of Tennessee Treasurer's Report.* That report is available on the state's website at www.treasury.tn.gov.

Investments

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

At June 30, 2013, the foundation had the following investments and maturities:

Investment Maturities (in Years)

Investment Type	Fair Value	Less than 1	6 to 10	More than 10	No Maturity Date
Mutual equity funds					
Charles Schwab	$2,210,402.85	$ -	$ -	$ -	$2,210,402.85
Other					
Life Assurance Reassurance					
America Life Ins. Co.	505.63	-	-	-	505.63
Total investments	$2,210,908.48	$ -	$ -	$ -	$2,210,908.48

At June 30, 2012, the foundation had the following investments and maturities:

Investment Maturities (in Years)

Investment Type	Fair Value	Less than 1	1 to 5	6 to 10	No Maturity Date
US Agencies	$ 235,226.00	$26,211.00	$171,297.00	$ 37,718.00	$ -
Mutual equity funds					
Charles Schwab	1,201,450.18	-	-	-	1,201,450.18
Other					
Life Assurance Reassurance					
America Life Ins Co.	389.68	-	-	-	389.68
Government securities					
Alhamra, CA Unif. School District	34,225.00	-	-	34,225.00	-
Bergen Cnty., NJ	34,895.00	-	34,895.00	-	-
Clayton, MO Sch. Dist. Build America	39,086.00	-	39,086.00	-	-
Connecticut St. Build America	36,175.00	-	-	36,175.00	-
Fort Worth, TX	26,882.00	-	26,882.00	-	-
Jacksonville, FL Spl. Rev. Bd. Amer.	42,160.00	-	-	42,160.00	-
Lubbock, TX Build America	28,361.00	-	-	28,361.00	-
Milwaukee, WI Taxable	39,195.00	-	-	39,195.00	-
Mississippi State	35,290.00	-	-	35,290.00	-
Montgomery Cnty. Gen. Obligation	35,426.00	-	-	35,426.00	-
New York, NY City	35,205.00	-	-	35,205.00	-
Newton, IA Cap	26,682.00	-	26,682.00	-	-
Ohio State Build America	46,133.00	-	46,133.00	-	-
Oklahoma St. Capital Imp. Authority	26,861.00	-	26,861.00	-	-
Philadelphia, PA School District	20,669.00	-	20,669.00	-	-
Snohomish Cnty., WA Build America	35,829.00	-	35,829.00	-	-
South Dakota	35,074.00	-	-	35,074.00	-
Southern CA Public Power	26,405.00	-	26,405.00	-	-
You Sch. Dist. PA	27,745.00	-	27,745.00	-	-
Total	$2,069,363.86	$26,211.00	$482,484.00	$358,829.00	$1,201,839.86

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

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

At June 30, 2012, the foundation's investments were rated as follows:

		Credit Quality Rating			
Investment Type	Fair Value	AAA	AA	A	Unrated
LGIP	$1,616,962.12	$ -	$ -	$ -	$1,616,962.12
Total	$1,616,962.12	$ -	$ -	$ -	$1,616,962.12

At June 30, 2012, the foundation's investments were rated as follows:

		Credit Quality Rating			
Investment Type	Fair Value	AAA	AA	A	Unrated
LGIP	$4,426,248.18	$ -	$ -	$ -	$4,426,248.18
US Agencies	235,226.00	-	-	-	235,226.00
Other					
Government securities					
Alhamra, CA Unif. School District	34,225.00	-	-	34,225.00	-
Bergen Cnty., NJ	34,895.00	34,895.00	-	-	-
Clayton, MO Sch. Dist Build America	39,086.00	39,086.00	-	-	-
Connecticut St. Build America	36,175.00	-	36,175.00	-	-
Fort Worth, TX	26,882.00	-	26,882.00	-	-
Jacksonville, FL Spl. Rev. Bd. Amer.	42,160.00	-	42,160.00	-	-
Lubbock, TX Build America	28,361.00	-	28,361.00	-	-
Milwaukee, WI Taxable	39,195.00	-	39,195.00	-	-
Mississippi State	35,290.00	-	35,290.00	-	-
Montgomery Cnty. Gen. Obligation	35,426.00	-	35,426.00	-	-
New York, NY City	35,205.00	-	35,205.00	-	-
Newton, IA Cap	26,682.00	-	26,682.00	-	-
Ohio State Build America	46,133.00	-	46,133.00	-	-
Oklahoma St. Capital Imp. Authority	26,861.00	-	26,861.00	-	-
Philadelphia, PA School District	20,669.00	-	20,669.00	-	-
Snohomish Cnty., WA Build America	35,829.00	-	35,829.00	-	-
South Dakota	35,074.00	35,074.00	-	-	-
Southern CA Public Power	26,405.00	-	-	26,405.00	-
You Sch. Dist. PA	27,745.00	-	-	27,745.00	-
Total	$5,293,772.18	$109,055.00	$434,868.00	$88,375.00	$4,661,474.18

Pledges Receivable

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

	June 30, 2013	June 30, 2012
Current pledges	$278,197.93	$401,267.24
Pledges due in one to five years	530,000.00	34,000.00
Subtotal	808,197.93	435,267.24
Less discount to net present value	(16,163.97)	(8,705.11)
Total pledges receivable, net	$792,033.96	$426,562.13

Capital Assets

Capital asset activity for the year ended June 30, 2013, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance
Land	$1,053,899.66	$-	$1,053,899.66	$-
Total capital assets	$1,053,899.66	$-	$1,053,899.66	$-

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

	Beginning Balance	Additions	Reductions	Ending Balance
Land	$-	$1,053,899.66	$-	$1,053,899.66
Total capital assets	$-	$1,053,899.66	$-	$1,053,899.66

Endowments

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

The foundation chooses to spend only a portion of the investment income (including changes in the value of investments) each year. Under the spending plan established by the foundation, 5% of a trailing three-year average of the endowment’s total asset value has been authorized for expenditure. The remaining amount, if any, is retained to be used in future years when the amount computed using the spending plan exceeds the investment income. At June 30, 2013, net appreciation of $81,126.56 is available to be spent, of which $81,126.56 is included in restricted net position expendable for scholarships and fellowships. At June 30, 2012, net appreciation of $78,211.80 is available to be spent, of which $78,211.80 is included in restricted net position expendable for scholarships and fellowships.

Tennessee Board of Regents
Southwest Tennessee Community College
Required Supplementary Information
OPEB Schedule of Funding Progress
Unaudited

Actuarial Valuation Date	Plan	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b-a)/c)]
July 1, 2009	State Employee Group Plan	$ -	$14,365,000.00	$14,365,000.00	0%	$21,647,082.00	66.36%
July 1, 2010	State Employee Group Plan	$ -	$12,779,000.00	$12,779,000.00	0%	$21,859,910.00	58.46%
July 1, 2011	State Employee Group Plan	$ -	$10,278,000,.00	$10,278,000.00	0%	$21,859,910.00	47.02%

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

Supplementary Information
SOUTHWEST TENNESSEE COMMUNITY COLLEGE FOUNDATION
Supplementary Schedules of Cash Flows - Component Unit
For the Years Ended June 30, 2014, and June 30, 2013

	Year Ended June 30, 2013	Year Ended June 30, 2012
Cash flows from operating activities		
Gifts and contributions	$1,351,756.93	$1,710,198.32
Grants and contracts	2,299.00	-
Payments to suppliers and vendors	(1,772,148.60)	(174,887.73)
Payments for scholarships and fellowships	744,306.35	(199,170.08)
Payments to Southwest TN Community College	(5,177,231.69)	(52,500.00)
Net cash provided (used) by operating activities	(4,851,018.01)	1,283,640.51
Cash flows from noncapital financing activities		
Private gifts for endowment purposes	117,647.82	65,264.83
Net cash provided by noncapital financing activities	117,647.82	65,264.83
Cash flows from capital and related financing activities		
Purchase of capital assets and construction	-	(1,053,899.66)
Proceeds from sale of capital assets	1,053,899.66	-
Net cash provided (used) by capital and related financing activities	1,053,899.66	(1,053,899.66)
Cash flows from investing activities		
Income on investments	3,485.84	4,910.20
Net cash provided by investing activities	3,485.84	4,910.20
Net increase (decrease) in cash	(3,675,984.69)	299,915.88
Cash - beginning of year	5,310,144.67	5,010,228.79
Cash - end of year	$1,634,159.98	$5,310,144.67
Reconciliation of operating loss to net cash used by operating activities		
Operating loss	($6,026,792.52)	$ (16,357.22)
Change in assets and liabilities:		
Receivables, net	(770,368.93)	1,278,278.73
Prepaid items	595,654.19	-
Accounts payable	1,350,489.25	21,719.00
Net cash provided (used) by operating activities	($4,851,018.01)	$1,283,640.51
Noncash investing activities		
Unrealized gains/(losses) on investments	$ 141,544.32	$ (39,732.00)

STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
DEPARTMENT OF AUDIT
DIVISION OF STATE AUDIT
SUITE 1500, JAMES K. POLK STATE OFFICE BUILDING
505 DEADERICK STREET
NASHVILLE, TENNESSEE 37243-1402

PHONE (615) 401-7897
FAX (615) 532-2765

Independent Auditor's 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*

The Honorable Bill Haslam, Governor
Members of the General Assembly
The Honorable John G. Morgan, Chancellor
Dr. Tracy D. Hall, President

We have audited the financial statements of Southwest Tennessee Community College, an institution of the Tennessee Board of Regents, which is a component unit of the State of Tennessee, and its discretely presented component unit as of and for the years ended June 30, 2013, and June 30, 2012, and the related notes to the financial statements, which collectively comprise the college's basic financial statements, and have issued our report thereon dated May 27, 2015. We conducted our audit in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the college's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of the college's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described below, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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:

- Management needs to improve procedures for preparing and reviewing financial statements to prevent errors.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the following deficiencies to be significant deficiencies:

- Southwest Tennessee Community College did not provide adequate internal controls in five specific areas.

These deficiencies are described in the Findings and Recommendations section of this report.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the college's financial statements are free from 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 *Government Auditing Standards*.

Southwest Tennessee Community College's Responses to Findings

The college's responses to the findings identified in our audit are included in the Findings and Recommendations section of this report. The college's responses were not subjected to the auditing procedures applied in the audit of the financial statements, and, accordingly, we express no opinion on them.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Deborah V. Loveless

Deborah V. Loveless, CPA
Director
May 27, 2015

Findings and Recommendations

1. Management needs to improve procedures for preparing and reviewing financial statements to prevent errors

Condition

Southwest Tennessee Community College's procedures for preparing its financial statements are inadequate and do not ensure the accuracy and proper classification of information.

Criteria

Management is responsible for the preparation and fair presentation of both the college's and the component unit's (Southwest Tennessee Community College Foundation) financial statements and accompanying notes in accordance with accounting principles generally accepted in the United States of America. This includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free of material misstatement.

Cause

During the two-year audit period, the college had multiple turnovers in key accounting positions, resulting in staff vacancies when the financial statements and notes were prepared. The Executive Director of Fiscal Operations had to perform tasks normally performed by other personnel in addition to his own responsibilities. The lack of continuity in the college's accounting staff during the audit period was a contributing factor to the errors in the financial statements.

Effect

During our testwork on the college's and component unit's financial statements and accompanying notes for the years ended June 30, 2013, and June 30, 2012, we made audit adjustments and note revisions to correct the financial statements and notes for the following significant reporting errors:

- In the college's 2013 statement of net position, current cash was overstated by $53,554.55, and noncurrent cash was understated by the same amount.
- In the college's 2013 statement of net position, the current compensated absences liability was understated by $130,298.18, and the noncurrent compensated absences liability was overstated by the same amount.
- In the college's 2013 statement of net position, capital assets, net of depreciation, was overstated by $786,411.28. The cost of land purchased for the Nursing Biotech Building was transferred twice from the foundation.
- In the college's 2012 statement of net position, capital assets, net of depreciation, was understated by $527,655.09, and utilities, supplies, and other services were overstated

by the same amount on the 2012 statement of revenues, expenses, and changes in net position. Capital assets, net of depreciation, was also understated on the college's 2013 statement of net position as a result of this error. The Macon Cove Campus parking lot project, a land improvement, was improperly expensed for the year ended June 30, 2012. Tennessee Board of Regents' Guideline B-110, "Fixed Assets and Sensitive Minor Equipment," states that improvements should be capitalized if costs equal or exceed $50,000.

- In the college's 2013 printed financial report, the component unit's statement of revenues, expenses, and changes in net position did not include restricted gifts of $1,351,756.93. The missing amount was discussed with the Executive Director of Fiscal Operations, and he stated that management was already aware of the error.
- In the college's 2013 cash note, the technology center's cash of $113,022.34 was not included in the cash in bank accounts amount. Instead, the amount was incorrectly included in the State of Tennessee Local Government Investment Pool (LGIP) amount.
- In the college's 2013 cash note, the LGIP amount of $69,680,821.73 was not allocated between LGIP and LGIP deposits for capital projects. The correct LGIP amount was $62,102,660.56, and the correct LGIP deposits for capital projects amount was $7,578,161.17.
- In the college's 2013 long-term liabilities note, the note included unearned revenue of $2,196,121.79. Unearned revenue is not noncurrent and should not have been included.
- In the college's 2012 long-term liabilities note, the additions and reductions for compensated absences were improperly netted together under the additions column instead of each amount being shown separately as required by paragraph 119 of GASB Statement 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*. The additions were $1,371,260.18, and the reductions were $1,350,614.92.
- In the college's 2013 pledged revenues note, total available revenues were understated by $623,129.79. Total available revenues is the total of all unrestricted revenues, and the auxiliary amount of revenues was improperly not included in the total.
- In the college's 2013 commitments and contingencies note, expenses for operating leases for personal property were overstated by $86,923.89, and expenses for operating leases for real property were understated by the same amount.
- In the college's 2013 natural classification with functional classifications note, in the operating expenses natural classification, institutional support of $8,094,014.81, maintenance and operations of $3,539,451.54, and scholarships and fellowships of $0.00 were all incorrect. The amount for each of the three expense totals appeared on the next functional line classification. For example, the institutional support amount was shown on the maintenance and operations line. Also in this 2013 note, scholarships of $18,049,331.14 were improperly spread among the other types of

functional classifications. Scholarships should be shown as both a natural and functional scholarship classification.

- In the college's 2013 and 2012 Voluntary Buyout Program notes, amounts were misstated. For 2013, expenses for payout of accrued annual leave, compensatory time, or worked holidays for the Voluntary Buyout Plan were overstated by $11,295.29. Also, accrued expenses for severance pay of $18,023.03 were improperly excluded from the 2013 note. For 2012, expenses for payout of accrued annual leave, compensatory time, or worked holidays for the Voluntary Buyout Plan were understated by $275,997.68, and accrued expenses for severance pay were overstated by $96,401.29.
- In the component unit's 2013 statement of net position, short-term investments were overstated by $209,646.59, and noncurrent investments were understated by the same amount. The mutual equity fund investments were incorrectly classified as short-term investments.
- In the component unit's 2013 statement of net position, restricted current fund endowment balances were all shown as scholarships and fellowships in the restricted expendable section of net position. Instead, the endowments should have been allocated as follows: $1,354,622.03 for scholarships, $66,322.48 for instructional department uses, and $58,280.11 for other.
- In the component unit's 2012 note to the financial statements, the disclosure for the amount of the uninsured and uncollateralized bank balance was not included. The component unit's bank balance at June 30, 2012, was $883,896.49. The Federal Deposit Insurance Corporation covered $250,000, which left $633,869.49 as uninsured and uncollateralized.

Recommendation

The Vice President of Financial and Administrative Services and the Executive Director of Fiscal Operations should institute procedures that ensure the accuracy and proper classification of information presented in the financial statements. The procedures should address the preparation of the financial statements and notes, as well as the subsequent review process.

The Vice President of Financial and Administrative Services and the Executive Director of Fiscal Operations should also ensure that current staff members who prepare and/or review the financial statements have adequate knowledge of governmental and Tennessee Board of Regents' accounting and reporting requirements in order to properly perform their responsibilities.

Management's Comment

We concur with the finding. During the period under audit, with the exception of the Executive Director's position, the college lost its entire professional financial reporting staff. Many of the positions, including the Director's position, remained unfilled for over a year. The college has since hired a Director who has extensive knowledge of governmental accounting and reporting requirements. The college has filled the other vacant positions to assist the Executive Director in properly preparing and reviewing the annual financial statements. These individuals have gone through a complete financial statements cycle. The staff has participated in the year-end financial statements training and is now equipped to assist the Executive Director with preparing and reviewing the reports in accordance with Tennessee Board of Regents' guidelines.

In addition, the Director, Executive Director and Vice President will each have the responsibility of ensuring the accuracy of the financial statements.

2. Southwest Tennessee Community College did not provide adequate internal controls in five specific areas

Finding

The college did not design and monitor internal controls in specific areas. We observed five conditions in violation of college policies and/or industry-accepted best practices. Inconsistent implementation of internal controls increases the risk of fraud or error.

The details of these findings are confidential pursuant to Section 10-7-504(i), *Tennessee Code Annotated.* We provided the college with detailed information regarding the specific conditions we identified, as well as our recommendations for improvement.

Recommendation

Management should ensure that these conditions are remedied by the prompt development and consistent implementation of internal controls. Management should implement effective controls to ensure compliance with applicable requirements; assign staff to be responsible for ongoing monitoring of the risks and mitigating controls; and take action if deficiencies occur.

Management's Comment

We concur. STCC [Southwest Tennessee Community College] ensures the following: that these conditions either have been or will be remedied by specified dates; effective controls to ensure compliance have been put in place; and staff assignments have been made for ongoing monitoring of risks and control mitigation.

Observation and Comment

College of Applied Technology

Southwest Tennessee Community College serves as the lead institution under an agreement with the Tennessee College of Applied Technology at Memphis. Under this agreement, Southwest Tennessee Community College performs the accounting and reporting functions for the college. The chief administrative officer of the college is the Director, who is assisted and advised by members of the faculty and administrative staff. The Director is responsible to the Chancellor of the Tennessee Board of Regents. Prior to July 1, 2013, this workforce training school was named a Tennessee Technology Center.