STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY

TENNESSEE BOARD OF REGENTS
WALTERS STATE COMMUNITY COLLEGE

Financial and Compliance Audit Report

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

Justin P. Wilson, Comptroller

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STATE OF TENNESSEE
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August 23, 2016

The Honorable Bill Haslam, Governor
Members of the General Assembly
The Honorable David Gregory, Acting Chancellor
Dr. Anthony R. Miksa, President

Ladies and Gentlemen:

Transmitted herewith is the financial and compliance audit of the Tennessee Board of Regents, Walters State Community College, for the years ended June 30, 2015, and June 30, 2014. You will note from the independent auditor's report that unmodified opinions were given on the fairness of the presentation of the financial statements.

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

Sincerely,

Deborah V. Loveless

Deborah V. Loveless, CPA
Director

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

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Opinions on the Financial Statements

The opinions on the financial statements are unmodified.

Audit Finding

Walters State Community College Did Not Provide Adequate Internal Controls in Two Specific Areas
The college did not design and monitor internal controls in two specific areas. The details of this finding are confidential pursuant to Section 10-7-504(i), *Tennessee Code Annotated* (page 62).

STATE OF TENNESSEE
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Independent Auditor's Report

The Honorable Bill Haslam, Governor
Members of the General Assembly
The Honorable David Gregory, Acting Chancellor
Dr. Anthony R. Miksa, President

Report on the Financial Statements

We have audited the accompanying financial statements of Walters State Community College, an institution of the Tennessee Board of Regents, which is a component unit of the State of Tennessee, and its discretely presented component unit as of and for the years ended June 30, 2015, and June 30, 2014, and the related notes to the financial statements, which collectively comprise the basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the college's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of Walters State Community College, and its discretely presented component unit as of June 30, 2015, and June 30, 2014, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

As discussed in Note 1, the financial statements of Walters State Community College, an institution of the Tennessee Board of Regents, are intended to present the financial position, the changes in financial position, and the cash flows of only Walters State Community College. They do not purport to, and do not, present fairly the financial position of the Tennessee Board of Regents, as of June 30, 2015, and June 30, 2014, and the changes in financial position and cash flows thereof for the years then ended, in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

As discussed in Note 16, the college implemented Governmental Accounting Standards Board Statement 68, *Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement No. 27,* and Statement 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*, during the year ended June 30, 2015. Our opinion is not modified with respect to this matter.

As discussed in Note 17, the financial statements of Walters State Community College Foundation, a discretely presented component unit of Walters State Community College, include investments valued at $6,067,952.39 at June 30, 2015 (29.2% of net position of the foundation), and $1,715,570.56 at June 30, 2014 (8.2% of net position of the foundation), whose fair values have been estimated by management in the absence of readily determinable fair values. Management's estimates are based on information provided by the fund managers. 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 6 through 20, the schedule of Walters State Community College's proportionate share of the net pension liability – Closed State and Higher Education Employee Pension Plan within TCRS on page 55, the schedule of Walters State Community College's contributions – Closed State and Higher Education Employee Pension Plan within TCRS on page 56, the schedule of Walters State Community College's contributions – State and Higher Education Employee Retirement Plan within TCRS on page 57, and the other postemployment benefits schedule of funding progress on page 58 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 59 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 July 12, 2016, on our consideration of the college's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the college's internal control over financial reporting and compliance.

Deborah V. Loveless

Deborah V. Loveless, CPA
Director
July 12, 2016

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

Introduction

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

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

Overview of the Financial Statements

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

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

The Statement of Net Position

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

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

The statement of net position also indicates the availability of net position for expenditure by the college. Net position is divided into three major categories. The first category, net investment in capital assets, represents the college's total investment in property, plant, and equipment, net of outstanding debt obligations and deferred outflows/inflows of resources related to these capital assets. To the extent debt or deferred inflows of resources have been incurred but not yet expended for capital assets, such amounts are not included. The next category is restricted net position, which is 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, 2015; June 30, 2014; and June 30, 2013:

Summary of Net Position
(in thousands of dollars)

	2015	2014	2013
Assets:			
Current assets	$17,889	$17,333	$16,989
Capital assets, net	57,242	54,309	49,535
Other assets	5,867	6,160	7,021
Total assets	**80,998**	**77,802**	**73,545**
Deferred outflows of resources:			
Deferred amount on debt refunding	37	43	49
Deferred outflows related to pensions	2,389	-	-
Total deferred outflows	**2,426**	**43**	**49**

Liabilities:			
Current liabilities	8,408	8,523	8,287
Noncurrent liabilities	9,944	4,734	4,715
Total liabilities	**18,352**	**13,257**	**13,002**
Deferred inflows of resources:			
Deferred inflows related to pensions	6,133	-	-
Total deferred inflows	**6,133**	**-**	**-**
Net position:			
Net investment in capital assets	55,904	53,712	48,857
Restricted – expendable	253	218	530
Unrestricted	2,782	10,658	11,205
Total net position	**$58,939**	**$64,588**	**$60,592**

Comparison of Fiscal Year 2015 to Fiscal Year 2014

- Current assets increased because of increases in deposits held in custody for the Tennessee College of Applied Technology and Walters State Community College prepaid expenses. Also, there was an increase in amounts due from the primary government associated with the Workforce Investment Act.
- An increase in capital assets is mainly due to an increase in projects in progress for the ongoing Greeneville Campus Expansion capital outlay project.
- The decrease in other assets is due to a decrease in noncurrent cash. This decrease was the result of more deductions in various unexpended plant funds projects than additions during fiscal year 2015.
- Deferred outflows of resources increased due to fiscal year 2015 being the first year of implementation of GASB Statement 68, *Accounting and Financial Reporting for Pensions* and GASB Statement 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*.
- Current liabilities decreased mainly due to a decrease in payroll clearing in accrued liabilities at year-end. This decrease can be attributed to the Voluntary Buyout Plan that occurred in fiscal year 2014.
- Noncurrent liabilities increased due to new long-term debt associated with the Greeneville Expansion project and the first year of implementation of GASB Statement 68, *Accounting and Financial Reporting for Pensions*. There were also increases in the net other postemployment benefits (OPEB) obligation and the compensated absences liability.
- Deferred inflows of resources increased due to fiscal year 2015 being the first year of implementation of GASB Statement 68, *Accounting and Financial Reporting for Pensions.*
- Net investment in capital assets increased as a result of equipment purchases and the ongoing Greeneville Campus Expansion capital outlay project.

- Restricted - expendable net position increased due to an increase associated with the Workforce Investment Act.
- Unrestricted net position decreased due to the first year of implementation of GASB Statement 68, *Accounting and Financial Reporting for Pensions*.

Comparison of Fiscal Year 2014 to Fiscal Year 2013

- Current assets increased because of an increase in current cash. This increase can partially be attributed to an increase in accounts payable. During the fiscal year, the college began utilizing a Visa purchasing card for accounts payable to improve cash flow by utilizing the 30-day billing cycle, plus a 25-day interest-free grace period before payment is due. Current cash also increased due to a decrease in accounts receivable for grants and contracts.
- An increase in capital assets is mainly due to an increase in projects in progress for the ongoing Greeneville Campus Expansion capital outlay project.
- The decrease in other assets is due to a decrease in noncurrent cash. More funds were utilized during fiscal year 2014 than fiscal year 2013 for various locally funded special projects such as the Student Parking Lots, Campus Improvements, Communications Equipment, and Voice-over-Internet Protocol (VoIP) equipment replacement projects.
- Current liabilities increased mainly due to an increase in accounts payable and accrued liabilities. During the fiscal year, the college began utilizing a Visa purchasing card for accounts payable to improve cash flow by utilizing the 30-day billing cycle, plus a 25-day interest-free grace period before payment is due. Accrued liabilities increased due to the high participation in the Voluntary Buyout Plan.
- Noncurrent liabilities increased mainly due to an increase in the net other postemployment benefit (OPEB) obligation.
- Net investment in capital assets increased as a result of the ongoing Greeneville Campus Expansion capital outlay project.
- Restricted - expendable net position decreased mainly because a restricted gift received for capital projects in fiscal year 2013 was used for the Greeneville Campus Expansion capital outlay project. In addition, the college had a decrease in funding for the Workforce Investment Act (WIA) federal grant.

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

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

Generally speaking, operating revenues are received for providing goods and services to the various customers and constituencies of the college. Operating expenses are those expenses paid to acquire or produce the goods and services provided in return for the operating revenues, and to carry out the mission of the college. Nonoperating revenues are revenues received for which goods and services are not provided directly to the payor. Although Walters State Community College is dependent upon state appropriations and gifts to fund educational and general operations, under GASB standards these funding sources are reported as nonoperating revenues, as is investment income. As a result, the college has historically reported an excess of operating expenses over operating revenues, resulting in an operating loss. Therefore, the "increase/(decrease) 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, 2015, and the two previous years follows.

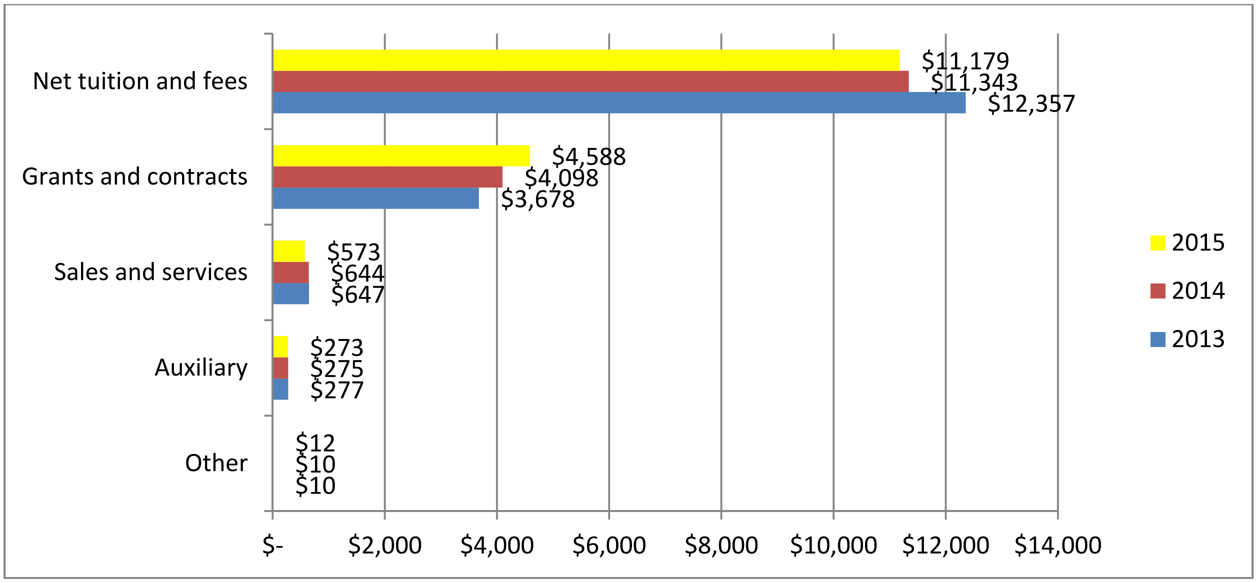
Summary of Revenues, Expenses, and Changes in Net Position
(in thousands of dollars)

	2015	2014	2013
Operating revenues	$16,626	$16,370	$16,969
Operating expenses	49,575	55,132	56,126
Operating loss	(32,949)	(38,762)	(39,157)
Nonoperating revenues and expenses	35,664	35,949	33,534
Income (loss) before other revenues, expenses, gains, or losses	2,715	(2,813)	(5,623)
Other revenues, expenses, gains, or losses	1,391	6,809	3,568
Increase (decrease) in net position	4,106	3,996	(2,055)
Net position at beginning of year	64,588	60,592	62,647
Cumulative effect of change in accounting principle	(9,755)	-	-
Net position at beginning of year - restated	54,833	60,592	62,647
Net position at end of year	**$58,939**	**$64,588**	**$60,592**

Operating Revenues

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

Operating Revenues by Source
(in thousands of dollars)



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

- Student tuition and fees decreased mainly due to an increase in the scholarship discounts and allowances. The predominant reason scholarship allowances increased was an increase in agency fund financial aid.
- Government grants and contracts increased due to increases in funding for the multi-year RX TN Consortium Grant, the Workforce Investment Act, and the Tennessee Lottery.
- An increase in nongovernmental grants and contracts was related to the increased utilization of the First Tennessee Bank's Visa purchasing card in paying invoices, thus increasing the amount of rebate for using the bank's purchasing card.
- The decrease in sales and services of educational departments was because culinary arts canceled three to four weeks of events due to inclement weather in fiscal year 2015. Also, two large catering events for a local bank were canceled due to its consolidation with another bank. Due to curriculum constraints, the culinary bistro opening hours decreased during the year, and the bistro was not open during the summer semester. Also, testing services experienced a decrease in applicants for the nurse's entrance exam and a reduction in the fee amount for taking the GED test.

<u>Comparison of Fiscal Year 2014 to Fiscal Year 2013</u>

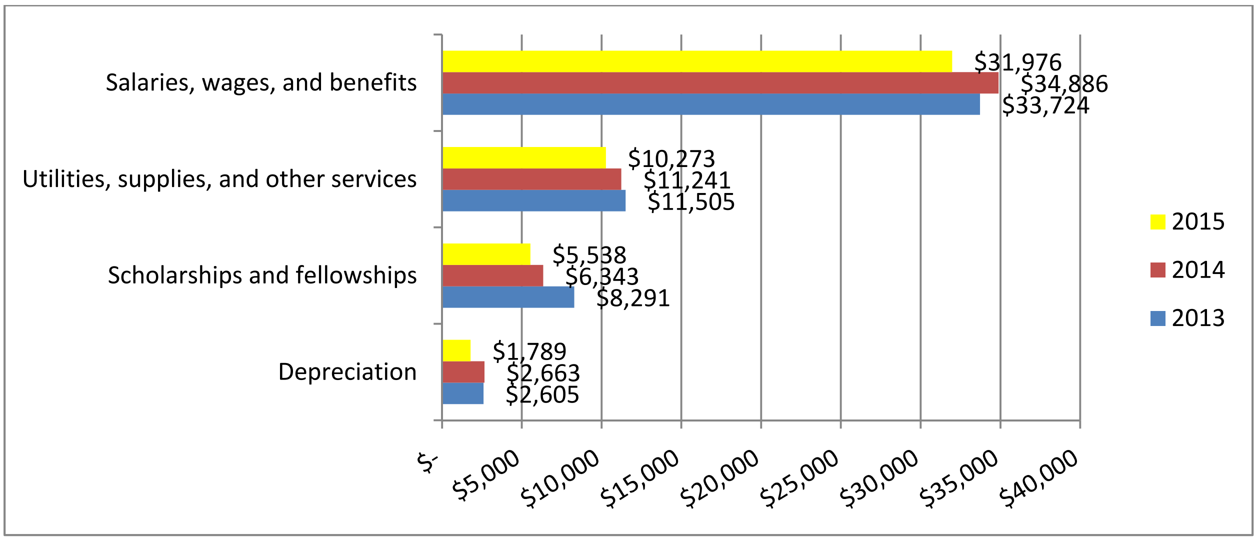
- Student tuition and fees decreased due to an enrollment decline. Fall 2013 Full Time Equivalent (FTE) enrollment declined 7.4%.
- Government grants and contracts increased due to a new Governor's Competitive Equipment Grant and a full year's funding for the multi-year RX TN Consortium Grant.

- Nongovernmental grants and contracts increased due to an increase in funding during fiscal year 2014 for the multi-year Niswonger i3 Grant.
- The decrease in sales and services of educational departments was because culinary arts reduced the number of events catered. There was also a decrease in testing services revenue.

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 classification for the last three fiscal years:

Operating Expenses – Natural Classification
(in thousands of dollars)



Comparison of Fiscal Year 2015 to Fiscal Year 2014

- A decrease in fiscal year 2015 salaries and wages was attributed to the 21 employees who participated in the Voluntary Buyout Program offered in fiscal year 2014, which increased the fiscal year 2014 salary expense. Also, employees hired in fiscal year 2015 to replace some of the 21 employees who participated in the buyout were hired at lesser salaries.
- Benefits decreased relative to the Voluntary Buyout Program in fiscal year 2014. Besides the replacement employees being hired at lesser salaries, the new hires were subject to the new hybrid retirement plan, which has a lower institutional cost than the Closed State and Higher Education Employee Pension plan. See Note 9 of the financial statements for additional information regarding the pension plan changes for new employees.
- Operating expenses decreased in fiscal year 2015 mainly due to the one-time expenses in fiscal year 2014 associated with storm damage in winter 2014.

- Scholarship expenses decreased due to the increase in scholarship discounts and allowances. The predominant reason scholarship allowances increased was an increase in agency fund financial aid.

Comparison of Fiscal Year 2014 to Fiscal Year 2013

- An increase in salaries and wages can be attributed to an across-the-board pay increase of 1.5% effective July 1, 2013; implementation of phase 3 of the college’s pay plan; and 21 employees participating and receiving the incentives from the Voluntary Buyout Program.
- Benefits expense increased in relation to the across-the-board pay increase of 1.5% effective July 1, 2013; implementation of phase 3 of the pay plan; and 21 employees participating and receiving the incentives from the Voluntary Buyout Program.
- Operating expenses decreased in fiscal year 2014. Travel decreased because only three athletic teams participated in national post-season tournaments, as opposed to five teams in fiscal year 2013. Unexpended plant fund expenses decreased because funds that remained from the construction of the Student Services Building and allocated to remodel several areas within the College Center were expended in fiscal year 2013.
- Scholarship expenses decreased along with the enrollment decline. Fall 2013 FTE enrollment declined 7.4%. Also, third-party scholarships declined in 2014.

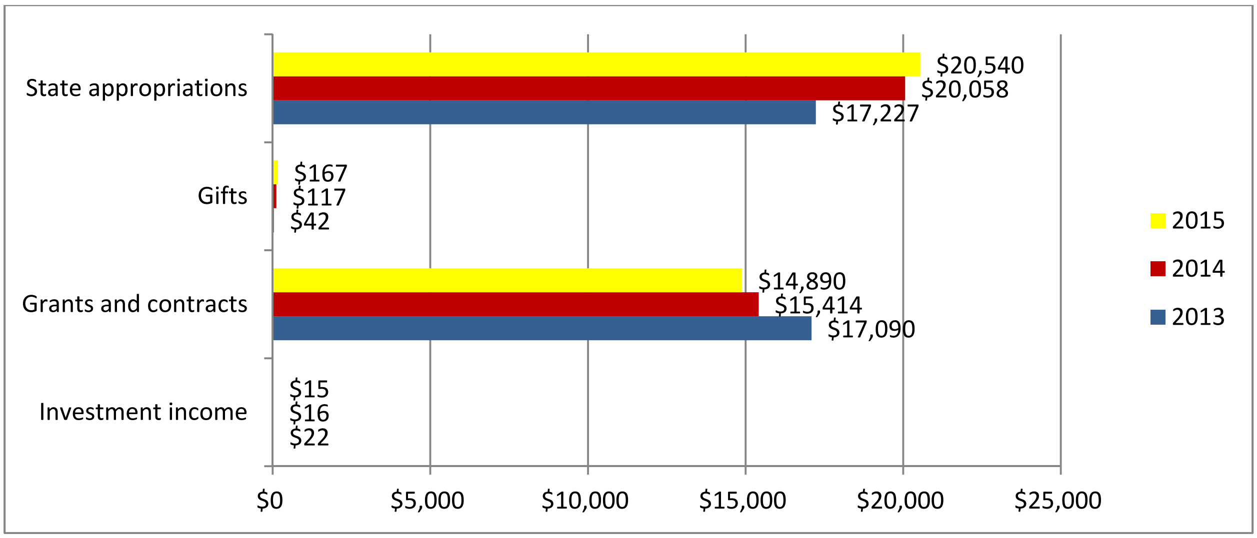
Nonoperating Revenues and Expenses

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:

Nonoperating Revenues (Expenses)
(in thousands of dollars)

	2015	**2014**	**2013**
State appropriations	$20,540	$20,058	$17,227
Gifts	167	117	42
Grants and contracts	14,890	15,414	17,090
Investment income	15	16	22
Interest on capital asset-related debt	(26)	(24)	(19)
Bond issuance costs	-	-	(2)
Other nonoperating revenues (expenses)	78	368	(827)
Total nonoperating revenues (expenses)	**$35,664**	**$35,949**	**$33,533**

Nonoperating Revenues
(in thousands of dollars)



Comparison of Fiscal Year 2015 to Fiscal Year 2014

- State appropriations were increased by the State of Tennessee as a result of the college's performance outcomes.
- Gift revenue increased due to an increase in cash gifts from the Walters State Community College Foundation to upgrade the Claiborne Campus Auditorium sound system and a full year access and use of a building by Community Education in Greeneville, Tennessee.
- Grants and contracts decreased due to a reduction in Federal Pell and Federal SEOG awards to students.
- Other nonoperating revenue decreased because insurance proceeds received in fiscal year 2014 for water damage to the Sevier County Campus did not recur in fiscal year 2015.

Comparison of Fiscal Year 2014 to Fiscal Year 2013

- State appropriations were increased by the State of Tennessee as a result of the college's performance outcomes.
- Gift revenue increased due to an increase in private sector gifts for supplies; access and use of a building by Community Education in Greeneville, Tennessee; and Walters State Community College Foundation gifts of supplies and equipment to support the new Surgical Technology program.
- Grants and contracts decreased due to a reduction in Federal Pell and Federal SEOG awards to students.
- Other nonoperating revenue increased as a result of receiving insurance proceeds for water damage to the Sevier County Campus that occurred during extreme freezing conditions in winter 2014.

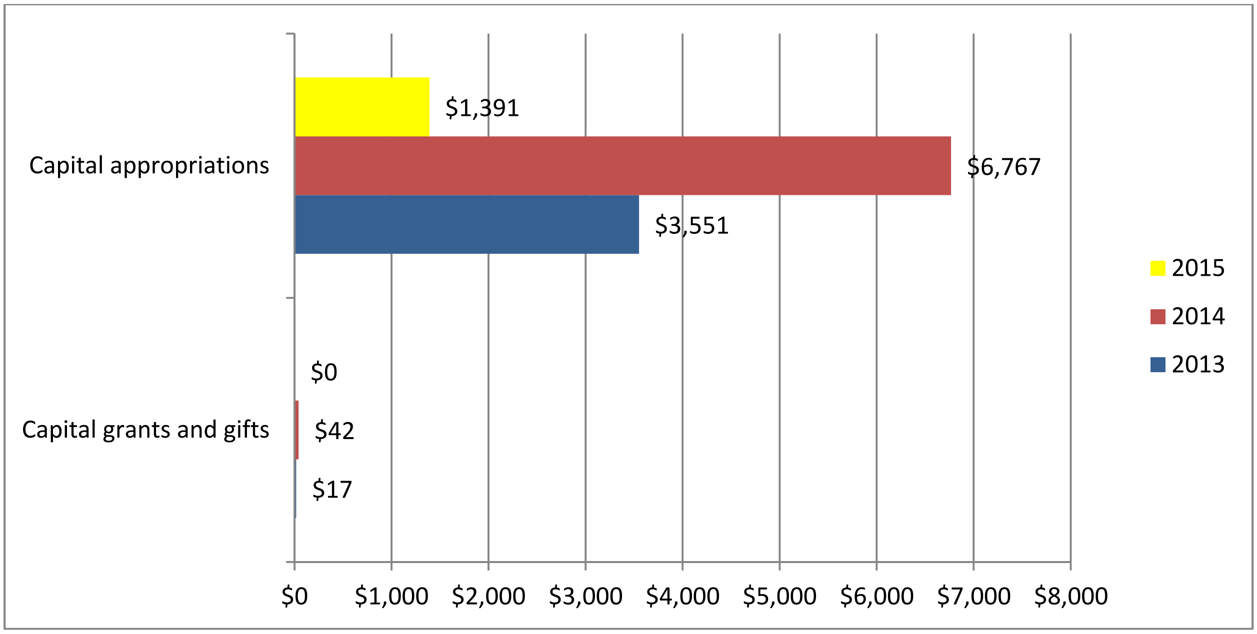
Other Revenues

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:

Other Revenues
(in thousands of dollars)

	2015	**2014**	**2013**
Capital appropriations	$1,391	$6,767	$3,551
Capital grants and gifts	-	42	17
Total other revenues	**$1,391**	**$6,809**	**$3,568**

Other Revenues
(in thousands of dollars)



Comparison of Fiscal Year 2015 to Fiscal Year 2014

- The decrease in capital appropriations was because the capital appropriations in fiscal year 2015 were for the Site Corrections project, which was much less than the fiscal year 2014 capital appropriations for the Greeneville Campus Expansion capital outlay project and the HVAC corrections to the College Center Building located on the Morristown campus.
- The decrease in capital grants and gifts was because the Walters State Community College Foundation gifts in fiscal year 2014 supporting the new Surgical Technology program were not repeated in fiscal year 2015.

Comparison of Fiscal Year 2014 to Fiscal Year 2013

- The increase in capital appropriations for fiscal year 2014 can largely be attributed to the ongoing Greeneville Campus Expansion capital outlay project and the HVAC corrections to the College Center Building located on the Morristown campus.
- In fiscal year 2014, the Walters State Community College Foundation gave the college equipment to support the new Surgical Technology program, increasing capital gifts.

Capital Assets and Debt Administration

Capital Assets

Walters State Community College had $57,241,620 invested in capital assets, net of accumulated depreciation of $46,010,379 at June 30, 2015; $54,309,248 invested in capital assets, net of accumulated depreciation of $44,520,214 at June 30, 2014; and $49,534,662 invested in capital assets, net of accumulated depreciation of $42,305,977 at June 30, 2013. Depreciation charges totaled $1,788,667, $2,662,745, and $2,605,016 for the years ended June 30, 2015; June 30, 2014; and June 30, 2013, respectively.

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

	2015	2014	2013
Land	$1,082	$1,082	$1,082
Land improvements and infrastructure	1,989	1,969	1,723
Buildings	40,657	41,505	42,960
Equipment	1,906	1,702	1,648
Library holdings	86	99	139
Intangible assets	158	315	472
Art and historical collections	24	24	-
Projects in progress	11,340	7,613	1,511
Total	**$57,242**	**$54,309**	**$49,535**

Comparison of Fiscal Year 2015 to Fiscal Year 2014

The overall increase to capital assets in fiscal year 2015 was predominantly due to increases to projects in progress, with the Greeneville Campus Expansion project being the largest.

At June 30, 2015, outstanding commitments under construction contracts totaled $1,236,695 for the Greeneville Campus Expansion and Main Campus Site Corrections projects. Future state capital outlay appropriations will fund $64,728 of these costs.

Comparison of Fiscal Year 2014 to Fiscal Year 2013

Significant increases to capital assets occurred in fiscal year 2014. The predominant reason was the increase to the Greeneville Campus Expansion capital outlay project in progress.

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

Debt

The college had $1,374,782, $640,370, and $726,157 in debt outstanding at June 30, 2015; June 30, 2014; and June 30, 2013, respectively. The table below summarizes these amounts by type of debt instrument.

Schedule of Outstanding Debt

	2015	2014	2013
Bonds payable	$ 485,470	$552,807	$626,085
Unamortized bond premium	75,054	87,563	100,072
Revolving credit facility	814,258	-	-
Total	**$1,374,782**	**$640,370**	**$726,157**

The Tennessee State School Bond Authority (TSSBA) issued bonds with an interest rate of 5% due serially to 2021 on behalf of Walters State Community College. The college is responsible for the debt service of these bonds. The current portion of the $1,374,782 outstanding at June 30, 2015, is $70,889. The TSSBA receives loans from the revolving credit facility to finance the costs of various capital projects during the construction phase. When projects are placed in service, TSSBA issues long-term, fixed-rate debt to finance the project over its useful payback period and repays the revolving credit facility debt. The revolving credit facility debt is for the Greeneville Expansion project.

The ratings on debt issued by the Tennessee State School Bond Authority at June 30, 2015, were as follows:

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

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

Economic Factors That Will Affect the Future

During the 2014 Tennessee General Assembly legislative session, the Governor proposed and the legislature approved a new educational initiative called the "Tennessee Promise." The Tennessee Promise is part of the state's "Drive to 55" initiative, wherein it is projected that by 2025, 55% of Tennesseans will need a certificate or degree to get a job. Currently, approximately only 33% of Tennesseans have such credentials. The program is aimed at increasing the number of Tennesseans with a certificate or degree beyond high school. This initiative is to be effective fall 2015 and commits to providing, on a continuing basis, two years of community college education free of tuition to graduating high school seniors. A major source of funding statewide for the initiative is an endowment of funds transferred from the state's lottery reserve fund.

Since the Tennessee Promise covers only tuition/maintenance fees not covered by the Pell grant, Tennessee's Hope Scholarship, or TSAA funds, some special course and miscellaneous fees are not covered by Tennessee Promise. Therefore, Walters State realigned its institutional scholarship offerings, effective fall 2015, to mitigate the shortfall to students. The realignment of the scholarships is not expected to cost the institution significant new dollars, since any additional scholarships awarded will be provided from an increase in funding (via the state's funding formula) due to increased student outcomes or from revenue from increased enrollment.

The Tennessee Board of Regents (TBR) approved, at its June 2015 quarterly meeting, a 3.4% maintenance fee increase effective for fall 2015. Preliminary enrollment data for fall 2015 semester indicates a slight increase in full-time equivalency enrollment. The college is entering the fifth year of funding under Tennessee's new funding formula for allocation of state appropriations. With the new emphasis on funding being focused on outcomes such as degree completions and job placements, the college has maintained a favorable position among the funding for community colleges in the TBR system. An update to the funding formula will be effective for fall 2016. The details of the update are currently being refined.

The TBR approved across-the-board salary increases, partially funded by state appropriations (1.5%) and partially funded from fees (.5%), for college employees for the 2015-16 fiscal year. The institution also has been granted authority to provide an additional 1% across-the-board salary increase to be funded totally from institutional funds. The college will make a decision on administration of the additional 1% based upon available revenue projected for 2015-16. Additionally, the college has an externally prepared, TBR-approved compensation pay plan that has been partially paid. Approval has been granted from the Tennessee Board of Regents to implement an ongoing maintenance aspect of the pay plan. Specifically, in keeping with the goal of the plan to bring employees to 100% of market midpoint within eight years of the employees being in their position, the college has proposed salary adjustments for employees meeting this threshold.

The college is continuing construction of a new building at the Greeneville campus. Construction of the exterior shell of the approximately 82,000-square-foot building was completed in spring 2015. The building/project is expected to be completed by fall 2016. The total cost of this project has been approved by the Tennessee State Building Commission at a level of $27,250,000. The State of Tennessee approved $9,000,000 of state appropriations in 2011. Additional funding has been derived from gifts, grants, institutional funds, and land sales proceeds ($4,950,000 from the Tennessee Department of Transportation). As of August 2014, the Tennessee State Building Commission Executive Committee approved Tennessee State School Bond Authority (TSSBA) funding of $8,000,000. The TSSBA funding will become debt recognized by the college; however, the repayment (over a ten-year period) will be derived from proceeds from gifts/pledges to the college's foundation and earmarked for the debt repayment. Sufficient funding currently exists to complete 35% of the interior of the building. However, additional funding, to allow finishing 100% of the interior, is being pursued from various sources such as local gifts, grants, and the State of Tennessee.

The college is continuing to implement various aspects of the Complete College Tennessee Act of 2010. Among initiatives currently underway is the implementation of a Business Process

Modeling project that is to streamline operations across the TBR institutions with an expectation that institutions will realize savings by utilizing "industry standard" processes. The TBR has also entered into a study, being conducted by Huron Consulting Group, of efficiencies that could be realized across the community colleges. The primary focus of the effort is to assess opportunities for increased cost effectiveness, efficiencies, and productivity of current administrative services across the 13 community colleges. Huron has presented its findings and estimated associated costs, some of which would result in significant amounts for each community college. As of the compilation of this financial statement, the TBR is still reviewing the information and projecting a time line for implementation, so an estimated impact to Walters State is not known.

The current enterprise resource planning/computer system (ERP/Banner) utilized by all institutions within the TBR system will reach the end of its contract life in 2017. The TBR authorized a study by the BerryDunn consulting group to understand how the ERP is used across the system and research what alternatives or options are or will be available in the future. A report has been issued, and, similar to the study by Huron, TBR is still reviewing the information and projecting a time line for appropriate action/replacement to take place. The cost to Walters State is not known.

During fiscal year 2015, the college implemented GASB Statement 68, *Accounting and Financial Reporting for Pensions*. GASB Statement 68 results in a cumulative effect of a change in accounting principle for the college in fiscal year 2015. This statement establishes standards for the measurement, recognition, and display of the net pension liability and related expenses, deferred inflows of resources, deferred outflows of resources, note disclosures, and required supplementary information. Additional information can be found in the Pension Plan note disclosure, Note 9, and in Note 16. With the issuance of this financial statement, the college was required to record on its books the liability for the institution's applicable portion of the state's pension (Tennessee Consolidated Retirement System), and this liability will be reflected in the accounts henceforth. The recognition of the liability resulted in a significant decrease to unrestricted net position; however, the college's overall unrestricted net position remains positive.

Tennessee Board of Regents
WALTERS STATE COMMUNITY COLLEGE
Statements of Net Position
June 30, 2015, and June 30, 2014

	Walters State Community College		Component Unit - Walters State Community College Foundation	
	June 30, 2015	June 30, 2014	June 30, 2015	June 30, 2014
Assets				
Current assets:				
Cash and cash equivalents (Notes 2, 3, and 17)	$ 16,747,691.77	$ 16,389,728.53	$ 1,684,538.13	$ 1,663,330.95
Accounts and grants receivable (net) (Note 4)	586,497.45	530,928.83	-	-
Due from primary government	418,968.98	339,934.52	-	-
Due from component unit	5,958.03	110.00	-	-
Pledges receivable (net) (Note 17)	-	-	5,033,904.00	5,032,636.72
Inventories	24,389.43	29,866.74	-	-
Prepaid expenses	105,502.16	40,289.06	9,682.36	9,451.50
Accrued interest receivable	-	-	19,064.50	-
Other assets	152.09	1,985.09	-	-
Total current assets	17,889,159.91	17,332,842.77	6,747,188.99	6,705,419.17
Noncurrent assets:				
Cash and cash equivalents (Notes 2, 3, and 17)	5,867,825.44	6,159,571.52	230,057.48	4,968,100.62
Investments (Note 17)	-	-	12,436,030.46	8,002,464.77
Pledges receivable (net) (Note 17)	-	-	53,800.00	53,800.00
Capital assets (net) (Notes 5 and 17)	57,241,619.80	54,309,248.49	2,279,664.76	2,319,311.16
Total noncurrent assets	63,109,445.24	60,468,820.01	14,999,552.70	15,343,676.55
Total assets	80,998,605.15	77,801,662.78	21,746,741.69	22,049,095.72
Deferred outflows of resources				
Deferred amount on debt refunding	36,689.47	42,804.37	-	-
Deferred outflows related to pensions (Note 9)	2,388,825.11	-	-	-
Total deferred outflows of resources	2,425,514.58	42,804.37	-	-
Liabilities				
Current liabilities:				
Accounts payable (Note 6)	679,031.58	787,463.73	12,704.80	59,049.08
Accrued liabilities	2,046,973.38	2,396,524.68	-	-
Due to the college	-	-	5,958.03	110.00
Unearned revenue	1,008,254.61	1,052,870.30	8,000.00	8,000.00
Compensated absences (Note 7)	469,837.95	463,197.09	-	-
Accrued interest payable	5,939.12	4,082.88	-	-
Long-term liabilities, current portion (Notes 7 and 17)	70,889.00	67,337.00	39,370.00	108,000.00
Deposits held in custody for others	3,993,839.02	3,643,426.51	-	-
Other liabilities (Note 17)	133,923.24	107,672.26	50,000.00	-
Total current liabilities	8,408,687.90	8,522,574.45	116,032.83	175,159.08
Noncurrent liabilities:				
Net OPEB obligation (Note 10)	3,047,571.07	2,887,136.11	-	-
Net pension liability (Note 9)	4,256,441.00	-	-	-
Unearned revenue	-	-	53,142.96	61,142.96
Compensated absences (Note 7)	1,335,857.18	1,273,409.58	-	-
Long-term liabilities (Notes 7 and 17)	1,303,893.12	573,032.78	810,990.00	813,000.00
Other liabilities (Note 17)	-	-	-	50,000.00
Total noncurrent liabilities	9,943,762.37	4,733,578.47	864,132.96	924,142.96
Total liabilities	18,352,450.27	13,256,152.92	980,165.79	1,099,302.04
Deferred inflows of resources				
Deferred inflows related to pensions (Note 9)	6,132,870.00	-	-	-
Total deferred inflows of resources	6,132,870.00	-	-	-
Net position				
Net investment in capital assets	55,903,527.15	53,711,683.08	1,429,304.76	1,398,311.16
Restricted for:				
Nonexpendable:				
Scholarships and fellowships	-	-	8,651,286.05	8,471,790.52
Other	-	-	1,366,217.38	1,359,563.89
Expendable:				
Scholarships and fellowships	28,340.22	36,251.22	2,071,482.11	2,369,787.04
Instructional department uses	70,805.65	108,528.69	-	-
Other	154,032.12	73,804.07	7,027,935.30	7,069,055.27
Unrestricted	2,782,094.32	10,658,047.17	220,350.30	281,285.80
Total net position	$ 58,938,799.46	$ 64,588,314.23	$ 20,766,575.90	$ 20,949,793.68

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

Tennessee Board of Regents
WALTERS STATE COMMUNITY COLLEGE
Statements of Revenues, Expenses, and Changes in Net Position
For the Years Ended June 30, 2015, and June 30, 2014

	Walters State Community College		Component Unit - Walters State Community College Foundation	
	Year Ended June 30, 2015	Year Ended June 30, 2014	Year Ended June 30, 2015	Year Ended June 30, 2014
Revenues				
Operating revenues:				
Student tuition and fees (net of scholarship allowances of $10,515,409.85 for the year ended June 30, 2015, and $9,957,869.94 for the year ended June 30, 2014)	$ 11,179,178.50	$ 11,343,032.75	$ -	$ -
Gifts and contributions	-	-	256,817.11	5,148,695.05
Governmental grants and contracts	4,487,113.93	4,013,417.30	-	-
Nongovernmental grants and contracts	101,292.10	84,910.35	-	-
Sales and services of educational activities	84,436.52	151,040.28	-	-
Sales and services of other activities	488,510.06	492,810.33	-	-
Auxiliary enterprises:				
Bookstore	257,250.00	257,250.00	-	-
Food service	11,694.18	10,850.37	-	-
Other auxiliaries	4,378.90	7,150.55	-	-
Other operating revenues	11,712.80	9,474.47	164,040.86	166,770.34
Total operating revenues	16,625,566.99	16,369,936.40	420,857.97	5,315,465.39
Expenses				
Operating expenses (Note 13):				
Salaries and wages	23,831,927.52	24,892,071.08	-	-
Benefits	8,143,981.79	9,994,430.01	-	-
Utilities, supplies, and other services	10,272,512.87	11,240,401.42	143,734.21	122,787.40
Scholarships and fellowships	5,538,114.12	6,342,702.00	471,124.28	416,375.87
Depreciation expense	1,788,666.93	2,662,745.49	42,146.40	64,568.83
Payments to or on behalf of Walters State Community College (Note 17)	-	-	105,819.84	97,575.07
Total operating expenses	49,575,203.23	55,132,350.00	762,824.73	701,307.17
Operating income (loss)	(32,949,636.24)	(38,762,413.60)	(341,966.76)	4,614,158.22
Nonoperating revenues (expenses)				
State appropriations	20,539,725.00	20,057,767.50	-	-
Gifts (including $105,819.84 from component unit for the year ended June 30, 2015, and $55,534.31 for the year ended June 30, 2014)	167,405.84	117,243.51	-	-
Grants and contracts	14,890,430.84	15,413,616.88	-	-
Investment income (net of investment expense of $47,030.85 for the component unit for the year ended June 30, 2015, and $46,174.90 for the year ended June 30, 2014)	14,916.46	15,804.99	(21,221.64)	868,403.47
Interest on capital asset-related debt	(26,325.33)	(23,767.28)	-	-
Other nonoperating revenues (expenses)	78,338.84	368,327.08	402.62	742.50
Total nonoperating revenues (expenses)	35,664,491.65	35,948,992.68	(20,819.02)	869,145.97
Income (loss) before other revenues, expenses, gains, or losses	2,714,855.41	(2,813,420.92)	(362,785.78)	5,483,304.19
Capital appropriations	1,390,608.10	6,767,426.39	-	-
Capital grants and gifts (including $42,040.76 from the component unit for the year ended June 30, 2014)	177.72	42,309.70	-	-
Additions to permanent endowments	-	-	179,568.00	58,480.00
Total other revenues	1,390,785.82	6,809,736.09	179,568.00	58,480.00
Increase (decrease) in net position	4,105,641.23	3,996,315.17	(183,217.78)	5,541,784.19
Net position - beginning of year, as originally reported	64,588,314.23	60,591,999.06	20,949,793.68	15,408,009.49
Cumulative effect of change in accounting principle (Note 16)	(9,755,156.00)	-	-	-
Net position - beginning of year, restated	54,833,158.23	60,591,999.06	20,949,793.68	15,408,009.49
Net position - end of year	$ 58,938,799.46	$ 64,588,314.23	$20,766,575.90	$20,949,793.68

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

Tennessee Board of Regents
WALTERS STATE COMMUNITY COLLEGE
Statements of Cash Flows
For the Years Ended June 30, 2015, and June 30, 2014

	Year Ended June 30, 2015	Year Ended June 30, 2014
Cash flows from operating activities		
Tuition and fees	$ 11,186,049.61	$ 11,283,330.73
Grants and contracts	4,357,109.04	3,987,613.59
Sales and services of educational activities	84,126.52	151,431.28
Sales and services of other activities	476,010.06	505,310.33
Payments to suppliers and vendors	(10,396,209.89)	(10,716,978.98)
Payments to employees	(24,163,503.29)	(24,477,508.37)
Payments for benefits	(9,650,189.53)	(9,921,501.43)
Payments for scholarships and fellowships	(5,538,114.12)	(6,342,702.00)
Auxiliary enterprise charges:		
Bookstore	257,250.00	257,250.00
Food services	11,895.43	10,717.05
Other auxiliaries	4,378.90	7,150.55
Other receipts	11,712.80	9,474.47
Net cash used by operating activities	(33,359,484.47)	(35,246,412.78)
Cash flows from noncapital financing activities		
State appropriations	20,544,400.00	19,995,200.00
Gifts and grants received for other than capital or endowment purposes	15,011,683.09	15,466,955.08
Federal student loan receipts	-	140,204.00
Federal student loan disbursements	-	(68,738.00)
Changes in deposits held for others	390,557.51	(244,772.25)
Other noncapital financing receipts	66,728.61	367,745.51
Net cash provided by noncapital financing activities	36,013,369.21	35,656,594.34
Cash flows from capital and related financing activities		
Capital appropriations	1,390,608.10	6,788,602.50
Proceeds from capital debt	814,258.30	-
Proceeds from sale of capital assets	16,360.24	5,246.00
Purchase of capital assets and construction	(4,725,610.53)	(7,399,687.08)
Principal paid on capital debt	(67,337.00)	(73,278.50)
Interest paid on capital debt	(30,863.15)	(30,571.50)
Net cash used by capital and related financing activities	(2,602,584.04)	(709,688.58)
Cash flows from investing activities		
Income on investments	14,916.46	15,804.99
Net cash provided by investing activities	14,916.46	15,804.99
Net increase (decrease) in cash	66,217.16	(283,702.03)
Cash - beginning of year	22,549,300.05	22,833,002.08
Cash - end of year	$ 22,615,517.21	$ 22,549,300.05

Tennessee Board of Regents
WALTERS STATE COMMUNITY COLLEGE
Statements of Cash Flows (Continued)
For the Years Ended June 30, 2015, and June 30, 2014

	Year Ended June 30, 2015	Year Ended June 30, 2014
Reconciliation of operating loss to net cash used by operating activities:		
Operating loss	$ (32,949,636.24)	$ (38,762,413.60)
Adjustments to reconcile operating loss to net cash used by operating activities:		
Depreciation expense	1,788,666.93	2,662,745.49
Gifts in-kind	42,637.92	79,318.44
Pension expense	634,155.00	-
Other adjustments	30,825.00	27,067.50
Change in assets, liabilities, and deferred outflows:		
Receivables, net	(192,418.94)	183,628.45
Inventories	5,477.31	(2,759.58)
Prepaid expenses	(65,213.10)	(2,125.18)
Other assets	1,833.00	(209.00)
Deferred outflows related to pensions	(2,388,825.11)	-
Accounts payable	(108,432.15)	313,601.95
Accrued liabilities	(349,551.30)	379,893.44
Net OPEB obligation	160,434.96	163,902.66
Unearned revenue	(44,615.69)	(200,964.54)
Compensated absences	69,088.46	(83,315.18)
Other	6,089.48	(4,783.63)
Net cash used by operating activities	$ (33,359,484.47)	$ (35,246,412.78)

	Year Ended June 30, 2015	Year Ended June 30, 2014
Noncash investing, capital, or financing transactions		
Gifts of capital assets	$ -	$ 42,309.70
Loss on disposal of capital assets	$ (4,750.01)	$ (4,664.43)

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

Note 1. Summary of Significant Accounting Policies

Reporting Entity

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

The financial statements present only that portion of the Tennessee Board of Regents' activities that is attributable to the transactions of Walters State Community College.

The Walters State Community College Foundation is considered a component unit of the college. Although the college does not control the timing or amount of receipts from the foundation, the majority of resources, or income thereon, that the foundation holds and invests are restricted to the activities of the college by its donors. Because these restricted resources held by the foundation can only be used by, or for the benefit of, the college, the foundation is considered a component unit of the college and is discretely presented in the college's financial statements. See Note 17 for more detailed information about the component unit and how to obtain the report.

Basis of Presentation

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

Basis of Accounting

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

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

Nonoperating revenues and expenses include activities that have the characteristics of nonexchange transactions, such as gifts and contributions, and other activities that are defined as nonoperating by GASB Statement 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities that Use Proprietary Fund Accounting*, and GASB Statement 34, such as state appropriations and investment income.

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

Inventories

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

Compensated Absences

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

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

Capital Assets

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

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

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

Under a contract with the Tennessee Department of Labor and Workforce Development, the college is the administrative entity and grant recipient for the Local Workforce Investment Area in Workforce Investment Area 2 of the State of Tennessee. The title to all the equipment purchased by Walters State Community College under the provisions of the Workforce Investment Act resides with the U.S. Government. Therefore, this equipment is not included in Walters State Community College's capital assets.

Pensions

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

Net Position

The college's net position is classified as follows:

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

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

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

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

Scholarship Discounts and Allowances

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

Note 2. Cash

This classification includes demand deposits and petty cash on hand. At June 30, 2015, cash consisted of $3,317,461.08 in bank accounts, $4,240.00 of petty cash on hand, $19,054,879.88 in the Local Government Investment Pool (LGIP) administered by the State Treasurer, and $238,936.25 in LGIP deposits for capital projects. At June 30, 2014, cash consisted of $1,992,545.56 in bank accounts, $4,127.35 of petty cash on hand, $18,157,215.69 in the LGIP, $442,756.45 in LGIP deposits for capital projects, and $1,952,655.00 on deposit with the State of Tennessee.

The LGIP is part of the State Pooled Investment Fund. The fund's required risk disclosures are presented in the *State of Tennessee Treasurer's Report*. That report is available on the state's website at www.treasury.tn.gov.

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

Note 3. Investments

Credit Risk

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

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

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

As of June 30, 2015, and June 30, 2014, the college's investments consisted entirely of investments in the Local Government Investment Pool. The fair value of these investments was $19,293,816.13 at June 30, 2015, and $18,599,972.14 at June 30, 2014. LGIP investments are not rated by nationally recognized statistical ratings organizations.

Note 4. Receivables

Receivables included the following:

	June 30, 2015	June 30, 2014
Student accounts receivable	$1,027,184.11	$1,055,258.00
Grants receivable	212,000.08	162,475.56
Other receivables	136,164.93	89,092.99
Subtotal	1,375,349.12	1,306,826.55
Less allowance for doubtful accounts	788,851.67	775,897.72
Total receivables	$ 586,497.45	$ 530,928.83

Note 5. Capital Assets

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

	Beginning Balance	Additions	Transfers	Reductions	Ending Balance
Land	$1,082,401.81	$ -	$ -	$ -	$ 1,082,401.81
Land improvements and infrastructure	3,457,184.30	12,129.34	176,752.61	-	3,646,066.25
Buildings	78,130,259.99	-	63,430.00	-	78,193,689.99
Equipment	6,806,455.23	733,206.77	-	251,705.37	7,287,956.63
Library holdings	300,023.62	13,217.63	-	51,547.38	261,693.87
Intangible assets	1,416,286.39	-	-	-	1,416,286.39
Art and historical treasures	23,515.00	-	-	-	23,515.00
Projects in progress	7,613,336.58	3,967,234.51	(240,182.61)	-	11,340,388.48
Total	98,829,462.92	4,725,788.25	-	303,252.75	103,251,998.42
Less accumulated depreciation/amortization:					
Land improvements and infrastructure	1,487,955.33	168,630.39	-	-	1,656,585.72
Buildings	36,625,641.90	911,537.32	-	-	37,537,179.22
Equipment	5,104,227.01	524,913.15	-	246,955.36	5,382,184.80
Library holdings	200,937.20	26,169.38	-	51,547.38	175,559.20
Intangible assets	1,101,452.99	157,416.69	-	-	1,258,869.68
Total	44,520,214.43	1,788,666.93	-	298,502.74	46,010,378.62
Capital assets, net	$54,309,248.49	$2,937,121.32	$ -	$ 4,750.01	$57,241,619.80

The decrease in building depreciation expense for the current period is due to a change in accounting estimate. During fiscal year 2015, it was determined that buildings were more appropriately depreciated over a period of 60 years, instead of the 40 years previously used. This change resulted in a reduction of depreciation expense of $879,096.01.

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

	Beginning Balance	Additions	Transfers	Reductions	Ending Balance
Land	$1,082,401.81	$ -	$ -	$ -	$ 1,082,401.81
Land improvements and infrastructure	3,048,657.27	350,407.85	58,119.18	-	3,457,184.30
Buildings	77,796,620.19	-	333,639.80	-	78,130,259.99
Equipment	6,583,475.56	582,453.67	-	359,474.00	6,806,455.23
Library holdings	378,638.85	15,177.26	-	93,792.49	300,023.62
Intangible assets	1,416,286.39	-	-	-	1,416,286.39
Art and historical treasures	23,515.00	-	-	-	23,515.00

Projects in progress	1,511,043.55	6,494,052.01	(391,758.98)	-	7,613,336.58
Total	91,840,638.62	7,442,090.79	-	453,266.49	98,829,462.92
Less accumulated depreciation/amortization:					
Land improvements and infrastructure	1,326,300.42	161,654.91	-	-	1,487,955.33
Buildings	34,836,930.70	1,788,711.20	-	-	36,625,641.90
Equipment	4,935,312.60	523,629.97	-	354,715.56	5,104,227.01
Library holdings	263,396.97	31,332.72	-	93,792.49	200,937.20
Intangible assets	944,036.30	157,416.69	-	-	1,101,452.99
Total	42,305,976.99	2,662,745.49	-	448,508.05	44,520,214.43
Capital assets, net	$49,534,661.63	$4,779,345.30	$ -	$ 4,758.44	$54,309,248.49

Note 6. Accounts Payable

Accounts payable included the following:

	June 30, 2015	June 30, 2014
Vendors payable	$464,791.80	$608,980.37
Other payables	214,239.78	178,483.36
Total accounts payable	$679,031.58	$787,463.73

Note 7. Long-term Liabilities

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

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Payables:					
TSSBA debt:					
Bonds	$ 552,807.00	$ -	$ 67,337.00	$ 485,470.00	$70,889.00
Unamortized bond premium	87,562.78	-	12,508.96	75,053.82	-
Revolving credit facility	-	814,258.30	-	814,258.30	-
Subtotal	640,369.78	814,258.30	79,845.96	1,374,782.12	70,889.00

Other liabilities:					
Compensated absences	1,736,606.67	1,346,969.56	1,277,881.10	1,805,695.13	469,837.95
Subtotal	1,736,606.67	1,346,969.56	1,277,881.10	1,805,695.13	469,837.95
Total long-term liabilities	$2,376,976.45	$2,161,227.86	$1,357,727.06	$3,180,477.25	$540,726.95

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

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Payables:					
TSSBA debt:					
Bonds	$ 626,085.50	$ -	$ 73,278.50	$ 552,807.00	$ 67,337.00
Unamortized bond premium	100,071.74	-	12,508.96	87,562.78	-
Subtotal	726,157.24	-	85,787.46	640,369.78	67,337.00
Other liabilities:					
Compensated absences	1,819,921.85	1,285,433.34	1,368,748.52	1,736,606.67	463,197.09
Subtotal	1,819,921.85	1,285,433.34	1,368,748.52	1,736,606.67	463,197.09
Total long-term liabilities	$2,546,079.09	$1,285,433.34	$1,454,535.98	$2,376,976.45	$530,534.09

TSSBA Debt – Bonds

Bonds, with an interest rate of 5%, were issued by the Tennessee State School Bond Authority (TSSBA). The bonds are due serially to 2021 and are secured by pledges of the facilities' revenues to which they relate and certain other revenues and fees of the college, including state appropriations; see Note 8 for further details.

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

Year Ending June 30	Principal	Interest	Total
2016	$ 70,889.00	$23,387.40	$94,276.40
2017	74,627.00	19,796.23	94,423.23
2018	78,561.00	16,015.68	94,576.68
2019	82,699.00	12,035.93	94,734.93
2020	87,055.00	7,846.50	94,901.50
2021	91,639.00	3,436.46	95,075.46
Total	$485,470.00	$82,518.20	$567,988.20

TSSBA Debt – Revolving Credit Facility

The Tennessee State School Bond Authority (TSSBA) obtains loans from the revolving credit facility to finance the costs of various capital projects during the construction phase. When projects are placed in service, TSSBA issues long-term, fixed-rate debt to finance the project over its useful payback period and repays the revolving credit facility debt. The total outstanding loans from the revolving credit facility for the college were $814,258.30 at June 30, 2015.

More detailed information regarding the bonds and revolving credit facility can be found in the notes to the financial statements in the financial report for the TSSBA. That report is available on the state's website at www.comptroller.tn.gov/tssba/cafr.asp.

Note 8. Pledged Revenues

The college has pledged certain revenues and fees, including state appropriations, to repay $485,470.00 in revenue bonds issued August 2012 (see Note 7 for further detail). Proceeds from the bonds provided financing for an Energy Savings and Performance Contract. The bonds are payable through 2021. Annual principal and interest payments on the bonds are expected to require .217% of available revenues. The total principal and interest remaining to be paid on the bonds at June 30, 2015, is $567,988.20. Principal and interest paid for fiscal year 2015 and total available revenues were $94,135.66 and $43,287,682.30, respectively. Principal and interest paid for fiscal year 2014 and total available revenues were $103,850.00 and $42,543,932.94, respectively.

Note 9. Pension Plans

<u>Defined Benefit Plans</u>

Closed State and Higher Education Employee Pension Plan

General Information About the Pension Plan

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

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

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

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

Plus:

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

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

Contributions – Contributions for state employees and higher education employees are established in the statutes governing the TCRS and may only be changed by the Tennessee General Assembly. The college's employees are non-contributory, as are most members in the Closed State and Higher Education Employee Pension Plan. State and higher education agencies make employer contributions at the rate set by the Board of Trustees as determined by an actuarial valuation. By law, employer contributions for the Closed State and Higher Education Employee Pension Plan are required to be paid. Employer contributions by the college for the year ended June 30, 2015, to the Closed State and Higher Education Employee Pension Plan were $2,362,030.97, which is 15.03% of covered payroll. The employer rate is expected to finance the costs of benefits earned by members during the year and the cost of administration, as well as an amortized portion of any unfunded liability.

Annual pension cost – For the years ended June 30, 2014, and June 30, 2013, the college's contributions equaled the annual pension cost of $2,533,126.00 and $2,425,254.14, respectively.

Trend Information

Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
June 30, 2014	$2,533,126.00	100%	$0
June 30, 2013	$2,425,254.14	100%	$0
June 30, 2012	$2,408,725.07	100%	$0

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

Pension liability – At June 30, 2015, the college reported a liability of $4,256,441 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The college's proportion of the net pension liability was based on a projection of the college's contributions during the year ended June 30, 2014, to the pension plan relative to the contributions of all participating state and higher education agencies. At the June 30, 2014, measurement date, the college's proportion was 0.616921%, representing the first-time presentation of this proportion.

Pension expense – For the year ended June 30, 2015, the college recognized a pension expense of $634,155.

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ -	$ 918,232.00
Net difference between projected and actual earnings on pension plan investments	-	5,214,638.00
College's contributions subsequent to the measurement date of June 30, 2014	2,362,030.97	-
Total	$2,362,030.97	$6,132,870.00

Deferred outflows of resources, resulting from the college's employer contributions of $2,362,030.97 subsequent to the measurement date, will be recognized as a decrease in net pension liability in the year ending June 30, 2016. Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended June 30	
2016	$(1,533,217.50)
2017	(1,533,217.50)
2018	(1,533,217.50)
2019	(1,533,217.50)

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

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

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

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

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

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

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

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

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

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

	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
College's net pension liability (asset)	$14,599,100	$4,256,441	$(4,449,380)

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

Payable to the Pension Plan

At June 30, 2015, the college reported a payable of $3,190.01 for the outstanding amount of legally required contributions to the pension plan required for the year ended June 30, 2015.

State and Higher Education Employee Retirement Plan

General Information About the Pension Plan

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

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

Contributions – Contributions for state and higher education employees are established in the statutes governing the TCRS and may only be changed by the Tennessee General Assembly. Employees contribute 5% of their salary. The higher education institutions make employer contributions at the rate set by the Board of Trustees as determined by an actuarial valuation. Per the statutory provisions governing the TCRS, the employer contribution rate cannot be less than 4% for all aggregate employee groups, except in years when the maximum funded level, approved by the TCRS Board of Trustees, is reached. By law, employer contributions for the State and Higher Education Employee Retirement Plan are required to be paid. Employer contributions by the college for the year ended June 30, 2015, to the State and Higher Education Employee Retirement Plan were $26,794.14, which is 3.87% of covered payroll. The employer rate, when combined with member contributions, is expected to finance the costs of benefits earned by members during the year and the cost of administration, as well as an amortized portion of any unfunded liability.

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

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

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

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
College's contributions subsequent to the measurement date of June 30, 2014	$26,794.14	$ -

The college's employer contributions of $26,794.14 reported as pension-related deferred outflows of resources, subsequent to the measurement date, will be recognized as a reduction in net pension liability in the year ending June 30, 2016.

Payable to the Pension Plan

At June 30, 2015, the college reported a payable of $4,618.08 for the outstanding amount of legally required contributions to the pension plan required for the year ended June 30, 2015.

Defined Contribution Plans

Optional Retirement Plans

Plan description – The college contributes to the Optional Retirement Plan (ORP). The ORP, administered by the Tennessee Treasury Department, is a defined contribution plan. The ORP was established by state statute in Title 8, Chapter 35, Part 4, *Tennessee Code Annotated*. This statute also sets out the plan provisions. The plan provisions are amended by the Tennessee

General Assembly. The ORP was designed to provide benefits at retirement to faculty and staff who are exempt from the overtime provision of the Fair Labor Standards Act and who waive membership in the TCRS. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings.

Funding policy – For employees employed prior to July 1, 2014, plan members are noncontributory. The college contributes an amount equal to 10% of the employee's base salary up to the social security wage base and 11% above the social security wage base. For employees hired after June 30, 2014, plan members will contribute 5% to the ORP and the college will contribute 9% of the employee's base salary. The required contributions made to the ORP were $475,663.93 for the year ended June 30, 2015, and $491,410.96 for the year ended June 30, 2014. Contributions met the requirements for each year.

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

Deferred Compensation Plans

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

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

During the year ended June 30, 2015, contributions totaling $521,146.60 were made by employees participating in the 401(k) plan, and the college recognized pension expense of $247,001.29 for employer contributions. During the year ended June 30, 2014, contributions totaling $518,141.00 were made by employees participating in the 401(k) plan, with contributions of $202,472.88 made by the college.

Note 10. Other Postemployment Benefits

Healthcare is the only "other postemployment benefit" (OPEB) provided to employees. The State of Tennessee administers a group health insurance program that provides postemployment health insurance benefits to eligible college retirees. This program includes two plans available to higher education employees—the State Employee Group Plan and the Medicare Supplement Plan. For accounting purposes, the plans are agent multiple-employer defined benefit OPEB plans. Benefits are established and amended by an insurance committee created by Section 8-27-201, *Tennessee Code Annotated,* for the State Employee Group Plan and Section 8-27-701, *Tennessee Code Annotated,* for the Medicare Supplement Plan. Prior to reaching age 65, all members have the option of choosing between the standard or partnership preferred provider organization plan for health care benefits. Subsequent to age 65, members who are also in the state's retirement system may participate in a state-administered Medicare supplement that does not include pharmacy. The state makes on-behalf payments to the Medicare Supplement Plan for the college's eligible retirees; see Note 14. The plans are reported in the *Tennessee Comprehensive Annual Financial Report* (CAFR). The CAFR is available on the state's website at www.tn.gov/finance/act/cafr.shtml.

Special Funding Situation

The State of Tennessee is legally responsible for contributions to the Medicare Supplement Plan, which covers the retirees of other governmental entities, including Walters State Community College. The state is the sole contributor for the college retirees who participate in the Medicare Supplement Plan and, therefore, is acting as the employer.

Funding Policy

The premium requirements of members of the State Employee Group Plan are established and may be amended by the insurance committee. The plan is self-insured and financed on a pay-as-you-go basis with the risk shared equally among the participants. The plan's claims liabilities are periodically computed using actuarial and statistical techniques to establish premium rates. The plan's administrative costs are allocated to plan participants. Retirees in the State Employee Group Plan pay the same base premium, adjusted for years of service, as active employees. Retirees with 30 years of service are subsidized 80%; retirees with 20 years of service but less than 30 years of service, 70%; and retirees with less than 20 years of service, 60%. Retirees in the Medicare Supplement Plan have flat-rate premium subsidies based on years of service. Retirees with 30 years of service receive $50 per month; retirees with 20 years of service but less than 30 years of service, $37.50; and retirees with 15 years of service but less than 20 years of service, $25.

College's Annual OPEB Cost and Net OPEB Obligation
State Employee Group Plan

	2015	2014
Annual required contribution (ARC)	$ 683,000.00	$ 659,000.00
Interest on the net OPEB obligation	115,485.44	108,929.34
Adjustment to the ARC	(112,510.66)	(106,123.44)
Annual OPEB cost	685,974.78	661,805.90
Amount of contribution	(525,539.82)	(497,903.24)
Increase in net OPEB obligation	160,434.96	163,902.66
Net OPEB obligation – beginning of year	2,887,136.11	2,723,233.45
Net OPEB obligation – end of year	$3,047,571.07	$2,887,136.11

Year-end	Plan	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation at Year-end
June 30, 2015	State Employee Group Plan	$685,974.78	76.6%	$3,047,571.07
June 30, 2014	State Employee Group Plan	$661,805.90	75.2%	$2,887,136.11
June 30, 2013	State Employee Group Plan	$703,806.14	70.9%	$2,723,233.45

Funded Status and Funding Progress

The funded status of the college's portion of the State Employee Group Plan was as follows:

State Employee Group Plan

Actuarial valuation date	July 1, 2013
Actuarial accrued liability (AAL)	$5,885,000.00
Actuarial value of plan assets	-
Unfunded actuarial accrued liability (UAAL)	$5,885,000.00
Actuarial value of assets as a percentage of the AAL	0.00%

Covered payroll (active plan members)	$20,901,124.59
UAAL as percentage of covered payroll	28.2%

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

Actuarial Methods and Assumptions

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

In the July 1, 2013, actuarial valuation, the Projected Unit Credit actuarial cost method was used. The actuarial assumptions included a 4% investment rate of return (net of administrative expenses) and an annual healthcare cost trend rate of 7.5% initially. The rate decreased to 7.0% in fiscal year 2015 and then reduces by decrements to an ultimate rate of 4.19% in fiscal year 2044. All rates include a 2.5% inflation assumption. The unfunded actuarial accrued liability is being amortized as a level percentage of payroll on a closed basis over a 30-year period beginning with July 1, 2007. Payroll is assumed to grow at a rate of 3.0%.

Note 11. Insurance-related Activities

It is the policy of the state not to purchase commercial insurance for the risks associated with casualty losses for general liability, automobile liability, professional medical malpractice, and workers' compensation. The state's management believes it is more economical to manage these risks internally and set aside assets for claim settlement in its internal service fund, the Risk Management Fund (RMF). The state purchases commercial insurance for real property, builder's risk (for construction projects starting prior to July 1, 2012), and crime and fidelity coverage on the state's officials and employees. The contractor is responsible for acquiring builder's risk insurance for all construction projects after June 30, 2012; thus, builder's risk is no longer covered by the RMF. For property coverage, the deductible for an individual state agency is the first $25,000 of losses. The RMF is responsible for property losses for the annual aggregate deductible of $10 million for perils other than earthquakes and flood. Purchased insurance coverage is responsible for losses exceeding the $10 million annual aggregate deductible. For earthquake and flood, there is a deductible of $10 million per occurrence. The maximum insurance coverage is $750 million per year for perils other than earthquake and flood. The maximum flood insurance coverage is $50 million per occurrence, except there is only $25 million of coverage in flood zones A and V. The maximum earthquake insurance coverage is $50 million per occurrence. The amounts of settlements have not exceeded insurance coverage for each of the three past fiscal years.

The college participates in the RMF. The fund allocates the cost of providing claims servicing and claims payment by charging a premium to the college based on a percentage of the college's expected loss costs, which include both experience and exposures. This charge considers recent trends in actual claims experience of the state as a whole. An actuarial valuation is performed as of fiscal year-end to determine the fund liability and premium allocation. Information regarding the determination of the claims liabilities and the changes in the balances of the claims liabilities for the year ended June 30, 2015, is presented in the *Tennessee Comprehensive Annual Financial Report* (CAFR). The CAFR is available on the state's website at www.tn.gov/finance/act/cafr.shtml. Since the college participates in the Risk Management Fund, it is subject to the liability limitations under the provisions of the Tennessee Claims Commission Act, Section 9-8-101 et seq., *Tennessee Code Annotated*. Liability for negligence of the college for bodily injury and property damage is limited to $300,000 per person and $1,000,000 per occurrence. The limits of liability under workers' compensation are set forth in Section 50-6-101 et seq., *Tennessee Code Annotated*. Claims are paid through the state's Risk Management Fund. At June 30, 2015, the Risk Management Fund held $127.9 million in cash designated for payment of claims. At June 30, 2014, the Risk Management Fund held $116.3 million in cash designated for payment of claims.

At June 30, 2015, the scheduled coverage for the college was $138,013,900 for buildings and $27,054,600 for contents. At June 30, 2014, the scheduled coverage for the college was $138,013,900 for buildings and $26,362,700 for contents.

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

Note 12. Commitments and Contingencies

Sick Leave

The college records the cost of sick leave when paid. The dollar amount of unused sick leave was $8,175,236.99 at June 30, 2015, and $7,613,729.09 at June 30, 2014.

Operating Leases

The college has entered into various operating leases for buildings and equipment. Such leases will probably continue to be required. Expenses under operating leases for real property were $241,983.96 and expenses for personal property were $138,880.50 for the year ended June 30, 2015. The amounts for the year ended June 30, 2014, were $231,006.96 and $42,267.12. The following is a schedule by years of future minimum rental payments required under noncancelable operating leases that have initial or remaining lease terms of more than one year at June 30, 2015:

Year Ending June 30	
2016	$ 89,529.00
2017	89,529.00
Total minimum payments required	$179,058.00

Construction in Progress

At June 30, 2015, outstanding commitments under construction contracts totaled $1,236,694.69 for the Greene County Expansion project and the Main Campus Site Correction project, of which $64,728.46 will be funded by future state capital outlay appropriations.

Note 13. Natural Classification With Functional Classifications

The college's operating expenses for the year ended June 30, 2015, are as follows:

	Natural Classification					
Functional Classification	Salaries	Benefits	Other Operating	Scholarships	Depreciation	Total
Instruction	$13,981,621.55	$4,434,596.19	$ 3,681,211.14	$ 54,246.00	$ -	$22,151,674.88
Public service	1,276,254.91	440,756.20	1,457,072.22	172,803.00	-	3,346,886.33
Academic support	1,764,765.88	585,444.70	(817,586.03)	-	-	1,532,624.55
Student services	2,494,044.88	1,028,880.26	1,394,183.09	370,501.75	-	5,287,609.98
Institutional support	2,685,491.23	962,712.50	1,175,108.83	-	-	4,823,312.56
Maintenance & operation	1,629,749.07	691,591.94	3,347,178.00	-	-	5,668,519.01
Scholarships & fellowships	-	-	-	4,940,563.37	-	4,940,563.37
Auxiliary	-	-	35,345.62	-	-	35,345.62
Depreciation	-	-	-	-	1,788,666.93	1,788,666.93
Total	$23,831,927.52	$8,143,981.79	$10,272,512.87	$5,538,114.12	$1,788,666.93	$49,575,203.23

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

	Natural Classification					
Functional Classification	Salaries	Benefits	Other Operating	Scholarships	Depreciation	Total
Instruction	$14,388,236.10	$5,304,786.33	$ 4,040,142.71	$ 56,268.00	$ -	$23,789,433.14
Public service	1,298,459.31	583,719.00	1,328,259.68	138,378.83	-	3,348,816.82
Academic support	1,864,049.89	778,521.40	(521,186.21)	-	-	2,121,385.08
Student services	2,655,883.23	1,256,659.25	1,475,194.31	337,161.05	-	5,724,897.84
Institutional support	2,875,026.80	1,219,630.18	1,139,165.51	-	-	5,233,822.49
Maintenance & operation	1,810,415.75	851,113.85	3,613,064.71	-	-	6,274,594.31
Scholarships & fellowships	-	-	131,282.81	5,810,894.12	-	5,942,176.93
Auxiliary	-	-	34,477.90	-	-	34,477.90
Depreciation	-	-	-	-	2,662,745.49	2,662,745.49
Total	$24,892,071.08	$9,994,430.01	$11,240,401.42	$6,342,702.00	$2,662,745.49	$55,132,350.00

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 $2,187,177.07 for the year ended June 30, 2015, and $2,247,638.95 for the year ended June 30, 2014, were reallocated from academic support to the other functional areas and caused academic support operating expenses to appear as a negative amount in the schedule above

Note 14. On-behalf Payments

During the year ended June 30, 2015, the State of Tennessee made payments of $30,825.00 on behalf of the college for retirees participating in the Medicare Supplement Plan. The amount for the year ended June 30, 2014, was $27,067.50. The Medicare Supplement Plan is a postemployment benefit healthcare plan and is discussed further in Note 10. The plan is reported in the *Tennessee Comprehensive Annual Financial Report*. That report is available on the state's website at www.tn.gov/finance/act/cafr.shtml.

Note 15. Voluntary Buyout Program

The college implemented a Voluntary Buyout Plan in fiscal year 2014 as a strategy to assist the college in addressing budgetary constraints due to several years of state appropriation reductions and potential budget reductions in the forthcoming fiscal years. The college had 21 employees participate in the Voluntary Buyout Program with 21 terminating by June 30, 2014.

There were two options of service pay available to eligible Voluntary Buyout Plan participants. They could choose to receive either a service payment of $500 for each full year of State of Tennessee service or three times their current monthly salary as of their Voluntary Separation Date. The college paid all severance pay in a lump sum by July 31, 2014.

Voluntary Buyout Plan participants are also eligible for free tuition at Walters State for two years from their date of separation.

Additional incentives offered by the Voluntary Buyout Plan were amounts equivalent to the participant's fiscal year 2014 – 2015 longevity payment and an amount equivalent to the college's cost for 12 months of health insurance at the participant's premium rate in effect at their Voluntary Separation Date. The college paid these amounts, along with the severance pay, in a lump sum by July 31, 2014.

As of June 30, 2014, expenses for payout of accrued annual leave were $124,087.67. Accrued expenses for severance pay were $514,367.17 at June 30, 2014.

Note 16. Cumulative Effect of a Change in Accounting Principle

During fiscal year 2015, the college implemented GASB Statement 68, *Accounting and Financial Reporting for Pensions,* and GASB Statement 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. These statements establish standards for the measurement, recognition, and display of the net pension liability and related expenses, deferred outflows of resources, deferred inflows of resources, note disclosures, and required supplementary information. The implementation of these statements resulted in a cumulative adjustment to beginning net position of $(9,755,156.00). This cumulative adjustment does not include related deferred outflows and deferred inflows of resources.

Note 17. Component Unit

The Walters State Community College Foundation is a legally separate, tax-exempt organization supporting Walters 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 148-member board of the foundation is self-perpetuating and consists of graduates and friends of the college. Although the college does not control the timing or amount of receipts from the foundation, the majority of resources, or income thereon, that the foundation holds and invests are restricted to the activities of the college by the donors. Because these restricted resources held by the foundation can only be used by, or for the benefit of, the college, the foundation is considered a component unit of the college and is discretely presented in the college's financial statements.

During the year ended June 30, 2015, the foundation made distributions of $105,819.84 to or on behalf of the college for both restricted and unrestricted purposes. During the year ended June 30, 2014, the foundation made distributions of $97,575.07 to or on behalf of the college for both restricted and unrestricted purposes. Complete financial statements for the foundation can be obtained from Dr. Mark A. Hurst, Walters State Community College Foundation, P.O. Box 1508, Morristown, TN 37816-1508.

Cash and Cash Equivalents

In addition to demand deposits and petty cash on hand, this classification includes instruments that are readily convertible to known amounts of cash and that have original maturities of three months or less. At June 30, 2015, cash and cash equivalents consisted of $131,088.42 in bank accounts, $500.00 of petty cash on hand, $1,456,431.91 in the Local Government Investment Pool (LGIP) administered by the State Treasurer, and $326,575.28 in money market mutual funds. At June 30, 2014, cash and cash equivalents consisted of $105,276.39 in bank accounts, $500.00 of petty cash on hand, $1,501,585.27 in the LGIP, and $5,024,069.91 in money market mutual funds.

Investments

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

At June 30, 2015, the foundation had the following investments and maturities:

Investment Type	Fair Value	Investment Maturities (in Years) Less than 1	1 to 5	6 to 10	More than 10
Mutual bond funds	$1,298,206.06	$191,283.37	$376,376.36	$730,546.33	$ -
Money market funds	326,575.28	326,575.28	-	-	-
Total debt investments and cash equivalents	1,624,781.34	$517,858.65	$376,376.36	$730,546.33	$ -
Non-Fixed Income Investments					
Corporate stocks	36,925.18				
Mutual equity funds	4,425,483.37				
Certificates of deposit	515,000.00				
Private equity funds	1,973,680.40				
Hedge fund	4,094,271.99				
Cash surrender value of life insurance	92,463.46				
Total investments and cash equivalents	12,762,605.74				
Less cash equivalents	326,575.28				
Total investments	$12,436,030.46				

At June 30, 2014, the foundation had the following investments and maturities:

Investment Type	Fair Value	Investment Maturities (in Years) Less than 1	1 to 5	6 to 10	More than 10
Corporate bonds	$ 75,666.75	$ 75,666.75	$ -	$ -	$ -
Mutual bond funds	1,288,749.92	192,541.82	368,423.23	727,784.87	-
Money market funds	5,024,069.91	5,024,069.91	-	-	-
Total debt investments and cash equivalents	6,388,486.58	$5,292,278.48	$368,423.23	$727,784.87	-
Non-Fixed Income Investments					
Corporate stocks	37,143.31				
Mutual equity funds	4,383,524.26				
Certificates of deposit	415,000.00				
Private equity funds	1,715,570.56				
Cash surrender value of life insurance	86,809.97				
Total investments and cash equivalents	13,026,534.68				
Less cash equivalents	5,024,069.91				
Total investments	$ 8,002,464.77				

Credit risk – Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The foundation has no investment policy limiting its investment choices based on ratings issued by nationally recognized statistical rating organizations. Securities are rated using Standard and Poor's, Moody's Investors Service, and/or Fitch Ratings and are presented below using the Standard and Poor's rating scale.

At June 30, 2015, the foundation's investments were rated as follows:

		Credit Quality Rating					
Investment Type	Fair Value	AAA	AA	A	BBB	BB or Lower	Unrated
LGIP	$1,456,431.91	$ -	$ -	$ -	$ -	$ -	$1,456,431.91
Mutual bond funds	1,212,053.80	390,577.56	79,450.64	194,910.35	334,088.12	182,219.72	30,807.41
Money market funds	326,575.28	-	-	-	-	-	326,575.28
Total	$2,995,060.99	$390,577.56	$79,450.64	$194,910.35	$334,088.12	$182,219.72	$1,813,814.60

The foundation had an additional $86,152.26 of assets in its mutual bond funds that were backed by the full faith and credit of the United States government.

At June 30, 2014, the foundation's investments were rated as follows:

		Credit Quality Rating					
Investment Type	Fair Value	AAA	AA	A	BBB	BB or Lower	Unrated
LGIP	$1,501,585.27	$ -	$ -	$ -	$ -	$ -	$1,501,585.27
Corporate bonds	75,666.75	-	-	-	75,666.75	-	-
Mutual bond funds	1,239,064.01	413,559.41	82,360.35	180,069.78	330,515.05	175,525.45	57,033.97
Money market funds	5,024,069.91	-	-	-	-	-	5,024,069.91
Total	$7,840,385.94	$413,559.41	$82,360.35	$180,069.78	$406,181.80	$175,525.45	$6,582,689.15

The foundation had an additional $49,685.91 of assets in its mutual bond funds that were backed by the full faith and credit of the United States government.

Custodial credit risk – For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the foundation will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The foundation does not have a policy for custodial credit risk. At June 30, 2014, the foundation had $75,666.75 of uninsured and unregistered investments for which the securities were held by the counterparty.

Foreign currency risk – Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment. The foundation places no limit on the amount it may invest in foreign currency.

At June 30, 2015, the foundation's exposure to foreign currency risk was as follows:

Investment	Currency	Fair Value
Mutual bond funds	Various	$60,315.90
Mutual equity funds	Various	$18,616.15

At June 30, 2014, the foundation's exposure to foreign currency risk was as follows:

Investment	Currency	Fair Value
Mutual bond funds	Various	$65,749.76
Mutual equity funds	Various	$14,415.17

Alternative investments

The foundation had investments in a hedge fund and private equity funds at June 30, 2015. The foundation had investments in private equity funds at June 30, 2014. The estimated fair value of these assets was $6,067,952.39 at June 30, 2015, and $1,715,570.56 at June 30, 2014.

The foundation believes that the carrying amount of its alternative investments is a reasonable estimate of fair value as of June 30, 2015, and June 30, 2014. Because these investments are not readily marketable, the estimated value is subject to uncertainty and, therefore, may differ from the value that would have been used had a ready market for the investments existed, and such differences could be material. These investments are made in accordance with the foundation's investment policy that approves the allocation of funds to various asset classes in order to ensure the proper level of diversification. These investments are designed to enhance diversification and provide reductions in overall portfolio volatility. These fair values are estimated using various valuation techniques.

Pledges Receivable

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

	June 30, 2015	June 30, 2014
Current pledges	$5,033,904.00	$5,032,636.72
Pledges due in one to five years	53,158.00	53,800.00
Pledges due after five years	642.00	-
Total pledges receivable, net	$5,087,704.00	$5,086,436.72

Capital Assets

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

	Beginning Balance	Additions	Transfers	Reductions	Ending Balance
Land	$ 36,014.00	$ 2,500.00	$ -	$ -	$ 38,514.00
Buildings	2,497,428.26	-	-	-	2,497,428.26
Total	2,533,442.26	2,500.00	-	-	2,535,942.26
Less accumulated depreciation:					
Buildings	214,131.10	42,146.40	-	-	256,277.50
Total	214,131.10	42,146.40	-	-	256,277.50
Capital assets, net	$2,319,311.16	$(39,646.40)	$ -	$ -	$2,279,664.76

The decrease in building depreciation expense for the current period is due to a change in accounting estimate. During fiscal year 2015, it was determined that buildings were more appropriately depreciated over a period of 60 years, instead of the 40 years previously used. This change resulted in a reduction of depreciation expense of $21,419.15 for fiscal year 2015.

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

	Beginning Balance	Additions	Transfers	Reductions	Ending Balance
Land	$ 36,014.00	$ -	$ -	$ -	$ 36,014.00
Buildings	2,497,428.26	-	-	-	2,497,428.26
Total	2,533,442.26	-	-	-	2,533,442.26
Less accumulated depreciation:					
Buildings	149,562.27	64,568.83	-	-	214,131.10
Total	149,562.27	64,568.83	-	-	214,131.10
Capital assets, net	$2,383,879.99	$(64,568.83)	$ -	$ -	$2,319,311.16

Long-term Liabilities

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

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Payables:					
Notes	$ -	$850,360.00	$ -	$850,360.00	$39,370.00
Capital lease obligation	921,000.00	-	921,000.00	-	-
Subtotal	921,000.00	850,360.00	921,000.00	850,360.00	39,370.00
Other liabilities:					
Split interest trust	50,000.00	-	-	50,000.00	50,000.00
Subtotal	50,000.00	-	-	50,000.00	50,000.00
Total long-term liabilities	$971,000.00	$850,360.00	$921,000.00	$900,360.00	$89,370.00

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

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Payables:					
Capital lease obligation	$1,029,000.00	$ -	$108,000.00	$921,000.00	$108,000.00
Subtotal	1,029,000.00	-	108,000.00	921,000.00	108,000.00
Other liabilities:					
Split interest trust	50,000.00	-	-	50,000.00	-
Subtotal	50,000.00	-	-	50,000.00	-
Total long-term liabilities	$1,079,000.00	$ -	$108,000.00	$971,000.00	$108,000.00

Capital Lease

The foundation had a capital lease agreement with the Claiborne County Industrial Development Board for the former Claiborne County High School Building. There was no imputed interest rate. The net asset balance at June 30, 2014, was $2,283,297.16, net of accumulated depreciation of $214,131.10. The foundation is renting the space to Walters State Community College to serve as its Claiborne County campus. The capital lease obligation was paid in full in February 2015 and was replaced with the note payable described below.

Note payable - The foundation borrowed funds to purchase the Claiborne County campus. The note bears no interest, has a minimum annual debt service of $94,488.00, and has a due date of February 28, 2025. The balance owed by the foundation was $850,360.00 at June 30, 2015.

Debt service requirements to maturity for the note payable at June 30, 2015, are as follows:

Year Ending June 30	Principal	Interest	Total
2016	$39,370.00	$ -	$39,370.00
2017	94,488.00	-	94,488.00
2018	94,488.00	-	94,488.00
2019	94,488.00	-	94,488.00
2020	94,488.00	-	94,488.00
2021 – 2025	433,038.00	-	433,038.00
Total	$850,360.00	$ -	$850,360.00

Endowments

If a donor has not provided specific instructions to the foundation, the foundation's policies and procedures permit the foundation to authorize for expenditure the net appreciation (realized and unrealized) of the investments of endowment funds. When administering its power to spend net appreciation, the foundation is required to consider its long-term and short-term needs; present and anticipated financial requirements; expected total return on its investments; price-level trends; and general economic conditions. Any net appreciation that is spent is required to be spent for the purposes for which the endowment was established.

The foundation chooses to spend only a portion of the investment income (including changes in the value of investments) each year. Under the spending plan established by the foundation, 4.5% of a rolling five-year average of the endowment fair value has been authorized for expenditure. The remaining amount, if any, is retained to be used in future years when the amount computed using the spending plan exceeds the investment income. At June 30, 2015, net appreciation of $1,158,451.41 is available to be spent, of which $1,009,778.76 is included in restricted net position expendable for scholarships and fellowships; $58,750.28 is included in restricted net position expendable for other; and $89,922.37 is included in unrestricted net position. At June 30, 2014, net appreciation of $1,582,378.07 is available to be spent, of which $1,375,700.59 is included in restricted net position expendable for scholarships and fellowships; $81,735.95 is included in restricted net position expendable for other; and $124,941.53 is included in unrestricted net position.

Tennessee Board of Regents
Walters State Community College
Required Supplementary Information
Schedule of Walters State Community College’s Proportionate Share of the Net Pension Liability
Closed State and Higher Education Employee Pension Plan Within TCRS

	2014
College’s proportion of the net pension liability	.616291%
College’s proportionate share of the net pension liability	$4,256,441
College’s covered payroll	$16,853,800
College’s proportionate share of the net pension liability as a percentage of its covered payroll	25.26%
Plan fiduciary net position as a percentage of the total pension liability	95.11%

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

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

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

	2015	2014
Contractually determined contribution	$ 2,362,031	$ 2,533,126
Contributions in relation to the contractually determined contribution	2,362,031	2,533,126
Contribution deficiency (excess)	$ -	$ -
Covered payroll	$15,715,442	$16,853,800
Contributions as a percentage of covered payroll	15.03%	15.03%

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

Tennessee Board of Regents

Walters State Community College

Required Supplementary Information

Schedule of Walters State Community College's Contributions

State and Higher Education Employee Retirement Plan Within TCRS

	2015
Contractually determined contribution	$ 26,794
Contributions in relation to the contractually determined contribution	26,794
Contribution deficiency (excess)	$ -
Covered payroll	$692,355
Contributions as a percentage of covered payroll	3.87%

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

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

Actuarial Valuation Date	Plan	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b-a)/c)]
July 1, 2013	State Employee Group Plan	$ -	$5,885,000	$5,885,000	0%	$20,901,125	28.16%
July 1, 2011	State Employee Group Plan	$ -	$5,978,000	$5,978,000	0%	$19,857,614	30.10%
July 1, 2010	State Employee Group Plan	$ -	$7,536,000	$7,536,000	0%	$14,807,428	50.89%

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

Supplementary Information
WALTERS STATE COMMUNITY COLLEGE FOUNDATION
Supplementary Schedules of Cash Flows - Component Unit
For the Years Ended June 30, 2015, and June 30, 2014

	Year Ended June 30, 2015	Year Ended June 30, 2014
Cash flows from operating activities		
Gifts and contributions	$ 255,549.83	$ 174,551.52
Payments to suppliers and vendors	(190,078.49)	(161,121.26)
Payments for scholarships and fellowships	(471,124.28)	(416,375.87)
Payments to Walters State Community College	(100,202.67)	(25,538.07)
Other receipts	156,040.86	159,487.84
Net cash used by operating activities	(349,814.75)	(268,995.84)
Cash flows from noncapital financing activities		
Private gifts for endowment purposes	179,568.00	58,480.00
Other receipts	402.62	742.50
Net cash provided by noncapital financing activities	179,970.62	59,222.50
Cash flows from capital and related financing activities		
Proceeds from capital debt	850,360.00	-
Purchases of capital assets and construction	(2,500.00)	-
Principal paid on capital lease	(920,938.44)	(108,000.00)
Net cash used by capital and related financing activities	(73,078.44)	(108,000.00)
Cash flows from investing activities		
Proceeds from sales and maturities of investments	105,361.07	5,187,198.29
Income on investments	1,098,564.36	301,690.98
Purchases of investments	(5,677,838.82)	(2,062,636.07)
Net cash provided by (used by) investing activities	(4,473,913.39)	3,426,253.20
Net increase (decrease) in cash and cash equivalents	(4,716,835.96)	3,108,479.86
Cash and cash equivalents - beginning of year	6,631,431.57	3,522,951.71
Cash and cash equivalents - end of year	$ 1,914,595.61	$ 6,631,431.57
Reconciliation of operating gain (loss) to net cash used by operating activities:		
Operating income (loss)	$ (341,966.76)	$ 4,614,158.22
Adjustments to reconcile operating gain (loss) to net cash used by operating activities:		
Depreciation expense	42,146.40	64,568.83
Change in assets and liabilities:		
Receivables	(1,267.28)	(4,973,426.03)
Prepaid items	(230.86)	(209.92)
Accounts payable	(40,496.25)	33,913.06
Unearned revenues	(8,000.00)	(8,000.00)
Net cash used by operating activities	$ (349,814.75)	$ (268,995.84)
Noncash investing, capital, and financing activities		
Unrealized losses on investments	$ (289,025.49)	$ (143,014.19)

STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
DEPARTMENT OF AUDIT
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Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

The Honorable Bill Haslam, Governor
Members of the General Assembly
The Honorable David Gregory, Acting Chancellor
Dr. Anthony R. Miksa, President

We have audited the financial statements of Walters State Community College, an institution of the Tennessee Board of Regents, which is a component unit of the State of Tennessee, and its discretely presented component unit as of and for the years ended June 30, 2015, and June 30, 2014, and the related notes to the financial statements, which collectively comprise the college's basic financial statements, and have issued our report thereon dated July 12, 2016. 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 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; therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies that we consider to be material weaknesses. We did identify a deficiency in internal control, as described below, that we consider to be a significant deficiency.

- Walters State Community College did not provide adequate internal controls in two specific areas.

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

Compliance and Other Matters

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

Walters State Community College's Response to Finding

The college's response to the finding identified in our audit is included in the Finding and Recommendation section of this report. The college's response was not subjected to the auditing procedures applied in the audit of the financial statements, and, accordingly, we express no opinion on it.

Purpose of This Report

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

Deborah V. Loveless

Deborah V. Loveless, CPA
Director
July 12, 2016

Finding and Recommendation

Walters State Community College did not provide adequate internal controls in two specific areas

Finding

The college did not design and monitor internal controls in specific areas. We observed two conditions in violation of college policies and/or industry-accepted best practices. Inconsistent implementation of internal controls increases the risk of fraud or error.

The details of these findings are confidential pursuant to Section 10-7-504(i), *Tennessee Code Annotated.* We provided the college with detailed information regarding the specific conditions we identified, as well as our recommendations for improvement.

Recommendation

Management should ensure that these conditions are remedied by the prompt development and consistent implementation of internal controls. Management should implement effective controls to ensure compliance with applicable requirements; assign staff to be responsible for ongoing monitoring of the risks and mitigating controls; and take action if deficiencies occur.

Management's Comment

We concur. Management will take steps to implement effective controls to ensure compliance with requirements and will assign responsibility for ongoing monitoring of the risk and controls over the specified areas.

Observations and Comments

College of Applied Technology

Walters State Community College serves as the lead institution under an agreement with the Tennessee College of Applied Technology at Morristown. Under this agreement, Walters State Community College performs the accounting and reporting functions for the college. The chief administrative officer of each college is the director, who is assisted and advised by members of the faculty and administrative staff. Each director is responsible to the Chancellor of the Tennessee Board of Regents. Prior to July 1, 2013, these workforce training schools were named Tennessee Technology Centers.