STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY

TENNESSEE BOARD OF REGENTS
SOUTHWEST TENNESSEE COMMUNITY COLLEGE

Financial and Compliance Audit Report

For the Years Ended June 30, 2015, and June 30, 2014

Justin P. Wilson, Comptroller

Division of State Audit
Financial and Compliance Section

Deborah V. Loveless, CPA, CGFM, CGMA
Director

***F*INANCIAL AND *C*OMPLIANCE**

Edward Burr, CPA, CGFM
Assistant Director

Robyn Probus, CPA, CFE, CGFM, CGMA
Audit Manager

Angela Courtney
In-Charge Auditor

Brandi Boles
Michael Campbell, CPA
Staff Auditors

Gerry Boaz, CPA, CGFM, CGMA
Technical Manager

Amy Brack
Editor

Amanda Adams
Assistant Editor

***I*NFORMATION *S*YSTEMS**

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

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

Timothy Hollar, CISA
In-Charge Auditor

Andrew Moss, CISA
Staff Auditor

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

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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

June 28, 2017

The Honorable Bill Haslam, Governor
Members of the General Assembly
The Honorable Flora Tydings, 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, 2015, and June 30, 2014. 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

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Audit Report
Tennessee Board of Regents
Southwest Tennessee Community College
For the Years Ended June 30, 2015, and June 30, 2014

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For the Years Ended June 30, 2015, and June 30, 2014

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*

Southwest Tennessee Community College did not have adequate procedures for preparing its financial statements to ensure the accuracy and proper classification of information (page 57).

The college has not properly reported the costs associated with construction projects

The college does not have procedures for recording costs related to construction projects in accordance with generally accepted accounting principles. The college did not transfer capitalized expenditures from projects in progress to categories such as buildings or equipment when the assets were placed in service. This caused an understatement of buildings and equipment, net of accumulated depreciation, of over $10 million at June 30, 2015, and $39 million at June 30, 2014, and an understatement of depreciation expense of $5 million for the year ended June 30, 2015, and $1 million for the year ended June 30, 2014. The college also included non-capitalizable expenditures in projects in progress, resulting in an understatement of expenses in previous fiscal years of over $4 million and an overstatement of expenses for the year ended June 30, 2015, of over $2.5 million (page 62).

The college did not enroll new employees in the defined benefit portion of the state's retirement plan

The college did not enroll new employees as members of the State and Higher Education Employee Retirement Plan. Due to this error, the college did not withhold and submit the required employee pension contributions or make the required employer contributions to the

Tennessee Consolidated Retirement System for employees hired after June 30, 2014, causing 19 employees to lose up to 10 months of retirement service credit. Management was made aware of the issue in October 2014; however, the error was not corrected until May 2015 (page 64).

Management did not approve employee timesheets prior to payroll preparation
The college did not have written policies and procedures for the review and approval of employee timesheets. Our review found that 125 of the 489 timesheets tested (26%) were not reviewed and approved by the employee's supervisor (page 65).

The college does not have controls in place to ensure compliance with the requirements of the Federal Work Study program
The college has no controls over the Federal Work Study (FWS) program to 1) obtain a certification that each student worked the hours for which they were paid and 2) prevent students from being paid for hours that conflicted with scheduled class time or sports activities. We tested a sample of 25 FWS students, which revealed $28,192 of federal questioned costs (page 66).

The college did not prepare proper bank reconciliations
Bank reconciliations for the college's operating and payroll accounts and the foundation's operating account were not always prepared timely and did not always contain evidence of review (page 68).

The college did not have adequate controls over credit cards
The college did not ensure reconciliations of credit card purchases were performed by someone independent of the purchases, increasing the risk of unauthorized purchases, including those not for the benefit of the college (page 70).

The college did not perform reconciliations between the Raiser's Edge, Banner Advancement, and Banner Finance systems
The college did not reconcile the Raiser's Edge, Banner Advancement, and Banner Finance systems. Gift and contribution information manually entered into Raiser's Edge must also be manually entered into Banner Advancement. The information is then transferred into Banner Finance via an electronic feed. Because management did not reconcile the systems, management did not catch differences between the systems (page 72).

As noted in the prior audit, the 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 continued to observe five conditions in violation of college policies and/or industry-accepted best practices, which in some cases have worsened from the prior audit. The details of this finding are confidential pursuant to Section 10-7-504(i), *Tennessee Code Annotated* (page 74).

* This finding is repeated from the prior audit.

Observations and Comments

Investigation

An investigation is ongoing in the college's Student Activities Department. Any findings resulting from the investigation will be included in a separate report (page 75).

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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

The Honorable Bill Haslam, Governor
Members of the General Assembly
The Honorable Flora Tydings, 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, 2015, and June 30, 2014, 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 college'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, 2015, and June 30, 2014, 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, 2015, and June 30, 2014, 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 15, the college implemented Governmental Accounting Standards Board Statement 68, *Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement No. 27,* and Statement 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*, during the year ended June 30, 2015. 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 7 through 18; the schedule of Southwest Tennessee Community College's proportionate share of the net pension liability – Closed State and Higher Education Employee Pension Plan Within TCRS on page 49; the schedule of Southwest Tennessee Community College's contributions – Closed State and Higher Education Employee Pension Plan Within TCRS on page 50; the schedule of Southwest Tennessee Community College's contributions – State and Higher Education Employee Retirement Plan Within TCRS on page 51; and the other postemployment benefits schedule of funding progress on page 52 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 supplementary schedules of cash flows – component unit on page 53 are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The supplementary 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 supplementary schedules of cash flows – component unit are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 1, 2017, 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

Deborah V. Loveless, CPA
Director
June 1, 2017

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

Introduction

This section of Southwest Tennessee Community College's financial report presents a discussion and analysis of the financial performance of the college during the fiscal year ended June 30, 2015, with comparative information presented for the fiscal year ended June 30, 2014, and June 30, 2013. This discussion has been prepared by management along with the financial statements and related note disclosures and should be read in conjunction with the independent auditor's report, the financial statements, and the notes to the financial statements. The financial statements, notes, and this discussion are the responsibility of management.

The college has one discretely presented component unit, the Southwest Foundation. More detailed information about the foundation is presented in Note 17 to the financial statements. This discussion and analysis focuses on the college and does not include the foundation.

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 the college as a whole. The full scope of the 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.

The 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 the college at the end of the fiscal year. To aid the reader in determining the college's ability to meet immediate and future obligations, the statement includes all assets, liabilities, deferred outflows/inflows of resources, and net position of the 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 the college. They are also able to determine how much the college owes vendors, lenders, and others. Net position represents the difference between the college's assets and liabilities, along with the difference between deferred outflows and deferred inflows of resources, and is one indicator of the college's current financial condition.

The statement of net position also indicates the availability of net position for expenditure by the college. Net position is divided into three major categories. The first category, net investment in capital assets, represents the 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 have 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 the college but must be spent for purposes as determined by donors and/or external entities that have placed time or purpose restrictions on the use of the resources. The final category is unrestricted net position. Unrestricted net position is available to the college for any lawful purpose of the college.

The following table summarizes the college's assets, liabilities, deferred outflows/inflows of resources, and net position at June 30, 2015; June 30, 2014; and June 30, 2013:

Summary of Net Position
(in thousands of dollars)

	2015	2014	2013
Assets:			
Current assets	$ 29,409	$ 36,498	$ 33,177
Capital assets, net	106,479	98,246	93,230
Other assets	48,033	49,922	50,126
Total Assets	183,921	184,666	176,533
Deferred Outflows of Resources:			
Deferred amount on debt refunding	104	-	-
Deferred outflows related to pensions	2,353	-	-
Total Deferred Outflows of Resources	2,457	-	-
Liabilities:			
Current liabilities	12,230	15,585	11,017
Noncurrent liabilities	13,789	9,738	9,600
Total Liabilities	26,019	25,323	20,617

Deferred Inflows of Resources:			
Deferred inflows related to pensions	5,911	-	-
Total Deferred Inflows of Resources	5,911	-	-
Net Position:			
Net investment in capital assets	106,069	97,719	92,787
Restricted – expendable	2,695	2,581	1,827
Unrestricted	45,684	59,043	61,303
Total Net Position	$154,448	$159,343	$155,916

Comparison of Fiscal Year 2015 to Fiscal Year 2014

- A 19.4% decrease in current assets in fiscal year 2015 is attributable to a reduction in cash held for the Tennessee College of Applied Technology at Memphis of $4 million and student receivables that occurred when the college changed its method of processing student refunds.
- The reduction in current liabilities is due to $4 million less deposits held in custody for others at June 30, 2015.
- Noncurrent liabilities increased by 41.6% due to the implementation of Governmental Accounting Standards Board (GASB) Statement 68, *Accounting and Financial Reporting for Pensions*, which established a net pension liability of $4.1 million.
- Purchases of capital assets with institutional funds for the Union Campus parking structure, Whitehaven site, and Nursing Biotech Building increased capital assets and caused a decrease in unrestricted net position in fiscal year 2015.
- Southwest Tennessee Community College was required to report deferred outflows of resources and deferred inflows of resources related to pensions due to implementation of GASB 68 in fiscal year 2015.

Comparison of Fiscal Year 2014 to Fiscal Year 2013

- The increase in current assets and current liabilities is due to the Tennessee College of Applied Technology at Memphis having $4 million more cash held with the college at June 30, 2014.
- Capital assets, net of depreciation, increased by 5.4% from 2013 to 2014 due to an increase in expenditures related to the Nursing Biotech Facility, Union Campus parking structure, and mechanical system modernization project.
- The 5.3% increase in net investment in capital assets is attributed to expenditures for the capital projects named in the above paragraph.
- Funding from new grants, specifically the Governor's Competitive Equipment grant, and the Southwest Solutions and Mississippi River Transportation Diagnostics and Logistics grants from the Department of Labor, caused an increase of 41.3% in expendable restricted net position in 2014.

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 the college's financial condition has improved or deteriorated during the fiscal year. The statement presents the revenues received by the college, both operating and nonoperating; the expenses paid by the college, operating and nonoperating; and any other revenues, expenses, gains, or losses received or spent by the college.

Generally speaking, operating revenues are received for providing goods and services to the various customers and constituencies of the 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 the 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, the 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 the college's revenues, expenses, and changes in net position for the years ended June 30, 2015; June 30, 2014; and June 30, 2013, follows.

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

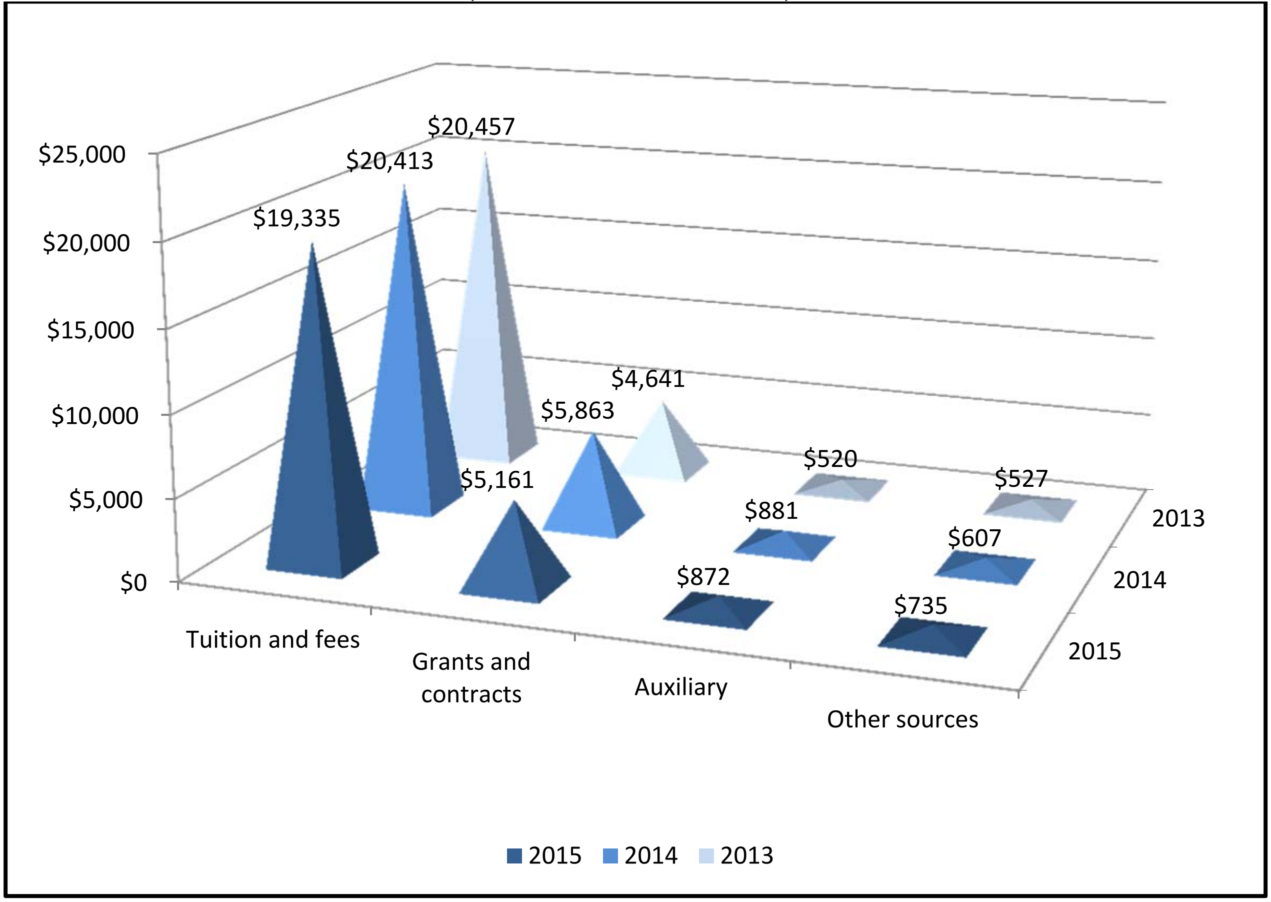
	2015	2014	2013
Operating revenues	$ 26,103	$ 27,764	$ 26,145
Operating expenses	77,387	83,188	89,304
Operating loss	(51,284)	(55,424)	(63,159)
Nonoperating revenues and expenses	54,623	57,088	69,319
Income before other revenues, expenses, gains, or losses	3,339	1,664	6,160
Other revenues, expenses, gains, or losses	1,168	9,539	2,166
Increase in net position	4,507	11,203	8,326

Net position, beginning of year	159,343	155,916	147,590
Cumulative effect of change in accounting principle	(9,402)	-	-
Prior period adjustment	-	(7,776)	-
Net position, beginning of year (restated)	149,941	148,140	147,590
Net position, end of year	$154,448	$159,343	$155,916

Operating Revenues

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

Operating Revenues
(in thousands of dollars)



Comparison of Fiscal Year 2015 to Fiscal Year 2014

- The 12% decrease in grants and contracts is due to a decrease in grant funding awards, primarily from the Governor's Competitive Equipment grant, a one-time grant received during fiscal year 2014.
- Revenues from other sources increased by 21.2% due to an increase in collection of funds from the recovery of uncollectible receivables.

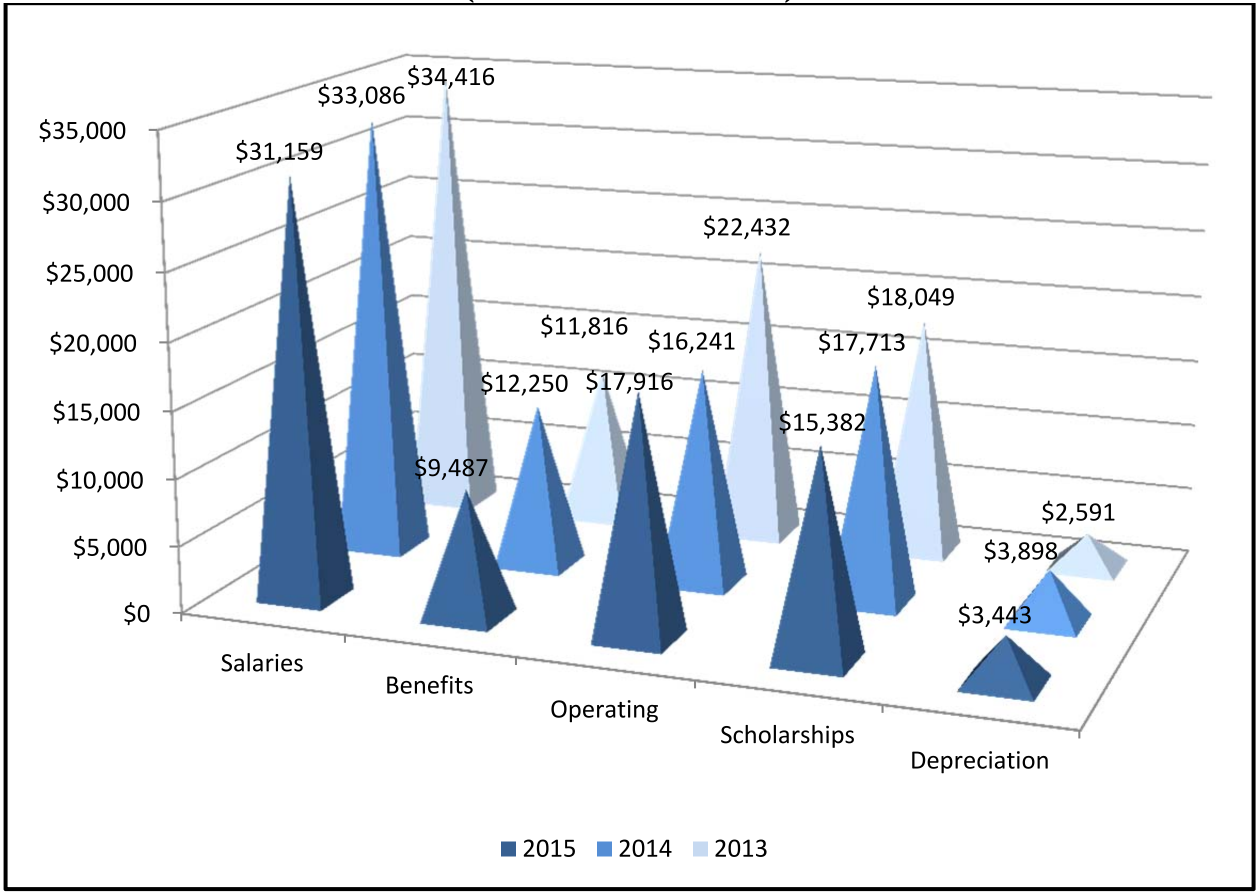
Comparison of Fiscal Year 2014 to Fiscal Year 2013

- The 26.3% increase in grants and contracts is due to an increase in grant funding awards, primarily from the Governor's Competitive Equipment grant, as well as the Southwest Solutions and Mississippi River Transportation Diagnostics and Logistics grants from the Department of Labor.
- In fiscal year 2013, cafeteria services were outsourced; this service is now managed by the college. As a result of this change, the college generated an increase of 69.4% in auxiliary revenues in fiscal year 2014.
- Revenues from other sources increased by 31.8% due to an increase in collection of funds from the recovery of uncollectible receivables, as well as other miscellaneous revenues.

Operating Expenses

Operating expenses may be reported by nature or function. The 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)



<u>Comparison of Fiscal Year 2015 to Fiscal Year 2014</u>

- Benefits decreased by 22.6% as a result of the implementation of GASB 68; specifically, contributions are recognized as deferred outflows on the statement of net position instead of as an expense.
- The 10.3% increase in operating expenses is primarily attributed to an increase in professional and administrative services related to the search for the new president and IT and consulting services.
- Scholarships decreased in fiscal year 2015 by 13.2% due to a decline in the scholarships awarded in the areas of State Board Scholarships, Tuition Assistance, the TECTA Grant, the PBI Competitive Grant, and institutional scholarships.
- Depreciation expense decreased 11.7% due to the change in the useful life of buildings from 40 to 60 years.

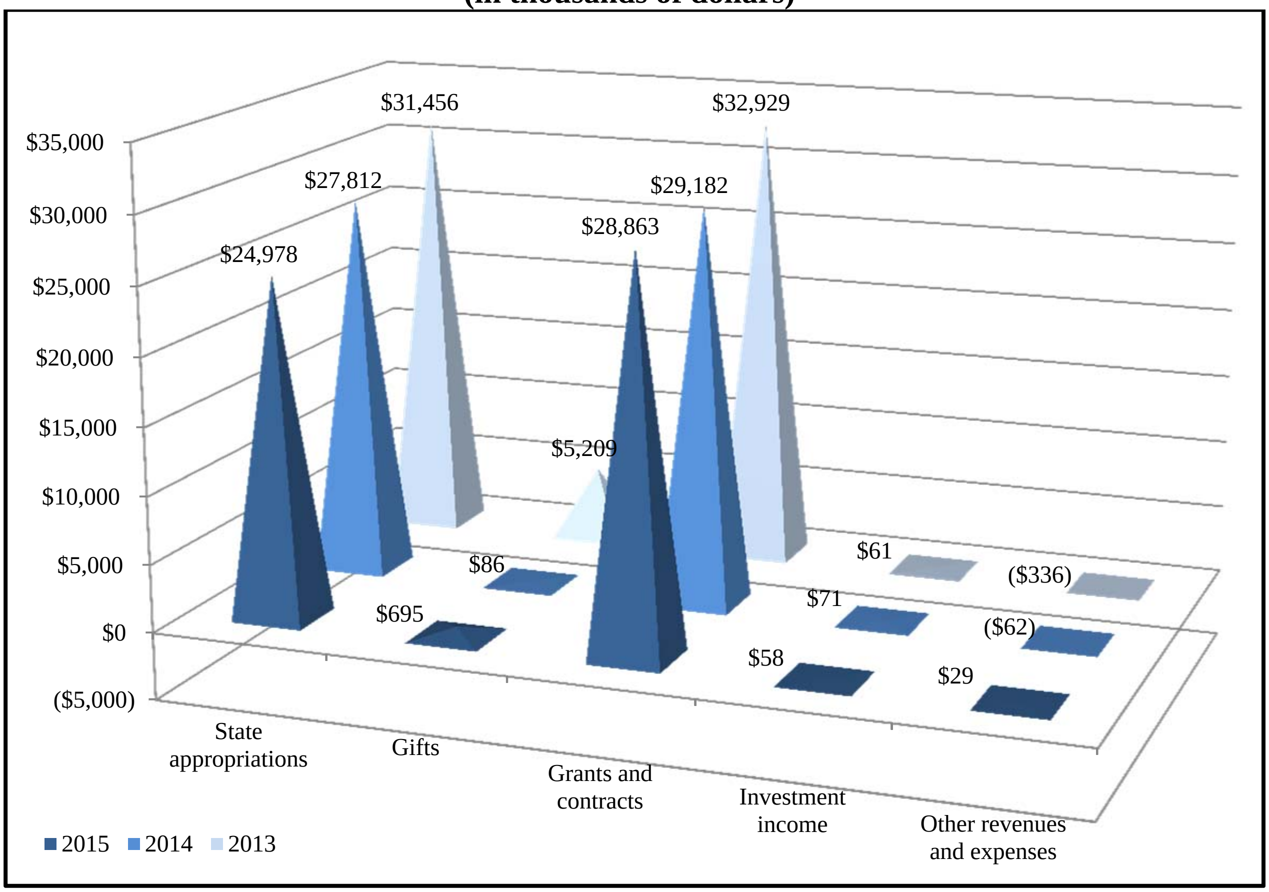
Comparison of Fiscal Year 2014 to Fiscal Year 2013

- The 20.1% decrease in operating expenses is primarily attributed to decreases in professional and administrative services and maintenance and repairs, specifically in supplies, sensitive items, and communication and computer allocated charges; the decreases in the stated expenses are directly linked to the college's cost savings efforts to effectively contend with anticipated reductions in state funding and other revenue sources.
- Depreciation of capital assets added in 2014 caused a 50% increase in depreciation expense.

Nonoperating Revenues and Expenses

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

Nonoperating Revenues and Expenses
(in thousands of dollars)



Comparison of Fiscal Year 2015 to Fiscal Year 2014

- State appropriations decreased by 10.2% due to the college not producing a growth in outcomes that were comparable to rates at other Tennessee institutions.
- Gifts increased by 705.9% due to an increase in in-kind gifts from the foundation, primarily a $600,000 one-time donation for the completion of the Nursing Biotech facility.

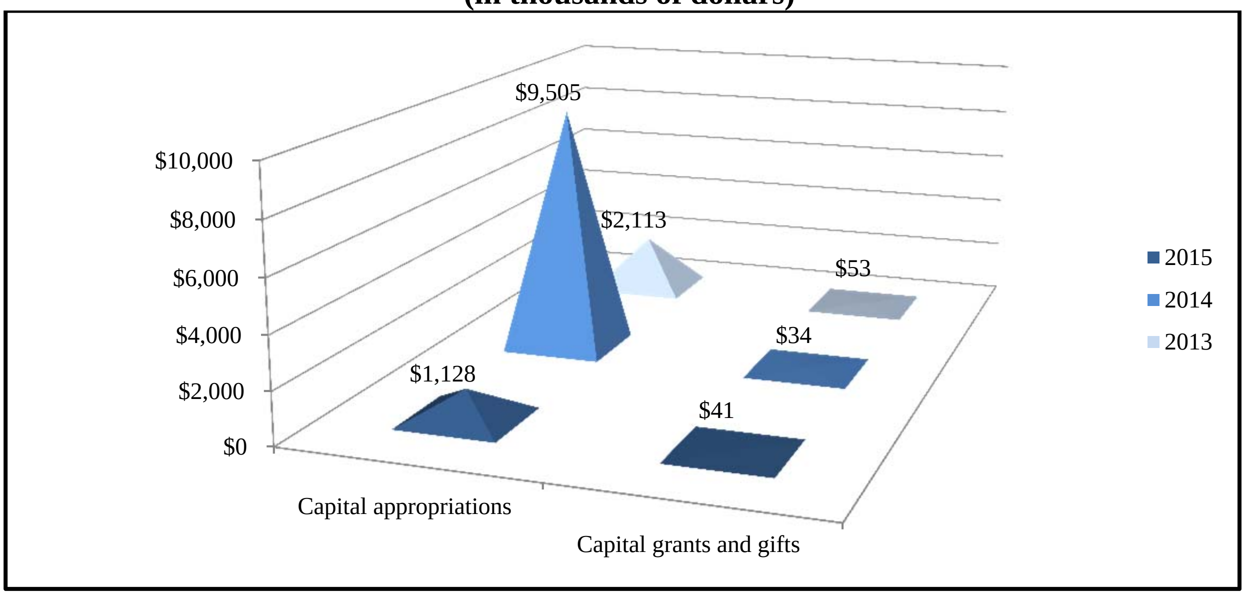
Comparison of Fiscal Year 2014 to Fiscal Year 2013

- State appropriations decreased by 11.6% due to the college not producing a growth in outcomes that were comparable to rates at other Tennessee institutions.
- In fiscal year 2013, the college received a gift of $5.1 million from its foundation for construction of the Nursing Biotech Facility; the foundation did not give any sizable contributions in 2014, thereby resulting in a sizable decrease of 98.3% in gifts revenue.
- Nonoperating grants and contracts decreased by 11.4% as a result of a reduction in revenues from the Energy Training grant, the Federal Work Study program, and Pell grants.

Other Revenues

This category is composed of state appropriations for capital purposes, capital grants and gifts, and additions to permanent endowments. These amounts were as follows for the last two fiscal years.

Other Revenues
(in thousands of dollars)



Comparison of Fiscal Year 2015 to Fiscal Year 2014

- The sizable decrease of 88% in capital appropriations in fiscal year 2015 is attributed to decreased appropriations for completed capital projects or those nearing completion, specifically the Nursing Biotech Facility, the Union Campus Mechanical System Modernization project, and ADA Adaptations.
- Capital grants and gifts increased by 20% due to an increase in in-kind capital gifts from the foundation.

Comparison of Fiscal Year 2014 to Fiscal Year 2013

- The sizable increase of 350% in capital appropriations in fiscal year 2014 is attributed to increased appropriations for the indicated capital projects: the Nursing Biotech Facility, the Union Campus Parking structure, and the Mechanical System Modernization project.
- The 35.8% decrease in capital grants and gifts occurred as a result of a decrease in capital in-kind gifts from the foundation.

Capital Assets and Debt Administration

Capital Assets

Southwest Tennessee Community College had $106,479,016.58 invested in capital assets, net of accumulated depreciation of $51,308,634.93 at June 30, 2015, and $98,246,053.46 invested in capital assets, net of accumulated depreciation of $49,537,649.26 at June 30, 2014. The college had $93,230,420.47 invested in capital assets, net of accumulated depreciation of $42,448,704.45 at June 30, 2013. Depreciation charges totaled $3,442,842.77; $3,897,858.87; and $2,591,407.53 for the years ended June 30, 2015; June 30, 2014; and June 30, 2013, respectively.

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

	2015	2014	2013
Land	$ 13,888	$13,288	$12,228
Land improvements and infrastructure	2,769	2,521	2,771
Buildings	69,747	55,104	17,255
Equipment	9,418	6,847	5,130
Library holdings	593	566	573
Intangible assets	846	1,076	1,263
Projects in progress	9,218	18,844	54,010
Total	$106,479	$98,246	$93,230

Significant additions to capital assets, specifically equipment and projects in progress, occurred in fiscal year 2015. These additions were from the purchase of instructional and operational equipment primarily through funding generated from Technology Access Fees and completion of capital projects—Macon New Library, Macon New Academic building, and Replace Campus.

At June 30, 2015, outstanding commitments under construction contracts totaled $5,134,246.80 for various renovations and repairs of buildings and infrastructure. Future state capital outlay appropriations will fund $677,054.72 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 $1,853,712.68; $2,085,740.55; and $2,348,420.48 in debt outstanding at June 30, 2015; June 30, 2014; and June 30, 2013, respectively. The table below summarizes these amounts by type of debt instrument.

Schedule of Outstanding Debt
(in thousands of dollars)

	2015	2014	2013
TSSBA bonds	$ 1,853	$ 2,086	$ 2,348
Total debt	$ 1,853	$ 2,086	$ 2,348

The Tennessee State School Bond Authority (TSSBA) issued bonds with interest rates ranging from 0.35% to 5.0% 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 $1,853,712.68 outstanding at June 30, 2015, is $286,311.12.

The ratings on debt issued by the TSSBA at June 30, 2015, 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 economic position of Southwest Tennessee Community College is closely tied to that of the State of Tennessee. State appropriations are the second largest source of funding. Changes in the state's economy may cause additional changes in appropriations received.

The Tennessee Higher Education Commission (THEC) has implemented an outcomes-based funding formula for higher education to comply with state law effective January 2010. The funding formula is based on student progression toward an academic degree; the number of degrees conferred each academic year; and a six-year graduation rate. The college continues to execute on its strategic plan, which is focused on student success and aligns with the outcomes-based funding model.

The Tennessee Promise program began in fall 2015 and offers two years of community or technical college tuition-free. In support of the Tennessee Promise program and efforts by the college, fall 2015 full-time enrollment increased. Tennessee Promise 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, 2015, and June 30, 2014

	Southwest Tennessee Community College		Component Unit - Southwest Tennessee Community College Foundation	
	June 30, 2015	June 30, 2014	June 30, 2015	June 30, 2014
Assets				
Current assets:				
Cash and cash equivalents (Notes 2, 3 and 17)	$ 20,725,168.51	$ 26,232,396.71	$ 1,618,198.01	$ 940,681.85
Accounts, notes, and grants receivable (net) (Note 4)	8,443,207.93	9,298,841.15	-	-
Due from primary government	-	21,400.00	407,040.27	-
Due from component unit	-	724,024.36	-	-
Pledges receivable (net) (Note 17)	-	-	59,108.25	289,408.24
Inventories (at lower of cost or market)	56,695.90	76,862.71	-	-
Prepaid expenses	183,541.77	145,134.49	-	-
Total current assets	29,408,614.11	36,498,659.42	2,084,346.53	1,230,090.09
Noncurrent assets:				
Cash and cash equivalents (Notes 2, 3 and 17)	48,033,357.32	49,921,523.60	863,430.69	851,761.04
Investments (Notes 17)	-	-	2,508,593.35	2,457,993.75
Pledges receivable (net) (Note 17)	-	-	14,700.00	49,000.00
Capital assets (net) (Notes 5 and 17)	106,479,016.58	98,246,053.46	127,943.60	595,654.19
Total noncurrent assets	154,512,373.90	148,167,577.06	3,514,667.64	3,954,408.98
Total assets	183,920,988.01	184,666,236.48	5,599,014.17	5,184,499.07
Deferred outflows of resources				
Deferred amount on debt refunding (Note 7)	104,024.04	-	-	-
Deferred outflows related to pensions	2,352,882.30	-	-	-
Total deferred outflows of resources	2,456,906.34	-	-	-
Liabilities				
Current liabilities:				
Accounts payable (Note 6)	3,214,788.69	1,795,661.47	3,904.75	22,961.29
Accrued liabilities	1,528,959.68	2,971,115.41	-	-
Due to primary government	-	-	-	724,024.36
Due to component unit	407,040.27	-	-	-
Unearned revenue	2,310,196.73	2,252,642.20	-	-
Compensated absences (Note 7)	494,968.28	518,143.52	-	-
Accrued interest payable	12,808.38	17,201.80	-	-
Long-term liabilities, current portion (Note 7)	286,311.12	254,469.90	-	-
Deposits held in custody for others	3,974,291.39	7,776,262.66	-	-
Total current liabilities	12,229,364.54	15,585,496.96	3,904.75	746,985.65
Noncurrent liabilities:				
Net OPEB obligation (Note 10)	6,470,244.69	6,178,387.90	-	-
Net pension liability (Note 9)	4,102,286.00	-	-	-
Compensated absences (Note 7)	1,561,309.93	1,640,436.55	-	-
Long-term liabilities (Note 7)	1,567,401.56	1,831,270.65	-	-
Other liabilities	88,091.74	87,710.39	-	-
Total noncurrent liabilities	13,789,333.92	9,737,805.49	-	-
Total liabilities	26,018,698.46	25,323,302.45	3,904.75	746,985.65
Deferred inflows of resources				
Deferred inflows related to pensions	5,910,756.00	-	-	-
Total deferred inflows of resources	5,910,756.00	-	-	-
Net position				
Net investment in capital assets	106,069,056.80	97,719,451.57	127,943.60	595,654.19
Restricted for:				
Nonexpendable:				
Scholarships and fellowships	-	-	1,357,498.16	1,345,578.51
Expendable:				
Scholarships and fellowships	719,858.22	605,034.87	798,462.32	919,830.68
Instructional department uses	882,142.43	816,264.41	-	-
Other	1,092,902.01	1,159,613.15	3,435,946.26	1,244,135.48
Unrestricted	45,684,480.43	59,042,570.03	(124,740.92)	332,314.56
Total net position	$ 154,448,439.89	$ 159,342,934.03	$ 5,595,109.42	$ 4,437,513.42

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, 2015, and June 30, 2014

	Southwest Tennessee Community College		Component Unit - Southwest Tennessee Community College Foundation	
	Year Ended June 30, 2015	Year Ended June 30, 2014	Year Ended June 30, 2015	Year Ended June 30, 2014
Revenues				
Operating revenues:				
Student tuition and fees (net of scholarship allowances of $16,148,393.72 for the year ended June 30, 2015, and $15,368,250.75 for the year ended June 30, 2014)	$ 19,334,600.02	$ 20,412,903.58	$ -	$ -
Gifts and contributions	-	-	2,231,985.70	1,500,948.21
Governmental grants and contracts	4,927,802.12	5,606,167.30	-	-
Nongovernmental grants and contracts	233,244.79	256,859.75	-	-
Sales and services of educational activities	93,852.35	281,668.19	-	-
Sales and services of other activities	393,845.37	151,312.15	-	-
Auxiliary enterprises:				
Bookstore	422,338.31	509,067.24	-	-
Food service	449,493.79	371,977.14	-	-
Other operating revenues	247,524.90	173,883.85	-	-
Total operating revenues	26,102,701.65	27,763,839.20	2,231,985.70	1,500,948.21
Expenses				
Operating expenses (Note 13):				
Salaries and wages	31,159,213.87	33,085,887.74	-	-
Benefits	9,487,153.91	12,250,312.76	-	-
Utilities, supplies, and other services	17,916,518.90	16,240,859.60	379,997.63	61,524.67
Scholarships and fellowships	15,381,529.98	17,712,919.03	135,260.96	203,377.06
Depreciation expense	3,442,842.77	3,897,858.87	-	-
Payments to or on behalf of Southwest Tennessee Community College (Note 17)	-	-	643,903.59	41,900.00
Total operating expenses	77,387,259.43	83,187,838.00	1,159,162.18	306,801.73
Operating income (loss)	(51,284,557.78)	(55,423,998.80)	1,072,823.52	1,194,146.48
Nonoperating revenues (expenses)				
State appropriations	24,977,512.50	27,812,072.50	-	-
Gifts, including $603,000 for the year ended June 30, 2015, and $7,900 for the year ended June 30, 2014, from component unit	695,431.71	86,291.28	-	-
Grants and contracts	28,863,316.47	29,182,046.96	-	-
Investment income	57,728.37	71,053.48	72,852.83	274,843.25
Interest on capital asset-related debt	19,212.21	(110,494.67)	-	-
Other nonoperating revenues	10,007.46	47,540.45	-	-
Total nonoperating revenues	54,623,208.72	57,088,510.00	72,852.83	274,843.25
Income before other revenues, expenses, gains, or losses	3,338,650.94	1,664,511.20	1,145,676.35	1,468,989.73
Capital appropriations	1,127,805.33	9,504,770.36	-	-
Capital grants and gifts, including $40,903.59 for the year ended June 30, 2015, and $34,000 for the year ended June 30, 2014, from component unit	40,903.59	34,000.00	-	-
Additions to permanent endowments	-	-	11,919.65	4,545.68
Total other revenues	1,168,708.92	9,538,770.36	11,919.65	4,545.68
Increase in net position	4,507,359.86	11,203,281.56	1,157,596.00	1,473,535.41
Net position - beginning of year, as originally reported	159,342,934.03	148,139,652.47	4,437,513.42	2,963,978.01
Cumulative effect of change in accounting principle (Note 15)	(9,401,854.00)	-	-	-
Net position - beginning of year restated	149,941,080.03	148,139,652.47	4,437,513.42	2,963,978.01
Net position - end of year	$ 154,448,439.89	$ 159,342,934.03	$ 5,595,109.42	$ 4,437,513.42

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, 2015, and June 30, 2014

	Year Ended June 30, 2015	Year Ended June 30, 2014
Cash flows from operating activities		
Tuition and fees	$ 21,075,283.35	$ 21,197,499.84
Grants and contracts	4,423,551.01	4,523,528.90
Sales and services of educational activities	93,852.35	281,668.19
Sales and services of other activities	393,845.37	151,312.15
Payments to suppliers and vendors	(15,501,906.66)	(14,390,312.98)
Payments to employees	(31,159,213.87)	(33,085,887.74)
Payments for benefits	(12,419,636.51)	(11,890,071.61)
Payments for scholarships and fellowships	(15,381,529.98)	(17,712,919.03)
Auxiliary enterprise charges:		
Bookstore	422,338.31	558,420.43
Food services	476,833.25	323,544.31
Other receipts (payments)	247,906.25	261,594.24
Net cash provided by (used for) operating activities	(47,328,677.13)	(49,781,623.30)
Cash flows from noncapital financing activities		
State appropriations	24,937,100.00	27,760,700.00
Gifts and grants received for other than capital or endowment purposes, including $603,000 for year ended June 30, 2015, and $7,900 for year ended June 30, 2014, from Southwest Tennessee Community College Foundation	29,558,748.18	29,260,438.24
Changes in deposits held for others	(3,802,074.14)	4,174,856.63
Other non-capital receipts (payments)	10,007.46	47,540.45
Net cash provided by (used for) noncapital financing activities	50,703,781.50	61,243,535.32
Cash flows from capital and related financing activities		
Purchases of capital assets and construction	(10,578,222.35)	(7,166,494.96)
Principal paid on capital debt	(232,027.87)	(244,875.78)
Interest paid on capital debt	(17,977.00)	(112,185.25)
Net cash provided by (used for) capital and related financing activities	(10,828,227.22)	(7,523,555.99)
Cash flows from investing activities		
Income on investments	57,728.37	71,053.48
Net cash provided by (used for) investing activities	57,728.37	71,053.48
Net increase (decrease) in cash and cash equivalents	(7,395,394.48)	4,009,409.51
Cash and cash equivalents - beginning of year	76,153,920.31	72,144,510.80
Cash and cash equivalents - end of year	$ 68,758,525.83	$ 76,153,920.31

Tennessee Board of Regents
SOUTHWEST TENNESSEE COMMUNITY COLLEGE
Statements of Cash Flows (continued)
For the Years Ended June 30, 2015, and June 30, 2014

Reconciliation of operating gain (loss) to net cash provided (used) by operating activities:		
Operating gain (loss)	$ (51,284,557.78)	$ (55,423,998.80)
Adjustments to reconcile operating gain (loss) to net cash provided (used) by operating activities:		
Depreciation expense	3,442,842.77	3,897,858.87
Pension expense	611,188.00	-
Other adjustments	61,812.50	56,456.32
Change in assets and liabilities:		
Receivables, net	855,633.22	(726,534.42)
Inventories	20,166.81	(17,802.34)
Prepaid items	685,617.08	1,636,208.60
Other assets		
Deferred outflows of resources related to pensions	(2,352,882.30)	-
Accounts payable	1,826,167.49	343,289.02
Accrued liabilities	(1,150,298.94)	186,696.40
Unearned revenues	57,554.53	56,520.41
Compensated absences	(102,301.86)	121,972.25
Other	381.35	87,710.39
Net cash provided (used) by operating activities	$ (47,328,677.13)	$ (49,781,623.30)
Noncash investing, capital, or financing transactions		
Gifts in-kind - capital	$ 40,903.59	$ 34,000.00
Capital - state appropriations	$ 1,127,805.33	$ 9,504,770.36
Purchases of capital assets and constructions	$ 1,127,805.33	$ 9,504,770.36

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 17 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 internal activity has 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.

Cash Equivalents

This classification includes instruments that are readily convertible to known amounts of cash and have original maturities of three months or less.

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, works of art, historical treasures/collections, 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. The capitalization threshold for art, historical treasures/collections, and similar assets is set at $5,000.

These assets, with the exception of works of art and historical treasures/collections deemed inexhaustible and land, are depreciated/amortized using the straight-line method over the estimated useful lives, which range from 5 to 60 years.

Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Closed State and Higher Education Employee Pension Plan and the State and Higher Education Employee Retirement Plan in the Tennessee Consolidated Retirement System (TCRS) and additions to/deductions from the plans' fiduciary net positions have been determined on the same basis as they are reported by the TCRS. For this purpose, benefits (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms of the Closed State and Higher Education Employee Pension Plan and the State and Higher Education Employee Retirement Plan. Investments are reported at fair value.

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 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; sales and services of 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.

Note 2. Cash

This classification includes demand deposits and petty cash on hand. At June 30, 2015, cash consisted of $421,695.15 in bank accounts, $10,000.00 of petty cash on hand, $62,828,201.48 in the Local Government Investment Pool (LGIP) administered by the State Treasurer, and $5,498,629.20 in LGIP deposits for capital projects. At June 30, 2014, cash consisted of $4,155,939.91 in bank accounts, $10,000.00 of petty cash on hand, $60,622,868.77 in the LGIP, and $11,365,111.63 in LGIP deposits for capital projects.

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 a AAA long-term debt rating by a majority of the rating services that have rated the issuer. Prime bankers' acceptances are required to be eligible for purchase by the Federal Reserve System. To be eligible, the original maturity must not be more than 270 days, and it must 1) arise out of the current shipment of goods between countries or with the United States, or 2) arise out of storage within the United States of goods 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 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, 2015, and June 30, 2014, the college's investments consisted entirely of investments in the Local Government Investment Pool. The fair value of these investments was $68,326,830.68 at June 30, 2015, and $71,987,980.40 at June 30, 2014. LGIP investments are not rated by nationally recognized statistical ratings organizations.

Note 4. Receivables

Receivables included the following:

	June 30, 2015	June 30, 2014
Student accounts receivable	$ 6,363,478.24	$ 8,564,854.63
Grants receivable	3,505,689.11	2,761,502.71
Other receivables	254,251.76	115,517.22
Subtotal	10,123,419.11	11,441,874.56
Less allowance for doubtful accounts	(1,680,211.18)	(2,143,033.41)
Total receivables	$ 8,443,207.93	$ 9,298,841.15

Federal Perkins Loan Program funds included the following:

	June 30, 2015	June 30, 2014
Perkins loans receivable	$ 134,403.71	$ 209,883.48
Less allowance for doubtful accounts	(134,403.71)	(209,883.48)
Total	$ -	$ -

Note 5. Capital Assets

Capital asset activity for the year ended June 30, 2015, was as follows:

	Beginning Balance	Additions	Transfers	Reductions	Ending Balance
Land	$ 13,288,001.51	$ 600,000.00	$ -	$ -	$ 13,888,001.51
Land improvements and infrastructure	7,041,286.61	-	541,157.62	-	7,582,444.23
Buildings	89,188,518.73	-	15,930,113.41	-	105,118,632.14
Equipment	14,745,651.76	2,419,937.80	1,546,854.02	361,090.79	18,351,352.79
Library holdings	1,153,879.42	158,425.47	-	137,595.23	1,174,709.66
Intangible assets	3,522,223.14	136,151.94	-	1,203,392.87	2,454,982.21
Projects in progress	18,844,141.55	8,391,512.47	(18,018,125.05)	-	9,217,528.97
Total	147,783,702.72	11,706,027.68	-	1,702,078.89	157,787,651.51
Less accumulated depreciation/amortization:					
Land improvements and infrastructure	4,519,986.76	292,816.05	-	-	4,812,802.81
Buildings	34,084,193.16	1,287,119.99	-	-	35,371,313.15
Equipment	7,898,667.02	1,365,838.75	-	330,869.00	8,933,636.77
Library holdings	588,238.60	131,230.50	-	137,595.23	581,873.87
Intangible assets	2,446,563.72	365,837.48	-	1,203,392.87	1,609,008.33
Total	49,537,649.26	3,442,842.77	-	1,671,857.10	51,308,634.93
Capital assets, net	$ 98,246,053.46	$ 8,263,184.91	$ -	$ 30,221.79	$ 106,479,016.58

The decrease in building depreciation expense for the current period is due to a change in accounting estimate. During fiscal year 2015, it was determined that buildings were more appropriately depreciated over a period of 60 years, instead of the 40 years previously used. This change resulted in a reduction of depreciation expense of $1,085,852.69.

Capital asset activity for the year ended June 30, 2014, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance
Land	$ 13,288,001.51	$ -	$ -	$ 13,288,001.51
Land improvements and infrastructure	7,024,868.31	16,418.30	-	7,041,286.61
Buildings	89,188,518.73	-	-	89,188,518.73
Equipment	12,646,914.74	2,646,534.57	547,797.55	14,745,651.76
Library holdings	1,244,661.33	125,063.72	215,845.63	1,153,879.42
Intangible assets	3,357,786.34	164,436.80	-	3,522,223.14
Projects in progress	5,108,911.32	13,853,272.45	118,042.22	18,844,141.55
Total	131,859,662.28	16,805,725.84	881,685.40	147,783,702.72
Less accumulated depreciation/amortization:				
Land improvements and infrastructure	4,254,228.59	265,758.17	-	4,519,986.76
Buildings	31,873,857.76	2,210,335.40	-	34,084,193.16
Equipment	7,511,084.98	932,570.45	544,988.41	7,898,667.02
Library holdings	672,111.70	136,972.53	220,845.63	588,238.60
Intangible assets	2,094,341.40	352,222.32	-	2,446,563.72
Total	46,405,624.43	3,897,858.87	765,834.04	49,537,649.26
Capital assets, net	$ 85,454,037.85	$ 12,907,866.97	$ 115,851.36	$ 98,246,053.46

Note 6. Accounts Payable

Accounts payable included the following:

	June 30, 2015	June 30, 2014
Vendors payable	$ 1,108,269.10	$ 904,537.10
Other payables	2,106,519.59	891,124.37
Total accounts payable	$ 3,214,788.69	$ 1,795,661.47

Note 7. Long-term Liabilities

Long-term liabilities activity for the year ended June 30, 2015, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Payables:					
TSSBA debt:					
Bonds	$ 2,003,306.44	$ 1,344,073.25	$ 1,591,991.52	$ 1,755,388.17	$ 286,311.12
Unamortized bond premium/discount	82,434.11	192,206.78	176,316.38	98,324.51	-
Subtotal	2,085,740.55	1,536,280.03	1,768,307.90	1,853,712.68	286,311.12
Other liabilities:					
Compensated absences	2,158,580.07	1,378,548.28	1,480,850.14	2,056,278.21	494,968.28
Subtotal	2,158,580.07	1,378,548.28	1,480,850.14	2,056,278.21	494,968.28
Total long-term liabilities	$ 4,244,320.62	$ 2,914,828.31	$ 3,249,158.04	$ 3,909,990.89	$ 781,279.40

Long-term liabilities activity for the year ended June 30, 2014, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Payables:					
TSSBA debt					
Bonds	$ 2,248,182.22	$ -	$ 244,875.78	$ 2,003,306.44	$ 254,469.90
Unamortized bond premium/discount	100,238.26	-	17,804.15	82,434.11	-
Subtotal	2,348,420.48	-	262,679.93	2,085,740.55	254,469.90
Other liabilities:					
Compensated absences	2,036,607.82	1,418,361.13	1,296,388.88	2,158,580.07	518,143.52
Subtotal	2,036,607.82	1,418,361.13	1,296,388.88	2,158,580.07	518,143.52
Total long-term liabilities	$ 4,385,028.30	$ 1,418,361.13	$ 1,559,068.81	$ 4,244,320.62	$ 772,613.42

TSSBA Debt – Bonds

Bonds, with interest rates ranging from 0.35% 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, 2015, and $199,448.30 at June 30, 2014.

Debt service requirements to maturity for the college's portion of TSSBA bonds at June 30, 2015, are as follows:

Year Ending June 30	Principal	Interest	Total
2016	$ 286,311.12	$ 76,217.48	$ 362,528.60
2017	273,996.25	68,427.87	342,424.12
2018	262,428.06	61,870.23	324,298.29
2019	-	54,741.98	54,741.98
2020	165,718.71	42,489.67	208,208.38
2021 – 2025	766,934.03	79,390.47	846,324.50
Total	$ 1,755,388.17	$ 383,137.70	$ 2,138,525.87

Refunding of Debt

On August 27, 2014, the state issued $1,344,073.25 in revenue bonds with interest rates ranging from 0.35% to 5% to advance refund $1,337,521.62 of outstanding 2005A and 2009A Series bonds with interest rates ranging from 3.5% to 5%. The net proceeds of $1,532,936.57 (after payment of $3,384.77 in underwriter's fees and issuance costs) were deposited with an escrow agent to provide for all future debt service payments on the bonds. As a result, the 2005A and 2009A Series bonds are considered to be defeased, and the liability for those bonds has been removed from the college's long-term liabilities.

Although the advance refunding resulted in the recognition of a deferred loss of $115,906.88 to be amortized over the next 10 years, the college in effect reduced its aggregate debt service payments by $72,418.34 over the next 10 years and obtained an economic gain (difference between the present values of the old and new debt service payments) of $50,407.55.

Note 8. Pledged Revenues

The college has pledged certain revenues and fees, including state appropriations, to repay $1,755,388.17 in revenue bonds issued from April 2009 to August 2014 (see Note 7 for further detail). Proceeds from the bonds provided financing for Property Acquisition I, Property Acquisition II, and Energy Saving 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, 2015, is $2,138,525.87. Principal and interest paid for fiscal year 2015 and total available revenues were $326,265.12 and $61,722,138.27, respectively. Principal and interest paid for fiscal year 2014 and total available revenues were $355,370.45 and $64,690,188.66, respectively. The amount of principal and interest paid for the current year does not include debt of $1,337,521.62 defeased through a bond refunding in the current year.

Note 9. Pension Plans

<u>Defined Benefit Plans</u>

Closed State and Higher Education Employee Pension Plan

General Information About the Pension Plan

<u>Plan description</u> – State employees and higher education employees with membership in the Tennessee Consolidated Retirement System (TCRS) before July 1, 2014, are provided with pensions through the Closed State and Higher Education Employee Pension Plan. This plan is a component of the Public Employee Retirement Plan, an agent, multiple-employer defined benefit pension plan. The Closed State and Higher Education Employee Pension Plan stopped accepting new membership on June 30, 2014, but will continue providing benefits to existing members and retirees. Beginning July 1, 2014, a new agent defined benefit retirement plan, the State and Higher Education Employee Retirement Plan, became effective for state employees and higher education employees hired on or after July 1, 2014.

The TCRS was created by state statute under Title 8, Chapters 34-37, *Tennessee Code Annotated*. The TCRS Board of Trustees is responsible for the proper operation and administration of all employer pension plans in the TCRS. The Tennessee Treasury Department, an agency in the legislative branch of state government, administers the plans of the TCRS. The TCRS issues a publicly available financial report that can be obtained at www.treasury.tn.gov/tcrs.

<u>Benefits provided</u> – Title 8, Chapters 34-37, *Tennessee Code Annotated*, establishes the benefit terms and can be amended only by the Tennessee General Assembly. Members of the Closed State and Higher Education Employee Pension Plan are eligible to retire with an unreduced benefit at age 60 with 5 years of service credit or after 30 years of service credit regardless of age. Benefits are determined using the following formula:

Average of member’s highest compensation for 5 consecutive years (up to Social Security integration level)	x	1.50%	X	Years of Service Credit	x	105%

Plus:

Average of member’s highest compensation for 5 consecutive years (over the Social Security integration level)	x	1.75%	X	Years of Service Credit	x	105%

A reduced early retirement benefit is available at age 55 and vested. Members are vested with five years of service credit. Service-related disability benefits are provided regardless of length of service. Five years of service is required for non-service-related disability eligibility. The service-related and non-service-related disability benefits are determined in the same manner as a service retirement benefit but are reduced 10% and include projected service credits. A variety of death benefits are available under various eligibility criteria. Member and beneficiary annuitants are entitled to automatic cost-of-living adjustments (COLAs) after retirement. A COLA is granted each July for annuitants retired prior to July 2 of the previous year. The COLA is based on the change in the consumer price index (CPI) during the prior calendar year, capped at 3%, and applied to the current benefit. No COLA is granted if the change in the CPI is less than 0.5%. A 1% COLA is granted if the CPI change is between 0.5% and 1%. A member who leaves employment may withdraw employee contributions, plus any accumulated interest.

Contributions – Contributions for state employees and higher education employees are established in the statutes governing the TCRS and may only be changed by the Tennessee General Assembly. The college's employees are non-contributory, as are most members in the Closed State and Higher Education Employee Pension Plan. State and higher education agencies make employer contributions at the rate set by the Board of Trustees as determined by an actuarial valuation. By law, employer contributions for the Closed State and Higher Education Employee Pension Plan are required to be paid. Employer contributions by the college for the year ended June 30, 2015, to the Closed State and Higher Education Employee Pension Plan were $2,341,607.47, which is 15.03% of covered payroll. The employer rate is expected to finance the costs of benefits earned by members during the year and the cost of administration, as well as an amortized portion of any unfunded liability.

Pension Liabilities (Assets), Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

Pension liability – At June 30, 2015, the college reported a liability of $4,102,286 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The college's proportion of the net pension liability was based on a projection of the college's contributions during the year ended June 30, 2014, to the pension plan relative to the contributions of all participating state and higher education agencies. At the June 30, 2014, measurement date, the college's proportion was 0.594578%, representing the first-time presentation of this proportion.

Pension expense – For the year ended June 30, 2015, the college recognized a pension expense of $611,188.

Deferred outflows of resources and deferred inflows of resources – For the year ended June 30, 2015, the college reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ -	$ 884,977
Net difference between projected and actual earnings on pension plan investments	-	5,025,779
Southwest Tennessee Community College's contributions subsequent to the measurement date of June 30, 2014	2,341,607.47	-
Total	$ 2,341,607.47	$ 5,910,756

Deferred outflows of resources, resulting from the college's employer contributions of $2,341,607.47 subsequent to the measurement date, will be recognized as a decrease in net pension liability in the year ending June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended June 30	
2016	$ (1,477,689)
2017	(1,477,689)
2018	(1,477,689)
2019	(1,477,689)
2020	-
Thereafter	-

In the table above, positive amounts will increase pension expense, while negative amounts will decrease pension expense.

Actuarial assumptions – The total pension liability as of June 30, 2014, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.0%
Salary increases	Graded salary ranges from 8.97% to 3.71% based on age, including inflation, averaging 4.25%
Investment rate of return	7.5%, net of pension plan investment expenses, including inflation
Cost-of-living adjustment	2.5%

Mortality rates were based on actual experience from the June 30, 2012, actuarial experience study adjusted for some of the expected future improvement in life expectancy.

The actuarial assumptions used in the June 30, 2014, actuarial valuation were based on the results of an actuarial experience study performed for the period July 1, 2008, through June 30, 2012. The demographic assumptions were adjusted to more closely reflect actual and expected future experience.

The long-term expected rate of return on pension plan investments was established by the TCRS Board of Trustees in conjunction with the June 30, 2012, actuarial experience study by considering the following three techniques: 1) the 25-year historical return of the TCRS at June 30, 2012; 2) the historical market returns of asset classes from 1926 to 2012 using the TCRS investment policy asset allocation; and 3) capital market projections that were utilized as a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. Four sources of capital market projections were blended and utilized in the third technique. The blended capital market projection established the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding inflation of 3%. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Long-term Expected Real Rate of Return	Target Allocation
U.S. equity	6.46%	33%
Developed market international equity	6.26%	17%
Emerging market international equity	6.40%	5%
Private equity and strategic lending	4.61%	8%
U.S. fixed income	0.98%	29%
Real estate	4.73%	7%
Short-term securities	0.00%	1%
		100%

The long-term expected rate of return on pension plan investments was established by the TCRS Board of Trustees as 7.5% based on a blending of the three factors described above.

Discount rate – The discount rate used to measure the total pension liability was 7.5%. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current rate and that contributions from all state and higher education agencies will be made at the actuarially determined contribution rate in accordance with the funding policy of the TCRS Board of Trustees and as required to be paid by state statute. Based on those assumptions, the pension plan’s fiduciary net position was projected to be available to make projected future benefit payments of current active and inactive members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the net pension liability to changes in the discount rate – The following presents the college’s proportionate share of the net pension liability calculated using the discount rate of

7.5%, as well as what the college's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (6.5%) or 1 percentage point higher (8.5%) than the current rate:

	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
College's net pension liability	$14,070,364	$4,102,286	$(4,288,237)

Pension plan fiduciary net position – Detailed information about the pension plan's fiduciary net position is available in a separately issued TCRS financial report at www.treasury.tn.gov/tcrs.

Payable to the Pension Plan

At June 30, 2015, the college did not have any outstanding legally required contributions to the pension plan for the year ended June 30, 2015.

State and Higher Education Employee Retirement Plan

General Information About the Pension Plan

Plan description – State employees and higher education employees with membership in the Tennessee Consolidated Retirement System (TCRS) before July 1, 2014, are provided with pensions through the Closed State and Higher Education Employee Pension Plan, an agent plan within the Public Employee Retirement Plan administered by the TCRS. TCRS is a multiple-employer pension plan. The Closed State and Higher Education Pension Plan was closed effective June 30, 2014, and covers employees hired before July 1, 2014. Employees hired after June 30, 2014, are provided with pensions through a legally separate plan referred to as the State and Higher Education Employee Retirement Plan, an agent plan within the Public Employee Retirement Plan administered by the TCRS. The TCRS was created by state statute under Title 8, Chapters 34-37, *Tennessee Code Annotated*.

Benefits provided – Title 8, Chapters 34-37, *Tennessee Code Annotated*, establishes the benefit terms and can be amended only by the Tennessee General Assembly. Members of the State and Higher Education Employee Retirement Plan are eligible to retire at age 65 with 5 years of service credit or pursuant to the rule of 90 in which the member's age and service credit total 90. Members are entitled to receive unreduced service retirement benefits, which are determined by a formula using the member's highest five consecutive year average compensation and the member's years of service credit. Service-related disability benefits are provided regardless of length of service. Five years of service is required for non-service-related disability eligibility. The service-related and non-service-related disability benefits are determined in the same manner as a service retirement benefit but are reduced 10% and include projected service credits. A variety of death benefits are available under various eligibility criteria. Member and beneficiary annuitants are entitled to automatic cost-of-living adjustments (COLAs) after retirement. A COLA is granted each July for annuitants retired prior to July 2 of the previous year. The COLA is based on the change in the consumer price index (CPI) during the prior calendar year, capped at 3%, and applied to the current benefit. No COLA is granted if the change in the CPI is less than 0.5%. A 1% COLA is granted if the CPI change is between 0.5% and 1%. A member who leaves employment may withdraw employee contributions, plus any accumulated interest. Under the State and Higher Education Employee Retirement Plan, benefit terms and conditions, including COLAs, can be adjusted on a prospective basis. Moreover, there are defined cost controls and unfunded liability controls that provide for the adjustment of benefit terms and conditions on an automatic basis.

Contributions – Contributions for state and higher education employees are established in the statutes governing the TCRS and may only be changed by the Tennessee General Assembly. Employees contribute 5% of their salary. The higher education institutions make employer contributions at the rate set by the Board of Trustees as determined by an actuarial valuation. Per the statutory provisions governing the TCRS, the employer contribution rate cannot be less than 4% for all aggregate employee groups, except in years when the maximum funded level, approved by the TCRS Board of Trustees, is reached. By law, employer contributions for the State and Higher Education Employee Retirement Plan are required to be paid. Employer contributions by the college for the year ended June 30, 2015, to the State and Higher Education Employee Retirement Plan were $11,274.83, which is 3.87% of covered payroll. The employer rate, when combined with member contributions, is expected to finance the costs of benefits earned by members during the year and the cost of administration, as well as an amortized portion of any unfunded liability.

Pension Liabilities (Assets), Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

Pension liabilities – Since the measurement date is June 30, 2014, which is prior to the July 1, 2014, inception of the State and Higher Education Employee Retirement Plan, there is not a net pension liability to report at June 30, 2015.

Pension expense – Since the measurement date is June 30, 2014, the college did not recognize a pension expense at June 30, 2015.

Deferred outflows of resources and deferred inflows of resources – For the year ended June 30, 2015, the college reported deferred outflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Southwest Tennessee Community College's contributions subsequent to the measurement date of June 30, 2014	$11,274.83	-

The college's employer contributions of $11,274.83 reported as pension-related deferred outflows of resources, subsequent to the measurement date, will be recognized as a reduction in net pension liability in the year ending June 30, 2016.

Payable to the Pension Plan

At June 30, 2015, the college did not have any outstanding legally required contributions to the pension plan for the year ended June 30, 2015.

Defined Contribution Plans

Optional Retirement Plans

Plan description – The college contributes to the Optional Retirement Plan (ORP). The ORP, administered by the Tennessee Treasury Department, is a defined contribution plan. The ORP was established by state statute in Title 8, Chapter 35, Part 4, *Tennessee Code Annotated*. This statute also sets out the plan provisions. The plan provisions are amended by the Tennessee General Assembly. The ORP was designed to provide benefits at retirement to faculty and staff who are exempt from the overtime provision of the Fair Labor Standards Act and who waive membership in the TCRS. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings.

Funding policy – For employees employed prior to July 1, 2014, 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. For employees hired after June 30, 2014, plan members will contribute 5% to the ORP and the college will contribute 9% of the employee's base salary. The required contributions made to the ORP were $990,875.13 for the year ended June 30, 2015, and $1,129,698.00 for the year ended June 30, 2014. Contributions met the requirements for each year.

Members are immediately 100% vested in the employer contributions made pursuant to the ORP. The Treasury Department has selected three investment vendors who offer a variety of investment products in which members are responsible for selecting how the contributions are invested. Each member makes the decision when to reallocate future contributions or when to transfer funds from one investment product to another. Funds are held by the investment vendor in the name of the member, not in the name of the State of Tennessee. The State of Tennessee has no discretion over these funds other than to make the initial contributions. Accordingly, the State of Tennessee is not acting in a trustee capacity, nor does it have a fiduciary responsibility for the funds held by the investment vendors.

Deferred Compensation Plans

Employees are offered three deferred compensation plans. The college, through the State of Tennessee, provides two plans, one established pursuant to the Internal Revenue Code (IRC), Section 457, and the other pursuant to IRC, Section 401(k). The third plan is administered by the college and was established in accordance with IRC, Section 403(b). The plans are outsourced to third-party vendors, and the administrative costs assessed by the vendors of these plans are the responsibility of plan participants. Section 401(k), Section 403(b), and Section 457 plan assets remain the property of the contributing employees; therefore, they are not presented in the accompanying financial statements. IRC Sections 401(k), 403(b), and 457 establish participation, contribution, and withdrawal provisions for the plans. Participation in the 403(b) and the 457 plans are voluntary for employees. The college provides up to a $50 monthly employer match for employees who participate in the state's 401(k) plan. Employees hired before July 1, 2014, voluntarily participate in the state's 401(k) plan. Pursuant to Public Chapter No. 259 of *Public Acts of 2013*, employees hired after June 30, 2014, are automatically enrolled in the state's 401(k) plan and contribute 2% of their salary, with the employer contributing an additional non-matching 5%. Employees may opt out of the 2% auto enrollment. Such contribution rates may only be amended by the Tennessee General Assembly. There are certain automatic cost controls and unfunded liability controls in the defined benefit plan where the employees participate that may impact the non-matching 5% employer contribution to the 401(k) plan.

Employees are immediately vested in both the employee and employer contributions in all plans. The IRC establishes maximum limits that an employee can contribute to these plans. The employee may increase, decrease, or stop contributions at any time for all three plans.

During the year ended June 30, 2015, contributions totaling $628,737.35 were made by employees participating in the 401(k) plan, and the college recognized pension expense of $232,973.11 for employer contributions. During the year ended June 30, 2014, contributions totaling $589,515.27 were made by employees participating in the 401(k) plan, with contributions of $218,032.00 made by the college.

Note 10. Other Postemployment Benefits

Healthcare is the only "other postemployment benefit" (OPEB) provided to employees. The State of Tennessee administers a group health insurance program that provides postemployment health insurance benefits to eligible college retirees. This program includes two plans available to higher education employees—the State Employee Group Plan and the Medicare Supplement Plan. For accounting purposes, the plans are agent multiple-employer defined benefit OPEB plans. Benefits are established and amended by an insurance committee created by Section 8-27-201, *Tennessee Code Annotated*, for the State Employee Group Plan and Section 8-27-701, *Tennessee Code Annotated*, for the Medicare Supplement Plan. 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. 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

	2015	2014
Annual required contribution (ARC)	$ 872,000.00	$ 842,000.00
Interest on the net OPEB obligation	247,135.52	236,412.83
Adjustment to the ARC	(240,769.57)	(230,323.09)
Annual OPEB cost	878,365.95	848,089.74
Amount of contribution	(586,509.16)	(580,022.62)
Increase in net OPEB obligation	291,856.79	268,067.12
Net OPEB obligation – beginning of year	6,178,387.90	5,910,320.78
Net OPEB obligation – end of year	$6,470,244.69	$ 6,178,387.90

Year-end	Plan	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation at Year-end
June 30, 2015	State Employee Group Plan	$878,365.95	66.77%	$6,470,244.69
June 30, 2014	State Employee Group Plan	$848,089.74	68.39%	$6,178,387.90
June 30, 2013	State Employee Group Plan	$1,060,706.00	52.43%	$5,910,320.78

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, 2013
Actuarial accrued liability (AAL)	$8,590,000
Actuarial value of plan assets	-
Unfunded actuarial accrued liability (UAAL)	$8,590,000
Actuarial value of assets as a percentage of the AAL	0.00%
Covered payroll (active plan members)	$19,479,691
UAAL as percentage of covered payroll	44.1%

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, 2013, 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 healthcare cost trend rate of 7.5% initially. The rate decreased to 7.0% in fiscal year 2015 and then reduces by decrements to an ultimate rate of 4.19% in fiscal year 2044. All rates include a 2.5% inflation assumption. The unfunded actuarial accrued liability is being amortized as a level percentage of payroll on a closed basis over a 30-year period beginning with July 1, 2007. Payroll is assumed to grow at a rate of 3.0%.

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 (RMF). 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 RMF. For property coverage, the deductible for an individual state agency is the first $25,000 of losses. The RMF 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 RMF. 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, 2015, 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, 2015, the Risk Management Fund held $127.9 million in cash designated for payment of claims. At June 30, 2014, the Risk Management Fund held $116.3 million in cash designated for payment of claims.

At June 30, 2015, and June 30, 2014, the scheduled coverage for the college was $199,763,300 for buildings and $21,728,700 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 $12,451,662.93 at June 30, 2015, and $12,778,357.63 at June 30, 2014.

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 $434,198.06 and expenses for personal property were $280,217.19 for the year ended June 30, 2015. The amounts for the year ended June 30, 2014, were $462,028.88 and $216,103.98. All operating leases are cancelable at the lessee's option.

Construction in Progress

At June 30, 2015, outstanding commitments under construction contracts totaled $5,134,246.80 for the Union Campus Mechanical Systems updates; Master Plan; Union Campus Parking Structure; Whitehaven Center renovations; and ADA Improvements, of which $677,054.72 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, 2015, are as follows:

	Natural Classification					
Functional Classification	Salaries	Benefits	Other Operating	Scholarships	Depreciation	Total
Instruction	$15,910,668.65	$4,674,259.68	$ 4,164,544.23	$ -	$ -	$24,749,472.56
Public service	222,438.16	80,415.01	137,886.70	-	-	440,739.87
Academic support	3,576,981.03	1,027,760.75	2,703,421.22	-	-	7,308,163.00
Student services	4,064,804.01	1,340,642.52	2,108,291.98	-	-	7,513,738.51
Institutional support	5,919,241.74	1,826,371.22	3,065,298.97	-	-	10,810,911.93
Maintenance and operation	1,256,731.53	520,714.17	5,227,050.07	-	-	7,004,495.77
Scholarships and fellowships	-	-	-	15,381,529.98	-	15,381,529.98
Auxiliary	208,348.75	16,990.56	510,025.73	-	-	735,365.04
Depreciation	-	-	-	-	3,442,842.77	3,442,842.77
Total	$31,159,213.87	$9,487,153.91	$17,916,518.90	$15,381,529.98	$3,442,842.77	$77,387,259.43

The college's operating expenses for the year ended June 30, 2014, are as follows:

	Natural Classification					
Functional Classification	Salaries	Benefits	Other Operating	Scholarships	Depreciation	Total
Instruction	$17,805,365.18	$ 5,996,707.10	$ 4,744,428.41	$ -	$ -	$28,546,500.69
Public service	290,993.87	104,058.47	152,566.39	-	-	547,618.73
Academic support	3,696,332.90	1,315,930.96	2,319,406.80	-	-	7,331,670.66
Student services	3,980,206.75	1,698,210.14	2,127,870.14	-	-	7,806,287.03
Institutional support	5,992,682.34	2,501,995.25	2,544,389.31	-	-	11,039,066.90
Maintenance and operation	1,159,754.42	620,922.79	3,955,044.68	-	-	5,735,721.89
Scholarships and fellowships	-	-	-	17,712,919.03	-	17,712,919.03
Auxiliary	160,552.28	12,488.05	397,153.87	-	-	570,194.20
Depreciation	-	-	-	-	3,897,858.57	3,897,858.57
Total	$33,085,887.74	$12,250,312.76	$16,240,859.60	$17,712,919.03	$3,897,858.87	$83,187,838.00

Note 14. On-behalf Payments

During the year ended June 30, 2015, the State of Tennessee made payments of $61,812.50 on behalf of the college for retirees participating in the Medicare Supplement Plan. The amount for the year ended June 30, 2014, was $51,572.50. The Medicare Supplement Plan is a postemployment benefit healthcare plan and is discussed further in Note 10. The plan is reported in the *Tennessee Comprehensive Annual Financial Report*. That report is available on the state's website at www.tn.gov/finance/act/cafr.shtml.

Note 15. Cumulative Effect of a Change in Accounting Principle

During fiscal year 2015, the college implemented GASB Statement 68, *Accounting and Financial Reporting for Pensions*, and GASB Statement 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. These statements establish standards for the measurement, recognition, and display of the net pension liability and related expenses, deferred outflows of resources, deferred inflows of resources, note disclosures, and required supplementary information. The implementation of these statements resulted in a cumulative adjustment to beginning net position of $9,401,854. This cumulative adjustment does not include related deferred outflows and deferred inflows of resources.

Note 16. Prior Period Adjustment

The beginning balances at July 1, 2013, of capital assets and net investment in capital assets for the college were adjusted for $44,843,065.36 of buildings put into service during prior years but not transferred from projects in progress until the current period. Since the buildings were not transferred when put into service, depreciation of $4,014,815.34 was not taken over the years of the buildings use. An additional adjustment was made to the beginning balance of capital assets of $291,482.17 for demolition costs that should have been capitalized but were expensed.

Additionally, the beginning balance of expendable other net position for the foundation was restated to correct $36,411.28 of liabilities that were overstated in the prior year.

Note 17. Component Unit

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

During the year ended June 30, 2015, the foundation made distributions of $643,903.59 to or on behalf of the college for both restricted and unrestricted purposes. During the year ended June 30, 2014, the foundation made distributions of $41,900.00 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

In addition to demand deposits and petty cash on hand, this classification includes instruments that are readily convertible to known amounts of cash and that have original maturities of three months or less. At June 30, 2015, cash and cash equivalents consisted of $944,130.37 in bank accounts, $1,516,801.07 in the Local Government Investment Pool (LGIP) administered by the State Treasurer, and $20,697.26 in its Charles Schwab investment account. At June 30, 2014, cash and cash equivalents consisted of $197,842.38 in bank accounts, $1,568,378.70 in the LGIP, and $26,221.81 in its Charles Schwab investment account.

Deposits

At June 30, 2015, the foundation's bank balance was $944,130.37. Of that amount, $694,130.37 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. In accordance with GASB Statement 31, *Accounting and Financial Reporting for Certain Investments and External Investment Pools*, as amended, investments are reported at fair value, including those with a maturity date of one year at the time of purchase, unless otherwise noted.

Investments at June 30, 2015, were as follows:

Investment Type	
LGIP (amortized cost)	$1,516,801.07
Mutual equity funds	2,529,290.61
Less amounts reported as cash and cash equivalents	(1,537,498.33)
Total investments	$2,508,593.35

Investments at June 30, 2014, were as follows:

Investment Type	
LGIP (amortized cost)	$1,568,378.70
Mutual equity funds	2,484,215.56
Less amounts reported as cash and cash equivalents	(1,594,600.51)
Total investments	$2,457,993.75

Credit risk – Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The foundation has no investment policy limiting its investment choices based on ratings issued by nationally recognized statistical rating organizations.

The foundation's investments at June 30, 2015, and June 30, 2014, in the Local Government Investment Pool were unrated.

Pledges Receivable

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

	June 30, 2015	June 30, 2014
Current pledges	$ 60,314.54	$ 295,314.54
Pledges due in one to five years	15,000.00	50,000.00
Subtotal	75,314.54	345,314.54
Less discount to net present value	(1,506.29)	(6,906.30)
Total pledges receivable, net	$ 73,808.25	$ 338,408.24

Capital Assets

Capital asset activity for the year ended June 30, 2015, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance
Land	$595,654.19	$ 127,943.60	$ 595,654.19	$ 127,943.60
Capital assets, net	$595,654.19	$ 127,943.60	$ 595,654.19	$ 127,943.60

Capital asset activity for the year ended June 30, 2014, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance
Land	$ -	$ 595,654.19	$ -	$ 595,654.19
Capital assets, net	$ -	$ 595,654.19	$ -	$ 595,654.19

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, 2015, net appreciation of $70,706.90 is available to be spent, all of which is included in restricted net position expendable for scholarships and fellowships. At June 30, 2014, net appreciation of $76,597.10 is available to be spent, all of which is included in restricted net position expendable for scholarships and fellowships.

Tennessee Board of Regents

Southwest Tennessee Community College

Required Supplementary Information

Schedule of Southwest Tennessee Community College's Proportionate Share of the Net Pension Liability

Closed State and Higher Education Employee Pension Plan Within TCRS

	2014
College's proportion of the net pension liability	0.594578%
College's proportionate share of the net pension liability	$ 4,102,286.00
College's covered payroll	$ 16,243,397.24
College's proportionate share of the net pension liability as a percentage of its covered payroll	25.26%
Plan fiduciary net position as a percentage of the total pension liability	95.11%

1) To correspond with the measurement date, the amounts presented were determined as of June 30 of the prior fiscal year.

2) This is a 10-year schedule; however, the information in this schedule is not required to be presented retroactively. Years will be added to this schedule in future years until 10 years of information are available.

Tennessee Board of Regents
Southwest Tennessee Community College
Required Supplementary Information
Schedule of Southwest Tennessee Community College's Contributions
Closed State and Higher Education Employee Pension Plan Within TCRS

	Contractually Determined Contributions	Contributions in Relation to Contractually Determined Contribution	Contribution Deficiency (Excess)	Covered Payroll	Contributions as a Percentage of Covered Payroll
2015	$2,341,607.47	$2,341,607.47	-	$15,579,558.66	15.03%
2014	2,441,383.28	2,441,383.28	-	16,243,397.24	15.03%
2013	2,449,323.71	2,449,323.71	-	16,296,232.27	15.03%
2012	2,495,366.84	2,495,366.84	-	16,736,196.11	14.91%
2011	3,047,788.85	3,047,788.85	-	20,441,239.77	14.91%
2010	2,667,382.75	2,667,382.75	-	20,486,810.68	13.02%
2009	3,014,377.10	3,014,377.10	-	23,151,897.85	13.02%
2008	3,163,522.18	3,163,522.18	-	23,227,035.10	13.62%
2007	3,211,668.71	3,211,668.71	-	23,580,533.85	13.62%
2006	3,666,809.27	3,666,809.27	-	35,565,560.33	10.31%

Tennessee Board of Regents
Southwest Tennessee Community College
Required Supplementary Information
Schedule of Southwest Tennessee Community College's Contributions
State and Higher Education Employee Retirement Plan Within TCRS

	2015
Contractually determined contribution	$ 11,274.83
Contributions in relation to the contractually determined contribution	11,274.83
Contribution deficiency (excess)	$ -
Covered payroll	$ 291,340.17
Contributions as a percentage of covered payroll	3.87%

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

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, 2013	State Employee Group Plan	$ -	$8,590,000.00	$8,590,000.00	0%	$19,479,691.00	44.10%
July 1, 2011	State Employee Group Plan	$ -	$10,278,000.00	$10,278,000.00	0%	$21,859,910.00	47.02%
July 1, 2010	State Employee Group Plan	$ -	$12,779,000.00	$12,779,000.00	0%	$21,859,910.00	58.46%

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

Tennessee Board of Regents
SOUTHWEST TENNESSEE COMMUNITY COLLEGE
Supplementary Schedules of Cash Flows - Component Unit
For the Years Ended June 30, 2015, and June 30, 2014

	Year Ended June 30, 2015	Year Ended June 30, 2014
Cash flows from operating activities		
Gifts and contributions	$ 1,824,945.43	$ 1,170,573.93
Payments to suppliers and vendors	(880,325.58)	(788,358.32)
Payments for scholarships and fellowships	(154,317.50)	(248,336.36)
Payments to Southwest Tennessee Community College	(603,000.00)	(7,900.00)
Net cash provided by operating activities	187,302.35	125,979.25
Cash flows from noncapital financing activities		
Private gifts for endowment purposes	11,919.65	4,545.68
Net cash provided by noncapital financing activities	11,919.65	4,545.68
Cash flows from capital and related financing activities		
Proceeds from sale of capital assets	600,000.00	-
Purchases of capital assets and construction	(132,289.41)	-
Net cash provided by capital and related financing activities	467,710.59	-
Cash flows from investing activities		
Proceeds from sales and maturities of investments	390,220.01	1,469,946.81
Income on investments	18,583.55	18,176.17
Purchases of investments	(386,550.34)	(1,460,365.00)
Net cash provided by investing activities	22,253.22	27,757.98
Net increase in cash and cash equivalents	689,185.81	158,282.91
Cash and cash equivalents - beginning of year	1,792,442.89	1,634,159.98
Cash and cash equivalents - end of year	$ 2,481,628.70	$ 1,792,442.89
Reconciliation of operating gain to net cash provided by operating activities:		
Operating gain	$ 1,072,823.52	$ 1,194,146.48
Adjustments to reconcile operating gain to net cash provided by operating activities:		
Other adjustments	-	(750,000.00)
Changes in assets and liabilities:		
Receivables	264,600.00	453,625.72
Accounts payable	(743,080.90)	(771,792.95)
Other	(407,040.27)	-
Net cash provided by operating activities	$ 187,302.35	$ 125,979.25
Noncash investing, capital, or financing transactions		
Gifts in-kind - capital	$ (40,903.59)	$ (34,000.00)
Unrealized gains on investments	$ 54,269.28	$ 256,667.08

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 Flora Tydings, 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, 2015, and June 30, 2014, and the related notes to the financial statements, which collectively comprise the college's basic financial statements, and have issued our report thereon dated June 1, 2017. 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; 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 deficiencies to be material weaknesses:

- Management needs to improve procedures for preparing and reviewing financial statements to prevent errors.
- The college has not properly reported the costs associated with construction projects.

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:

- The college did not enroll new employees in the defined benefit portion of the state's retirement plan.
- Management did not approve employee timesheets prior to payroll preparation.
- The college does not have controls in place to ensure compliance with the requirements of the Federal Work Study program.
- The college did not prepare proper bank reconciliations.
- The college did not have adequate controls over credit cards.
- The college did not perform reconciliations between the Raiser's Edge, Banner Advancement, and Banner Finance systems.
- As noted in the prior audit, the 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*.

We did, however, note certain immaterial instances of noncompliance that we have included in the Findings and Recommendations section of this report.

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
June 1, 2017

Findings and Recommendations

1. <u>Management needs to improve procedures for preparing and reviewing financial statements to prevent errors</u>

<u>Condition</u>

As noted in the prior audit, Southwest Tennessee Community College's procedures for preparing its financial statements are not adequate to ensure the accuracy and proper classification of information.

<u>Criteria</u>

Management is responsible for the preparation and fair presentation of the college's and foundation's 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.

Section 9-18-102, *Tennessee Code Annotated*, states:

> (a) Each agency of state government and institution of higher education shall establish and maintain internal controls, which shall provide reasonable assurance that:
>
> (1) Obligations and costs are in compliance with applicable law;
>
> (2) Funds, property, and other assets are safeguarded against waste, loss, unauthorized use or misappropriation; and
>
> (3) Revenues and expenditures applicable to agency operations are properly recorded and accounted for to permit the preparation of accurate and reliable financial and statistical reports and to maintain accountability over the assets.

<u>Cause</u>

Management stated that the drive to meet financial reporting deadlines resulted in a lack of proper reviews of financial statements. It appears this desire to meet the reporting deadlines also resulted in a lack of attention necessary to ensure compliance with accounting principles. Management also stated that errors resulting from daily duties, such as entering journal entries, resulted from the college being severely understaffed for the required amount of work to be done on a daily basis. In addition, management stated being understaffed resulted in errors not being caught in the daily review process or in the review of the financial statements.

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 appears to be a contributing factor to the errors in the financial statements.

Management and staff appeared to lack adequate knowledge of all necessary governmental accounting and reporting principles. They appeared to be more focused on the college's and Tennessee Board of Regents' policies and procedures than accounting standards.

In addition, management did not adequately reconcile accounts. We noted the accounts payable subsidiary ledgers were not reconciled to the general ledger during the audit period, adequate bank reconciliations were not prepared and reviewed (see finding 6), and management has not been reconciling information entered into the foundation's Raiser's Edge system to Banner Advancement and/or Banner Finance (see finding 8). Adequate reconciliations are essential to fair presentation of the financial statements, as they help ensure that the information entered into the accounting system is accurate.

Effect

This weakness resulted in the following reporting errors:

- The allocation of cash between current and noncurrent on the statement of net position was incorrect for the college. Accounts payable for unexpended plant of $1,999,745 and the current portion of bonds payable due at year-end of $286,311 were excluded from the calculation of current cash, while the deferred loss on bond refunding of $144,915, which is not a cash item, was included. As a result, current cash was understated and noncurrent cash was overstated by $2,141,141 at June 30, 2015.
- Foundation revenue and pledges receivable were overstated by $270,000 for the year ended June 30, 2015. This also caused an overstatement in the allowance for doubtful accounts of $5,400 at June 30, 2015 (see finding 8).
    - Pledges receivable and revenue were recorded in fiscal year 2014 for two pledges for $200,000 and $25,000. When the payments were received in fiscal year 2015, the receivables were not reversed and revenue was recorded again.
    - A pledge receivable of $20,000 was created in an incorrect account during fiscal year 2014 and revenue was recorded. When the payment was received in 2015, it was recorded to the correct account, so the receivable was not credited, and revenue was recorded a second time.
    - A pledge receivable and revenue were recorded in fiscal year 2014 for $50,000. A payment of $25,000 was made on the pledge during fiscal year 2015; however, the receivable was not credited and revenue was recorded again for the amount received.
- Net capital assets and invested in capital assets were understated by $587,328 at June 30, 2015, and June 30, 2014, because although management did not record accrued

liabilities at June 30, 2013, they reversed the liability during the year ended June 30, 2014. As a result, when the project costs were appropriately recorded during the year ended June 30, 2014, they were netted against the reversal of the liability.

- The college did not transfer buildings from projects in progress when completed. As a result, the buildings have not been properly depreciated in the accounting system since completion. These errors resulted in an understatement of buildings of $15,930,113, equipment of $27,372, and accumulated depreciation of $5,474,071 at June 30, 2015; and an understatement of depreciation expense of $310,806 for the year ended June 30, 2015. These errors also caused an understatement of buildings of $44,843,065, equipment of $27,372, and accumulated depreciation of $5,163,265 at June 30, 2014, and an understatement of depreciation expense of $1,126,552 for the year ended June 30, 2014 (see finding 2).

- Expenses during previous fiscal years were understated by $4,341,153 and utilities, supplies, and other services were overstated for the year ended June 30, 2015, by $2,522,039. The error occurred because the college did not expense non-capitalizable costs during the period when the expenses were incurred. Instead the college included the costs in projects in progress until the project approvals were completed in the Tennessee Board of Regents' tracking system (see finding 2).

- Land was understated by $1,059,840 and buildings were overstated by $848,151 at June 30, 2015, and June 30, 2014. Depreciation expense was overstated by $21,343 for the years ended June 30, 2015, and June 30, 2014, while accumulated depreciation was overstated by $101,136 and $79,793 at June 30, 2015, and June 30, 2014, respectively. Expenses in previous years were also overstated by $211,689. This error occurred because the college did not properly record a property purchased for constructing a parking garage after demolishing the existing building (see finding 2).

- Net investment in capital assets was overstated and unrestricted net position was understated by $1,521,759 on the statement of net position at June 30, 2015, because management did not follow Tennessee Board of Regents' instructions to move the noncapital energy savings performance bond from investment in capital assets to unrestricted.

- Restricted expendable for scholarships was overstated and restricted expendable for other was understated by $69,138 at June 30, 2015, and $108,512 at June 30, 2014. This error occurred because two accounts reported as scholarships were not actually scholarship accounts, but were restricted for other purposes.

- Foundation restricted net position, expendable for scholarships, was overstated and restricted net position, expendable for other, was understated by $324,305 at June 30, 2014, because management reported the balance of the two net position categories on the incorrect line.

- The bond principal payments made during the fiscal year were reported as bond issuance costs, as well as a reduction to bonds payable, causing an overstatement of bond issuance costs and an understatement of utilities, supplies, and other services of $254,470 for the year ended June 30, 2015, and $244,876 for the year ended June 30, 2014.

- Private gifts to the foundation of $750,948 were reported as nongovernmental grants and contracts, rather than gifts and contributions on the statement of revenues, expenses, and changes in net position at June 30, 2014.
- The Tennessee College of Applied Technology at Memphis' Local Government Investment Pool (LGIP) balance was not included in the college's investment note, causing an understatement in the disclosed LGIP balance of $3,705,391 at June 30, 2015, and $7,764,423 at June 30, 2014.
- Management did not properly account for the debt service reserve fund in the bonds payable section of the long-term liabilities note. The debt service reserve fund amount of $199,448 was reduced from the 2021-2025 future bond payments, rather than the 2018 and 2019 future payments when the bond related to the debt service reserve fund will be fully repaid. This error resulted in an overstatement of principal and total bond payments of $37,261 for 2018 and $162,187 for 2019, and an understatement of principal and total bond payment of $199,448 for 2021-2025 in the fiscal year 2015 notes and for 2020-2024 in the fiscal year 2014 notes.
- The foundation's bank deposits of $694,130 at June 30, 2015, were exposed to custodial credit risk but were not reported as such in the notes to the financial statements. Because the deposits of the foundation are not public funds, they cannot be covered by the same collateral that protects the college's deposits.

The audited financial statements and notes to the financial statements were corrected for the errors noted above.

Recommendation

The Vice President of Financial and Administrative Services should ensure that information necessary for the compilation of the financial statements and notes is completed timely to facilitate a proper review. This information includes all necessary account reconciliations.

The Vice President of Financial and Administrative Services should also ensure that current staff members who prepare daily accounting transactions and those preparing and/or reviewing the financial statements have adequate knowledge of governmental accounting and reporting requirements to properly perform their responsibilities. The Vice President of Financial and Administrative Services should also stress the need to adequately review all transactions before they are entered into the accounting system so that the transactions are entered into the system correctly.

Management's Comment

We concur with the finding and recommendation.

Management has and will continue to evaluate current staff and their responsibilities to determine if their knowledge base and skills are adequate to perform their assigned tasks efficiently. Appropriate actions will continue to be taken to ensure the college has experienced staff. Management has also engaged the services of a professional services company who is currently working on a business process assessment of the finance area.

Management also understands the concerns regarding the financial statement errors noted in this audit and is committed to improving the financial reporting activities. In order to ensure proper preparation of the financial statements, review of the financial statements and compliance with accounting principles the following will occur:

- The Vice President of Finance and Administrative Services (VPFAS), the Associate Vice President of Finance and Administrative Services (AVPFAS) and Director of Fiscal Operations (DFO) will review and improve year-end procedures. A comprehensive year-end close schedule with assigned tasks and due dates that includes appropriate review times has been developed. Personnel integral to the close process recently met to review and discuss the schedule and assigned tasks. (August 2017)
- The VPFAS, AVPFAS, and DFO will review the financial statements before submission to TBR. (September 2017)
- Training opportunities will be identified by the VPFAS that are specific in nature to work assignments, and funding for continuing education will be requested for staff to attend sessions. (December 2017 and ongoing)
- Staff will be required to familiarize themselves with generally accepted accounting principles (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB) and with the Tennessee Board of Regents policies and guidelines. (September 2017 and ongoing)
- The Manager of Accounts Payable will be responsible for reconciling the accounts payable subsidiary ledger to the general ledger monthly; the DFO will review the monthly reconciliations. (September 2017)
- The VPFAS, AVPFAS and DFO will develop a schedule to reconcile all balance sheet accounts. (August 2017)
- A staff accountant has been assigned the task of reconciling the foundation's Raiser's Edge system to Banner Advancement and Banner Finance monthly. (April 2017)
- The AVPFAS and the Director of Fiscal Operations will develop a month-end close process whereby financial statements are prepared and reviewed, and any necessary adjustments will be identified and recorded throughout the year. (September 2017)
- The VPFAS, AVPFAS and DFO will continue to recruit to fill vacant positions. (ongoing)

2. The college has not properly reported the costs associated with construction projects

Condition

Southwest Tennessee Community College does not have procedures for recording costs related to construction projects in accordance with generally accepted accounting principles. The college did not transfer capitalized expenditures from projects in progress to categories such as buildings or equipment when the assets were placed in service. The college also included non-capitalizable expenditures in projects in progress.

Criteria

Non-capitalized project costs should be expensed in the period incurred. GASB Codification 1600.103 states, "Revenues, expenses, gains, losses, assets, deferred outflows of resources, liabilities, and deferred inflows of resources resulting from exchange and exchange-like transactions should be recognized when the exchange takes place."

GASB Codification 1400.104 states, "Capital assets should be depreciated over their estimated useful lives." The estimated useful life begins when the asset is substantially complete and ready for its intended use.

Cause

Management stated it has been their practice to place all costs associated with construction, both capitalizable and non-capitalizable, into projects in progress until the project's completion. According to management, they operate this way because it is too difficult to determine the amounts that should be expensed or capitalized each period. After the completion of each project and all approvals were documented in the system, management met with the project manager to determine the proper accounting treatment of project costs. It was not until after this meeting, which occurred only after all approvals were made in the Tennessee Board of Regents Project Information Tracking System (PITS), which could be months or years after completion of the project, that the asset would be removed from projects in progress in the accounting system and depreciation would begin, regardless of when the asset was actually placed into service.

Effect

Non-capitalizable costs incurred during the completion of the Bornblum Library, the Maxine A. Smith Center projects, the Macon Campus Academic Building, and the Nursing and Biotechnology Building, and included in projects in progress during the construction of the projects, were not expensed until the project approvals were completed in the PITS system, rather than during the period when the expenses were incurred. The college had not moved the expenses for two of the completed projects from projects in progress by June 30, 2015. This caused an understatement of expenses during previous fiscal years of $4,341,153.16 and an overstatement of utilities, supplies, and other services for the year ended June 30, 2015, of $2,522,039.29.

During the year ended June 30, 2015, three projects, totaling $44,843,065.36, were transferred from projects in progress, at which time the college began depreciating the buildings in the accounting system; however, one of the projects (Bornblum Library) was completed and placed into service in fiscal year 2009, and two projects (Maxine A. Smith Center and Macon Campus Academic Building) in 2010. The Nursing and Biotechnology Building, with a total capitalizable and non-capitalizable cost of $17,466,598.02, was placed into service during fiscal year 2015; however, the college did not transfer the project from projects in progress during the year. Because the projects were not transferred from projects in progress when completed, the buildings have not been properly depreciated in the accounting system since completion. These errors resulted in an understatement of buildings of $15,930,113.41, equipment of $27,372.26, and accumulated depreciation of $5,474,070.97 at June 30, 2015; and an understatement of depreciation expense of $310,805.66 for the year ended June 30, 2015. These errors also caused an understatement of buildings of $44,843,065.36, equipment of $27,372.26, and accumulated depreciation of $5,163,265.31 at June 30, 2014, and an understatement of depreciation expense of $1,126,552.16 for the year ended June 30, 2014.

In addition, the college purchased property in fiscal year 2009 for the purpose of constructing a parking garage. The purchase price was allocated between land and building. The building was demolished shortly after purchase; however, it was not removed from the capital asset listing. As a result, the college has continued to charge depreciation expense for the demolished building. The college also incorrectly expensed the demolition cost of the building. Because the college did not plan to use the building before demolition, the college should have recorded the full purchase price of the property and the demolition cost to land. As a result of this error, land was understated by $1,059,840 and buildings were overstated by $848,151 at June 30, 2015, and June 30, 2014. Depreciation expense was overstated by $21,343 for the years ended June 30, 2015, and June 30, 2014, while accumulated depreciation was overstated by $101,136 and $79,793 at June 30, 2015, and June 30, 2014, respectively. Expenses in previous years were overstated by $211,689.

Recommendation

Management should develop procedures to review all capital project expenditures to determine which ones are non-capitalizable and should be expensed in the period the cost is incurred. Management should also develop procedures to ensure capital assets are transferred from projects in progress to the proper capital asset category and should begin recognizing depreciation when the asset is placed into service.

Management’s Comment

We concur with the finding and recommendation.

Management will develop procedures to concurrently evaluate all expenditures to determine if they are to be capitalized or expensed in the period incurred and when to transfer a capital asset from the projects in progress account and begin capitalization and depreciation once the asset is placed in service. (September 2017)

3. <u>The college did not enroll new employees in the defined benefit portion of the state's retirement plan</u>

Condition

Southwest Tennessee Community College did not enroll new employees as members of the State and Higher Education Employee Retirement Plan (the defined benefit portion of the state's hybrid retirement plan). Due to this error, the college did not withhold and submit the required employee pension contributions or make the required employer contributions to the Tennessee Consolidated Retirement System for employees hired after June 30, 2014. Management was made aware of the issue by an employee in October 2014; however, the error was not corrected until May 2015.

Criteria

Enrollment in the State and Higher Education Employee Retirement Plan is mandatory, with certain exceptions, for all full-time employees hired after June 30, 2014. The Tennessee Consolidated Retirement System requires an employee contribution of 5% of the employee's salary and an employer contribution, currently 3.87%, to the defined benefit portion of the retirement plan. Additional contributions of 2% of salary from the employee and 5% from the employer are required to be made to the defined contribution portion of the retirement plan. Employees may elect to opt out of the 2% requirement.

Cause

While the college's human resources department did enroll employees hired after June 30, 2014, in the defined contribution portion of the retirement plan, it did not enroll employees in the defined benefit portion of the retirement plan. Management stated that they waited for the administrator of the defined contribution plan, Empower Retirement, to notify them of the employee's decision regarding the voluntary 2% contribution. When no such notification was received, no action was taken to enroll the employee.

Effect

Because management did not promptly enroll the employees in the retirement plan, 19 employees lost up to 10 months of retirement service credit. This will require the affected employees to continue working longer than other members of the State and Higher Education Employee Retirement Plan to obtain the same retirement benefits. Six other employees opted to buy back the lost retirement service credit by submitting the required employee contributions due since the employment start date.

Recommendation

Management should automatically enroll new employees in the State and Higher Education Retirement Plan.

Management's Comment

We concur with the finding and recommendation.

Upon hire, Payroll is enrolling eligible employees for the hybrid plan into the defined benefit portion of the retirement plan. To ensure all employees are enrolled, the current code provided by TBR has been set up as an associated deduction in Banner. This will require all codes to be entered simultaneously and dependent of each other. Additionally, new employees will be checked for accuracy on the payroll deduction reports prior to the final payroll processing each month.

After Payroll receives notification files from Empower, employees will then be enrolled in the 401k portion (2% automatic enrollment) of the plan as instructed. Both Payroll and Human Resources staff will verify the submission to ensure new employees are properly and timely enrolled in the various retirement programs available to state employees. (July 2017)

4. Management did not approve employee timesheets prior to payroll preparation

Condition

Southwest Tennessee Community College did not have written policies and procedures for the review and approval of employee timesheets.

Criteria

Section 9-18-102, *Tennessee Code Annotated*, states:

> (a) Each agency of state government and institution of higher education shall establish and maintain internal controls, which shall provide reasonable assurance that:
>
> (1) Obligations and costs are in compliance with applicable law;
>
> (2) Funds, property, and other assets are safeguarded against waste, loss, unauthorized use or misappropriation; and
>
> (3) Revenues and expenditures applicable to agency operations are properly recorded and accounted for to permit the preparation of accurate and reliable financial and statistical reports and to maintain accountability over the assets.

Cause

Management stated that supervisors are required to approve timesheets prior to payroll preparation; however, this policy is neither written nor enforced. Employees are paid through the Kronos Workforce Central System. Management stated that the Kronos system does not allow for only part of payroll to run, or for payroll to run if the time reported for the period has not been locked, which prevents edits to the file. Therefore, all time reported was locked, whether approved or not, then processed and paid.

Effect

We tested all timesheets for a sample of 25 employees for the years ended June 30, 2015, and June 30, 2014. Our review found that 125 of the 489 timesheets tested (26%) were not reviewed and approved by the employee's supervisor. Not approving timesheets could result in overpayments to employees as a result of error or fraud.

Recommendation

Management should develop written policies and procedures to ensure that all employee timesheets are properly reviewed and approved by the appropriate supervisor prior to payroll preparation.

Management's Comment

We concur with the finding and recommendation.

In collaboration with human resources and payroll, policies and procedures for timekeeping will be written and distributed to all employees. The Executive Director of Information Technology will also contact Kronos to inquire of a workable solution to the problem noted. In the meantime, Information Technology in conjunction with Payroll and Human Resources are in the process of developing an exception report. This report will identify, after payroll processing, who did not comply with approving timesheets. These individuals will be counseled and appropriate action taken if the behavior is not changed. (September 2017)

In August 2016, the college upgraded the Kronos system and employees were required to attend a training session. During this session, one of the slides presented stated employees and supervisors must verify and approve time cards. The presentation will be redistributed to all employees. (June 2017)

5. The college does not have controls in place to ensure compliance with the requirements of the Federal Work Study program

Condition

Southwest Tennessee Community College has no controls over the Federal Work Study (FWS) program to 1) obtain a certification that each student worked the hours for which they were paid and 2) prevent students from being paid for hours that conflicted with scheduled class time or sports activities.

Criteria

Title 34, *Code of Federal Regulations*, Part 675, Section 19(b)(2)(i) states that as a participant in the FWS program, an institution must establish and maintain fiscal records for each student employed under the FWS program, including a certification by the student's supervisor, or an official of the institution or off-campus agency, that each student has worked and earned the amount being paid. For students being paid hourly, the certification must include or be supported by a timesheet showing the hours worked and the rate of pay.

According to the college's *Federal Work Study Manual for Supervisors and Students*, a student may not work during scheduled class times. The manual also states that students are to take into account the time for studying, student activities, personal time, lunch time, and breaks between classes and to schedule work hours accordingly.

Cause

The Director of Internal Audit held several training sessions on both the Union and Macon campuses to ensure supervisors were aware of the policies related to FWS students. Despite this training, the college took no action to ensure that supervisors approved student timesheets and that students did not claim hours when they were scheduled for classes or when they were participants in athletic practices or games.

Effect

A sample of 25 FWS students (13 athletic, 12 nonathletic) from the years ended June 30, 2015, and June 30, 2014, was tested, which revealed the following instances of noncompliance and federal questioned costs of $28,192:

- Eleven of 13 athletic FWS students' timesheets tested (85%) were not approved by supervisors, resulting in federal questioned costs of $20,882, excluding costs otherwise questioned below. The other 2 students had paper timesheets approved by off-campus supervisors. However, because no one was reconciling the paper timesheets to the time entered into the Kronos payroll system and then approving the time entered in the system, the student could have been paid for time that was not earned. (See related finding 4.)
- Five of 13 athletic FWS students tested (38.5%) reported working during class times. The students were paid a total of $1,952 during class times, which represents federal questioned costs.
- Five of 13 athletic FWS students tested (38.5%) reported working while practicing, playing, and traveling for a sporting event, resulting in federal questioned costs of $610.
- One of 12 nonathletic FWS students' timesheets tested (8%) was not approved. These unapproved payments totaled $2,976, which represents federal questioned costs.

- Three of 12 nonathletic FWS students tested (25%) reported working during class times, resulting in federal questioned costs of $1,772.

<u>Recommendation</u>

The college should develop procedures to ensure that supervisors of FWS students sign a certification that each student worked the hours for which they were paid. The college should also develop procedures to ensure that students are not paid for hours while scheduled for class or while participating in sports activities.

<u>Management's Comment</u>

We concur with the finding and recommendation.

In 2017, management updated the college's processes and procedures for employing Federal Work Study (FWS) students. These updates were communicated to the supervisors of FWS students at training classes that were held in May 2017 by the Financial Aid Specialist who is responsible for the FWS Program. At the training classes, each supervisor received guidelines on the program including a FWS Program Manual for Supervisors and Students. The supervisors were reminded that timecards must be approved by the student in Kronos and then approved by the supervisor. These approvals serve as certification that the students are in compliance with work hours allowable weekly and the hours worked are not in conflict with their scheduled class time or sports activities. Throughout the year, the Financial Aid Specialist and the Internal Auditor will periodically review the student timesheets to ensure procedures are being followed and will notify the FWS Supervisors of any infractions. (ongoing)

6. <u>The college did not prepare proper bank reconciliations</u>

<u>Condition</u>

Bank reconciliations for Southwest Tennessee Community College's operating and payroll accounts and the foundation's operating account were not properly performed.

Our review of bank reconciliations for the college's operating and payroll accounts and the foundation account for the years ended June 30, 2015, and June 30, 2014, found the following problems:

For the year ended June 30, 2015:

- All operating account bank reconciliations were prepared from 52 to 153 days after the end of the month. Eight of 12 reconciliations (67%) did not contain any evidence of review. The May 2015 reconciliation also contained reconciling items that were from 15 months before. Management removed these items from the June 2015 reconciliation into a clearing account in the accounting system because she was unsure what to do to clear them. In addition, the June 2015 bank reconciliation noted $325,830.10 of checks that were cancelled in the general ledger but not with the bank.

- Ten of 12 payroll account bank reconciliations (83%) were prepared from 34 to 125 days after the end of the month. The June 2015 reconciliation had reconciling items that were from fiscal years 2013 and 2014.
- Four of 12 foundation account bank reconciliations (33%) were not dated by the preparer, and 2 of these were not initialed by the preparer; therefore, we were unable to determine if the reconciliations were performed timely. The other 8 reconciliations were prepared from 41 to 111 days after the end of the month. One of the reconciliations had no indication of review, and 5 of the other 11 reconciliations (45%) were not dated by the reviewer. The June 2015 reconciliation contained reconciling items that were one year old.

For the year ended June 30, 2014:

- Eleven of 12 operating account bank reconciliations (92%) were prepared from 47 to 96 days after the end of the month. The June 2014 bank reconciliation contained reconciling items from the prior year.
- Eight of 12 payroll account bank reconciliations (67%) were prepared from 40 to 78 days after the end of the month, and 1 reconciliation was not initialed by the preparer. In addition, there was no indication of review for 1 reconciliation, and 2 of the other 11 reconciliations (18%) were not initialed by the reviewer. The June 2014 bank reconciliation contained reconciling items from fiscal year 2013.
- Eight of 12 foundation account bank reconciliations (67%) were not dated by either the preparer or reviewer, and 1 of these was not initialed by either party; therefore, we were unable to determine if the reconciliations were prepared timely. Three of the remaining 4 reconciliations (75%) were prepared 58 to 119 days after the end of the month.

Criteria

Best practices require that bank reconciliations should be prepared within 30 days after the end of the month. All reconciling items should be identified and resolved in a timely manner to eliminate the risk of uncorrected errors.

Cause

Neither the college nor the foundation had adequate written policies and procedures for preparing and reviewing bank reconciliations. Management of the college prepared and reviewed reconciliations for the college and foundation. When recent employee turnover caused management to be given additional responsibilities, management did not perform and review these reconciliations timely or adequately. Management also stated that oversight caused checks to be canceled in the general ledger but not with the bank.

Effect

Not performing complete and timely bank reconciliations could lead to reporting errors in the financial statements or possibly undetected misappropriations of cash. If bank errors are noted and not reported to the bank timely, the bank may not honor requests for corrections.

Recommendation

Management should amend written policies and procedures to ensure that bank reconciliations are prepared and reviewed timely, as they are an important internal control for cash.

Management's Comment

We concur with the finding and recommendation.

The Vice President of Finance and Administrative Services will oversee amending the policy and procedures for preparing bank reconciliations. The policy will include a requirement that bank reconciliations should be prepared within 30 days after the end of the month, are signed and dated by both the preparer and reviewer, and all reconciling items are identified and resolved in a timely manner.

As of this response, bank reconciliations are not current. However, management has engaged a professional services company that is currently reviewing the current process and procedures for reconciling bank statements, identifying areas of improvements and is assisting with bringing the reconciliations current. (To be determined; currently underway)

7. The college did not have adequate controls over credit cards

Condition

Southwest Tennessee Community College did not ensure reconciliations of credit card purchases were performed by someone independent of the purchases.

Criteria

Tennessee Board of Regents (TBR) Procurement Card Guideline B-125, Section III.E.4.h, states, "Approvers are required to check receipts and monthly reconciliations on a routine basis per the Institution's PCard Program requirements and address any issues or fraudulent charges if discovered." Section III.I.1.b prohibits the use of procurement cards to purchase gift cards. Section III.E.3 states that "cardholders and approvers could be held personally liable for undocumented or unauthorized purchases."

Cause

The college's credit card purchasing policies state that purchasing staff will compare the statement to the purchases; however, it does not state who in the purchasing department is to compare the two, or that the individuals must be independent of one another.

Effect

By not performing independent reviews of credit card purchases, the college increases the risk that unauthorized purchases, including those not for the benefit of the college, will not be detected. Because of the lack of internal controls over credit cards, we noted the following problems:

- Fifteen of 24 credit card reconciliations during the audit period (63%) were prepared by an employee who also made a credit card purchase during the period being approved.
- One purchase of $274 could not be supported. The purchase was made by the same individual who approved the credit card reconciliation for the period. The supporting documentation attached to the reconciliation was for a cash purchase made in the prior month at a slightly different amount.
- Three purchases of gift cards for the Student Activities Department were made in violation of TBR Guidelines. Gift cards may easily be used for personal benefit. We noted a lack of controls over the gift cards. They were not counted by the Student Activities Department upon receipt, were not logged to track the number or dollar value of cards received, were not logged when gift cards are removed from the department, and were not documented as being distributed to students.

Recommendation

Management should hold individuals accountable for undocumented or unauthorized purchases such as gift cards. Furthermore, management should prepare and enforce written procedures requiring all procurement card transactions to be reviewed and approved by someone other than the purchaser.

Management's Comment

We concur with the finding and recommendation.

The Vice President of Finance and Administrative Services will oversee the review and modification to the existing college credit card purchasing policy to include language that the individual responsible for approving the cardholder's transactions must be an authorized approver in the college, must be in a position of authority higher than the cardholder who incurred the transactions, and must review the business nature and the substantiation of charges incurred by the cardholder. Also, any violations or misuse of the credit card (as outlined in TBR Procurement Card Guideline B-125) will be reviewed and appropriate disciplinary action taken.

The college has discontinued the purchase and distribution of gift cards effective April 2017. (September 2017)

8. <u>The college did not perform reconciliations between the Raiser's Edge, Banner Advancement, and Banner Finance systems</u>

<u>Condition</u>

Southwest Tennessee Community College did not reconcile the Raiser's Edge, Banner Advancement, and Banner Finance systems. Gift and contribution information manually entered into Raiser's Edge must also be manually entered into Banner Advancement. The information is then transferred into Banner Finance via an electronic feed. Because the information must be manually entered twice, this creates more opportunity for human error and a greater need for reconciliations.

<u>Criteria</u>

Management is responsible for performing reconciliations between the Raiser's Edge, Banner Advancement, and Banner Finance systems to ensure that information is accurate. Section 9-18-102, *Tennessee Code Annotated*, states:

> (a) Each agency of state government and institution of higher education shall establish and maintain internal controls, which shall provide reasonable assurance that:
>
> (1) Obligations and costs are in compliance with applicable law;
>
> (2) Funds, property, and other assets are safeguarded against waste, loss, unauthorized use or misappropriation; and
>
> (3) Revenues and expenditures applicable to agency operations are properly recorded and accounted for to permit the preparation of accurate and reliable financial and statistical reports and to maintain accountability over the assets.

<u>Cause</u>

The college did not have written policies and procedures to perform reconciliations between the Raiser's Edge, Banner Advancement, and Banner Finance systems. When recent employee turnover caused remaining employees to be given additional responsibilities, these reconciliations did not get performed. The lack of written procedures describing the process, including the individual or individuals responsible for reconciling the system and how often this should be performed, created the risk that it would not be a priority and would not be performed.

Effect

Because staff did not reconcile the systems, management did not catch the following errors:

- Foundation revenue in Banner was overstated by $270,000 for the year ended June 30, 2015 (see finding 1).
- Pledges receivable in Banner was overstated by $270,000 for the year ended June 30, 2015, along with an overstatement in allowance for doubtful accounts of $5,400 at June 30, 2015 (see finding 1).
- Additional smaller errors were also noted:
  - contributions were entered into the wrong fund, in both the Raiser's Edge and Banner systems;
  - contributions for November 2014, April 2015, May 2015, and June 2015 were not entered in Banner Finance;
  - payroll deductions for June 2013 were entered in fiscal year 2014 in Banner Finance;
  - payroll deductions for October 2014 were entered twice in Banner Finance; and
  - entries were double posted in Raiser's Edge in May 2015.

Recommendation

Management should develop written procedures to promptly reconcile the systems to ensure the accuracy and reliability of financial information.

Management's Comment

We concur with the finding and recommendation.

The Vice President of Finance and Administrative Services will oversee the development of written procedures outlining the steps that will occur on a monthly basis to reconcile Raiser's Edge, Banner Advancement, and Banner Finance systems. Specifically, advancement staff will provide monthly Raiser's Edge donation reports and advancement cashiering reports to the foundation accountant. The foundation accountant will review and compare the reports to the Banner finance feeds, identify any discrepancies, notify advancement staff of any discrepancies, and both will make the appropriate adjustments in the systems for which they are responsible. (Current/monthly)

9. <u>As noted in the prior audit, the college did not provide adequate internal controls in five specific areas</u>

<u>Finding</u>

The college did not design and monitor internal controls in specific areas. We continued to observe five conditions in violation of college policies and/or industry-accepted best practices. These conditions are repeated from the prior audit and, in some cases, have worsened. The absence of effective internal controls increases the risk of fraud or error.

The details of these conditions 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.

<u>Recommendation</u>

The President of the college 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.

<u>Management's Comment</u>

We concur. 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.

Observations and Comments

Colleges of Applied Technology

Southwest Tennessee Community College serves as the lead institution under agreements 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, these workforce training schools were named Tennessee Technology Centers.

Investigation

An investigation is ongoing in the Southwest Tennessee Community College's Student Activities Department. Any findings resulting from the investigation will be included in a separate report.