STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY

TENNESSEE BOARD OF REGENTS
CHATTANOOGA STATE COMMUNITY COLLEGE

Financial and Compliance Audit Report

For the Years Ended June 30, 2016, and June 30, 2015

Justin P. Wilson, Comptroller

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August 31, 2017

The Honorable Bill Haslam, Governor
Members of the General Assembly
The Honorable Flora W. Tydings, Chancellor
Dr. Rebecca Ashford, President

Ladies and Gentlemen:

Transmitted herewith is the financial and compliance audit of the Tennessee Board of Regents, Chattanooga State Community College, for the years ended June 30, 2016, and June 30, 2015. You will note from the independent auditor's report that unmodified opinions were given on the fairness of the presentation of the financial statements.

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

Sincerely,

Deborah V. Loveless

Deborah V. Loveless, CPA
Director

16/241

Audit Report
Tennessee Board of Regents
Chattanooga State Community College
For the Years Ended June 30, 2016, and June 30, 2015

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Audit Highlights

Comptroller of the Treasury — Division of State Audit

Financial and Compliance Audit

Tennessee Board of Regents

Chattanooga State Community College

For the Years Ended June 30, 2016, and June 30, 2015

Opinions on the Financial Statements

The opinions on the financial statements are unmodified.

Audit Finding

The Timesheets of Federal Work-Study Students Were Not Properly Monitored
During the year ended June 30, 2016, supervisors of Federal Work-Study Program students did not properly monitor student hours to ensure that students were not paid for working during class time. In addition, inadequate monitoring led to other errors, including duplicate payments for reported time (page 63).

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Independent Auditor's Report

The Honorable Bill Haslam, Governor
Members of the General Assembly
The Honorable Flora W. Tydings, Chancellor
Dr. Rebecca Ashford, President

Report on the Financial Statements

We have audited the accompanying financial statements of Chattanooga 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, 2016, and June 30, 2015, and the related notes to the financial statements, which collectively comprise the basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of Chattanooga State Community College, and its discretely presented component unit, as of June 30, 2016, and June 30, 2015; 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 Chattanooga 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 Chattanooga 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, 2016, and June 30, 2015, 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 15, the college implemented Governmental Accounting Standards Board (GASB) Statement 68, *Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement No. 27*, and Statement 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*, during the year ended June 30, 2015. Our opinion is not modified with respect to this matter.

As discussed in Note 16, the financial statements of Chattanooga State Community College Foundation, a discretely presented component unit of Chattanooga State Community College, include investments valued at $738,722.00 at June 30, 2016 (11.5% of net position of the foundation), and $766,971.00 at June 30, 2015 (11.2% 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's general partner. 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 17; the schedule of Chattanooga State Community College's proportionate share of the net pension liability – Closed State and Higher Education Employee Pension Plan within TCRS on page 55; the schedule of Chattanooga State Community College's proportionate share of the net pension asset for the State and Higher Education Employee Retirement Plan within TCRS on page 56; the schedule of Chattanooga State Community College's contributions – Closed State and Higher Education Employee Pension Plan within TCRS on page 57; the schedule of Chattanooga State Community College's contributions – State and Higher Education Employee Retirement Plan within TCRS on page 58; and the other postemployment benefits schedule of funding progress on page 59 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 60 are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated August 3, 2017, 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
August 3, 2017

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

Introduction

This section of Chattanooga 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, 2016, and June 30, 2015, with comparative information presented for the year ended June 30, 2014. This discussion has been prepared by management along with the financial statements and related note disclosures and should be read in conjunction with the independent auditor's report, the financial statements, and the notes to the financial statements. The financial statements, notes, and this discussion are the responsibility of management.

The college has one discretely presented component unit, the Chattanooga 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, 2016; June 30, 2015; and June 30, 2014.

Summary of Net Position
(in thousands of dollars)

	2016	2015	2014
Assets:			
Current assets	$16,113	$16,664	$14,863
Capital assets, net	55,374	55,764	56,771
Other assets	9,888	7,759	6,911
Total assets	**81,375**	**80,187**	**78,545**
Deferred outflows of resources:			
Deferred amount on debt refunding	54	63	-
Deferred outflows related to pensions	3,371	2,501	-
Total deferred outflows	**3,425**	**2,564**	**-**
Liabilities:			
Current liabilities	5,767	5,874	6,118
Noncurrent liabilities	15,827	12,302	8,052
Total liabilities	**21,594**	**18,176**	**14,170**
Deferred inflows of resources:			
Deferred inflows related to pensions	1,986	6,403	-
Total deferred inflows	**1,986**	**6,403**	**-**
Net position:			
Net investment in capital assets	53,862	54,220	55,126
Restricted – expendable	311	277	249
Unrestricted	7,047	3,675	9,000
Total net position	**$61,220**	**$58,172**	**$64,375**

Comparison of Fiscal Year 2016 to Fiscal Year 2015

- The decrease in current assets includes a decrease in student accounts receivable of $615,000 due to an increase in the estimate for student uncollectible accounts in fiscal year 2016.
- The increase in other assets includes an increase of $1.58 million in noncurrent cash due to a transfer of $1 million to the Equipment fund and a reduction of expenses in the Renovations plant fund of $583,000.
- The increase in deferred outflows related to pensions of $870,000 was due mainly to differences between expected and actual experience for the Closed State and Higher Education Employee Pension Plan within TCRS during the fiscal year ended June 30, 2015. Further information regarding pensions can be found in Note 9 to the financial statements.

- The increase in noncurrent liabilities is due to an increase in the net pension liability of \$3.6 million. Further information regarding pensions can be found in Note 9 to the financial statements.
- The decrease in deferred inflows related to pensions of \$4.4 million was mainly due to investment performance of the Closed State and Higher Education Employee Pension Plan within TCRS. Actual investment earnings were less than assumed for the fiscal year ended June 30, 2015. See Note 9.

Comparison of Fiscal Year 2015 to Fiscal Year 2014

- The increase in current assets includes an increase in unrestricted current cash of \$2.58 million due to unrestricted current revenues exceeding expenses and transfers.
- The increase in current assets includes a decrease in grants receivable of \$1 million for the Volkswagen Training Center grant.
- The increase in current assets includes an increase in due from primary government of \$449,000 due to reclassifying grants and contracts receivable from the State of Tennessee.
- The increase in other assets includes an increase of \$1 million in noncurrent cash due to a reduction of expenses in the Renovations plant fund.
- The increase in deferred outflows related to pensions of \$2.5 million was due to the implementation of Governmental Accounting Standards Board (GASB) Statement 68, *Accounting and Financial Reporting for Pensions*.
- The increase in noncurrent liabilities is due mainly to the recognition of a net pension liability of \$4.44 million as required by GASB Statement 68.
- The increase in deferred inflows related to pensions of \$6.4 million was due to the implementation of GASB Statement 68.

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 Chattanooga State Community College is dependent upon state appropriations and gifts to fund educational and general operations, under GASB standards these funding sources are reported as nonoperating revenues, as is investment income. As a result, the college has historically reported an excess of operating expenses over operating revenues, resulting in an operating loss. Therefore, the "increase (decrease) in net position" is more indicative of overall financial results for the year.

A summary of the college's revenues, expenses, and changes in net position for the year ended June 30, 2016, and the two previous years follows.

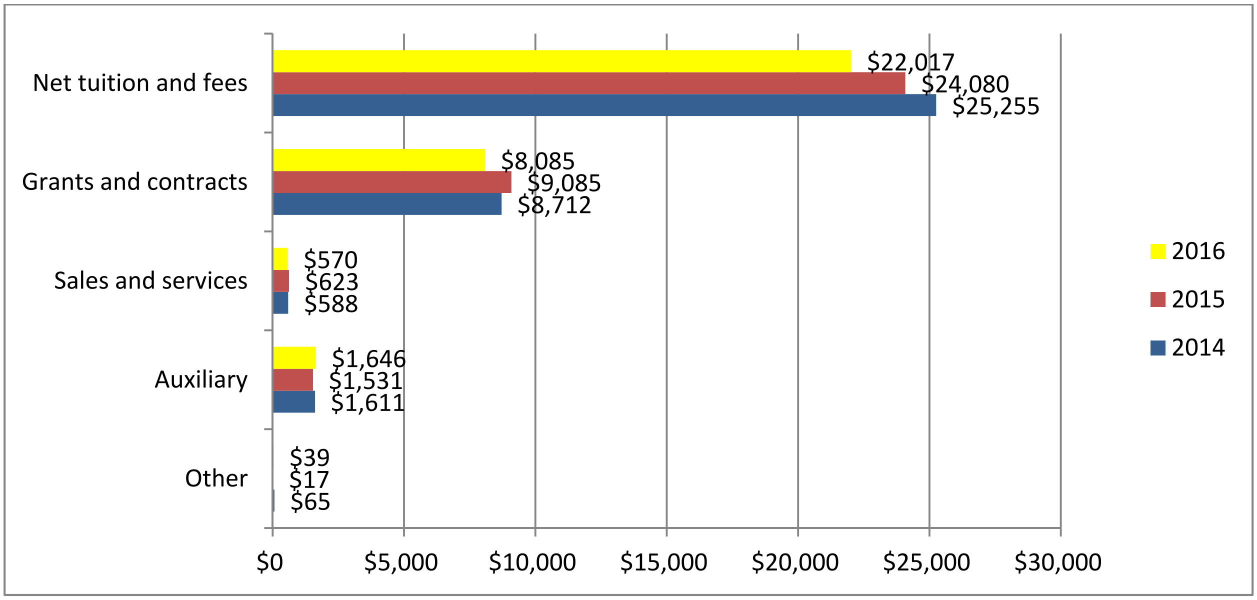
Summary of Revenues, Expenses, and Changes in Net Position
(in thousands of dollars)

	2016	2015	2014
Operating revenues	$32,357	$35,335	$36,231
Operating expenses	86,508	84,623	93,089
Operating loss	(54,151)	(49,288)	(56,858)
Nonoperating revenues and expenses	56,243	52,847	55,442
Income (loss) before other revenues, expenses, gains, or losses	2,092	3,559	(1,416)
Other revenues, expenses, gains, or losses	956	423	1,137
Increase (decrease) in net position	3,048	3,982	(279)
Net position at beginning of year	58,172	64,375	64,654
Cumulative effect of change in accounting principal	-	(10,185)	-
Net position at beginning of year - restated	58,172	54,190	64,654
Net position at end of year	$61,220	$58,172	$64,375

Operating Revenues

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

Operating Revenues by Source
(in thousands of dollars)



Comparison of Fiscal Year 2016 to Fiscal Year 2015

- Student tuition and fees decreased by $2 million, which includes a decrease of $2.34 million due to an increase in scholarship allowances, a decrease of $732,000 due to an increase in contra revenue-bad debts, and an increase of $1 million due to increases in fees and enrollment. Scholarship allowances increased by $2.34 million due to an overall increase in state grants provided as financial aid, such as the Tennessee Promise, Tennessee Hope, Tennessee Reconnect, TSAC, and Wilder Naifeh. Student tuition and fees increased by $1 million due to a fee increase at the college of 3.4% and an increase in enrollment of 2.9%. The Tennessee College of Applied Technology (TCAT) at Chattanooga had a fee increase of 4% and an increase in enrollment of 8%.
- The decrease in grants and contracts includes a decrease of $640,000 in the Special Equipment grant, a decrease of $900,000 in the Volkswagen Training Center grant, an increase of $147,000 in the SAILS-State Expansion grant, and an increase in the TCAT Facilities Fund of $327,000.

Comparison of Fiscal Year 2015 to Fiscal Year 2014

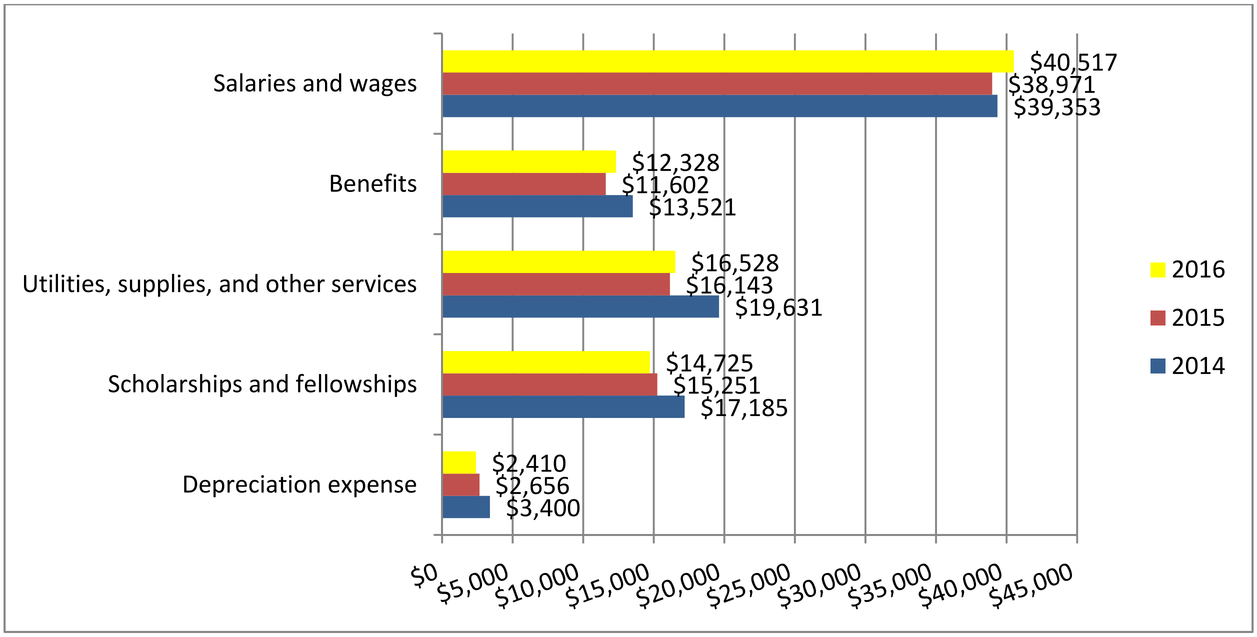
- The decrease in student tuition and fees of $1.2 million is due partially to a decrease in enrollment of 10.5% for Fall 2014 and a decrease in enrollment of 5.8% for Spring 2015, in conjunction with a fee increase of 5.9%. In addition, contra revenue-bad debts increased by $518,000 due to a change in classification of bad debts from an operating expense to a contra revenue.

- The increase in grants and contracts includes an increase of $1.2 million in the SAILS-State Expansion grant, an increase of $898,000 in the Special Equipment grant, and a decrease of $1.5 million in the Volkswagen Training Center grant.

Operating Expenses

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

Operating Expenses - Natural Classification
(in thousands of dollars)



Comparison of Fiscal Year 2016 to Fiscal Year 2015

- The increase in salaries and wages of $1.55 million was mainly due to a 2% or $1,000 across the board salary increase in fiscal year 2016.
- The increase in benefits of $726,000 was also mainly due to the 2% or $1,000 across the board salary increase in fiscal year 2016.

Comparison of Fiscal Year 2015 to Fiscal Year 2014

- The decrease in benefits was due to $1.84 million in retirement expense being reclassified to deferred outflows related to pensions because of the implementation of GASB Statement 68.
- The decrease in utilities, supplies, and other services includes a decrease in expenditures of $1.2 million in the Renovations plant fund, and a decrease of $1 million in the Volkswagen Training Center grant.
- The decrease in scholarships and fellowships includes a decrease in Pell grants of $1.9 million due to a decrease in enrollment of 10.5% for Fall 2014 and a decrease in enrollment of 5.8% for Spring 2015.
- The decrease in depreciation expense is due to a decrease in building depreciation expense of $780,000. During fiscal year 2015, due to a change in accounting estimate, buildings were more appropriately depreciated over a period of 60 years, instead of the 40 years previously used.

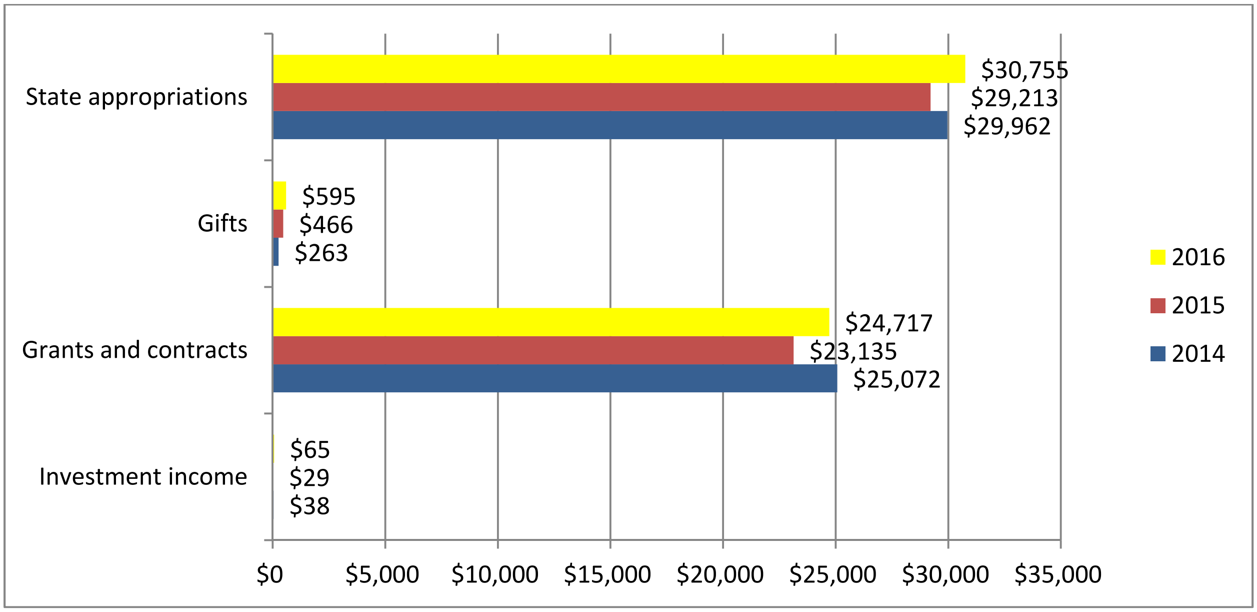
Nonoperating Revenues and Expenses

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)

	2016	2015	2014
State appropriations	$30,755	$29,213	$29,962
Gifts	595	466	263
Grants and contracts	24,717	23,135	25,072
Investment income	65	29	38
Interest on noncapital debt	(41)	(32)	(65)
Interest on capital asset-related debt	(56)	(60)	(64)
Bond issuance costs	-	(3)	-
Other nonoperating revenues (expenses)	208	99	236
Total nonoperating revenues (expenses)	$56,243	$52,847	$55,442

Nonoperating Revenues
(in thousands of dollars)



Comparison of Fiscal Year 2016 to Fiscal Year 2015

- The increase in state appropriations of $1.54 million is due to an increase in state funding.
- The increase in grants and contracts includes increases in several state grants and contracts of $3.2 million and a decrease in Pell grants of $1.67 million. State grants that increased were Tennessee Promise at $1.2 million, Tennessee Hope at $1 million, TSAC at $404,000, Tennessee Reconnect at $306,000, and Wilder Naifeh at $264,000. These increases were due in part to the Tennessee Promise initiative. Pell grants decreased due to a decrease in enrollment of students that would be Pell grants eligible.

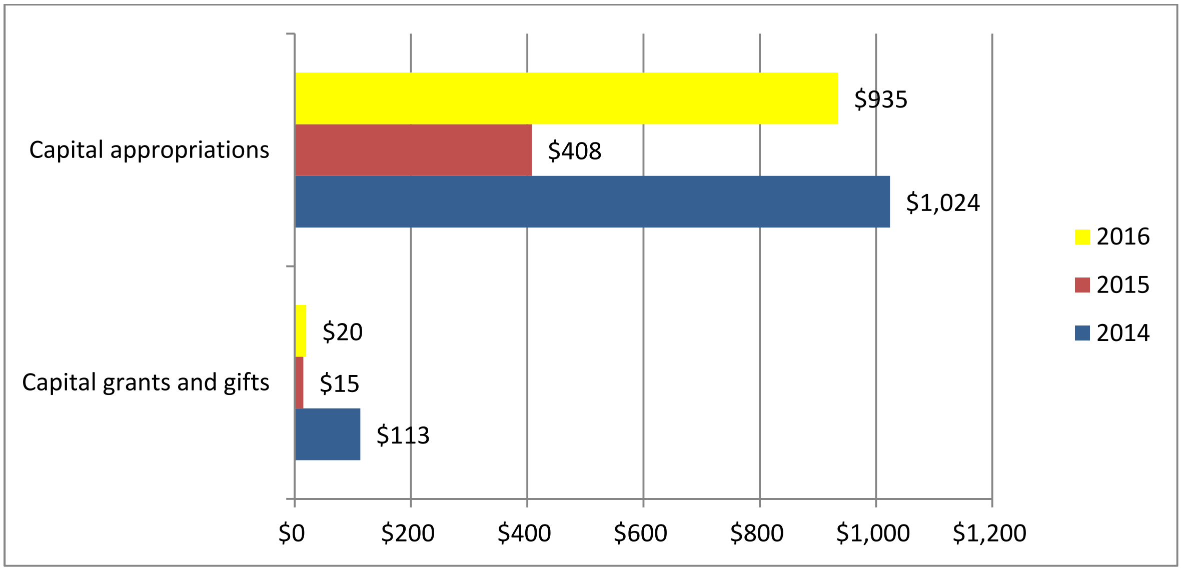
Comparison of Fiscal Year 2015 to Fiscal Year 2014

- The decrease in state appropriations of $749,000 is due to a decrease in state funding.
- The decrease in grants and contracts includes a decrease of $1.9 million in Pell grants due to a decrease in enrollment of 10.5% for Fall 2014 and a decrease in enrollment of 5.8% for Spring 2015.

Other Revenues

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

Other Revenues
(in thousands of dollars)



Comparison of Fiscal Year 2016 to Fiscal Year 2015

- The increase in capital appropriations includes $439,000 for the Cooling Power Replacement project, $268,000 for the parking lot updates, and a decrease of $258,000 in the Reroofing project, which was in fiscal year 2015 but not in fiscal year 2016. Also included is an increase of $200,000 for the TCAT Building Rewiring project and a decrease of $89,000 for the TCAT Reroofing project.

Comparison of Fiscal Year 2015 to Fiscal Year 2014

- The decrease in capital appropriations includes a decrease of $540,000 in the Underground Piping Corrections project, which was in fiscal year 2014 but not in fiscal year 2015 and an increase of $141,000 in the Reroofing project. Also included is a decrease of $257,000 for the TCAT Reroofing project.
- The decrease in capital gifts of $98,000 is due to a decrease in equipment donations.

Capital Assets and Debt Administration

Capital Assets

Chattanooga State Community College had $55,373,610.73 invested in capital assets, net of accumulated depreciation of $44,538,365.31 at June 30, 2016; $55,763,733.87 invested in capital assets, net of accumulated depreciation of $42,555,920.39 at June 30, 2015; and $56,771,091.88 invested in capital assets, net of accumulated depreciation of $40,038,136.43 at June 30, 2014. Depreciation charges totaled $2,409,875.47, $2,656,390.95, and $3,399,889.39 for the years ended June 30, 2016; June 30, 2015; and June 30, 2014, respectively.

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

	2016	2015	2014
Land	$ 3,729	$ 3,729	$ 3,729
Land improvements and infrastructure	2,044	1,976	2,025
Buildings	41,821	42,709	43,597
Equipment	6,714	6,775	6,623
Library holdings	157	158	159
Intangible assets	85	97	367
Art and historical treasures	271	271	271
Projects in progress	553	49	-
Total	$55,374	$55,764	$56,771

Significant additions to capital assets occurred in fiscal year 2016. These additions were from renovations to the Center for Engineering, Technologies, Arts and Sciences Building, totaling $504,000, and parking lot improvements, totaling $268,000.

Significant additions to capital assets occurred in fiscal year 2015. These additions were from the Special Equipment grant for equipment totaling $850,000.

At June 30, 2016, outstanding commitments under construction contracts totaled $913,281.40 for parking lot updates and a TCAT lift station. Future state capital outlay appropriations will fund $609,242.10 of these costs.

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

Debt

The college had $2,654,934.24, $2,866,975.82, and $3,066,840.23 in debt outstanding at June 30, 2016; June 30, 2015; and June 30, 2014, respectively. The table below summarizes these amounts by type of debt instrument.

Schedule of Outstanding Debt
(in thousands of dollars)

	2016	2015	2014
Bonds	$2,397	$2,584	$2,919
Unamortized bond premium	258	283	148
Total	$2,655	$2,867	$3,067

The Tennessee State School Board Authority (TSSBA) issued bonds with interest rates ranging from 2.5% to 5% due serially to 2042 on behalf of Chattanooga State Community College. The college is responsible for the debt service of these bonds. The current portion of the $2,397,097.82 outstanding at June 30, 2016, is $173,909.99.

The ratings on debt issued by the Tennessee State School Bond Authority at June 30, 2016, 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 economic position of Chattanooga State Community College is closely tied to that of the State of Tennessee. For the 2016 fiscal year, state appropriations comprised 45.7% of the total educational and general revenues and were the second largest source of funding. Tuition and fees were the largest source at 52.1% of total educational and general revenues. Effective Fall 2016, student fees will be increased by 2.4%.

Tennessee Board of Regents
CHATTANOOGA STATE COMMUNITY COLLEGE
Statements of Net Position
June 30, 2016, and June 30, 2015

	Chattanooga State Community College		Component Unit - Chattanooga State Community College Foundation	
	June 30, 2016	June 30, 2015	June 30, 2016	June 30, 2015
Assets				
Current assets:				
Cash and cash equivalents (Notes 2, 3, and 16)	$ 13,037,864.09	$ 12,855,118.15	$ 18,529.71	$ 48,705.73
Accounts and grants receivable (net) (Note 4)	2,374,984.49	3,195,659.10	-	-
Due from primary government	603,680.55	471,203.71	-	-
Due from component unit	7,826.57	47,001.23	-	-
Pledges receivable (net) (Note 16)	-	-	22,890.00	90,730.00
Inventories (at lower of cost market)	34,545.28	41,399.73	-	-
Prepaid expenses	54,218.75	53,849.53	-	-
Total current assets	16,113,119.73	16,664,231.45	41,419.71	139,435.73
Noncurrent assets:				
Cash and cash equivalents (Notes 2, 3, and 16)	9,859,404.75	7,758,738.42	249,211.15	259,097.47
Investments (Note 16)	-	-	5,278,784.70	5,584,289.86
Net pension asset (Note 9)	28,302.00	-	-	-
Pledges receivable (net) (Note 16)	-	-	152,701.47	159,923.41
Capital assets (net) (Note 5)	55,373,610.73	55,763,733.87	725,603.03	725,603.03
Total noncurrent assets	65,261,317.48	63,522,472.29	6,406,300.35	6,728,913.77
Total assets	81,374,437.21	80,186,703.74	6,447,720.06	6,868,349.50
Deferred outflows of resources				
Deferred amount on debt refunding (Note 7)	53,903.43	62,887.34	-	-
Deferred outflows related to pensions (Note 9)	3,371,140.67	2,501,454.78	-	-
Total deferred outflows of resources	3,425,044.10	2,564,342.12	-	-
Liabilities				
Current liabilities:				
Accounts payable (Note 6)	520,591.24	577,462.18	51.00	-
Accrued liabilities	2,035,165.42	1,934,816.96	-	-
Due to primary government	231,384.64	221,731.36	-	-
Due to college	-	-	7,826.57	47,001.23
Unearned revenue	1,884,448.16	2,073,308.45	10,000.00	-
Compensated absences (Note 7)	811,384.21	799,311.37	-	-
Accrued interest payable	17,872.47	19,162.25	-	-
Long-term liabilities, current portion (Note 7)	173,909.99	186,702.70	-	-
Deposits held in custody for others	92,071.04	61,794.53	-	-
Total current liabilities	5,766,827.17	5,874,289.80	17,877.57	47,001.23
Noncurrent liabilities:				
Net OPEB obligation (Note 10)	3,284,751.07	3,253,037.95	-	-
Net pension liability (Note 9)	8,076,568.00	4,443,960.00	-	-
Compensated absences (Note 7)	1,984,765.92	1,924,396.23	-	-
Long-term liabilities (Note 7)	2,481,024.25	2,680,273.12	-	-
Total noncurrent liabilities	15,827,109.24	12,301,667.30	-	-
Total liabilities	21,593,936.41	18,175,957.10	17,877.57	47,001.23
Deferred inflows of resources				
Deferred inflows related to pensions (Note 9)	1,986,033.19	6,403,057.00	-	-
Total deferred inflows of resources	1,986,033.19	6,403,057.00	-	-
Net position				
Net investment in capital assets	53,861,913.62	54,219,685.60	725,603.03	725,603.03
Restricted for:				
Nonexpendable:				
Scholarships and fellowships	-	-	2,203,518.73	2,180,821.50
Instructional department uses	-	-	360,089.60	360,089.60
Other	-	-	6,000.00	-
Expendable:				
Scholarships and fellowships	-	-	1,621,788.24	1,794,796.54
Instructional department uses	-	-	1,229,276.64	1,438,699.14
Loans	20,361.48	20,361.48	-	-
Capital projects	-	-	144,072.72	144,072.72
Pensions	28,302.00	-	-	-
Other	262,431.07	256,364.94	125,789.72	128,750.28
Unrestricted	7,046,503.54	3,675,619.74	13,703.81	48,515.46
Total net position	$ 61,219,511.71	$ 58,172,031.76	$ 6,429,842.49	$ 6,821,348.27

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

Tennessee Board of Regents
CHATTANOOGA STATE COMMUNITY COLLEGE
Statements of Revenues, Expenses, and Changes in Net Position
For the Years Ended June 30, 2016, and June 30, 2015

	Chattanooga State Community College		Component Unit - Chattanooga State Community College Foundation	
	Year Ended June 30, 2016	Year Ended June 30, 2015	Year Ended June 30, 2016	Year Ended June 30, 2015
Revenues				
Operating revenues:				
Student tuition and fees (net of scholarship allowances of $12,990,568.00 for the year ended June 30, 2016, and $10,645,577.00 for the year ended June 30, 2015)	$ 22,016,867.50	$ 24,079,512.47	$ -	$ -
Gifts and contributions	-	-	522,515.38	519,901.63
Endowment income (per spending plan)	-	-	155,635.00	201,547.00
Governmental grants and contracts	7,453,211.78	8,335,282.45	-	-
Nongovernmental grants and contracts	631,968.96	749,840.73	-	-
Sales and services of educational activities	350,480.11	377,157.58	-	-
Sales and services of other activities	219,045.71	246,057.09	-	-
Auxiliary enterprises:				
Bookstore	438,428.68	375,000.00	-	-
Food service	670,557.87	638,596.79	-	-
Other auxiliaries	537,490.00	517,406.25	-	-
Other operating revenues	39,159.02	16,984.08	27,060.00	28,175.33
Total operating revenues	32,357,209.63	35,335,837.44	705,210.38	749,623.96
Expenses				
Operating expenses (Note 13):				
Salaries and wages	40,517,272.34	38,970,906.51	79,350.21	76,843.92
Benefits	12,327,840.17	11,601,694.07	25,913.88	21,301.19
Utilities, supplies, and other services	16,528,512.38	16,143,062.66	69,670.44	53,301.60
Scholarships and fellowships	14,725,266.36	15,251,099.11	340,754.43	474,054.29
Depreciation expense	2,409,875.47	2,656,390.95	-	-
Payments to or on behalf of Chattanooga State Community College (Note 16)	-	-	530,135.61	336,003.35
Total operating expenses	86,508,766.72	84,623,153.30	1,045,824.57	961,504.35
Operating loss	(54,151,557.09)	(49,287,315.86)	(340,614.19)	(211,880.39)
Nonoperating revenues (expenses)				
State appropriations	30,754,825.00	29,212,700.00	-	-
Gifts (including $530,135.61 from component unit for the year ended June 30, 2016, and $336,003.35 for the year ended June 30, 2015)	595,242.61	466,281.31	-	-
Grants and contracts	24,717,269.50	23,135,045.61	-	-
Investment income (net of investment expense of $40,978.21 for the component unit for the year ended June 30, 2016, and $44,898.66 for the year ended June 30, 2015)	65,071.83	28,906.45	(184,852.91)	(83,105.77)
Interest on capital asset-related debt	(56,052.79)	(60,281.63)	-	-
Interest on noncapital debt	(40,937.73)	(31,735.85)	-	-
Bond issuance costs	-	(2,528.22)	-	-
College support (Note 16)	-	-	105,264.09	98,145.11
Other nonoperating revenues (expenses)	208,060.28	98,515.93	-	-
Total nonoperating revenues (expenses)	56,243,478.70	52,846,903.60	(79,588.82)	15,039.34
Income (loss) before other revenues, expenses, gains, or losses	2,091,921.61	3,559,587.74	(420,203.01)	(196,841.05)
Capital appropriations	935,378.34	407,645.83	-	-
Capital grants and gifts	20,180.00	15,000.00	-	-
Additions to permanent endowments	-	-	28,697.23	83,945.05
Total other revenues	955,558.34	422,645.83	28,697.23	83,945.05
Increase (decrease) in net position	3,047,479.95	3,982,233.57	(391,505.78)	(112,896.00)
Net position - beginning of year, as originally reported	58,172,031.76	64,374,722.19	6,821,348.27	6,934,244.27
Cumulative effect of change in accounting principle (Note 15)	-	(10,184,924.00)	-	-
Net position - beginning of year, restated	58,172,031.76	54,189,798.19	6,821,348.27	6,934,244.27
Net position - end of year	$ 61,219,511.71	$ 58,172,031.76	$ 6,429,842.49	$ 6,821,348.27

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

Tennessee Board of Regents
CHATTANOOGA STATE COMMUNITY COLLEGE
Statements of Cash Flows
For the Years Ended June 30, 2016, and June 30, 2015

	Year Ended June 30, 2016	Year Ended June 30, 2015
Cash flows from operating activities		
Tuition and fees	$ 22,637,129.24	$ 24,013,450.98
Grants and contracts	8,307,690.55	9,106,833.17
Sales and services of educational activities	352,553.11	379,404.36
Sales and services of other activities	219,445.71	266,399.79
Payments to suppliers and vendors	(15,851,202.44)	(15,700,012.17)
Payments to employees	(40,486,068.24)	(38,775,011.43)
Payments for benefits	(13,803,559.64)	(13,277,364.66)
Payments for scholarships and fellowships	(14,698,914.10)	(15,251,105.20)
Auxiliary enterprise charges:		
Bookstore	375,000.00	459,349.13
Food services	669,757.33	647,816.47
Other auxiliaries	537,490.00	517,406.25
Other receipts	41,638.86	18,130.43
Net cash used by operating activities	(51,699,039.62)	(47,594,702.88)
Cash flows from noncapital financing activities		
State appropriations	30,721,400.00	29,205,700.00
Gifts and grants received for other than capital or endowment purposes	25,317,890.27	23,547,583.92
Federal student loan receipts	19,197,628.00	23,878,028.00
Federal student loan disbursements	(19,197,628.00)	(23,878,028.00)
Changes in deposits held for others	32,892.81	(5,469.41)
Principal paid on noncapital debt	(159,641.70)	(153,207.00)
Interest paid on noncapital debt	(53,066.82)	(44,153.40)
Other noncapital financing receipts (payments)	165,412.63	168,257.97
Net cash provided by noncapital financing activities	56,024,887.19	52,718,712.08
Cash flows from capital and related financing activities		
Proceeds from sale of capital assets	74,580.00	16,566.25
Purchase of capital assets and construction	(2,093,457.68)	(1,658,388.23)
Principal paid on capital debt	(27,061.00)	(95,718.00)
Interest paid on capital debt	(61,568.45)	(66,370.67)
Net cash used by capital and related financing activities	(2,107,507.13)	(1,803,910.65)
Cash flows from investing activities		
Income on investments	65,071.83	28,906.45
Net cash provided by investing activities	65,071.83	28,906.45
Net increase in cash	2,283,412.27	3,349,005.00
Cash - beginning of year	20,613,856.57	17,264,851.57
Cash - end of year	$ 22,897,268.84	$ 20,613,856.57

Tennessee Board of Regents
CHATTANOOGA STATE COMMUNITY COLLEGE
Statements of Cash Flows (Continued)
For the Years Ended June 30, 2016, and June 30, 2015

	Year Ended June 30, 2016	Year Ended June 30, 2015
Reconciliation of operating loss to net cash used by operating activities:		
Operating loss	$ (54,151,557.09)	$ (49,287,315.86)
Adjustments to reconcile operating loss to net cash used by operating activities:		
Noncash operating expenses	3,400,198.81	3,071,416.78
Change in assets, liabilities, deferred outflows, and deferred inflows:		
Receivables, net	712,070.85	703,852.41
Inventories	6,854.45	6,145.47
Prepaid expenses	(369.22)	42,342.89
Accounts payable	(9,130.82)	(121,953.59)
Accrued liabilities	110,001.74	328,293.93
Net pension asset	(28,302.00)	-
Deferred outflows related to pensions	(869,685.89)	(2,501,454.78)
Net pension liability	3,632,608.00	(5,740,964.00)
Deferred inflows related to pensions	(4,417,023.81)	6,403,057.00
Net OPEB obligation	31,713.12	1,116.55
Unearned revenue	(188,860.29)	(445,206.84)
Compensated absences	72,442.53	(54,032.84)
Net cash used by operating activities	$ (51,699,039.62)	$ (47,594,702.88)
Noncash investing, capital, or financing transactions		
Loss on disposal of capital assets	$ (31,932.35)	$ (86,308.29)
Gifts of capital assets	$ 20,180.00	$ 15,000.00

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 State University and Community College System of Tennessee's activities that is attributable to the transactions of Chattanooga State Community College.

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

Basis of Accounting

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

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

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

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

Inventories

Inventories are valued at the lower of cost or market on a 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.

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, 2016, cash consisted of $4,222,125.16 in bank accounts, $5,019.00 of petty cash on hand, $16,684,964.64 in the Local Government Investment Pool (LGIP) administered by the State Treasurer, and $1,985,160.04 in LGIP deposits for capital projects. At June 30, 2015, cash consisted of $2,624,990.25 in bank accounts, $5,029.00 of petty cash on hand, $15,818,174.99 in the LGIP, and $2,165,662.33 in LGIP deposits for capital projects.

The LGIP is part of the State Pooled Investment Fund and is measured at amortized cost. There are no minimum or maximum limitations on withdrawals with the exception of a 24-hour notification period for withdrawals of $5 million or more. The fund's required risk disclosures are presented in the *State of Tennessee Treasurer's Report*. That report is available on the state's website at www.treasury.tn.gov.

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

Note 3. Investments

Credit Risk

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

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

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

As of June 30, 2016, and June 30, 2015, the college's investments consisted entirely of investments in the Local Government Investment Pool. The value of these investments was $18,670,124.68 at June 30, 2016, and $17,983,837.32 at June 30, 2015. LGIP investments are not rated by nationally recognized statistical ratings organizations.

Note 4. Receivables

Receivables included the following:

	June 30, 2016	June 30, 2015
Student accounts receivable	$2,188,778.80	$3,169,096.16
Grants receivable	562,138.89	872,261.85
Other receivables	259,698.79	118,838.55
Subtotal	3,010,616.48	4,160,196.56
Less allowance for doubtful accounts	635,631.99	964,537.46
Total receivables	$2,374,984.49	$3,195,659.10

Note 5. Capital Assets

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

	Beginning Balance	Additions	Transfers	Reductions	Ending Balance
Land	$3,729,000.00	$ -	$ -	$ -	$ 3,729,000.00
Land improvements and infrastructure	4,844,430.81	268,015.78	-	-	5,112,446.59
Buildings	70,149,406.53	-	-	-	70,149,406.53
Equipment	16,474,721.01	1,260,837.96	-	435,492.29	17,300,066.68
Library holdings	397,313.06	37,895.93	-	43,260.19	391,948.80
Intangible assets	2,404,536.40	-	-	-	2,404,536.40
Art and historical treasures	271,450.00	-	-	-	271,450.00
Projects in progress	48,796.45	504,324.59	-	-	553,121.04
Total	98,319,654.26	2,071,074.26	-	478,752.48	99,911,976.04
Less accumulated depreciation/amortization:					
Land improvements and infrastructure	2,868,698.19	199,498.26	-	-	3,068,196.45
Buildings	27,440,848.30	888,132.06	-	-	28,328,980.36
Equipment	9,699,629.10	1,270,967.76	-	384,170.36	10,586,426.50
Library holdings	238,868.40	39,194.89	-	43,260.19	234,803.10
Intangible assets	2,307,876.40	12,082.50	-	-	2,319,958.90
Total	42,555,920.39	2,409,875.47	-	427,430.55	44,538,365.31
Capital assets, net	$55,763,733.87	$(338,801.21)	$ -	$ 51,321.93	$55,373,610.73

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

	Beginning Balance	Additions	Transfers	Reductions	Ending Balance
Land	$3,729,000.00	$ -	$ -	$ -	$ 3,729,000.00
Land improvements and infrastructure	4,707,203.33	137,227.48	-	-	4,844,430.81
Buildings	70,149,406.53	-	-	-	70,149,406.53
Equipment	15,152,991.38	1,510,254.63	-	188,525.00	16,474,721.01
Library holdings	394,640.67	39,062.67	-	36,390.28	397,313.06
Intangible assets	2,404,536.40	-	-	-	2,404,536.40
Art and historical treasures	271,450.00	-	-	-	271,450.00
Projects in progress	-	48,796.45	-	-	48,796.45
Total	96,809,228.31	1,735,341.23	-	224,915.28	98,319,654.26
Less accumulated depreciation/amortization:					
Land improvements and infrastructure	2,682,600.72	186,097.47	-	-	2,868,698.19
Buildings	26,552,716.24	888,132.06	-	-	27,440,848.30
Equipment	8,530,013.14	1,271,832.67	-	102,216.71	9,699,629.10
Library holdings	235,527.37	39,731.31	-	36,390.28	238,868.40
Intangible assets	2,037,278.96	270,597.44	-	-	2,307,876.40
Total	40,038,136.43	2,656,390.95	-	138,606.99	42,555,920.39
Capital assets, net	$56,771,091.88	$ (921,049.72)	$ -	$ 86,308.29	$55,763,733.87

The decrease in building depreciation expense for the 2015 fiscal year is due to a change in accounting estimate. During fiscal year 2015, it was determined that buildings were more appropriately depreciated over a period of 60 years, instead of the 40 years previously used. This change resulted in a reduction of depreciation expense of $780,575.92.

Note 6. Accounts Payable

Accounts payable included the following:

	June 30, 2016	June 30, 2015
Vendors payable	$516,596.53	$576,761.54
Other payables	3,994.71	700.64
Total accounts payable	$520,591.24	$577,462.18

Note 7. Long-term Liabilities

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

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
TSSBA debt:					
Bonds	$2,583,800.52	$ -	$186,702.70	$2,397,097.82	$ 173,909.99
Unamortized bond premium	283,175.30	-	25,338.88	257,836.42	-
Subtotal	2,866,975.82	-	212,041.58	2,654,934.24	173,909.99
Other liabilities:					
Compensated absences	2,723,707.60	2,335,543.61	2,263,101.08	2,796,150.13	811,384.21
Subtotal	2,723,707.60	2,335,543.61	2,263,101.08	2,796,150.13	811,384.21
Total long-term liabilities	$5,590,683.42	$2,335,543.61	$2,475,142.66	$5,451,084.37	$985,294.20

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

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
TSSBA debt:					
Bonds	$2,918,715.80	$1,022,944.82	$1,357,860.10	$2,583,800.52	$186,702.70
Unamortized bond premium	148,124.43	160,389.75	25,338.88	283,175.30	-
Subtotal	3,066,840.23	1,183,334.57	1,383,198.98	2,866,975.82	186,702.70
Other liabilities:					
Compensated absences	2,777,740.44	2,132,400.66	2,186,433.50	2,723,707.60	799,311.37
Subtotal	2,777,740.44	2,132,400.66	2,186,433.50	2,723,707.60	799,311.37
Total long-term liabilities	$5,844,580.67	$3,315,735.23	$3,569,632.48	$5,590,683.42	$986,014.07

TSSBA Debt – Bonds

Bonds, with interest rates ranging from 2.50% to 5.00%, were issued by the Tennessee State School Bond Authority (TSSBA). The bonds are due serially to 2042 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, 2016, are as follows:

Year Ending June 30	Principal	Interest	Total
2017	$ 173,909.99	$ 104,697.26	$ 278,607.25
2018	185,516.59	97,962.60	283,479.19
2019	199,001.05	89,146.82	288,147.87
2020	208,194.17	78,986.82	287,180.99
2021	219,009.52	68,540.00	287,549.52
2022 – 2026	389,106.50	253,291.89	642,398.39
2027 – 2031	246,645.00	196,500.55	443,145.55
2032 – 2036	310,067.00	133,080.16	443,147.16
2037 – 2041	379,600.00	63,545.67	443,145.67
2042	86,048.00	2,581.44	88,629.44
Total	$2,397,097.82	$1,088,333.21	$3,485,431.03

Refunding of Debt

On August 27, 2014, the state issued $1,183,334.57 in revenue bonds with interest rates ranging from 3% to 5% to advance refund $1,108,935.10 of outstanding 2008A Series bonds with interest rates ranging from 4% to 5%. The net proceeds of $1,180,806.35 (after payment of $2,528.22 in underwriter's fees and issuance costs) were deposited with an escrow agent to provide for all future debt service payments on the bonds. As a result, the 2008A bonds are considered to be defeased, and the liability for those bonds has been removed from the college's long-term liabilities.

Although the advance refunding resulted in the recognition of a deferred loss of $71,871.25 to be amortized over the next 8 years, the college in effect reduced its aggregate debt service payments by $115,172.70 over the next 8 years and obtained an economic gain (difference between the present values of the old and new debt service payments) of $93,199.48.

Note 8. Pledged Revenues

The college has pledged certain revenues and fees, including state appropriations, to repay $2,397,097.82 in revenue bonds issued from August 2012 to August 2014 (see Note 7 for further detail). Proceeds from the bonds provided financing for energy savings and athletic field upgrades. The bonds are payable through 2042. Annual principal and interest payments on the bonds are expected to require 0.48% of available revenues. The total principal and interest remaining to be paid on the bonds at June 30, 2016, is $3,485,431.03. Principal and interest paid for fiscal year 2016 and total available revenues were $301,337.98 and $62,443,449.07, respectively. Principal and interest paid for fiscal year 2015 and total available revenues were $374,210.40 and $61,396,191.77, respectively. The amount of principal and interest paid for the 2015 year does not include debt of $1,108,935.10 defeased through a bond refunding in the 2015 fiscal year.

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, 2016, and June 30, 2015, to the Closed State and Higher Education Employee Pension Plan were $2,416,099.59 and $2,458,564.81, respectively, which is 15.03% of covered payroll. The employer rate is expected to finance the costs of benefits earned by members during the year and the cost of administration, as well as an amortized portion of any unfunded liability.

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

Pension liability – At June 30, 2016, the college reported a liability of $8,076,568.00 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 0.626439%.

At June 30, 2015, the college reported a liability of $4,443,960.00 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The college's proportion of the net pension liability was based on a projection of the college's contributions during the year ended June 30, 2014, to the pension plan relative to the contributions of all participating state and higher education agencies. At the June

30, 2014, measurement date, the college's proportion was 0.644100%, representing the first-time presentation of this proportion.

Pension expense – For the years ended June 30, 2016, and June 30, 2015, the college recognized pension expense of $808,986.00 and $662,093.00, respectively.

Deferred outflows of resources and deferred inflows of resources – For the years ended June 30, 2016, and June 30, 2015, the college reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

Fiscal Year 2016	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 854,633.00	$ 699,300.00
Net difference between projected and actual earnings on pension plan investments	-	1,038,265.19
Changes in proportion of net pension liability	-	237,938.00
College's contributions subsequent to the measurement date of June 30, 2015	2,416,099.59	-
Total	$3,270,732.59	$1,975,503.19

Fiscal Year 2015	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ -	$ 958,686.00
Net difference between projected and actual earnings on pension plan investments	-	5,444,371.00
College's contributions subsequent to the measurement date of June 30, 2014	2,458,564.81	-
Total	$2,458,564.81	$6,403,057.00

Deferred outflows of resources, resulting from the college's employer contributions of $2,416,099.59 subsequent to the measurement date, will be recognized as a decrease in net pension liability in the year ending June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended June 30	
2017	$(669,435.00)
2018	(669,435.00)
2019	(669,435.00)
2020	887,434.81

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

	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
College's net pension liability (asset)	$18,924,634.00	$8,076,568.00	$(1,066,260.00)

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

Payable to the Pension Plan

At June 30, 2016, and June 30, 2015, the college reported a payable of $203,640.10 and $210,670.08, 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 using the member's highest five consecutive year average compensation and the member's years of service credit. Service-related disability benefits are provided regardless of length of service. Five years of service is required for non-service-related disability eligibility. The service-related and non-service-related disability benefits are determined in the same manner as a service retirement benefit but are reduced 10% and include projected service 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. Under the State and Higher Education Employee Retirement Plan, benefit terms and conditions, including COLAs, can be adjusted on a prospective basis. Moreover, there are defined cost controls and unfunded liability controls that provide for the adjustment of benefit terms and conditions on an automatic basis.

Contributions – Contributions for state and higher education employees are established in the statutes governing the TCRS and may only be changed by the Tennessee General Assembly. Employees contribute 5% of their salary. The higher education institutions make employer contributions at the rate set by the Board of Trustees as determined by an actuarial valuation. Per the statutory provisions governing the TCRS, the employer contribution rate cannot be less than 4% for all aggregate employee groups, except in years when the maximum funded level, approved by the TCRS Board of Trustees, is reached. By law, employer contributions for the

State and Higher Education Employee Retirement Plan are required to be paid. Employer contributions by the college for the years ended June 30, 2016, and June 30, 2015, to the State and Higher Education Employee Retirement Plan were $98,765.11 and $42,889.97, respectively, which is 3.87% of covered payroll. The employer rate is 3.87% of covered payroll except for any salaries derived from federal funds where the employer rate is 2%. The employer rate, when combined with member contributions, is expected to finance the costs of benefits earned by members during the year and the cost of administration, as well as an amortized portion of any unfunded liability.

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

Pension asset – At June 30, 2016, the college reported an asset of $28,302.00 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 1.017721%, representing the first-time presentation of this proportion.

Pension expense – For the year ended June 30, 2016, the college recognized a pension expense of $23,475.00. Since the measurement date for the year ended June 30, 2015, was June 30, 2014, the college did not recognize a pension expense at June 30, 2015.

Deferred outflows of resources and deferred inflows of resources – For the years ended June 30, 2016, and June 30, 2015, the college reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

Fiscal Year 2016	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ -	$10,530.00
Net difference between projected and actual earnings on pension plan investments	1,642.97	-
College's contributions subsequent to the measurement date of June 30, 2015	98,765.11	-
Total	$100,408.08	$10,530.00

Fiscal Year 2015	Deferred Outflows of Resources	Deferred Inflows of Resources
College's contributions subsequent to the measurement date of June 30, 2014	$42,889.97	$ -

Deferred outflows of resources, resulting from the college's employer contributions of $98,765.11 subsequent to the measurement date, will be recognized as a decrease in net pension liability in the year ending June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended June 30	
2017	$ (906.00)
2018	(906.00)
2019	(906.00)
2020	(906.00)
2021	(1,316.00)
Thereafter	(3,947.03)

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

Actuarial assumptions – The total pension asset as of the June 30, 2015, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

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

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

The actuarial assumptions used in the June 30, 2015, actuarial valuation were based on the results of an actuarial experience study performed for the period July 1, 2008, through June 30, 2012. The demographic assumptions were adjusted to more closely reflect actual and expected future experience.

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

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

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

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

	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
College's net pension liability (asset)	$(11,119.00)	$(28,302.00)	$(41,162.00)

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

Payable to the Pension Plan

At June 30, 2016, and at June 30, 2015, the college reported a payable of $14,409.02 and $4,826.07, 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, 2016, for all state and local government defined benefit pension plans was $832,461.00. The total pension expense for the year ended June 30, 2015, for all state and local government defined benefit pension plans was $662,093.00.

Defined Contribution Plans

Optional Retirement Plans

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

Funding policy – For employees employed prior to July 1, 2014, plan members are noncontributory. The college contributes an amount equal to 10% of the employee's base salary up to the social security wage base and 11% above the social security wage base. For employees hired after June 30, 2014, plan members will contribute 5% to the ORP and the college will contribute 9% of the employee's base salary. Pension expense equaled the required contributions made to the ORP and were $1,639,832.92 for the year ended June 30, 2016; $1,644,994.32 for the year ended June 30, 2015; and $1,652,059.33 for the year ended June 30, 2014. Contributions met the requirements for each year.

Members are immediately 100% vested in the employer contributions made pursuant to the ORP. The Treasury Department has selected three investment vendors who offer a variety of investment products, 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 are voluntary for employees. The college provides up to a $50 monthly employer match for employees who participate in the state's 401(k) plan. Employees hired before July 1, 2014, voluntarily participate in the state's 401(k) plan. Pursuant to Public Chapter No. 259 of Public Acts of 2013, employees hired after June 30, 2014, are automatically enrolled in the state's 401(k) plan and contribute 2% of their salary, with the employer contributing an additional non-matching 5%. Employees may opt out of the 2% auto enrollment. Such contribution rates may only be amended by the Tennessee General Assembly. There are certain automatic cost controls and unfunded liability controls in the defined benefit plan where the employees participate that may impact the non-matching 5% employer contribution to the 401(k) plan.

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

During the year ended June 30, 2016, contributions totaling $841,166.72 were made by employees participating in the 401(k) plan, and the college recognized pension expense of $439,980.47 for employer contributions. During the year ended June 30, 2015, contributions totaling $791,037.74 were made by employees participating in the 401(k) plan, with contributions of $355,062.96 made by the college. During the year ended June 30, 2014, contributions totaling $894,126.91 were made by employees participating in the 401(k) plan, with contributions of $302,980.00 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 14. The plans are reported in the *Tennessee Comprehensive Annual Financial Report* (CAFR). The CAFR is available on the state's website at www.tn.gov/finance/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 Chattanooga State Community College. The state is the sole contributor for the college retirees who participate in the Medicare Supplement Plan and, therefore, is acting as the employer.

Funding Policy

The premium requirements of 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

	2016	2015
Annual required contribution (ARC)	$ 777,000.00	$ 746,000.00
Interest on the net OPEB obligation	121,988.93	130,076.86
Adjustment to the ARC	(122,478.84)	(126,726.21)
Annual OPEB cost	776,510.09	749,350.65
Amount of contribution	(744,796.97)	(748,234.10)
Increase in net OPEB obligation	31,713.12	1,116.55
Net OPEB obligation – beginning of year	3,253,037.95	3,251,921.40
Net OPEB obligation – end of year	$3,284,751.07	$3,253,037.95

Year-end	Plan	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation at Year-end
June 30, 2016	State Employee Group Plan	$776,510.09	95.9%	$3,284,751.07
June 30, 2015	State Employee Group Plan	$749,350.65	99.9%	$3,253,037.95
June 30, 2014	State Employee Group Plan	$722,309.43	94.5%	$3,251,921.40

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)	$ 6,002,000.00
Actuarial value of plan assets	-
Unfunded actuarial accrued liability (UAAL)	$ 6,002,000.00
Actuarial value of assets as a percentage of the AAL	0.00%
Covered payroll (active plan members)	$29,476,007.41
UAAL as percentage of covered payroll	20.4%

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. Insurance-related Activities

It is the policy of the state not to purchase commercial insurance for the risks associated with casualty losses for general liability, automobile liability, professional medical malpractice, and workers' compensation. The state's management believes it is more economical to manage these risks internally and set aside assets for claim settlement in its internal service fund, the Risk Management Fund (RMF). The state purchases commercial insurance for real property; 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 earthquakes 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. An actuarial valuation is performed as of fiscal year-end to determine the fund liability and premium allocation. Information regarding the determination of the claims liabilities and the changes in the balances of the claims liabilities for the year ended June 30, 2016, 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. Since the college participates in the Risk Management Fund, it is subject to the liability limitations under the provisions of the Tennessee Claims Commission Act, Section 9-8-101 et seq., *Tennessee Code Annotated*. Liability for negligence of the college for bodily injury and property damage is limited to $300,000 per person and $1,000,000 per occurrence. At June 30, 2016, the Risk Management Fund held $142.9 million in cash designated for payment of claims. At June 30, 2015, the Risk Management Fund held $127.9 million in cash designated for payment of claims.

At June 30, 2016, the scheduled coverage for the college was $123,898,400 for buildings and $44,270,300 for contents. At June 30, 2015, the scheduled coverage for the college was $123,898,400 for buildings and $41,234,800 for contents.

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

Note 12. Commitments and Contingencies

Sick Leave

The college records the cost of sick leave when paid. The dollar amount of unused sick leave was $10,643,779.33 at June 30, 2016, and $9,707,464.88 at June 30, 2015.

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 $240,737.21 and expenses for personal property were $120,719.01 for the year ended June 30, 2016. The amounts for the year ended June 30, 2015, were $246,709.25 and $123,135.63. All operating leases are cancelable at the lessee's option.

Construction in Progress

At June 30, 2016, outstanding commitments under construction contracts totaled $913,281.40 for parking lot updates and a TCAT lift station, of which $609,242.10 will be funded by future state capital outlay appropriations.

Litigation

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

Note 13. Natural Classification With Functional Classifications

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

	Natural Classification					
Functional Classification	Salaries	Benefits	Other Operating	Scholarships	Depreciation	Total
Instruction	$24,351,604.51	$ 7,116,534.07	$ 7,922,877.52	$ 68,852.87	$ -	$39,459,868.97
Public service	436,186.97	98,714.24	195,271.58	55,899.60	-	786,072.39
Academic support	4,675,029.91	1,535,418.84	(472,324.37)	17,648.58	-	5,755,772.96
Student services	3,947,397.23	1,237,387.62	1,701,907.91	447,062.54	-	7,333,755.30
Institutional support	4,238,722.44	1,325,061.69	1,989,422.22	16,980.25	-	7,570,186.60
Maintenance & operation	2,360,902.91	888,262.89	4,162,499.24	2,923.50	-	7,414,588.54
Scholarships & fellowships	231,758.88	3,304.77	1,240.00	14,111,857.27	-	14,348,160.92
Auxiliary	275,669.49	123,156.05	1,027,618.28	4,041.75	-	1,430,485.57
Depreciation	-	-	-	-	2,409,875.47	2,409,875.47
Total	$40,517,272.34	$12,327,840.17	$16,528,512.38	$14,725,266.36	$2,409,875.47	$86,508,766.72

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

	Natural Classification					
Functional Classification	Salaries	Benefits	Other Operating	Scholarships	Depreciation	Total
Instruction	$23,332,069.99	$ 6,719,113.17	$ 8,669,516.52	$ 83,191.78	$ -	$38,803,891.46
Research	1,795.00	137.32	8,160.72	-	-	10,093.04
Public service	424,756.76	117,054.09	308,237.62	51,568.66	-	901,617.13
Academic support	4,316,704.34	1,406,486.64	(1,116,104.19)	14,949.38	-	4,622,036.17
Student services	3,807,674.98	1,139,980.69	1,552,643.63	472,937.39	-	6,973,236.69
Institutional support	4,987,952.20	1,452,301.86	2,101,323.56	9,596.50	-	8,551,174.12
Maintenance & operation	1,638,627.32	643,801.18	3,723,184.59	3,799.98	-	6,009,413.07
Scholarships & fellowships	195,562.69	3,900.48	209.29	14,614,050.92	-	14,813,723.38
Auxiliary	265,763.23	118,918.64	895,890.92	1,004.50	-	1,281,577.29
Depreciation	-	-	-	-	2,656,390.95	2,656,390.95
Total	$38,970,906.51	$11,601,694.07	$16,143,062.66	$15,251,099.11	$2,656,390.95	$84,623,153.30

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 $3,232,212.26 for the year ended June 30, 2016, and $3,037,464.69 for the year ended June 30, 2015, were reallocated from academic support to the other functional areas and caused academic support operating expenses to appear as a negative amount in the schedule above.

Note 14. On-behalf Payments

During the year ended June 30, 2016, the State of Tennessee made payments of $33,425.00 on behalf of the college for retirees participating in the Medicare Supplement Plan. The amount for the year ended June 30, 2015, was $28,900.00. The Medicare Supplement Plan is a postemployment benefit healthcare plan and is discussed further in Note 10. The plan is reported in the *Tennessee Comprehensive Annual Financial Report*. That report is available on the state's website at www.tn.gov/finance/article/fa-accfin-cafr.

Note 15. Cumulative Effect of a Change in Accounting Principle

During fiscal year 2015, the college implemented GASB Statement 68, *Accounting and Financial Reporting for Pensions*, and GASB Statement 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. These statements establish standards for the measurement, recognition, and display of the net pension liability and related expenses, deferred outflows of resources, deferred inflows of resources, note disclosures, and required supplementary information. The implementation of these statements resulted in a cumulative adjustment to beginning net position of $(10,184,924.00). This cumulative adjustment does not include related deferred outflows and deferred inflows of resources.

Note 16. Component Unit

The Chattanooga State Community College Foundation is a legally separate, tax-exempt organization supporting Chattanooga 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. The12-member board of the foundation is self-perpetuating and consists of graduates and friends of the college. Although the college does not control the timing or amount of receipts from the foundation, the majority of resources, or income thereon, that the foundation holds and invests are restricted to the activities of the college by the donors. Because these restricted resources held by the foundation can only be used by, or for the benefit of, the college, the foundation is considered a component unit of the college and is discretely presented in the college's financial statements.

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

During the year ended June 30, 2016, the foundation made distributions of $530,135.61 to or on behalf of the college for both restricted and unrestricted purposes. During the year ended June

30, 2015, the foundation made distributions of $336,003.35 to or on behalf of the college for both restricted and unrestricted purposes. Complete financial statements for the foundation can be obtained from Ms. Tammy Swenson, the college's Executive Vice President for Business and Finance, 4501 Amnicola Highway, Chattanooga, TN 37406.

Fair-value Measurements

The foundation reports certain assets at fair value. Fair value has been determined using quoted prices in active markets for identical assets that are accessible at the measurement date (Level 1), inputs other than quoted market prices included in Level 1 that are directly or indirectly observable for the asset (Level 2), or significant unobservable inputs (Level 3). The following table categorizes the recurring fair-value measurements for assets at June 30, 2016, and at June 30, 2015.

	Total Fair Value at June 30, 2016	Quoted Prices Level 1	Significant Other Inputs Level 2	Significant Unobservable Inputs Level 3
Assets:				
Cash equivalents	$ 107,282.30	$ 107,282.30	$ -	$ -
Investments	5,278,784.70	4,540,062.70	-	738,722.00
Pledges receivable	175,591.47	-	-	175,591.47
Total assets	$5,561,658.47	$4,647,345.00	$ -	$914,313.47

	Total Fair Value at June 30, 2015	Quoted Prices Level 1	Significant Other Inputs Level 2	Significant Unobservable Inputs Level 3
Assets:				
Cash equivalents	$ 150,065.78	$ 150,065.78	$ -	$ -
Investments	5,584,289.86	4,817,318.86	-	766,971.00
Pledges receivable	250,653.41	-	-	250,653.41
Total assets	$5,985,009.05	$4,967,384.64	$ -	$1,017,624.41

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

At June 30, 2016	Beginning Balance	Total Gains/ (Losses), Realized and Unrealized	Other	Ending Balance
Assets:				
Investments	$ 766,971.00	$(28,249.00)	$ -	$738,722.00
Pledges receivable	250,653.41	-	(75,061.94)	175,591.47
Total assets	$1,017,624.41	$(28,249.00)	$(75,061.94)	$914,313.47

At June 30, 2015	Beginning Balance	Total Gains/ (Losses), Realized and Unrealized	Other	Ending Balance
Assets:				
Investments	$ 694,865.00	$72,106.00	$ -	$ 766,971.00
Pledges receivable	497,875.09	-	(247,221.68)	250,653.41
Total assets	$1,192,740.09	$72,106.00	$(247,221.68)	$1,017,624.41

All gains and losses, both realized and unrealized, have been reported on the statement of revenues, expenses, and changes in net position as investment income. Of this total, $(116,470.00) is attributable to the change in unrealized gains or losses relating to those assets and liabilities still held at June 30, 2016, and $(33,655.00) is attributable to the change in unrealized gains or losses relating to those assets and liabilities still held at June 30, 2015.

Cash and Cash Equivalents

Cash and cash equivalents consist of demand deposit accounts, money market funds, and cash held in investment accounts.

Investments

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

Investments held at June 30, 2016, were as follows*:*

	Cost	Fair Value
U.S. treasury obligations	$ 130,382.14	$ 137,747.35
Corporate stock	1,190,454.24	1,369,042.12
Corporate bonds	172,614.36	175,522.35
Mutual bond funds	1,037,033.30	1,030,612.05
Mutual equity funds	1,847,597.23	1,827,138.83
Investment as limited partner in hedge fund	709,558.00	738,722.00
Total investments	$5,087,639.27	$5,278,784.70

Investments held at June 30, 2015, were as follows:

	Cost	Fair Value
U.S. treasury obligations	$ 102,459.83	$ 104,090.39
Corporate stock	1,207,915.67	1,464,569.75
Corporate bonds	182,229.14	183,064.40
Mutual bond funds	1,089,873.85	1,077,777.18
Mutual equity funds	1,914,284.18	1,987,817.14
Investment as limited partner in hedge fund	621,337.00	766,971.00
Total investments	$5,118,099.67	$5,584,289.86

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

	2016	2015
Dividends and interest, net of expenses of $40,978.21 for 2016 and $44,898.66 for 2015	$ 112,008.49	$111,926.07
Net realized and unrealized gains	(141,226.40)	6,515.16
Total return on investments	(29,217.91)	118,441.23
Endowment income per spending plan	155,635.00	201,547.00
Investment return net of amounts designated for current operations	$(184,852.91)	$ (83,105.77)

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

Alternative investment – The foundation had an investment in a limited partnership hedge fund. The estimated fair value of these assets was $738,722.00 at June 30, 2016, and $766,971.00 at June 30, 2015.

The hedge fund partnership is a "fund of funds," a hedge fund which invests for the most part in other hedge funds. The foundation believes the carrying amount of its alternative investment is a reasonable estimate of its fair value as of June 30, 2016, and as of June 30, 2015. Because this investment is 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 investment existed, and such differences could be material. This investment is 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. This investment is designed to enhance diversification and provide reductions in overall portfolio volatility. These fair values are estimated using various valuation techniques.

The fund is audited annually by an independent CPA firm and the fund's third-party accounting administrator receives an annual SOC1 controls audit from an independent CPA firm. The foundation's investment committee reviews the audit report, the SOC1 report, and conducts quarterly reviews of the fund's strategy, positions, valuation, and performance. Based on the results of this monitoring process, it is the opinion of the foundation's investment committee that the fund's value may be determined by using the monthly account statements prepared by the fund's third-party accounting administrator and forwarded to the foundation via the fund's general partner.

Pledges Receivable

Pledges receivable are summarized below:

	June 30, 2016	June 30, 2015
Current pledges	$ 22,890.00	$ 90,730.00
Pledges due in one to five years	83,005.00	80,750.00
Pledges due after five years	80,000.00	100,000.00
Subtotal	185,895.00	271,480.00
Less discount to net present value	(10,303.53)	(20,826.59)
Total pledges receivable, net	$175,591.47	$250,653.41

Capital Assets

Capital assets were as follows:

	June 30, 2016	June 30, 2015
Land	$725,603.03	$725,603.03

Endowments

The Chattanooga State Community College Foundation's endowments consist of 66 individual funds established for a variety of purposes. Its endowment includes donor-restricted endowment funds. As required by accounting principles generally accepted in the United States of America, net position associated with endowment funds is classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of relevant law – The Board of Directors of the Chattanooga State Community College Foundation has interpreted the Uniform Prudent Management of Institutional Funds Act (the Act) as adopted by Tennessee as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Chattanooga State Community College Foundation classifies as permanently restricted net position 1) the original value of gifts donated to the permanent endowment; 2) the original value of subsequent gifts to the permanent endowment; and 3) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net position is classified as temporarily restricted net position until the foundation appropriates those amounts for expenditure in a manner consistent with the standard of prudence prescribed by the Act. In accordance with the Act, the foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: 1) the duration and preservation of the fund; 2) the purposes of the foundation and the endowment fund; 3) the general economic conditions; 4) the possible effect of inflation or deflation; 5) the expected total return from income and the appreciation of investments; 6) the other resources of the foundation; and 7) the investment policies of the foundation.

Composition of Endowment by Net Position Class
As of June 30, 2016

	Permanently Restricted	Temporarily Restricted	Unrestricted	Total
Donor-restricted endowment funds	$2,569,608.33	$1,401,815.07	$ -	$3,971,423.40

Composition of Endowment by Net Position Class
As of June 30, 2015

	Permanently Restricted	Temporarily Restricted	Unrestricted	Total
Donor-restricted endowment funds	$2,540,911.10	$1,568,116.64	$ -	$4,109,027.74

Changes in Endowment Net Position
For the Fiscal Year Ended June 30, 2016

	Permanently Restricted	Temporarily Restricted	Unrestricted	Total
Endowment net position, beginning of year	$2,540,911.10	$1,568,116.64	$ -	$4,109,027.74
Investment return:				
Investment income	-	110,094.03	-	110,094.03
Net appreciation (realized and unrealized)	-	(136,542.50)	-	(136,542.50)
Total investment return	-	(26,448.47)	-	(26,448.47)
Contributions	28,697.23	-	-	28,697.23
Appropriations of endowment assets for expenditure	-	(139,853.10)	-	(139,853.10)
Endowment net position, end of year	$2,569,608.33	$1,401,815.07	$ -	$3,971,423.40

Changes in Endowment Net Position
For the Fiscal Year Ended June 30, 2015

	Permanently Restricted	Temporarily Restricted	Unrestricted	Total
Endowment net position, beginning of year	$2,381,966.05	$1,677,418.90	$ -	$4,059,384.95
Investment return:				
Investment income	-	107,067.51	-	107,067.51
Net appreciation (realized and unrealized)	-	7,706.19	-	7,706.19
Total investment return	-	114,773.70	-	114,773.70
Contributions	83,945.05	-	-	83,945.05
Appropriations of endowment assets for expenditure	-	(149,075.96)	-	(149,075.96)
Transfers	75,000.00	(75,000.00)	-	-
Endowment net position, end of year	$2,540,911.10	$1,568,116.64	$ -	$4,109,027.74

Return objectives and risk parameters – The foundation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the organization must hold in perpetuity or for a donor-specified period. Under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner that is intended to produce results that preserve, protect, and grow its assets by earning a total return with appropriate consideration given to time horizon, distribution requirements, and risk tolerance. The foundation expects its endowment funds, over time, to provide an average rate of return of approximately 5% annually. Actual returns in any given year may vary from this amount.

Strategies employed for achieving objectives – To satisfy its long-term rate-of-return objectives, the foundation relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The foundation employs a blended investment approach in order to diversify the entire asset pool, and achieve its long-term return objectives within prudent risk restraints.

Spending policy and how the investment objectives relate – The foundation has a policy of appropriating for distribution each year (unless stated otherwise in the applicable donor gift instrument) the lesser of (a) 4.5% of the endowment fund's average fair value, calculated on fair values determined at least quarterly and averaged over a period of not less than three years through the calendar year-end preceding the fiscal year in which the distribution is planned or (b) the balance of the expendable portion of the endowment fund as projected for June 30 of the year preceding the fiscal year in which the distribution is planned. In establishing this policy, the foundation considered the long-term expected return on its endowment. Accordingly, over the long-term, the foundation expects the current spending policy to allow its endowment to grow at an average of the annual inflation rate. This is consistent with the foundation's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term, as well as to provide additional real growth through new gifts and investment return.

Support From Chattanooga State Community College

The college paid certain payroll costs for college personnel who also performed services supporting the foundation amounting to $105,264.09 in fiscal year 2016 and $98,145.11 in fiscal year 2015. These supporting costs paid by the college are reflected in the statement of revenues, expenses, and changes in net position as college support, with a like amount included in expenses. The college provides office space and the use of certain common facilities and services to the foundation at no cost. These costs have not been recorded as college support because they are not considered to be significant to the operations of the foundation.

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

	2016	2015
College's proportion of the net pension liability	0.626439%	0.644100%
College's proportionate share of the net pension liability	$8,076,568.00	$4,443,960.00
College's covered payroll	$16,357,716.63	$17,596,298.67
College's proportionate share of the net pension liability as a percentage of its covered payroll	49.37%	25.26%
Plan fiduciary net position as a percentage of the total pension liability	91.26%	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

Chattanooga State Community College

Required Supplementary Information

Schedule of Chattanooga State Community College’s Proportionate Share of the Net Pension Asset

State and Higher Education Employee Retirement Plan Within TCRS

	2016
College’s proportion of the net pension asset	1.017721%
College’s proportionate share of the net pension asset	$28,302.00
College’s covered payroll	$1,108,267.00
College’s proportionate share of the net pension asset as a percentage of its covered payroll	2.55%
Plan fiduciary net position as a percentage of the total pension liability	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
Chattanooga State Community College
Required Supplementary Information
Schedule of Chattanooga State Community College's Contributions
Closed State and Higher Education Employee Pension Plan Within TCRS

	Contractually Determined Contributions	Contributions in Relation to Contractually Determined Contribution	Contribution Deficiency (Excess)	Covered Payroll	Contributions as a Percentage of Covered Payroll
2016	$2,416,099.59	$2,416,099.59	$ -	$16,075,180.24	15.03%
2015	2,458,564.81	2,458,564.81	-	16,357,716.63	15.03%
2014	2,644,723.69	2,644,723.69	-	17,596,298.67	15.03%
2013	2,514,443.50	2,514,443.50	-	16,729,497.67	15.03%
2012	2,374,906.73	2,374,906.73	-	15,928,281.22	14.91%
2011	2,273,295.17	2,273,295.17	-	15,246,781.82	14.91%
2010	1,917,916.86	1,917,916.86	-	14,730,544.24	13.02%
2009	1,927,132.09	1,927,132.09	-	14,801,321.74	13.02%
2008	1,930,544.46	1,930,544.46	-	14,174,335.24	13.62%
2007	1,787,906.00	1,787,906.00	-	13,127,063.14	13.62%

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

	2016	2015
Contractually determined contribution	$ 98,765.11	$ 42,889.97
Contributions in relation to the contractually determined contribution	98,765.11	42,889.97
Contribution deficiency (excess)	$ -	$ -
Covered payroll	$2,552,153.57	$1,108,267.00
Contributions as a percentage of covered payroll	3.87%	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
Chattanooga 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	$ -	$6,002,000.00	$6,002,000.00	0%	$29,476,007.41	20.4%
July 1, 2013	State Employee Group Plan	$ -	$5,475,000.00	$5,475,000.00	0%	$27,881,402.47	19.6%
July 1, 2011	State Employee Group Plan	$ -	$6,041,000.00	$6,041,000.00	0%	$25,885,377.48	23.3%

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

Supplementary Information

CHATTANOOGA STATE COMMUNITY COLLEGE FOUNDATION

Supplementary Schedules of Cash Flows - Component Unit

For the Years Ended June 30, 2016, and June 30, 2015

	Year Ended June 30, 2016	Year Ended June 30, 2015
Cash flows from operating activities		
Gifts and contributions	$ 597,589.55	$ 712,153.34
Payments to suppliers and vendors	(69,619.44)	(54,246.60)
Payments for scholarships and fellowships	(340,754.43)	(474,054.29)
Payments to Chattanooga State Community College	(569,310.27)	(292,791.35)
Other receipts	27,940.00	28,175.33
Net cash used by operating activities	(354,154.59)	(80,763.57)
Cash flows from noncapital financing activities		
Private gifts for endowment purposes	37,805.00	131,415.02
Net cash provided by noncapital financing activities	37,805.00	131,415.02
Cash flows from investing activities		
Proceeds from sales and maturities of investments	164,278.76	303,944.27
Income on investments	112,008.49	111,926.07
Purchases of investments	-	(328,636.26)
Net cash provided by investing activities	276,287.25	87,234.08
Net increase (decrease) in cash and cash equivalents	(40,062.34)	137,885.53
Cash and cash equivalents - beginning of year	307,803.20	169,917.67
Cash and cash equivalents - end of year	$ 267,740.86	$ 307,803.20
Reconciliation of operating loss to net cash used by operating activities:		
Operating loss	$ (340,614.19)	$ (211,880.39)
Adjustments to reconcile operating loss to net cash used by operating activities:		
Endowment income per spending plan	(155,635.00)	(201,547.00)
Gifts in-kind	105,264.09	98,145.11
Change in assets and liabilities:		
Receivables	65,954.17	199,751.71
Prepaid expenses	-	2,600.00
Accounts payable	(39,123.66)	39,667.00
Unearned revenues	10,000.00	(7,500.00)
Net cash used by operating activities	$ (354,154.59)	$ (80,763.57)
Noncash investing, capital, and financing activities		
Unrealized losses on investments	$ (275,044.76)	$ (297,429.11)

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

The Honorable Bill Haslam, Governor
Members of the General Assembly
The Honorable Flora W. Tydings, Chancellor
Dr. Rebecca Ashford, President

We have audited the financial statements of Chattanooga 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, 2016, and June 30, 2015, and the related notes to the financial statements, which collectively comprise the college's basic financial statements, and have issued our report thereon dated August 3, 2017. 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. Given these limitations, during our audit we did not identify any deficiencies that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

We did, however, note an immaterial instance of noncompliance that we have included in the Finding and Recommendation section of this report.

Chattanooga State Community College's Response to Finding

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

Purpose of This Report

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

Deborah V. Loveless

Deborah V. Loveless, CPA
Director
August 3, 2017

Finding and Recommendation

<u>The timesheets of Federal Work-Study students were not properly monitored</u>

Condition

During the year ended June 30, 2016, supervisors of Federal Work-Study Program students did not properly monitor student hours to ensure that students were not paid for working during class time. In addition, inadequate monitoring led to other errors, including duplicate payments for reported time.

Our test of a sample of $24,934.50 from a total population of $158,533.88 resulted in total questioned costs of $1,603.57.

Criteria

According to Title 34, *Code of Federal Regulations*, Part 675, Section 19, ". . . the institution must . . . establish and maintain program and fiscal records that include a certification by the student's supervisor . . . that each student has worked and earned the amount being paid."

Chattanooga State policies over the Federal Work-Study Program are written and presented in the *Chattanooga State Student Employment Guide*, which states, "Federal Work-Study students are prohibited from working during scheduled class times." In addition, the *Student Employment Guide* states ". . . it is . . . the supervisors' responsibility to monitor the student hours and to ensure they do not exceed hours or award amounts and make sure the student is not working during class time."

Cause

Departmental supervisors did not comply with federal requirements and college policies.

Effect

There were 217 instances noted where reported time worked overlapped with the students' class schedules. These overlaps occurred in 13 of the 15 departments from which Federal Work-Study students were selected for testing. In addition, four instances were noted in which time reported on one monthly timesheet was subsequently reported on the next monthly timesheet for the same student. This resulted in the student being paid twice for the same reported time. This duplicate time reporting error occurred in three different departments. We also noted one instance in which hours worked were reported to have occurred on a mislabeled day, "10/1/2315," which was not caught and corrected. Based on available documentation, students were paid for time they were apparently in class, and students were paid twice for time they did work.

Recommendation

Management should institute training to ensure that supervisors of Federal Work-Study employees properly monitor student hours and that they are aware of applicable federal requirements and college policies. Unless a valid exception is documented, students should not be paid for hours worked during scheduled class hours. Supervisors should be made aware of the possibility of duplicate payments.

Management's Comment

We concur with this audit finding.

In reference to duplicate time entries and incorrect pay periods, the college is moving to allow students to log their hours worked online in Self-Service Banner. With the entry of time online, controls are built in to prevent any duplicate hours from being entered and therefore paid. This process should be in place by December 31, 2017.

In reference to time being worked during student workers' class times, the Federal Work-Study (FWS) Coordinator has been conducting monthly audits of each department utilizing FWS student workers. A new Exception Request Form has been developed and will be available starting Fall Semester 2017. Supervisors and students will be trained on how to process the form. The form will be available to student workers in the student portal and required to document any exceptions to the prohibition of working during scheduled class times. Student workers will be required to note the reason(s) for the exception(s) and route the form to the appropriate instructor(s) for their electronic signature. The form will then be routed to the supervisor for their electronic signature, and then sent to the Financial Aid Office for review. This form will be filed electronically with the student worker record. As training is enhanced and time reporting improves, we hope to scale the audit process back to quarterly or by semester, rather than monthly.

Observation and Comment

College of Applied Technology

Pursuant to Chapter 244 of the Public Acts of 1981, Chattanooga State Community College and Chattanooga State Area Vocational-Technical School were consolidated as one institution effective July 1, 1981. Established as a pilot program, the consolidation was to remain in effect for three years, after which designated legislative committees would consider continuation, modification, or termination of the program. Legislation was enacted, effective July 1, 1983, permanently merging Chattanooga State Community College and Chattanooga State Area Vocational-Technical School. The Chattanooga State Area Vocational-Technical School changed its name to the Tennessee Technology Center at Chattanooga effective July 1, 1994. Effective July 1, 2013, the Tennessee Technology Center at Chattanooga changed its name to the Tennessee College of Applied Technology at Chattanooga.