

FINANCIAL REPORT

Year Ended June 30, 2019

SOUTHWEST

TENNESSEE COMMUNITY COLLEGE



TENNESSEE'S
COMMUNITY COLLEGES

SOUTHWEST
TENNESSEE COMMUNITY COLLEGE

SOUTHWEST TENNESSEE COMMUNITY COLLEGE

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SOUTHWEST

TENNESSEE COMMUNITY COLLEGE

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

November 22, 2019

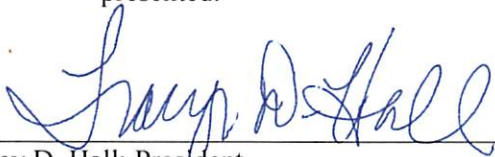
Chancellor Flora W. Tydings
Tennessee Board of Regents
1 Bridgestone Park, Third Floor
Nashville, TN 37214

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 2019 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; President



Michael D. Neal; 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.

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, 2019, with comparative information presented for the fiscal year ended June 30, 2018. 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 Tennessee Community College Foundation. More detailed information about the foundation is presented in Note 17 to the financial statements. This discussion and analysis focuses on the College and does not include the foundation.

Overview of the Financial Statements

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

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

The Statement of Net Position

The Statement of Net Position is a point in time financial statement. The Statement of Net Position presents the financial position of the College at the end of the fiscal year. To aid the reader in determining the College's ability to meet immediate and future obligations, the statement includes all assets, liabilities, deferred outflows/inflows, 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, 2019, and June 30, 2018.

Statement of Net Position
(in thousands of dollars)

	FY 2019	FY 2018
Assets:		
Current assets	\$ 26,405	\$ 31,370
Capital assets, net	104,032	105,912
Other assets	41,628	43,122
Total Assets	\$ 172,065	\$ 180,404
Deferred Outflows of Resources:		
Deferred loss on debt refunding		\$ 38
Deferred outflows related to pension	\$ 6,138	5,512
Total Deferred Outflows	\$ 6,138	\$ 5,550
Liabilities:		
Current liabilities	\$ 8,324	\$ 11,666
Noncurrent liabilities	18,254	19,374
Total Liabilities	\$ 26,578	\$ 31,040
Deferred Inflows of Resources		
Deferred inflows related to pension	\$ 1,375	\$ 985
Total Deferred Inflows	\$ 1,375	\$ 985
Net Position:		
Net investment in capital assets	\$ 102,999	\$ 105,792
Restricted - expendable	1,707	2,103
Unrestricted	45,544	46,034
Total Net Position	\$ 150,250	\$ 153,929

Comparison of FY 2019 to FY 2018

- FY 2018 current assets included approximately \$6.3M of cash from Tennessee College of Applied Technology (TCAT) Memphis, which at the time was a reportable unit of the College. Effective July 1, 2018, the start of FY 2019, TCAT Memphis is no longer a reportable unit of the College, thus its cash is not included in FY 2019's current assets. Net of TCAT cash, current assets increased by \$1.3 million or 5.3 percent due to higher receivables primarily associated with Pell grants.
- Other assets decreased by \$1.5 million or 3.5 percent due to changes in noncurrent cash and cash equivalents as the College had more receivables and increased spending on salaries and benefits.

- Deferred outflows of resources related to pensions increased by \$0.6 million or 10.6 percent, driven primarily by other postemployment benefits (OPEB). OPEB deferred outflows of resources increased by \$1.2 million as the College saw increased contributions post the measurement date. Deferred outflows of resources related to pensions declined by \$0.6M as a result of actual earnings exceeding projections, which was somewhat offset by the difference between expected and actual experience and changes in actuarial assumptions.
- Current liabilities decreased by \$3.3 million or 29 percent as a result of changes related to TCAT Memphis. FY 2018 current liabilities include \$6.3 million in deposits held in custody for others for TCAT Memphis. In FY 2019 TCAT Memphis was no longer a reportable unit of the College, thus this liability was not included. Net of TCAT deposits held in custody for others, current liabilities increased by \$3 million or 50 percent on higher vendor payables.
- Other Deferred inflows of resources increased by \$0.4 million or 39.5 percent. This was the combined effect of a change in assumptions related to OPEB valuation and improvement in the College's proportion of net pension liability, which resulted in a \$1.6 million increase. This was largely offset by amortization of prior year gains of actual experience being better than expected of \$0.9 million.
- Restricted Expendable Net Position decreased by \$0.4 million or 23.3 percent primarily as a result of an overstatement of the Pell receivable at June 30, 2018.

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

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

Generally speaking, operating revenues are received for providing goods and services to the various customers and constituencies of the College. Operating expenses are those expenses paid to acquire or produce the goods and services provided in return for the operating revenues, and to carry out the mission of the College. Nonoperating revenues are revenues received for which goods and services are not provided directly to the 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 nonoperating revenues, as is investment income. As a result, the College has historically reported an excess of operating expenses over operating revenues, resulting in an operating loss. Therefore, the "increase in net position" is more indicative of overall financial results for the year.

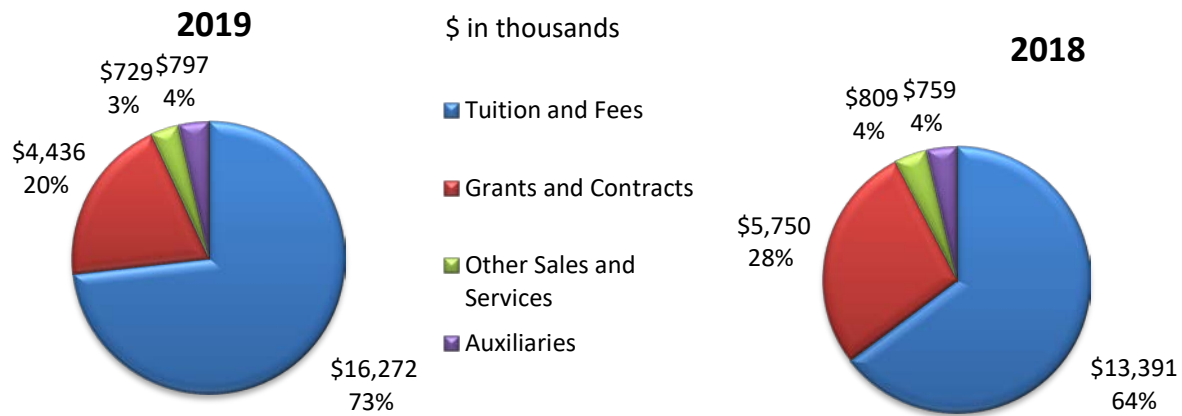
A summary of the College's revenues, expenses, and changes in net position for the year ended June 30, 2019, and June 30, 2018, follows.

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

	FY 2019	FY 2018
Operating revenues	\$ 22,234	\$ 20,709
Operating expenses	(85,264)	(80,088)
Operating loss	\$ (63,030)	\$ (59,379)
Nonoperating revenues and expenses	\$ 60,236	\$ 57,123
Income before other revenues, expenses, gains or losses	\$ (2,793)	\$ (2,256)
Other revenues, expenses, gains or losses	\$ 1,978	\$ 1,591
Increase in net position	\$ (815)	\$ (665)
Net position at beginning of year	153,929	155,169
Cumulative effect of change in accounting principle		201
Prior period adjustment	(2,864)	(776)
Net position at end of year	\$ 150,250	\$ 153,929

Operating Revenues

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

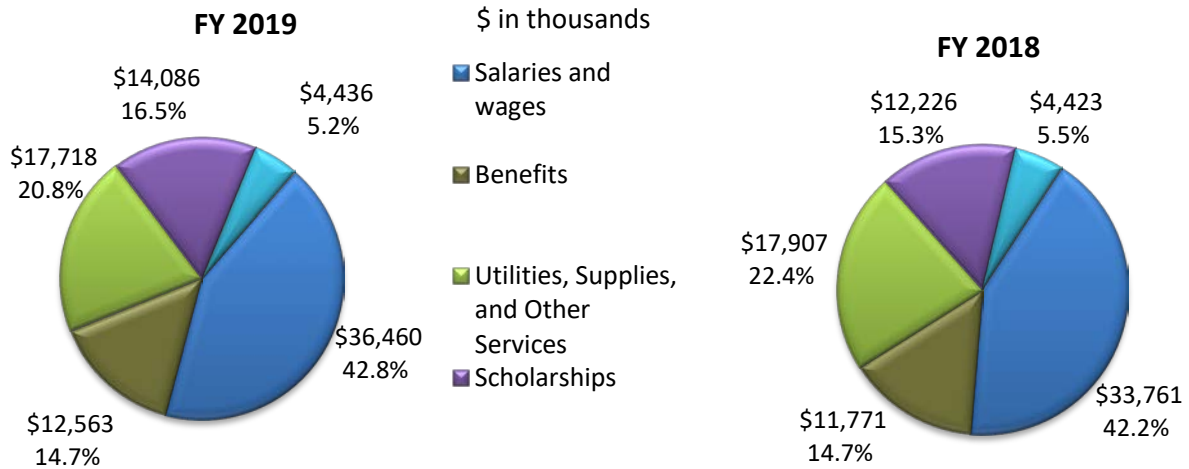


Comparison of FY 2019 to FY 2018

- Net tuition and fee revenues increased by \$2.9 million or 21.5 percent in FY 2019, largely driven by gross tuition and fees increasing \$3.8 million due to a 2.46 percent increase in tuition and fees and a higher anticipated collection rate based on composition of accounts receivable.
- Grants and contracts revenue declined by \$1.3 million or 22.9 percent primarily as a result of the loss of the Workforce Investment Network (WIN) contract.
- Other sales and services declined by \$80 thousand or 9.9 percent due primarily to the loss of the TCAT administrative charge, as TCAT Memphis is no longer a reportable unit and the College no longer has administrative responsibilities for TCAT Memphis.

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:

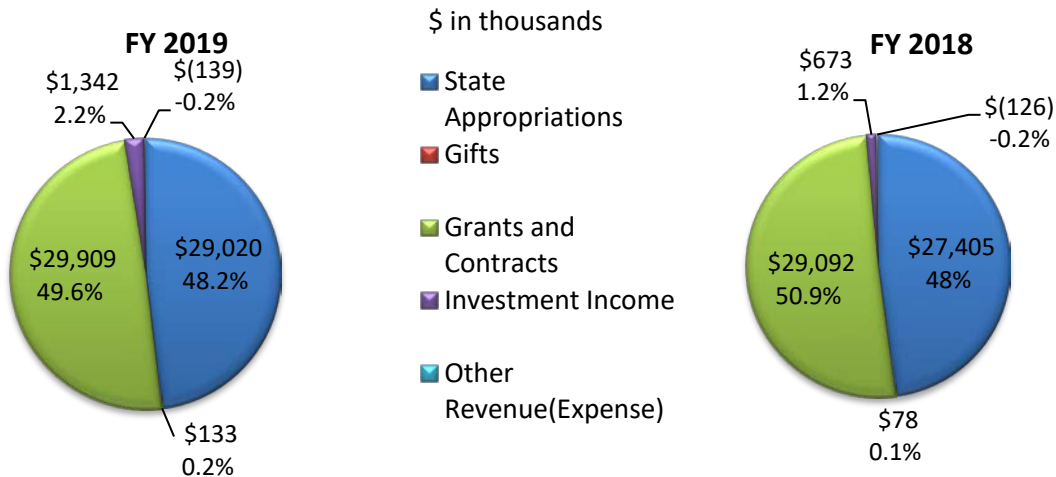


Comparison of FY 2019 to FY 2018

- Salaries, wages and benefits expenditures increased by \$3.5 million or 7.7 percent due to a 2.5 percent cost of living adjustment, an increase in adjunct pay to \$600 per credit hour from \$500 and a \$1,000 bonus for all full-time, benefits eligible employees.
- Scholarships increased \$1.86 million due entirely to the first year of TN Reconnect, which added \$1.97 million in expense in FY 2019.

Nonoperating Revenues and Expenses

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

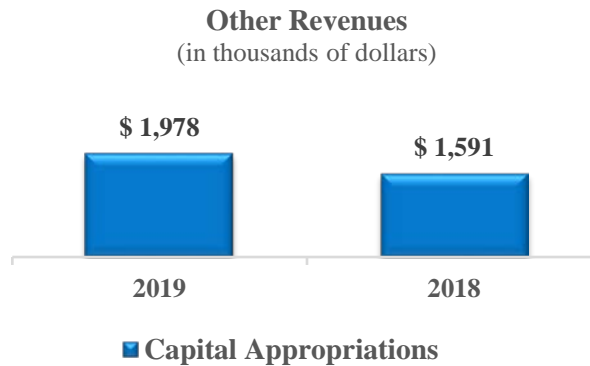


Comparison of FY 2019 to FY 2018

- State appropriations increased by \$1.6 million or 5.9 percent to fund increases in OPEB and salary increases.
- Investment income increased by \$670 thousand or 100 percent due to higher average LGIP balances and higher interest rates.
- Gifts increased by \$55 thousand or 70 percent from private in-kind donations.

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:



Comparison of FY 2019 to FY 2018

- Capital appropriations of \$1.98 million increased by 24.3 percent for capital maintenance projects related to mechanical systems modifications and roof and building envelope replacements.
- No capital grants or gifts were received in either fiscal year.

Capital Assets and Debt Administration

Capital Assets

Southwest Tennessee Community College had \$104 million invested in capital assets, net of accumulated depreciation of \$64.8 million at June 30, 2019; and \$105.9 million invested in capital assets, net of accumulated depreciation of \$60.9 million at June 30, 2018. Depreciation charges totaled \$4.44 million and \$4.42 million for the years ended June 30, 2019, and June 30, 2018, respectively.

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

	FY 2019	FY 2018
Land	\$ 14,025	\$ 14,025
Improvements & infrastructure	7,540	6,880
Buildings	72,980	74,764
Equipment	5,258	6,695
Library holdings	439	483
Intangible assets	614	766

Projects in progress	3,176	2,299
Total	<u>\$ 104,032</u>	<u>\$ 105,912</u>

At June 30, 2019, outstanding commitments under construction contracts totaled \$10.8 million for various renovations and repairs of buildings and infrastructure improvements. Future state capital outlay appropriations will fund \$4.3 million 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 \$954,095 and \$936,054 in debt outstanding at June 30, 2019, and June 30, 2018, respectively. The table below summarizes these amounts by type of debt instrument.

Tennessee State School Bond Authority Bonds

	<u>FY 2019</u>	<u>FY 2018</u>
Energy Savings Performance Contract	\$ 932,653	\$ 895,391
Premium on bond	21,442	40,663
Total	<u>\$ 954,095</u>	<u>\$ 936,054</u>

The TSSBA issued bonds with interest rates of 5.0% due through 2023 on behalf of Southwest Tennessee Community College. The College is responsible for the debt service of these bonds. The current portion of the \$954,095 outstanding at June 30, 2019, is \$165,719. Debt payable to the State increased slightly because of the exhaustion of a debt service reserve fund previously held at the State for bonds extinguished in the prior year.

The ratings on debt issued by the Tennessee State School Bond Authority at June 30, 2019, 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 73 percent of total operating revenues in FY 2019, while grants and contracts consist of approximately 50 percent of total non-operating revenues. Additionally, state appropriations account for approximately 38 percent of FY 2019 total revenue, including capital appropriations.

The College's governing board, the Tennessee Board of Regents (TBR), approved a 2.46 percent increase in in-state tuition effective Fall Semester 2019. TBR also approved an increase in the hourly rate charged for hours in excess of 12 per semester, from \$34 per credit hour to \$35 per credit hour and an increase in the Technology Access Fee from \$112.50 per semester to \$116.00 per semester. 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. In FY 2020 the College will continue to develop new academic programs, enhance workforce training with more flexible options and pursue grant opportunities that enhance educational outcomes and increase social mobility. We are not aware of any other factors, decisions, or conditions that are expected to have a significant impact on the financial position or results of operation.

Southwest Tennessee Community College
Unaudited Statement of Net Position
June 30, 2019

	Southwest	Foundation
ASSETS		
Current assets:		
Cash and cash equivalents (Notes 2 and 17)	\$ 16,187,388.70	\$ 2,071,951.15
Accounts, notes, and grants receivable (net) (Note 4)	9,499,750.15	
Due from primary government	269,943.11	
Due from component unit	283,654.62	
Pledges receivable (net) (Note 17)		26,669.18
Inventories (at lower of cost or market)	49,005.83	
Accrued interest receivable	114,717.31	
Total current assets	\$ 26,404,459.72	\$ 2,098,620.33
Noncurrent assets:		
Cash and cash equivalents (Notes 2 and 17)	\$ 41,373,592.37	\$ 546,778.58
Investments (Note 17)		5,203,535.01
Due from primary government	19,531.58	
Net pension asset (Note 9)	235,047.00	
Capital assets (net) (Note 5)	104,032,427.77	
Total noncurrent assets	\$ 145,660,598.72	\$ 5,750,313.59
Total assets	\$ 172,065,058.44	\$ 7,848,933.92
 DEFERRED OUTFLOWS OF RESOURCES		
Deferred outflows related to OPEB (Note 10)	\$ 1,656,704.22	
Deferred outflows related to pensions (Note 9)	4,481,234.39	
Total deferred outflows of resources	\$ 6,137,938.61	
 LIABILITIES		
Current liabilities:		
Accounts payable (Note 6)	\$ 1,907,989.48	\$ 2,772.81
Accrued liabilities	1,409,161.77	
Due to grantors	92,721.31	
Due to primary government	539,096.25	283,654.62
Unearned revenue	2,961,986.45	
OPEB obligation (Note 10)	693,806.86	
Compensated absences (Note 7)	488,778.97	
Accrued interest payable	17,604.98	
Long-term liabilities, current portion (Note 7)	165,718.71	
Deposits held in custody for others	47,595.07	
Total current liabilities	\$ 8,324,459.85	\$ 286,427.43
Noncurrent liabilities:		
OPEB obligation (Note 10)	\$ 7,213,406.14	
Net pension liability (Note 9)	8,608,525.00	
Compensated absences (Note 7)	1,643,823.16	
Long-term liabilities (Note 7)	788,375.81	
Other liabilities		\$ 24,264.90
Total noncurrent liabilities	\$ 18,254,130.11	\$ 24,264.90
Total liabilities	\$ 26,578,589.96	\$ 310,692.33

Southwest Tennessee Community College
Unaudited Statement of Net Position
June 30, 2019

	Southwest	Foundation
DEFERRED INFLOWS OF RESOURCES		
Deferred inflows related to OPEB (Note 10)	\$ 535,058.00	
Deferred inflows related to pensions (Note 9)	839,484.00	
Total deferred inflows of resources	\$ 1,374,542.00	
 NET POSITION		
Net investment in capital assets	\$ 102,998,866.48	
Restricted for:		
Nonexpendable:		
Scholarships and fellowships		\$ 1,551,331.68
Expendable:		
Scholarships and fellowships	301,968.55	1,644,135.62
Instructional department uses	322,474.39	
Capital projects	94,413.52	
Pensions	235,047.00	
Other	752,981.98	3,277,803.73
Unrestricted	45,544,113.17	1,064,970.56
Total net position	\$ 150,249,865.09	\$ 7,538,241.59

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, 2019

	Southwest	Foundation
REVENUES		
Operating revenues:		
Student tuition and fees (Note 11)	\$ 16,272,170.85	
Gifts and contributions	-	\$ 280,697.89
Governmental grants and contracts	4,106,279.15	
Non-governmental grants and contracts	329,650.36	
Sales and services of educational activities	109,078.39	
Sales and services of other activities	604,988.66	
Auxiliary enterprises:		
Bookstore (all bookstore revenues are used as security for revenue bonds, see Note 8)	348,046.49	
Food service (all food service revenues are used as security for revenue bonds, see Note 8)	448,793.62	
Other operating revenues	15,072.16	
Total operating revenues	\$ 22,234,079.68	\$ 280,697.89
EXPENSES		
Operating Expenses (Note 15)		
Salaries and wages	\$ 36,460,206.31	
Benefits	12,563,824.05	
Utilities, supplies, and other services	17,718,201.76	\$ 5,121.83
Scholarships and fellowships	14,085,747.84	200,267.27
Depreciation expense	4,435,659.91	
Payments to or on behalf of STCC (Note 17)		132,504.58
Total operating expenses	\$ 85,263,639.87	\$ 337,893.68
Operating income (loss)	\$ (63,029,560.19)	\$ (57,195.79)
NONOPERATING REVENUES (EXPENSES)		
State appropriations	\$ 29,019,982.97	
Gifts from STCC Foundation to College	132,504.58	
Grants and contracts	29,908,870.26	
Investment income (net of investment expense for Foundation)	1,342,316.91	\$ 365,965.24
Interest on capital asset-related debt	(72,745.68)	
Other non-operating revenues/(expenses)	(94,807.90)	
Net nonoperating revenues	\$ 60,236,121.14	\$ 365,965.24
Income before other revenues, expenses gains, or losses	\$ (2,793,439.05)	\$ 308,769.45
Capital appropriations	\$ 1,977,866.94	
Total other revenues	\$ 1,977,866.94	
Increase (decrease) in net position	\$ (815,572.11)	\$ 308,769.45
NET POSITION		
Net position - beginning of year	\$ 153,929,096.54	\$ 7,201,120.48
Prior period adjustment (Notes 16 and 17)	(2,863,659.34)	28,351.66
Net position - end of year	\$ 150,249,865.09	\$ 7,538,241.59

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

Southwest Tennessee Community College
Unaudited Statement of Cash Flows
for the Year Ended June 30, 2019

CASH FLOWS FROM OPERATING ACTIVITIES

Tuition and fees	\$ 11,656,360.17
Grants and contracts	3,810,111.58
Sales and services of educational activities	343,455.80
Sales and services of other activities	604,988.66
Payments to suppliers and vendors	(29,732,086.95)
Payments to employees	(36,480,776.60)
Payments for benefits	(11,429,137.66)
Payments for scholarships and fellowships	(1,299,786.81)
Funds received for deposits held for others	27,138.11
Funds dispersed for deposits held for others	(25,580.67)
Auxiliary enterprise charges:	
Bookstore	311,633.14
Food services	448,793.62
Other receipts (payments)	15,072.16
Net cash provided (used) by operating activities	\$ (61,749,815.45)

CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES

State appropriations	\$ 28,051,400.00
Gifts and grants received for other than capital purposes	29,626,280.07
Net cash provided (used) by non-capital financing activities	\$ 57,677,680.07

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Proceeds from sale of capital assets	\$ 177,327.00
Purchase of capital assets and construction	(902,710.95)
Interest paid on capital debt and lease	(55,407.90)
Net cash provided (used) by capital and related financing activities	\$ (780,791.85)

CASH FLOWS FROM INVESTING ACTIVITIES

Income on investments	\$ 1,228,353.02
Net cash provided (used) by investing activities	\$ 1,228,353.02
Net increase (decrease) in cash and cash equivalents	\$ (3,624,574.21)
Cash and cash equivalents - beginning of year	61,185,555.28
Cash and cash equivalents - end of year (Note 2)	\$ 57,560,981.07

Southwest Tennessee Community College
Unaudited Statement of Cash Flows
for the Year Ended June 30, 2019

RECONCILIATION OF OPERATING INCOME/(LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES

Operating income/(loss)	\$ (63,029,560.19)
Adjustments to reconcile operating loss to net cash provided (used) by operating activities:	
Noncash operating expenses	5,454,806.58
Change in assets, liabilities, and deferrals:	
Receivables, net	(5,596,689.04)
Inventories	(5,558.97)
Net pension asset	(132,427.00)
Deferred outflows of resources	(626,215.28)
Accounts payable	1,581,500.30
Accrued liabilities	(16,145.40)
Unearned revenues	530,815.20
Compensated absences	69,822.91
Net pension liability	(1,336,867.00)
Net OPEB obligation	965,974.00
Deferred inflows of resources	389,171.00
Other	1,557.44
Net cash provided (used) by operating activities	<u>\$ (61,749,815.45)</u>

Non-cash investing, capital, and financing transactions

Gain/(loss) on disposal of capital assets	\$ (272,134.90)
Proceeds of capital debt	37,261.50
Capital appropriation	1,958,335.36
Purchase and construction of capital assets	(1,958,335.36)

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, that the foundation holds and invests are restricted to the activities of the College by the donors. Because these restricted resources held by the foundation can only be used by, or for the benefit of, the College, the foundation is considered a component unit of the College and is discretely presented in the College's financial statements. See Note 17 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).

BASIS OF ACCOUNTING

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

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

Non-operating revenues and expenses include activities that have the characteristics of non-exchange transactions, such as gifts and contributions, and other activities that are defined as non-operating by GASB Statement 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities that Use Proprietary Fund Accounting*, and GASB Statement 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, such as state appropriations and investment income.

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

CASH EQUIVALENTS

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

INVENTORIES

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

COMPENSATED ABSENCES

The College's employees accrue annual and sick leave at varying rates, depending 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 and/or net pension asset, 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 non-operating 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, 2019, cash consists of \$802,277.12 in bank accounts, \$10,000.00 of petty cash on hand, \$56,654,290.43 in the State of Tennessee Local Government Investment Pool administered by the State Treasurer, \$94,413.52 in the Deposits – Capital Projects account.

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 risk disclosures are presented in the *State of Tennessee's Treasurer's Report*. That report is available on the state's website at <http://www.treasury.state.tn.us> 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 a AAA long-term debt rating by a majority of the rating services that have rated the issuer. Prime banker's acceptances are required to be eligible for purchase by the Federal Reserve System. To be eligible, the original maturity must not be more than 270 days, and it must 1) arise out of the current shipment of goods between countries or with the United States, or 2) arise out of storage within the United States of goods under contract of sale or expected to move into the channel 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, 2019, the College's investments consisted entirely of investments in the Local Government Investment Pool. The carrying value of these investments was \$56,748,703.95. LGIP investments are not rated by nationally recognized statistical ratings organizations.

4. Accounts, Notes, and Grants Receivable

Accounts receivable included the following:

	June 30, 2019
Student accounts receivable	\$ 9,193,993.48
Grants receivable	4,009,833.20
Other receivables	481,001.46
Subtotal	\$ 13,684,828.14
Less allowance for doubtful accounts	(4,185,077.99)
Total receivables	\$ 9,499,750.15

Federal Perkins Loan Program funds include the following:

	June 30, 2019
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, 2019, was as follows:

	Beginning Balance	Additions	Transfers	Reductions	Ending Balance
Land	\$ 14,024,822.01				\$ 14,024,822.01
Improvements and infrastructure	13,087,363.29	\$ 1,155,646.67	\$ 86,219.55		14,329,229.51
Buildings	114,683,202.26			\$ (318,951.02)	114,364,251.24
Equipment	20,382,486.04	640,489.86		(214,579.42)	20,808,396.48
Library holdings	1,056,443.97	68,388.60		(139,159.79)	985,672.78
Software	1,322,659.90			(214,189.87)	1,108,470.03
Projects in progress	2,298,775.81	963,272.43	(86,219.55)		3,175,828.69
Total	\$ 166,855,753.28	\$ 2,827,797.56		\$ (886,880.10)	\$ 168,796,670.74

Less accumulated depreciation/amortization:					
Improvements and infrastructure	\$ 6,207,155.97	\$ 581,411.30			\$ 6,788,567.27
Buildings	39,918,803.61	1,555,479.80		\$ (89,732.01)	41,384,551.40
Equipment	13,686,493.73	2,035,477.03		(171,663.53)	15,550,307.23
Library Holdings	573,929.40	111,919.44		(139,159.79)	546,689.05
Software	556,945.55	151,372.34		(214,189.87)	494,128.02
Total	\$ 60,943,328.26	\$ 4,435,659.91		\$ (614,745.20)	\$ 64,764,242.97
Capital assets, net	\$ 105,912,425.02	\$ (1,607,862.35)		\$ (272,134.90)	\$ 104,032,427.77

6. Accounts Payable

Accounts payable included the following:

	June 30, 2019
Vendors payables	\$ 1,234,482.98
Other payables	673,506.50
Total accounts payable	\$ 1,907,989.48

7. Long-term Liabilities

Long term liability activity for the year ended June 30, 2019, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Payables					
TSSBA Debt:					
Bonds	\$ 895,391.24	\$ 37,261.50		\$ 932,652.74	\$ 165,718.71
Unamortized bond premium	40,662.46		\$ (19,220.68)	21,441.78	
Subtotal	\$ 936,053.70	\$ 37,261.50	\$ (19,220.68)	\$ 954,094.52	\$ 165,718.71
Other Liabilities					
Compensated absences	\$ 2,062,779.22	\$ 1,449,280.52	\$(1,379,457.61)	\$ 2,132,602.13	\$ 488,778.97
Subtotal	\$ 2,062,779.22	\$ 1,449,280.52	\$(1,379,457.61)	\$ 2,132,602.13	\$ 488,778.97
Total Long-term Liabilities	\$ 2,998,832.92	\$ 1,486,542.02	\$(1,398,678.29)	\$ 3,086,696.65	\$ 654,497.68

TSSBA Debt - Bonds Payable

Bonds, with interest rate of 5%, were issued by the Tennessee State School Bond Authority. The bonds are due serially until 2023 and are secured by pledges of the facilities' revenues to which they relate and certain other revenues and fees of the College, including state appropriations; see Note 8 for further details. The bonded indebtedness with the Tennessee State School Bond Authority included in long-term liabilities on the Statement of Net Position is shown net of assets held by the authority in the debt service reserve and net of unexpended debt proceeds.

Debt service requirements to maturity for the College portion of TSSBA bonds at June 30, 2019, are as follows:

For the Year(s) Ending June 30	Principal	Interest	Total
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	197,583.55	15,299.75	212,883.30
2024	207,203.35	5,180.08	212,383.43
Total	\$ 932,652.74	\$ 121,880.14	\$ 1,054,532.88

8. Pledged Revenues

The College has pledged certain revenues and fees, including state appropriations, to repay \$932,652.74 in revenue bonds issued in August 2014. Proceeds from the bonds provided financing for Energy Savings Performance Contract. The bonds are payable through 2023. Annual principal and interest payments on the bonds are expected to require 0.31% of available revenues. The total principal and interest remaining to be paid on the bonds is \$1,054,532.88. Principal and interest paid for the current year and total available revenues were \$53,390.42 and \$68,348,326.35, respectively.

9. 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, 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/Retirement/Boards-and-Governance/Reporting-and-Investment-Policies.

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:

$$\begin{array}{l} \text{Average of member's highest} \\ \text{compensation for 5 consecutive years (up to} \\ \text{Social Security integration level)} \end{array} \quad \times \quad 1.50\% \quad \times \quad \begin{array}{l} \text{Years of Service} \\ \text{Credit} \end{array} \quad \times \quad 105\%$$

Plus:

$$\begin{array}{l} \text{Average of member's highest} \\ \text{compensation for 5 consecutive years (over} \\ \text{the Social Security integration level)} \end{array} \quad \times \quad 1.75\% \quad \times \quad \begin{array}{l} \text{Years of Service} \\ \text{Credit} \end{array} \quad \times \quad 105\%$$

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 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, 2019, to the Closed State and Higher Education Employee Pension Plan were \$2,373,469.41, which is 19.23 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, 2019, the College reported a liability of \$8,608,525.00 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2018, 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 the proportion of the College’s contributions during the year ended June 30, 2018, to the pension plan relative to the contributions of all participating state and higher education agencies. At the June 30, 2018, measurement date, the College’s proportion was .5329 percent. The proportionate share from the prior year’s measurement date of June 30, 2017, was .555733 percent.

Pension expense (negative pension expense) – For the year ended June 30, 2019, the College recognized a pension expense of \$1,747,625.00.

Deferred outflows of resources and deferred inflows of resources – For the year ended June 30, 2019, 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	\$ 777,661.00	\$40,020.00
Net difference between projected and actual earnings on pension plan investments	-	247,436.00
Changes in assumptions	1,082,663.00	-
Changes in proportion of Net Pension Liability (Asset)	6,939.00	511,281.00
Contributions subsequent to the measurement date of June 30, 2018	2,373,469.41	
Total	\$ 4,240,732.41	\$ 798,737.00

Deferred outflows of resources, resulting from the College’s employer contributions of \$2,373,469.41 subsequent to the measurement date will be recognized as a reduction/(increase) in net pension liability in the year ended June 30, 2020. 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:	
2020	\$1,325,633.00
2021	562,215.00
2022	(660,448.00)
2023	(158,874.00)

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, 2018 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.5 percent
Salary increases	Graded salary ranges from 8.72 to 3.44 percent based on age, including inflation, averaging 4.00 percent
Investment rate of return	7.25 percent, net of pension plan investment expenses, including inflation
Cost-of-Living Adjustment	2.25 percent

Mortality rates were based on actual experience including an adjustment for some anticipated improvement.

The actuarial assumptions used in the June 30, 2018, actuarial valuation were based on the results of an actuarial experience study performed for the period July 1, 2012 through June 30, 2016. 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, 2016 actuarial experience study. A blend of future capital market projections and historical market returns was used in a building-block method in which a best-estimate of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) is developed for each major asset class. These best-estimates are combined to produce 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 expected inflation of 2.50 percent. The best-estimates of geometric real rates of return and the TCRS investment policy target asset allocation 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	5.69%	31%
Developed market international equity	5.29%	14%
Emerging market international equity	6.36%	4%
Private equity and strategic lending	5.79%	20%
U.S. fixed income	2.01%	20%
Real estate	4.32%	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 7.25 percent based on a blending of the three factors described above.

Discount rate - The discount rate used to measure the total pension liability was 7.25 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 7.25 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 (6.25 percent) or 1 percentage point higher (8.25 percent) than the current rate:

	1% Decrease (6.25%)	Current Discount Rate (7.25%)	1% Increase (8.25%)
College's proportionate share of the net pension liability (asset)	\$18,919,871.00	\$8,608,525.00	\$ (69,463.00)

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.state.tn.us/tcrs.

Payable to the Pension Plan

At June 30, 2019, the College reported a payable of \$0.00 for the outstanding amount of legally required contributions to the pension plan required for the year ended June 30, 2019.

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. The TCRS is a multiple-employer pension plan. The Closed State and Higher Education Employee Pension Plan was closed effective June 30, 2014, and covers employees hired before July 1, 2014. Employees hired after June 30, 2014, are provided with pensions through a legally separate plan referred to as the State and Higher Education Employee Retirement Plan, an agent plan within the Public Employee Retirement Plan administered by the TCRS.

The TCRS was created by state statute under Title 8, Chapters 34-37, Tennessee Code Annotated. 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 publically available financial report that can be obtained at <https://treasury.tn.gov/Retirement/Boards-and-Governance/Reporting-and-Investment-Policies>.

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 1.0 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 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 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 to the State and Higher Education Employee Retirement 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 State and Higher Education Employee Retirement Plan are required to be paid. Employer contributions by the College for the year ended June 30, 2019, to the State and Higher Education Employee Retirement Plan were \$219,991.98, which is 3.95 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 Asset – At June 30, 2019, the College reported an asset of \$235,047.00 for its proportionate share of the net pension asset. The net pension asset was measured as of June 30, 2018, 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 the proportion of the College's contributions during the year ended June 30, 2018, to the pension plan relative to the contributions of all participating state and higher education agencies. At the June 30, 2018, measurement date, the Southwest Tennessee Community College's proportion was .609355 percent. The proportionate share from the prior year's measurement date of June 30, 2017, was .494824 percent.

Pension expense – For the year ended June 30, 2019, the College recognized a pension expense of \$66,603.00.

Deferred outflows of resources and deferred inflows of resources – For the year ended June 30, 2019, the Southwest Tennessee Community 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	\$ 6,573.00	\$ 3,940.00
Net difference between projected and actual earnings on pension plan investments		11,349.00
Changes in assumptions	7,984.00	

Changes in proportion of Net Pension Liability (Asset)	5,953.00	25,458.00
Contributions subsequent to the measurement date of June 30, 2018	219,991.98	
Total	\$ 240,501.98	\$ 40,747.00

Deferred outflows of resources, resulting from the College’s employer contributions of \$219,991.98 subsequent to the measurement date will be recognized as a decrease in net pension liability in the year ended June 30, 2019. 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	
2020	(4,135.00)
2021	(4,381.00)
2022	(5,693.00)
2023	(2,955.00)
2024	(1,454.00)
Thereafter	(1,620.00)

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, 2018, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.50 percent
Salary increases	Graded salary ranges from 8.72 to 3.44 percent based on age, including inflation, averaging 4.00 percent
Investment rate of return	7.25 percent, net of pension plan investment expenses, including inflation
Cost-of-Living Adjustment	2.25 percent

Mortality rates were based on actual experience including an adjustment for some anticipated improvement.

The actuarial assumptions used in the June 30, 2018 actuarial valuation were based on the results of an actuarial experience study performed for the period July 1, 2012 through June 30, 2016. 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, 2016 actuarial experience study. A blend of future capital market projections and historical market returns was using in a building-block method in which a best-estimate of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) is developed for each major asset class. These best-estimates are combined to produce 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 expected inflation of 2.5 percent. The best-estimates of geometric real rates of return and the TCRS investment policy target asset allocation 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	5.69%	31%
Developed market international equity	5.29%	14%
Emerging market international equity	6.36%	4%
Private equity and strategic lending	5.79%	20%
U.S. fixed income	2.01%	20%
Real estate	4.32%	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 7.25 percent based on a blending of the factors described above.

Discount rate - The discount rate used to measure the total pension liability/(asset) was 7.25 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 7.25 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 (6.25 percent) or 1 percentage point higher (8.25 percent) than the current rate:

	1% Decrease (6.25%)	Current Discount Rate (7.25%)	1% Increase (8.25%)
<i>College's proportionate share of the net pension liability (asset)</i>	\$ (38,987.00)	\$ (235,047.00)	\$ (381,755.00)

Pension plan fiduciary net position – Detailed information about the pension plan's fiduciary net position is available in a separately issued TCRS financial report.

Payable to the Pension Plan

At June 30, 2019, the College reported a payable of \$0.00 for the outstanding amount of legally required contributions to the pension plan required for the year ended June 30, 2019.

Total defined benefit pension expense – The total pension expense for the year ended June 30, 2019, for all defined benefit pension plans was \$ 1,814,228.00.

Defined Contribution Plans

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, 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 \$1,252,641.01 for the year ended June 30, 2019, and \$1,178,508.26 for the year ended June 30, 2018. 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% for employees who elect to be in the TCRS pension plan. 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, 2019, contributions totaling \$674,976.60 were made by employees participating in the plan, with a related match of \$492,290.54 made by the College. During the year ended June 30, 2018, contributions totaling \$490,591.12 were made by employees participating in the plan, with a related match of \$237,696.71 made by the College.

10. Other Postemployment Benefits

Closed State Employee Group OPEB Plan

General information about the OPEB plan

Plan description - Employees of the College OPEB Plans, who were hired prior to July 1, 2015 and choose coverage, are provided with pre-65 retiree health insurance benefits through the closed State Employee Group OPEB Plan (EGOP) administered by the Tennessee Department of Finance and Administration. This plan is considered to be single-employer defined benefit plan that is used to provide postemployment benefits other than pensions (OPEB). This plan is closed to the employees of all participating employers that were hired on or after July 1, 2015. The employers participating in this plan includes the primary government, the Tennessee Student Assistance Corporation, the Tennessee Housing Development Agency, the University of Tennessee and the institutions that make up the State University and Community College System.

Benefits provided - The EGOP is offered to provide health insurance coverage to eligible retired and disabled participants and is the only postemployment benefit provided to eligible pre-65 participants. Benefits are established and amended by an insurance committee created by Tennessee Code Annotated (TCA) 8-27-201. All retirees and disabled employees of the primary government and certain component units, who are eligible and choose coverage, and who have not yet reached the age of 65 are enrolled in this plan. All members have the option of choosing between the premier preferred provider organization (PPO) plan, standard PPO plan or the wellness healthsavings consumer-driven health plan (CDHP) for healthcare benefits. Retired plan members receive the same plan benefits, as active employees, at a blended premium rate that considers the cost of active employees. This creates an implicit subsidy for the retirees. The retirees' cost is then directly subsidized, by the employers, based on years of service. Therefore, 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. No subsidy is provided to retirees in the healthsavings CDHP plan. During the current measurement period, this plan was funded as a pay-as-you-go basis and there were no assets accumulating in a trust that meets the criteria of paragraph 4 of GASB Statement No. 75. However, during the current fiscal year, the plan was transitioned to a prefunding arrangement where assets will be accumulating in a qualifying trust.

Contributions - Annually, an insurance committee, created in accordance with Tennessee Code Annotated (TCA) 8-27-201, establishes the minimum required payments to the plan by member employers and employees. Active members of the Employee Group Insurance Plan and pre-age 65 retired members of the EGOP pay the same rate. Claims liabilities of the plans are periodically computed using actuarial and statistical techniques to establish premium rates. While the plan operated on a pay-as-you-go basis, employers made the minimum required payments for retiree costs. However, once the plan transitioned to the prefunding arrangement through the qualifying trust, employers began making contributions to the trust based on an actuarially determined contribution rate (ADC).

Total OPEB Liability

Proportionate share - The College's proportion and proportionate share of the collective total OPEB liability, related to the EGOP, is .57% and \$7,907,213.00, respectively. The proportion existing at the prior measurement date was .517023%. This resulted in a change in proportion of (.05%) between the current and prior measurement dates. The College's proportion of the collective total OPEB liability was based on a projection of the its long-term share of contributions to the OPEB plan relative to the projected share of contributions of all participating employers, actuarially determined. The collective total OPEB liability was determined by an actuarial valuation with a valuation date of June 30, 2018 and measurement date of June 30, 2018.

Actuarial assumptions - The collective total OPEB liability in the June 30, 2018 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.25%
Salary increases	Graded salary ranges from 3.44 to 8.72 percent based on age, including inflation, averaging 4 percent
Healthcare cost trend rates	6.75% for 2019, decreasing annually to an ultimate rate of 3.91% for 2050 and later years.
Retiree's share of benefit-related costs	Members are required to make monthly contributions in order to maintain their coverage. For the purpose of this valuation a weighted average has been used with weights derived from the current distribution of members among plans offered.

Unless noted otherwise, the actuarial demographic assumptions used in the June 30, 2018, valuations were the same as those employed in the July 1, 2017 Pension Actuarial Valuation of the Tennessee Consolidated Retirement System (TCRS) for Group I employees. These assumptions were developed by TCRS based on the results of an actuarial experience study for the period July 1, 2012 - June 30, 2016. The demographic assumptions were adjusted to more closely reflect actual and expected future experience. Mortality tables are used to measure the probabilities of participants dying before and after retirement. The mortality rates employed in this valuation are taken from the RP-2014 Healthy Participant Mortality Table for Annuitants for non-disabled post-retirement mortality, with mortality improvement projected to all future years using Scale MP-2016. Post-retirement tables are Blue Collar and adjusted with a 2% load for males and a -3% load for females. Mortality rates for impaired lives are the same as those used by TCRS and are taken from a gender distinct table published in the IRS Ruling 96-7 for disabled lives with a 10% load.

Discount rate - The discount rate used to measure the total OPEB liability was 3.62 percent. This rate reflects the interest rate derived from yields on 20-year, tax-exempt general obligation municipal bonds, prevailing on the measurement date, with an average rating of AA as shown on the Fidelity 20-Year Municipal GO AA index.

Changes in assumptions - The discount rate was changed from 3.56% as of the beginning of the measurement period to 3.62% as of June 30, 2018. This change in assumption decreased the total OPEB liability. Additionally, the near-term health trend rates were changed from 5.4%, 5.3%, and 5.2% for plan years 2019 to 2021, respectively, to 6.75%, 6.25%, and 5.75% respectively. Further, the assumed initial per capita costs and premium amounts were revised to reflect rates adopted for the 2019 plan year. These two changes in assumptions increased the total OPEB liability.

Significant changes subsequent to measurement date - During fiscal year 2019, the EGOP was transitioned from a pay-as-you-go funding arrangement to a prefunded arrangement where assets would be deposited and accumulated in a qualifying trust and benefits would be paid directly from the trust assets. In the first year of this arrangement, participating employers made estimated total contributions to the trust of \$297.2 million dollars. The trust had an estimated net position of \$213.3 million at June 30, 2019. These plan assets will significantly reduce the net OPEB liability recorded by employers in the fiscal year 2020 financial statements.

Sensitivity of proportionate share of the collective total OPEB liability to changes in the discount rate - The following presents the College's proportionate share of the collective total OPEB liability of the EGOP, as well as what the proportionate share of the collective total OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current discount rate.

	1% Decrease (2.62%)	Discount Rate (3.62%)	1% Increase (4.62%)
Proportionate share of the collective total OPEB liability	\$ 8,436,032.00	\$ 7,907,213.00	\$ 7,409,552.00

Sensitivity of proportionate share of the collective total OPEB liability to changes in the healthcare cost trend rate - The following presents the College's proportionate share of the collective total OPEB liability of the EGOP, as well as what the proportionate share of the collective total OPEB liability would be if it were calculated using a healthcare cost trend rate that is 1-percentage-point lower or 1-percentage-point higher than the current healthcare cost trend rate.

	Healthcare Cost Trend Rates		
	1% Decrease (5.75% decreasing to 2.91%)	(6.75% decreasing to 3.91%)	1% Increase (7.75% decreasing to 4.91%)
Proportionate share of the collective total OPEB liability	\$ 7,141,394.00	\$ 7,907,213.00	\$ 8,802,632.00

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

OPEB expense - For the fiscal year ended June 30, 2019, the College recognized OPEB expense of \$703,818.00.

Deferred outflows of resources and deferred inflows of resources - For the fiscal year ended June, 30, 2019, the College reported deferred outflows of resources and deferred inflows of resources related to OPEB paid by the EGOP from the following sources:

EGOP				
		Deferred Outflows of resources		Deferred Inflows of resources
Differences between actual and expected experience		\$ -		\$282,645.00
Changes of assumptions		348,274.00		252,413.00
Changes in proportion and differences between benefits paid and proportionate share of benefits paid.		614,623.00		-
Contributions subsequent to the measurement date		693,807.22		-
Total		\$ 1,656,704.22		\$535,058.00

The amounts shown above for "contributions subsequent to the measurement date" will be recognized as a reduction to the collective total OPEB liability in the following measurement period.

Amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB paid by the EGOP will be recognized in OPEB expense as follows:

EGOP			
For the year ended June 30:			
	2020		\$57,969.00
	2021		57,969.00
	2022		57,969.00
	2023		57,969.00
	2024		57,969.00
	Thereafter		\$137,992.00

In the tables above, positive amounts will increase OPEB expense while negative amounts will decrease OPEB expense.

Closed Tennessee Plan

General information about the OPEB plan

Plan description - Employees of the College, who were hired prior to July 1, 2015 and choose coverage, are provided with post-65 retiree health insurance benefits through the closed Tennessee Plan (TNP) administered by the Tennessee Department of Finance and Administration. This plan is considered to be multiple-employer defined benefit plan that is used to provide postemployment benefits other than pensions (OPEB). However, for accounting purposes, this plan will be treated as a single-employer plan. This plan is closed to the employees of all participating employers that were hired on or after July 1, 2015. The primary government as well as the Tennessee Student Assistance Corporation, the Tennessee Housing Development Agency, the University of Tennessee and the other institutions that make up the State University and Community College System also participates in this plan. This plan also serves eligible post-65 retirees of employers who participate in the state administered Teacher Group Insurance and Local Government Insurance Plans.

Benefits provided - The TNP is offered to help fill most of the coverage gaps created by Medicare and is the only postemployment benefit provided to eligible post-65 retired and disabled employees of participating employers. This plan does not include pharmacy. In accordance with Tennessee Code Annotated (TCA) 8-27-209, benefits are established and amended by cooperation of insurance committees created by TCA 8-27-201, 8-27-301 and 8-27-701. Retirees and disabled employees of the state, component units, local education agencies, and certain local governments who have reached the age of 65, are Medicare eligible and also receive a benefit from the Tennessee Consolidated Retirement System may participate in this plan. All plan members receive the same plan benefits at the same premium rates. Many retirees receive direct subsidies toward their premium cost, however, participating employers determine their own policy in this regard. The primary government contributes to the premiums of component unit retirees based on years of service. Therefore, 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. The College does not provide any subsidies for retirees in the TNP. The primary government paid \$65 thousand for OPEB as the benefits came due during the reporting period. This plan is funded on a pay-as-you-go basis and there are no assets accumulating in a trust that meets the criteria of paragraph 4 of GASB Statement No. 75.

In accordance with TCA 8-27-209, the state insurance committees established by TCAs 8-27-201, 8-27-301 and 8-27-701 determine the required payments to the plan by member employers and employees. Claims liabilities of the plan are periodically computed using actuarial and statistical techniques to establish premium

rates. Administrative costs are allocated to plan participants. Employers contribute towards employee costs based on their own developed policies.

Total OPEB Liability and OPEB Expense

Proportionate share - The primary governments proportion and proportionate share of the OPEB liability related to the College's retirees participating in the TNP is 100% and \$1,763,742.00, respectively. The College's proportion of the collective total OPEB liability was based on a projection of its long-term share of contributions to the OPEB plan relative to the projected share of contributions of all participating employers, actuarially determined. There has been no change in the College's proportion since the prior measurement date. The collective total OPEB liability was determined by an actuarial valuation with a valuation date of June 30, 2018 and measurement date of June 30, 2018.

Actuarial assumptions - The collective total OPEB liability in the June 30, 2018 actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.25%
Salary increases	Graded salary ranges from 3.44 to 8.72 percent based on age, including inflation, averaging 4 percent
Healthcare cost trend rates	The premium subsidies provided to retirees in the Tennessee Plan are assumed to remain unchanged for the entire projection; therefore trend rates are not applicable.

Unless noted otherwise, the actuarial demographic assumptions used in the June 30, 2018, valuations were the same as those employed in the July 1, 2017 Pension Actuarial Valuation of the Tennessee Consolidated Retirement System (TCRS) for Group I employees. These assumptions were developed by TCRS based on the results of an actuarial experience study for the period July 1, 2012 - June 30, 2016. The demographic assumptions were adjusted to more closely reflect actual and expected future experience. Mortality tables are used to measure the probabilities of participants dying before and after retirement. The mortality rates employed in this valuation are taken from the RP-2014 Healthy Participant Mortality Table for Annuitants for non-disabled post-retirement mortality, with mortality improvement projected to all future years using Scale MP-2016. Post-retirement tables are Blue Collar and adjusted with a 2% load for males and a -3% load for females. Mortality rates for impaired lives are the same as those used by TCRS and are taken from a gender distinct table published in the IRS Ruling 96-7 for disabled lives with a 10% load.

Discount rate - The discount rate used to measure the total OPEB liability was 3.62 percent. This rate reflects the interest rate derived from yields on 20-year, tax-exempt general obligation municipal bonds, prevailing on the measurement date, with an average rating of AA as shown on the Fidelity 20-Year Municipal GO AA index.

Changes in assumptions - The discount rate was changed from 3.56% as of the beginning of the measurement period to 3.68% as of June 30, 2018. This change in assumption decreased the total OPEB liability.

Sensitivity of proportionate share of the collective total OPEB liability to changes in the discount rate - The following presents primary governments proportionate share of the College's related collective total OPEB liability, as well as what the proportionate share of the collective total OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current discount rate. The College does not report a proportionate share of the OPEB liability for employees in the TNP.

	1% Decrease (2.56%)	Discount Rate (3.56%)	1% Increase (4.56%)
Primary government share of the collective total OPEB liability	\$ 1,991,233.00	\$ 1,763,742.00	\$ 1,572,674.00

OPEB expense - For the fiscal year ended June 30, 2019, the primary government recognized OPEB expense of \$83,226.00 for employees of the College participating in the TNP.

Total OPEB Expense - The total OPEB expense for the year ended June 30, 2019, was \$787,044.00, which consisted of OPEB expense of \$703,818.00 for the EGOP and \$83,226.00 paid by the primary government for the TNP.

11. 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	\$ 37,966,325.49	\$ (20,153,533.85)	\$ (1,540,620.79)	\$ 16,272,170.85
Total	\$ 37,966,325.49	\$ (20,153,533.85)	\$ (1,540,620.79)	\$ 16,272,170.85

12. Insurance-Related Activities

It is the policy of the state not to purchase commercial insurance for the risks associated with casualty losses for general liability, automobile liability, professional medical malpractice 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, 2019, is presented in the Tennessee Comprehensive Annual Financial Report. The CAFR is available on the state's website at <http://www.tn.gov/finance/fa/fa-accounting-financial/fa-accfm-cafr.html>. Since the College participates in the Risk Management Fund, it is subject to the liability limitations under the provisions of the Tennessee Claims Commission Act, Tennessee Code Annotated, Section 9-8-101 et seq. Liability for negligence of the College

for bodily injury and property damage is limited to \$300,000 per person and \$1,000,000 per occurrence. The limits of liability under workers' compensation are set forth in Tennessee Code Annotated, Section 50-6-101 et seq. Claims are paid through the state's Risk Management Fund. The amount of cash and cash equivalents designated for payment of claims held by the Risk Management Fund at June 30, 2019, was not available.

At June 30, 2019, the scheduled coverage for the College was \$246,598,810 for buildings and \$19,530,743 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.

13. 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 \$11,838,210.24 at June 30, 2019.

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 \$180,759.50 and \$161,937.70, respectively for the year ended June 30, 2019. All operating leases are cancelable at the lessee's option.

Construction in Progress - At June 30, 2019, outstanding commitments under construction contracts totaled \$10,777,373.59 for the following projects: \$5,388,583.58 for Industrial Readiness Facility, \$796,155.36 for Roof Replacement and Envelope Repairs, \$281,042.45 for Mechanical Systems Modernization, \$317,665.36 for Mechanical Systems Updates, \$378,993 for Replacement Generator at Macon Cove Campus, \$2,861,316.92 for Union and Macon Cove Plumbing, and \$763,018.32 for Whitehaven Funeral Services Program. \$4,256,180.09 will be funded by future state capital outlay appropriations.

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

14. Natural Classifications with Functional Classifications

The College's operating expenses by functional classification for the year ended June 30, 2018, are as follows:

Functional Classification	Natural Classification					Total
	Salaries	Benefits	Operating	Scholarship	Depreciation	
Instruction	\$18,775,813.43	\$6,041,555.19	\$3,026,593.21			\$27,843,961.83
Public Service	452,428.32	139,696.60	160,932.71			753,057.63
Academic Support	3,903,471.90	1,372,479.24	2,629,334.22			7,905,285.36
Student Services	5,377,540.72	2,005,442.87	2,174,791.29			9,557,774.88
Institutional Support	4,693,097.53	1,774,673.45	3,653,312.00			10,121,082.98
Maintenance & Operations	2,992,935.75	1,208,550.63	5,652,111.22			9,853,597.60
Scholarships				\$14,085,747.84		14,085,747.84
Auxiliary	264,918.66	21,426.07	421,127.11			707,471.84
Depreciation					\$4,435,659.91	4,435,659.91
Total	\$36,460,206.31	\$12,563,824.05	\$17,718,201.76	\$14,085,747.84	\$4,435,659.91	\$85,263,639.87

Expenses initially incurred by the institutional and academic support functions as a result of providing internal services to the other functional classifications were allocated to the other functional areas by reducing the institutional and academic support function's operating expenses by the total amount of salaries, benefits, and operating expenses incurred in the provision of these services, and allocating this amount to the other functional areas' operating expenses on the basis of usage. As a result of this process, expenses totaling \$4,279,895.33 were reallocated from institutional and academic support to the other functional areas.

15. On-Behalf Payments

During the year ended June 30, 2019, the State of Tennessee made payments of \$970,282.97 on behalf of the College for retirees participating in the Medicare Supplement Plan. The Medicare Supplement Plan is a postemployment benefit healthcare plan and is discussed further in Note 10. 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/fa/fa-accounting/fa-accfin-cafr.html>.

16. Prior Period Adjustment

A prior period adjustment in the amount of \$2,863,659.34 was recorded to increase the accounts receivable allowance for doubtful accounts. This adjustment was a result of audit adjustments in the FY16 and FY17 audits to more reasonably reflect the College's collection history.

17. Component Unit

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

15-member board of the Foundation is self-perpetuating and consists of graduates and friends of the College. Although the College does not control the timing or amount of receipts from the Foundation, the majority of resources, or income thereon, that the Foundation holds and invests are restricted to the activities of the College by the donors. Because these restricted resources held by the Foundation can only be used by, or for the benefit of, the College, the Foundation is considered a component unit of the College and is discretely presented in the College's financial statements.

During the year ended June 30, 2019, the Foundation made distributions of \$132,504.58 to or on behalf of the College for both restricted and unrestricted purposes. Complete financial statements for the Foundation can be obtained from Rose Landey, Executive Director for Institutional Development, 5983 Macon Cove, Memphis, TN 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, 2019, cash and cash equivalents consists of \$330,367.55 in bank accounts, \$2,257,431.98 in the State of Tennessee Local Government Investment Pool administered by the State Treasurer, and \$30,930.20 in Charles Schwab Investment account.

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. 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.treasury.state.tn.us>.

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, 2019, the Foundation had the following investments and maturities.

Investment Type	Fair Value	Investment Maturities (In Years)				No Maturity Date
		Less than 1	1 to 5	6 to 10	More than 10	
US Treasury	\$667,354.69	99,463.28	394,050.01	173,841.40		
Corporate bonds	1,000,193.96	60,527.46	538,087.65	401,578.85		
Mutual bond funds	399,696.31					399,696.31
Total Debt Instruments	\$2,067,244.96	\$159,990.74	\$932,137.66	\$575,420.25		\$399,696.31
Non-Fixed Income Inv.						
Mutual equity funds	3,136,290.05					
Total	\$5,203,535.01					

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, 2019, the Foundation's investments were rated as follows:

TENNESSEE BOARD OF REGENTS
Southwest Tennessee Community College

Notes to the Financial Statements
For the Year Ended June 30, 2019

Investment Type	Carrying Value	Credit Quality Rating									
		AAA	AA	A	BBB	BB	B	CCC	CC	C	Unrated
Local Government Investment Pool (LGIP)	\$2,257,431.98										\$2,257,431.98
Corporate bonds	1,000,193.96	122,530.68	423,350.67	339,975.99	114,336.62						
Mutual bond funds	399,696.31	82,337.44	44,366.29	228,226.59	36,772.06						7,993.93
Total	\$3,657,322.25	\$204,868.12	\$467,716.96	\$568,202.58	\$151,108.68						\$2,265,425.91

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, 2019, is as follows:

Investment	Currency	Maturity	Fair Value
Lord Abbett Ultra Short Bond A (LUBAX)	Various	Indefinite	\$399,696.31
J O Hambro Capital Management (JOHIX)	Various	Indefinite	181,693.54
Seafarer Overseas Growth and Income – (SFGIX)	Various	Indefinite	132,057.52
Artisan Dev World Fund (ARTYX)	Various	Indefinite	132,702.39
Toronto Dominion Bank (Bond) 2.125%	Various	Indefinite	19,973.28
Hartford INTL Value (HILYX)	Various	Indefinite	175,765.51
Toyota Motor Credit Bonds 2.15%	Various	Indefinite	19,994.84
Schlumberger Inc. Bond 3.65%	Various	Indefinite	15,753.00

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, 2019:

	June 30, 2019	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					
Debt Securities					
US Treasury	\$ 667,354.69	\$ 667,354.69			
Corporate bonds	1,000,193.96	\$1,000,193.96			
Mutual bond funds	399,696.31	399,696.31			
Total debt securities	\$2,067,244.96	\$2,067,244.96			
Mutual equity funds	\$3,136,290.05	\$3,136,290.05			
Total equity securities	\$3,136,290.05	\$3,136,290.05			
Total Assets at Fair Value	\$5,203,535.01	\$5,203,535.01			

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

	June 30, 2019
Current pledges	\$27,213.45
Pledges due in one to five years	-0.00-
Subtotal	\$27,213.45
Less discounts to net present value	(544.27)
Total pledges receivable, net	\$26,669.18

Endowments - If a donor has not provided specific instructions to the foundation, the foundation's policies and procedures 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, 2019, net appreciation of \$85,143.46 is available to be spent, of which \$85,143.46 is included in restricted net position expendable for scholarships and fellowships.

Revenues

The following revenues have been adjusted for uncollectible debts:

Revenue Source	Revenue	Bad Debt	Net
Gifts and contributions	\$298,274.11	\$17,576.22	\$280,697.89
Total	\$298,274.11	\$17,576.22	\$280,697.89

Prior Period Adjustment

The foundation recorded a prior period adjustment related to fiscal year 2018 scholarship reimbursements of \$28,351.66 to the College.

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

	2018	2017	2016	2015	2014
Institution's proportion of the net pension liability	0.532900%	0.555733%	0.594110%	0.596639%	0.594578%
Institution's proportionate share of the net pension liability	\$ 8,608,525.00	\$ 9,945,392.00	\$ 10,839,924.00	\$ 7,692,356.00	\$ 4,102,285.00
Institution's covered payroll	\$ 12,338,622.00	\$ 13,347,639.00	\$ 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 it's covered payroll	69.77%	74.51%	77.68%	49.37%	25.26%
Plan fiduciary net position as a percentage of the total pension liability	90.26%	88.88%	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 Proportionate Share of the Net Pension Liability
State and Higher Education Employee Retirement Plan Within TCRS
Fiscal Year Ending June 30

	2018	2017	2016	2015
Institution's proportion of the net pension liability	0.609355%	0.494824%	0.576461%	0.267537%
Institution's proportionate share of the net pension liability	\$ (235,047.00)	\$ (102,620.00)	\$ (48,564.00)	\$ (7,440.00)
Institution's covered-employee payroll	\$ 4,595,580.00	\$ 2,742,130.00	\$ 1,788,414.00	\$ 291,340.00
Institution's proportionate share of the net pension liability as a percentage of it's covered-employee payroll	-5.11%	-3.74%	-2.76%	-2.55%
Plan fiduciary net position as a percentage of the total pension liability	132.39%	131.51%	130.56%	142.55%

(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
Closed State and Higher Education Employee Pension Plan Within TCRS
Fiscal Year Ended June 30

	Contractually Determined Contributions	Contributions in Relation to Contractually Determined Contributions	Contribution Deficiency (Excess)	Covered Payroll	Contributions as a Percentage of Covered Payroll
2019	\$ 2,373,469.41	\$ 2,373,469.41	-	\$ 12,342,534.63	19.23%
2018	2,328,298.95	2,328,298.95	-	12,338,621.93	18.87%
2017	2,002,509.46	2,002,509.46	-	13,347,638.76	15.02%
2016	2,176,303.57	2,176,303.57	-	14,479,901.85	15.03%
2015	2,341,607.47	2,341,607.47	-	15,579,558.66	15.03%
2014	2,441,383.28	2,441,383.28	-	16,243,397.24	15.03%
2013	2,449,323.71	2,449,323.71	-	16,296,232.71	15.03%
2012	2,495,366.84	2,495,366.84	-	16,736,196.11	14.91%
2011	3,047,788.85	3,047,788.85	-	20,441,237.77	14.91%
2010	2,667,382.75	2,667,382.75	-	20,486,810.68	13.02%

- (1) To correspond with the reporting date, the amounts presented were determined as of June 30 of the stated fiscal year.
- (2) In 2017, the following assumptions were changed: decreased inflation rate from 3.00% to 2.50%; decreased the investment rate of return from 7.50% to 7.25%; decreased the cost-of-living adjustment from 2.50% to 2.25%; and decreased the salary growth graded ranges from an average of 4.25% to an average of 4.00%.

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

	Contractually Determined Contributions	Contributions in Relation to Contractually Determined Contributions	Contribution Deficiency (Excess)	Covered Payroll	Contributions as a Percentage of Covered Payroll
2019	\$ 219,991.98	\$ 219,991.98	-	\$ 5,569,417.22	3.95%
2018	174,657.38	174,657.38	-	4,595,579.72	3.80%
2017	101,185.80	101,185.80	-	2,742,130.00	3.69%
2016	68,734.00	68,734.00	-	1,788,414.00	3.84%
2015	11,274.83	11,274.83	-	291,340.00	3.87%

- (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) In 2017, the following assumptions were changed: decreased inflation rate from 3.00% to 2.50%; decreased the investment rate of return from 7.50% to 7.25%; decreased the cost-of-living adjustment from 2.50% to 2.25%; and decreased the salary growth graded ranges from an average of 4.25% to an average of 4.00%.

REQUIRED SUPPLEMENTARY INFORMATION
Schedule of STCC's Proportionate Share of the Collective Total OPEB Liability
State Employee Group OPEB Plan
Fiscal Year Ending June 30

	2019	2018
Institution's proportion of the collective total OPEB liability	0.570000%	0.517023%
Institution's proportionate share of the collective total OPEB liability	\$ 7,907,213.00	\$ 6,941,239.00
Institution's covered-employee payroll	\$ 13,892,871.47	\$ 15,785,126.00
Institution's proportionate share of the collective total OPEB liability as a percentage of it's covered payroll	56.92%	43.97%

- (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) The amounts reported for each fiscal year were determined as of the prior fiscal year-end.
- (3) There are no assets accumulating in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75, related to this OPEB plan.

REQUIRED SUPPLEMENTARY INFORMATION
Schedule of STCC's Proportionate Share of the Collective Total OPEB Liability
Tennessee OPEB Plan
Fiscal Year Ending June 30

	<u>2019</u>	<u>2018</u>
Institution's proportion of the collective total OPEB liability	0.000000%	0.000000%
Institution's proportionate share of the collective total OPEB liability	\$ -	\$ -
Primary government's proportionate share of the collective total OPEB liability	\$ 1,763,742.00	\$ 1,710,224.00
Collective total OPEB liability	\$ 1,763,742.00	\$ 1,710,224.00
Institution's covered-employee payroll	\$ 17,114,704.83	\$ 20,894,503.82
Institution's proportionate share of the collective total OPEB liability as a percentage of it's covered payroll	10.31%	8.19%

(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) The amounts reported for each fiscal year were determined as of the prior fiscal year-end.

(3) There are no assets accumulating in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75, related to this OPEB plan.

Southwest Tennessee Community College Foundation
Supplementary Information
Supplementary Schedule of Cash Flows - Component Unit
for the Year Ended June 30, 2019

	Foundation
CASH FLOWS FROM OPERATING ACTIVITIES	
Gifts and contributions	\$ 222,240.64
Payments to suppliers and vendors	(17,141.74)
Payments for scholarships and fellowships	(180,784.53)
Net cash provided (used) by operating activities	\$ 24,314.37
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES	
Private gifts for endowment purposes	\$ 11,632.30
Net cash provided (used) by non-capital financing activities	\$ 11,632.30
CASH FLOWS FROM INVESTING ACTIVITIES	
Proceeds from sales and maturities of investments	\$ 695,518.22
Income on investments	131,962.60
Purchase of investments	(2,588,034.47)
Net cash provided (used) by investing activities	\$ (1,760,553.65)
Net increase (decrease) in cash and cash equivalents	(1,724,606.98)
Cash and cash equivalents - beginning of year	4,343,336.71
Cash and cash equivalents - end of year (Note 17)	\$ 2,618,729.73
RECONCILIATION OF OPERATING INCOME/(LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	
Operating income/(loss)	\$ (57,195.79)
Adjustments to reconcile operating loss to net cash provided (used) by operating activities:	
Other adjustments	28,351.66
Change in assets, liabilities, and deferrals:	
Receivables, net	15,656.14
Accounts payable	2,772.81
Due to component unit/primary government	34,729.55
Net cash provided (used) by operating activities	\$ 24,314.37
Non-cash investing, capital, and financing transactions	
Unrealized gains/(losses) on investments	\$ 242,912.10

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