

AUDIT REPORT

Tennessee Board of Regents
Motlow State Community College

For the Years Ended
June 30, 2008, and June 30, 2007



STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY

Department of Audit
Division of State Audit



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**STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
DEPARTMENT OF AUDIT
DIVISION OF STATE AUDIT**

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September 29, 2009

The Honorable Phil Bredesen, Governor
and

Members of the General Assembly
State Capitol
Nashville, Tennessee 37243

and

The Honorable Charles W. Manning, Chancellor
Tennessee Board of Regents
1415 Murfreesboro Road, Suite 350
Nashville, Tennessee 37217

and

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

Ladies and Gentlemen:

Transmitted herewith is the financial and compliance audit of the Tennessee Board of Regents, Motlow State Community College, for the years ended June 30, 2008, and June 30, 2007. You will note from the independent auditor's report that unqualified opinions were given on the fairness of the presentation of the financial statements.

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

Sincerely,

Arthur A. Hayes, Jr., CPA
Director

AAH/sds
09/047

State of Tennessee

Audit Highlights

Comptroller of the Treasury

Division of State Audit

Financial and Compliance Audit
Motlow State Community College
For the Years Ended June 30, 2008, and June 30, 2007

AUDIT OBJECTIVES

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

INTERNAL CONTROL FINDING

The Vice President for Business Affairs and the Director of Fiscal Services Made Several Classification Errors in Motlow College Foundation's Financial Statements, Resulting in Inaccurate Financial Reporting

The Vice President for Business Affairs and the Director of Fiscal Services of Motlow State Community College did not ensure that the financial statements and notes of the college's component unit foundation were accurately prepared for the fiscal years ended June 30, 2008, and June 30, 2007. We found that management made several classification errors due to oversights during the preparation process (page 9).

OPINIONS ON THE FINANCIAL STATEMENTS

The opinions on the financial statements are unqualified.

Audit Report
Tennessee Board of Regents
Motlow State Community College
For the Years Ended June 30, 2008, and June 30, 2007

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**Tennessee Board of Regents
Motlow State Community College
For the Years Ended June 30, 2008, and June 30, 2007**

INTRODUCTION

POST-AUDIT AUTHORITY

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

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

BACKGROUND

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

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

ORGANIZATION

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

AUDIT SCOPE

The audit was limited to the period July 1, 2006, through June 30, 2008, and was conducted in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in generally accepted government auditing standards. Financial statements are presented for the years ended June 30, 2008, and June 30, 2007. Motlow State Community College is an institution of the Tennessee Board of Regents, which is an integral part of state government. As such, the Tennessee Board of Regents has been included as a component unit in the *Tennessee Comprehensive Annual Financial Report*.

OBJECTIVES OF THE AUDIT

The objectives of the audit were

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

PRIOR AUDIT FINDINGS

There were no findings in the prior audit report.

OBSERVATIONS AND COMMENTS

MANAGEMENT'S RESPONSIBILITY FOR RISK ASSESSMENT

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

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

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

FRAUD CONSIDERATIONS

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

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

TECHNOLOGY CENTERS

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

RESULTS OF THE AUDIT

AUDIT CONCLUSIONS

Internal Control

As part of the audit of the college's financial statements for the years ended June 30, 2008, and June 30, 2007, we considered internal control over financial reporting as a basis for designing auditing procedures for the purpose of expressing opinions on the financial statements, as required by auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in generally accepted government auditing standards. A material weakness, along with a recommendation and management's response, is detailed in the finding and recommendation section.

Compliance

The results of our tests disclosed no instances of noncompliance that are required to be reported under generally accepted government auditing standards.

Fairness of Financial Statement Presentation

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



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

September 25, 2009

The Honorable Phil Bredesen, Governor
and

Members of the General Assembly
State Capitol
Nashville, Tennessee 37243

and

The Honorable Charles W. Manning, Chancellor
Tennessee Board of Regents
1415 Murfreesboro Road, Suite 350
Nashville, Tennessee 37217

and

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

Ladies and Gentlemen:

We have audited the financial statements of Motlow State Community College, an institution of the Tennessee Board of Regents, which is a component unit of the State of Tennessee, and its discretely presented component unit as of and for the years ended June 30, 2008, and June 30, 2007, and have issued our report thereon dated September 25, 2009. During the year ended June 30, 2008, the college implemented GASB Statement 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in generally accepted government auditing standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the college's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the college's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the college's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the college's ability to initiate, authorize, record, process, or report financial data reliably in accordance with accounting principles generally accepted in the United States of America such that there is more than a remote likelihood that a misstatement of the college's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

The following significant deficiency was noted:

- The Vice President for Business Affairs and the Director of Fiscal Services made several classification errors in Motlow College Foundation's financial statements, resulting in inaccurate financial reporting.

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

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would

not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe the significant deficiency described above is a material weakness.

We also noted certain matters involving the internal control over financial reporting, which we have reported to the college's management in a separate letter.

Compliance and Other Matters

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

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

Sincerely,

A handwritten signature in black ink, appearing to read "Arthur A. Hayes, Jr.", written in a cursive style.

Arthur A. Hayes, Jr., CPA
Director

AAH/sds

FINDING AND RECOMMENDATION

The Vice President for Business Affairs and the Director of Fiscal Services made several classification errors in Motlow College Foundation's financial statements, resulting in inaccurate financial reporting

Finding

The Vice President for Business Affairs and the Director of Fiscal Services of Motlow State Community College did not ensure that the financial statements and notes of the college's component unit foundation were accurately prepared for the fiscal years ended June 30, 2008, and June 30, 2007. We found that management made several classification errors due to oversights during the preparation process.

Based on our audit, we found that the Vice President for Business Affairs and the Director of Fiscal Services, who worked together in preparing Motlow College Foundation's financial statements as presented in the college's *Annual Financial Reports*, made the following classification errors:

- On the college's statement of net assets at June 30, 2008, in the component unit column, they failed to separately report \$383,551.65 of nonexpendable net assets restricted for scholarships. The amount was shown in the nonexpendable restricted net assets - other category. Inadequate review procedures led to the misclassification.
- On the college's statement of net assets at June 30, 2007, in the component unit column, they failed to separately report \$211,506.64 of expendable net assets restricted for scholarships. The amount was shown in the expendable restricted net assets - other category. Inadequate review procedures led to the misclassification.
- On the college's 2008 and 2007 statements of revenues, expenses, and changes in net assets, in the component unit columns, they reported \$116,413.39 and \$76,307.31, respectively, of foundation gifts and contributions as endowment income per spending plan. They should have deducted the amounts from amounts reported as investment income rather than from amounts reported as gifts and contributions.
- In note 16 in the college's 2008 financial report, \$300,000 of foundation pledges were reported as due after five years as opposed to due in one to five years. They put the amount on the wrong line in the note to the financial statements.
- In note 14 in the college's 2007 financial report, they misclassified \$3,262,305.47 of foundation equity mutual funds and \$41,496.63 of money market mutual funds as bond mutual funds. According to the Director of Fiscal Services, the amount was simply placed in the wrong category in the note, but the statement of net assets reflected investments properly.

These reporting errors resulted in material misclassifications on the financial statements. (The total amounts of component unit net assets, revenues, pledges receivable, and investments were accurately reported in the college's financial statements and notes, but the amounts described above were misclassified.) Financial decisions not in the best interest of the college and its foundation can be made as a result of inaccurate reporting.

According to the Vice President for Business Affairs, these classification errors were not detected because he did not have sufficient review time between the year-end closing and the final preparation and submission of the financial report to the Tennessee Board of Regents Central Office. The Vice President also cited the lack of adequate resources to provide adequate staffing and time devoted to the implementation of its new accounting system as contributing factors. With an adequate review process, the Vice President could have detected and corrected these errors before the final financial report was prepared. We made audit adjustments to correct the financial statements and notes for the audit report.

Recommendation

The Vice President for Business Affairs should ensure that the financial report is accurately prepared. After preparation, an additional, detailed review should be performed by the Vice President for Business Affairs to ensure that errors have not been made in report preparation. Component unit net asset balances should be properly classified at year end. Restricted net asset balances should be classified as stipulated by external third parties. The nature of the restriction should be properly reported in the following categories: scholarships and fellowships, research, instructional department uses, loans, capital projects, debt service, or other.

The Vice President for Business Affairs should ensure that risks associated with report preparation are adequately identified and assessed in the college's risk assessment activities. The Vice President should also implement effective controls to adequately mitigate those assessed risks for ongoing monitoring of the risks and mitigating controls, and take action if deficiencies occur.

Management's Comment

We concur with the finding and recommendation. The Vice President for Business Affairs will review the organizational structure of the Business Affairs unit to determine how more professional staff time can be utilized to prepare and review the financial statements to ensure that the financial statements are accurately prepared. Additionally, the component unit classifications and nature of restricted net assets will be classified in accordance with external third-party stipulations.

The Vice President for Business Affairs will direct the Business Affairs risk assessment team to determine the risks associated with the report preparation and take corrective action as deemed necessary.



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Independent Auditor's Report

September 25, 2009

The Honorable Phil Bredesen, Governor

and

Members of the General Assembly

State Capitol

Nashville, Tennessee 37243

and

The Honorable Charles W. Manning, Chancellor

Tennessee Board of Regents

1415 Murfreesboro Road, Suite 350

Nashville, Tennessee 37217

and

Dr. MaryLou Apple, President

Motlow State Community College

P. O. Box 88100

Tullahoma, Tennessee 37388-8100

Ladies and Gentlemen:

We have audited the accompanying basic financial statements of Motlow State Community College, an institution of the Tennessee Board of Regents, which is a component unit of the State of Tennessee, and its discretely presented component unit as of and for the years ended June 30, 2008, and June 30, 2007, as listed in the table of contents. These financial statements are the responsibility of the college's management. Our responsibility is to express opinions on these financial statements, based on our audit.

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

As discussed in Note 1, the financial statements of Motlow State Community College, an institution of the Tennessee Board of Regents, are intended to present the financial position, the changes in financial position, and the cash flows of only Motlow State Community College. They do not purport to, and do not, present fairly the financial position of the Tennessee Board of Regents, as of June 30, 2008, and June 30, 2007, and the changes in its financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Tennessee Board of Regents, Motlow State Community College, and its discretely presented component unit as of June 30, 2008, and June 30, 2007, and the respective changes in financial position and cash flows thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 13, during the year ended June 30, 2008, the college implemented GASB Statement 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*.

The management's discussion and analysis on pages 14 through 31 and the OPEB schedule of funding progress on page 56 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it. In its management's discussion and analysis, Motlow State Community College has not presented condensed financial information comparing the 2007 and 2006 fiscal years which is required by accounting principles generally accepted in the United States of America to supplement, although not be a part of, the basic financial statements.

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

In accordance with generally accepted government auditing standards, we have also issued our report dated September 25, 2009, on our consideration of the college's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with generally accepted government auditing standards and should be read in conjunction with this report in considering the results of our audit.

Sincerely,

A handwritten signature in black ink that reads "Arthur A. Hayes, Jr." with a stylized flourish at the end.

Arthur A. Hayes, Jr., CPA
Director

AAH/sds

**Tennessee Board of Regents
Motlow State Community College
Management's Discussion and Analysis
June 30, 2008, and June 30, 2007**

This section of Motlow State Community College's report presents a discussion and analysis of the financial performance of the college during the fiscal year ended June 30, 2008, with comparative information presented for the fiscal year ended June 30, 2007. This discussion has been prepared by management along with the financial statements and related note disclosures and should be read in conjunction with the independent auditor's report, the audited financial statements, and the accompanying notes. The financial statements, notes, and this discussion are the responsibility of management.

The college has one discretely presented component unit, the Motlow College Foundation. More detailed information about the college's component unit is presented in Note 15 to the financial statements. Information regarding the component unit is also included in this section.

Using This Report

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

The Statement of Net Assets

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

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

**Tennessee Board of Regents
Motlow State Community College
Management's Discussion and Analysis (Cont.)
June 30, 2008, and June 30, 2007**

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

	<u>Motlow College</u>		<u>Component Unit</u>	
	2008	2007	2008	2007
Assets:				
Current assets	\$ 7,409	\$ 5,358	\$ 2,265	\$ 857
Capital assets, net	31,192	26,775	-	-
Other assets	1,524	1,151	3,718	5,239
Total assets	<u>40,125</u>	<u>33,284</u>	<u>5,983</u>	<u>6,096</u>
Liabilities:				
Current liabilities	4,915	4,526	95	8
Noncurrent liabilities	1,877	1,774	-	-
Total liabilities	<u>6,792</u>	<u>6,300</u>	<u>95</u>	<u>8</u>
Net assets:				
Invested in capital assets, net of debt	29,971	24,374	-	-
Restricted - nonexpendable	-	-	3,517	2,847
Restricted - expendable	230	178	1,584	2,644
Unrestricted	3,132	2,432	787	597
Total net assets	<u>\$ 33,333</u>	<u>\$ 26,984</u>	<u>\$ 5,888</u>	<u>\$ 6,088</u>

**Motlow College
Comparison of FY 2008 to FY 2007**

- Current assets increased by \$2.051 million. The majority of this increase resulted from cash and accounts receivable increasing due to a 6% fee increase and a 7% headcount increase for 2007-08. Additionally, the technology centers received equipment replacement funds in 2007-08.
- Capital assets increased by \$4.417 million primarily due to projects in progress. The major projects are the library project, the McMinnville expansion project, and the infrastructure project. The library project was completed in 2007-08; therefore, this expenditure was moved from projects in progress to buildings. Also, the increase included capital costs associated with Banner software in the amount of approximately \$222 thousand.

**Tennessee Board of Regents
Motlow State Community College
Management's Discussion and Analysis (Cont.)
June 30, 2008, and June 30, 2007**

- Current liabilities increased by \$389 thousand. This increase resulted from a combination of variables which primarily resulted from the college paying \$929 thousand on the Rutherford County Facility loan in July 2007 and changing the repayment period to 10 years instead of 20 years, and the Tennessee Technology Centers receiving funds for equipment replacement in 2007-08.
- Total net assets increased by \$6.349 million, which can primarily be attributed to the increase in capital assets due to the projects in progress.

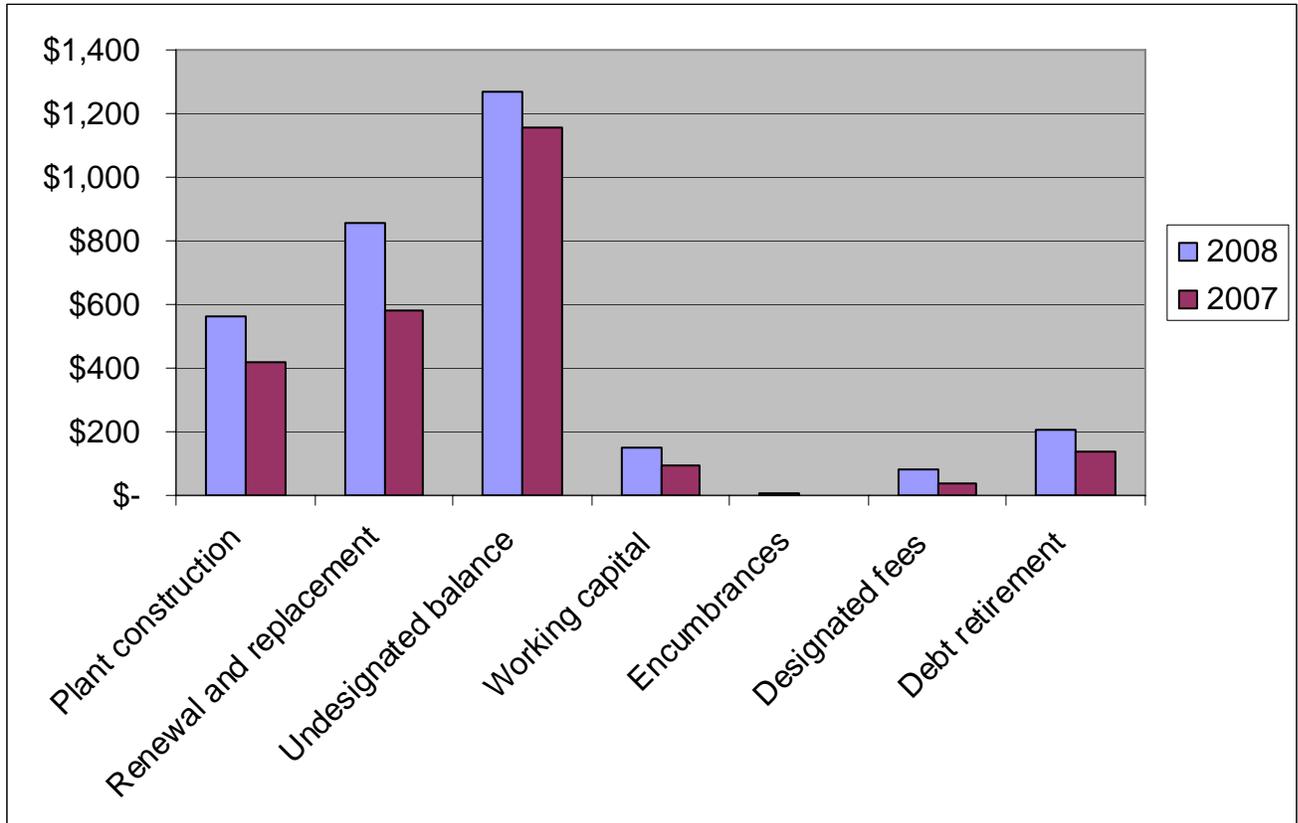
**Component Unit
Comparison of FY 2008 to FY 2007**

- Current assets increased by \$1.408 million primarily because money managers were changed and all the funds placed with the new money manager were not invested in stocks, bonds, etc. and remained in cash at the end of the year.
- Other assets (primarily investments) decreased by \$1.521 million because of the previous explanation.
- Total net assets decreased by \$200 thousand. The primary factors contributing to this reduction were
 - (1) during the year, the foundation paid the college \$997 thousand toward a \$1 million bond issue on the Smyrna building; and
 - (2) when money managers were changed, there was a realized gain on the sale of investments of \$759 thousand.

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

**Tennessee Board of Regents
 Motlow State Community College
 Management's Discussion and Analysis (Cont.)
 June 30, 2008, and June 30, 2007**

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

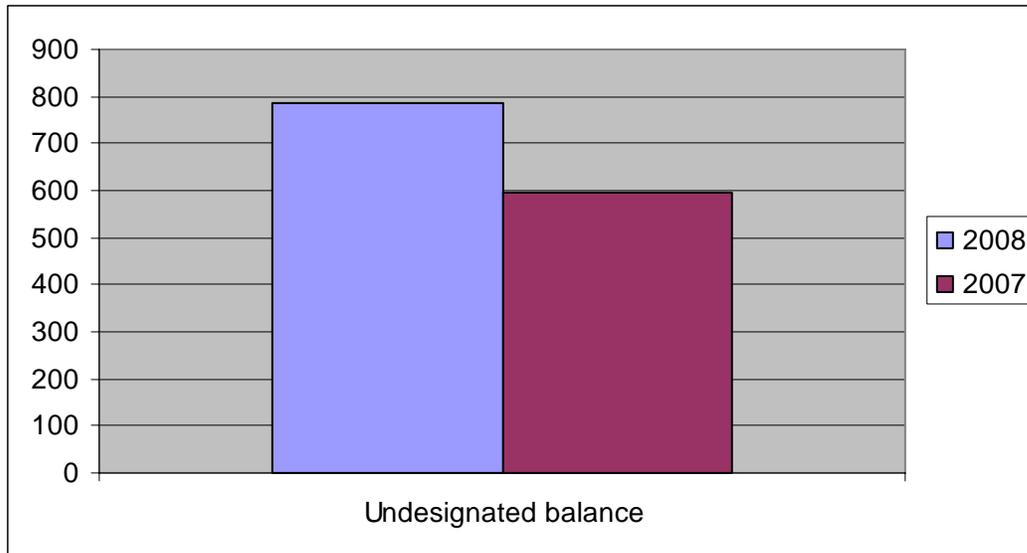


**Motlow College
 Comparison of FY 2008 to FY 2007**

- Renewal and replacement increased by \$278 thousand primarily due to a transfer from current funds of \$951 thousand coupled with payments for the college's new Enterprise Resource Planning System (Banner) and a transfer to retirement of indebtedness of \$308 thousand.
- Plant construction (unexpended) increased by \$146 thousand. This increase resulted from a current fund transfer of \$125 thousand and investment earnings.
- The undesignated balance increased by \$111 thousand due to the efforts of the college to be more conservative in spending in 2007-08.

**Tennessee Board of Regents
Motlow State Community College
Management's Discussion and Analysis (Cont.)
June 30, 2008, and June 30, 2007**

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



Component Unit

- The undesignated net assets are \$787 thousand at June 30, 2008.

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

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

**Tennessee Board of Regents
Motlow State Community College
Management's Discussion and Analysis (Cont.)
June 30, 2008, and June 30, 2007**

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

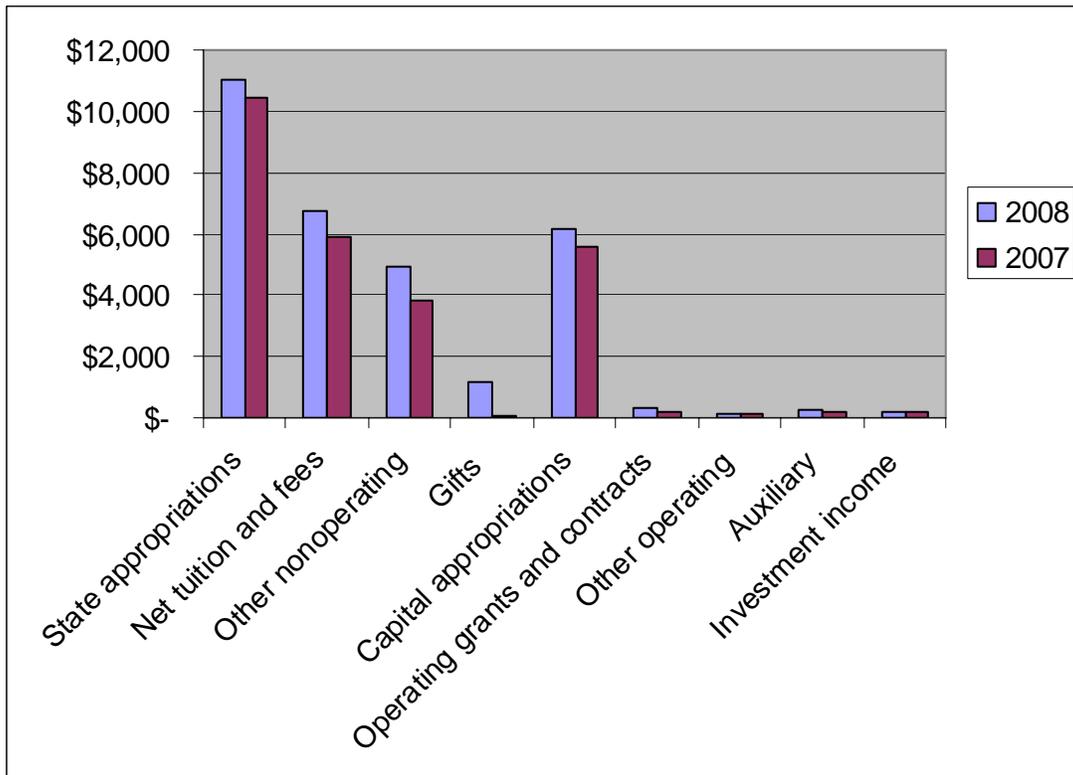
	Motlow College		Component Unit	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
Operating revenues:				
Net tuition and fees	\$ 6,774	\$ 5,933	\$ -	\$ -
Gifts and contributions	-	-	515	328
Endowment Income per spending plan	-	-	117	76
Auxiliary	230	205	5	6
Grants and contracts	295	208	-	-
Other	148	128	-	-
Total operating revenues	<u>7,447</u>	<u>6,474</u>	<u>637</u>	<u>410</u>
Operating expenses	<u>24,512</u>	<u>20,914</u>	<u>1,581</u>	<u>411</u>
Operating income (loss)	<u>(17,065)</u>	<u>(14,440)</u>	<u>(944)</u>	<u>(1)</u>
Nonoperating revenues and expenses:				
State appropriations	11,057	10,447	-	-
Gifts	1,148	61	-	-
Investment income	167	219	135	503
Other revenues and expenses	4,910	3,823	-	-
Total nonoperating revenues and expenses	<u>17,282</u>	<u>14,550</u>	<u>135</u>	<u>503</u>
Income (loss) before other revenues, expenses, gains, or losses	<u>217</u>	<u>110</u>	<u>(809)</u>	<u>502</u>
Other revenues, expenses, gains, or losses:				
Capital appropriations	6,137	5,575	-	-
Additions to permanent endowments	-	-	609	44
Other	(5)	4	-	-
Total other revenues, expenses, gains, or losses	<u>6,132</u>	<u>5,579</u>	<u>609</u>	<u>44</u>
Increase (decrease) in net assets	<u>6,349</u>	<u>5,689</u>	<u>(200)</u>	<u>546</u>
Net assets at beginning of year	<u>26,984</u>	<u>21,295</u>	<u>6,088</u>	<u>5,542</u>
Net assets at end of year	<u>\$ 33,333</u>	<u>\$ 26,984</u>	<u>\$ 5,888</u>	<u>\$ 6,088</u>

**Tennessee Board of Regents
 Motlow State Community College
 Management's Discussion and Analysis (Cont.)
 June 30, 2008, and June 30, 2007**

Revenues

The following is a graphic illustration of revenues by source (both operating and nonoperating), which are used to fund the college's operating activities for the year ended June 30, 2008, and the year ended June 30, 2007.

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



**Motlow College
 Comparison of FY 2008 to FY 2007**

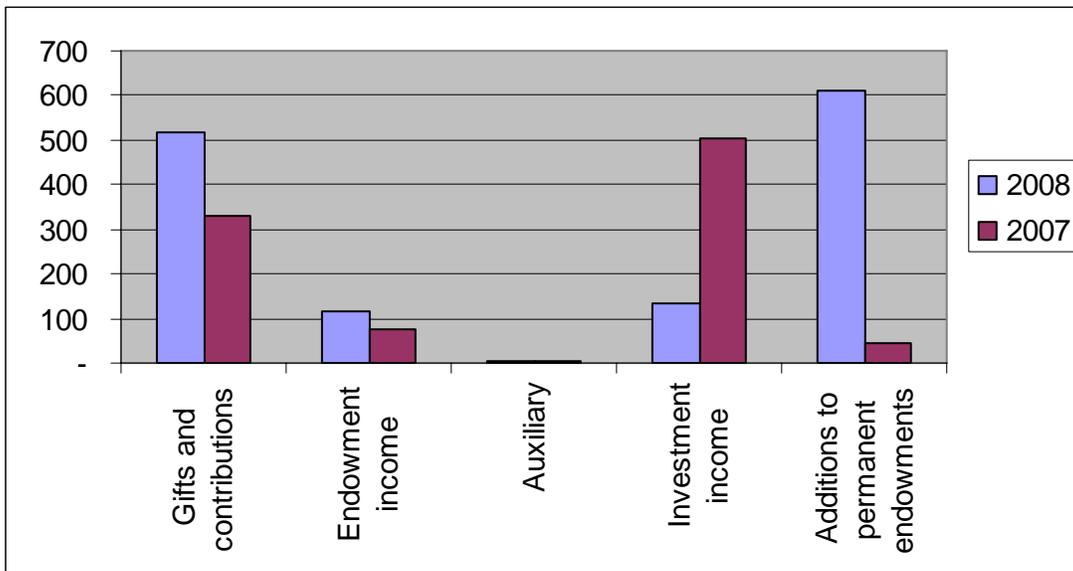
- Net tuition and fees increased by \$841 thousand. This increase primarily resulted from a 6% fee increase along with a 7% headcount increase and 7% FTE increase.
- State appropriations increased by \$610 thousand. The majority of the state funding resulted from the following increases: salary adjustment of \$367 thousand; 401K match

**Tennessee Board of Regents
 Motlow State Community College
 Management's Discussion and Analysis (Cont.)
 June 30, 2008, and June 30, 2007**

of \$26 thousand; group insurance of \$88 thousand; and improvement funds of \$252 thousand. Additionally, there was reorganization in desegregation funding which resulted in \$54 thousand less funding.

- Capital appropriations increased by \$562 thousand. This increase resulted from three major capital projects that Motlow College has in place, which are the library building, the McMinnville expansion, and the infrastructure project.
- Other nonoperating revenue increased by \$1.087 million because of the direct relationship of the 7% headcount enrollment increase to the students participating in the financial aid programs at Motlow College. Approximately 45% of Motlow students receive some type of financial assistance.
- Gifts increased by \$1.087 million primarily due to the foundation reimbursing the college for \$997 thousand on the loan principal and interest payments on the Rutherford County teaching facility in 2007-08.

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



**Tennessee Board of Regents
 Motlow State Community College
 Management's Discussion and Analysis (Cont.)
 June 30, 2008, and June 30, 2007**

**Component Unit
 Comparison of FY 2008 to FY 2007**

- Gifts and contributions increased by \$187 thousand. The overall increase is due to a \$500 thousand pledge by Clayton Trust. The first installment of \$100 thousand was received in December 2007.
- Investment income decreased by \$368 thousand due to the decrease in market value of investments and the earnings on the investments for the year.

Expenses

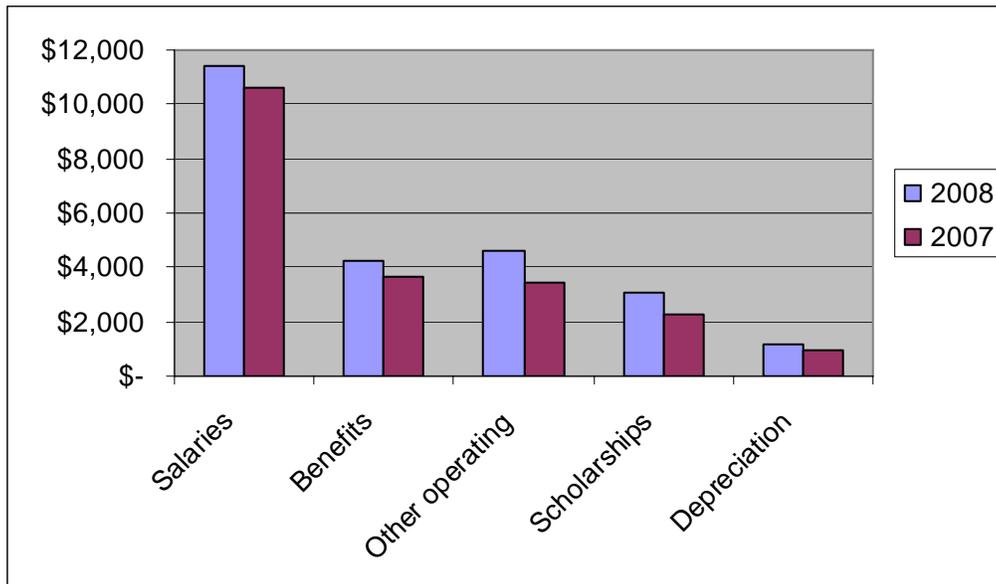
Operating expenses can be displayed in two formats, natural classification and program classification. Both formats are displayed below (amounts are presented in thousands of dollars).

Natural Classification

	<u>Motlow College</u>		<u>Component Unit</u>	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
Salaries	\$ 11,400	\$ 10,618	\$ -	\$ -
Benefits	4,246	3,649	-	-
Other operating	4,580	3,414	352	230
Scholarships	3,083	2,285	158	147
Payments on behalf of college	-	-	1,071	34
Depreciation	1,203	948	-	-
Total operating expenses	<u>\$ 24,512</u>	<u>\$ 20,914</u>	<u>\$ 1,581</u>	<u>\$ 411</u>

**Tennessee Board of Regents
 Motlow State Community College
 Management's Discussion and Analysis (Cont.)
 June 30, 2008, and June 30, 2007**

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



**Motlow College
 Comparison of FY 2008 to FY 2007**

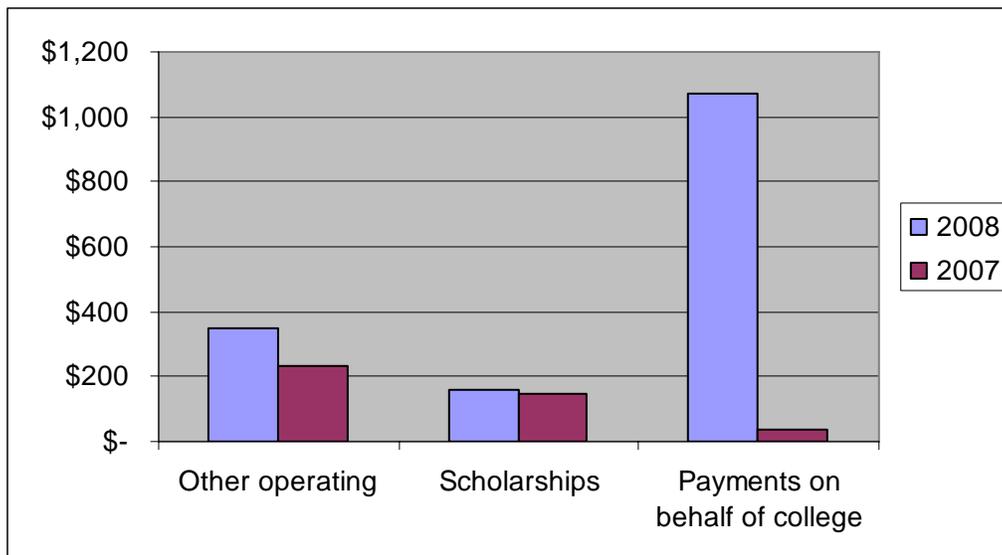
- Salaries and benefits increased by \$1.379 million. These increases were due to several variables. A 3% across-the-board salary increase was effective July 1, 2007. Additionally, Motlow College gave a one-time bonus (the greater of 1% of the salary amount or \$500) in October 2007. The 401K match by the state went from \$40 per month to \$50 per month effective July 1, 2007. Insurance increased approximately 7%. Several faculty and staff unfilled positions were filled during the year. Overtime for classified staff involved in Banner training was much higher than past years because we implemented Banner Student and Financial Aid while going live with Banner Finance. A 7% FTE increase in student enrollment required more adjunct and overload salaries for the additional course offerings. Further, course offerings for summer school were greatly expanded, which resulted in more salary and benefit payments.
- Utilities, supplies, and other services increased by \$1.166 million. Some of the factors that contributed to this increase were Banner training and consultant costs, increases in

**Tennessee Board of Regents
 Motlow State Community College
 Management's Discussion and Analysis (Cont.)
 June 30, 2008, and June 30, 2007**

utility prices and additional square footage for the library and the construction program in McMinnville, increases in gasoline cost, inflation, technology hardware and software support updates, completion of some deferred maintenance projects, the completion and operation of the new library, and costs associated with an additional teaching site in Sparta.

- Scholarships increased by \$798 thousand. The majority of this increase resulted from an enrollment increase and fee increase. Again, approximately 45% of our students receive some type of financial aid.

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



**Component Unit
 Comparison of FY 2008 to FY 2007**

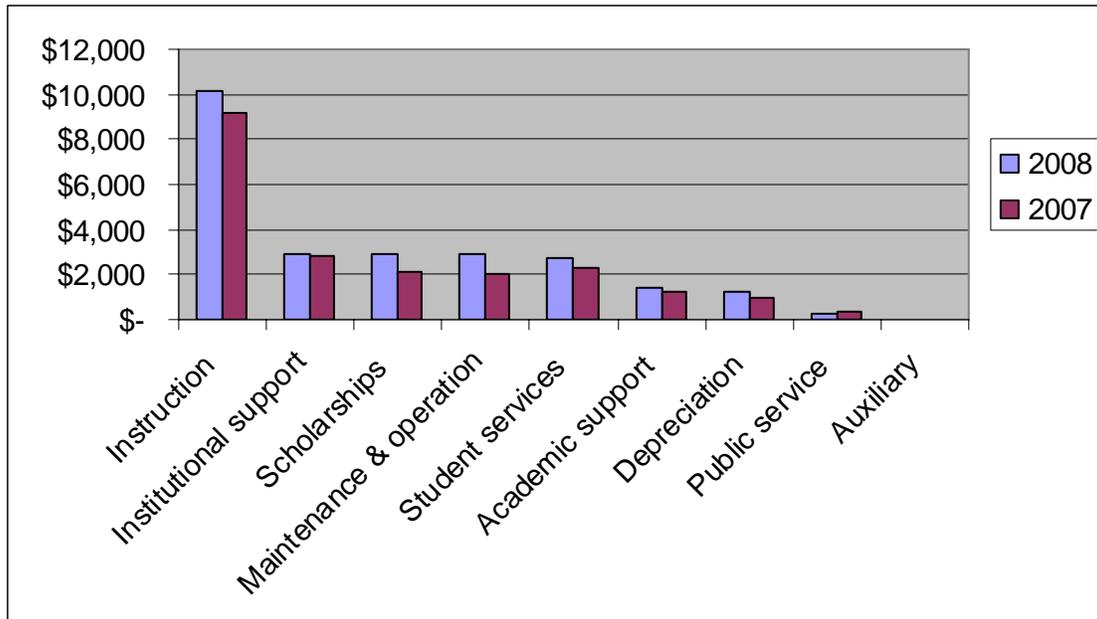
- Payments on behalf of Motlow College increased by \$1.037 million. This was primarily due to the foundation reimbursing the college for \$997 thousand on the loan principal and interest payments on the Rutherford County teaching facility in 2007-08.

**Tennessee Board of Regents
 Motlow State Community College
 Management's Discussion and Analysis (Cont.)
 June 30, 2008, and June 30, 2007**

Program Classification – Motlow College

	2008	2007
Instruction	\$ 10,157	\$ 9,167
Public Service	230	309
Academic Support	1,379	1,200
Student Services	2,729	2,330
Institutional Support	2,944	2,836
Maintenance & Operation	2,929	1,986
Scholarships and Fellowships	2,933	2,130
Auxiliary	8	8
Depreciation	1,203	948
Total operating expenses	<u>\$ 24,512</u>	<u>\$ 20,914</u>

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



**Tennessee Board of Regents
Motlow State Community College
Management's Discussion and Analysis (Cont.)
June 30, 2008, and June 30, 2007**

**Operating Expenses by Function - Motlow College
Comparison of FY 2008 to FY 2007**

- The instructional component of the institution—which includes the functional areas of instruction, academic support, and public service—represents 48% of the total operating expenses for the fiscal year 2008. This represents an increase of \$1.090 million. This increase was due to the salary and benefit increases, additional instructional new hires, and instructional expenses.
- Student services increased by \$399 thousand. Some of the variables that contributed to this increase were the salary and benefit increase, training costs for Banner, new hires, and travel increases.
- Scholarships and fellowships increased by \$803 thousand. This increase is a direct result of the enrollment increase and fee increase. Approximately, 45% of Motlow students are receiving some type of financial aid.
- Maintenance and operations increased by \$943 thousand. The year of 2007-08 was the first full year of the library facility being operational. The cost of utilities increased due to price increases and additional square footage requiring HVAC. Some deferred maintenance projects were completed during the year.

The Statement of Cash Flows

The statement of cash flows provides information about cash receipts and cash payments during the year. This statement also assists users in assessing the college's ability to generate net cash flows, its ability to meet its obligations as they come due, and its need for external financing.

**Tennessee Board of Regents
 Motlow State Community College
 Management's Discussion and Analysis (Cont.)
 June 30, 2008, and June 30, 2007**

**Condensed Statements of Cash Flows
 (in thousands of dollars)**

	<u>Motlow College</u>	
	<u>2008</u>	<u>2007</u>
Cash provided (used) by:		
Operating activities	\$ (15,336)	\$ (13,416)
Noncapital financing activities	18,268	14,967
Investing activities	166	219
Capital and related financing activities	(899)	(778)
Net increase (decrease) in cash	<u>\$ 2,199</u>	<u>\$ 992</u>
Cash, beginning of year	6,068	5,076
Cash, end of year	<u>\$ 8,267</u>	<u>\$ 6,068</u>

**Motlow College
 Comparison of FY 2008 to FY 2007**

- The cash utilized from operating activities increased by \$1.920 million. Primarily this increase was due to a 3% across-the-board salary increase and a bonus. The bonus from Motlow College was given at the greater of \$500 or 1% of base salary. Also, health insurance increased by approximately 7%. Additionally, with the 7% enrollment increase and 6% fee increase, scholarship payments to students increased.
- The two biggest sources of cash for noncapital financing are state appropriations and grants and contracts. State appropriations increased by \$610 thousand. The increase was mainly attributed to improvement funds and funding for salaries and benefits. The increase in grants and contracts is primarily due to financial aid received for the college's students.
- Cash from investing activities decreased by \$53 thousand due to declining interest rates.
- The liquidity of the college increased by \$2.199 million.

**Tennessee Board of Regents
 Motlow State Community College
 Management's Discussion and Analysis (Cont.)
 June 30, 2008, and June 30, 2007**

Capital Asset and Debt Administration

Capital Assets

Motlow College had \$31,192,288.15 invested in capital assets, net of accumulated depreciation of \$11,174,447.29 at June 30, 2008, and \$26,774,631.23 invested in capital assets, net of accumulated depreciation of \$10,044,973.21 at June 30, 2007. Depreciation charges totaled \$1,202,766.77 and \$948,215.89 for the years ended June 30, 2008, and June 30, 2007. The component unit had no capital assets at both June 30, 2008, and June 30, 2007. Details of these assets are shown below.

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

	<u>Motlow College</u>		<u>Component Unit</u>	
	2008	2007	2008	2007
Land	\$ 1,571	\$ 1,571	\$ -	\$ -
Land improvements & infrastructure	1,428	618	-	-
Buildings	23,097	16,813	-	-
Equipment	543	503	-	-
Software	1,096	1,011	-	-
Library holdings	189	192	-	-
Projects in progress	3,268	6,067	-	-
Capital assets, net	<u>\$ 31,192</u>	<u>\$ 26,775</u>	<u>\$ -</u>	<u>\$ -</u>

**Motlow College
 Comparison of FY 2008 to FY 2007**

- The major addition to buildings was the library, which was occupied in December 2007. The increase in improvements and infrastructure included a chiller renovation and the library infrastructure.
- The projects in progress decreased by \$2.799 million due to the library and improvements and infrastructure being moved from projects in progress to the asset capitalization accounts.

**Tennessee Board of Regents
Motlow State Community College
Management's Discussion and Analysis (Cont.)
June 30, 2008, and June 30, 2007**

**Component Unit
Comparison of FY 2008 to FY 2007**

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

More detailed information about the college's capital assets is presented in Note 5 to the financial statements. Renovation of vacant space in the Crouch Learning Center will start in 2008-09, and an expansion project in McMinnville will be completed in 2008-09.

Debt

The college had \$1,220,815.50 and \$2,400,832.61 in debt outstanding at June 30, 2008, and June 30, 2007, respectively. For the two years, the component unit had no debt outstanding. The table below summarizes these amounts by the type of debt instrument.

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

	<u>Motlow College</u>		<u>Component Unit</u>	
	2008	2007	2008	2007
Loans	\$ 900	\$ 1,929	\$ -	\$ -
TSSBA bonds	321	472	-	-
Total debt	<u>\$ 1,221</u>	<u>\$ 2,401</u>	<u>\$ -</u>	<u>\$ -</u>

**Motlow College
Comparison from FY 2008 to FY 2007**

- The loan amount decreased by \$1.029 million due to two payments in 2007-08. One payment was in the amount of \$929 thousand, and the other was the regular payment of \$100 thousand per year. After nine more years, this loan for the Rutherford County teaching facility will be liquidated.
- The bond is for the ERP hardware and software. After two more principal payments, this loan will be liquidated.

**Tennessee Board of Regents
Motlow State Community College
Management's Discussion and Analysis (Cont.)
June 30, 2008, and June 30, 2007**

The Tennessee State School Bond Authority (TSSBA) must authorize all capital long-term debt on behalf of the college. The current rating of TSSBA by Standard & Poor's is AA. More detailed information about the college's long-term liabilities is presented in Note 6 to the financial statements.

Economic Factors That Will Affect The Future

According to a press release from the State of Tennessee, Department of Finance and Administration on July 14, 2008, "Tax collections for June [2008] continued to underperform, with a negative growth rate in sales taxes and declining corporate taxes. Finance and Administration Commissioner Dave Goetz reported today that overall June revenues were \$1.19 billion or \$62.5 million less than the state budgeted." This shortfall was apparent at Motlow College when the state reduced the college's 2008-09 appropriation \$280,000 from the base appropriated in 2007-08. In addition to the state appropriation reduction, there was no capital projects funding approved. The reduction in state appropriation was offset by a 6% fee increase to students in 2008-09. The lack of capital project funding further defers the maintenance on equipment and buildings.

With the national economic situation; where banks are closing, housing markets are down, credit is tight, inflation is increasing, gas prices are at historical highs, and the government is bailing out Fannie Mae and Freddie Mac, the future national economic situation looks dismal for several years to come. To face the challenges of the state and federal economic conditions, Motlow will have to be creative and frugal.

During the 2008-09 year, Motlow will study and propose a plan to offer students the full course curriculum during two days a week versus what is now offered either on three or five days. This plan may be implemented in fall term 2009. The travel (gas cost) of the students to and from campus should be reduced dramatically with this change, and the students that rely on babysitting services should experience less cost, which will help offset the increases in tuition that they have experienced and probably will experience for the next few years.

The growth expectation for Motlow for the next few years is still uncertain. With the high cost of gasoline coupled with reaching maximum capacity in the Smyrna facility, student enrollment is not expected to increase dramatically. Slow steady growth is anticipated in the McMinnville facility, which has been doubled in size in the past year. The Fayetteville and McMinnville facilities will be instrumental in offering the new course curriculum in Mechatronics, which should be available in fall 2009. With more businesses and industry closings in our 11-county area, several non-traditional students may decide to attend college to get retooled or prepare for a

**Tennessee Board of Regents
Motlow State Community College
Management's Discussion and Analysis (Cont.)
June 30, 2008, and June 30, 2007**

completely different occupation. Motlow will be prepared to offer the courses required for this training and retraining.

Student fees are expected to increase during the next few years, especially in light of state appropriation reductions, but Motlow College will be positioned to meet its obligations. However, expanding programs and access may be limited in certain off-campus sites and centers. The Motlow College Foundation is involved in increasing the endowment, and with the development of a new spending plan during 2008-09, the private funds provided by the foundation will be instrumental in offsetting some of the college expenses. The use of private funds coupled with partnerships with business, industry, K-12 school systems, technology centers, and universities position Motlow for future events.

Requests for Information

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

**TENNESSEE BOARD OF REGENTS
MOTLOW STATE COMMUNITY COLLEGE
STATEMENTS OF NET ASSETS
JUNE 30, 2008, AND JUNE 30, 2007**

	Motlow State Community College		Component Unit - Motlow College Foundation	
	June 30, 2008	June 30, 2007	June 30, 2008	June 30, 2007
ASSETS				
Current assets:				
Cash and cash equivalents (Notes 2, 3, and 15)	\$ 6,743,552.17	\$ 4,916,835.67	\$ 2,143,816.62	\$ 751,085.26
Accounts and grants receivable (net) (Note 4)	653,251.66	416,588.94	9,698.00	14,120.45
Pledges receivable (net) (Note 15)	-	-	106,367.50	85,520.00
Inventories	5,260.63	1,567.76	-	-
Prepaid expenses and deferred charges	7,289.91	23,469.92	-	-
Accrued interest receivable	-	-	4,955.77	6,170.72
Total current assets	<u>7,409,354.37</u>	<u>5,358,462.29</u>	<u>2,264,837.89</u>	<u>856,896.43</u>
Noncurrent assets:				
Cash and cash equivalents (Notes 2, 3, and 15)	1,523,535.44	1,150,749.87	-	-
Investments (Note 15)	-	-	3,431,500.23	5,237,041.57
Pledges receivable (net) (Note 15)	-	-	286,989.68	1,994.49
Capital assets (net) (Note 5)	31,192,288.15	26,774,631.23	-	-
Total noncurrent assets	<u>32,715,823.59</u>	<u>27,925,381.10</u>	<u>3,718,489.91</u>	<u>5,239,036.06</u>
Total assets	<u>40,125,177.96</u>	<u>33,283,843.39</u>	<u>5,983,327.80</u>	<u>6,095,932.49</u>
LIABILITIES				
Current liabilities:				
Accounts payable	188,244.74	295,208.30	49,390.48	414.00
Accrued liabilities	989,805.52	935,529.01	-	-
Deferred revenue	285,787.75	194,487.31	-	-
Compensated absences (Note 6)	61,482.36	65,059.39	-	-
Long-term liabilities, current portion (Note 6)	257,108.50	1,180,017.11	-	-
Deposits held in custody for others	3,132,809.81	1,855,792.46	7,505.74	7,203.10
Due to the college	-	-	38,402.00	-
Total current liabilities	<u>4,915,238.68</u>	<u>4,526,093.58</u>	<u>95,298.22</u>	<u>7,617.10</u>
Noncurrent liabilities:				
Net OPEB obligation (Notes 6 and 9)	352,424.56	-	-	-
Compensated absences (Note 6)	560,432.77	552,695.41	-	-
Long-term liabilities (Note 6)	963,707.00	1,220,815.50	-	-
Total noncurrent liabilities	<u>1,876,564.33</u>	<u>1,773,510.91</u>	<u>-</u>	<u>-</u>
Total liabilities	<u>6,791,803.01</u>	<u>6,299,604.49</u>	<u>95,298.22</u>	<u>7,617.10</u>
NET ASSETS				
Invested in capital assets, net of related debt	29,971,472.65	24,373,798.62	-	-
Restricted for:				
Nonexpendable:				
Scholarships and fellowships	-	-	383,551.65	317,510.31
Other	-	-	3,133,077.11	2,529,089.77
Expendable:				
Instructional department uses	229,662.14	178,200.25	-	-
Scholarships and fellowships	-	-	169,643.42	211,506.64
Other	-	-	1,414,639.03	2,432,991.30
Unrestricted (Note 7)	3,132,240.16	2,432,240.03	787,118.37	597,217.37
Total net assets	<u>\$ 33,333,374.95</u>	<u>\$ 26,984,238.90</u>	<u>\$ 5,888,029.58</u>	<u>\$ 6,088,315.39</u>

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

**TENNESSEE BOARD OF REGENTS
MOTLOW STATE COMMUNITY COLLEGE
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2008, AND JUNE 30, 2007**

	Motlow State Community College		Component Unit - Motlow College Foundation	
	Year Ended June 30, 2008	Year Ended June 30, 2007	Year Ended June 30, 2008	Year Ended June 30, 2007
REVENUES				
Operating revenues:				
Student tuition and fees (net of scholarship allowances of \$2,477,476.70 for the year ended June 30, 2008, and \$2,198,401.90 for the year ended June 30, 2007)	\$ 6,773,748.80	\$ 5,932,459.31	\$ -	\$ -
Gifts and contributions	-	-	514,783.79	328,058.73
Endowment income per spending plan	-	-	116,413.39	76,307.31
Governmental grants and contracts	294,501.25	208,473.28	-	-
Nongovernmental grants and contracts	500.00	-	-	-
Sales and services of educational departments	829.99	717.69	-	-
Auxiliary enterprises:				
Bookstore	221,804.92	196,850.33	-	-
Other	8,889.81	8,218.30	5,368.35	5,595.03
Other operating revenues	146,614.12	127,199.29	-	-
Total operating revenues	<u>7,446,888.89</u>	<u>6,473,918.20</u>	<u>636,565.53</u>	<u>409,961.07</u>
EXPENSES				
Operating expenses (Note 12):				
Salaries and wages	11,399,935.38	10,617,529.03	-	-
Benefits	4,246,252.40	3,648,757.18	-	-
Utilities, supplies, and other services	4,580,193.09	3,413,955.02	352,465.59	230,328.00
Scholarships and fellowships	3,083,239.92	2,285,375.62	157,612.05	146,695.23
Depreciation expense	1,202,766.77	948,215.89	-	-
Payments to or on behalf of Motlow State Community College (Note 15)	-	-	1,070,704.26	33,819.66
Total operating expenses	<u>24,512,387.56</u>	<u>20,913,832.74</u>	<u>1,580,781.90</u>	<u>410,842.89</u>
Operating loss	<u>(17,065,498.67)</u>	<u>(14,439,914.54)</u>	<u>(944,216.37)</u>	<u>(881.82)</u>
NONOPERATING REVENUES (EXPENSES)				
State appropriations	11,057,500.00	10,446,500.00	-	-
Gifts (college gifts include \$1,070,704.26 from component unit in 2008 and \$33,819.66 in 2007)	1,148,182.10	61,068.42	-	-
Grants and contracts	4,968,992.78	3,954,362.44	-	-
Investment income (for component unit, net of investment expense of \$11,746.59 in 2008 and \$16,550.48 in 2007)	166,512.01	219,185.58	135,470.36	503,471.15
Interest on capital asset-related debt	(58,728.67)	(130,537.67)	-	-
Net nonoperating revenues (expenses)	<u>17,282,458.22</u>	<u>14,550,578.77</u>	<u>135,470.36</u>	<u>503,471.15</u>
Income (loss) before other revenues, expenses, gains, or losses	<u>216,959.55</u>	<u>110,664.23</u>	<u>(808,746.01)</u>	<u>502,589.33</u>
Capital appropriations	6,137,601.50	5,574,545.75	-	-
Additions to permanent endowments	-	-	608,460.20	44,192.83
Other	(5,425.00)	4,170.86	-	-
Total other revenues	<u>6,132,176.50</u>	<u>5,578,716.61</u>	<u>608,460.20</u>	<u>44,192.83</u>
Increase (decrease) in net assets	<u>6,349,136.05</u>	<u>5,689,380.84</u>	<u>(200,285.81)</u>	<u>546,782.16</u>
NET ASSETS				
Net assets - beginning of year	26,984,238.90	21,294,858.06	6,088,315.39	5,541,533.23
Net assets - end of year	<u>\$ 33,333,374.95</u>	<u>\$ 26,984,238.90</u>	<u>\$ 5,888,029.58</u>	<u>\$ 6,088,315.39</u>

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

**TENNESSEE BOARD OF REGENTS
MOTLOW STATE COMMUNITY COLLEGE
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2008, AND JUNE 30, 2007**

	Year Ended <u>June 30, 2008</u>	Year Ended <u>June 30, 2007</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Tuition and fees	\$ 6,900,787.67	\$ 5,926,849.93
Grants and contracts	229,541.10	197,013.36
Sales and services of educational activities	829.99	717.69
Payments to suppliers and vendors	(4,563,912.43)	(3,431,120.01)
Payments to employees	(11,378,965.32)	(10,701,938.59)
Payments for benefits	(3,844,221.88)	(3,454,914.66)
Payments for scholarships and fellowships	(3,045,251.92)	(2,285,375.62)
Auxiliary enterprise charges:		
Bookstore	221,804.92	196,850.33
Other	8,889.81	8,218.30
Other receipts	134,474.94	127,199.29
Net cash used by operating activities	<u>(15,336,023.12)</u>	<u>(13,416,499.98)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State appropriations	11,056,500.00	10,445,300.00
Gifts and grants received for other than capital or endowment purposes	6,092,194.13	4,040,122.36
Federal student loan receipts	1,552,908.00	1,153,611.00
Federal student loan disbursements	(1,710,334.00)	(1,178,625.00)
Changes in deposits held for others	1,277,017.35	507,279.77
Net cash provided by noncapital financing activities	<u>18,268,285.48</u>	<u>14,967,688.13</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital appropriations	6,137,601.50	5,574,545.75
Capital grants and gifts received	-	(517.26)
Purchases of capital assets and construction	(5,798,128.02)	(5,998,840.50)
Principal paid on capital debt	(1,180,017.11)	(219,484.89)
Interest paid on capital debt	(58,728.67)	(133,987.88)
Net cash used by capital and related financing activities	<u>(899,272.30)</u>	<u>(778,284.78)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Income on investments	166,512.01	219,185.58
Net cash provided by investing activities	<u>166,512.01</u>	<u>219,185.58</u>
Net increase in cash	2,199,502.07	992,088.95
Cash at beginning of year	6,067,585.54	5,075,496.59
Cash at end of year	<u>\$ 8,267,087.61</u>	<u>\$ 6,067,585.54</u>

**TENNESSEE BOARD OF REGENTS
MOTLOW STATE COMMUNITY COLLEGE
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2008, AND JUNE 30, 2007**

	Year Ended <u>June 30, 2008</u>	Year Ended <u>June 30, 2007</u>
Reconciliation of operating loss to net cash used by operating activities:		
Operating loss	\$ (17,065,498.67)	\$ (14,439,914.54)
Adjustments to reconcile operating loss to net cash used by operating activities:		
Depreciation expense	1,202,766.77	948,215.89
Change in assets and liabilities:		
Receivables, net	(46,024.25)	(32,990.99)
Inventories	(3,692.87)	(267.95)
Prepaid/deferred items	16,180.01	(17,681.07)
Accounts payable	58,084.05	(21,071.12)
Accrued liabilities	406,701.07	84,066.59
Deferred revenue	91,300.44	37,776.84
Compensated absences	4,160.33	25,366.37
Net cash used by operating activities	<u>\$ (15,336,023.12)</u>	<u>\$ (13,416,499.98)</u>
Noncash transactions		
Gifts of capital assets	\$ 13,745.98	\$ 517.26

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

**Tennessee Board of Regents
Motlow State Community College
Notes to the Financial Statements
June 30, 2008, and June 30, 2007**

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 financial support; the system is discretely presented in the *Tennessee Comprehensive Annual Financial Report*. The financial statements present only that portion of the Tennessee Board of Regents' activities that is attributable to the transactions of Motlow State Community College.

The Motlow College Foundation is considered a component unit of the college. Although the college does not control the timing or amount of receipts from the foundation, the majority of resources, or income thereon, that the foundation holds and invests are restricted to the activities of the college by the donors. Because these restricted resources held by the foundation can only be used by, or for the benefit of, the college, the foundation is considered a component unit of the college and is discretely presented in the college's financial statements. See Note 15 for more detailed information about the component unit and how to obtain the report.

Basis of Presentation

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

Basis of Accounting

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

Tennessee Board of Regents
Motlow State Community College
Notes to the Financial Statements (Cont.)
June 30, 2008, and June 30, 2007

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

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

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

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

Inventories

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

Compensated Absences

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

Capital Assets

Capital assets, which include property, plant, equipment, library holdings, and software, are reported in the statement of net assets at historical cost or at fair value at date of donation, less accumulated depreciation. 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.

Tennessee Board of Regents
Motlow State Community College
Notes to the Financial Statements (Cont.)
June 30, 2008, and June 30, 2007

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 software is set at \$100,000.

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

Net Assets

The college's net assets are classified as follows:

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

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

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

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

Scholarship Discounts and Allowances

Student tuition and fee revenues, and certain other revenues from students, are reported net of scholarship discounts and allowances in the statement of revenues, expenses, and changes in net assets. Scholarship discounts and allowances are the difference between the stated charge for goods and services provided by the college

**Tennessee Board of Regents
Motlow State Community College
Notes to the Financial Statements (Cont.)
June 30, 2008, and June 30, 2007**

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

At June 30, 2008, cash consisted of \$1,042,768.24 in bank accounts, \$1,030.00 of petty cash on hand, \$7,222,551.09 in the State of Tennessee Local Government Investment Pool (LGIP) administered by the State Treasurer, and \$738.28 in LGIP deposits for capital projects. At June 30, 2007, cash consisted of \$610,230.59 in bank accounts, \$980.00 of petty cash on hand, \$5,385,137.26 in the State of Tennessee Local Government Investment Pool administered by the State Treasurer, and \$71,237.69 in LGIP deposits for capital projects.

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

NOTE 3. INVESTMENTS

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

**Tennessee Board of Regents
 Motlow State Community College
 Notes to the Financial Statements (Cont.)
 June 30, 2008, and June 30, 2007**

Securities are rated using Standard and Poor's, Moody's, and/or Fitch's. Tennessee Board of Regents policy restricts investments in banker's acceptances and commercial paper. The policy requires that prime banker's acceptances must be issued by domestic banks with a minimum AA rating or foreign banks with a AAA long-term debt rating by a majority of the rating services that have rated the issuer. The policy further requires that commercial paper must be issued by corporations with 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 must be rated A1 by all rating services (minimum of two). Commercial paper of a banking institution must not be purchased. As of June 30, 2008, and June 30, 2007, the college's investments consisted entirely of investments in the Local Government Investment Pool. The fair value of these investments, classified as cash on the statements of net assets, was \$ 7,223,289.37 at June 30, 2008, and \$5,456,374.95 at June 30, 2007. LGIP investments are not rated by nationally recognized statistical ratings organizations.

NOTE 4. RECEIVABLES

Receivables included the following:

	<u>June 30, 2008</u>	<u>June 30, 2007</u>
Student accounts receivable	\$257,251.21	\$215,681.37
Grants receivable	345,825.42	159,739.86
State appropriation receivable	20,800.00	19,800.00
Due from component unit	38,402.00	-
Other receivables	<u>56,243.45</u>	<u>78,628.84</u>
Subtotal	718,522.08	473,850.07
Less allowance for doubtful accounts	<u>65,270.42</u>	<u>57,261.13</u>
Total receivables	<u>\$653,251.66</u>	<u>\$416,588.94</u>

**Tennessee Board of Regents
 Motlow State Community College
 Notes to the Financial Statements (Cont.)
 June 30, 2008, and June 30, 2007**

NOTE 5. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2008, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Transfers</u>	<u>Reductions</u>	<u>Ending Balance</u>
Land	\$1,571,100.00	\$ -	\$ -	\$ -	\$1,571,100.00
Land improvements and infrastructure	1,861,756.25	12,745.00	898,543.39	-	2,773,044.64
Buildings	23,888,260.69	-	7,099,872.21	-	30,988,132.90
Equipment	1,795,865.69	145,897.14	-	5,200.00	1,936,562.83
Library holdings	512,129.99	46,453.41	-	74,642.55	483,940.85
Software	1,123,881.36	221,749.41	-	-	1,345,630.77
Projects in progress	<u>6,066,610.46</u>	<u>5,200,128.59</u>	<u>(7,998,415.60)</u>	-	<u>3,268,323.45</u>
 Total	 <u>36,819,604.44</u>	 <u>5,626,973.55</u>	 <u>-</u>	 <u>79,842.55</u>	 <u>42,366,735.44</u>
 Less accum. depreciation:					
Land improvements and infrastructure	1,243,822.27	100,897.88	-	-	1,344,720.15
Buildings	7,074,887.98	816,388.97	-	-	7,891,276.95
Equipment	1,293,439.13	99,283.01	-	(1,349.86)	1,394,072.00
Library holdings	320,435.69	49,169.95	-	74,642.55	294,963.09
Software	<u>112,388.14</u>	<u>137,026.96</u>	<u>-</u>	<u>-</u>	<u>249,415.10</u>
 Total accum. depreciation	 <u>10,044,973.21</u>	 <u>1,202,766.77</u>	 <u>-</u>	 <u>73,292.69</u>	 <u>11,174,447.29</u>
 Capital assets, net	 <u>\$26,774,631.23</u>	 <u>\$4,424,206.78</u>	 <u>\$ -</u>	 <u>\$ 6,549.86</u>	 <u>\$31,192,288.15</u>

**Tennessee Board of Regents
Motlow State Community College
Notes to the Financial Statements (Cont.)
June 30, 2008, and June 30, 2007**

Capital asset activity for the year ended June 30, 2007, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Transfers</u>	<u>Reductions</u>	<u>Ending Balance</u>
Land	\$1,571,100.00	\$ -	\$ -	\$ -	\$1,571,100.00
Land improvements and infrastructure	1,861,756.25	-	-	-	1,861,756.25
Buildings	23,790,252.87	-	98,007.82	-	23,888,260.69
Equipment	1,768,204.44	36,493.25	-	8,832.00	1,795,865.69
Library holdings	518,674.66	50,228.36	-	56,773.03	512,129.99
Software	-	-	1,123,881.36	-	1,123,881.36
Projects in progress	<u>1,331,976.58</u>	<u>5,956,523.06</u>	<u>(1,221,889.18)</u>	<u>-</u>	<u>6,066,610.46</u>
Total	<u>30,841,964.80</u>	<u>6,043,244.67</u>	<u>-</u>	<u>65,605.03</u>	<u>36,819,604.44</u>
Less accum. depreciation:					
Land improvements and infrastructure	1,188,488.84	55,333.43	-	-	1,243,822.27
Buildings	6,435,995.82	638,892.16	-	-	7,074,887.98
Equipment	1,209,851.99	91,165.00	-	7,577.86	1,293,439.13
Library holdings	326,771.56	50,437.16	-	56,773.03	320,435.69
Software	<u>-</u>	<u>112,388.14</u>	<u>-</u>	<u>-</u>	<u>112,388.14</u>
Total accum. depreciation	<u>9,161,108.21</u>	<u>948,215.89</u>	<u>-</u>	<u>64,350.89</u>	<u>10,044,973.21</u>
Capital assets, net	<u>\$21,680,856.59</u>	<u>\$5,095,028.78</u>	<u>\$ -</u>	<u>\$ 1,254.14</u>	<u>\$26,774,631.23</u>

NOTE 6. LONG-TERM LIABILITIES

Long-term liabilities activity for the year ended June 30, 2008, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Current Portion</u>
Payables:					
Loans	\$1,929,241.61	\$ -	\$1,029,241.61	\$ 900,000.00	\$100,000.00
TSSBA debt:					
Bonds	<u>471,591.00</u>	<u>-</u>	<u>150,775.50</u>	<u>320,815.50</u>	<u>157,108.50</u>
Subtotal	<u>2,400,832.61</u>	<u>-</u>	<u>1,180,017.11</u>	<u>1,220,815.50</u>	<u>257,108.50</u>

**Tennessee Board of Regents
Motlow State Community College
Notes to the Financial Statements (Cont.)
June 30, 2008, and June 30, 2007**

Other liabilities:					
Compensated absences	617,754.80	543,296.39	539,136.06	621,915.13	61,482.36
Net OPEB obligation	<u>-</u>	<u>352,424.56</u>	<u>-</u>	<u>352,424.56</u>	<u>-</u>
Subtotal	<u>617,754.80</u>	<u>895,720.95</u>	<u>539,136.06</u>	<u>974,339.69</u>	<u>61,482.36</u>
Total long-term liabilities	<u>\$3,018,587.41</u>	<u>\$895,720.95</u>	<u>\$1,719,153.17</u>	<u>\$2,195,155.19</u>	<u>\$318,590.86</u>

Long-term liabilities activity for the year ended June 30, 2007, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Current Portion</u>
Payables:					
Loans	\$2,000,000.00	\$ -	\$ 70,758.39	\$1,929,241.61	\$1,029,241.61
TSSBA debt:					
Bonds	<u>620,317.50</u>	<u>-</u>	<u>148,726.50</u>	<u>471,591.00</u>	<u>150,775.50</u>
Subtotal	<u>2,620,317.50</u>	<u>-</u>	<u>219,484.89</u>	<u>2,400,832.61</u>	<u>1,180,017.11</u>
Other liabilities:					
Compensated absences	<u>592,388.43</u>	<u>499,412.68</u>	<u>474,046.31</u>	<u>617,754.80</u>	<u>65,059.39</u>
Subtotal	<u>592,388.43</u>	<u>499,412.68</u>	<u>474,046.31</u>	<u>617,754.80</u>	<u>65,059.39</u>
Total long-term liabilities	<u>\$3,212,705.93</u>	<u>\$499,412.68</u>	<u>\$693,531.20</u>	<u>\$3,018,587.41</u>	<u>\$1,245,076.50</u>

Loans Payable

The Tennessee Board of Regents, on behalf of the college, borrowed funds from the State of Tennessee to build the Rutherford County Teaching Facility. The loan bears an interest rate of 4.13% and has a principal amount of \$1,000,000.00, a minimum annual debt service of \$104,132.97, and a due date of June 1, 2017. The balance owed by the college was \$900,000.00 at June 30, 2008, and \$1,929,241.61 at June 30, 2007.

Debt service requirements to maturity for loans payable at June 30, 2008, are as follows:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	\$100,000.00	\$37,196.77	\$137,196.77

**Tennessee Board of Regents
Motlow State Community College
Notes to the Financial Statements (Cont.)
June 30, 2008, and June 30, 2007**

2010	100,000.00	33,063.80	133,063.80
2011	100,000.00	28,930.82	128,930.82
2012	100,000.00	24,797.85	124,797.85
2013	100,000.00	20,664.87	120,664.87
2014 - 2017	<u>400,000.00</u>	<u>41,329.74</u>	<u>441,329.74</u>
	<u>\$900,000.00</u>	<u>\$185,983.85</u>	<u>\$1,085,983.85</u>

TSSBA Debt - Bonds

Bonds, with interest rates of 4%, were issued by the Tennessee State School Bond Authority (TSSBA). The bonds are due serially until 2010 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.

Debt service requirements to maturity for the college's portion of TSSBA bonds at June 30, 2008, are as follows:

Year Ending <u>June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	\$157,108.50	\$12,832.62	\$169,941.12
2010	<u>163,707.00</u>	<u>6,548.28</u>	<u>170,255.28</u>
	<u>\$320,815.50</u>	<u>\$19,380.90</u>	<u>\$340,196.40</u>

More detailed information regarding the bonds can be found in the notes to the financial statements in the financial report for the Tennessee State School Bond Authority. That report may be obtained by writing to the Director of Bond Finance, Suite 1600, James K. Polk Building, Nashville, Tennessee 37243-0273, or by calling (615) 401-7872.

NOTE 7. UNRESTRICTED NET ASSETS

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

**Tennessee Board of Regents
Motlow State Community College
Notes to the Financial Statements (Cont.)
June 30, 2008, and June 30, 2007**

	<u>June 30, 2008</u>	<u>June 30, 2007</u>
Working capital	\$149,486.81	\$96,363.18
Encumbrances	5,818.20	-
Designated fees	78,870.09	39,909.09
Plant construction	565,162.02	419,284.02
Renewal and replacement of equipment	857,085.37	578,960.71
Debt retirement	207,723.58	140,420.87
Undesignated	<u>1,268,094.09</u>	<u>1,157,302.16</u>
Total	<u>\$3,132,240.16</u>	<u>\$2,432,240.03</u>

NOTE 8. PENSION PLANS

A. Defined Benefit Plan

Tennessee Consolidated Retirement System

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

The TCRS issues a publicly available financial report that includes financial statements and required supplementary information for SETHEEPP. That report may be obtained by writing to the Tennessee Department of the Treasury, Consolidated Retirement System, 10th Floor Andrew Jackson Building, Nashville, Tennessee 37243-0230, or by calling (615) 741-8202.

Funding Policy - Plan members are noncontributory. The college is required to contribute an actuarially determined rate. The current rate is 13.62% of annual covered payroll. Contribution requirements for the college are established and may be amended by the TCRS' Board of Trustees. The college's contributions

**Tennessee Board of Regents
Motlow State Community College
Notes to the Financial Statements (Cont.)
June 30, 2008, and June 30, 2007**

to TCRS for the years ended June 30, 2008, 2007, and 2006 were \$979,296.10, \$928,388.45, and \$675,104.42. Contributions met the requirements for each year.

B. Defined Contribution Plans

Optional Retirement Plans (ORP)

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

Funding Policy - Plan members are noncontributory. The college contributes an amount equal to 10% of the employee's base salary up to the social security wage base and 11% above the social security wage base. Contribution requirements are established and amended by state statute. The contribution made by the college to the plans was \$281,773.45 for the year ended June 30, 2008, and \$264,886.71 for the year ended June 30, 2007. Contributions met the requirements for each year.

NOTE 9. OTHER POST-EMPLOYMENT BENEFITS

Healthcare is the only "other postemployment benefit" (OPEB) provided to employees. The State of Tennessee administers a group health insurance program which provides post-employment 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. Both plans are agent multiple-employer defined benefit OPEB plans. Benefits are established and amended by an insurance committee created by Title 8, Chapter 27, Part 201, *Tennessee Code Annotated*. Prior to reaching age 65, all members have the option of

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choosing a preferred provider organization (PPO), point of service (POS), or health maintenance organization (HMO) plan for healthcare benefits. Subsequent to age 65, members who are also in the state's retirement system may participate in a state-administered Medicare supplement that does not include pharmacy. The state makes on-behalf payments to the Medicare supplement plan for the college's eligible retirees; see Note 14. The plans are reported in the *Tennessee Comprehensive Annual Financial Report*. That report is available on the state's website at <http://tennessee.gov/finance/act/cafr.html>.

Funding Policy. The premium requirements of plan members are established and may be amended by the insurance committee. The plans are self-insured and financed on a pay-as-you-go basis with the risk shared equally among the participants. Claims liabilities of the plan are periodically computed using actuarial and statistical techniques to establish premium rates. In accordance with TCA 8-27-205 (b), retirees not eligible for Medicare pay a percentage of the total state premium under the State Employee Group Plan based on years of service, leaving a portion of retiree premiums effectively subsidized by contributions to the State Employee Group Plan for active employees. Retirees with 30 years of service pay 20% of the total premium under the State Employee Group Plan. Retirees with 20 but less than 30 years of service pay 30% of the total premium under the State Employee Group Plan. Retirees 55 and older with less than 20 but more than 10 years of service pay 40% of the total premium under the State Employee Group Plan. Contributions for the State Employee Group Plan for the year ended June 30, 2008, were \$1,938,213.39, which consisted of \$1,593,897.56 from the college and \$344,315.83 from the employees.

Annual OPEB Cost and Net OPEB Obligation

	State Employee Group Plan
Annual Required Contribution (ARC)	\$526,000.00
Interest on the Net OPEB Obligation	-
Adjustment to the ARC	-
Annual OPEB Cost	526,000.00
Amount of contribution	(173,575.44)
Increase (decrease) in Net OPEB Obligation	352,424.56
Net OPEB Obligation – beginning of year	-
Net OPEB Obligation – end of year	\$352,424.56

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<u>Year-end</u>	<u>Plan</u>	Annual OPEB <u>Cost</u>	Percentage of Annual OPEB Cost <u>Contributed</u>	Net OPEB Obligation <u>at Year-end</u>
June 30, 2008	State Employee Group Plan	\$526,000.00	33%	\$352,424.56

Funded Status and Funding Progress. The funded status of the plan as of June 30, 2008, was as follows:

	State Employee Group Plan
Actuarial valuation date	July 1, 2007
Actuarial accrued liability (AAL)	\$5,035,000.00
Actuarial value of plan assets	-
Unfunded actuarial accrued liability (UAAL)	\$5,035,000.00
Actuarial value of assets as a percentage of the AAL	0.00%
Covered payroll (active plan members)	\$9,057,473.26
UAAL as percentage of covered payroll	55.6%

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

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

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designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets.

In the July 1, 2007, actuarial valuation, the Projected Unit Credit actuarial cost method was used. The actuarial assumptions included a 4.5 percent investment rate of return (net of administrative expenses) and an annual healthcare cost trend rate of 7 percent initially, increased to 11 percent in the second year and then reduced by decrements to an ultimate rate of 5 percent after 12 years. Both rates include a 3 percent inflation assumption. The unfunded actuarial accrued liability is being amortized as a level percentage of payroll on a closed basis over a 30-year period beginning with July 1, 2007.

NOTE 10. INSURANCE-RELATED ACTIVITIES

It is the policy of the state not to purchase commercial insurance for the risks of losses for general liability, automobile liability, professional malpractice, and workers' compensation. The state's management believes it is more economical to manage these risks internally and set aside assets for claim settlement in its internal service fund, the Risk Management Fund. The state purchases commercial insurance for real property, flood, earthquake, and builder's risk losses and surety bond coverage on the state's officials and employees. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years. The Risk Management Fund is also responsible for claims for damages to state-owned property up to the amount of the property insurance aggregate deductible amount. The insurance policy deductibles vary from \$25,000 per occurrence, depending on the type of coverage, to an aggregate of \$5 million.

The college participates in the Risk Management Fund. The fund allocates the cost of providing claims servicing and claims payment by charging a premium to the college based on a percentage of the college's expected loss costs, which include both experience and exposures. This charge considers recent trends in actual claims experience of the state as a whole. An actuarial valuation is performed as of fiscal year-end to determine the fund liability and premium allocation. Information regarding the determination of the claims liabilities and the changes in the balances of the claims liabilities for the years ended June 30, 2008, and June 30, 2007, are presented in the *Tennessee Comprehensive Annual Financial Report*. That report may be obtained by writing to the Tennessee Department of Finance and

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Administration, Division of Accounts, 14th Floor William R. Snodgrass Tennessee Tower, 312 Rosa L. Parks Avenue, Nashville, Tennessee 37243-1102, or by calling (615) 741-2140. Since the college participates in the Risk Management Fund, it is subject to the liability limitations under the provisions of the Tennessee Claims Commission Act, *Tennessee Code Annotated*, Section 9-8-101 et seq. Liability for negligence of the college for bodily injury and property damage is limited to \$300,000 per person and \$1,000,000 per occurrence. The limits of liability under workers' compensation are set forth in *Tennessee Code Annotated*, Section 50-6-101 et seq. Claims are paid through the state's Risk Management Fund. At June 30, 2008, the Risk Management Fund held \$123.9 million in cash and cash equivalents designated for payment of claims. At June 30, 2007, the Risk Management fund held \$116.7 million in cash and cash equivalents designated for payment of claims.

At June 30, 2008, the scheduled coverage for the college was \$55,157,500.00 for buildings and \$28,200,000.00 for contents. At June 30, 2007, the scheduled coverage for the college was \$52,003,600.00 for buildings and \$25,200,000.00 for contents.

The state has also set aside assets in the Employee Group Insurance Fund, an internal service fund, to provide a program of health insurance coverage for the employees of the state with the risk retained by the state. The college participates in the Employee Group Insurance Fund. The fund allocates the cost of providing claims servicing and claims payment by charging a premium to the college based on estimates of the ultimate cost of claims 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 11. COMMITMENTS AND CONTINGENCIES

Sick Leave - The college records the cost of sick leave when paid. Generally, since sick leave (earned one day per month with unlimited accumulation) is paid only when an employee dies or is absent because of illness, injury, or related family death, there is no liability for sick leave at June 30. The dollar amount of unused sick leave was \$5,784,907.24 at June 30, 2008, and \$4,274,369.69 at June 30, 2007.

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 personal property were \$1,181.00 for the year ended June 30,

**Tennessee Board of Regents
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Notes to the Financial Statements (Cont.)
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2008. Expenses under operating leases for real property were \$2,278.00 and for personal property were \$26,491.93 for the year ended June 30, 2007. All operating leases are cancelable at the lessee's option.

Construction in Progress - At June 30, 2008, outstanding commitments under construction contracts totaled \$3,023,800.87 for the Library project and the McMinnville Center project, of which \$3,023,800.87 will be funded by future state capital outlay appropriations.

NOTE 12. NATURAL CLASSIFICATIONS WITH FUNCTIONAL CLASSIFICATIONS

The college's operating expenses by functional classification for the year ended June 30, 2008, are as follows:

Functional Classification	Natural Classification					
	Salaries	Benefits	Other Operating	Scholarships	Depreciation	Total
Instruction	\$6,586,041.19	\$2,168,253.99	\$1,403,015.84	\$ -	\$ -	\$10,157,311.02
Public service	155,508.89	54,585.26	20,106.83	-	-	230,200.98
Academic support	955,865.74	417,736.93	-	5,677.00	-	1,379,279.67
Student services	1,187,843.13	564,389.85	828,283.75	148,973.70	-	2,729,490.43
Institutional support	1,835,249.55	693,320.51	415,224.97	-	-	2,943,795.03
Operation & maintenance of plant	676,749.48	345,752.06	1,906,015.29	-	-	2,928,516.83
Scholarships & fellowships	2,677.40	2,213.80	-	2,928,589.22	-	2,933,480.42
Auxiliary	-	-	7,546.41	-	-	7,546.41
Depreciation	-	-	-	-	1,202,766.77	1,202,766.77
Total	\$11,399,935.38	\$4,246,252.40	\$4,580,193.09	\$3,083,239.92	\$1,202,766.77	\$24,512,387.56

The college's operating expenses by functional classification for the year ended June 30, 2007, are as follows:

Functional Classification	Natural Classification					
	Salaries	Benefits	Other Operating	Scholarships	Depreciation	Total
Instruction	\$6,066,758.97	\$1,804,721.92	\$1,294,040.93	\$1,006.00	\$ -	\$9,166,527.82
Public service	203,107.83	70,237.95	35,401.87	-	-	308,747.65
Academic support	848,612.97	350,436.69	-	1,425.00	-	1,200,474.66
Student services	1,096,610.82	462,708.46	618,123.86	152,523.38	-	2,329,966.52
Institutional support	1,784,588.80	657,924.88	393,233.92	499.00	-	2,836,246.60

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Operation & maintenance of plant	617,849.64	302,727.28	1,065,081.23	-	-	1,985,658.15
Scholarships & fellowships	-	-	-	2,129,922.24	-	2,129,922.24
Auxiliary	-	-	8,073.21	-	-	8,073.21
Depreciation	-	-	-	-	948,215.89	948,215.89
Total	<u>\$10,617,529.03</u>	<u>\$3,648,757.18</u>	<u>\$3,413,955.02</u>	<u>\$2,285,375.62</u>	<u>\$948,215.89</u>	<u>\$20,913,832.74</u>

NOTE 13. CHANGE IN ACCOUNTING PRINCIPLE

During the year ended June 30, 2008, the college implemented Governmental Accounting Standards Board's Statement 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. This statement establishes standards for the measurement, recognition, and display of OPEB expense and related liabilities, note disclosures, and required supplementary information. The statement was implemented prospectively with a zero net OPEB obligation at transition.

NOTE 14. ON-BEHALF PAYMENTS

During the year ended June 30, 2008, the State of Tennessee made payments of \$12,139.18 on behalf of the college for retirees participating in the Medicare Supplement Plan. The Medicare Supplement Plan is a postemployment benefit healthcare plan and is discussed further in Note 9. The plan is reported in the *Tennessee Comprehensive Annual Financial Report*. That report is available on the state's website at <http://tennessee.gov/finance/act/cafr.html>.

NOTE 15. COMPONENT UNIT

The Motlow College Foundation is a legally separate, tax-exempt organization supporting Motlow State Community College. The foundation acts primarily as a fund-raising organization to supplement the resources that are available to the college in support of its programs. The 69-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

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Notes to the Financial Statements (Cont.)
June 30, 2008, and June 30, 2007

restricted to the activities of the college by the donors. Because these restricted resources held by the foundation can only be used by, or for the benefit of, the college, the foundation is considered a component unit of the college and is discretely presented in the college's financial statements.

The foundation is a nonprofit organization that reports under Financial Accounting Standards Board (FASB) standards, including FASB Statement 117, *Financial Statements of Not-for-Profit Organizations*. As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features. With the exception of necessary presentation reformatting, no modifications have been made to the foundation's financial information in the college's financial statements for these differences.

During the year ended June 30, 2008, the foundation made distributions of \$1,070,704.26 to or on behalf of the college for both restricted and unrestricted purposes. During the year ended June 30, 2007, the foundation made distributions of \$33,819.66 to or on behalf of the college for both restricted and unrestricted purposes. Complete financial statements for the foundation can be obtained from Mike Posey, Treasurer, Motlow College Foundation, P.O. Box 8500, Lynchburg, Tennessee 37352.

Cash and cash equivalents - Cash and cash equivalents consists of a demand deposit account, petty cash, cash with investment managers, money market funds, and funds on deposit in the Local Government Investment Pool (LGIP) administered by the State Treasurer. Uninsured bank balances at June 30, 2008, totaled \$344,254.66, and uninsured bank balances at June 30, 2007, totaled \$238,256.69.

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

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Notes to the Financial Statements (Cont.)
June 30, 2008, and June 30, 2007**

Investments held at June 30, 2008, were as follows:

	<u>Cost</u>	<u>Market Value</u>
U.S. Treasury obligations	\$ 473,392.62	\$ 473,986.26
Certificates of deposit	700,000.00	700,000.00
Corporate stock	1,538,465.33	1,548,956.50
Mutual funds - bonds	5,256.84	5,198.40
Mutual funds - equity	670,891.20	703,359.07
Money market funds	1,289,297.70	1,289,297.70
Cash with investment manager	637,066.37	637,066.37
Amounts classified as cash and cash equivalents	<u>(1,926,364.07)</u>	<u>(1,926,364.07)</u>
Total investments	<u>\$3,388,005.99</u>	<u>\$3,431,500.23</u>

Investments held at June 30, 2007, were as follows:

	<u>Cost</u>	<u>Market Value</u>
U.S. Treasury obligations	\$1,254,418.62	\$1,274,736.10
Certificates of deposit	700,000.00	700,000.00
Mutual funds - equity	2,557,567.84	3,262,305.47
Money market funds	41,496.63	41,496.63
Cash with investment manager	259,182.87	259,182.87
Amounts classified as cash and cash equivalents	<u>(300,679.50)</u>	<u>(300,679.50)</u>
Total investments	<u>\$4,511,986.46</u>	<u>\$5,237,041.57</u>

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

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Motlow State Community College
Notes to the Financial Statements (Cont.)
June 30, 2008, and June 30, 2007**

	<u>June 30, 2008</u>	<u>June 30, 2007</u>
Current pledges	\$106,367.50	\$85,520.00
Pledges due in one to five years	<u>300,000.00</u>	<u>2,100.00</u>
Subtotal	406,367.50	87,620.00
Less discount to net present value	<u>(13,010.32)</u>	<u>(105.51)</u>
 Total pledges receivable, net	 <u>\$393,357.18</u>	 <u>\$87,514.49</u>

Endowments - If a donor has not provided specific instructions to Motlow College Foundation, state law permits 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 the foundation's 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 only realized changes in the value of investments) each year. Under the spending plan established by the foundation, the annual budget (restricted and unrestricted) which includes a transfer from the estimated earnings on investments has been authorized for expenditure.

NOTE 16. SUBSEQUENT EVENTS

Further disruption in the credit markets and overall declines in economic conditions in markets in the United States of America and internationally have resulted in significant declines in the fair value of the foundation's investments subsequent to June 30, 2008. Based on information available from fund managers, the foundation estimates that the value of the investments as of April 30, 2009, has declined approximately \$200,000 compared to the value as of June 30, 2008.

**Tennessee Board of Regents
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 Required Supplementary Information
 OPEB Schedule of Funding Progress
 Unaudited**

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

**TENNESSEE BOARD OF REGENTS
MOTLOW STATE COMMUNITY COLLEGE
SUPPLEMENTARY INFORMATION
SCHEDULES OF CASH FLOWS - COMPONENT UNIT
FOR THE YEARS ENDED JUNE 30, 2008, AND JUNE 30, 2007**

	<u>Year Ended June 30, 2008</u>	<u>Year Ended June 30, 2007</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Gifts and contributions	\$ 15,237.04	\$ 237,425.75
Endowment income per spending plan	116,413.39	76,307.31
Payments to suppliers and vendors	(66,960.60)	(62,229.56)
Payments for scholarships and fellowships	(157,612.05)	(146,695.23)
Payments to Motlow State Community College	(1,070,704.26)	(33,819.66)
Auxiliary enterprise charges	5,368.35	5,595.03
Net cash provided (used) by operating activities	<u>(1,158,258.13)</u>	<u>76,583.64</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Private gifts for endowment purposes	608,460.20	55,090.00
Changes in deposits held for others	302.64	156.18
Net cash provided by noncapital financing activities	<u>608,762.84</u>	<u>55,246.18</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of investments	4,474,659.37	1,513,332.17
Income on investments	216,441.25	10,628.52
Purchases of investments	<u>(2,748,873.97)</u>	<u>(2,918,519.09)</u>
Net cash provided (used) by investing activities	<u>1,942,226.65</u>	<u>(1,394,558.40)</u>
Net increase (decrease) in cash and cash equivalents	1,392,731.36	(1,262,728.58)
Cash and cash equivalents at beginning of year	751,085.26	2,013,813.84
Cash and cash equivalents at end of year	<u>\$ 2,143,816.62</u>	<u>\$ 751,085.26</u>
Reconciliation of operating loss to net cash provided (used) by operating activities:		
Operating loss	\$ (944,216.37)	\$ (881.82)
Adjustments to reconcile operating loss to net cash provided (used) by operating activities:		
Change in assets and liabilities:		
Receivables, net	(301,420.24)	77,051.46
Accounts payable	87,378.48	414.00
Net cash provided (used) by operating activities	<u>\$ (1,158,258.13)</u>	<u>\$ 76,583.64</u>
Noncash transactions		
Gifts in-kind	\$ 198,126.51	\$ 167,684.44
Unrealized gain (loss) on investments	\$ (36,081.55)	\$ 335,115.73