Financial and Compliance Audit Report

Motlow State Community College

For the Years Ended June 30, 2020, and June 30, 2019

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Comptroller of the Treasury

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TENNESSEE COMPTROLLER OF THE TREASURY

JASON E. MUMPOWER
Comptroller

September 16, 2021

The Honorable Bill Lee, Governor
Members of the General Assembly
The Honorable Flora W. Tydings, Chancellor
Dr. Michael L. Torrence, President

Ladies and Gentlemen:

Transmitted herewith is the financial and compliance audit of the Tennessee Board of Regents, Motlow State Community College, for the years ended June 30, 2020, and June 30, 2019. You will note from the independent auditor's report that unmodified opinions were given on the fairness of the presentation of the financial statements.

Consideration of the internal control over financial reporting and tests of compliance resulted in no audit findings.

Sincerely,

Katherine J. Stickel, CPA, CGFM, Director
Division of State Audit

21/025

Audit Report
Tennessee Board of Regents
Motlow State Community College
For the Years Ended June 30, 2020, and June 30, 2019

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Opinions on the Financial Statements

The opinions on the financial statements are unmodified.

Audit Findings

The audit report contains no findings.

Jason E. Mumpower
Comptroller

Independent Auditor's Report

The Honorable Bill Lee, Governor
Members of the General Assembly
The Honorable Flora W. Tydings, Chancellor
Dr. Michael L. Torrence, President

Report on the Financial Statements

We have audited the accompanying financial statements of Motlow State Community College, an institution of the State University and Community College System of Tennessee, which is a component unit of the State of Tennessee, and its discretely presented component unit as of and for the years ended June 30, 2020, and June 30, 2019, and the related notes to the financial statements, which collectively comprise the basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the college's preparation and fair presentation of the financial statements in order to

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design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of Motlow State Community College, and its discretely presented component unit as of June 30, 2020, and June 30, 2019; and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

As discussed in Note 1, the financial statements of Motlow State Community College, an institution of the State University and Community College System of Tennessee, are intended to present the financial position, the changes in financial position, and the cash flows of only Motlow State Community College. They do not purport to, and do not, present fairly the financial position of the State University and Community College System of Tennessee as of June 30, 2020, and June 30, 2019, and the changes in financial position and cash flows thereof for the years then ended, in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 through 15; the schedule of Motlow State Community College's proportionate share of the net pension liability – Closed State and Higher Education Employee Pension Plan within TCRS on page 61; the schedule of Motlow State Community College's proportionate share of the net pension asset – State and Higher Education Employee Retirement Plan within TCRS on page 62; the schedule of Motlow State Community College's contributions – Closed State and Higher Education Employee Pension Plan within TCRS on page 63; the schedule of Motlow State Community College's contributions – State and Higher Education Employee Retirement Plan within TCRS on page 64; the schedule of Motlow State Community College's proportionate share of the collective total/net OPEB liability – Closed State Employee Group OPEB Plan on page 65; the schedule of Motlow State Community College's contributions – Closed State Employee Group OPEB Plan on page 66; and the schedule of Motlow State Community College's proportionate share of the collective total OPEB liability – Closed Tennessee OPEB Plan on page 67 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context.

We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during the audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the college's basic financial statements. The supplementary schedules of cash flows – component unit on page 68 are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated August 18, 2021, on our consideration of the college's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the college's internal control over financial reporting and compliance.

Katherine J. Stickel, CPA, CGFM, Director
Division of State Audit
August 18, 2021

Tennessee Board of Regents
MOTLOW STATE COMMUNITY COLLEGE
Management's Discussion and Analysis

Introduction

This section of the Motlow State Community College's financial report presents a discussion and analysis of the financial performance of the college during the fiscal year ended June 30, 2020, and 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 independent auditor's report, financial statements, and notes to the financial statements. The financial statements, notes, and this discussion are the responsibility of management.

The college has one discretely presented component unit, the Motlow College Foundation. More detailed information about the foundation is presented in Note 16 to the financial statements. This discussion and analysis focuses on the college and does not include the foundation.

Overview of the Financial Statements

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

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

The Statement of Net Position

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

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

The statement of net position also indicates the availability of net position for expenditure by the college. Net position is divided into three major categories. The first category, investment in capital assets, represents the college's total investment in property, plant, and equipment. The next category is restricted net position, which is subdivided into two categories, nonexpendable and expendable. Nonexpendable restricted net position includes endowment and similar resources whose use is limited by donors or other outside sources, and as a condition of the gift, the principal is to be maintained in perpetuity. Expendable restricted net position is available for expenditure by the college but must be spent for purposes as determined by donors and/or external entities that have placed time or purpose restrictions on the use of the resources. The final category is unrestricted net position. Unrestricted net position is available to the college for any lawful purpose of the college.

The following table summarizes the college's assets, liabilities, deferred outflows/inflows of resources, and net position at June 30, 2020; June 30, 2019; and June 30, 2018.

Summary of Net Position
(in thousands of dollars)

	2020	2019	2018
Assets:			
Current assets	$18,171	$16,102	$22,952
Capital assets, net	74,067	69,178	45,509
Other assets	19,367	18,043	13,835
Total assets	**111,605**	**103,323**	**82,296**
Deferred outflows of resources:			
Deferred outflows related to OPEB	1,119	1,210	208
Deferred outflows related to pensions	2,017	2,642	3,130
Total deferred outflows of resources	**3,136**	**3,852**	**3,338**
Liabilities:			
Current liabilities	3,366	3,303	9,704
Noncurrent liabilities	7,716	9,907	9,484
Total liabilities	**11,082**	**13,210**	**19,188**
Deferred inflows of resources:			
Deferred inflows related to OPEB	1,828	279	121
Deferred inflows related to pensions	786	227	216
Total deferred inflows of resources	**2,614**	**506**	**337**

Net position:			
Investment in capital assets	74,067	69,178	45,509
Restricted – expendable	3,157	4,297	2,942
Unrestricted	23,821	19,984	17,658
Total net position	**$101,045**	**$93,459**	**$66,109**

Comparison of Fiscal Year 2020 to Fiscal Year 2019

- Total assets increased by $8.28 million primarily due to the completion of the third building in Smyrna. Total receivables also increased $484 thousand due to outstanding grant reimbursements not received before June 30, 2020.
- Noncurrent liabilities decreased by $2.19 million primarily due to the decrease in the college's OPEB obligation.
- Deferred inflows related to OPEB and pensions increased by $2.11 million due to actuarial determinations.
- Investment in capital assets increased by $4.89 million due to the completion and capitalization of the third Smyrna building.
- Unrestricted net position increased by $3.84 million due to continued enrollment growth and increased state appropriations, based on improved performance outcomes, along with conservative financial management.

Comparison of Fiscal Year 2019 to Fiscal Year 2018

- Current assets decreased by $6.85 million primarily due to the college no longer serving as the lead institution for the three Tennessee Colleges of Applied Technology (TCATs) at McMinnville, Murfreesboro, and Shelbyville. Funds were transferred to the Tennessee Board of Regents (TBR), which is the entity that serves as the service center for all TCATs.
- Current liabilities decreased by $6.40 million largely due to the TCATs being transferred to the TBR for the service center function.

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 the 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.

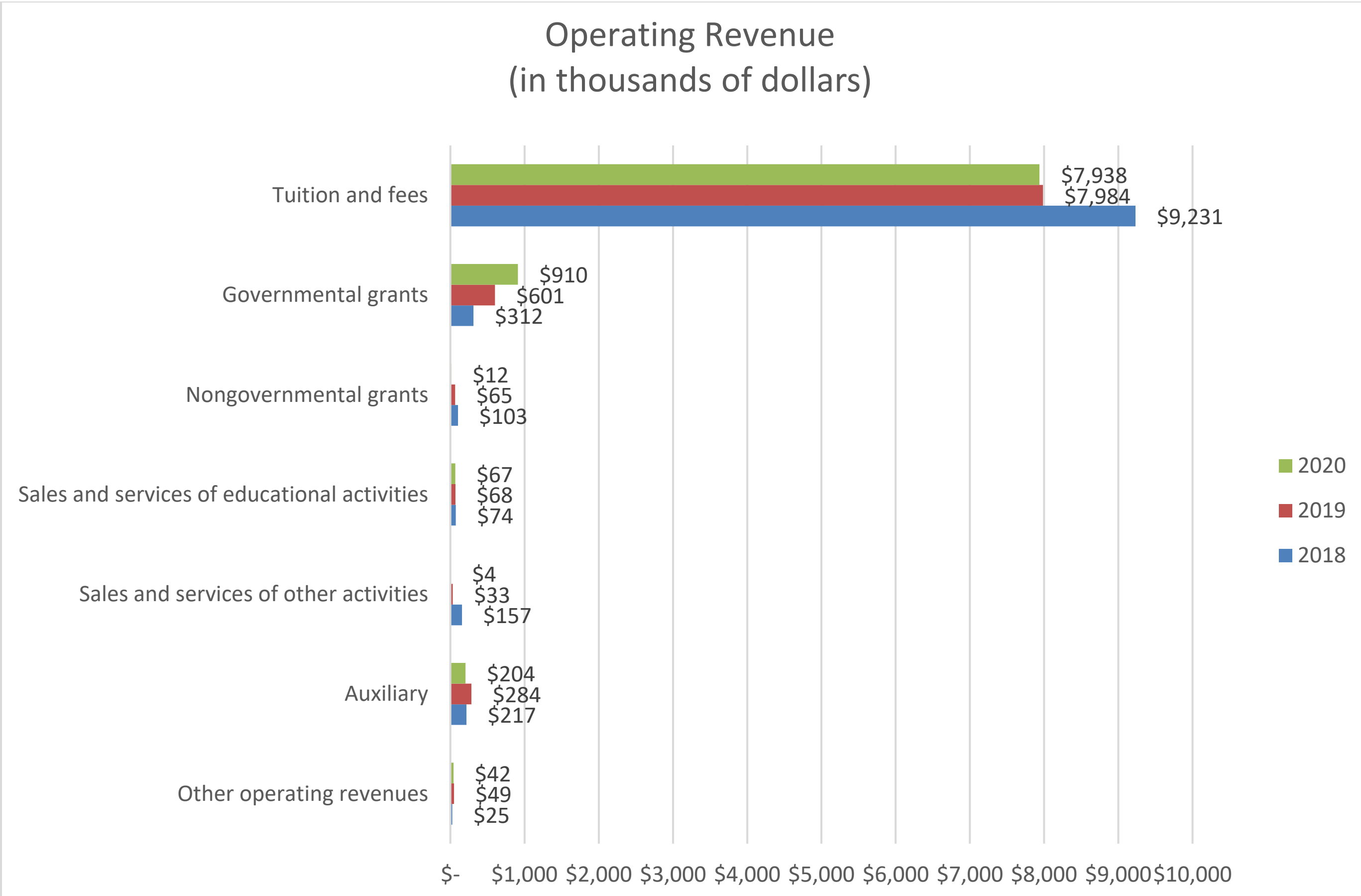
A summary of the college's revenues, expenses, and changes in net position for the year ended June 30, 2020, and the two previous years follows.

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

	2020	2019	2018
Operating revenues	$9,177	$9,084	$10,119
Operating expenses	48,392	40,927	37,922
Operating loss	(39,215)	(31,843)	(27,803)
Nonoperating revenues and expenses	40,991	35,386	30,828
Income before other revenues, expenses, gains, or losses	1,776	3,543	3,025
Other revenues, expenses, gains, or losses	5,810	23,807	4,623
Increase in net position	7,586	27,350	7,648
Net position at beginning of year, as originally reported	93,459	66,109	59,946
Cumulative effect of change in accounting principle	-	-	(1,485)
Net position at beginning year, as restated	93,459	66,109	58,461
Net position at end of year	$101,045	$93,459	$66,109

Operating Revenues

The following is a graphic illustration of operating revenues by source, which are used to fund the college's operating activities for the last three fiscal years:



<u>Comparison of Fiscal Year 2020 to Fiscal Year 2019</u>

- Net tuition and fees decreased by $46 thousand. With Motlow's enrollment growth, an increase in student financial aid programs has had a direct correlation with an increase in scholarship allowances. This resulted in a reduced amount for net tuition and fees.
- Governmental grants and contracts increased by $309 thousand. This is primarily due to the receipt of a Tennessee Higher Education Commission (THEC) Give Grant.
- Nongovernmental grants and contracts decreased by $53 thousand due to several nongovernmental grants occurring in fiscal year 2019 but not in fiscal year 2020.
- Sales and services of other activities decreased by $29 thousand. This is due to the college no longer receiving funds for performing lead institution functions for the TCATs.
- Auxiliary enterprise revenues decreased by $80 thousand due to decreases in commissions tied to decreased bookstore revenue.

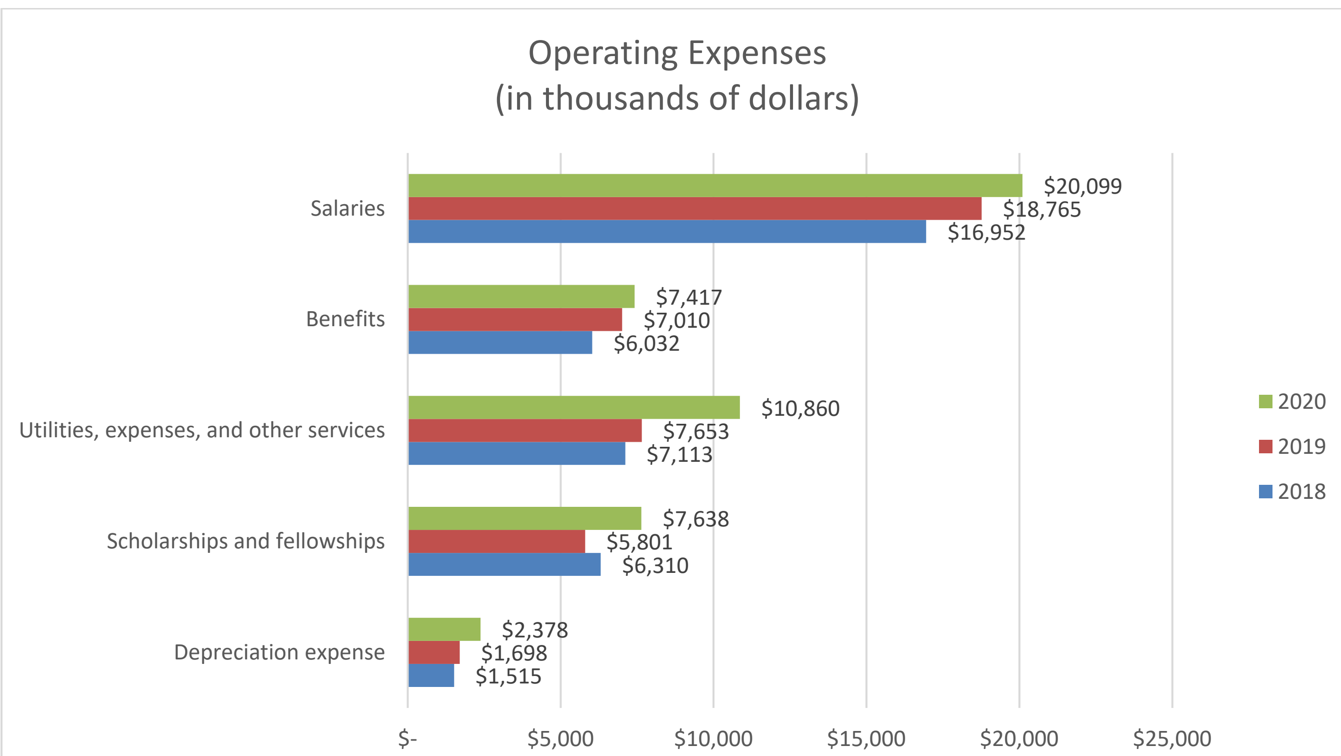
<u>Comparison of Fiscal Year 2019 to Fiscal Year 2018</u>

- Net tuition and fees decreased by $1.25 million. Both the Tennessee Promise and the Tennessee Reconnect programs require as part of the eligibility requirements that each person file a FAFSA. With Motlow's enrollment growth, these programs have had a direct correlation with an increase in scholarship allowances. This resulted in a reduced amount for net tuition and fees.

- Governmental grants and contracts increased by $289 thousand. This is primarily due to new grant awards, including one from the National Science Foundation and two from the Tennessee Board of Regents.
- Nongovernmental grants and contracts decreased by $38 thousand due to one nongovernmental grant occurring in fiscal year 2018 but not in fiscal year 2019.
- Sales and services of other activities decreased by $124 thousand. This is because the college received less funding for performing lead institution functions for the TCATs.
- Auxiliary enterprise revenues increased by $67 thousand due to entering into a new TBR system-wide contract with Follett, Inc. for bookstore services.

Operating Expenses

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



Comparison of Fiscal Year 2020 to Fiscal Year 2019

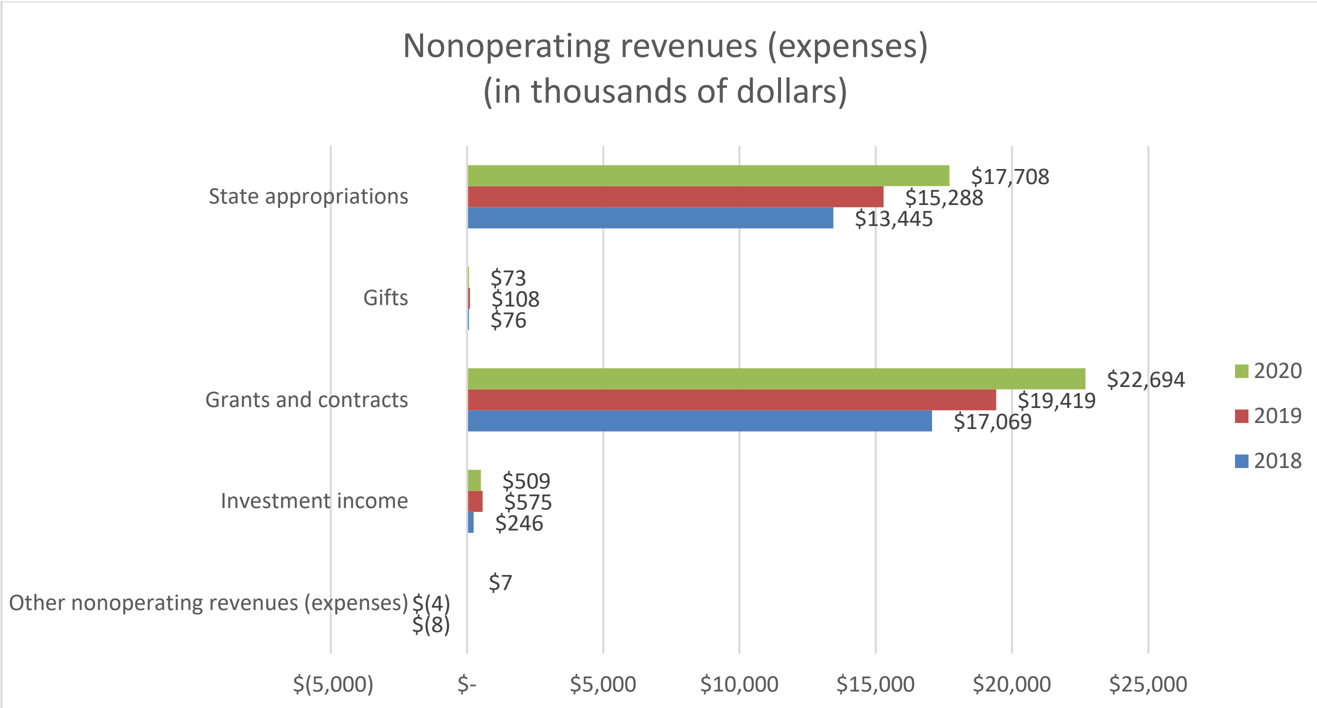
- Salaries increased by $1.33 million primarily due to staffing increases. Several new faculty positions were added along with additional adjunct instructors. There were also increases in support staff and administrative positions in response to the recent enrollment increases. In addition, the college paid a 2% COLA increase effective July 1, 2019, and then paid another one-time COLA bonus which was the greater of 1% or $500 effective January 1, 2020.
- Benefits increased by $407 thousand primarily due to the related increases in salaries.
- Utilities, supplies, and other services expense increased by $3.21 million primarily due to an increase in utility costs, software enhancements, operating costs, and custodial supplies associated with the new Smyrna building, enrollment growth, and general inflation.
- Scholarships increased by $1.84 million primarily due to increases in total Pell grant awards and CARES aid for students in fiscal year 2020.
- Depreciation increased by $680 thousand due to the addition of the third Smyrna building and the first year of its depreciation.

Comparison of Fiscal Year 2019 to Fiscal Year 2018

- Salaries increased by $1.81 million primarily due to an enrollment increase. Several new faculty positions were added along with additional adjunct instructors. There were also increases in support staff and administrative positions in response to the enrollment increase. In addition, the college paid a 2.5% COLA increase.
- Benefits increased by $978 thousand primarily due to the related increase in salaries.
- Utilities, supplies, and other services expense increased by $540 thousand primarily due to an increase in utility costs, software enhancements, operating costs, and custodial supplies associated with enrollment growth and general inflation.
- Scholarships decreased by $509 thousand primarily due to decreases in total award amounts from the TN Lottery and the Tennessee Student Assistance Corporation (TSAC).

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 three fiscal years:



<u>Comparison of Fiscal Year 2020 to Fiscal Year 2019</u>

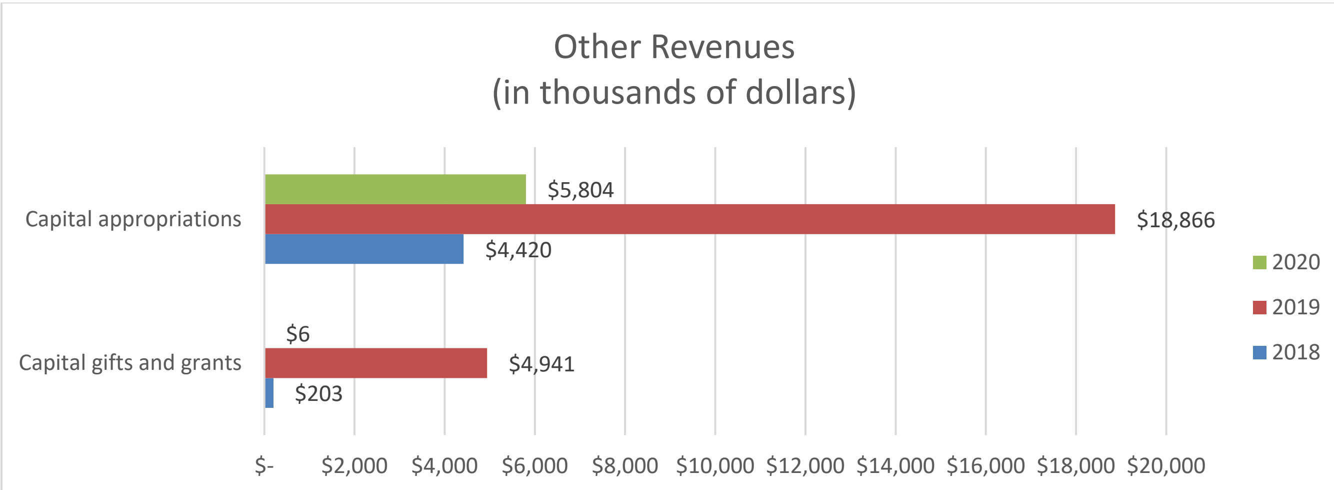
- State appropriations increased by $2.42 million. The large increase was mainly due to the outcomes funding component of the funding formula positively impacting the college.
- Grants and contracts increased by $3.28 million due to increases in Pell grants, new CARES funding, and TN Promise and TN Reconnect awards.
- Investment income decreased by $66 thousand due to significant interest rate decreases from 2.38% in June 2019 to 0.38% in June 2020.

<u>Comparison of Fiscal Year 2019 to Fiscal Year 2018</u>

- State appropriations increased by $1.84 million. Again, the large increase was mainly due to the outcomes funding component of the funding formula positively impacting the college.
- Grants and contracts increased by $2.35 million primarily due to the introduction of the TN Reconnect program in fiscal year 2019.
- Investment income sharply increased by $329 thousand due to an increase in cash coupled with significant interest rate increases from 1.79% in June 2018 to 2.38% in June 2019.

Other Revenues

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



Comparison of Fiscal Year 2020 to Fiscal Year 2019

- Capital appropriations decreased by $13.06 million due to decreased state project work being done in fiscal year 2020 which is primarily a result of the completion of the third Smyrna building.
- Capital gifts and grants decreased by $4.94 million mainly due to a large State of Tennessee grant to help fund the Advanced Robotics Center in McMinnville in fiscal year 2019.

Comparison of Fiscal Year 2019 to Fiscal Year 2018

- Capital appropriations increased by $14.45 million due to increased state project work being done in fiscal year 2019 which is primarily a result of the third Smyrna building.
- Capital gifts and grants increased by $4.74 million in fiscal year 2019 mainly due to a large State of Tennessee grant to help fund the Advanced Robotics Center in McMinnville.

Capital Assets and Debt Administration

Capital Assets

Motlow State Community College had $74,067,421.55 invested in capital assets, net of accumulated depreciation of $29,335,124.34 at June 30, 2020; $69,178,021.75 invested in capital assets, net of accumulated depreciation of $27,022,487.13 at June 30, 2019; and $45,509,319.03 invested in capital assets, net of accumulated depreciation of $25,381,023.72 at June 30, 2018.

Depreciation charges totaled $2,378,488.28, $1,698,296.22, and $1,515,456.77 for the years ended June 30, 2020; June 30, 2019; and June 30, 2018, respectively.

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

	2020	2019	2018
Land	$3,179	$3,179	$3,161
Land improvements and infrastructure	4,899	3,273	3,568
Buildings	61,241	36,119	31,814
Equipment	4,470	3,309	2,295
Library holdings	220	172	172
Projects in progress	58	23,126	4,499
Total	**$74,067**	**$69,178**	**$45,509**

Comparison of Fiscal Year 2020 to Fiscal Year 2019

- Capital assets, net increased $4.89 million from fiscal year 2019 to fiscal year 2020. The increase is mainly due to the completion of the third building in Smyrna.

Comparison of Fiscal Year 2019 to Fiscal Year 2018

- Capital assets, net increased $23.67 million from fiscal year 2018 to fiscal year 2019. The increase is due to the completion of Advanced Robotics Training Center and additional progress made on the third building in Smyrna.

At June 30, 2020, outstanding commitments under construction contracts totaled $3,776,531.51 for various campus projects including a boiler update, HVAC modernization, exterior building repairs, and the third building for Smyrna, of which $1,638,045.70 will be funded by future state capital outlay appropriations.

More detailed information about the college’s capital assets is presented in Note 6 to the financial statements.

Debt

The college had no outstanding debt on June 30, 2020; June 30, 2019; or June 30, 2018, respectively.

More information about the college’s long-term liabilities is presented in Note 8 to the financial statements.

Economic Factors That Will Affect the Future

The economic position of Motlow State Community College (MSCC) is closely tied to that of the State of Tennessee. On December 31, 2019, China reported cases of the COVID-19 virus occurring in Wuhan City, China, to the World Health Organization (WHO). At that time, there was little confirmed evidence of human-to-human transmission and the WHO did not declare the outbreak to be a public health emergency of international concern until January 31, 2020. On March 11, 2020, the WHO declared COVID-19 to be a global pandemic. To help slow the transmission of the virus in Tennessee, MSCC took the following actions: 1). Employees whose job responsibilities allowed them to work remotely were instructed to begin an alternate work-from-home schedule beginning March 17, 2020, and 2). MSCC's spring break was the week of March 17. The college extended spring break by an additional week to allow faculty to convert classes to an online format. All classes were resumed on March 30 and followed an online format until the end of the spring 2020 semester, and the college extended the online format through the summer 2020 semester. For the fall 2020 semester, MSCC had an on-ground class schedule of approximately 25%, with the balance of classes in an online format. COVID-19 could have a negative impact on the state's revenue collections, state funding for higher education, higher education enrollment, the fair value of higher education's investments, demand for on-campus housing, and interest in college programs involving international travel.

The Tennessee Board of Regents as a system decided not to increase tuition for the academic year of 2020-2021. Also, no cost-of-living adjustment was administered for the academic year of 2020-2021.

The full impact of COVID-19 and the scope of any adverse impact on the college's finances and operations cannot be fully determined at this time.

Requests for Information

This financial report is designed to provide a general overview of the institution's finances for all those with an interest in the college's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be directed to Ms. Hilda Tunstill, Vice President for Finance and Administration at Motlow State Community College, P.O. Box 8500, Lynchburg, TN 37352.

Tennessee Board of Regents
MOTLOW STATE COMMUNITY COLLEGE
Statements of Net Position
June 30, 2020, and June 30, 2019

	Motlow State Community College		Component Unit - Motlow College Foundation	
	June 30, 2020	June 30, 2019	June 30, 2020	June 30, 2019
Assets				
Current assets:				
Cash and cash equivalents (Notes 2, 3, and 16)	$ 15,887,199.36	$ 14,241,324.60	$ 1,167,430.68	$ 711,477.05
Accounts and grants receivable (net) (Note 4)	1,272,469.66	788,300.08	201,000.00	18,939.13
Due from State of Tennessee	810,450.45	836,459.98	-	-
Due from Motlow College Foundation	5,425.97	5,817.74	-	-
Pledges receivable (net) (Notes 5 and 16)	-	129,302.34	156,336.38	160,078.85
Prepaid expenses	195,154.77	100,852.73	500.00	500.00
Accrued interest	-	28.83	822.47	143.74
Total current assets	18,170,700.21	16,102,086.30	1,526,089.53	891,138.77
Noncurrent assets:				
Cash and cash equivalents (Notes 2, 3, and and 16)	18,941,126.72	17,789,707.93	763,222.71	569,995.58
Investments (Notes 3 and 16)	-	-	8,923,539.33	8,878,710.96
Investment in Tennessee Retiree Group Trust	235,441.01	104,446.99	-	-
Pledges receivable (net) (Note 16)	-	-	98,640.20	231,738.07
Capital assets (net) (Note 6)	74,067,421.55	69,178,021.75	-	-
Net pension asset (Note 9)	191,167.00	149,001.00	-	-
Total noncurrent assets	93,435,156.28	87,221,177.67	9,785,402.24	9,680,444.61
Total assets	111,605,856.49	103,323,263.97	11,311,491.77	10,571,583.38
Deferred outflows of resources				
Deferred outflows related to OPEB (Note 10)	1,119,411.00	1,209,753.61	-	-
Deferred outflows related to pensions (Note 9)	2,016,823.19	2,641,994.03	-	-
Total deferred outflows of resources	3,136,234.19	3,851,747.64	-	-
Liabilities				
Current liabilities:				
Accounts payable (Note 7)	411,488.70	505,431.40	1,305.98	7,369.44
Accrued liabilities	617,011.34	577,570.40	-	-
Due to State of Tennessee	428,408.58	408,098.08	-	-
Due to MSCC	-	-	5,425.97	5,817.74
Unearned revenue	1,615,196.22	1,195,733.47	-	-
Compensated absences (Note 8)	162,876.82	172,583.13	-	-
Total OPEB liability, current portion (Note 10)	-	302,523.61	-	-
Deposits held in custody for others	131,259.47	141,037.86	-	-
Total current liabilities	3,366,241.13	3,302,977.95	6,731.95	13,187.18
Noncurrent liabilities:				
Total OPEB liability (Note 10)	-	3,818,809.39	-	-
Net OPEB liability (Note 10)	2,180,326.00	-	-	-
Net pension liability (Note 9)	4,467,467.00	5,211,093.00	-	-
Compensated absences (Note 8)	1,068,508.42	877,168.84	-	-
Total noncurrent liabilities	7,716,301.42	9,907,071.23	-	-
Total liabilities	11,082,542.55	13,210,049.18	6,731.95	13,187.18
Deferred inflows of resources				
Deferred inflows related to OPEB (Note 10)	1,827,772.00	278,879.00	-	-
Deferred inflows related to pensions (Note 9)	786,307.00	227,346.00	-	-
Total deferred inflows of resources	2,614,079.00	506,225.00	-	-
Net position				
Investment in capital assets	74,067,421.55	69,178,021.75	-	-
Restricted for:				
Nonexpendable:				
Scholarships and fellowships	-	-	622,392.74	621,763.29
Other	-	-	3,811,111.41	3,770,108.36
Expendable:				
Scholarships and fellowships	-	-	703,159.43	650,454.04
Instructional department uses	66,111.54	70,291.86	-	-
Capital projects	2,664,290.12	3,973,467.73	1,371,311.92	926,245.07
Pensions	191,167.00	149,001.00	-	-
Other	235,441.01	104,446.99	4,355,429.53	4,172,651.10
Unrestricted	23,821,037.91	19,983,508.10	441,354.79	417,174.34
Total net position	$ 101,045,469.13	$ 93,458,737.43	$ 11,304,759.82	$ 10,558,396.20

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

Tennessee Board of Regents
MOTLOW STATE COMMUNITY COLLEGE
Statements of Revenues, Expenses, and Changes in Net Position
For the Years Ended June 30, 2020, and June 30, 2019

	Motlow State Community College		Component Unit - Motlow College Foundation	
	Year Ended June 30, 2020	Year Ended June 30, 2019	Year Ended June 30, 2020	Year Ended June 30, 2019
Revenues				
Operating revenues:				
Student tuition and fees (Note 11)	$ 7,937,925.32	$ 7,984,215.26	$ -	$ -
Gifts and contributions	-	-	809,379.36	482,052.82
Endowment income (per spending plan)	-	-	163,785.16	210,857.72
Governmental grants and contracts	910,761.34	601,017.53	-	-
Nongovernmental grants and contracts	11,934.00	65,147.82	-	-
Sales and services of educational activities	66,715.05	68,103.15	-	-
Sales and services of other activities	3,990.00	32,450.00	-	-
Auxiliary enterprises:				
Bookstore	203,378.06	279,614.83	-	-
Other auxiliaries	1,140.51	4,077.00	1,996.50	3,108.75
Other operating revenues	41,510.59	49,030.61	-	-
Total operating revenues	9,177,354.87	9,083,656.20	975,161.02	696,019.29
Expenses				
Operating expenses (Notes 14 and 16):				
Salaries and wages	20,098,583.05	18,764,556.45	300,609.24	273,445.32
Benefits	7,417,343.53	7,009,385.24	94,968.53	71,361.79
Utilities, supplies, and other services	10,860,003.35	7,653,258.16	193,179.73	304,988.07
Scholarships and fellowships	7,637,661.45	5,801,154.29	223,697.16	211,470.48
Depreciation expense	2,378,488.28	1,698,296.22	-	-
Payments to or on behalf of Motlow State Community College	-	-	72,835.07	107,697.74
Total operating expenses	48,392,079.66	40,926,650.36	885,289.73	968,963.40
Operating income (loss)	(39,214,724.79)	(31,842,994.16)	89,871.29	(272,944.11)
Nonoperating revenues (expenses)				
State appropriations	17,708,600.00	15,288,360.76	-	-
Gifts (including $72,835.07 from component unit for the year ended June 30, 2020, and $107,697.74 for the year ended June 30, 2019)	72,835.07	107,697.74	-	-
Grants and contracts	22,693,574.51	19,419,023.69	-	-
Investment income (net of investment expense of $41,352.98 for the component unit for the year ended June 30, 2020, and $38,929.16 for the year ended June 30, 2019)	509,519.13	575,048.23	248,102.16	484,383.39
College support	-	-	395,577.77	344,807.11
Other nonoperating revenues (expenses)	6,928.00	(4,462.46)	58.40	-
Total nonoperating revenues (expenses)	40,991,456.71	35,385,667.96	643,738.33	829,190.50
Income before other revenues, expenses, gains, or losses	1,776,731.92	3,542,673.80	733,609.62	556,246.39
Capital appropriations	5,804,302.12	18,865,662.27	-	-
Capital grants and gifts	5,697.66	4,941,431.14	-	-
Additions to permanent endowments	-	-	12,754.00	8,922.51
Total other revenues	5,809,999.78	23,807,093.41	12,754.00	8,922.51
Increase in net position	7,586,731.70	27,349,767.21	746,363.62	565,168.90
Net position - beginning of year	93,458,737.43	66,108,970.22	10,558,396.20	9,993,227.30
Net position - end of year	$ 101,045,469.13	$ 93,458,737.43	$ 11,304,759.82	$ 10,558,396.20

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

Tennessee Board of Regents
MOTLOW STATE COMMUNITY COLLEGE
Statements of Cash Flows
For the Years Ended June 30, 2020, and June 30, 2019

	Year Ended June 30, 2020	Year Ended June 30, 2019
Cash flows from operating activities		
Tuition and fees	$ 7,925,187.49	$ 8,325,135.11
Grants and contracts	945,635.53	614,518.23
Sales and services of educational activities	66,715.05	68,103.15
Sales and services of other activities	3,990.00	32,450.00
Payments to suppliers and vendors	(9,991,669.08)	(7,481,981.89)
Payments to employees	(19,910,988.73)	(18,625,806.77)
Payments for benefits	(7,227,826.89)	(6,643,993.24)
Payments for scholarships and fellowships	(7,637,661.45)	(5,801,154.29)
Funds received for deposits held for others	248,497.07	387,533.01
Funds disbursed for deposits held for others	(258,275.46)	(5,697,924.97)
Auxiliary enterprise charges:		
Bookstore	196,468.44	264,280.50
Other auxiliaries	1,376.22	4,366.81
Other receipts	41,510.59	49,030.61
Net cash used for operating activities	(35,597,041.22)	(34,505,443.74)
Cash flows from noncapital financing activities		
State appropriations	17,691,600.00	14,867,100.00
Gifts and grants received for other than capital or endowment purposes	22,176,790.03	19,665,390.78
Other noncapital financing receipts	6,928.00	2,700.00
Net cash provided by noncapital financing activities	39,875,318.03	34,535,190.78
Cash flows from capital and related financing activities		
Capital grants and gifts received	635,000.00	155,500.00
Purchase of capital assets and construction	(2,494,537.20)	(2,299,648.90)
Net cash used for capital and related financing activities	(1,859,537.20)	(2,144,148.90)
Cash flows from investing activities		
Purchases of investments	(123,345.62)	(99,027.09)
Income on investments	501,899.56	569,599.50
Net cash provided by investing activities	378,553.94	470,572.41
Net increase (decrease) in cash	2,797,293.55	(1,643,829.45)
Cash - beginning of year	32,031,032.53	33,674,861.98
Cash - end of year	$ 34,828,326.08	$ 32,031,032.53

Tennessee Board of Regents
MOTLOW STATE COMMUNITY COLLEGE
Statements of Cash Flows (Continued)
For the Years Ended June 30, 2020, and June 30, 2019

	Year Ended June 30, 2020	Year Ended June 30, 2019
Reconciliation of operating loss to net cash used for operating activities:		
Operating loss	$ (39,214,724.79)	$ (31,842,994.16)
Adjustments to reconcile operating loss to net cash used for operating activities:		
Noncash operating expenses	3,412,061.36	2,277,882.83
Change in assets, liabilities, deferred outflows, and deferred inflows:		
Receivables, net	(409,523.56)	(124,651.91)
Due from Motlow College Foundation	(411.71)	2,904.44
Due from State of Tennessee	21,243.56	(967.90)
Inventories	-	4,219.57
Prepaid items	(103,186.04)	3,723.97
Net pension asset	(42,166.00)	(69,112.00)
Deferred outflows of resources	715,513.45	(513,860.12)
Accounts payable	(58,595.36)	106,192.61
Accrued liabilities	39,440.94	119,915.68
Due to State of Tennessee	28,768.30	(153,124.69)
Unearned revenue	419,462.75	306,220.10
Deposits held in custody for others	(9,778.39)	(5,310,391.96)
Compensated absences	181,633.27	127,490.80
Net pension liability	(743,626.00)	(587,316.00)
Total OPEB liability	-	979,813.00
Net OPEB liability	(1,941,007.00)	-
Deferred inflows of resources	2,107,854.00	168,612.00
Net cash used for operating activities	$ (35,597,041.22)	$ (34,505,443.74)
Noncash investing, capital, or financing transactions		
Gifts of capital assets	$ -	$ 16,000.00
Loss on disposal of capital assets	$ -	$ (7,162.46)
Purchase of capital assets and construction with capital appropriations	$ 4,801,429.04	$ 18,714,336.42
Purchase of capital assets and construction with capital grants	$ -	$ 4,416,454.06

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

Tennessee Board of Regents
MOTLOW STATE COMMUNITY COLLEGE
Notes to the Financial Statements
June 30, 2020, and June 30, 2019

Note 1. Summary of Significant Accounting Policies

Reporting Entity

The college is a part of the State University and Community College System of Tennessee. This system is a component unit of the State of Tennessee because the state appoints a majority of the system's governing body and provides significant financial support; the system is discretely presented in the *Tennessee Comprehensive Annual Financial Report*. That report is available at https://www.tn.gov/finance/rd-doa/fa-accfin-ar.html.

The financial statements present only that portion of the system's activities that is attributable to the transactions of Motlow State Community College.

The Motlow College Foundation is considered a component unit of the college. Although the college does not control the timing or amount of receipts from the foundation, the majority of resources, or income thereon, that the foundation holds and invests are restricted to the activities of the college by its donors. Because these restricted resources held by the foundation can only be used by, or for the benefit of, the college, the foundation is considered a component unit of the college and is discretely presented in the college's financial statements. See Note 16 for more detailed information about the component unit and how to obtain the report.

Basis of Presentation

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

Basis of Accounting

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

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

Nonoperating revenues and expenses include activities that have the characteristics of nonexchange transactions, such as gifts, contributions, and other activities that are defined as nonoperating by GASB Statement 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*, and GASB Statement 34, *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 which to use first, depending upon existing facts and circumstances.

Cash Equivalents

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

Compensated Absences

The college's employees accrue annual and sick leave at varying rates, depending on length of service or classification. Some employees also earn compensatory time.

The amount of the liabilities for annual leave and compensatory time and their related benefits are reported in the statement of net position. There is no liability for unpaid accumulated sick leave since the college's policy is to pay this only if the employee is sick or upon death.

Capital Assets

Capital assets, which include property, plant, equipment, library holdings, and intangible assets, are reported in the statement of net position at historical cost or at acquisition value at date of donation, less accumulated depreciation/amortization. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's useful life are not capitalized.

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

These assets, with the exception of land, are depreciated/amortized using the straight-line method over their estimated useful lives, which range from 5 to 60 years.

Pensions

For purposes of measuring the net pension liability (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 plans' fiduciary net positions have been determined on the same basis as they are reported by the TCRS. For this purpose, benefits (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms of the Closed State and Higher Education Employee Pension Plan and the State and Higher Education Employee Retirement Plan. Investments are reported at fair value.

Other Postemployment Benefits

For purposes of measuring the net other postemployment benefits liability (OPEB), as well as deferred outflows of resources and deferred inflows of resources related to OPEB and OPEB expense, information about the fiduciary net position of the Closed Employee Group OPEB Plan and additions to/deductions from the plan's fiduciary net position have been determined on the same basis as they are reported by the State of Tennessee Postemployment Benefits Trust. For this purpose, benefits are recognized when due and payable in accordance with the benefit terms of the Closed Employee Group OPEB Plan. Investments are reported at fair value.

Net Position

The college's net position is classified as follows:

Investment in capital assets – This represents the college's total investment in capital assets, net of accumulated depreciation.

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

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

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

Scholarship Discounts and Allowances

Student tuition and fee revenues, as well as certain other revenues from students, are reported net of scholarship discounts and allowances in the statement of revenues, expenses, and changes in net position. Scholarship discounts and allowances are the difference between the stated charge for goods and services provided by the college and the amount that is paid by the student and/or third parties making payments on the student's behalf. Certain governmental grants, such as Pell grants and other federal, state, or nongovernmental programs, are recorded as either operating or nonoperating revenues in the college's financial statements. To the extent that revenues from such programs are used to satisfy tuition and fees and other student charges, the college has recorded a scholarship discount and allowance.

Note 2. Cash

This classification includes demand deposits and petty cash on hand. At June 30, 2020, cash consisted of $532,511.45 in bank accounts; $1,550.00 of petty cash on hand; $31,629,974.51 in the Local Government Investment Pool (LGIP) administered by the State Treasurer; and $2,664,290.12 in LGIP deposits for capital projects. At June 30, 2019, cash consisted of $1,007,236.07 in bank accounts; $1,550.00 of petty cash on hand; $27,961,120.67 in the LGIP; and $3,061,125.79 in LGIP deposits for capital projects.

The LGIP is administered by the State Treasurer and is measured at amortized cost. The fund's required risk disclosures are presented in the *State of Tennessee Treasurer's Report*. That report is available on the state's website at https://treasury.tn.gov.

LGIP deposits for capital projects – Payments related to the college's capital projects are made by the State of Tennessee's Department of Finance and Administration. The college's estimated local share of the cost of each project is held in a separate LGIP account. As expenses are incurred, 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.

Note 3. Investments

Credit Risk

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

Tennessee Board of Regents policy restricts investments in bankers' acceptances and commercial paper. The policy requires that prime bankers' acceptances must be issued by domestic banks with a minimum AA rating or foreign banks with a AAA long-term debt rating by a majority of the rating services that have rated the issuer. Prime bankers' acceptances are required to be eligible for purchase by the Federal Reserve System. To be eligible, the original maturity must not be more than 270 days, and it must (1) arise out of the current shipment of goods between countries or with the United States, or (2) arise out of storage within the United States of goods that are under contract of sale or are expected to move into the channel of trade within a reasonable time and that are secured throughout their life by a warehouse receipt or similar document conveying title to the underlying goods.

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

As of June 30, 2020, and June 30, 2019, the college's investments consisted entirely of investments in the Local Government Investment Pool, which are valued at amortized cost. The value of these investments was $ 34,294,264.63 at June 30, 2020, and $31,022,246.46 at June 30, 2019. LGIP investments are not rated by nationally recognized statistical ratings organizations.

Note 4. Receivables

Receivables included the following:

	June 30, 2020	June 30, 2019
Student accounts receivable	$ 827,314.16	$ 679,321.38
Grants receivable	753,442.33	328,254.42
Other receivables	102,704.10	85,585.82
Subtotal	1,683,460.59	1,093,161.62
Less allowance for doubtful accounts	(410,990.93)	(304,861.54)
Total receivables	$ 1,272,469.66	$ 788,300.08

Note 5. Pledges Receivable

Pledges receivable are promises of private donations that are reported as a receivable and revenue. At June 30, 2020, and June 30, 2019, all were considered to be collectible.

Note 6. Capital Assets

Capital asset activity for the year ended June 30, 2020, was as follows:

	Beginning Balance	Additions	Transfers	Reductions	Ending Balance
Land	$ 3,178,692.50	$ -	$ -	$ -	$ 3,178,692.50
Land improvements and infrastructure	6,518,127.40	-	1,980,394.54	-	8,498,521.94
Buildings	55,265,804.59	-	26,446,488.68	-	81,712,293.27
Equipment	6,037,373.96	1,817,490.37	-	17,694.82	7,837,169.51
Library holdings	394,046.43	91,295.76	-	48,156.25	437,185.94
Intangible assets	1,679,966.98	-	-	-	1,679,966.98
Projects in progress	23,126,497.02	5,359,101.95	(28,426,883.22)	-	58,715.75
Total	96,200,508.88	7,267,888.08	-	65,851.07	103,402,545.89
Less accumulated depreciation/amortization:					
Land improvements and infrastructure	3,245,499.43	353,851.04	-	-	3,599,350.47
Buildings	19,146,382.13	1,324,713.13	-	-	20,471,095.26
Equipment	2,728,950.04	656,205.47	-	17,694.82	3,367,460.69
Library holdings	221,688.55	43,718.64	-	48,156.25	217,250.94
Intangible assets	1,679,966.98	-	-	-	1,679,966.98
Total	27,022,487.13	2,378,488.28	-	65,851.07	29,335,124.34
Capital assets, net	$ 69,178,021.75	$ 4,889,399.80	$ -	$ -	$ 74,067,421.55

Capital asset activity for the year ended June 30, 2019, was as follows:

	Beginning Balance	Additions	Transfers	Reductions	Ending Balance
Land	$ 3,160,892.75	$ 17,799.75	$ -	$ -	$ 3,178,692.50
Land improvements and infrastructure	6,536,840.77	-	226,309.06	245,022.43	6,518,127.40
Buildings	50,076,255.07	245,022.43	4,944,527.09	-	55,265,804.59
Equipment	4,538,877.20	1,517,596.76	-	19,100.00	6,037,373.96
Library holdings	399,410.68	39,531.02	-	44,895.27	394,046.43
Intangible assets	1,679,966.98	-	-	-	1,679,966.98
Projects in progress	4,498,099.30	23,799,233.87	(5,170,836.15)	-	23,126,497.02
Total	70,890,342.75	25,619,183.83	-	309,017.70	96,200,508.88
Less accumulated depreciation/amortization:					
Land improvements and infrastructure	2,968,145.00	277,354.43	-	-	3,245,499.43
Buildings	18,262,450.31	883,931.82	-	-	19,146,382.13
Equipment	2,243,282.22	497,605.36	-	11,937.54	2,728,950.04
Library holdings	227,179.21	39,404.61	-	44,895.27	221,688.55
Intangible assets	1,679,966.98	-	-	-	1,679,966.98
Total	25,381,023.72	1,698,296.22	-	56,832.81	27,022,487.13
Capital assets, net	$45,509,319.03	$ 23,920,887.61	$ -	$ 252,184.89	$ 69,178,021.75

Note 7. Accounts Payable

Accounts payable included the following:

	June 30, 2020	June 30, 2019
Vendors payable	$ 410,215.77	$ 495,746.83
Other payables	1,272.93	9,684.57
Total accounts payable	$ 411,488.70	$ 505,431.40

Note 8. Long-term Liabilities

Long-term liabilities activity for the year ended June 30, 2020, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Compensated absences	$1,049,751.97	$821,583.84	$639,950.57	$1,231,385.24	$162,876.82
Total long-term liabilities	$1,049,751.97	$821,583.84	$639,950.57	$1,231,385.24	$162,876.82

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

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Compensated absences	$922,261.17	$764,337.29	$636,846.49	$1,049,751.97	$172,583.13
Total long-term liabilities	$922,261.17	$764,337.29	$636,846.49	$1,049,751.97	$172,583.13

Note 9. Pension Plans

Defined Benefit Plans

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/tcrs.

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

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

Plus:

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

A reduced early retirement benefit is available at age 55 and vested. Members are vested with 5 years of service credit. Service-related disability benefits are provided regardless of length of service. Five years of service is required for non-service-related disability eligibility. The service-related and non-service-related disability benefits are determined in the same manner as a service retirement benefit but are reduced 10% and include projected service credits. A variety of death benefits are available under various eligibility criteria. Member and beneficiary annuitants are entitled to automatic cost-of-living adjustments (COLAs) after retirement. A COLA is granted each July for annuitants retired prior to July 2 of the previous year. The COLA is based on the change in the consumer price index (CPI) during the prior calendar year, capped at 3%, and applied to the current benefit. No COLA is granted if the change in the CPI is less than 0.5%. A 1% COLA is granted if the CPI change is between 0.5% and 1%. A member who leaves employment may withdraw employee contributions, plus any accumulated interest.

Contributions – Contributions for state employees and higher education employees are established in the statutes governing the TCRS and may only be changed by the Tennessee General Assembly. The college's employees are noncontributory, 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 years ended June 30, 2020, and June 30, 2019, to the Closed State and Higher Education Employee Pension Plan were $1,382,484.55 and $1,368,436.36, respectively, which is 19.66% and 19.23% of covered payroll, respectively. The employer rate, when combined with member contributions, is expected to finance the costs of benefits earned by members during the year and the cost of administration, as well as an amortized portion of any unfunded liability.

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

Pension liability – At June 30, 2020, the college reported a liability of $4,467,467 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2019, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The college's proportion of the net pension liability was based on a projection of the college's contributions during the year ended June 30, 2019, to the pension plan relative to the contributions of all participating state and higher education agencies. At the June 30, 2019, measurement date, the college's proportion was 0.316356%.

At June 30, 2019, the college reported a liability of $5,211,093 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 a projection 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 0.322586%.

Pension expense – For the years ended June 30, 2020, and June 30, 2019, the college recognized pension expense of $1,819,311 and $1,237,814, respectively.

Deferred outflows of resources and deferred inflows of resources – For the years ended June 30, 2020, and June 30, 2019, the college reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

Fiscal Year 2020	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 210,029.00	$ 70,627.00
Net difference between projected and actual earnings on pension plan investments	-	587,609.00
Changes in assumptions	321,361.00	-
Changes in proportion of net pension liability	-	82,554.00
MSCC's contributions subsequent to the measurement date of June 30, 2019	1,382,484.55	-
Total	$ 1,913,874.55	$ 740,790.00

Fiscal Year 2019	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 470,750.00	$ 24,226.00
Net difference between projected and actual earnings on pension plan investments	-	149,783.00
Changes in assumptions	655,380.00	-
Changes in proportion of net pension liability	66,553.00	36,798.00
MSCC's contributions subsequent to the measurement date of June 30, 2018	1,368,436.36	-
Total	$ 2,561,119.36	$ 210,807.00

Deferred outflows of resources, resulting from the college's employer contributions of $1,382,484.55 subsequent to the measurement date, will be recognized as a decrease in net pension liability in the year ending June 30, 2021. 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 Ending June 30	
2021	$ 380,218
2022	$ (413,095)
2023	$ (157,471)
2024	$ (19,052)

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 the June 30, 2019, and June 30, 2018, actuarial valuations was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.5%
Salary increases	Graded salary ranges from 8.72% to 3.44% based on age, including inflation, averaging 4%
Investment rate of return	7.25%, net of pension plan investment expenses, including inflation
Cost-of-living adjustment	2.25%

Mortality rates were developed by the actuary using the results of the actuarial experience study performed for the period July 1, 2012, through June 30, 2016, and were adjusted for expected future improvements in life expectancy. Mortality assumptions utilize the RP-2014 industry standard base table adjusted for TCRS experience, with mortality improvement projected six years beyond each actuarial valuation date.

The actuarial assumptions used in the June 30, 2019, and June 30, 2018, actuarial valuations 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. This return was selected from a range of values developed using historical market returns and future capital market projections. The future capital market projections were produced using 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 future capital market projection by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation of 2.5%. 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% based on a comparison of historical market returns and future capital market projections.

Discount rate – The discount rate used to measure the total pension liability at the June 30, 2019, and June 30, 2018, measurement dates was 7.25%. 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 to changes in the discount rate – The following presents the college's proportionate share of the net pension liability calculated using the discount rate of 7.25%, as well as what the college's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (6.25%) or 1 percentage point higher (8.25%) than the current rate:

June 30, 2020	1% Decrease (6.25%)	Current Discount Rate (7.25%)	1% Increase (8.25%)
College's proportionate share of the net pension liability (asset)	$10,781,116	$4,467,467	$(668,739)

June 30, 2019	1% Decrease (6.25%)	Current Discount Rate (7.25%)	1% Increase (8.25%)
College's proportionate share of the net pension liability (asset)	$11,452,973	$5,211,093	$(42,049)

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

State and Higher Education Employee Retirement Plan

General Information About the Pension Plan

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

Benefits provided – Title 8, Chapters 34–37, *Tennessee Code Annotated,* establishes the benefit terms and can be amended only by the Tennessee General Assembly. Members of the State and Higher Education Employee Retirement Plan are eligible to retire at age 65 with 5 years of service credit or pursuant to the rule of 90 in which the member's age and years of 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% multiplied by the member's years of service credit. A reduced early retirement is available at age 60 with 5 years of service credit or pursuant to the rule of 80 in which a member's age and years of 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% and include projected service credits. A variety of death benefits are available under various eligibility criteria.

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

<u>Contributions</u> – Contributions for state and higher education employees are established in the statutes governing the TCRS and may only be changed by the Tennessee General Assembly. Employees contribute 5% of their salary to the State and Higher Education Employee Retirement Plan. The higher education institutions make employer contributions at the rate set by the Board of Trustees as determined by an actuarial valuation. By law, employer contributions for the State and Higher Education Employee Retirement Plan are required to be paid. Employer contributions by the college for the years ended June 30, 2020, and June 30, 2019, to the State and Higher Education Employee Retirement Plan were $93,402.64 and $71,646.67, respectively, which is 1.73% and 1.66% of covered payroll, respectively. The employer rate, when combined with member contributions, is expected to finance the costs of benefits earned by members during the year and the cost of administration, as well as an amortized portion of any unfunded liability.

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

<u>Pension asset</u> – At June 30, 2020, the college reported an asset of $191,167 for its proportionate share of the net pension asset. The net pension asset was measured as of June 30, 2019, and the total pension liability used to calculate the net pension asset was determined by an actuarial valuation as of that date. The college's proportion of the net pension asset was based on a projection of the college's contributions during the year ended June 30, 2019, to the pension plan relative to the contributions of all participating state and higher education agencies. At the June 30, 2019, measurement date, the college's proportion was 0.460893%.

At June 30, 2019, the college reported an asset of $149,001 for its proportionate share of the net pension asset. The net pension asset was measured as of June 30, 2018, and the total pension liability used to calculate the net pension asset was determined by an actuarial valuation as of that date. The college's proportion of the net pension asset was based on a projection of the college's contributions during the year ended June 30, 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 0.386284%.

Pension expense – For the years ended June 30, 2020, and June 30, 2019, the college recognized a pension expense of $58,265 and $42,944, respectively.

Deferred outflows of resources and deferred inflows of resources – For the years ended June 30, 2020, and June 30, 2019, the college reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

Fiscal Year 2020	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 4,262.00	$ 6,201.00
Net difference between projected and actual earnings on pension plan investments	-	7,896.00
Changes in assumptions	5,284.00	-
Changes in proportion of net pension asset	-	31,420.00
MSCC's contributions subsequent to the measurement date of June 30, 2019	93,402.64	-
Total	$ 102,948.64	$ 45,517.00

Fiscal Year 2019	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 4,167.00	$ 2,498.00
Net difference between projected and actual earnings on pension plan investments	-	7,195.00
Changes in assumptions	5,061.00	-
Changes in proportion of net pension asset	-	6,846.00
MSCC's contributions subsequent to the measurement date of June 30, 2018	71,646.67	-
Total	$ 80,874.67	$ 16,539.00

Deferred outflows of resources, resulting from the college's employer contributions of $93,402.64 subsequent to the measurement date, will be recognized as a decrease in net pension liability in the year ending June 30, 2021. 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 Ending June 30	
2021	$ (6,272)
2022	$ (7,265)
2023	$ (5,194)
2024	$ (4,058)
2025	$ (3,127)
Thereafter	$ (10,055)

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 the June 30, 2019, and June 30, 2018, actuarial valuations was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.5%
Salary increases	Graded salary ranges from 8.72% to 3.44% based on age, including inflation, averaging 4%
Investment rate of return	7.25%, net of pension plan investment expenses, including inflation
Cost-of-living adjustment	2.25%

Mortality rates were developed by the actuary using the results of the actuarial experience study performed for the period July 1, 2012, through June 30, 2016, and were adjusted for expected future improvements in life expectancy. Mortality assumptions utilize the RP-2014 industry standard base table adjusted for TCRS experience, with generational mortality improvement.

The actuarial assumptions used in the June 30, 2019, and June 30, 2018, actuarial valuations 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. This return was selected from a range of values developed using historical market returns and future capital market projections. The future capital market projections were produced using a building-block method in which a best estimate of expected 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 future capital market projection by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation of 2.5%. 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% based on a comparison of historical market returns and future capital market projections.

Discount rate – The discount rate used to measure the total pension liability at June 30, 2020, and June 30, 2019, was 7.25%. 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 asset to changes in the discount rate – The following presents the college's proportionate share of the net pension asset calculated using the discount rate of 7.25%, as well as what the college's proportionate share of the net pension asset would be if it were calculated using a discount rate that is 1 percentage point lower (6.25%) or 1 percentage point higher (8.25%) than the current rate:

June 30, 2020	1% Decrease (6.25%)	Current Discount Rate (7.25%)	1% Increase (8.25%)
College's proportionate share of the net pension liability (asset)	$31,317	$(191,167)	$(358,535)

June 30, 2019	1% Decrease (6.25%)	Current Discount Rate (7.25%)	1% Increase (8.25%)
College's proportionate share of the net pension liability (asset)	$(24,715)	$(149,001)	$(242,003)

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 https://treasury.tn.gov/Retirement/Boards-and-Governance/Reporting-and-Investment-Policies.

Total Defined Benefit Pension Expense

The total pension expense for the year ended June 30, 2020, for all state and local government defined benefit pension plans was $1,877,576. The total pension expense for the year ended June 30, 2019, for all state and local government defined benefit pension plans was $1,280,758.

Defined Contribution Plans

Optional Retirement Plans

Plan description – The college contributes to the Optional Retirement Plan (ORP). The ORP, administered by the Tennessee Treasury Department, is a defined contribution plan. The ORP was established by state statute in Title 8, Chapter 25, Part 2, *Tennessee Code Annotated*. This statute also sets out the plan provisions. The plan provisions are amended by the Tennessee General Assembly. The ORP was designed to provide benefits at retirement to faculty and staff who are exempt from the overtime provision of the Fair Labor Standards Act and who waive membership in the TCRS. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings.

Funding policy – For employees employed prior to July 1, 2014, plan members are noncontributory. The college contributes an amount equal to 10% of the employee's base salary up to the social security wage base and 11% above the social security wage base. For employees hired after June 30, 2014, plan members will contribute 5% to the ORP and the college will contribute 9% of the employee's base salary. Pension expense equaled the required contributions made to the ORP and was $422,987.32 for the year ended June 30, 2020; $407,667.83 for the year ended June 30, 2019; and $376,419.90 for the year ended June 30, 2018. Contributions met the requirements for each year.

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

Deferred Compensation Plans

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

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

During the year ended June 30, 2020, contributions totaling $584,775.70 were made by employees participating in the 401(k) plan, and the college recognized pension expense of $419,468.05 for employer contributions. During the year ended June 30, 2019, contributions totaling $539,366.43 were made by employees participating in the 401(k) plan, with contributions of $346,100.40 made by the college. During the year ended June 30, 2018, contributions totaling $556,428.32 were made by employees participating in the 401(k) plan, with contributions of $265,044.67 made by the college.

At June 30, 2020, and June 30, 2019, the college reported a payable of $90,476.88 and $84,104.21, respectively, for the outstanding amount of legally required contributions to the plan required for the year then ended.

Note 10. Other Postemployment Benefits

Closed State Employee Group OPEB 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 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 a 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 include the State of Tennessee (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. The State of

Tennessee Postemployment Benefits Trust (OPEB Trust) was established to accumulate resources to pay for the retiree benefits of EGOP participants. The OPEB Trust prepares a stand-alone financial report that can be found at https://www.tn.gov/finance/rd-doa/opeb22121.html.

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 Title 8, Chapter 27, Section 201, *Tennessee Code Annotated*. 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, the standard PPO plan, or the wellness health savings 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 and retired 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%; 20 but less than 30 years, 70%; and less than 20 years, 60%. Previously, this plan was funded on 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 75. However, during the fiscal year ended June 30, 2019, the plan transitioned to a prefunding arrangement where assets will be accumulating in a qualifying trust.

Contributions – Annually, an insurance committee, created in accordance with Title 8, Chapter 27, Section 201, *Tennessee Code Annotated*, establishes the required contributions to the plan by member employees through the premiums established to approximate claims cost for the year. Pre-age 65 retired members of the EGOP pay a premium based on a blended rate that considers the cost of active and retired employees as well as their individual years of service. Therefore, retirees pay either 20%, 30%, 40%, or 100% of the appropriate premium rate. These payments are deposited into the OPEB Trust. Once the plan transitioned to the prefunding arrangement through the qualifying trust, employers began making contributions to the OPEB Trust based on an actuarially determined contribution (ADC) rate calculated in a manner to meet the funding goals of the state. These payments are deposited into the OPEB Trust. The total ADC rate for plan employers for the year ended June 30, 2020, was $145.4 million. The college's share of the ADC was $379,662. For the years ended June 30, 2020, and June 30, 2019, the college contributed $379,662 and $302,523.61 to the OPEB Trust, respectively. The Tennessee General Assembly has the authority to change the contribution requirements of the employees participating in the EGOP.

Net OPEB Liability, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

Proportionate share – The college's proportionate share of the collective net OPEB liability related to the EGOP was $2.180 million at June 30, 2020. At the June 30, 2019, measurement date, the college's proportion of the collective net OPEB liability was 0.228983%. The proportion existing at the prior measurement date was 0.297518%. This resulted in a change in proportion of 0.068535% between the current and prior measurement dates. The college's proportion of the collective net OPEB liability was based on a projection of the 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, 2019, and a measurement date of June 30, 2019.

The college's proportionate share of the collective total OPEB liability related to the EGOP was $4.121 million at June 30, 2019. At the June 30, 2018, measurement date, the college's proportion of the collective total OPEB liability was 0.297518%. This resulted in a change in proportion of 0.0068535% between the current and prior measurement dates. The college's proportion of the collective total OPEB liability was based on a projection of the 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 a measurement date of June 30, 2018.

OPEB expense – For the year ended June 30, 2020, and June 30, 2019, the college recognized OPEB expense of $77,892 and $426,450, respectively.

Deferred outflows of resources and deferred inflows of resources – For the years ended June 30, 2020, and 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:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ -	$ 138,828
Changes in assumptions	119,164	520,807
Net difference between actual and projected investment earnings	1,601	-
Changes in proportion and differences between benefits paid and proportionate share of benefits paid	618,984	1,168,137
Contributions subsequent to the measurement date	379,662	-
Total	$ 1,119,411	$ 1,827,772

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ -	$ 147,318.00
Changes in assumptions	181,528.00	131,561.00
Changes in proportion and differences between benefits paid and proportionate share of benefits paid	725,702.00	-

Contributions subsequent to the measurement date		302,523.61		-
Total	$	1,209,753.61	$	278,879.00

Deferred outflows of resources, resulting from the college's employer contributions of $379,662 subsequent to the measurement date, will be recognized as a decrease in net OPEB liability in the year ending June 30, 2021. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year Ending June 30	
2021	$ (175,833)
2022	$ (175,833)
2023	$ (175,833)
2024	$ (175,832)
2025	$ (176,231)
Thereafter	$ (208,461)

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

Actuarial assumptions used for the measurement date of June 30, 2019 – The collective total OPEB liability in the June 30, 2019, actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.2%
Salary increases	Graded salary ranges from 8.72% to 3.44% based on age, including inflation, averaging 4%
Healthcare cost trend rates	6.03% for 2020, decreasing annually to an ultimate rate of 4.50% for 2029 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, 2019, 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, through 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 pre-retirement mortality and the RP-2014 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.

Long-term expected rate of return at June 30, 2019 – The long-term expected rate of return of 6% on OPEB Trust investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of OPEB plan investment expense and inflation) are developed for each major class. These ranges 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. TCA 8-27-802 establishes the responsibility of the trustees to adopt written investment policies authorizing how assets in the OPEB Trust may be invested and reinvested by the State Treasurer. The treasurer may invest trust assets in any security or investment in which the Tennessee Consolidated Retirement System (TCRS) is permitted to invest, provided that investments by the OPEB Trust shall be governed by the investment policies and guidelines adopted by the trustees. Any changes to the investment policy will be the responsibility of the established trustees. The OPEB Trust investment policy target asset allocation and allocation range for each major asset class is summarized in the following table:

	Allocation Range		
Asset Class	Minimum	Maximum	Total Allocation
Equities	25%	80%	53%
Fixed income and short-term securities	20%	50%	25%
Real estate	0%	20%	10%
Private equity and strategic lending	0%	20%	7%
Cash and cash equivalents	0%	25%	5%
			100%

The best estimates of geometric real rates of return for each major asset class included in the target asset allocation as of June 30, 2019, are summarized in the following table:

Asset Class	Long-term Expected Real Rate of Return
U.S. equity	4.75%
Developed market international equity	5.63%
Emerging market international equity	5.95%
Private equity and strategic lending	4.60%
U.S. fixed income	0.63%
Real estate	4.28%

Discount rate – The discount rate used to measure the total OPEB liability was 6%. This represents an increase of 2.38% over the 3.62% used at the prior measurement date. The projection of cash flows used to determine the single discount rate assumed that employer contributions will be made at rates equal to the ADC rates pursuant to an actuarial valuation in accordance with the state's funding goals. Inactive plan members are assumed to contribute their share of the premium rate for the coverage option in which they are enrolled. Based on those assumptions, the OPEB Trust fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on OPEB Trust investments was applied to all periods of projected benefit payments to determine the total OPEB liability. The change in discount rate used is due to the transition of the EGOP from a pay-as-you-go arrangement to a prefunding arrangement through a qualified trust.

Changes in assumptions used for the measurement date of June 30, 2019 – The discount rate was changed from 3.62% as of the beginning of the measurement period to 6% as of June 30, 2019. This change in assumption decreased the total OPEB liability. Other minor changes in assumptions were made; however, the impact on the net OPEB liability was considered to be insignificant.

Sensitivity of the proportionate share of the collective net OPEB liability to changes in the discount rate at June 30, 2020 – The following presents the college's proportionate share of the collective net OPEB liability of the EGOP, as well as what the proportionate share of the collective net OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower (5%) or 1 percentage point higher (7%) than the current rate (expressed in thousands):

	1% Decrease (5%)	Current Discount Rate (6%)	1% Increase (7%)
College's proportionate share of the collective net OPEB liability	$2,382	$2,180	$1,994

Sensitivity of the proportionate share of the collective net OPEB liability to changes in the healthcare cost trend rate at June 30, 2020 – The following presents the college's proportionate share of the collective net OPEB liability of the EGOP, as well as what the proportionate share of the collective net OPEB liability would be if it were calculated using a healthcare cost trend rate that is 1 percentage point lower (5.03% decreasing to 3.5%) or 1 percentage point higher (7.03% decreasing to 5.5%) than the current rate (expressed in thousands):

	1% Decrease (5.03% decreasing to 3.5%)	Healthcare Cost Trend Rates (6.03% decreasing to 4.5%)	1% Increase (7.03% decreasing to 5.5%)
College's proportionate share of the collective net OPEB liability	$1,923	$2,180	$2,480

Actuarial assumptions used for the measurement date of June 30, 2018 – 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 8.72% to 3.44% based on age, including inflation
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). These assumptions were developed by TCRS based on the results of an actuarial experience study for the period July 1, 2012, through 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 pre-retirement mortality and the RP-2014 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%. 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 used for the measurement date of June 30, 2018 – 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 healthcare cost trend rates were changed from 5.4%, 5.3%, and 5.2% for plan years 2019, 2020, and 2021, respectively, to 6.75%, 6.25%, and 5.75%, respectively. Furthermore, 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 the measurement date of June 30, 2018 – During fiscal year 2019, the EGOP 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. 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 for the year ended June 30, 2020.

Sensitivity of the proportionate share of the collective total OPEB liability to changes in the discount rate at June 30, 2019 – 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 (2.62%) or 1 percentage point higher (4.62%) than the current rate (expressed in thousands):

	1% Decrease (2.62%)	Current Discount Rate (3.62%)	1% Increase (4.62%)
College's proportionate share of the collective total OPEB liability	$4,397	$4,121	$3,862

Sensitivity of the proportionate share of the collective total OPEB liability to changes in the healthcare cost trend rate at June 30, 2019 – 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 (5.75% decreasing to 2.91%) or 1 percentage point higher (7.75% decreasing to 4.91%) than the current rate (expressed in thousands):

	1% Decrease (5.75% decreasing to 2.91%)	Healthcare Cost Trend Rates (6.75% decreasing to 3.91%)	1% Increase (7.75% decreasing to 4.91%)
College's proportionate share of the collective total OPEB liability	$3,722	$4,121	$4,588

Closed Tennessee OPEB 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 OPEB Plan (TNP) administered by the Tennessee Department of Finance and Administration. This plan is considered to be a 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 State of Tennessee (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 participate 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 Group Insurance Plans.

<u>Benefits provided</u> – 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 Title 8, Chapter 27, Section 209, *Tennessee Code Annotated*, benefits are established and amended by cooperation of insurance committees created by Sections 8-27-201, 301, and 701, *Tennessee Code Annotated*. 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 $30,700 for OPEB as the benefits came due during the fiscal year ended June 30, 2020, and $33,450 for OPEB as the benefits came due during the fiscal year ended June 30, 2019. 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 75.

In accordance with Title 8, Chapter 27, Part 209, *Tennessee Code Annotated*, the state insurance committees established by Sections 8-27-201, 301, and 701, *Tennessee Code Annotated,* 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.

Total OPEB Liability and OPEB Expense

<u>Proportionate share</u> – The primary government is entirely responsible for the TNP OPEB liability associated with the college's employees. The primary government's proportionate share of the total OPEB liability associated with the college was $634,530 at June 30, 2020. At the June 30, 2019, measurement date, the proportion of the collective total OPEB liability associated with the college was 0.362494%. This represents a change of 0.046039% from the prior proportion of 0.408533%. The proportion of the collective total OPEB liability associated with the college was based on a projection of the long-term share of contributions to the OPEB plan relative to the projected share of contributions of all participating employers, actuarially determined. The

obligation municipal bonds, prevailing on the measurement date, with an average rating of AA/Aa as shown on the Bond Buyer GO 20-Bond Municipal Bond Index.

Changes in assumptions used for the measurement date of June 30, 2019 – The discount rate was changed from 3.62% as of the beginning of the measurement period to 3.51% as of June 30, 2019. This change in assumption increased the total OPEB liability.

Sensitivity of the proportionate share of the collective total OPEB liability to changes in the discount rate at June 30, 2020 – The following presents the primary government's proportionate share of the university'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 (2.51%) or 1 percentage point higher (4.51%) than the current rate. The university does not report a proportionate share of the OPEB liability for employees in the TNP.

	1% Decrease (2.51%)	Current Discount Rate (3.51%)	1% Increase (4.51%)
Primary government's proportionate share of the collective total OPEB liability	$713,499	$634,530	$568,301

Actuarial assumptions used for the measurement date of June 30, 2018 – The 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 8.72% to 3.44% based on age, including inflation
Healthcare cost trend rates	The premium subsidies provided to retirees in the Closed Tennessee OPEB 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). These assumptions were developed by TCRS based on the results of an actuarial experience study for the period July 1, 2012, through 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 pre-retirement mortality and the RP-2014 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 collective total OPEB liability was determined by an actuarial valuation with a valuation date of June 30, 2019, and measurement date of June 30, 2019.

The primary government's proportionate share of the total OPEB liability associated with the college was $706,206 at June 30, 2019. At the June 30, 2018, measurement date, the proportion of the collective total OPEB liability associated with the college was 0.408533%. The proportion of the collective total OPEB liability associated with the college was based on a projection of the 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 a measurement date of June 30, 2018.

Actuarial assumptions used for the measurement date of June 30, 2019 – The total OPEB liability in the June 30, 2019, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.2%
Salary increases	Graded salary ranges from 8.72% to 3.44% based on age, including inflation, averaging 4%
Healthcare cost trend rates	The premium subsidies provided to retirees in the Closed Tennessee OPEB 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, 2019, 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, through 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 pre-retirement mortality and the RP-2014 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 IRS Ruling 96-7 for disabled lives with a 10% load.

Discount rate at June 30, 2020 – The discount rate used to measure the total OPEB liability was 3.51%. This rate reflects the interest rate derived from yields on 20-year, tax-exempt general

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 IRS Ruling 96-7 for disabled lives with a 10% load.

Discount rate at June 30, 2019 – The discount rate used to measure the total OPEB liability was 3.62%. 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 used for the measurement date of June 30, 2018 – 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.

Sensitivity of the proportionate share of the collective total OPEB liability to changes in the discount rate at June 30, 2019 – The following presents the primary government's 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 (2.62%) or 1 percentage point higher (4.62%) than the current rate. The college does not report a proportionate share of the OPEB liability for employees in the TNP.

	1% Decrease (2.62%)	Current Discount Rate (3.62%)	1% Increase (4.62%)
Primary government's proportionate share of the collective total OPEB liability	$797,294	$706,206	$629,702

OPEB expense – For the years ended June 30, 2020, and June 30, 2019, the primary government recognized OPEB expense of $18,987 and $37,683, respectively, for employees of the college participating in the TNP.

Total OPEB Expense

The total OPEB expense for the year ended June 30, 2020, was $96,879, which consisted of OPEB expense of $77,892 for the EGOP and $18,987 paid by the primary government for the TNP. The total OPEB expense for the year ended June 30, 2019, was $464,133, which consisted of OPEB expense of $426,450 for the EGOP and $37,683 paid by the primary government for the TNP.

Note 11. Revenues

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

Fiscal Year 2020 Revenue Source	Gross Revenue	Less Scholarship Allowances	Less Uncollectible Debts	Net Revenue
Operating revenues:				
Tuition and fees	$24,797,796.04	$16,643,911.74	$215,958.98	$ 7,937,925.32
Total	$24,797,796.04	$16,643,911.74	$215,958.98	$7,937,925.32

Fiscal Year 2019 Revenue Source	Gross Revenue	Less Scholarship Allowances	Less Uncollectible Debts	Net Revenue
Operating revenues:				
Tuition and fees	$23,850,368.61	$15,659,023.60	$207,129.75	$7,984,215.26
Total	$23,850,368.61	$15,659,023.60	$207,129.75	$7,984,215.26

Note 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, 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 $1,000,000 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 three past fiscal years.

The college participates in the RMF. The fund allocates the cost of providing claims servicing and claims payment by charging a premium to the college based on a percentage of the college's expected loss costs, which include both experience and exposures. This charge considers recent trends in actual claims experience of the state as a whole. Information regarding the determination of the claims liabilities and the changes in the balances of the claims liabilities for the year ended June 30, 2020, is presented in the *Tennessee Comprehensive Annual Financial Report* This report is available on the state's website at https://www.tn.gov/finance/rd-doa/fa-accfin-ar.html. At June 30, 2020, the Risk Management Fund held $231 million in cash designated for payment of claims. At June 30, 2019, the Risk Management Fund held $186 million in cash designated for payment of claims.

At June 30, 2020, the scheduled coverage for the college was $124,761,414 for buildings and $41,733,400 for contents. At June 30, 2019, the scheduled coverage for the college was $96,016,760 for buildings and $31,233,400 for contents.

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

Note 13. Commitments and Contingencies

Sick Leave

The college records the cost of sick leave when paid. The dollar amount of unused sick leave was $5,009,690.32 at June 30, 2020, and $4,830,005.32 at June 30, 2019.

Operating Leases

The college has entered into various operating leases for equipment. Such leases will probably continue to be required. Expenses under operating leases for personal property were $35,020.92 for the year ended June 30, 2020. The amount for the year ended June 30, 2019, was $34,070.36. All operating leases are cancelable at the lessee's option.

Construction in Progress

At June 30, 2020, outstanding commitments under construction contracts totaled $3,776,531.51 for various campus projects including a boiler update, HVAC modernization, exterior building repairs, the Advanced Robotics Center, classroom upgrades for Art & Theater, ADA Adaptations, underground utility line replacement, central cooling plant chiller replacement, and the third building for Rutherford County, of which $1,638,045.70 will be funded by future state capital outlay appropriations.

Litigation

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

Note 14. Natural Classification With Functional Classifications

The college's operating expenses for the year ended June 30, 2020, are as follows:

Functional Classification	Natural Classification: Salaries	Benefits	Other Operating	Scholarships	Depreciation	Total
Instruction	$ 12,037,036.29	$ 3,956,894.49	$ 3,424,726.79	$ -	$ -	$ 19,418,657.57
Public service	243,236.39	99,470.67	85,866.51	-	-	428,573.57
Academic support	2,030,156.10	874,070.61	78,252.57	-	-	2,982,479.28
Student services	1,771,016.08	686,890.45	1,102,317.36	-	-	3,560,223.89
Institutional support	2,966,421.76	1,276,596.12	1,150,822.23	-	-	5,393,840.11
Maintenance and operation	1,050,716.43	523,421.19	5,003,939.16	-	-	6,578,076.78
Scholarships and fellowships	-	-	-	7,637,661.45	-	7,637,661.45
Auxiliary	-	-	14,078.73	-	-	14,078.73
Depreciation	-	-	-	-	2,378,488.28	2,378,488.28
Total	$ 20,098,583.05	$ 7,417,343.53	$ 10,860,003.35	$ 7,637,661.45	$ 2,378,488.28	$ 48,392,079.66

The college's operating expenses for the year ended June 30, 2019, are as follows:

Functional Classification	Natural Classification: Salaries	Benefits	Other Operating	Scholarships	Depreciation	Total
Instruction	$ 11,265,138.27	$ 3,835,706.21	$ 2,428,920.55	$ -	$ -	$17,529,765.03
Public service	224,608.53	71,238.63	28,778.43	-	-	324,625.59
Academic support	1,782,601.89	827,782.50	149,625.06	-	-	2,760,009.45
Student services	1,888,636.91	736,523.09	1,291,116.57	-	-	3,916,276.57
Institutional support	2,596,494.99	980,319.45	861,881.88	-	-	4,438,696.32
Maintenance and operation	1,007,075.86	557,815.36	2,880,397.83	-	-	4,445,289.05
Scholarships and fellowships	-	-	-	5,801,154.29	-	5,801,154.29
Auxiliary	-	-	12,537.84	-	-	12,537.84
Depreciation	-	-	-	-	1,698,296.22	1,698,296.22
Total	$ 18,764,556.45	$ 7,009,385.24	$ 7,653,258.16	$ 5,801,154.29	$ 1,698,296.22	$ 40,926,650.36

Expenses initially incurred by the academic support function as a result of providing internal services to the other functional classifications were allocated to the other functional areas by reducing the 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 $1,354,598.71 for the year ended June 30, 2020, and $1,046,843.02 for the year ended June 30, 2019, were reallocated from academic support to the other functional areas.

Note 15. On-behalf Payments

During the year ended June 30, 2020, the State of Tennessee made payments of $30,700 on behalf of the college for retirees participating in the Closed Tennessee OPEB Plan.

During the year ended June 30, 2019, the State of Tennessee made payments of $394,810.76 and $33,450, respectively, on behalf of the college for retirees participating in the State Employee Group OPEB Plan and the Closed Tennessee OPEB Plan.

The State Employee Group OPEB Plan and the Closed Tennessee OPEB Plan are postemployment benefit healthcare plans and are discussed further in Note 10. The plans are reported in the *Tennessee Comprehensive Annual Financial Report*. This report is available on the state's website at https://www.tn.gov/finance/rd-doa/fa-accfin-ar.html.

Note 16. Component Unit

The Motlow College Foundation is a legally separate, tax-exempt organization supporting Motlow State Community College. The foundation acts primarily as a fund-raising organization to supplement the resources that are available to the college in support of its programs. The 46-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.

The foundation is a nonprofit organization that reports under Financial Accounting Standards Board standards. As such, certain revenue recognition criteria and presentation features are different from Governmental Accounting Standards Board revenue recognition criteria and presentation features. With the exception of necessary presentation adjustments, no modifications have been made to the foundation's financial information in the college's financial statements for these differences.

During the year ended June 30, 2020, the foundation made distributions of $72,835.07 to or on behalf of the college for both restricted and unrestricted purposes. During the year ended June 30, 2019, the foundation made distributions of $107,697.74 to or on behalf of the college for both restricted and unrestricted purposes. Complete financial statements for the foundation can be obtained from Ms. Hilda Tunstill, P.O. Box 8500, Lynchburg, TN 37352.

Fair Value Measurements

The foundation reports certain assets at fair value. Fair value has been determined using quoted prices in active markets for identical assets that are accessible at the measurement date (Level 1);

inputs other than quoted market prices included in Level 1 that are directly or indirectly observable for the asset (Level 2); or significant unobservable inputs (Level 3). The following table categorizes the recurring fair value measurements for assets at June 30, 2020, and at June 30, 2019.

	June 30, 2020	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:					
Cash equivalents	$ 763,222.71	$ 763,222.71	$ -	$ -	$ -
Investments	8,923,539.33	8,592,808.03	330,731.30	-	-
Pledges receivable	254,976.58	-	-	254,976.58	-
Total assets	$ 9,941,738.62	$ 9,356,030.74	$ 330,731.30	$ 254,976.58	$

	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:					
Cash equivalents	$ 569,995.58	$ 569,995.58	$ -	$ -	$ -
Investments	8,878,710.96	7,953,652.91	925,058.05	-	-
Pledges receivable	391,816.92	-	-	391,816.92	-
Total assets	$ 9,840,523.46	$ 8,523,648.49	$ 925,058.05	$ 391,816.92	$ -

The following table reconciles beginning and ending balances of all assets valued using Level 3 inputs.

At June 30, 2020	Beginning Balance	Additional Pledges	Receipts	Other	Ending Balance
Assets:					
Pledges receivable	$391,816.92	$18,834.94	$(179,356.81)	$23,681.53	$254,976.58

At June 30, 2019	Beginning Balance	Additional Pledges	Receipts	Other	Ending Balance
Assets:					
Pledges receivable	$629,460.30	$49,477.75	$(294,399.99)	$7,278.86	$391,816.92

Cash and Cash Equivalents

Cash and cash equivalents consist of demand deposit accounts, petty cash, money market funds, and other liquid assets held by the investment managers, and Local Government Investment Pool (LGIP) deposits. The bank balances at June 30, 2020, and June 30, 2019, were entirely insured.

Investments

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

Investments held at June 30, 2020, were as follows:

	Cost	Fair Value
Certificates of deposit	$ 400,000.00	$ 330,731.30
Corporate stock	2,560,982.25	3,951,302.33
Corporate bonds	1,767,504.39	1,942,225.90
Mutual bond funds	402,806.81	431,320.55
Mutual equity funds	2,064,857.37	2,267,959.25
Total investments	$ 7,196,150.82	$ 8,923,539.33

Investments held at June 30, 2019, were as follows:

	Cost	Fair Value
Certificates of deposit	$ 925,000.00	$ 925,058.05
Corporate stock	2,670,274.56	4,513,814.83
Corporate bonds	1,527,022.91	1,567,290.80
Mutual bond funds	405,100.79	411,282.14
Mutual equity funds	1,852,251.46	1,461,265.14
Total investments	$ 7,379,649.72	$ 8,878,710.96

Investment Return

The following schedule summarizes the total investment return and its classification in the foundation's statements of revenues, expenses, and changes in net position.

	2020	2019
Dividends and interest, net of expenses of $41,352.98 in 2020 and $38,929.16 in 2019	$ 184,155.71	$ 178,315.71
Net realized and unrealized gains	227,731.61	516,925.40
Total return on investments	411,887.32	695,241.11
Endowment income per spending plan	(163,785.16)	(210,857.72)
Investment return in excess of amounts designated for current operations	$ 248,102.16	$ 484,383.39

Operating return – The Board of Trustees designates only a portion of the foundation's cumulative investment return for support of current operations; the remainder is retained to support operations of future years and to offset potential market declines. The amount computed under the endowment spending policy of the investment pool is used to support current operations.

Pledges Receivable

Pledges receivable are summarized below:

	June 30, 2020	June 30, 2019
Current pledges	$156,725.14	$160,078.85
Pledges due in one to five years	100,000.00	250,000.00
Subtotal	256,725.14	410,078.85
Less discount to net present value	1,748.56	18,261.93
Total pledges receivable, net	$254,976.58	$391,816.92

Liquidity and Availability

Financial assets available for general expenditure–that is, without donor or other restrictions limiting their use, within one year of the statement of net position date–comprise the following:

	At June 30, 2020	At June 30, 2019
Cash and cash equivalents	$417,174.34	$441,354.79
Endowment spending-rate distributions and appropriations	150,000.00	200,000.00
Total	$ 567,174.34	$ 641, 354.79

The foundation's endowment funds consist of donor-restricted endowments. For the endowed scholarship funds and certain other funds, the income is restricted for scholarships and other specified uses. For the remaining endowment funds, this income may be used to fund the spending plan distribution for general, unrestricted expenditures. The spending rate adopted by the foundation board is at 5% of the three-year average fair value of investments in the endowment. With the fluctuation of market, the foundation board voted to distribute $150,000 in fiscal year 2020 and $200,000 in fiscal year 2019 instead of 5% of the three-year average market value of endowment investments.

The foundation's liquidity plan includes the monitoring of cash needs based on the unrestricted budget approved in the June and December foundation meetings. Also, as contributions are received throughout the year, the treasurer will ascertain if any of investment income needs to be liquidated for general expenditure for the upcoming year. The donor's intent for the contribution is maintained.

Endowments

The Motlow College Foundation's endowments consist of approximately 90 individual funds established for a variety of purposes. Its endowment includes only donor-restricted endowment funds. As required by accounting principles generally accepted in the United States of America, net position associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, is classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of relevant law – The Motlow College Foundation is subject to the Uniform Prudent Management of Institutional Funds Act (the Act) as adopted by Tennessee and thus classifies amounts in its donor-restricted endowment funds as net assets with donor restrictions because those net assets are time restricted until the foundation's board appropriates such amounts for expenditures. A portion of those net assets are also subject to purpose restrictions that must be met before reclassifying those net assets to net assets without donor restrictions. The foundation's board has interpreted the Act as requiring preservation of the fair value of the original gift as of the gift date of donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, when reviewing its donor-restricted endowment funds, the foundation considers a fund to be underwater if the fair value of the fund is less than the sum of (1) the original value of initial and subsequent gift amounts donated to the fund and (2) any accumulations to the fund that are required to be maintained in perpetuity in accordance with the direction of the applicable gift instrument. The foundation has interpreted the Act to permit spending from underwater funds in accordance with prudent measures required under the law. Additionally in accordance with the Act, the foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the fund; (2) the purposes of the foundation and the donor-restricted endowment fund; (3) general economic conditions; (4) the possible effect of inflation or deflation; (5) the expected total return from income and the appreciation of investments; (6) the other resources of the foundation; and (7) the investment policies of the foundation.

Endowment Net Asset Composition by Type of Fund
As of June 30, 2020

	Without Donor Restrictions	With Donor Restrictions	Total
Donor-restricted endowment funds:			
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor	$ -	$ 4,433,504.15	$ 4,433,504.15
Accumulated investment gains	-	3,352,745.99	3,352,745.99
Total funds	$ -	$ 7,786,250.14	$ 7,786,250.14

Endowment Net Asset Composition by Type of Fund
As of June 30, 2019

	Without Donor Restrictions	With Donor Restrictions	Total
Donor-restricted endowment funds:			
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor	$ -	$ 4,391,871.65	$ 4,391,871.65
Accumulated investment gains	-	3,163,883.35	3,163,883.35
Total funds	$ -	$ 7,555,755.00	$ 7,555,755.00

Changes in Endowment Net Assets
As of June 30, 2020

		Without Donor Restrictions		With Donor Restrictions		Total
Endowment net assets, beginning of year	$	-	$	7,555,755.00	$	7,555,755.00
Investment return, net		-		367,741.14		367,741.14
Contributions		-		12,754.00		12,754.00
Appropriation of endowment assets for expenditure		-		(150,000.00)		(150,000.00)
Endowment net assets, end of year	$	-	$	7,786,250.14	$	7,786,250.14

Changes in Endowment Net Assets
As of June 30, 2019

		Without Donor Restrictions		With Donor Restrictions		Total
Endowment net assets, beginning of year	$	-	$	7,111,889.68	$	7,111,889.68
Investment return, net		-		634,942.81		634,942.81
Contributions		-		8,922.51		8,922.51
Appropriation of endowment assets for expenditure		-		(200,000.00)		(200,000.00)
Endowment net assets, end of year	$	-	$	7,555,755.00	$	7,555,755.00

Return objectives and risk parameters – The foundation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the organization must hold in perpetuity or for a donor-specified period. Under this policy, as approved by the Board of Trustees, the endowment assets are invested in a manner that is intended to produce results that over a market cycle will produce total returns of 5% over the inflation rate. Equity investments are expected to produce 7% over the inflation rate, and fixed income investments are expected to produce 2.5% more than the inflation rate. The foundation expects its endowment funds, over time, to provide an average rate of return of approximately 7% annually. Actual returns in any given year may vary from this amount.

Strategies employed for achieving objectives – To satisfy its long-term rate-of-return objectives, the foundation relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The foundation targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk restraints.

Spending policy and how the investment objectives relate – The foundation has a policy of appropriating for distribution each year 5% of the three-year average fair value of investments in the endowment, plus earnings on restricted endowed scholarship funds. With the fluctuation of market, the foundation board voted to distribute $150,000 in fiscal year 2020 and $200,000 in fiscal year 2019 instead of 5% of the three-year average market value of endowment investments. In establishing this policy, the foundation considered the long-term expected return on its endowment. Accordingly, over the long term, the foundation expects the current spending policy to allow its endowment to grow at an average of 3% annually

Natural Classifications With Functional Classifications

The foundation's operating expenses by functional classification for the year ended June 30, 2020, are as follows:

Functional Classification	Salaries	Benefits	Other Operating	Scholarships	Payments Made to or on Behalf of College	Total
Program services	$ 115,844.37	$38,686.29	$152,831.16	$223,697.16	$72,835.07	$603,894.05
Support activities	184,764.87	56,282.24	40,348.57	-	-	281,395.68
Total expenses	$300,609.24	$94,968.53	$193,179.73	$223,697.16	$72,835.07	$885,289.73

The foundation's operating expenses by functional classification for the year ended June 30, 2019, are as follows:

Functional Classification	Salaries	Benefits	Other Operating	Scholarships	Payments Made to or on Behalf of College	Total
Program services	$ 104,024.86	$27,178.04	$ 205,752.27	$ 211,470.48	$107,697.74	$656,123.39
Support activities	169,420.46	44,183.75	99,235.80	-	-	312,840.01
Total expenses	$273,445.32	$71,361.79	$304,988.07	$211,470.48	$107,697.74	$968,963.40

The foundation's financial statements report certain categories of expenses that are attributed to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include salaries and benefits, which are allocated on the basis of time and effort.

Support From Motlow State Community College

The college paid certain payroll costs for college personnel who also performed services supporting the foundation amounting to $395,577.77 in fiscal year 2020 and $344,807.11 in fiscal year 2019. These supporting costs paid by the college are reflected in the statement of revenues, expenses, and changes in net position as college support, with a like amount included in expenses. The college provides office space and the use of certain common facilities and services to the foundation at no cost. These costs have not been recorded as college support because they are not considered to be significant to the operations of the foundation

Change in Accounting Principle

During fiscal year 2019, the foundation implemented the FASB Accounting Standards Update (ASU) No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements for Not-for-Profit Entities*. This update improved the usefulness of information provided to donors and other users of the financial statements and addressed liquid and financial flexibility. As a result, net assets at June 30, 2018, were reclassified to meet the new classifications at July 1, 2018. A summary of the net asset reclassifications at the beginning of the 2019 fiscal year, follows:

As originally stated:	Unrestricted	Permanently Restricted	Temporarily Restricted	Total
Net assets, beginning of year	$420,561.91	$4,348,525.71	$5,224,139.68	$9,993,227.30

As restated:	Without Donor Restrictions	With Donor Restrictions	Total
Net assets, beginning of year	$420,561.91	$9,572,665.39	$9,993,227.30

Tennessee Board of Regents

Motlow State Community College

Required Supplementary Information

Schedule of Motlow State Community College's Proportionate Share of the Net Pension Liability Closed State and Higher Education Employee Pension Plan Within TCRS

	Proportion of the Net Pension Liability	Proportionate Share of the Net Pension Liability	Covered Payroll	Proportionate Share of the Net Pension Liability as a Percentage of Its Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2020	0.316356%	$4,467,467	$7,116,152	62.78%	91.67%
2019	0.322586%	5,211,093	7,466,857	69.79%	90.26%
2018	0.324006%	5,798,409	7,788,934	74.44%	88.88%
2017	0.327202%	5,969,977	7,988,724	74.73%	87.96%
2016	0.322903%	4,163,135	8,393,299	49.60%	91.26%
2015	0.307707%	2,123,021	8,406,427	25.25%	95.11%

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

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

Tennessee Board of Regents
Motlow State Community College
Required Supplementary Information
Schedule of Motlow State Community College's
Proportionate Share of the Net Pension Asset
State and Higher Education Employee Retirement Plan Within TCRS

	Proportion of the Net Pension Asset	Proportionate Share of the Net Pension Asset	Covered Payroll	Proportionate Share of the Net Pension Asset as a Percentage of Its Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2020	0.460893%	$191,167	$4,323,429	4.42%	122.36%
2019	0.386284%	149,001	2,827,629	5.27%	132.39%
2018	0.385225%	79,889	2,019,983	3.95%	131.51%
2017	0.317599%	26,756	978,516	2.73%	130.56%
2016	0.182687%	5,080	202,243	2.51%	142.55%

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

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

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

	Contractually Determined Contributions	Contributions in Relation to Contractually Determined Contributions	Contribution Deficiency (Excess)	Covered Payroll	Contributions as a Percentage of Covered Payroll
2020	$ 1,382.484	$ 1,382,484	$ -	$7,031,966	19.66%
2019	1,368,436	1,368,436	-	7,116,152	19.23%
2018	1,408,996	1,408,996	-	7,466,857	18.87%
2017	1,169,895	1,169,895	-	7,788,934	15.02%
2016	1,200,705	1,200,705	-	7,988,724	15.03%
2015	1,261,513	1,261,513	-	8,393,299	15.03%
2014	1,263,486	1,263,486	-	8,406,427	15.03%
2013	1,229,643	1,229,643	-	8,181,258	15.03%
2012	1,137,307	1,137,307	-	7,627,814	14.91%
2011	1,012,935	1,012,935	-	6,793,664	14.91%

Notes to Schedule:

Changes of assumptions: In 2017, the following assumptions were changed: decreased inflation rate from 3% to 2.5%; decreased the investment rate of return from 7.5% to 7.25%; decreased the cost-of-living adjustment from 2.5% to 2.25%; and decreased salary growth graded ranges from an average of 4.25% to an average of 4%.

To correspond with the reporting date, the amounts presented were determined as of June 30 of the stated fiscal year.

Tennessee Board of Regents

Motlow State Community College

Required Supplementary Information

Schedule of Motlow State Community College's Contributions

State and Higher Education Employee Retirement Plan Within TCRS

	Contractually Determined Contributions	Contributions in Relation to Contractually Determined Contributions	Contribution Deficiency (Excess)	Covered Payroll	Contributions as a Percentage of Covered Payroll
2020	$ 93,402	$ 93,402	$ -	$ 5,398,960	1.73%
2019	71,647	71,647	-	4,323,429	1.66%
2018	111,409	111,409	-	2,827,629	3.94%
2017	79,587	79,587	-	2,019,983	3.94%
2016	37,869	37,869	-	978,516	3.87%
2015	7,904	7,904	-	204,243	3.87%

Notes to Schedule:

Changes of assumptions: In 2017, the following assumptions were changed: decreased inflation rate from 3% to 2.5%; decreased the investment rate of return from 7.5% to 7.25%; decreased the cost-of-living adjustment from 2.5% to 2.25%; and decreased salary growth graded ranges from an average of 4.25% to an average of 4%.

1) This is a 10-year schedule; however, contributions to this plan began in 2015. Years will be added to this schedule in future years until 10 years of information is available.

2) To correspond with the reporting date, the amounts presented were determined as of June 30 of the stated year.

Tennessee Board of Regents
Motlow State Community College
Required Supplementary Information
Schedule of Motlow State Community College's
Proportionate Share of the Collective Total/Net OPEB Liability
Closed State Employee Group OPEB Plan

	College's Proportion of the Collective Total/Net OPEB Liability	College's Proportionate Share of the Collective Total/Net OPEB Liability	College's Covered-employee Payroll	College's Proportionate Share of the Collective Total/Net OPEB Liability as a Percentage of Its Covered-employee Payroll	OPEB Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability
2020	0.2289825100%	$2,180,326	$5,769,518	37.79%	18.32%
2019	0.2975179914%	4,121,333	4,659,590	88.45%	N/A
2018	0.2339981227%	3,141,520	6,792,705	46.25%	N/A

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

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

3) During the fiscal year ended June 30, 2019, this plan transitioned from a pay-as-you-go plan to a prefunding arrangement.

Tennessee Board of Regents

Motlow State Community College

Required Supplementary Information

Schedule of Motlow State Community College's Contributions

Closed State Employee Group OPEB Plan

	Actuarially Determined Contributions	Contributions in Relation to Actuarially Determined Contributions	Contribution Deficiency (Excess)	Covered-employee Payroll	Contributions as a Percentage of Covered-employee Payroll
2020	$379,662	$379,662	$ -	$7,047,044	5.39%
2019	350,453	302,524	47,929	5,769,518	5.24%

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

2) Actuarially determined contribution rates are determined based on valuations as of June 30 two years prior to the fiscal year-end in which the contributions are reported.

Tennessee Board of Regents

Motlow State Community College

Required Supplementary Information

Schedule of Motlow State Community College's Proportionate Share of the Collective Total OPEB Liability Closed Tennessee OPEB Plan

	College's Proportion of the Collective Total OPEB Liability	College's Proportionate Share of the Collective Total OPEB Liability	Primary Government's Proportionate Share of the Collective Total OPEB Liability	Total OPEB Liability Associated With the College	College's Covered-employee Payroll	College's Proportionate Share of the Collective Total OPEB Liability as a Percentage of Its Covered-employee Payroll
2020	0.00%	$ -	$634,530	$634,530	$6,458,868	0.00%
2019	0.00%	-	706,206	706,206	5,253,039	0.00%
2018	0.00%	-	657,223	657,223	7,403,054	0.00%

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

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

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

Supplementary Information
MOTLOW COLLEGE FOUNDATION
Schedules of Cash Flows - Component Unit
For the Years Ended June 30, 2020, and June 30, 2019

	Year Ended June 30, 2020	Year Ended June 30, 2019
Cash flows from operating activities		
Gifts and contributions	$ 849,881.67	$ 581,947.47
Payments to suppliers and vendors	(85,357.79)	(171,996.93)
Payments for scholarships and fellowships	(223,697.16)	(211,470.48)
Payments to Motlow State Community College	(72,835.07)	(107,697.74)
Auxiliary enterprise charges:		
Other auxiliaries	1,996.50	3,108.75
Net cash provided by operating activities	469,988.15	93,891.07
Cash flows from noncapital financing activities		
Private gifts for endowment purposes	12,754.00	8,922.51
Other noncapital financing receipts	58.39	-
Net cash provided by noncapital financing activities	12,812.39	8,922.51
Cash flows from investing activities		
Proceeds from sales and maturities of investments	1,808,413.98	1,331,481.29
Income on investments	367,632.69	268,224.59
Purchases of investments	(2,009,666.45)	(1,424,030.90)
Net cash provided by investing activities	166,380.22	175,674.98
Net increase in cash and cash equivalents	649,180.76	278,488.56
Cash and cash equivalents - beginning of year	1,281,472.63	1,002,984.07
Cash and cash equivalents - end of year	$ 1,930,653.39	$ 1,281,472.63
Reconciliation of operating gain (loss) to net cash provided by operating activities:		
Operating income (loss)	$ 89,871.29	$ (272,944.11)
Adjustments to reconcile operating gain (loss) to net cash provided by operating activities:		
Noncash operating expenses	395,577.77	344,807.11
Endowment income per spending plan	(163,785.16)	(210,857.72)
Change in assets and liabilities:		
Receivables	154,779.47	228,454.24
Accounts payable	(6,063.46)	7,335.99
Due to MSCC	(391.76)	(2,904.44)
Net cash provided by operating activities	$ 469,988.15	$ 93,891.07
Noncash investing, capital, or financing activities		
Unrealized gains on investments	$ 228,327.27	$ 472,854.20

Jason E. Mumpower
Comptroller

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

The Honorable Bill Lee, Governor
Members of the General Assembly
The Honorable Flora W. Tydings, Chancellor
Dr. Michael L. Torrence, President

We have audited the financial statements of Motlow State Community College, an institution of the State University and Community College System of Tennessee, which is a component unit of the State of Tennessee, and its discretely presented component unit as of and for the years ended June 30, 2020, and June 30, 2019, and the related notes to the financial statements, which collectively comprise the college's basic financial statements, and have issued our report thereon dated August 18, 2021. We conducted our audit in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in

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internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

Purpose of This Report

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

Katherine J. Stickel, CPA, CGFM, Director
Division of State Audit
August 18, 2021

Observation and Comment

Colleges of Applied Technology

During the fiscal year ended June 30, 2018, Motlow State Community College served as the lead institution under agreements with the Tennessee College of Applied Technology at McMinnville, the Tennessee College of Applied Technology at Murfreesboro, and the Tennessee College of Applied Technology at Shelbyville. Under these agreements, Motlow State Community College performed the accounting and reporting functions for the colleges. The chief administrative officer of each college is the president, who is assisted and advised by members of the faculty and administrative staff. Each president is responsible to the chancellor of the Tennessee Board of Regents. However, as of July 1, 2018, the Tennessee Board of Regents System Office Shared Services Center performs the accounting and reporting functions, payroll function, and purchasing and procurement functions for these colleges. During the fiscal year ended June 30, 2019, the student data management function was transferred from the Tennessee Colleges of Applied Technology to the Shared Services Center.