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, 2017, and June 30, 2016

Justin P. Wilson, Comptroller

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TENNESSEE COMPTROLLER OF THE TREASURY

JUSTIN P. WILSON
Comptroller

JASON E. MUMPOWER
Deputy Comptroller

January 14, 2019

The Honorable Bill Haslam, Governor
Members of the General Assembly
The Honorable Flora W. Tydings, 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, 2017, and June 30, 2016. You will note from the independent auditor's report that unmodified opinions were given on the fairness of the presentation of the financial statements.

Consideration of the internal control over financial reporting and tests of compliance disclosed certain deficiencies, which are detailed in the Findings and Recommendations section of this report. The college's management has responded to the audit findings; the responses are included following the findings. The Division of State Audit will follow up the audit to examine the application of the procedures instituted because of the audit findings.

Sincerely,

Deborah V. Loveless

Deborah V. Loveless, CPA, Director
Division of State Audit

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Audit Report
Tennessee Board of Regents
Walters State Community College
For the Years Ended June 30, 2017, and June 30, 2016

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Walters State Community College

For the Years Ended June 30, 2017, and June 30, 2016

Opinions on the Financial Statements

The opinions on the financial statements are unmodified.

Audit Findings

As Noted in the Prior Audit, Walters State Community College Did Not Provide Adequate Internal Controls in One Area*

The college did not design and monitor internal controls in one specific area. The details of this finding are confidential pursuant to Section 10-7-504(i), *Tennessee Code Annotated* (page 67).

College Staff Did Not Prepare Timely Cash Reconciliations

Bank account and Local Government Investment Pool reconciliations were not always prepared on a timely basis (page 67).

* This finding is repeated from the prior audit.

JUSTIN P. WILSON
Comptroller

JASON E. MUMPOWER
Deputy Comptroller

Independent Auditor's Report

The Honorable Bill Haslam, Governor
Members of the General Assembly
The Honorable Flora W. Tydings, 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 State University and Community College System of Tennessee, which is a component unit of the State of Tennessee, and its discretely presented component unit as of and for the years ended June 30, 2017, and June 30, 2016, and the related notes to the financial statements, which collectively comprise the basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the college's preparation and fair presentation of the financial statements in order to 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, 2017, and June 30, 2016; 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 State University and Community College System of Tennessee, are intended to present the financial position, the changes in financial position, and the cash flows of only Walters State Community College. They do not purport to, and do not, present fairly the financial position of the State University and Community College System of Tennessee as of June 30, 2017, and June 30, 2016, 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 financial statements of Walters State Community College Foundation, a discretely presented component unit of Walters State Community College, include investments valued at $1,951,604.00 at June 30, 2017 (9.2% of net position of the foundation), and $2,491,664.02 at June 30, 2016 (12.2% 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 19; 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 58; the schedule of Walters State Community College's proportionate share of the net pension asset – State and Higher Education Employee Retirement Plan within TCRS on page 59; the schedule of Walters State Community College's contributions – Closed State and Higher Education Employee Pension Plan within TCRS on page 60; the schedule of Walters State Community College's contributions – State and Higher

Education Employee Retirement Plan within TCRS on page 61; and the other postemployment benefits schedule of funding progress on page 62 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 63 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 October 18, 2018, 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
Division of State Audit
October 18, 2018

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 fiscal years ended June 30, 2017, and June 30, 2016, with comparative information presented for the fiscal year ended June 30, 2015. This discussion has been prepared by management along with the financial statements and related note disclosures and should be read in conjunction with the independent auditor's report, financial statements, and 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 16 to the financial statements. This discussion and analysis focuses on the college and does not include the foundation.

Overview of the Financial Statements

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

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

The Statement of Net Position

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

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

The statement of net position also indicates the availability of net position for expenditure by the college. Net position is divided into three major categories. The first category, 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, 2017; June 30, 2016; and June 30, 2015.

Summary of Net Position
(in thousands of dollars)

	2017	2016	2015
Assets:			
Current assets	$18,611	$18,446	$17,889
Capital assets, net	68,771	61,026	57,242
Other assets	6,362	7,032	5,867
Total assets	**93,744**	**86,504**	**80,998**
Deferred outflows of resources			
Deferred amount on debt refunding	25	30	37
Deferred outflows related to pensions	6,443	3,281	2,389
Total deferred outflows	**6,468**	**3,311**	**2,426**
Liabilities:			
Current liabilities	8,321	8,805	8,408
Noncurrent liabilities	25,008	18,079	9,944
Total liabilities	**33,329**	**26,884**	**18,352**

Deferred inflows of resources			
Deferred inflows related to pensions	791	1,878	6,133
Total deferred inflows	**791**	**1,878**	**6,133**
Net position:			
Net investment in capital assets	60,405	55,263	55,904
Restricted – expendable	1,809	599	253
Unrestricted	3,878	5,191	2,782
Total net position	**$66,092**	**$61,053**	**$58,939**

Comparison of Fiscal Year 2017 to Fiscal Year 2016

- Current assets increased because of an increase in current cash for the college. This is a result of an increase in accounts payable for the Greeneville Campus Expansion capital outlay project.
- An increase in capital assets is due, in large part, to an increase in projects in progress for the ongoing Greeneville Campus Expansion capital outlay project.
- The decrease in other assets is the result of a decrease in noncurrent cash in unexpended plant funds. In fiscal year 2017, a larger portion of local funds was used to support phase two of construction for the Greeneville Campus Expansion project than fiscal year 2016. In addition, there were various locally funded maintenance and renovation projects completed in fiscal year 2017.
- Deferred outflows of resources increased due to actual investment earnings being less than projected for the Tennessee Consolidated Retirement System (TCRS) Closed State and Higher Education Employee Pension Plan at the June 30, 2016, measurement date.
- Current liabilities decreased due to a decrease in accrued liabilities. An $835,059.50 accrued liability was reported at June 30, 2016, which was incurred for the Greeneville Campus Expansion project.
- Noncurrent liabilities increased due to an increase in the long-term liability associated with the Greeneville Campus Expansion project (an increase in revolving credit facility debt). In addition, the net pension liability for the TCRS Closed State and Higher Education Employee Pension Plan increased due to actual investment earnings being less than projected at the June 30, 2016, measurement date.
- Deferred inflows of resources decreased due to actual investment earnings being less than projected for the Tennessee Consolidated Retirement System (TCRS) Closed State and Higher Education Employee Pension Plan at the June 30, 2016, measurement date.
- Unrestricted net position decreased mainly because of actual investment earnings being less than projected for the Tennessee Consolidated Retirement System (TCRS) Closed State and Higher Education Employee Pension Plan at the June 30, 2016, measurement date.

Comparison of Fiscal Year 2016 to Fiscal Year 2015

- Current assets increased mainly because of an increase in various accounts and grants receivable.
- An increase in capital assets is due, in large part, to an increase in projects in progress for the ongoing Greeneville Campus Expansion capital outlay project.
- The increase in other assets is the result of an increase in noncurrent cash in unexpended plant funds. The college has committed $2,504,552 of local funds to the Greeneville Campus Expansion capital outlay project.
- Deferred outflows of resources increased due to the fact that actuarial experience was negatively different than assumed for the Tennessee Consolidated Retirement System (TCRS) Closed State and Higher Education Employee Pension Plan at the June 30, 2015, measurement date.
- Noncurrent liabilities increased due to an increase in the long-term liability associated with the Greeneville Campus Expansion project (an increase in revolving credit facility debt). In addition, the net pension liability for the TCRS Closed State and Higher Education Employee Pension Plan increased due to actual investment earnings being less than projected at the June 30, 2015, measurement date.
- Unrestricted net position increased as a result of the college committing $2,504,552 of local funds to the ongoing Greeneville Campus Expansion capital outlay project.

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 years ended June 30, 2017; June 30, 2016; and June 30, 2015, follows:

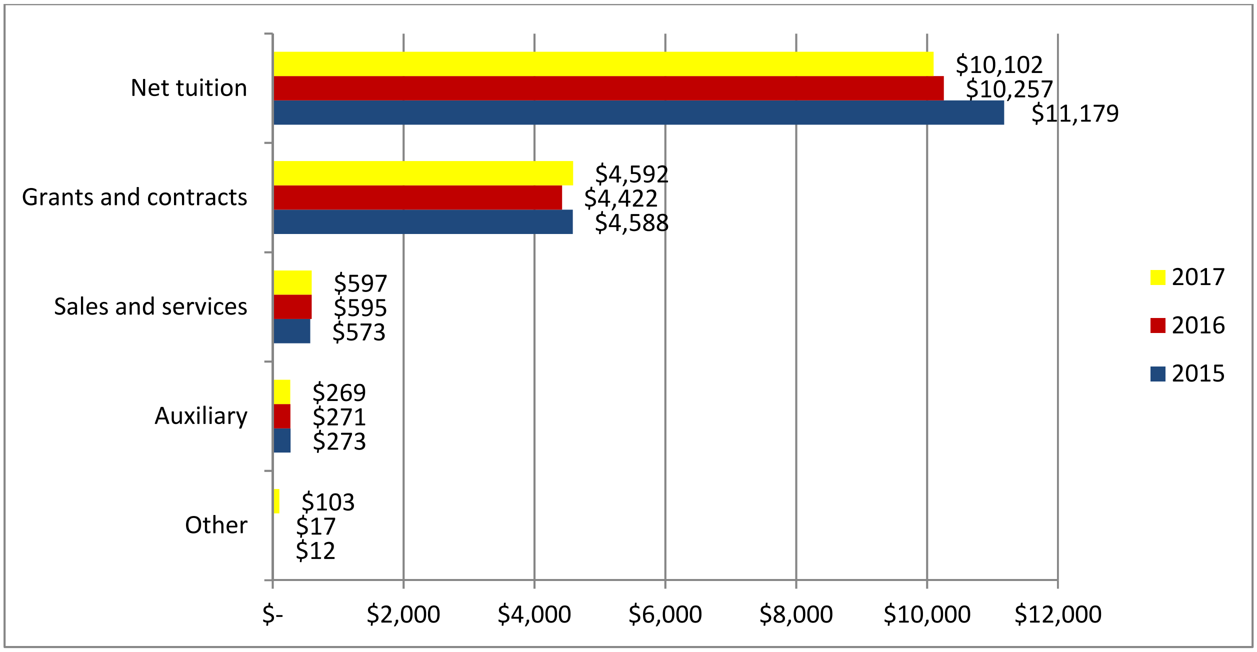
Summary of Revenues, Expenses, and Changes in Net Position
(in thousands of dollars)

	2017	2016	2015
Operating revenues	$15,663	$15,562	$16,626
Operating expenses	55,383	51,436	49,575
Operating loss	(39,720)	(35,874)	(32,949)
Nonoperating revenues and expenses	39,577	37,450	35,664
Income (loss) before other revenues, expenses, gains, or losses	(143)	1,576	2,715
Other revenues, expenses, gains, or losses	5,182	538	1,391
Increase in net position	5,039	2,114	4,106
Net position at beginning of year	61,053	58,939	64,588
Cumulative effect of change in accounting principle	-	-	(9,755)
Net position at beginning of year-restated	61,053	58,939	54,833
Net position at end of year	$66,092	$61,053	$58,939

Operating Revenues

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

Operating Revenues by Source
(in thousands of dollars)



<u>Comparison of Fiscal Year 2017 to Fiscal Year 2016</u>

- Governmental grants and contracts increased because of funding received for the National Dislocated Worker Grant from the Tennessee Department of Labor and Workforce Development. Sevier County residents or individuals whose jobs were affected by the November 2016 Gatlinburg wildfires were to be placed in jobs connected to restoring the areas affected by the fire.
- Other operating revenues increased in fiscal year 2017 as the remaining balance of restitution funds were received for the bookstore theft outlined in the Division of State Audit Report for the years ended June 30, 2007, and June 30, 2006. Payments were received over a six-year period and recorded as other liabilities as funds were expected to be remitted to the State of Tennessee Division of Risk Management and Claims Administration. Based upon further discussion with Risk Management staff this fiscal year, the restitution payments would remain at the college to offset the insurance deductible of the claim filed.

<u>Comparison of Fiscal Year 2016 to Fiscal Year 2015</u>

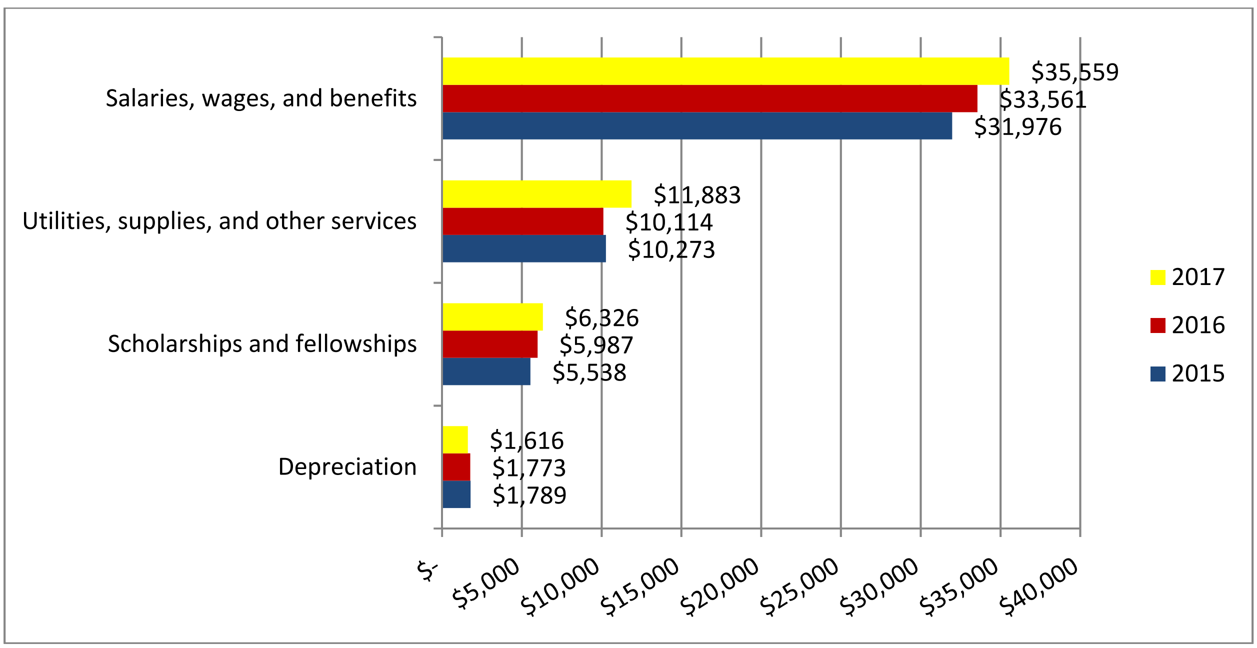
- Student tuition and fees decreased mainly due to an increase in the scholarship discounts and allowances. The predominant reason for scholarship allowances to increase was due to the first year of the Tennessee Promise scholarship program, which will provide high school seniors with two years of tuition-free attendance at a community or technical college in Tennessee.

- The reason for a decrease in nongovernmental grants and contracts was related to the multi-year Niswonger i3 grant nearing its final funding stages.
- The increase in sales and services of educational departments is a result of Testing Services offering more revenue-producing exams such as the Praxis and a new agriculture exam. These new test offerings have provided students with more convenient testing center options than having to travel to Knoxville or Johnson City to acquire this service.

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
(in thousands of dollars)



Comparison of Fiscal Year 2017 to Fiscal Year 2016

- An increase in fiscal year 2017 salaries can be attributed to a 1% across-the-board cost of living adjustment (COLA) effective February 2017.
- Benefits increased due to a 1% across-the-board cost of living adjustment (COLA) effective February 2017. Further, the college's pension expense increased as a result of actual investment earnings being less than projected for the Tennessee Consolidated

Retirement System (TCRS) Closed State and Higher Education Employee Pension Plan at the June 30, 2016, measurement date.

- Utilities, supplies, and other services increased due to the ongoing capital maintenance project for mechanical and electrical updates, classroom technology for the Greeneville Campus Expansion project, as well as a reconfiguration project in the Jack R. Fishman Library for a commons area for students.
- Scholarship expenses increased for Tennessee Lottery Education Scholarships as well as the Tennessee Promise scholarships. This was the second year of the Tennessee Promise scholarship program, which provides high school seniors with two years of tuition-free attendance at a community or technical college in Tennessee.

Comparison of Fiscal Year 2016 to Fiscal Year 2015

- An increase in fiscal year 2016 salaries can be attributed to a 2% across-the-board cost of living adjustment (COLA) and an additional across-the-board 1% pay increase effective January 2016. Further, many administrative employees with a maximum compensated absences balance retired in June 2016, which increased the fiscal year 2016 salary expense.
- Benefits increased due to a 2% across-the-board cost of living adjustment (COLA) and an additional across-the-board 1% pay increase effective January 2016.
- Scholarship expenses increased due to the first year of the Tennessee Promise scholarship program, which provides high school seniors with two years of tuition-free attendance at a community or technical college in Tennessee.

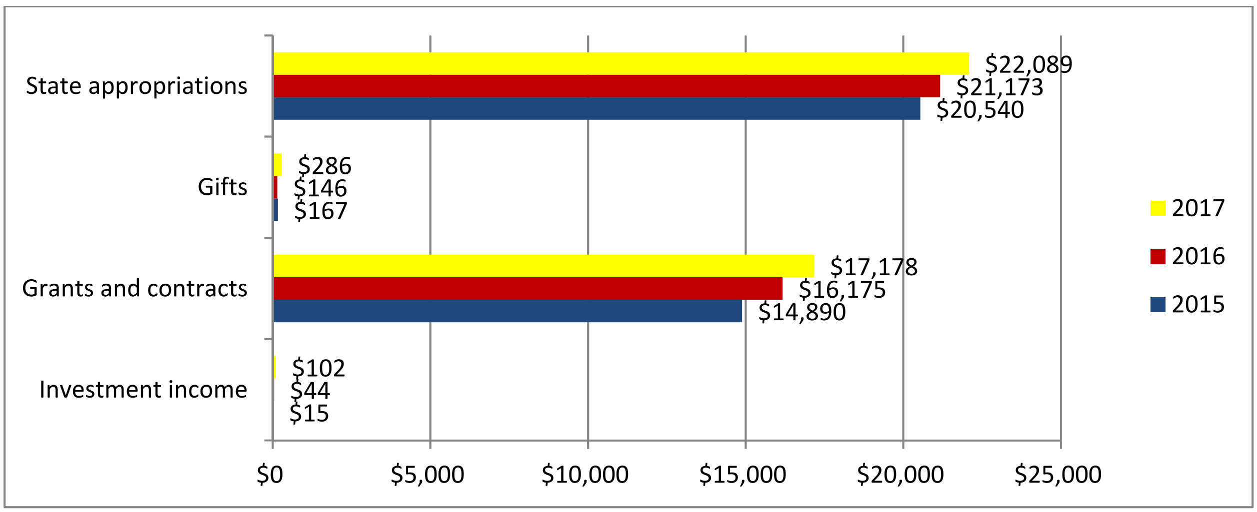
Nonoperating Revenues and Expenses

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)

	2017	2016	2015
State appropriations	$22,089	$21,173	$20,540
Gifts	286	146	167
Grants and contracts	17,178	16,175	14,890
Investment income	102	44	15
Interest on capital asset-related debt	(90)	(30)	(26)
Other nonoperating revenue (expenses)	12	(58)	78
Total nonoperating revenues (expenses)	$39,577	$37,450	$35,664

Nonoperating Revenues
(in thousands of dollars)



Comparison of Fiscal Year 2017 to Fiscal Year 2016

- State appropriations were increased by the State of Tennessee as a result of the college's performance outcomes.
- Grants and contracts increased due to increases in awards for the Tennessee Lottery Education Scholarships as well as the Tennessee Promise scholarships. This was the second year of the Tennessee Promise scholarship program, which provides high school seniors with two years of tuition-free attendance at a community or technical college in Tennessee.
- Investment income increased as a result of increasing interest rates in the Local Government Investment Pool (LGIP) administered by the State Treasurer. The LGIP is part of the State Pooled Investment Fund.

- Interest on capital asset-related debt increased in fiscal year 2017 as the total outstanding loan from the revolving credit facility was $8,000,000 at June 30, 2017. This loan was used to finance a portion of the cost of the Greeneville Campus Expansion project.
- Other nonoperating revenue increased because the college realized a gain on the disposal of capital assets in fiscal year 2017, whereas a loss was realized in fiscal year 2016.

Comparison of Fiscal Year 2016 to Fiscal Year 2015

- State appropriations were increased by the State of Tennessee as a result of the college's performance outcomes.
- Grants and contracts increased due to the first year of the Tennessee Promise scholarship program, which provides high school seniors with two years of tuition-free attendance at a community or technical college in Tennessee.
- Investment income increased as a result of increasing interest rates in the Local Government Investment Pool (LGIP) administered by the State Treasurer. The LGIP is part of the State Pooled Investment Fund.
- Other nonoperating revenue decreased because insurance proceeds received in fiscal year 2015 for winter storm damage on the Morristown Campus did not occur in fiscal year 2016. In addition, the college realized a loss on the disposal of capital assets in fiscal year 2016, whereas a gain was realized in fiscal year 2015.

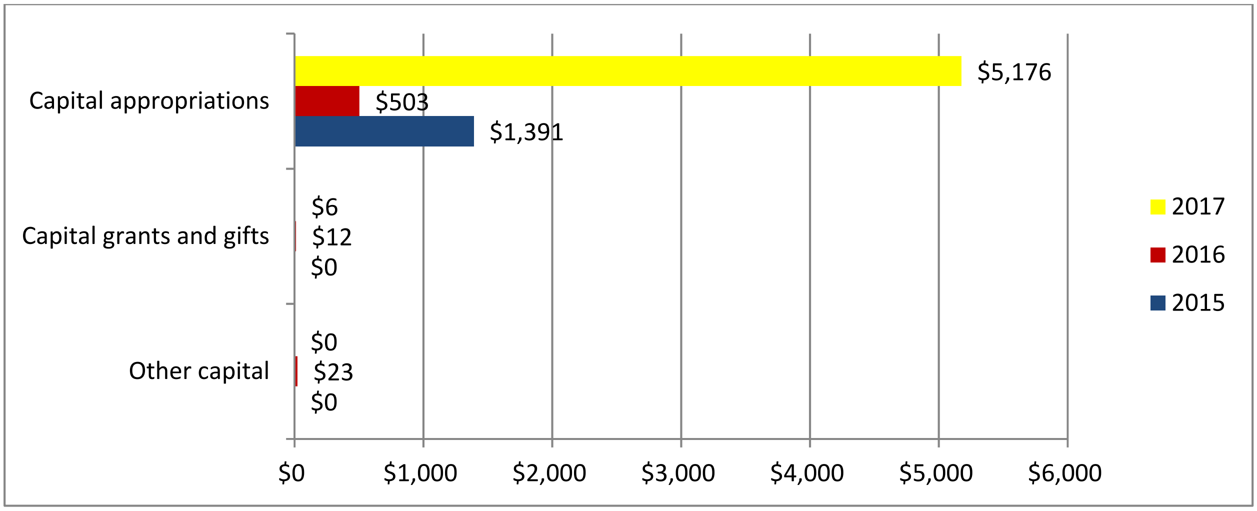
Other Revenues

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

Other Revenues
(in thousands of dollars)

	2017	2016	2015
Capital appropriations	$5,176	$503	$1,391
Capital grants and gifts	6	12	-
Other capital revenues	-	23	-
Total other revenues	$5,182	$538	$1,391

Other Revenues
(in thousands of dollars)



<u>Comparison of Fiscal Year 2017 to Fiscal Year 2016</u>

- The increase in capital appropriations resulted from an increase in funding for the Greeneville Campus Expansion project.

<u>Comparison of Fiscal Year 2016 to Fiscal Year 2015</u>

- The increase in capital grants and gifts resulted from an increase in donations to the college's library holdings as well as an equipment donation from the Walters State Community College Foundation.

Capital Assets and Debt Administration

<u>Capital Assets</u>

Walters State Community College had $68,770,717 invested in capital assets, net of accumulated depreciation of $48,147,978 at June 30, 2017; $61,025,963 invested in capital assets, net of accumulated depreciation of $47,264,202 at June 30, 2016; and $57,241,620 invested in capital assets, net of accumulated depreciation of $46,010,379 at June 30, 2015. Depreciation charges totaled $1,616,114, $1,772,504, and 1,788,667 for the years ended June 30, 2017; June 30, 2016; and June 30, 2015, respectively.

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

	2017	2016	2015
Land	$ 1,114	$ 1,082	$ 1,082
Land improvements and infrastructure	2,340	1,796	1,989
Buildings	38,976	39,745	40,657
Equipment	1,685	1,949	1,906
Library holdings	82	83	86
Intangible assets	-	-	158
Art and historical collections	24	24	24
Projects in progress	24,550	16,347	11,340
Total	$68,771	$61,026	$57,242

Comparison of Fiscal Year 2017 to Fiscal Year 2016

The overall increase to capital assets in fiscal year 2017 was predominantly due to increases to projects in progress with the Greeneville Campus Expansion capital outlay project.

At June 30, 2017, outstanding commitments under construction contracts totaled $5,736,063 for Greeneville Campus Expansion, mechanical/electrical updates, ADA and mechanical systems update, and Sevier County expansion. Future state capital outlay appropriations will fund $3,844,974 of these costs.

Comparison of Fiscal Year 2016 to Fiscal Year 2015

The overall increase to capital assets in fiscal year 2016 was predominantly due to increases to projects in progress with the Greeneville Campus Expansion capital outlay project.

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

Debt

The college had $8,389,990, $5,793,362, and $1,374,782 in debt outstanding at June 30, 2017; June 30, 2016; and June 30, 2015, respectively. The table below summarizes these amounts by type of debt instruments.

Schedule of Outstanding Debt
(in thousands of dollars)

	2017	2016	2015
Bonds payable	$ 339,954	$ 414,581	$ 485,470
Unamortized bond premium	50,036	62,545	75,054
Revolving credit facility	8,000,000	5,316,236	814,258
Total	$8,389,990	$5,793,362	$1,374,782

The Tennessee State School Bond Authority (TSSBA) issued bonds with an interest rate of 5% due serially until 2021 on behalf of Walters State Community College. The college is responsible for the debt service of these bonds. The current portion of the $8,389,990 outstanding at June 30, 2017, is $78,561. 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 TSSBA at June 30, 2017, were as follows:

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

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

Economic Factors That Will Affect the Future

The Tennessee Board of Regents (TBR) approved a 2.4% maintenance fee increase for Walters State effective for fall 2017. Preliminary enrollment data for the fall 2017 semester indicates no change in headcount enrollment and a slight increase in full-time equivalency, which could have a positive effect on tuition-related revenue for the college in the 2017-2018 fiscal year. The college has opened a new building at the Greeneville campus for fall semester 2017, providing access to a portion of the new programs planned for the campus. The remaining programs proposed for the Greeneville campus will start in fall 2018. However, the Greeneville campus does show an enrollment increase for both headcount and full-time equivalency in preliminary enrollment reports for fall 2017 even with a partial opening of programs. State appropriations for fiscal year 2017-2018 increased for Walters State at 5.2%, including salary and benefits funding which allowed for an across-the-board 3% salary increase for all regular part-time and full-time employees for the 2017-2018 fiscal year. Excluding salary and benefits, the state appropriations increase for Walters State was 1.5%. The fourth building on the Sevier County campus is in the design phase now with state funds allocated and the required 10% match by Walters State very close to being satisfied, with construction to begin during the 2017-2018 fiscal year. The campus expansion should position Walters State well, with funding for the approved Tennessee Reconnect set to begin during fall semester 2018. Tennessee Reconnect is a state-funded program that allows adults who have not earned an associate or bachelor's degree to attend a community college tuition free.

Tennessee Board of Regents
WALTERS STATE COMMUNITY COLLEGE
Statements of Net Position
June 30, 2017, and June 30, 2016

	Walters State Community College		Component Unit - Walters State Community College Foundation	
	June 30, 2017	June 30, 2016	June 30, 2017	June 30, 2016
Assets				
Current assets:				
Cash and cash equivalents (Notes 2, 3, and 16)	$ 17,213,564.43	$ 16,010,227.68	$ 1,488,667.77	$ 1,610,053.48
Accounts and grants receivable (net) (Note 4)	354,334.11	1,534,904.43	-	-
Due from State of Tennessee	917,354.15	727,912.99	-	-
Due from WSCC Foundation	1,974.66	8,571.79	-	-
Pledges receivable (net) (Note 16)	-	-	511,651.00	58,159.00
Inventories	23,046.44	21,495.71	-	-
Prepaid expenses	98,511.99	140,879.11	9,785.58	9,998.50
Accrued interest receivable	-	-	-	34,548.05
Other assets	1,776.09	1,776.09	-	-
Total current assets	18,610,561.87	18,445,767.80	2,010,104.35	1,712,759.03
Noncurrent assets:				
Cash and cash equivalents (Notes 2, 3, and 16)	6,318,759.67	7,015,254.03	304,060.17	400,964.50
Investments (Notes 3 and 16)	-	-	12,090,257.58	8,219,136.53
Accounts and grants receivable (net) (Note 4)	-	-	906,757.79	3,723,517.00
Net pension asset (Note 9)	44,135.00	17,681.00	-	-
Pledges receivable (net) (Note 16)	-	-	4,397,019.90	5,008,244.22
Capital assets (net) (Notes 5 and 16)	68,770,716.99	61,025,963.98	2,199,220.45	2,240,084.02
Total noncurrent assets	75,133,611.66	68,058,899.01	19,897,315.89	19,591,946.27
Total assets	93,744,173.53	86,504,666.81	21,907,420.24	21,304,705.30
Deferred outflows of resources				
Deferred amount on debt refunding	24,459.66	30,574.57	-	-
Deferred outflows related to pensions (Note 9)	6,443,273.00	3,280,721.84	-	-
Total deferred outflows of resources	6,467,732.66	3,311,296.41	-	-
Liabilities				
Current liabilities:				
Accounts payable (Note 6)	924,066.95	604,627.11	6,495.10	34,926.89
Accrued liabilities	2,133,883.15	3,047,012.14	-	-
Due to State of Tennessee	472,796.83	285,372.46	-	-
Due to WSCC	-	-	1,974.66	8,571.79
Unearned revenue	907,822.28	830,310.62	15,342.92	8,000.00
Compensated absences (Note 7)	454,295.72	474,463.81	-	-
Accrued interest payable	2,832.96	7,138.88	-	-
Long-term liabilities, current portion (Note 7)	78,561.00	74,627.00	94,488.00	94,488.00
Deposits held in custody for others	3,301,310.09	3,330,304.67	-	-
Other liabilities	45,684.81	151,564.47	-	-
Total current liabilities	8,321,253.79	8,805,421.16	118,300.68	145,986.68
Noncurrent liabilities:				
Net OPEB obligation (Note 10)	3,363,529.11	3,221,323.06	-	-
Net pension liability (Note 9)	11,913,869.00	7,759,448.00	-	-
Unearned revenue	-	-	57,336.08	45,142.96
Compensated absences (Note 7)	1,419,330.66	1,379,250.17	-	-
Long-term liabilities (Note 7)	8,311,428.89	5,718,735.31	622,019.10	716,503.50
Total noncurrent liabilities	25,008,157.66	18,078,756.54	679,355.18	761,646.46
Total liabilities	33,329,411.45	26,884,177.70	797,655.86	907,633.14
Deferred inflows of resources				
Deferred inflows related to pensions (Note 9)	790,165.00	1,879,071.00	-	-
Total deferred inflows of resources	790,165.00	1,879,071.00	-	-
Net position				
Net investment in capital assets	60,405,186.76	55,263,176.24	1,482,713.35	1,429,092.52
Restricted for:				
Nonexpendable:				
Scholarships and fellowships	-	-	8,947,273.00	8,804,256.23
Other	-	-	1,511,855.82	1,566,052.30
Expendable:				
Scholarships and fellowships	27,921.72	33,634.22	1,947,075.04	1,565,548.33
Instructional department uses	75,643.14	78,191.13	-	-
Capital projects	1,490,681.60	239,001.05	-	-
Pensions	44,135.00	17,681.00	-	-
Other	170,308.47	230,227.93	7,016,419.32	6,837,353.77
Unrestricted	3,878,453.05	5,190,802.95	204,427.85	194,769.01
Total net position	$ 66,092,329.74	$ 61,052,714.52	$ 21,109,764.38	$ 20,397,072.16

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, 2017, and June 30, 2016

	Walters State Community College		Component Unit - Walters State Community College Foundation	
	Year Ended June 30, 2017	Year Ended June 30, 2016	Year Ended June 30, 2017	Year Ended June 30, 2016
Revenues				
Operating revenues:				
Student tuition and fees (Note 11)	$ 10,102,413.45	$ 10,257,308.45	$ -	$ -
Gifts and contributions	-	-	346,649.52	326,633.47
Governmental grants and contracts	4,562,173.93	4,368,645.93	-	-
Nongovernmental grants and contracts	30,181.28	52,999.30	-	-
Sales and services of educational activities	120,162.26	118,082.22	-	-
Sales and services of other activities	476,494.18	476,941.43	-	-
Auxiliary enterprises:				
Bookstore	257,250.00	257,250.00	-	-
Food service	11,776.73	10,601.48	-	-
Other auxiliaries	125.20	2,830.75	-	-
Other operating revenues	103,323.75	17,265.51	175,414.50	164,966.17
Total operating revenues	15,663,900.78	15,561,925.07	522,064.02	491,599.64
Expenses				
Operating expenses (Note 14):				
Salaries and wages	25,258,642.75	25,072,071.87	-	-
Benefits	10,299,916.63	8,489,233.35	-	-
Utilities, supplies, and other services	11,882,495.17	10,114,417.37	129,798.62	219,161.13
Scholarships and fellowships	6,325,905.75	5,987,396.73	457,327.95	383,834.52
Depreciation expense	1,616,114.18	1,772,503.95	40,863.57	40,863.57
Gifts of capital assets and payments to or on behalf of Walters State Community College (Note 16)	-	-	216,453.14	101,741.79
Total operating expenses	55,383,074.48	51,435,623.27	844,443.28	745,601.01
Operating loss	(39,719,173.70)	(35,873,698.20)	(322,379.26)	(254,001.37)
Nonoperating revenues (expenses)				
State appropriations	22,088,812.50	21,172,812.50	-	-
Gifts (including $216,453.14 from component unit for the year ended June 30, 2017, and $96,191.79 for the year ended June 30, 2016)	285,608.24	146,049.54	-	-
Grants and contracts	17,178,063.29	16,175,367.60	-	-
Investment income (expense) (net of investment expense of $45,414.45 for the component unit for the year ended June 30, 2017, and $45,042.23 for the year ended June 30, 2016)	102,418.59	43,857.83	899,059.58	(408,440.04)
Interest on capital asset-related debt	(90,407.58)	(30,770.60)	-	-
Other nonoperating revenues (expenses)	12,157.37	(57,812.45)	61.90	(47,266.55)
Total nonoperating revenues (expenses)	39,576,652.41	37,449,504.42	899,121.48	(455,706.59)
Income (loss) before other revenues, expenses, gains, or losses	(142,521.29)	1,575,806.22	576,742.22	(709,707.96)
Capital appropriations	5,176,012.89	502,444.21	-	-
Capital grants and gifts (including $5,550.00 from the component unit for the year ended June 30, 2016)	6,123.62	12,400.88	-	-
Additions to permanent endowments	-	-	135,950.00	340,204.22
Other capital revenues (expenses)	-	23,263.75	-	-
Total other revenues	5,182,136.51	538,108.84	135,950.00	340,204.22
Increase (decrease) in net position	5,039,615.22	2,113,915.06	712,692.22	(369,503.74)
Net position - beginning of year	61,052,714.52	58,938,799.46	20,397,072.16	20,766,575.90
Net position - end of year	$ 66,092,329.74	$ 61,052,714.52	$ 21,109,764.38	$ 20,397,072.16

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, 2017, and June 30, 2016

	Year Ended June 30, 2017	Year Ended June 30, 2016
Cash flows from operating activities		
Tuition and fees	$ 10,057,544.08	$ 10,263,915.48
Grants and contracts	4,671,439.15	4,048,110.87
Sales and services of educational activities	120,802.26	117,362.22
Sales and services of other activities	476,494.18	476,941.43
Payments to suppliers and vendors	(10,836,177.83)	(9,768,769.53)
Payments to employees	(25,195,295.84)	(25,018,235.94)
Payments for benefits	(10,296,386.17)	(9,770,364.34)
Payments for scholarships and fellowships	(6,325,905.75)	(5,987,396.73)
Auxiliary enterprise charges:		
Bookstore	257,250.00	257,250.00
Food services	11,984.71	9,904.31
Other auxiliaries	125.20	2,830.75
Other receipts (payments)	9,373.75	17,265.51
Net cash used for operating activities	(37,048,752.26)	(35,351,185.97)
Cash flows from noncapital financing activities		
State appropriations	22,022,800.00	21,136,200.00
Gifts and grants received for other than capital or endowment purposes	17,355,867.09	16,168,232.12
Changes in deposits held for others	148,503.89	(830,032.82)
Net cash provided by noncapital financing activities	39,527,170.98	36,474,399.30
Cash flows from capital and related financing activities		
Proceeds from sale of capital assets	5,401.00	4,259.41
Purchase of capital assets and construction	(1,915,313.03)	(654,512.17)
Principal paid on capital debt	(74,627.00)	(70,889.00)
Interest paid on capital debt	(89,455.89)	(35,964.90)
Net cash used for capital and related financing activities	(2,073,994.92)	(757,106.66)
Cash flows from investing activities		
Income on investments	102,418.59	43,857.83
Net cash provided by investing activities	102,418.59	43,857.83
Net increase in cash	506,842.39	409,964.50
Cash - beginning of year	23,025,481.71	22,615,517.21
Cash - end of year	$ 23,532,324.10	$ 23,025,481.71

Tennessee Board of Regents
WALTERS STATE COMMUNITY COLLEGE
Statements of Cash Flows (Continued)
For the Years Ended June 30, 2017, and June 30, 2016

	Year Ended June 30, 2017	Year Ended June 30, 2016
Reconciliation of operating loss to net cash used for operating activities:		
Operating loss	$ (39,719,173.70)	$ (35,873,698.20)
Adjustments to reconcile operating loss to net cash used for operating activities:		
Noncash operating expenses	2,628,499.71	1,983,733.37
Change in assets and liabilities:		
Receivables, net	125,369.05	115,784.50
Due from State of Tennessee	(165,626.16)	(308,944.01)
Due to State of Tennessee	(199,050.35)	279,542.62
Inventories	(1,550.73)	2,893.72
Prepaid items	42,367.12	(35,376.95)
Other assets	-	(1,624.00)
Accounts payable	314,051.84	(74,404.47)
Accrued liabilities	(78,069.49)	164,979.26
Net pension asset	(26,454.00)	(17,681.00)
Deferred outflows related to pensions	(3,168,381.00)	(886,066.89)
Net pension liability	4,154,421.00	3,503,007.00
Deferred inflows related to pensions	(1,088,906.00)	(4,253,799.00)
Net OPEB obligation	142,206.05	173,751.99
Unearned revenue	77,511.66	(177,943.99)
Compensated absences	19,912.40	48,018.85
Other	(105,879.66)	6,641.23
Net cash used for operating activities	$ (37,048,752.26)	$ (35,351,185.97)
Noncash investing, capital, or financing transactions		
Gifts of capital assets	$ 6,123.62	$ 12,400.88
Gain (loss) on disposal of capital assets	$ 6,756.37	$ (62,071.86)
Purchase of capital assets and construction with TSSBA proceeds	$ 3,518,823.05	$ 3,666,918.65
Purchase of capital assets and construction with capital appropriations	$ 4,409,331.73	$ 426,765.04

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. 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 system's 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 16 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, 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 acquisition value at date of donation, less accumulated depreciation/amortization. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's useful life are not capitalized.

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

Pensions

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

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, 2017, cash consisted of $1,994,221.64 in bank accounts; $4,225.00 of petty cash on hand; $20,043,195.86 in the Local Government Investment Pool (LGIP) administered by the State Treasurer; and $1,490,681.60 in LGIP deposits for capital projects. At June 30, 2016, cash consisted of $1,283,651.96 in bank accounts; $4,125.00 of petty cash on hand; $21,498,768.50 in the LGIP; and $238,936.25 in LGIP deposits for capital projects.

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

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

Note 3. Investments

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The college is authorized by statute to invest funds in accordance with Tennessee Board of Regents policies. Under the current policy, funds other than endowments may be invested only in obligations of the United States or its agencies 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, 2017, and June 30, 2016, the college's investments consisted entirely of investments in the Local Government Investment Pool, which are valued at amortized cost. The value of these investments was $21,533,877.46 at June 30, 2017, and $21,737,704.75 at June 30, 2016. LGIP investments are not rated by nationally recognized statistical ratings organizations.

Note 4. Receivables

Receivables included the following:

	June 30, 2017	June 30, 2016
Student accounts receivable	$659,660.77	$ 893,573.93
Grants receivable	77,496.21	222,328.85
Tennessee State School Bond Authority debt proceeds receivable	-	835,059.50
Other receivables	97,635.05	165,127.93
Subtotal	834,792.03	2,116,090.21
Less allowance for doubtful accounts	(480,457.92)	(581,185.78)
Total receivables	$354,334.11	$1,534,904.43

Note 5. Capital Assets

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

	Beginning Balance	Additions	Transfers	Reductions	Ending Balance
Land	$ 1,082,401.81	$ 31,678.20	$ -	$ -	$ 1,114,080.01
Land improvements and infrastructure	3,575,639.25	-	750,135.93	-	4,325,775.18
Buildings	78,193,689.99	145,282.80	-	-	78,338,972.79
Equipment	7,425,474.74	219,779.53	-	705,109.47	6,940,144.80
Library holdings	226,151.74	20,055.18	-	36,353.24	209,853.68
Intangible assets	1,416,286.39	-	-	-	1,416,286.39
Art and historical treasures	23,515.00	-	-	-	23,515.00
Projects in progress	16,347,006.67	8,953,196.13	(750,135.93)	-	24,550,066.87
Total	108,290,165.59	9,369,991.84	-	741,462.71	116,918,694.72
Less accumulated depreciation/amortization:					
Land improvements and infrastructure	1,779,438.56	206,509.59	-	-	1,985,948.15
Buildings	38,448,716.54	913,958.70	-	-	39,362,675.24
Equipment	5,476,349.97	474,660.51	-	695,984.82	5,255,025.66
Library holdings	143,410.15	20,985.38	-	36,353.24	128,042.29
Intangible assets	1,416,286.39	-	-	-	1,416,286.39
Total	47,264,201.61	1,616,114.18	-	732,338.06	48,147,977.73
Capital assets, net	$ 61,025,963.98	$7,753,877.66	$ -	$ 9,124.65	$68,770,716.99

Capital asset activity for the year ended June 30, 2016, was as follows:

	Beginning Balance	Additions	Transfers	Reductions	Ending Balance
Land	$ 1,082,401.81	$ -	$ -	$ -	$ 1,082,401.81
Land improvements and infrastructure	3,646,066.25	-	-	70,427.00	3,575,639.25
Buildings	78,193,689.99	-	-	-	78,193,689.99
Equipment	7,287,956.63	593,079.68	-	455,561.57	7,425,474.74
Library holdings	261,693.87	19,222.12	-	54,764.25	226,151.74
Intangible assets	1,416,286.39	-	-	-	1,416,286.39
Art and historical treasures	23,515.00	-	-	-	23,515.00
Projects in progress	11,340,388.48	5,006,618.19	-	-	16,347,006.67
Total	103,251,998.42	5,618,919.99	-	580,752.82	108,290,165.59
Less accumulated depreciation/amortization:					
Land improvements and infrastructure	1,656,585.72	166,576.27	-	43,723.43	1,779,438.56
Buildings	37,537,179.22	911,537.32	-	-	38,448,716.54
Equipment	5,382,184.80	514,358.45	-	420,193.28	5,476,349.97
Library holdings	175,559.20	22,615.20	-	54,764.25	143,410.15
Intangible assets	1,258,869.68	157,416.71	-	-	1,416,286.39
Total	46,010,378.62	1,772,503.95	-	518,680.96	47,264,201.61
Capital assets, net	$ 57,241,619.80	$3,846,416.04	$ -	$ 62,071.86	$ 61,025,963.98

Note 6. Accounts Payable

Accounts payable included the following:

	June 30, 2017	June 30, 2016
Vendors payable	$547,080.56	$373,800.77
Other payables	376,986.39	230,826.34
Total accounts payable	$924,066.95	$604,627.11

Note 7. Long-term Liabilities

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

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Payables:					
TSSBA debt:					
Bonds	$ 414,581.00	$ -	$ 74,627.00	$ 339,954.00	$78,561.00
Unamortized bond premium	62,544.86	-	12,508.97	50,035.89	-
Revolving credit facility	5,316,236.45	2,683,763.55	-	8,000,000.00	-
Subtotal	5,793,362.31	2,683,763.55	87,135.97	8,389,989.89	78,561.00
Other liabilities:					
Compensated absences	1,853,713.98	1,195,137.80	1,175,225.40	1,873,626.38	454,295.72
Subtotal	1,853,713.98	1,195,137.80	1,175,225.40	1,873,626.38	454,295.72
Total long-term liabilities	$7,647,076.29	$3,878,901.35	$1,262,361.37	$10,263,616.27	$532,856.72

Long-term liabilities activity for the year ended June 30, 2016, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Payables:					
TSSBA debt:					
Bonds	$ 485,470.00	$ -	$ 70,889.00	$ 414,581.00	$74,627.00
Unamortized bond premium	75,053.82	-	12,508.96	62,544.86	-
Revolving credit facility	814,258.30	4,501,978.15	-	5,316,236.45	-
Subtotal	1,374,782.12	4,501,978.15	83,397.96	5,793,362.31	74,627.00
Other liabilities:					
Compensated absences	1,805,695.13	1,390,834.08	1,342,815.23	1,853,713.98	474,463.81
Subtotal	1,805,695.13	1,390,834.08	1,342,815.23	1,853,713.98	474,463.81
Total long-term liabilities	$3,180,477.25	$5,892,812.23	$1,426,213.19	$7,647,076.29	$549,090.81

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, 2017, are as follows:

Year Ending June 30	Principal	Interest	Total
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	3,436.45	95,075.45
Total	$339,954.00	$39,334.56	$379,288.56

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 $8,000,000.00 at June 30, 2017, and $5,316,236.45 at June 30, 2016.

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 $339,954.00 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 .206% of available revenues. The total principal and interest remaining to be paid on the bonds at June 30, 2017, is $379,288.56. Principal and interest paid for fiscal year 2017 and total available revenues were $94,423.23 and $45,737,570.97, respectively. Principal and interest paid for fiscal year 2016 and total available revenues were $94,276.40 and $44,007,884.14, respectively.

Note 9. Pension Plans

Defined Benefit Plans

Closed State and Higher Education Employee Pension Plan

General Information About the Pension Plan

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

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

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

Average of member's highest compensation for 5 consecutive years (up to Social Security integration level)	x	1.50%	x	Years of Service Credit	x	105%
Plus:						
Average of member's highest compensation for 5 consecutive years (over the Social Security integration level)	x	1.75%	x	Years of Service Credit	x	105%

A reduced early retirement benefit is available at age 55 and vested. Members are vested with 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 years ended June 30, 2017, and June 30, 2016, to the Closed State and Higher Education Employee Pension Plan were $2,233,803 and $2,396,151, respectively, which is 15.02% and 15.03% of covered payroll, respectively. The employer rate, when combined with member contributions, is expected to finance the costs of benefits earned by members during the year and the cost of administration, as well as an amortized portion of any unfunded liability.

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

Pension liability – At June 30, 2017, the college reported a liability of $11,913,869 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The college's proportion of the net pension liability was based on a projection of the college's contributions during the year ended June 30, 2016, to the pension plan relative to the contributions of all participating state and higher education agencies. At the June 30, 2016, measurement date, the college's proportion was 0.65297%.

At June 30, 2016, the college reported a liability of $7,759,448 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015, 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, 2015, to the pension plan relative to the contributions of all participating state and higher education agencies. At the June 30, 2015, measurement date, the college's proportion was 0.601842%. At the June 30, 2014, measurement date, the college's proportion was 0.616921%.

Pension expense – For the years ended June 30, 2017, and June 30, 2016, the college recognized pension expense of $2,186,677 and $783,583, respectively.

Deferred outflows of resources and deferred inflows of resources – For the years ended June 30, 2017, and June 30, 2016, the college reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

Fiscal Year 2017	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 668,121	$633,054
Net difference between projected and actual earnings on pension plan investments	2,881,338	-
Changes in proportion of net pension liability	548,443	152,368
College's contributions subsequent to the measurement date of June 30, 2016	2,233,803	-
Total	$6,331,705	$785,422

Fiscal Year 2016	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 821,077	$ 671,841
Net difference between projected and actual earnings on pension plan investments	-	997,499
Changes in proportion of net pension liability	-	203,152
College's contributions subsequent to the measurement date of June 30, 2015	2,396,151	-
Total	$3,217,228	$1,872,492

Deferred outflows of resources, resulting from the college's employer contributions of $2,233,803.00 subsequent to the measurement date, will be recognized as a decrease in net pension liability in the year ending June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending June 30	
2018	$ 284,218
2019	284,218
2020	1,907,027
2021	837,017

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

Actuarial assumptions – The total pension liability was determined by actuarial valuations 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 actuarial valuations 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 proportionate share of net pension liability to changes in the discount rate – The following presents the college's proportionate share of the net pension liability calculated using the discount rate of 7.5%, as well as what the college's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (6.5%) 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 proportionate share of net pension liability	$23,413,146	$11,913,869	$2,217,327

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

Payable to the Pension Plan

At June 30, 2017, and June 30, 2016, the college reported a payable of $71,257.07 and $269,499.81, respectively, for the outstanding amount of legally required contributions to the pension plan required for the years then ended.

State and Higher Education Employee Retirement Plan

General Information About the Pension Plan

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

Benefits provided – Title 8, Chapters 34-37, *Tennessee Code Annotated,* establishes the benefit terms and can be amended only by the Tennessee General Assembly. Members of the State and Higher Education Employee Retirement Plan are eligible to retire at age 65 with 5 years of service credit or pursuant to the rule of 90 in which the member's age and service credit total 90. Members are entitled to receive unreduced service retirement benefits, which are determined by a formula multiplying the member's highest 5 consecutive year average compensation by 1% multiplied by the member's years of service credit. A reduced early retirement is available at age 60 with 5 years of service credit or pursuant to the rule of 80 in which a member's age and service credit total 80. Service-related disability benefits are provided regardless of length of service. Five years of service is required for non-service-related disability eligibility. The service-related and non-service-related disability benefits are determined in the same manner as a service retirement benefit but are reduced 10% and include projected service credit. 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 and higher education employees are established in the statutes governing the TCRS and may only be changed by the Tennessee General Assembly. Employees contribute 5% of their salary to the State and Higher Education Employee Retirement Plan. By law, employer contributions for the State and Higher Education Employee Retirement Plan are required to be paid. Employer contributions by the college for the years ended June 30, 2017, and June 30, 2016, to the State and Higher Education Employee Retirement Plan were \$101,312 and \$62,467, respectively, which is 3.89% and 3.86% of covered payroll, respectively. The employer rate, when combined with member contributions, is expected to finance the costs of benefits earned by members during the year and the cost of administration, as well as an amortized portion of any unfunded liability.

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

Pension asset – At June 30, 2017, the college reported an asset of $44,135 for its proportionate share of the net pension asset. The net pension asset was measured as of June 30, 2016, and the total pension asset used to calculate the net pension asset was determined by an actuarial valuation as of that date. The college's proportion of the net pension asset was based on a projection of the college's contributions during the year ended June 30, 2016, to the pension plan relative to the contributions of all participating state and higher education agencies. At the June 30, 2016, measurement date, the college's proportion was 0.523906%.

At June 30, 2016, the college reported an asset of $17,681 for its proportionate share of the net pension asset. The net pension asset was measured as of June 30, 2015, and the total pension asset used to calculate the net pension asset was determined by an actuarial valuation as of that date. The college's proportion of the net pension asset was based on a projection of the college's contributions during the year ended June 30, 2015, to the pension plan relative to the contributions of all participating state and higher education agencies. At the June 30, 2015, measurement date, the college's proportion was 0.635797%, representing the first-time presentation of this proportion.

Pension expense – For the years ended June 30, 2017, and June 30, 2016, the college recognized a pension expense of $24,947 and $14,666, respectively.

Deferred outflows of resources and deferred inflows of resources – For the years ended June 30, 2017, and June 30, 2016, the college reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

Fiscal Year 2017	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 3,212	$4,743
Net difference between projected and actual earnings on pension plan investments	5,147	-
Changes in proportion of net pension asset	1,897	-
College's contributions subsequent to the measurement date of June 30, 2016	101,312	-
Total	$111,568	$4,743

Fiscal Year 2016	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ -	$6,579
Net difference between projected and actual earnings on pension plan investments	1,026	-
College's contributions subsequent to the measurement date of June 30, 2015	62,467	-
Total	$63,493	$6,579

Deferred outflows of resources, resulting from the college's employer contributions of $101,312.00 subsequent to the measurement date, will be recognized as a decrease in net pension liability in the year ending June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending June 30	
2018	$1,300
2019	$1,300
2020	$1,300
2021	$1,089
2022	$(39)
Thereafter	$563

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

Actuarial assumptions – The total pension asset was determined by actuarial valuations 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 actuarial valuations 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 asset 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 asset.

Sensitivity of the proportionate share of net pension asset to changes in the discount rate – The following presents the college's proportionate share of the net pension asset calculated using the discount rate of 7.5%, as well as what the college's proportionate share of the net pension asset would be if it were calculated using a discount rate that is 1 percentage point lower (6.5%) 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 proportionate share of net pension asset	$(5,278)	$(44,135)	$(73,247)

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

Payable to the Pension Plan

At June 30, 2017, and at June 30, 2016, the college reported a payable of $9,235.20 and $15,872.65, respectively, for the outstanding amount of legally required contributions to the pension plan required for the years then ended.

Total Defined Benefit Pension Expense

The total pension expense for the year ended June 30, 2017, for all state government defined benefit pension plans was $2,211,624. The total pension expense for the year ended June 30, 2016, for all state government defined benefit pension plans was $798,249.

Defined Contribution Plans

Optional Retirement Plans

Plan description – The college contributes to the Optional Retirement Plan (ORP). The ORP, administered by the Tennessee Treasury Department, is a defined contribution plan. The ORP was established by state statute in Title 8, Chapter 25, Part 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. Pension expense equaled the required contributions made to the ORP and was $503,869.88 for the year ended June 30, 2017; $498,457.54 for the year ended June 30, 2016; and $475,663.93 for the year ended June 30, 2015. Contributions met the requirements for each year.

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

Deferred Compensation Plans

Employees are offered three deferred compensation plans. The college, through the State of Tennessee, provides two plans, one established pursuant to the Internal Revenue Code (IRC), Section 457, and the other pursuant to IRC, Section 401(k). The third plan is administered by the college and was established in accordance with IRC, Section 403(b). The plans are outsourced to third-party vendors, and the administrative costs assessed by the vendors of these plans are the responsibility of plan participants. Section 401(k), Section 403(b), and Section 457 plan assets remain the property of the contributing employees; therefore, they are not presented in the accompanying financial statements. Sections 401(k), 403(b), and 457 establish participation, contribution, and withdrawal provisions for the plans. Participation in the 403(b) and the 457 plans is voluntary for employees. The college provides up to a $50 monthly employer match for employees who participate in the state's 401(k) plan. Employees hired before July 1, 2014, voluntarily participate in the state's 401(k) plan. Pursuant to Public Chapter No. 259 of Public Acts of 2013*,* employees hired after June 30, 2014, are automatically enrolled in the state's 401(k) plan 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, 2017, contributions totaling $577,006.33 were made by employees participating in the 401(k) plan, and the college recognized pension expense of $348,361.70 for employer contributions. During the year ended June 30, 2016, contributions totaling $523,644.24 were made by employees participating in the 401(k) plan, with contributions of $287,692.97 made by the college. During the year ended June 30, 2015, contributions totaling $521,146.60 were made by employees participating in the 401(k) plan, with contributions of $247,001.29 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 for the Medicare Supplement Plan. The State Employee Group Plan covers retirees until they reach the age of 65. Members have the option of choosing between the standard or partnership preferred provider organization plan for healthcare benefits. Subsequent to age 65, members who are also in the state's retirement system may participate in a state-administered Medicare supplement that does not include pharmacy. Employees hired on or after July 1, 2015, are not eligible to continue insurance coverage at retirement in either the State Employee Group Plan or the Medicare Supplement Plan. The state makes on-behalf payments to the Medicare Supplement Plan for the college's eligible retirees; see Note 15. 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/article/fa-accfin-cafr.

Special Funding Situation

The State of Tennessee is legally responsible for contributions to the Medicare Supplement Plan, which covers the retirees of other governmental entities, including the 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 plan members are established and may be amended by the insurance committee. The plans are self-insured and financed on a pay-as-you-go basis with the risk shared equally among the participants. 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. Retired members 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

	2017	2016
Annual required contribution (ARC)	$ 735,000.00	$ 711,000.00
Interest on the net OPEB obligation	120,799.61	114,283.92
Adjustment to the ARC	(121,284.75)	(114,742.89)
Annual OPEB cost	734,514.86	710,541.03
Amount of contribution	(592,308.81)	(536,789.04)
Increase in net OPEB obligation	142,206.05	173,751.99
Net OPEB obligation – beginning of year	3,221,323.06	3,047,571.07
Net OPEB obligation – end of year	$3,363,529.11	$3,221,323.06

Year-end	Plan	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation at Year-end
June 30, 2017	State Employee Group Plan	$734,514.86	80.6%	$3,363,529.11
June 30, 2016	State Employee Group Plan	$710,541.03	75.5%	$3,221,323.06
June 30, 2015	State Employee Group Plan	$685,974.78	76.6%	$3,047,571.07

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, 2015
Actuarial accrued liability (AAL)	$6,449,000.00
Actuarial value of plan assets	-
Unfunded actuarial accrued liability (UAAL)	$6,449,000.00
Actuarial value of assets as a percentage of the AAL	0.00%
Covered payroll (active plan members)	$21,750,328.47
UAAL as percentage of covered payroll	29.7%

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

Actuarial Methods and Assumptions

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

In the July 1, 2015, actuarial valuation, the Projected Unit Credit actuarial cost method was used. The actuarial assumptions included a 3.75% investment rate of return (net of administrative expenses) and an annual healthcare cost trend rate of 6.5% initially. The rate decreased to 6% in fiscal year 2016 and then reduces by decrements to an ultimate rate of 4.7% in fiscal year 2050. All rates include a 2.5% inflation assumption. Premium subsidies in the Medicare Supplement Plan are projected to remain unchanged, and, consequently, trend rates are not applicable. The unfunded actuarial accrued liability is being amortized as a level percentage of payroll on a closed basis over a 30-year period beginning with July 1, 2007. Payroll is assumed to grow at a rate of 3%.

Note 11. Revenues

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

Fiscal Year 2017 Revenue Source	Gross Revenue	Less Scholarship Allowances	Less Uncollectible Debts	Net Revenue
Operating revenues:				
Tuition and fees	$22,506,477.32	$(12,299,116.90)	$(104,946.97)	$10,102,413.45
Total	**$22,506,477.32**	**$(12,299,116.90)**	**$(104,946.97)**	**$10,102,413.45**

Fiscal Year 2016 Revenue Source	Gross Revenue	Less Scholarship Allowances	Less Uncollectible Debts	Net Revenue
Operating revenues:				
Tuition and fees	$21,951,335.55	$(11,477,664.36)	$(216,362.74)	$10,257,308.45
Sales and services of other activities	491,827.08	-	(14,885.65)	476,941.43
Total	**$22,443,162.63**	**$(11,477,664.36)**	**$(231,248.39)**	**$10,734,249.88**

Note 12. Insurance-related Activities

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

The college participates in the RMF. The fund allocates the cost of providing claims servicing and claims payment by charging a premium to the college based on a percentage of the college's expected loss costs, which include both experience and exposures. This charge considers recent trends in actual claims experience of the state as a whole. Information regarding the determination of the claims liabilities and the changes in the balances of the claims liabilities for the year ended June 30, 2017, is presented in the *Tennessee Comprehensive Annual Financial Report* (CAFR). The CAFR is available on the state's website at www.tn.gov/finance/article/fa-accfin-cafr. At June 30, 2017, the Risk Management Fund held $167 million in cash designated for payment of claims. At June 30, 2016, the Risk Management Fund held $142.9 million in cash designated for payment of claims.

At June 30, 2017, the scheduled coverage for the college was $166,831,680 for buildings and $28,439,100 for contents. At June 30, 2016, the scheduled coverage for the college was $138,013,900 for buildings and $28,439,100 for contents.

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

Note 13. Commitments and Contingencies

Sick Leave

The college records the cost of sick leave when paid. The dollar amount of unused sick leave was $7,741,128.09 at June 30, 2017, and $7,868,660.32 at June 30, 2016.

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 $271,582.61 and expenses for personal property were $137,367.68 for the year ended June 30, 2017. The amounts for the year ended June 30, 2016, were $244,610.74 and $133,259.29. 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, 2017:

Year Ending June 30	
2018	$4,402.65
2019	4,402.65
Total minimum payments required	$8,805.30

Construction in Progress

At June 30, 2017, outstanding commitments under construction contracts totaled $5,736,062.70 for Greeneville/Greene County expansion, mechanical/electrical updates, ADA and mechanical systems update, and Sevier County expansion, of which $3,844,974.42 will be funded by future state capital outlay appropriations.

Note 14. Natural Classification With Functional Classifications

The college’s operating expenses for the year ended June 30, 2017, are as follows:

Functional Classification	Salaries	Benefits	Other Operating	Scholarships	Depreciation	Total
			Natural Classification			
Instruction	$14,677,892.01	$ 5,491,868.63	$ 4,033,635.06	$ 77,035.75	$ -	$24,280,431.45
Public service	1,336,286.98	553,305.99	2,242,260.38	209,939.00	-	4,341,792.35
Academic support	2,254,823.47	976,113.94	(645,196.11)	-	-	2,585,741.30
Student services	2,474,566.33	1,088,860.75	1,518,905.02	339,778.00	-	5,422,110.10
Institutional support	2,276,517.70	1,088,093.21	964,695.70	-	-	4,329,306.61
Maintenance & operation	2,238,556.26	1,101,674.11	3,736,139.12	-	-	7,076,369.49
Scholarships & fellowships	-	-	-	5,699,153.00	-	5,699,153.00
Auxiliary	-	-	32,056.00	-	-	32,056.00
Depreciation	-	-	-	-	1,616,114.18	1,616,114.18
Total	$25,258,642.75	$10,299,916.63	$11,882,495.17	$6,325,905.75	$1,616,114.18	$55,383,074.48

The college's operating expenses for the year ended June 30, 2016, are as follows:

Functional Classification	Salaries	Benefits	Other Operating	Scholarships	Depreciation	Total
			Natural Classification			
Instruction	$14,406,492.15	$4,616,212.77	$ 3,842,882.55	$ 56,345.00	$ -	$22,921,932.47
Public service	1,334,501.62	505,258.41	1,640,048.70	162,723.00	-	3,642,531.73
Academic support	2,112,794.35	789,160.76	(837,213.88)	-	-	2,064,741.23
Student services	2,575,754.95	911,725.89	1,493,250.05	328,525.50	-	5,309,256.39
Institutional support	2,438,584.58	716,767.88	1,105,488.44	-	-	4,260,840.90
Maintenance & operation	2,203,944.22	950,107.64	2,837,130.55	-	-	5,991,182.41
Scholarships & fellowships	-	-	494.50	5,439,803.23	-	5,440,297.73
Auxiliary	-	-	32,336.46	-	-	32,336.46
Depreciation	-	-	-	-	1,772,503.95	1,772,503.95
Total	$25,072,071.87	$8,489,233.35	$10,114,417.37	$5,987,396.73	$1,772,503.95	$51,435,623.27

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 $2,539,141.76 for the year ended June 30, 2017, and $2,536,982.89 for the year ended June 30, 2016, 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 15. On-behalf Payments

During the year ended June 30, 2017, the State of Tennessee made payments of $41,212.50 on behalf of the college for retirees participating in the Medicare Supplement Plan. The amount for the year ended June 30, 2016, was $36,612.50. The Medicare Supplement Plan is a postemployment benefit healthcare plan and is discussed further in Note 10.

Note 16. 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, 2017, the foundation made distributions of $216,453.14 to or on behalf of the college for both restricted and unrestricted purposes. During the year ended June 30, 2016, the foundation made distributions of $101,741.79 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 27816-1508.

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, 2017, cash and cash equivalents consisted of $49,351.96 in bank accounts; $500.00 of petty cash on hand; $1,438,815.81 in the Local Government Investment Pool (LGIP) administered by the State Treasurer; and $304,060.17 in money market mutual funds. At June 30, 2016, cash and cash equivalents consisted of $224,871.20 in bank accounts; $500.00 of petty cash on hand; $1,384,682.28 in the LGIP; and $400,964.50 in money market mutual funds.

Investments

In accordance with GASB Statement 31, *Accounting and Financial Reporting for Certain Investments and External Investment Pools*, as amended, and GASB Statement 72, *Fair Value Measurement and Application*, as amended, investments are reported at fair value, including those with a maturity date of one year or less at the time of purchase, unless otherwise noted.

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, 2017, the foundation had the following investments and maturities:

		Investment Maturities (in Years)			
Investment Type	Reported Value	Less than 1	1 to 5	6 to 10	More than 10
Mutual bond funds	$ 4,264,226.50	$204,427.25	$437,312.03	$3,622,487.22	$ -
Money market funds	304,060.17	304,060.17	-	-	-
Total debt instruments and cash equivalents	$ 4,568,286.67	$508,487.82	$437,312.03	$3,622,487.22	$ -
Non-fixed income investments					
Corporate stock	56,153.74				
Mutual equity funds	5,327,735.32				
Private equity funds	1,951,604.00				
Certificates of deposit	415,000.00				
Cash surrender value of life insurance	75,538.02				
Total investments and cash equivalents	12,394,317.75				
Less cash equivalents	304,060.17				
Total investments	$12,090,257.58				

At June 30, 2016, the foundation had the following investments and maturities:

		Investment Maturities (in Years)			
Investment Type	Reported Value	Less than 1	1 to 5	6 to 10	More than 10
Mutual bond funds	$ 1,246,073.98	$263,713.12	$373,711.36	$608,649.50	$ -
Money market funds	400,964.50	400,964.50	-	-	-
Total debt instruments and cash equivalents	$ 1,647,038.48	$664,677.62	$373,711.36	$608,649.50	$ -
Non-fixed income investments					
Corporate stock	52,892.72				
Mutual equity funds	3,940,691.81				
Private equity funds	2,491,664.02				
Certificates of deposit	415,000.00				
Cash surrender value of life insurance	72,814.00				
Total investments and cash equivalents	8,620,101.03				
Less cash equivalents	400,964.50				
Total investments	$8,219,136.53				

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, 2017, the foundation's investments were rated as follows:

		Credit Quality Rating				
Investment Type	Reported Value	AAA	AA	A	BBB	BB or lower
Local Government Investment Pool (LGIP)	$1,438,815.81	$ -	$ -	$ -	$ -	$ -
Mutual bond funds	4,264,226.50	1,445,245.00	549,051.39	702,656.80	928,159.13	438,862.32
Money market funds	304,060.17	-	-	-	-	-
Total	$6,007,102.48	$1,445,245.00	$549,051.39	$702,656.80	$928,159.13	$438,862.32

Investment Type	Unrated
Local Government Investment Pool (LGIP)	$1,438,815.81
Mutual bond funds	200,251.86
Money market funds	304,060.17
Total	$1,943,127.84

At June 30, 2016, the foundation's investments were rated as follows:

		Credit Quality Rating				
Investment Type	Reported Value	AAA	AA	A	BBB	BB or lower
Local Government Investment Pool (LGIP)	$1,384,682.28	$ -	$ -	$ -	$ -	$ -
Mutual bond funds	1,246,073.98	255,513.66	300,176.74	195,026.67	348,234.92	118,629.44
Money market funds	400,964.50	-	-	-	-	-
Total	$3,031,720.76	$255,513.66	$300,176.74	$195,026.67	$348,234.92	$118,629.44

Investment Type	Unrated
Local Government Investment Pool (LGIP)	$1,384,682.28
Mutual bond funds	28,492.55
Money market funds	400,964.50
Total	$1,814,139.33

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, 2017, the foundation's exposure to foreign currency risk was as follows:

Investment	Currency	Maturity	Fair Value
Mutual bond funds	Various	-	$64,219.51

At June 30, 2016, the foundation's exposure to foreign currency risk was as follows:

Investment	Currency	Maturity	Fair Value
Mutual bond funds	Various	-	$59,734.17

Alternative investments – The foundation had investments in private equity funds at June 30, 2017, and June 30, 2016. The estimated fair value of these assets was $1,951,604.00 at June 30, 2017, and $2,491,664.02 at June 30, 2016.

The foundation believes that the carrying amount of its alternative investments is a reasonable estimate of fair value as of June 30, 2017, and June 30, 2016. 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 by the fund managers using various valuation techniques.

Fair Value Measurement

The foundation categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The foundation has the following recurring fair value measurements as of June 30, 2017, and June 30, 2016:

	June 30, 2017	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Investments Measured at the Net Asset Value (NAV)
Assets by fair value level					
Debt securities					
Mutual bond funds	$ 4,264,226.50	$4,264,226.50	$ -	$ -	$ -
Total debt securities	4,264,226.50	4,264,226.50	-	-	-
Equity securities					
Corporate stock	56,153.74	56,153.74	-	-	-
Mutual equity funds	5,327,735.32	5,327,735.32	-	-	-
Private equity funds	1,951,604.00	-	-	-	1,951,604.00
Total equity securities	7,335,493.06	5,383,889.06	-	-	1,951,604.00
Total assets at fair value	$11,599,719.56	$9,648,115.56	$ -	$ -	$1,951,604.00

	June 30, 2016	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Investments Measured at the Net Asset Value (NAV)
Assets by fair value level					
Debt securities					
Mutual bond funds	$1,246,073.98	$1,246,073.98	$ -	$ -	$ -
Total debt securities	1,246,073.98	1,246,073.98	-	-	-
Equity securities					
Corporate stock	52,892.72	52,892.72	-	-	-
Mutual equity funds	3,940,691.81	3,940,691.81	-	-	-
Private equity funds	2,491,664.02	-	-	-	2,491,664.02
Total equity securities	6,485,248.55	3,993,584.53	-	-	2,491,664.02
Total assets at fair value	$7,731,322.53	$5,239,658.51	$ -	$ -	$2,491,664.02

Assets classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets.

The assets measured at net asset value per share (or its equivalent) are presented in the following table. The funds have no stipulations as to redemption frequency or a redemption notice period.

	Fair Value at June 30, 2017	Unfunded Commitments
Assets Measured at the NAV		
ValStone Opportunity Fund	$1,951,604.00	$48,396.00

	Fair Value at June 30, 2016	Unfunded Commitments
Assets Measured at the NAV		
ValStone Opportunity Fund	$1,743,743.00	$256,257.00
Harbour Opportunity Fund	$747,921.02	$52,079.00

ValStone Opportunity Fund V, LLC, a Delaware limited liability company, was formed May 18, 2010, and began operations on March 1, 2013, for the purpose of investing in distressed debt obligations and other assets, including operating companies and real estate. ValStone Opportunity Fund V invests primarily in real estate with certain desirable attributes.

Harbour Realty Partners is an integrated real estate investment firm specializing in the acquisition and management of apartment communities across the United States. Harbor Apartment Opportunity Fund I includes a diversified focus portfolio of Class B, B+, and select Class A multifamily communities in major secondary markets in the United States.

Pledges Receivable

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

	June 30, 2017	June 30, 2016
Current pledges	$ 511,651.00	$ 58,159.00
Pledges due in one to five years	1,985,634.90	2,063,244.22
Pledges due after five years	2,411,385.00	2,945,000.00
Total pledges receivable, net	$4,908,670.90	$5,066,403.22

Capital Assets

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

	Beginning Balance	Additions	Transfers	Reductions	Ending Balance
Land	$ 38,514.00	$ -	$ -	$ -	$ 38,514.00
Buildings	2,497,428.26	-	-	-	2,497,428.26
Total	2,535,942.26	-	-	-	2,535,942.26
Less accumulated depreciation/amortization:					
Buildings	295,858.24	40,863.57	-	-	336,721.81
Total	295,858.24	40,863.57	-	-	336,721.81
Capital assets, net	$2,240,084.02	$(40,863.57)	$ -	$ -	$2,199,220.45

Capital asset activity for the year ended June 30, 2016, was as follows:

	Beginning Balance	Additions	Transfers	Reductions	Ending Balance
Land	$ 38,514.00	$ -	$ -	$ -	$ 38,514.00
Buildings	2,497,428.26	-	-	-	2,497,428.26
Total	2,535,942.26	-	-	-	2,535,942.26
Less accumulated depreciation/amortization:					
Buildings	256,277.50	40,863.57	-	1,282.83	295,858.24
Total	256,277.50	40,863.57	-	1,282.83	295,858.24
Capital assets, net	$2,279,664.76	$(40,863.57)	$ -	$1,282.83	$2,240,084.02

Long-term Liabilities

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

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Payables:					
Notes	$810,991.50	$ -	$94,484.40	$716,507.10	$94,488.00
Total long-term liabilities	$810,991.50	$ -	$94,484.40	$716,507.10	$94,488.00

Long-term liabilities activity for the year ended June 30, 2016, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Payables:					
Notes	$850,360.00	$ -	$39,368.50	$810,991.50	$94,488.00
Subtotal	850,360.00	-	39,368.50	810,991.50	94,488.00
Other liabilities:					
Split interest trust obligation	50,000.00	-	50,000.00	-	-
Subtotal	50,000.00	-	50,000.00	-	-
Total long-term liabilities	$900,360.00	$ -	$89,368.50	$810,991.50	$94,488.00

Notes payable – The foundation borrowed funds to purchase the Claiborne County Campus for Walters State Community College. The note bears a minimum annual debt service of $94,488.00, and a due date of February 28, 2025. The balance owed by the foundation was $716,507.10 at June 30, 2017, and $810,991.50 at June 30, 2016.

Debt service requirements to maturity for notes payable at June 30, 2017, are as follows:

Year Ending June 30	Principal	Interest	Total
2018	$ 94,488.00	$ -	$ 94,488.00
2019	94,488.00	-	94,488.00
2020	94,488.00	-	94,488.00
2021	94,488.00	-	94,488.00
2022	94,488.00	-	94,488.00
2023 – 2025	244,067.10	-	244,067.10
Total	$716,507.10	$ -	$716,507.10

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, 2017, net appreciation of $843,636.99 is available to be spent, of which $725,310.53 is included in restricted net position expendable for scholarships and fellowships; $36,777.13 is included in restricted net position expendable for other; and $81,549.33 is included in unrestricted net position. At June 30, 2016, net appreciation of $423,060.76 is available to be spent, of which $361,712.78 is included in restricted net position expendable for scholarships and fellowships; $20,679.29 is included in restricted net position expendable for other; and $40,668.69 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

	Proportion of the Net Pension Liability	Proportionate Share of the Net Pension Liability	Covered Payroll	Proportionate Share of the Net Pension Liability as a Percentage of Its Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2017	0.652970%	$11,913,869	$15,942,453	74.73%	87.96%
2016	0.601842%	$7,759,448	$15,715,442	49.37%	91.26%
2015	0.616921%	$4,256,441	$16,853,800	25.26%	95.11%

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

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

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

	2017	2016
College's proportion of the net pension asset	0.523906%	0.635797%
College's proportionate share of the net pension asset	$44,135	$17,681
College's covered payroll	$1,616,272	$692,355
College's proportionate share of the net pension asset as a percentage of its covered payroll	2.76%	2.55%
Plan fiduciary net position as a percentage of the total pension liability	130.56%	142.55%

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

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

	Contractually Determined Contributions	Contributions in Relation to Contractually Determined Contributions	Contribution Deficiency (Excess)	Covered Payroll	Contributions as a Percentage of Covered Payroll
2017	$2,233,803	$2,233,803	$ -	$14,872,187	15.02%
2016	2,396,151	2,396,151	-	15,942,453	15.03%
2015	2,362,031	2,362,031	-	15,715,442	15.03%
2014	2,533,126	2,533,126	-	16,853,800	15.03%
2013	2,425,254	2,425,254	-	16,136,088	15.03%
2012	2,408,725	2,408,725	-	16,155,097	14.91%
2011	2,275,007	2,275,007	-	15,258,268	14.91%
2010	1,937,580	1,937,580	-	14,881,572	13.02%
2009	1,912,833	1,912,833	-	14,691,505	13.02%
2008	1,938,684	1,938,684	-	14,234,101	13.62%

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

	2017	2016	2015
Contractually determined contributions	$ 101,312	$ 62,467	$ 26,794
Contributions in relation to the contractually determined contributions	101,312	62,467	26,794
Contribution deficiency (excess)	$ -	$ -	$ -
Covered payroll	$2,604,349	$1,616,272	$692,355
Contributions as a percentage of covered payroll	3.89%	3.86%	3.87%

This is a 10-year schedule; however, contributions to this plan began in 2015. Years will be added to this schedule in future years until 10 years of information 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, 2015	State Employee Group Plan	$ -	$6,449,000	$6,449,000	0%	$21,750,328	29.65%
July 1, 2013	State Employee Group Plan	$ -	$5,885,000	$5,885,000	0%	$20,901,124	28.16%
July 1, 2011	State Employee Group Plan	$ -	$5,978,000	$5,978,000	0%	$19,857,614	30.10%

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
Schedules of Cash Flows - Component Unit
For the Years Ended June 30, 2017, and June 30, 2016

	Year Ended June 30, 2017	Year Ended June 30, 2016
Cash flows from operating activities		
Gifts and contributions	$ 504,381.84	$ 347,934.25
Payments to suppliers and vendors	(334,871.36)	(231,726.74)
Payments for scholarships and fellowships	(457,327.95)	(383,834.52)
Payments to WSCC	(40,133.12)	(16,999.28)
Other receipts	194,950.54	156,966.17
Net cash used for operating activities	(133,000.05)	(127,660.12)
Cash flows from noncapital financing activities		
Private gifts for endowment purposes	135,950.00	340,204.22
Other noncapital financing receipts (payments)	61.90	(48,549.38)
Net cash provided by noncapital financing activities	136,011.90	291,654.84
Cash flows from capital and related financing activities		
Principal paid on capital debt	(94,484.40)	(39,368.50)
Net cash used for capital and related financing activities	(94,484.40)	(39,368.50)
Cash flows from investing activities		
Proceeds from sales and maturities of investments	1,625,079.38	401,867.37
Income on investments	4,235,798.67	704,407.79
Purchases of investments	(5,987,695.54)	(1,134,479.01)
Net cash used for investing activities	(126,817.49)	(28,203.85)
Net increase (decrease) in cash and cash equivalents	(218,290.04)	96,422.37
Cash and cash equivalents - beginning of year	2,011,017.98	1,914,595.61
Cash and cash equivalents - end of year	$ 1,792,727.94	$ 2,011,017.98
Reconciliation of operating loss to net cash used for operating activities:		
Operating loss	$ (322,379.26)	$ (254,001.37)
Adjustments to reconcile operating loss to net cash used for operating activities:		
Noncash operating expenses	40,863.57	40,863.57
Change in assets and liabilities:		
Receivables	157,732.32	21,300.78
Prepaid items	212.92	(316.14)
Accounts payable	(22,368.51)	69,879.28
Due to WSCC	(6,597.13)	2,613.76
Unearned revenues	19,536.04	(8,000.00)
Net cash used for operating activities	$ (133,000.05)	$ (127,660.12)
Noncash investing, capital, or financing transactions		
Unrealized gains (losses) on investments	$ 431,751.87	$ (605,920.74)

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 Flora W. Tydings, Chancellor
Dr. Anthony R. Miksa, President

We have audited the financial statements of Walters State Community College, an institution of the State University and Community College System of Tennessee, which is a component unit of the State of Tennessee, and its discretely presented component unit as of and for the years ended June 30, 2017, and June 30, 2016, and the related notes to the financial statements, which collectively comprise the college's basic financial statements, and have issued our report thereon dated October 18, 2018. 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 in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, as described below, that we consider to be significant deficiencies.

- At noted in the prior audit, Walters State Community College did not provide adequate internal controls in one area.
- College staff did not prepare timely cash reconciliations.

These deficiencies are described in the Findings and Recommendations 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 Responses to Findings

The college's responses to the findings identified in our audit are included in the Findings and Recommendations section of this report. The college's responses were not subjected to the auditing procedures applied in the audit of the financial statements, and, accordingly, we express no opinion on them.

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
Division of State Audit
October 18, 2018

Findings and Recommendations

1. <u>As noted in the prior audit, Walters State Community College did not provide adequate internal controls in one area</u>

Walters State Community College did not design and monitor internal controls in one specific area. For this area, we found internal control deficiencies related to one of the college's systems. Although management has taken steps to correct these conditions, we are reporting internal control deficiencies for the second consecutive audit because corrective action was not sufficient.

Ineffective implementation of internal controls increases the likelihood of unauthorized access to college information. The details of this finding are confidential pursuant to Section 10-7-504(i), *Tennessee Code Annotated.* We provided the college with detailed information regarding the specific condition we identified, as well as the related criteria, causes, and our specific recommendations for improvement.

<u>Recommendation</u>

Management should ensure that this condition is corrected by the prompt development and effective implementation of internal controls.

<u>Management's Comment</u>

We concur that the institution did not provide adequate internal controls in an additional specific area during the reporting period. Management is in the process of defining necessary controls, guidelines, and procedures to ensure proper internal controls are in place for this specified area.

2. <u>College staff did not prepare timely cash reconciliations</u>

<u>Condition</u>

At Walters State Community College, the accounting staff and the Coordinator of Payroll Services, who prepares the payroll account reconciliations, did not always prepare the operating and payroll account reconciliations on a timely basis. In addition, accounting staff did not always reconcile the school's Local Government Investment Pool (LGIP) accounts on a timely basis.

<u>Criteria</u>

Best practices require bank reconciliations to be prepared within 30 days after the end of the month and a documented review to be performed shortly thereafter. Performing bank reconciliations timely is necessary in order to detect fraudulent transactions and promptly notify the bank of errors.

Cause

The college's accounting and payroll staffs prepared and reviewed reconciliations for the college. According to management, an accountant position that was vacant for four months of the audit period caused staff to be unable to prepare the reconciliations on a timely basis. Even after the position was filled, the reconciliation process required a training period due to the many different types of transactions and payment types encompassed in the reconciliation process, and reconciliations often took longer than 30 days. Other staff vacancies and staffing changes in the Business Office also affected the timeliness of month-end closing and the bank reconciliation process. In addition, the college did not have written policies and procedures for preparing and reviewing bank reconciliations.

Effect

Our review of bank account and LGIP reconciliations for the years ended June 30, 2016, and June 30, 2017, found the following problems:

- Of the reconciliations tested, for the college's operating account, staff did not complete 16 of 24 (67%) within 30 days of the reconciliation date; for the college's payroll account, staff did not complete 6 of 24 (25%) within 30 days of the reconciliation date; and for the foundation's operating account, staff did not complete 9 of 24 (38%) within 30 days of the reconciliation date.

- Of the reconciliations tested for the college's LGIP accounts, staff did not complete 4 of 24 (17%) within 30 days of the reconciliation date.

Staff did not always review and approve reconciliations on a timely basis after the reconciliations were prepared.

Recommendation

Management should develop written policies and procedures to ensure that accounting staff prepare and review bank account and LGIP reconciliations timely, as these reconciliations are an important internal control for cash. The reviewer should ensure timely preparation and should conduct timely reviews.

Management's Comment

We concur with the finding and recommendation. For many years, management had previously used a benchmark of 60 days for completion with fiscal year-end reconciliations completed within 30 days in order to mitigate risk of a financial statement misstatement due to the timing of the bank reconciliations.

Although reconciliations were delayed during the vacancy of the accountant's position, there were daily reviews of bank accounts by the Assistant Vice President for Business Affairs for unusual or unexpected transactions via online access. In addition, bank reconciliation signoffs were generally delayed due to full investigation of immaterial items. We simply did not sign and date them until fully complete. The Assistant Vice President for Business Affairs will oversee developing a written policy and procedure for preparing bank reconciliations. The policy will include a requirement that bank reconciliations should be prepared within 30 days after the end of the month.

Observation and Comment

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 this college is the director, who is assisted and advised by members of the faculty and administrative staff. The director is responsible to the chancellor of the Tennessee Board of Regents.