# 2016-2017 FINANCIAL REPORT

## Year Ending June 30, 2017

**SOUTHWEST**
**TENNESSEE COMMUNITY COLLEGE**

TENNESSEE'S COMMUNITY COLLEGES

SOUTHWEST
TENNESSEE COMMUNITY COLLEGE
P.O. Box 780 • Memphis, TN 38101-0780 • (901) 333-5000 • www.southwest.tn.edu

November 21, 2017

Chancellor Flora W. Tydings
Tennessee Board of Regents
1 Bridgestone Park, Third Floor
Nashville, TN 37214

Dear Chancellor Tydings:

We are providing this letter in connection with the transmittal of the Financial Statements for Southwest Tennessee Community College. The Financial Statements for fiscal year 2017 consists of the following: the Statement of Net Position; the Statement of Revenues, Expenses, and Changes in Net Position; the Statement of Cash Flows; and Notes to the Statements (the "Financial Statements"). We believe that the Financial Statements present fairly, in all material respects, the financial position, results of operations, and cash flows of the College in conformity with accounting principles generally accepted in the United States of America. We confirm that we are responsible for the fair presentation in the Financial Statements of financial position, results of operations, and cash flows in conformity with generally accepted accounting principles.

We represent to you that to the best of our knowledge and belief as the date of this transmittal:

1. The Financial Statements are fairly presented in conformity with accounting principles generally accepted in the United States of America.
2. There are no material transactions that have not been properly recorded in the accounting records underlying the Financial Statements.
3. The financial statements of component units of the College have been accurately and appropriately incorporated into the College's Financial Statements.
4. The Notes are internally consistent with and conform to the Financial Statements as presented.

Tracy D. Hall

Tracy D. Hall; President

Anita Lockridge

Anita Lockridge; Vice-President of Financial and Administrative Services

Cc: Vice Chancellor for Business and Finance



OFFICE OF THE PRESIDENT

Macon Cove Campus • Union Avenue Campus • Fayette Site • Gill Center • Maxine A. Smith Center • Millington Center • Whitehaven Center

Southwest Tennessee Community College, a Tennessee Board of Regents institution, is an affirmative action/equal opportunity college.

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### REQUIRED SUPPLEMENTARY INFORMATION



### SUPPLEMENTARY INFORMATION

**SOUTHWEST TENNESSEE COMMUNITY COLLEGE**
Management's Discussion and Analysis
For the Year Ended June 30, 2017

This section of Southwest Tennessee Community College's annual financial report presents a discussion and analysis of the financial performance of the College during the fiscal year ended June 30, 2017, with comparative information presented for the fiscal years ended June 30, 2016. This discussion has been prepared by management along with the financial statements and related note disclosures and should be read in conjunction with the financial statements and notes. The financial statements, notes, and this discussion are the responsibility of management.

The College has one discretely presented component unit, the Southwest Foundation. More detailed information about the foundation is presented in Note 18 to the financial statements. This discussion and analysis focuses on the College and does not include the foundation.

## Overview of the Financial Statements

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

The College's financial report includes the Statement of Net Position, the Statement of Revenues, Expenses, and Changes in Net Position, and the Statement of Cash Flows. Notes to the financial statements are also presented to provide additional information that is essential to a full understanding of the financial statements.

## The Statement of Net Position

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

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

The Statement of Net Position also indicates the availability of net position for expenditure by the College. Net position is divided into three major categories. The first category, net investment in capital assets, represents the College's total investment in property, plant, and equipment, net of outstanding debt obligations

related to these capital assets. To the extent debt or deferred inflows of resources has been incurred but not yet expended for capital assets, such amounts are not included. The next category is restricted net position, which is sub-divided into two categories, nonexpendable and expendable. Nonexpendable restricted net position includes endowment and similar resources whose use is limited by donors or other outside sources and as a condition of the gift, the principal is to be maintained in perpetuity. Expendable restricted net position is available for expenditure by the College but must be spent for purposes as determined by donors and/or external entities that have placed time or purpose restrictions on the use of the resources. The final category is unrestricted net position. Unrestricted net position is available to the College for any lawful purpose of the College.

The following table summarizes the College's assets, liabilities, deferred outflows/inflows, and net position at June 30, 2017, and June 30, 2016.

**Statement of Net Position (in thousands of US dollars)**

| | 2017 | 2016 |
|---|---|---|
| **Assets:** | | |
| Current assets | $ 33,851 | $ 28,320 |
| Capital assets, net | 108,114 | 109,889 |
| Other assets | 40,728 | 41,235 |
| **Total Assets** | 182,693 | 179,444 |
| **Deferred Outflows of Resources** | | |
| Deferred loss on debt refunding | 83 | 94 |
| Other deferred outflows | 5,365 | 5,881 |
| **Total Deferred Outflows** | 5,448 | 5,975 |
| **Liabilities:** | | |
| Current liabilities | 12,135 | 9,405 |
| Noncurrent liabilities | 20,224 | 17,212 |
| **Total Liabilities** | 32,359 | 26,617 |
| **Deferred Inflows of Resources** | | |
| Other deferred inflows | 613 | 4,451 |
| **Total Deferred Inflows** | 613 | 4,451 |
| **Net Position:** | | |
| Net investment in capital assets | 107,975 | 109,716 |
| Restricted – expendable | 2,145 | 2,909 |
| Unrestricted | 45,049 | 41,726 |
| **Total Net Position** | $ 155,169 | $ 154,351 |

**Comparison of FY2017 to FY2016**

- Deferred outflows of resources decreased by $515,000 due to the change in proportionate share and investment losses of the state pension plans.
- Deferred inflow of resources decreased significantly due to a decrease in deferred inflows related to pensions resulting from the amortization of investment gains for prior years and an adjustment for investment experience gains/losses between deferred inflows and deferred outflows.
- Current assets increase represents the additional cash activity from the Tennessee College of Applied Technology (TCAT)-Memphis, driven by higher cash from Pell Grants.
- Current liabilities increase represents the additional cash activity for TCAT-Memphis.
- Non-current liabilities increased by $3.1 million due to an increase in pension liabilities.
- The reduction in net position restricted expendable resulted primarily from the Leap grant expiration in January 2017, the reclassification of Indirect cost recoveries, and Administrative allowances from restricted expendable net position to unrestricted net position.

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

The Statement of Revenues, Expenses, and Changes in Net Position presents the results of operations for the fiscal year. Revenues and expenses are recognized when earned or incurred, regardless of when cash is received. The statement indicates whether the College's financial condition has improved or deteriorated during the fiscal year. The statement presents the revenues received by the College, both operating and non-operating, and the expenses paid by the College, operating and non-operating, and any other revenues, expenses, gains, or losses received or spent by the College.

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

A summary of the College's revenues, expenses, and changes in net position for the year ended June 30, 2017, and June 30, 2016, follows:

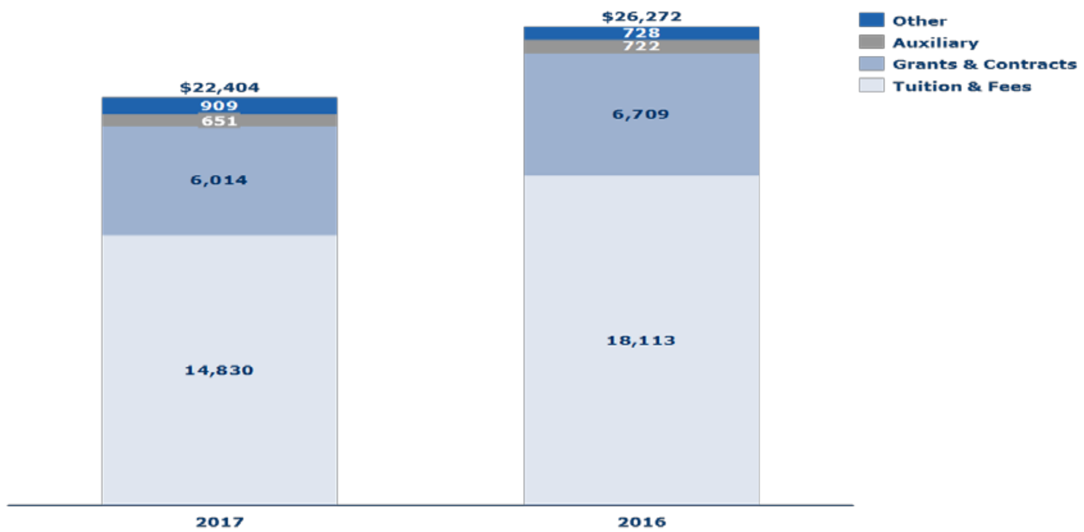
**Statement of Revenues, Expenses, and Changes in Net Position (in thousands of US dollars)**

| | 2017 | 2016 |
|---|---|---|
| Operating revenues | $ 22,404 | $ 26,272 |
| Operating expenses | 77,148 | 80,846 |
| Operating loss | (54,744) | (54,574) |
| Non-operating revenues and expenses | 53,754 | 51,831 |
| Income (loss) before other revenues, expenses, gains, or losses | (990) | (2,743) |
| Other revenues, expenses, gains, or losses | 1,015 | 1,160 |
| Increase (decrease) in net position | 25 | (1,583) |
| Net position at beginning of year | 154,351 | 159,155 |
| Prior period adjustment | 793 | (4,804) |
| **Net position at end of year** | $ 155,169 | $ 154,351 |

<u>Operating Revenues</u>

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

**Operating Revenues (in thousands of US dollars)**



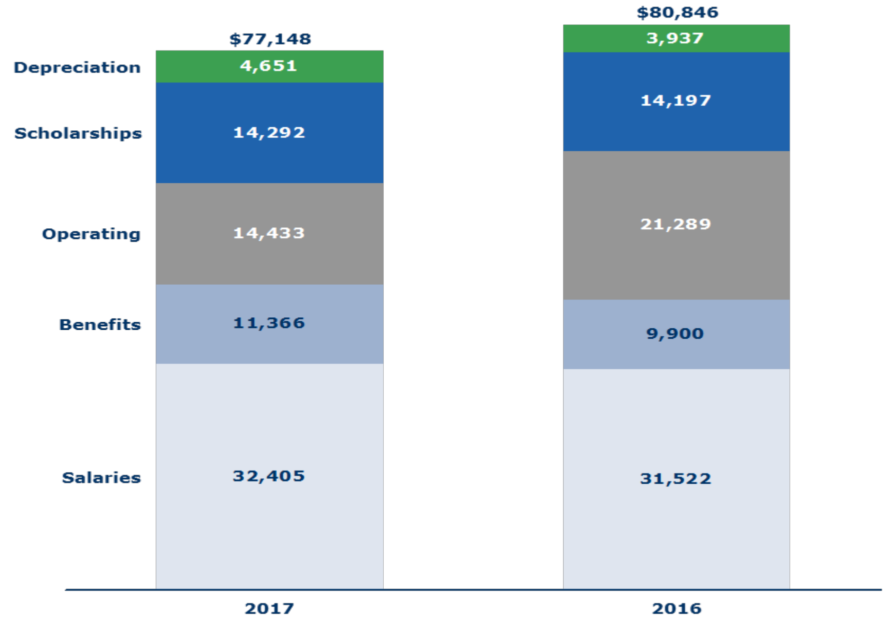

## Comparison of FY2017 to FY2016

- Operating revenue declined by $3.8 million or 14.7 percent in fiscal year 2017.
- The College implemented a new accounting policy in fiscal year 2017, treating bad debt as contra revenue as compared to operating expense. This accounting change decreased operating revenue by $1.7 million, accounting for almost half of the year-over-year reduction in operating revenue.
- Fall headcount enrollment declined by 8.8 percent in fiscal year 2017, which put downward pressure on fall term tuition and fees as they declined by $0.9 million.
- The reduction in governmental and non-governmental grants and contracts in the operating revenue section declined by $694,925 largely as a result of misclassification of the Federal SEOG in fiscal year 2016 (Pell funding was mistakenly coded to SEOG). As a result, operating revenues were overstated and non-operating revenues for grants and contracts were understated. After taking into account the adjustments, grants and contracts under operating revenue would have declined by approximately 4 percent.

Operating Expenses

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

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



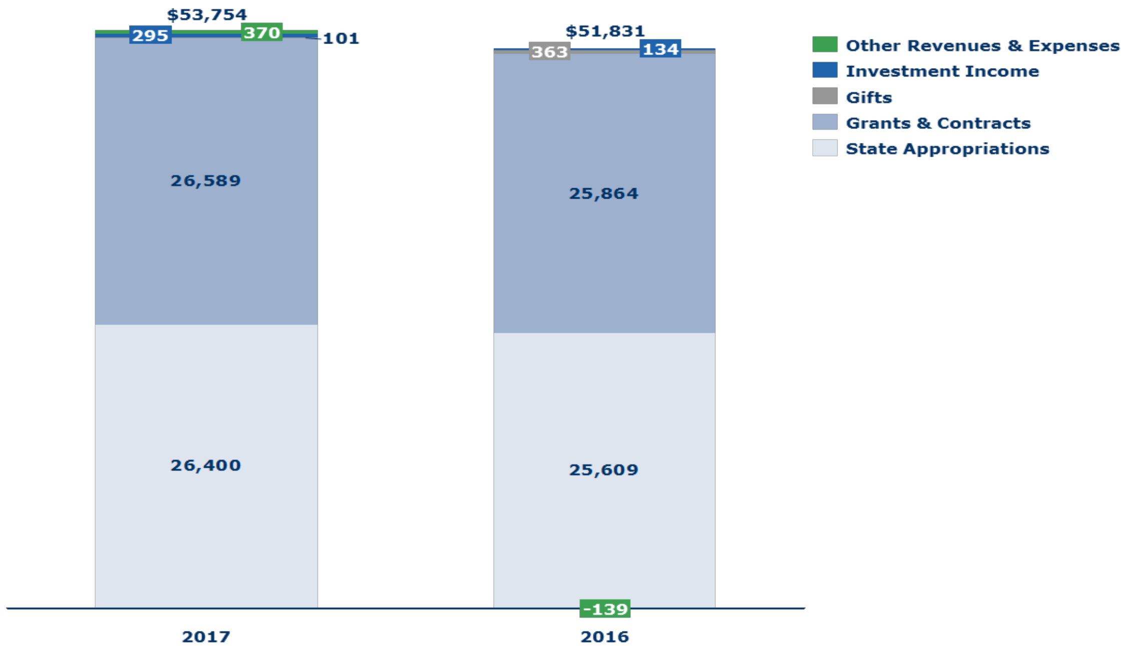

## Comparison of FY2017 to FY2016

- Operating expenses declined by $3.7 million or 4.5 percent in fiscal year 2017. The decline in operating expense was driven by a 32.2 percent reduction in operating costs as a result of lower expenses for: bad debt expense reclassified as contra revenue improved operating expense by $1.3 million year-over-year; expenses for furniture and various equipment were lower by $3.1 million in fiscal year 2017.
- The increase in benefits was driven by higher pension expense in fiscal year 2017.

## Non-operating Revenues and Expenses

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

**Non-Operating Revenue (in thousands of US dollars)**



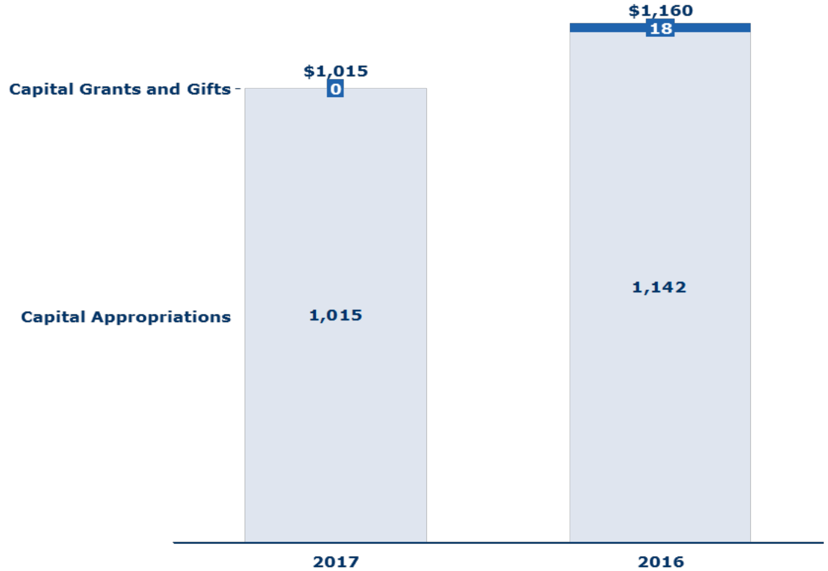

## Comparison of FY2017 to FY2016

- Non-operating revenue increased to $53.8 million in fiscal year 2017, up $1.9 million or 3.7 percent year-over-year. Increased revenue from state appropriations, higher investment income as a result of higher interest rates and higher other revenue contributed to the year-over-year improvement.

## Other Revenues

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

**Other Revenues - Capital (in thousands of US dollars)**




## Comparison of FY2017 to FY2016

- Capital grants and gifts declined by $0.145 million or 12.5 percent in fiscal year 2017 as a result of lower state appropriation. The ADA improvements at the Macon campus were completed in fiscal year 2016, contributing to lower capital appropriation in fiscal year 2017.

## Capital Assets and Debt Administration

### Capital Assets

Southwest Tennessee Community College had $108,114,453.03 invested in capital assets, net of accumulated depreciation of $57,250,742.32 at June 30, 2017; and $109,889,213.95 invested in capital assets, net of accumulated depreciation of $53,316,968.20 at June 30, 2016. Depreciation charges totaled $4,650,776.27 and $3,936,691.32 for the years ended June 30, 2017, and June 30, 2016, respectively.

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

| | 2017 | 2016 |
|---|---|---|
| Land | $ 13,888 | $ 13,888 |
| Land improvements & infrastructure | 4,903 | 2,504 |
| Buildings | 76,366 | 73,604 |
| Equipment | 8,499 | 9,962 |
| Library holdings | 543 | 579 |
| Intangible assets | 797 | 800 |
| Projects in progress | 3,121 | 8,552 |
| Total | $ 108,115 | $ 109,889 |

Significant reductions to capital assets occurred in fiscal year 2017. These reductions were from incremental accumulated depreciation of buildings and equipment.

At June 30, 2017, outstanding commitments under construction contracts totaled $6,840,618.04 for various renovations and repairs of buildings and infrastructure. Future state capital outlay appropriations will fund $3,234,907.62 of these costs.

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

## Debt

The College had $1,254,963.95 and $1,627,647.65 in debt outstanding at June 30, 2017, and June 30, 2016, respectively. The table below summarizes these amounts by type of debt instrument.

**Tennessee State School Bond Authority Bonds**

| | 2017 | 2016 |
|---|---|---|
| Property Acquisition I | $ 85,970.22 | $ 167,572.37 |
| Property Acquisition II | 58,009.80 | 100,253.45 |
| Entergy Savings Performance Contract | 1,051,100.79 | 1,201,251.24 |
| **Subtotals** | 1,195,080.81 | 1,469,077.06 |
| Add premium on bond | 59,883.14 | 158,570.59 |
| **Totals** | $ 1,254,963.95 | $ 1,627,647.65 |

The TSSBA issued bonds with interest rates ranging from 0.35% to 5% due 2024 on behalf of Southwest Tennessee Community College. The College is responsible for the debt service of these bonds. The current portion of the $1,254,963.95 outstanding at June 30, 2017, is $ 262,428.06.

The ratings on debt issued by the Tennessee State School Bond Authority at June 30, 2017, were as follows:

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

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

**Economic Factors That Will Affect the Future**

The financial stability of Southwest Tennessee Community College is closely tied to economic conditions in the State of Tennessee and the U.S. Tuition and fees, a major source of the College's revenues, comprise approximately 66 percent of total operating revenues in FY17, while grants and contracts consists of approximately 49 percent of total non-operating revenues. Additionally, state appropriations account for approximately 36 percent of FY17 total revenue, including capital appropriations.

The College's governing board, the Tennessee Board of Regents (TBR), approved a 2.6 percent increase in in-state tuition fees effective Fall Semester 2017. TBR also approved an increase in the hourly rate charged for hours in excess of 12 per semester, from $31 per credit hour to $32 per credit hour. Assuming enrollment remains stable, the increase in rates is projected to generate new funds for operations.

The College continues to support the state's mission to improve Tennessee's future workforce and economic development via the Drive to 55 program. The next phase of this program is Tennessee Reconnect, which the College is a participating institution.

**SOUTHWEST TENNESSEE COMMUNITY COLLEGE**
Unaudited Statement of Net Position
For the Year Ended June 30, 2017

| | Southwest | Southwest Foundation |
|---|---|---|
| **ASSETS** | | |
| Current assets: | | |
| Cash and cash equivalents (Notes 2,3, and 18) | $ 26,424,667.12 | $ 3,447,431.71 |
| Accounts, notes, and grants receivable (net) (Note 4) | 6,707,848.77 | - |
| Due from primary government | 410,415.83 | - |
| Due from Southwest Foundation | 218,488.49 | - |
| Pledges receivable (net) | - | 53,446.24 |
| Inventories (at lower of cost or market) | 90,067.56 | - |
| Total current assets | 33,851,487.77 | 3,500,877.95 |
| Noncurrent assets: | | |
| Cash and cash equivalents (Notes 2,3, and 18) | 40,679,278.07 | 719,168.34 |
| Investments (Note 18) | - | 2,935,070.83 |
| Net pension asset (Note 10) | 48,564.00 | - |
| Pledges receivable (Note 18) | - | 15,936.37 |
| Capital assets (net) (Note 5 and 18) | 108,114,453.03 | 127,943.60 |
| Total noncurrent assets | 148,842,295.10 | 3,798,119.14 |
| Total assets | 182,693,782.87 | 7,298,997.09 |
| **DEFERRED OUTFLOWS OF RESOURCES** | | |
| Deferred loss on debt refunding | 82,573.15 | - |
| Deferred outflows related to pensions | 5,365,464.83 | - |
| Total deferred outflows of resources | 5,448,037.98 | - |
| **LIABILITIES** | | |
| Current liabilities: | | |
| Accounts payable (Note 6) | 2,050,524.54 | 55,159.21 |
| Accrued liabilities | 1,701,148.23 | - |
| Due to primary government | 759,843.67 | 218,488.49 |
| Unearned revenue | 2,198,449.51 | - |
| Compensated absences (Note 7) | 491,179.00 | - |
| Long-term liabilities, current portion (Note 7) | 262,428.06 | - |
| Deposits held in custody for others | 4,671,225.10 | - |
| Total current liabilities | 12,134,798.11 | 273,647.70 |
| Noncurrent liabilities: | | |
| Net OPEB obligation (Note 11) | 6,877,454.78 | - |
| Net pension liability (Note 10) | 10,839,958.00 | - |
| Compensated absences (Note 7) | 1,514,556.22 | - |
| Long-term liabilities (Note 7) | 992,535.89 | - |
| Other liabilities | - | 850,501.73 |
| Total noncurrent liabilities | 20,224,504.89 | 850,501.73 |
| Total liabilities | 32,359,303.00 | 1,124,149.43 |

**SOUTHWEST TENNESSEE COMMUNITY COLLEGE**
Unaudited Statement of Net Position
For the Year Ended June 30, 2017

| | Southwest | Southwest Foundation |
|---|---|---|
| **DEFERRED INFLOWS OF RESOURCES** | | |
| Deferred inflows related to pensions | 613,557.00 | - |
| Total deferred inflows of resources | 613,557.00 | - |
| | | |
| **NET POSITION** | | |
| Net investment in capital assets | 107,975,103.12 | 127,943.60 |
| Restricted for: | | |
| Nonexpendable: | | |
| Scholarships and fellowships | | 1,213,235.81 |
| Other | | 429,994.81 |
| Expendable: | | |
| Scholarships and fellowships | 520,975.94 | |
| Instructional department uses | 290,060.75 | 2,721,296.61 |
| Pensions | 48,564.00 | - |
| Other | 1,285,178.77 | 1,250,273.43 |
| Unrestricted | 45,049,078.27 | 432,103.40 |
| Total net position | $ 155,168,960.85 | $ 6,174,847.66 |

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

**SOUTHWEST TENNESSEE COMMUNITY COLLEGE**
Unaudited Statement of Revenues, Expenses and Changes in Net Position
For the Year Ended June 30, 2017

| | Southwest | Southwest Foundation |
|---|---|---|
| **REVENUES** | | |
| Operating revenues: | | |
| Student tuition and fees (Note 12) | $ 14,830,439.78 | $ - |
| Gifts and contributions | - | 294,227.71 |
| Governmental grants and contracts | 5,464,716.96 | |
| Non-governmental grants and contracts (Including from component units) | 549,356.76 | - |
| Sales and services of educational activities | 374,743.00 | - |
| Sales and services of other activities | 75,546.77 | - |
| Auxiliary enterprises: | | |
| Bookstore (all bookstore revnues are used as security for revenue bonds, see Note 12) | 196,041.59 | - |
| Food service (all food service revenues are used as security for revenue bonds, see Note 12) | 454,803.35 | - |
| Other auxiliaries | 111.52 | - |
| Other operating revenues | 458,286.19 | - |
| Total operating revenues | 22,404,045.92 | 294,227.71 |
| **EXPENSES** | | |
| Operating Expenses (Note 15) | | |
| Salaries and wages | 32,405,306.93 | - |
| Benefits | 11,366,428.36 | - |
| Utilities, supplies, and other services | 14,433,350.68 | 32,324.67 |
| Scholarships and fellowships | 14,291,951.11 | 347,871.76 |
| Depreciation expense | 4,650,776.27 | - |
| Payments to or on behalf of STCC (Note 18) | - | 100,564.06 |
| Total operating expenses | 77,147,813.35 | 480,760.49 |
| Operating income (loss) | (54,743,767.43) | (186,532.78) |

**SOUTHWEST TENNESSEE COMMUNITY COLLEGE**
Unaudited Statement of Revenues, Expenses and Changes in Net Position
For the Year Ended June 30, 2017

| | | | Southwest | Southwest Foundation |
|---|---|---|---|---|
| **NONOPERATING REVENUES (EXPENSES)** | | | | |
| State appropriations | | | 26,399,737.50 | - |
| Gifts, including | $ | 96,760.00 | 96,760.00 | |
| from STCC Foundation to Southwest | | | | |
| Grants and contracts | | | 27,066,839.66 | - |
| Investment income (net of investment expense of for the institution and for the component unit(s)) | | | 294,756.04 | 298,189.74 |
| Interest on capital asset-related debt | | | (99,718.26) | - |
| Other non-operating revenues/(expenses) | | | (8,429.25) | - |
| Net nonoperating revenues | | | 53,749,945.69 | 298,189.74 |
| Income before other revenues, expenses gains, or losses | | | (993,821.74) | 111,656.96 |
| Capital appropriations | | | 1,014,814.24 | - |
| Capital grants and gifts, including from STCC Foundation | $ | 3,804.06 | 3,804.06 | - |
| Additions to permanent endowments | | | - | 5,580.00 |
| Total other revenues | | | 1,018,618.30 | 5,580.00 |
| Increase (decrease) in net position | | | 24,796.56 | 117,236.96 |
| | | | | |
| **NET POSITION** | | | | |
| Net position -beginning of year | | | 154,351,305.20 | 6,359,565.20 |
| Prior period adjustment (Notes 17 and 18) | | | 792,859.09 | (301,954.50) |
| Net position - end of year | | | $ 155,168,960.85 | $ 6,174,847.66 |

## SOUTHWEST TENNESSEE COMMUNITY COLLEGE
Unaudited Statement of Cash Flows
For the Year Ended June 30, 2017

| | | |
|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | |
| Tuition and fees | $ | 16,387,685.89 |
| Grants and contracts | | 5,017,392.22 |
| Sales and services of educational activities | | 374,743.00 |
| Sales and services of other activities | | 75,596.77 |
| Payments to suppliers and vendors | | (15,486,780.26) |
| Payments to employees | | (32,083,908.64) |
| Payments for benefits | | (11,030,438.11) |
| Payments for scholarships and fellowships | | (14,291,951.11) |
| Auxiliary Enterprises | | |
| Bookstore | | 196,041.59 |
| Food services | | 409,461.18 |
| Other auxiliaries | | 111.52 |
| Other receipts (payments) | | 458,281.19 |
| Net cash provided (used) by operating activities | | (49,973,764.76) |
| **CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES** | | |
| State appropriations | | 26,292,000.00 |
| Gifts and grants received for other than capital or endowment purposes, including from Southwest Foundation to the institution | | 27,167,403.72 |
| Changes in deposits held for others | | 2,718,628.59 |
| Net cash provided (used ) by non-capital financing activities | | 56,178,032.31 |
| **CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES** | | |
| Capital - state appropriation | | 1,014,814.24 |
| Purchase of capital assets and construction | | (1,928,882.04) |
| Principal paid on capital debt and lease | | (242,758.10) |
| Interest paid on capital debt and lease | | (99,718.26) |
| Net cash provided (used) by capital and related financing activities | | (1,256,544.16) |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | |
| Income on investments | | 294,756.04 |
| Net cash provided (used) by investing activities | | 294,756.04 |
| Net increase (decrease) in cash and cash equivalents | | 5,242,479.43 |
| Cash and cash equivalents - beginning of year | | 61,861,465.76 |
| Cash and cash equivalents - end of year (Note 2) | | 67,103,945.19 |

**SOUTHWEST TENNESSEE COMMUNITY COLLEGE**
Unaudited Statement of Cash Flows
For the Year Ended June 30, 2017

| | | |
|---|---|---|
| **RECONCILIATION OF OPERATING INCOME/(LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES** | | |
| Operating income/(loss) | | (54,743,767.43) |
| Adjustments to reconcile operating loss to net cash provided (used) by operating activities: | | |
| Noncash operating expenses | | 4,722,913.77 |
| Change in assets, liabilities, and deferrals: | | |
| Receivables, net | | 311,808.42 |
| Inventories | | (47,666.25) |
| Prepaid items | | 18,323.42 |
| Net pension asset | | (41,123.00) |
| Other assets | | (69,009.93) |
| Deferred outflows of resources | | 515,180.57 |
| Accounts payable | | (1,119,530.91) |
| Accrued liabilities | | 26,761.43 |
| Due to component unit/primary government | | 742,002.92 |
| Unearned revenues | | 235,779.17 |
| Compensated absences | | 32,467.12 |
| Net pension liability | | 3,147,601.00 |
| Deferred inflows of resources | | (3,837,639.00) |
| Other | | 132,133.94 |
| Net cash provided (used) by operating activities | $ | (49,973,764.76) |
| | | |
| **Non-cash investing, capital, and financing transactions** | | |
| Gifts in-kind - capital | $ | 3,804.06 |

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

1. Summary of Significant Accounting Policies

REPORTING ENTITY

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

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

The Southwest Tennessee Community College Foundation is considered a component unit of the college. Although the college does not control the timing or amount of receipts from the foundation, the majority of resources, or income thereon, which 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 18 for more detailed information about the component unit and how to obtain the report.

BASIS OF PRESENTATION

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

CASH EQUIVALENTS

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

INVENTORIES

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

COMPENSATED ABSENCES

The college's employees accrue annual and sick leave at varying rates, depending upon length of service or classification. Some employees also earn compensatory time. The amount of the liabilities for annual leave and compensatory time and their related benefits are reported in the Statement of Net Position. There is no liability for unpaid accumulated sick leave since the college's policy is to pay this only if the employee is sick or upon death.

## CAPITAL ASSETS

Capital assets, which include property, plant, equipment, library holdings, works of art, historical treasures/collections, and intangible assets, are reported in the Statement of Net Position at historical cost or at acquisition 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 assets' useful lives are not capitalized.

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

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

## LWIA EQUIPMENT

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

## PENSIONS

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

## NET POSITION

The college's net position is classified as follows:

NET INVESTMENT IN CAPITAL ASSETS*:* This represents the college's total investment in capital assets, net of accumulated depreciation and net of outstanding debt obligations and deferred outflows/inflows of resources related to those capital assets. To the extent debt has been incurred but not yet expended for capital assets, such amounts are not included as a component of net investment in capital assets.

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

RESTRICTED NET POSITION – EXPENDABLE: Restricted expendable net position includes resources in which the college is legally or contractually obligated to spend in accordance with restrictions imposed by external third parties.

UNRESTRICTED NET POSITION: Unrestricted net position represents resources derived from student tuition and fees, state appropriations, sales and services of educational departments, sales and services of other, 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 discount and allowances in the statement of revenues, expenses, and changes in net position. Scholarship discounts and allowances are the difference between the stated charge for goods and services provided by the college, and the amount that is paid by the student and/or third parties making payments on the students' 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.

2. Cash

This classification includes demand deposits and petty cash on hand. At June 30, 2017, cash consists of $3,608,615.71 in bank accounts, $10,000.00 of petty cash on hand, $61,869,641.87 in the State of Tennessee Local Government Investment Pool administered by the State Treasurer, $1,480,437.61 in the Deposits – Capital Projects account and $135,250.00 transfer to the Title & Escrow company for the purchase of a tract of land.

LGIP Deposits – 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 (LGIP) account. As expenses are incurred, funds are withdrawn from the LGIP account by the System 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 System releases any remaining funds.

The Local Government Investment Pool (LGIP) is administered by the State Treasurer and is measured at amortized cost. The LGIP is part of the State Pooled Investment Fund. There are no minimum or maximum limitations on withdrawals with the exception of a 24-hour notification period for withdrawals of $5 million or more. The fund's required risks disclosures are presented in the *State of Tennessee's Treasurer's Report.* That report is available on the state's website at http://www.tn.gov/treasury or by calling (615) 741-2956.

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

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

As of June 30, 2017, the college's investments consisted entirely of investments in the Local Government Investment Pool. The carrying value of these investments was $ 63,350,079.48. LGIP investments are not rated by nationally recognized statistical ratings organizations.

4. Accounts, Notes, and Grants Receivable

Accounts receivable included the following:

| | June 30, 2017 | |
|---|---|---|
| Student accounts receivable | $ | 4,777,613.20 |
| Grants receivable | | 2,292,548.74 |
| Other receivables | | 1,370,948.41 |
| Subtotal | $ | 8,441,110.35 |
| Less allowance for doubtful account | | (1,733,261.58) |
| **Total** | $ | 6,707,848.77 |

Federal Perkins Loan Program funds include the following:

| | June 30, 2017 |
|---|---|
| Perkins loans receivable | $ 136,610.32 |
| Less allowance for doubtful accounts | (136,610.32) |
| Total | - |

5. Capital Assets

Capital asset activity for the year ended June 30, 2017, was as follows:

| | Beg Balance | Additions | Transfers | Reductions | End Balance |
|---|---|---|---|---|---|
| Land | $ 13,888,001.51 | | | | $ 13,888,001.51 |
| Land improve & infra | 7,582,444.23 | $ 881,054.66 | $ 2,127,030.64 | | 10,590,529.53 |
| Buildings | 110,417,713.56 | 32,833.90 | 4,232,654.80 | | 114,683,202.26 |
| Equipment | 19,796,170.72 | 569,405.72 | | | 20,365,576.44 |
| Library holdings | 1,174,001.67 | | | $ (43,423.57) | 1,130,578.10 |
| Intangible assets | 1,795,432.86 | | | (208,838.05) | 1,586,594.81 |
| Projects in progress | 8,552,417.60 | 927,980.54 | (6,359,685.44) | | 3,120,712.70 |
| **Total** | **$ 163,206,182.15** | **$ 2,411,274.82** | **-** | **$ (252,261.62)** | **$ 165,365,195.35** |
| Less accumulated depreciation/amortization: | | | | | |
| Land improve & infra. | $ 5,078,668.48 | $ 609,169.52 | | | $ 5,687,838.00 |
| Buildings | 36,813,216.86 | 1,504,353.35 | | | 38,317,570.21 |
| Equipment | 9,834,041.31 | 2,033,431.08 | | | 11,867,472.39 |
| Library holdings | 595,566.06 | | | $ (7,111.62) | 588,454.44 |
| Intangible assets | 995,475.49 | | | (206,068.21) | 789,407.28 |
| **Total** | **$ 53,316,968.20** | **$ 4,146,953.95** | | **$ (213,179.83)** | **$ 57,250,742.32** |
| **Capital assets, net** | **$ 109,889,213.95** | **$ (1,735,679.13)** | | **$ (39,081.79)** | **$ 108,114,453.03** |

6. Accounts Payable

Accounts payable included the following:

| | June 30, 2017 |
|---|---|
| Vendors payable | $ 534,937.09 |
| Other payables | 1,515,587.45 |
| **Total** | $ 2,050,524.54 |

7. Long-term Liabilities

Long term liability activity for the year ended June 30, 2017, was as follows:

| | **Balance July 1, 2016** | **Additions** | **Reductions** | **Balance June 30, 2017** | **Current Portion** |
|---|---|---|---|---|---|
| Payables: | | | | | |
| TSSBA debt: | | | | | |
| Bonds | $ 1,469,077.06 | | $ (273,996.25) | $ 1,195,080.81 | $ 262,428.06 |
| Unamortized bond premium/discount | 158,570.59 | | (98,687.45) | 59,883.14 | |
| Subtotal | 1,627,647.65 | | (372,683.70) | 1,254,963.95 | 262,428.06 |
| Other Liabilities | | | | | |
| Compensated Absences | 1,973,268.10 | 1,089,870.64 | (1,057,403.52) | 2,005,735.22 | 491,179.00 |
| Subtotal | 1,973,268.10 | 1,089,870.64 | (1,057,403.52) | 2,005,735.22 | 491,179.00 |
| **Total long-term Liabilities** | **$ 3,600,915.75** | **$ 1,089,870.64** | **$ (1,430,087.22)** | **$ 3,260,699.17** | **$ 753,607.06** |

TSSBA Debt - Bonds Payable

Bonds, with interest rates ranging from 0.35% to 5%, were issued by the Tennessee State School Bond Authority. The bonds are due serially until 2024 and are secured by pledges of the facilities' revenues to which they relate and certain other revenues and fees of the college, including state appropriations, see Note 9 for further details. The bonded indebtedness with the Tennessee State School Bond Authority included in long-term liabilities on the Statement of Net Position is shown net of assets held by the authority in the debt service reserve and net of unexpended debt proceeds. The reserve amount was $199,448.30 at June 30, 2017.

Debt service requirements to maturity for the college's portion of TSSBA bonds at June 30, 2017, are as follows:

| For the Year(s) Ending June 30 | Principal | Interest | Total |
|---|---|---|---|
| 2018 | $ 262,428.06 | $ 61,870.23 | $ 324,298.29 |
| 2019 | - | 54,741.98 | 54,741.98 |
| 2020 | 165,718.71 | 42,489.67 | 208,208.38 |
| 2021 | 174,581.48 | 33,982.16 | 208,563.64 |
| 2022 | 187,565.65 | 24,928.48 | 212,494.13 |
| 2023 – 2027 | 404,786.91 | 20,479.83 | 425,266.74 |
| Total | $ 1,195,080.81 | $ 238,492.35 | $ 1,433,573.16 |

8. Endowments

If a donor has not provided specific instructions to Southwest Tennessee 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 its long-term and short-term needs, present and anticipated financial requirements, expected total return on its investments, price-level trends, and general economic conditions. Any net appreciation that is spent is required to be spent for the purposes for which the endowment was established.

The foundation chooses to spend only a portion of the investment income (including changes in the value of investments) each year. Under the spending plan established by the foundation, 5% of a trailing three-year average of the endowment's total asset value has been authorized for expenditure. The remaining amount, if any, is retained to be used in future years when the amount computed using the spending plan exceeds the investment income. At June 30, 2017, net appreciation of $67,982.24 is available to be spent, of which $67,982.24 is included in restricted net position expendable for scholarships and fellowships.

9. Pledged Revenues

The college has pledged certain revenues and fees, including state appropriations, to repay $1,195,080.81 in revenue bonds issued from April 2009 to August 2014. Proceeds from the bonds provided financing for Property Acquisition I, Property Acquisition II, and Energy Savings Performance Contract. The bonds are payable through 2024. Annual principal and interest payments on the bonds are expected to require 0.6% of available revenues. The total principal and interest remaining to be paid on the bonds is $1,433,573.16. Principal and interest paid for the current year and total available revenues were $341,638.81 and $58,457,894.75, respectively.

10. Pension Plans

Defined Benefit Plan

**Closed State and Higher Education Employee Pension Plan**

*General Information about the Pension Plan*

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

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

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

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

**Plus:**

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

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

Contributions - Contributions for state employees and higher education employees are established in the statutes governing the TCRS and may only be changed by the Tennessee General Assembly. The college's employees are non-contributory, as are most members in the Closed State and Higher Education Employee Pension Plan. State and higher education agencies make employer contributions at the rate set by the Board of Trustees as determined by an actuarial valuation. By law, employer contributions for the Closed State and Higher Education Employee Pension Plan are required to be paid. Employer contributions by the college for the year ended June 30, 2017, to the Closed State and Higher Education Employee Pension Plan were $2,004,817.46 which is 15.02 percent of covered payroll. The employer rate, when combined with member contributions, is expected to finance the costs of benefits earned by members during the year, the cost of administration, as well as an amortized portion of any unfunded liability.

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

Pension liability – At June 30, 2017, the college reported a liability of $10,839,958.00 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The college's proportion of the net pension liability was based on a projection of the college's contributions during the year ended June 30, 2016, to the pension plan relative to the contributions of all participating state and higher education agencies. At the June 30, 2016, measurement date, the college's proportion was 0.59411 percent. The proportionate share from the prior year's measurement date of June 30, 2015 was 0.59664 percent.

Pension expense – For the year ended June 30, 2017, the college recognized a pension expense of $1,867,353.

Deferred outflows of resources and deferred inflows of resources – For the year ended June 30, 2017, the college reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|---|---|
| Differences between expected and actual experience | $ 607,896.00 | $ 76,016.00 |
| Net difference between projected and actual earnings on pension plan investments | 2,621,552.57 | |
| Changes in proportion of Net Pension Liability (Asset) | 20,817.00 | 27,084.00 |
| Contributions subsequent to the measurement date of June 30, 2016 | 2,004,817.46 | |
| Total | $ 5,255,083.03 | $ 603,100.00 |

Deferred outflows of resources, resulting from the college's employer contributions of $2,004,817.46 subsequent to the measurement date will be recognized as a decrease in net pension liability in the year ended June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

| **Year Ended June 30:** | |
|---|---|
| 2018 | $ 136,386 |
| 2019 | 136,386 |
| 2020 | 1,612,911 |
| 2021 | 761,566 |

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

Actuarial assumptions - The total pension liability as of June 30, 2016 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

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

Mortality rates were customized based on the June 30, 2012 actuarial experience study and included some adjustment for expected future improvement in life expectancy.

The actuarial assumptions used in the June 30, 2016 actuarial valuation were based on the results of an actuarial experience study performed for the period July 1, 2008 through June 30, 2012. The demographic assumptions were adjusted to more closely reflect actual and expected future experience.

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

| **Asset Class** | **Long-Term Expected Real Rate of Return** | **Target Allocation** |
|---|---|---|
| U.S. equity | 6.46% | 31% |
| Developed market international equity | 6.26% | 15% |
| Emerging market international equity | 6.40% | 4% |
| Private equity and strategic lending | 4.61% | 14% |
| U.S. fixed income | 0.98% | 25% |
| Real estate | 4.73% | 10% |
| Short-term securities | 0.00% | 1% |
| | | 100% |

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

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

Sensitivity of the proportionate share of net pension liability (asset) to changes in the discount rate - The following presents the college's proportionate share of the net pension liability (asset) calculated using the discount rate of 7.5 percent, as well as what the college's proportionate share of the net pension liability (asset) would be if it were calculated using a discount rate that is 1 percentage point lower (6.5 percent) or 1 percentage point higher (8.5 percent) than the current rate:

| | 1% Decrease (6.5%) | Current Discount Rate (7.5%) | 1% Increase (8.5%) |
|---|---|---|---|
| Southwest Tennessee Community College's proportionate share of the net pension liability (asset) | $ 21,362,639.00 | $ 10,839,958.00 | $ 2,017,452.00 |

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

*Payable to the Pension Plan*

At June 30, 2017, the university/college reported a payable of $180,965.98 for the outstanding amount of legally required contributions to the pension plan required for the year ended June 30, 2017.

**State and Higher Education Employee Retirement Plan**

*General Information about the Pension Plan*

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

Benefits provided – Title 8, Chapters 34-37, Tennessee Code Annotated establishes the benefit terms and can be amended only by the Tennessee General Assembly. Members of the State and Higher Education Employee Retirement Plan are eligible to retire at age 65 with 5 years of service credit or pursuant to the rule of 90 in which the member's age and service credit total 90. Members are entitled to receive unreduced service retirement benefits, which are determined by a formula multiplying the member's highest five consecutive year average compensation by 1 percent multiplied by the member's years of service credit. A reduced early retirement benefit is available at age 60 with 5 years of service credit or pursuant to the rule of 80 in which the member's age and service credit total 80. Service-related disability benefits are provided regardless of length of service. Five years of service is required for non-service-related disability eligibility. The service-related and non-service-related disability benefits are determined in the same manner as a service retirement benefit but are reduced 10 percent and include projected service credits. A variety of death benefits are available under various eligibility criteria.

Member and beneficiary annuitants are entitled to automatic cost-of-living adjustments (COLAs) after retirement. A COLA is granted each July for annuitants retired prior to July 2 of the previous year. The COLA is based on the change in the consumer price index (CPI) during the prior calendar year, capped at 3 percent, and applied to the current benefit. No COLA is granted if the change in the CPI is less than 0.5 percent. A 1 percent COLA is granted if the CPI change is between 0.5 percent and 1 percent. A member who leaves employment may withdraw employee contributions, plus any accumulated interest.

Contributions – Contributions for state and higher education employees are established in the statutes governing the TCRS and may only be changed by the Tennessee General Assembly. Employees contribute 5 percent of their salary. The higher education institutions make employer contributions at the rate set by the Board of Trustees as determined by an actuarial valuation. By law, employer contributions for the State and Higher Education Employee Retirement Plan are required to be paid. Employer contributions by the Southwest Tennessee Community College for the year ended June 30, 2017, to the State and Higher Education Employee Retirement Plan were $101,185.80, which is 3.69 percent of covered payroll. The employer rate, when combined with member contributions, is expected to finance the costs of benefits earned by members during the year and the cost of administration, as well as an amortized portion of any unfunded liability.

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

Pension Asset – At June 30, 2017, the Southwest Tennessee Community College reported an asset of $48,564.00 for its proportionate share of the net pension asset. The net pension asset was measured as of June 30, 2016, and the total pension asset used to calculate the net pension asset was determined by an actuarial valuation as of that date. The college's proportion of the net pension asset was based on a projection of the college's contributions during the year ended June 30, 2016, to the pension plan relative to the contributions of all participating state and higher education agencies. At the June 30, 2016, measurement date, the college proportion was 0.576461 percent. The proportionate share from the prior year's measurement date of June 30, 2015 was 0.267537 percent.

Pension expense – For the year ended June 30, 2017, the college recognized a pension expense of $26,534.00

Deferred outflows of resources and deferred inflows of resources – For the year ended June 30, 2017, the college reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|---|---|
| Differences between expected and actual experience | $ 3,533.00 | $ 5,219.00 |
| Net difference between projected and actual earnings on pension plan investments | 5,663.00 | |
| Changes in proportion of Net Pension Liability (Asset) | | 5,238.00 |
| Contributions subsequent to the measurement date of June 30, 2016 | 101,185.80 | |
| **Total** | $ 110,381.80 | $ 10,457.00 |

Deferred outflows of resources, resulting from the college's employer contributions of $101,185.80 subsequent to the measurement date will be recognized as a decrease in net pension liability in the year ended June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

| **Year Ended June 30:** | |
|---|---|
| 2018 | $ 515 |
| 2019 | 515 |
| 2020 | 515 |
| 2021 | 283 |
| 2022 | (959) |
| Thereafter | (2,130) |

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

Actuarial assumptions – The total pension liability (asset) as of the June 30, 2016, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

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

Mortality rates were customized based on the June 30, 2012 actuarial experience study and included an adjustment for expected future improvement in life expectancy.

The actuarial assumptions used in the June 30, 2016 actuarial valuation were based on the results of an actuarial experience study performed for the period July 1, 2008 through June 30, 2012. The demographic assumptions were adjusted to more closely reflect actual and expected future experience.

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

| Asset Class | Long-Term Expected Real Rate of Return | Target Allocation |
|---|---|---|
| U.S. equity | 6.46% | 31% |
| Developed market international equity | 6.26% | 15% |
| Emerging market international equity | 6.40% | 4% |
| Private equity and strategic lending | 4.61% | 14% |
| U.S. fixed income | 0.98% | 25% |
| Real estate | 4.73% | 10% |
| Short-term securities | 0.00% | 1% |
| | | 100% |

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

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

Sensitivity of the proportionate share of net pension liability (asset) to changes in the discount rate - The following presents the college's proportionate share of the net pension liability (asset) calculated using the discount rate of 7.5 percent, as well as what the college's proportionate share of the net pension liability (asset) would be if it were calculated using a discount rate that is 1 percentage point lower (6.5 percent) or 1 percentage point higher (8.5 percent) than the current rate:

| | 1% Decrease (6.5%) | Current Discount Rate (7.5%) | 1% Increase (8.5%) |
|---|---|---|---|
| College's proportionate share of the net pension liability (asset) | $ (5,808.00) | $ (48,564.00) | $ (80,595.00) |

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

*Payable to the Pension Plan*

At June 30, 2017, the college reported a payable of $11,353.37 for the outstanding amount of legally required contributions to the pension plan required for the year ended June 30, 2017.

<u>Total defined benefit pension expense</u> – The total pension expense for the year ended June 30, 2017, for all defined benefit pension plans was $ 1,893,887.00.

<u>Defined Contribution Plans</u>

**Optional Retirement Plan**

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

Funding Policy - For employees employed prior to July 1, 2014, plan members are noncontributory. The college contributes 10 percent of the employee's base salary up to the social security wage base and 11 percent above the social security wage base. For employees hired after June 30, 2014, plan members will contribute 5 percent to the ORP and the college will contribute 9 percent of the employee's base salary. The required contributions made to the ORP were $1,071,847.97 for the year ended June 30, 2017, and $1,036,861.35 for the year ended June 30, 2016. Contributions met the requirements for each year.

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

**Deferred Compensation Plans**

Employees are offered three deferred compensation plans. The college, through the State of Tennessee, provides two plans, one established pursuant to IRC, Section 457, and the other pursuant to IRC, Section 401(k). The third plan is administered by the college and was established in accordance with IRC, Section 403(b). The plans are outsourced to third-party vendors, and the administrative costs assessed by the vendors of these plans are the responsibility of plan participants. Section 401(k), Section 403(b), and Section 457 plan assets remain the property of the contributing employees; therefore, they are not presented in the accompanying financial statements. IRC Sections 401(k), 403(b) and 457 establish participation, contribution, and withdrawal provisions for the plans. The college provides up to a $50 monthly employer match for employees who participate in the state's 401(k) plan. Employees hired before July 1, 2014, voluntarily participate in the state's 401(k) plan. Pursuant to Public Chapter No. 259 of Public Acts of 2013, employees hired after June 30, 2014, are automatically enrolled in the state's 401(k) plan and contribute 2% of their salary, with the employer contributing an additional non-matching 5%. Employees may opt out of the 2% auto enrollment. Such contribution rates may only be amended by the Tennessee General Assembly. There are certain automatic cost controls and unfunded liability controls in the defined benefit plan where the employees participate that may impact the non-matching 5% employer contribution to the 401(k) plan. Employees will vest immediately to both the employee and employer contributions. During the year ended June 30, 2017, contributions totaling $480,839.39 were made by employees participating in the plan, with a related match of $319,777.77 made by the college. During the year ended June 30, 2016, contributions totaling $498,753.16 were made by employees participating in the plan, with a related match of $278,754.94 made by the college.

11. Other Postemployment Benefits

Healthcare is the only "other postemployment benefit" (OPEB) provided to employees. The State of Tennessee administers a group health insurance program that provides postemployment health insurance benefits to eligible college retirees. This program includes two plans available to higher education employees – the State Employee Group Plan and the Medicare Supplement Plan. Both plans are agent multiple-employer defined benefit OPEB plans. Benefits are established and amended by an insurance committee created by Tennessee Code Annotated (TCA) 8-27-201 for the state plan and the Medicare Supplement Plan. Prior to reaching the age of 65, all members have the option of choosing between the standard or partnership preferred provider organization (PPO) plan for healthcare benefits. Subsequent to age 65, members who are also in the state's retirement system may participate in the Medicare Supplement Plan. That plan does not include pharmacy. Employees hired on or after July 1, 2015, are not eligible to continue insurance coverage at retirement in either the Employee Group plan or the Medicare Supplement plan. The state makes on-behalf payments to the Medicare Supplement Plan for the college's eligible retirees see Note 16. The plans are reported in the State of Tennessee Comprehensive Annual Financial Report (CAFR). The CAFR is available on the state's website at http://www.tn.gov/finance/act/cafr.shtml.

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

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. Administrative costs of the plan are allocated to plan participants. Retired employees who have not reached the age of 65 pay the same base premium as active employees in the plan adjusted for years of service. Retirees with 30 years of service are subsidized 80 percent; 20 but less than 30 years, 70 percent; and less than 20 years, 60 percent. Retired employees who are 65 years of age or older have flat rate premium subsidies based on years of service. Retirees with 30 years of service receive $50 per month; 20 but less than 30 years, $37.50; and 15 but less than 20 years, $25. Contributions for the State Employee Group Plan for the year ended June 30, 2017, were $5,995,212.63, which consisted of $4,845,842.47 from the college and $ 1,149,370.16 from the employees.

Annual OPEB Cost and Net OPEB Obligation

| | |
|---|---|
| Annual Required Contribution (ARC) | $ 802,000.00 |
| Interest on the net OPEB obligation | 251,109.24 |
| Adjustment to the ARC | (252,117.71) |
| Annual OPEB cost | 800,991.53 |
| Amount of contribution | (619,783.25) |
| Increase/decrease in net OPEB obligation | 181,208.28 |
| Net OPEB Obligation – beginning of year | 6,696,246.50 |
| **Net OPEB Obligation – end of year** | $ 6,877,454.78 |

| Year-end | Plan | Annual OPEB Cost | Percentage of Annual OPEB Cost Contributed | Net OPEB Obligation at Year-end |
|---|---|---|---|---|
| 6/30/2017 | State Employee Group Plan | $ 800,991.53 | 77.38% | $ 6,877,454.78 |
| 6/30/2016 | State Employee Group Plan | 775,022.87 | 73.15% | 6,696,246.50 |
| 6/30/2015 | State Employee Group Plan | 878,384.37 | 68.80% | 6,488,135.82 |

Funded Status and Funding Progress. The funded status of the plan as of July 1, 2015, was as follows:

| | |
|---|---|
| Actuarial valuation date | July 1, 2015 |
| Actuarial accrued liability (AAL) | $ 7,123,000.00 |
| Actuarial value of plan assets | - |
| Unfunded actuarial accrued liability (UAAL) | 7,123,000.00 |
| Actuarial value of assets as a % of the AAL | 0% |
| Covered payroll (active plan members) | 19,219,571.00 |
| UAAL as percentage of covered payroll | 37.1% |

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

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

In the July 1, 2015, actuarial valuation, the Projected Unit Credit actuarial cost method was used. The actuarial assumptions included a 3.75 percent investment rate of return (net of administrative expenses) and an annual healthcare cost trend rate of 6.5 percent initially, decreased to 6.0 percent in fiscal year 2016 and then reduced by decrements to an ultimate rate of 4.7 percent in fiscal year 2050. All rates include a 2.5 percent inflation assumption. Premium subsidies in the Medicare Supplement plan are projected to remain unchanged and, consequently, trend rates are not applicable. The unfunded actuarial accrued liability is being amortized as a level percentage of payroll on a closed basis over a 30 year period beginning with July 1, 2007. Payroll is assumed to grow at a rate of 3.0 percent.

12. Revenues

A summary of adjustments and allowances by revenue classification is presented as follows:

| **Revenue Source** | **Gross Revenue** | **Less Scholarship Allowances** | **Less Uncollectible Debts** | **Net Revenue** |
|---|---|---|---|---|
| Operating Revenues: | | | | |
| Tuition and fees | $ 31,808,205.82 | $ (15,227,824.23) | $ (1,749,941.81) | $ 14,830,439.78 |
| **Total** | $ 31,808,205.82 | $ (15,227,824.23) | $ (1,749,941.81) | $ 14,830,439.78 |

13. Insurance-Related Activities

It is the policy of the state not to purchase commercial insurance for the risks associated with casualty losses for general liability, automobile liability, professional medical malpractice liability, and workers' compensation. By statute, the maximum liability for general liability, automobile liability, and medical malpractice liability is $300,000 per person and $1 million per occurrence. The state's management believes it is more economical to manage these risks internally and set aside assets for claim settlement in its internal service fund, the Risk Management Fund (RMF). The state purchases commercial insurance for real property, crime and fidelity coverage on the state's officials and employees, and cyber liability coverage. For property coverage, the deductible for an individual state agency is the first $25,000 of losses. The RMF is responsible for property losses for the annual aggregate deductible of $7.5 million for perils other than earthquake and flood. Purchased insurance coverage is responsible for losses exceeding the $7.5 million annual aggregate deductible. For earthquake and flood, there is a deductible of $10 million per occurrence. The maximum insurance coverage is $750 million per year for perils other than earthquake and flood. The maximum flood insurance coverage is $50 million per occurrence, except there is only $25 million of coverage in flood zones A and V. The maximum earthquake insurance coverage is $50 million per occurrence. The amounts of settlements have not exceeded insurance coverage for each of the past three fiscal years.

The college participates in the Risk Management Fund. The fund allocates the cost of providing claims servicing and claims payment by charging a premium to the college based on a percentage of the college's expected loss costs, which include both experience and exposures. This charge considers recent trends in actual claims experience of the state as a whole. An actuarial valuation is performed as of fiscal year-end to determine the fund liability and premium allocation. Information regarding the determination of the claims liabilities and the changes in the balances of the claims liabilities for the years ended June 30, 2017, is presented in the Tennessee Comprehensive Annual Financial Report. The CAFR is available on the state's website at http://www.tn.gov/finance/article/fa-accfin-cafr. 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, and 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. The amount of cash and cash equivalents designated for payment of claims held by the Risk Management Fund at June 30, 2017, was not available.

At June 30, 2017, the scheduled coverage for the college was $204,394,460.00 for buildings and $15,744,092.00 for contents.

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

14. 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 $11,870,907.67 at June 30, 2017.

Operating Leases - The college has entered into various operating leases for buildings and equipment. Such leases will probably continue to be required. Expenses under operating leases for real and personal property were $100,432.20 and $108,751.75, respectively for the year ended June 30, 2017. All operating leases are cancelable at the lessee's option.

Construction in Progress - At June 30, 2017, outstanding commitments under construction contracts totaled $6,840,618.04 for the following projects: $577, 593.04 for the Union Mechanical Systems Update, $224,511.30 for the Union Campus Parking Structure, $75,123.28 for the Whitehaven Center Renovations, $3,306,075.84 for the Industrial Readiness Facility, $1,624,449.92 for Roof Replacement and Envelope Repairs, and $1,032,864.66 for the Mechanical Systems Modernization. Future state capital outlay appropriations will fund $3,234,907.62.

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

15. Natural Classifications with Functional Classifications

The college's operating expenses by functional classification for the year ended June 30, 2017, are as follows:

| | Natural Classification | | | | | |
|---|---|---|---|---|---|---|
| **Functional Classification** | **Salaries** | **Benefits** | **Other Operating Expenses** | **Scholarship and Fellowships** | **Depreciation** | **Total** |
| Instruction | $ 17,066,252.92 | $ 5,568,275.93 | $ 4,043,247.66 | $ | $ | $ 26,677,776.51 |
| Public service | 219,841.34 | 58,201.46 | 80,187.81 | | | 358,230.61 |
| Academic support | 3,184,415.09 | 1,069,880.24 | 2,772,433.35 | | | 7,026,728.68 |
| Student services | 4,391,943.09 | 1,768,461.64 | 2,374,538.93 | | | 8,534,944.26 |
| Institutional support | 4,727,427.39 | 1,836,544.89 | 1,060,992.16 | | | 7,624,964.44 |
| Maintenance and Operations | 2,592,593.25 | 1,047,031.51 | 3,789,857.81 | | | 7,429,482.57 |
| Scholarships & fellowships | | | | 14,291,951.11 | | 14,291,951.11 |
| Auxiliary | 222,833.25 | 18,032.69 | 312,092.96 | | | 552,958.90 |
| Depreciation | | | | | 4,650,776.27 | 4,650,776.27 |
| **Total Expenses** | **$ 32,405,306.93** | **$ 11,366,428.36** | **$ 14,433,350.68** | **$ 14,291,951.11** | **$ 4,650,776.27** | **$ 77,147,813.35** |

16. On-Behalf Payments

During the year ended June 30, 2017, the State of Tennessee made payments of $72,137.50 on behalf of the Southwest Tennessee Community 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 11. The plan is reported in the State of Tennessee Comprehensive Annual Financial Report (CAFR). The CAFR is available on the state's website at http://www.tn.gov/finance/article/fa-accfin-cafr.

17. Prior Period Adjustment(s)

During the year ended June 30, 2017, the college recorded adjustments to correct prior year expenses to capitalize office equipment in the amount of $(16,095.00) and $(25,579.00) for improvements/infrastructure, $29,167.44 in ADA adaptations, $251,578.79 to close out roof projects from prior years, $(913,888.56) to record the prior year completion of mechanical system updates and parking garage expenses and $(118,042.76) to record prior year audit entry pertaining to bonds.

18. Component Unit(s)

Southwest Tennessee Community College Foundation is a legally separate, tax-exempt organization supporting Southwest Tennessee Community College. The Foundation acts primarily as a fund-raising organization to supplement the resources that are available to the college in support of its programs. The 17-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 incomes thereon, which the Foundation holds and invests, are restricted to the activities of the college by the donors. Because these restricted resources held by the Foundation can only be used by, or for the benefit of, the college, the Foundation is considered a component unit of the college and is discretely presented in the college's financial statements.

During the year ended June 30, 2017, the Foundation made distributions of $100,564.06 to or on behalf of the college for both restricted and unrestricted purposes. Complete financial statements for the Foundation can be obtained from Karen Nippert, Vice President for Institutional Advancement, 5983 Macon Cove, Memphis, Tennessee 38134.

Cash and Cash Equivalents – In addition to demand deposits and petty cash on hand, this classification includes instruments which are readily convertible to known amounts of cash and which have original maturities of three months or less. At June 30, 2017, cash and cash equivalents consists of $596,696.45 in bank accounts, $3,545,309.56 in the State of Tennessee Local Government Investment Pool administered by the State Treasurer, and $24,594.04 in Charles Schwab investment account.

At June 30, 2017 $350,000.87 of the Foundation's bank balance of $600,000.87 was exposed to custodial credit risk as follows:

| | | |
|---|---|---|
| Uninsured and uncollateralized | $ | 350,000.87 |
| **Total** | $ | 350,000.87 |

The Foundation also has deposits in the Local Government Investment Pool (LGIP) administered by the State Treasurer. The LGIP is measured at amortized cost and is part of the Pooled Investment Fund. There are no minimum or maximum limitations on withdrawals with the exception of a 24-hour notification period for withdrawals of $5 million or more. The fund's required risks disclosures are presented in the *State of Tennessee's Treasurer's Report.* That report is available on the state's website at http://www.tn.gov/treasury.

Investments – The Foundation is authorized to invest funds in accordance with its board of directors' policies. In accordance with GASB Statement 31, as amended, investments are reported at fair value, including those with a maturity date of one year or less at the time of purchase, unless otherwise noted.
As of June 30, 2017, the Foundation had the following investments and maturities.

| | | Investment Maturities (In Years) | | | | |
|---|---|---|---|---|---|---|
| Investment Type | Fair Value | Less than 1 | 1 to 5 | 6 to 10 | More than 10 | No Maturity Date |
| Mutual bond funds | $ 1,180,795.35 | | | | | $ 1,180,795.35 |
| Total Debt Instruments | $ 1,180,795.35 | | | | | $ 1,180,795.35 |
| Non-Fixed Income Inv. | | | | | | |
| Mutual equity funds | $ 1,754,275.48 | | | | | |
| **Total** | $ 2,935,070.83 | | | | | |

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

Credit Risk. Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Foundation has no investment policy limiting its investment choices based on ratings issued by nationally recognized statistical rating organizations. Securities are rated using Standard and Poor's, Moody's, and/or Fitch's and are presented below using the Standard and Poor's rating scale. As of June 30, 2017, the Foundation's investments were rated as follows:

| | | **Credit Quality Rating** | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Investment Type | Carrying Value | AAA | AA | A | BBB | BB | B | CCC | CC | C | Unrated |
| Local Government Investment Pool (LGIP) | $ 3,545,309.56 | | | | | | | | | | $ 3,545,309.56 |
| Mutual bond funds | 1,180,795.35 | | | | | | | | | | 1,180,795.35 |
| **Total** | $ 4,726,104.91 | | | | | | | | | | $ 4,726,104.91 |

Foreign Currency Risk. Foreign currency risk is the risk that changes in exchange rates will adversely affect the cash flows or fair value of a transaction. The Foundation places no limit on the amount it may invest in foreign currency. The Foundation's exposure to foreign currency risk at June 30, 2017, is as follows:

| **Investment** | **Currency** | **Maturity** | **Fair Value** |
|---|---|---|---|
| Artisan High Income Fund (ARTFX) | Various | Indefinite | $ 116,283.83 |
| Payden Emerging Markets Bond Fund (PE1Z) | Various | Indefinite | 89,780.49 |
| J O Hambro Capital Managemant (JOHIX) | Various | Indefinite | 64,513.19 |
| Hartford Schroders International Multi-Cap Value Fund (SIDNX) | Various | Indefinite | 191,455.93 |
| Seafarer Overseas Growth and Income – (SFGIX) | Various | Indefinite | 78,834.55 |
| Artisan Dev World Fund (ARTYX) | Various | Indefinite | 81,974.30 |

Fair Value Measurement - The foundation categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The foundation has the following recurring fair value measurements as of June 30, 2017:

| | June 30, 2017 | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | Investments Measured at the Net Asset Value (NAV) |
|---|---|---|---|---|---|
| **Assets by Fair Level Value** | | | | | |
| Mutual Bond Funds | $ 1,180,795.35 | $ 1,180,795.35 | | | |
| Total Debt Securities | $ 1,180,795.35 | $ 1,180,795.35 | | | |
| | | | | | |
| Mutual Equity Funds | $ 1,754,275.48 | $ 1,754,275.48 | | | |
| Total Equity Securities | $ 1,754,275.48 | $ 1,754,275.48 | | | |
| | | | | | |
| Total Assets at Fair Value | $ 2,935,070.83 | $ 2,935,070.83 | | | |

Assets and liabilities classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities.

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

| | June 30, 2017 |
|---|---|
| Current pledges | $ 54,354.77 |
| Pledges due in one to five years | 16,253.41 |
| Subtotal | $ 70,608.18 |
| Less discounts to net present value | (1,225.57) |
| **Total pledges receivable, net** | $ 69,382.61 |

Capital Assets - Capital asset activity for the year ended June 30, 2017, was as follows:

| | Beg Balance | Additions | Transfers | Reductions | End Balance |
|---|---|---|---|---|---|
| Land | $ 127,943.60 | | | | $ 127,943.60 |
| **Total** | $ 127,943.60 | | | | $ 127,943.60 |
| Less accumulated depreciation/amortization: | | | | | |
| **Total** | - | - | - | - | - |
| **Capital assets, net** | $ 127,943.60 | | | | $ 127,943.60 |

Prior period adjustment(s)

During the year ended June 30, 2017, the college recorded prior year audit entries of $301,954.53 to correct various fund balances for the Foundation. The adjustments were due to revenue recorded when the pledge receivable was booked and again when the payments were received for the pledge receivable.

**REQUIRED SUPPLEMENTARY INFORMATION**
Other Postemployment Benefits Schedule of Funding Progress for Southwest Tennessee Community College
For the Year Ended June 30, 2017

| Actuarial Valuation Date | Actuarial Value of Assets (a) | Actuarial Accrued Liability (AAL) Entry Age (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, 2015 | - | $ 7,123,000.00 | $ 7,123,000.00 | - | $19,219,571.00 | 37.06% |
| July 1, 2013 | - | 8,590,000.00 | 8,590,000.00 | - | 19,508,151.00 | 44.03% |
| July 1, 2011 | - | 10,278,000.00 | 10,278,000.00 | - | 21,859,910.00 | 47.02% |

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

**REQUIRED SUPPLEMENTARY INFORMATION**

Schedule of Southwest Tennessee Community College Proportionate Share of the Net Pension Liability
Closed State and Higher Education Employee Pension Plan Within TCRS

| | Fiscal Year Ending June 30 | | |
|---|---|---|---|
| | 2017 | 2016 | 2015 |
| Institution's proportion of the net pension liability | 0.59411% | 0.596639% | 0.594578% |
| Institution's proportionate share of the net pension liability | $10,839,958.00 | $ 7,692,357.00 | $ 4,102,286.00 |
| Institution's covered payroll | $14,505,440.00 | $15,579,559.00 | $16,243,398.00 |
| Institution's proportionate share of the net pension liability as a percentage of its covered payroll | 77.68% | 49.37% | 25.26% |
| Plan fiduciary net position as a percentage of the total pension liability | 87.96% | 91.26% | 95.11% |

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

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

**REQUIRED SUPPLEMENTARY INFORMATION**

Schedule of Southwest Tennessee Community College's Contributions
State and Higher Education Employee Retirement Plan Within TCRS
Fiscal Year Ended June 30, 2017

| | 2017 | 2016 | 2015 |
|---|---|---|---|
| Contractually determined contribution | $101,185.80 | $ 68,734.00 | $ 11,274.83 |
| Contribution in relation to contractually determined contribution | 101,185.80 | $ 68,734.00 | $ 11,274.83 |
| Contribution deficiency (excess) | $ - | $ - | $ - |
| Covered payroll | $2,742,129.89 | $ 1,788,414.00 | $ 291,340.17 |
| Contributions as a percentage of covered payroll | 3.69% | 3.84% | 3.87% |

(1) This is a ten-year schedule; however, contributions to this plan began in 2015. Years will be added to this schedule in future years until ten years of information are available.

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

**Southwest Tennessee Community College Foundation**
Supplementary Information
Supplementary Schedule of Cash Flows – Component Unit
Fiscal Year Ended June 30, 2017

| | | Southwest Foundation |
|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | |
| Gifts and contributions | $ | 162,376.66 |
| Payments to suppliers and vendors | | 86,067.40 |
| Payments for scholarships and fellowships | | (292,858.21) |
| Net cash provided (used) by operating activities | | (44,414.15) |
| **CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES** | | |
| Private gifts for endowment purposes | | 5,580.00 |
| Net cash provided (used) by non-capital financing activities | | 5,580.00 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | |
| Proceeds from sales and maturities of investments | | 72,459.41 |
| Income on investments | | 87,519.30 |
| Purchase of investments | | (69,955.94) |
| Net cash provided (used) by investing activities | | 90,022.77 |
| Net increase (decrease) in cash and cash equivalents | | 51,188.62 |
| Cash and cash equivalents - beginning of year | | 4,115,411.43 |
| Cash and cash equivalents - end of year (Note 18) | $ | 4,166,600.05 |
| **RECONCILIATION OF OPERATING INCOME/(LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES** | | |
| Operating income/(loss) | $ | (186,532.78) |
| Change in assets, liabilities, and deferrals: | | |
| Receivables, net | | (342,053.85) |
| Accounts payable | | 484,172.48 |
| Net cash provided (used) by operating activities | $ | (44,414.15) |
| **Non-cash investing, capital, and financing transactions** | | |
| Gifts in-kind - capital | $ | 3,804.06 |
| Unrealized gains/(losses) on investments | | 208,113.72 |

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