



**STATE OF TENNESSEE  
COMPTROLLER OF THE TREASURY**

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**TENNESSEE BOARD OF REGENTS  
PELLISSIPPI STATE COMMUNITY COLLEGE**

**Financial and Compliance Audit Report**

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

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**Justin P. Wilson, Comptroller**



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JUSTIN P. WILSON  
*Comptroller*

JASON E. MUMPOWER  
*Chief of Staff*

September 27, 2018

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

Ladies and Gentlemen:

Transmitted herewith is the financial and compliance audit of the Tennessee Board of Regents, Pellissippi State Community College, for the years ended June 30, 2017, and June 30, 2016. You will note from the independent auditor's report that unmodified opinions were given on the fairness of the presentation of the financial statements.

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

Sincerely,

A handwritten signature in black ink that reads "Deborah V. Loveless".

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

18/060

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

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State of Tennessee

# **A u d i t   H i g h l i g h t s**

Comptroller of the Treasury

Division of State Audit

Financial and Compliance Audit

**Tennessee Board of Regents**

**Pellissippi State Community College**

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

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## **Opinions on the Financial Statements**

The opinions on the financial statements are unmodified.

## **Audit Findings**

The audit report contains no findings.



JUSTIN P. WILSON  
*Comptroller*

JASON E. MUMPOWER  
*Chief of Staff*

## **Independent Auditor's Report**

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

### **Report on the Financial Statements**

We have audited the accompanying financial statements of Pellissippi State Community College, an institution of the State University and Community College System of Tennessee, which is a component unit of the State of Tennessee, and its discretely presented component unit as of and for the years ended June 30, 2017, and June 30, 2016, and the related notes to the financial statements, which collectively comprise the basic financial statements as listed in the table of contents.

#### ***Management's Responsibility for the Financial Statements***

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

#### ***Auditor's Responsibility***

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

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

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

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

### ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of Pellissippi State Community College, and its discretely presented component unit as of June 30, 2017, and June 30, 2016; and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Emphasis of Matters***

As discussed in Note 1, the financial statements of Pellissippi 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 Pellissippi State Community College. They do not purport to, and do not, present fairly the financial position of the State University and Community College System of Tennessee as of June 30, 2017, and June 30, 2016, and the changes in financial position and cash flows thereof for the years then ended, in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

As discussed in Note 17, the financial statements of Pellissippi State Community College Foundation, a discretely presented component unit of Pellissippi State Community College, include investments valued at \$10,616,430.98 at June 30, 2017 (63.2% of net position of the foundation), and \$9,593,860.72 at June 30, 2016 (73.5% of net position of the foundation), whose fair values have been estimated by management in the absence of readily determinable fair values. Management's estimates are based on information provided by the fund managers. Our opinion is not modified with respect to this matter.

### ***Other Matters***

#### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 6 through 19; the schedule of Pellissippi State Community College's proportionate share of the net pension liability – Closed State and Higher Education Employee Pension Plan within TCRS on page 58; the schedule of Pellissippi State Community College's proportionate share of the net pension asset – State and Higher Education



Employee Retirement Plan within TCRS on page 59; the schedule of Pellissippi State Community College's contributions – Closed State and Higher Education Employee Pension Plan within TCRS on page 60; the schedule of Pellissippi State Community College's contributions – State and Higher Education Employee Retirement Plan within TCRS on page 61; and the other postemployment benefits schedule of funding progress on page 62 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during the audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

#### *Supplementary Information*


Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the college's basic financial statements. The supplementary schedules of cash flows – component unit on page 63 are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

#### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated September 5, 2018, on our consideration of the college's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of

that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the college's internal control over financial reporting and compliance.



Deborah V. Loveless, CPA, Director  
Division of State Audit  
September 5, 2018

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

**Introduction**

This section of Pellissippi State Community College's financial report presents a discussion and analysis of the financial performance of the college during the fiscal years ended June 30, 2017, and June 30, 2016, with comparative information presented for the year ended June 30, 2015. This discussion has been prepared by management along with the financial statements and related note disclosures and should be read in conjunction with the independent auditor's report, financial statements, and the notes to the financial statements. The financial statements, notes, and this discussion are the responsibility of management.

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

**Overview of the Financial Statements**

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

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

**The Statement of Net Position**

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

recognized when goods or services are provided or received, despite when cash is actually exchanged.

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

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

The following table summarizes the college's assets, liabilities, deferred outflows/inflows of resources, and net position at June 30, 2017; June 30, 2016; and June 30, 2015.

**Summary of Net Position  
(in thousands of dollars)**

	<u>2017</u>	<u>2016</u>	<u>2015</u>
<b>Assets:</b>			
Current assets	\$17,167	\$16,959	\$18,150
Capital assets, net	67,981	69,044	68,572
Other assets	9,043	6,334	4,984
<b>Total assets</b>	<b>94,191</b>	<b>92,337</b>	<b>91,706</b>
<b>Deferred outflows of resources:</b>			
Deferred amount on debt refunding	44	53	63
Deferred outflows related to pensions	6,452	3,386	2,146
<b>Total deferred outflows</b>	<b>6,496</b>	<b>3,439</b>	<b>2,209</b>
<b>Liabilities:</b>			
Current liabilities	7,254	7,805	7,258
Noncurrent liabilities	15,464	11,648	8,320
<b>Total liabilities</b>	<b>22,718</b>	<b>19,453</b>	<b>15,578</b>
<b>Deferred inflows of resources:</b>			
Deferred inflows related to pensions	584	1,505	5,080
<b>Total deferred inflows</b>	<b>584</b>	<b>1,505</b>	<b>5,080</b>
<b>Net position:</b>			
Investment in capital assets	67,981	69,044	68,572
Restricted – expendable	2,377	1,721	524
Unrestricted	7,027	4,053	4,161
<b>Total net position</b>	<b>\$77,385</b>	<b>\$74,818</b>	<b>\$73,257</b>

Comparison of Fiscal Year 2017 to Fiscal Year 2016

- Total assets increased \$1,854,000 due to an increase in current assets of \$208,000, an increase in other assets of \$2,709,000, and a decrease in capital assets of \$1,063,000.
- The majority of the increase in current assets of \$208,000 is due to increased operational cash balances for Pellissippi State Community College of \$672,000, offset by a cash decrease of \$474,000 for Tennessee College of Applied Technology Knoxville.
- The increase in other assets of \$2,709,000 is due to cash balances transferred for plant projects that were not completed in the fiscal year. The projects are primarily for renovations to the Strawberry Plains campus and parking lot improvements for all campus locations.
- The decrease in capital assets of \$1,063,000 is due to the purchase of equipment and library holdings of \$1,103,000, Student Recreation Center upgrades of \$424,000, renovations to

the Strawberry Plains campus of \$159,000, and other small capital projects totaling \$196,000, offset by depreciation and equipment disposals totaling (\$2,945,000).

- Deferred outflows of resources increased by \$3,057,000 due to the change in proportionate share and investment returns of the state pension plans being less than projected.
- Total liabilities increased by \$3,265,000 due to an increase in noncurrent liabilities of \$3,816,000 and a decrease in current liabilities of \$551,000.
- Current liabilities decreased by \$551,000 due to a decrease in the deposits held in custody for Tennessee College of Applied Technology Knoxville of \$474,000, and a decrease in deposits held in custody for Tennessee Consortium for International Studies of \$65,000.
- Noncurrent liabilities increased by \$3,816,000 due mainly to an increase in pension payable. The college's proportionate share of pension liability increased and the pension plans' investment returns were less than projected.
- Deferred inflows decreased by \$921,000 due mainly to the investment returns in the pension fund being below projections.
- Unrestricted net position increased by \$2,974,000 due mainly to an increase in deferred outflows of resources related to pensions of \$3,066,000.
- The current ratio improved to 2.37 to 1.

#### Comparison of Fiscal Year 2016 to Fiscal Year 2015

- Total assets increased \$631,000 due to an increase in capital assets of \$472,000, an increase in other assets of \$1,350,000, and a decrease in current assets of \$1,191,000.
- The increase in capital assets of \$472,000 is due to campus renovations, primarily at the Strawberry Plains campus, and purchase of land at the Hardin Valley campus offset by asset depreciation.
- The increase in other assets of \$1,350,000 is due to increased cash balances in the unexpended plant fund. Funds were transferred from the unrestricted fund to fund campus renovations primarily at the Strawberry Plains campus.
- The decrease in current assets of \$1,191,000 is due to a cash decrease of \$678,000 for Mississippi State Community College, cash decrease of \$159,000 for Tennessee College of Applied Technology Knoxville, and receivables decrease of \$971,000 offset by an increase in prepaid expenses of \$46,000.
- College cash decreased due to an increase of funds transferred for plant projects offset by an operational cash increase.
- Receivables decreased due to reimbursement of HVAC upgrades totaling \$466,000, reduced third-party student sponsor receivables of \$126,000, reduced auxiliary receivables of \$41,000, reduced international travel receivables of \$36,000, and reduced federal grant and contract receivables of \$216,000, including Perkins grant and Pell grant receivables.
- Deferred outflows of resources increased by \$1,230,000 due to year two reporting of the Governmental Accounting Standards Board (GASB) Statement 68, *Accounting and*

*Financial Reporting for Pensions.* The increase occurred primarily because actual earnings from pension plan investments were lower than projected and an increase related to changes in proportion of the net pension liability.

- Total liabilities increased \$3,875,000 due to an increase in current liabilities of \$547,000 and an increase in noncurrent liabilities of \$3,328,000.
- Current liabilities increased \$547,000 due to an increase in payables for plant projects of \$255,000 primarily for Student Recreation Center upgrades, Magnolia Avenue office renovations, and the Strawberry Plains HVAC upgrade projects; an increase in unearned revenue of \$248,000 for student fees; and an increase of compensated absences of \$67,000.
- Noncurrent liabilities increased by \$3,328,000 due to an increase in the net pension liability.
- The current ratio remains strong at 2.17 to 1.

### 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 Pellissippi 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 in net position" is more indicative of overall financial results for the year.

A summary of the college's revenues, expenses, and changes in net position for the years ended June 30, 2017; June 30, 2016; and June 30, 2015, follows:

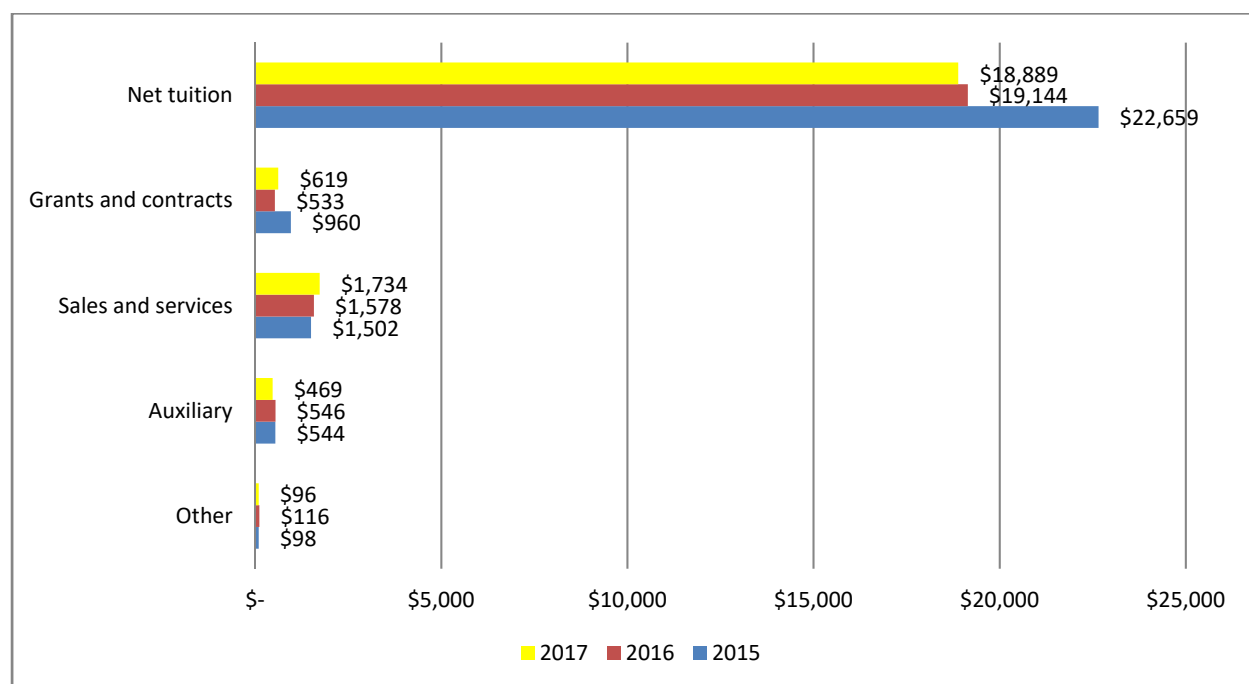
**Summary of Revenues, Expenses, and Changes in Net Position  
(in thousands of dollars)**

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Operating revenues	\$21,807	\$21,917	\$25,763
Operating expenses	76,247	74,557	74,688
Operating loss	(54,440)	(52,640)	(48,925)
Nonoperating revenues and expenses	56,182	53,419	50,044
Income before other revenues, expenses, gains, or losses	1,742	779	1,119
Other revenues, expenses, gains, or losses	825	782	898
Increase in net position	2,567	1,561	2,017
Net position at beginning of year	74,818	73,257	79,320
Cumulative effect of change in accounting principle	-	-	(8,080)
Net position at beginning of year-restated	74,818	73,257	71,240
Net position at end of year	\$77,385	\$74,818	\$73,257

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  
(in thousands of dollars)**





### Comparison of Fiscal Year 2017 to Fiscal Year 2016

- Total operating revenues decreased by \$110,000 (.5%).
- Net tuition and fees decreased by \$255,000 (1.3%) due to a 2% to 4% enrollment decline. This decline in tuition and related enrollment fees was offset somewhat by a 2.6% increase in maintenance fees.
- Sales and services and other revenue increased by \$136,000 (8%) due to the increase in the rental of facilities at all campus locations.
- Bookstore auxiliary revenue decreased by \$77,000 (1.4%). This decline was due to the decline in student enrollment.
- Grant and contract revenue increased by \$86,000 (16.1%) due to \$47,000 for grant indirect cost recoveries and \$39,000 for private training contracts.

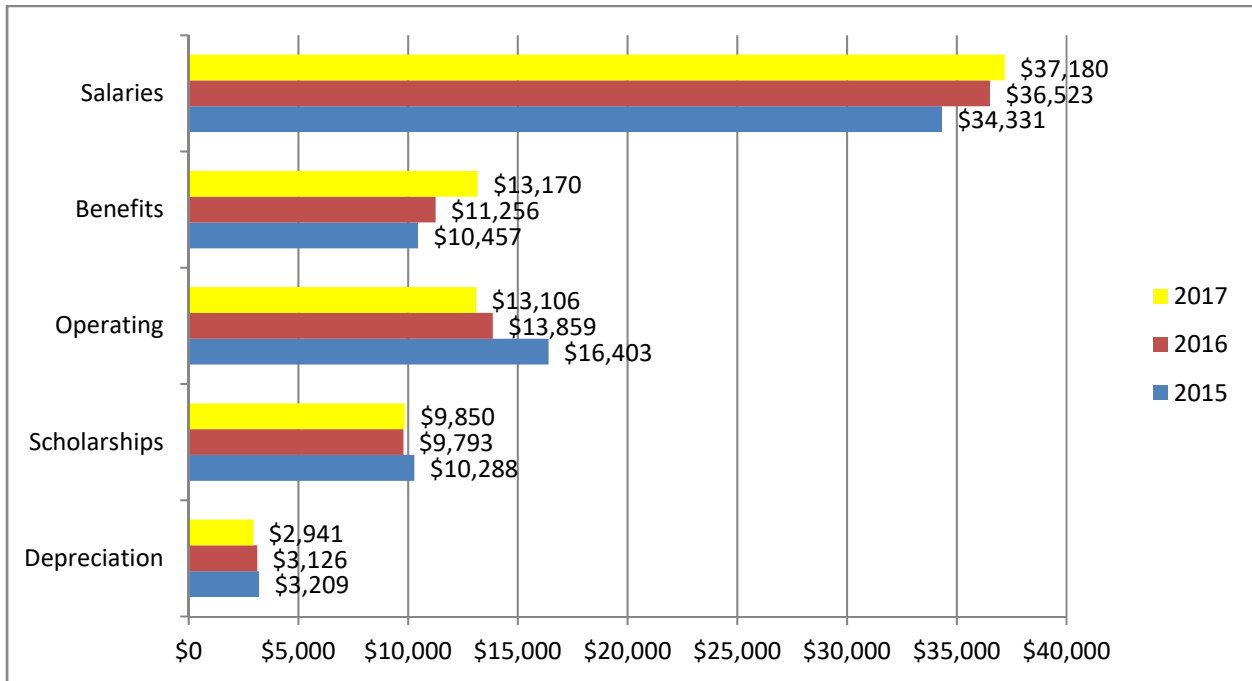
### Comparison of Fiscal Year 2016 to Fiscal Year 2015

- Total operating revenues decreased \$3,846,000.
- Tuition and fees decreased \$3,515,000 due to an enrollment decline offset with a 3.4% tuition increase, a decrease in noncredit training, and the offset of bad debt against revenue.
- Grants and contracts decreased by \$427,000 due to completion of the State of Tennessee and Knox County Schools System contracts for the HVAC replacement project at the Strawberry Plains campus.
- Sales and services revenue increased by \$76,000 due to an increase in rental of facilities fees at all campus locations

### Operating Expenses

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

**Operating Expenses  
(in thousands of dollars)**



Comparison of Fiscal Year 2017 to Fiscal Year 2016

- Total operating expenses increased by \$1,690,000 (2.3%).
- Salaries and benefits increased by \$2,571,000 (5.4%). This increase was the result of an across-the-board salary increase of 2%, faculty promotions, market adjustments in our college compensation plan, group medical rate and usage increases, increases in the allowance for compensated absences, the increased number of regular college and grant employees, and a significant increase in pension expense.
- Operating expenses (utilities, supplies, and other) decreased by \$753,000 (5.4%). This decrease was due to the ending of the RxTN grant (\$218,000) and the Magnolia systems project (\$223,000), decreased TAF expenditures (\$363,000), decreased Perkins grant (\$109,000), and decreased Universal Pathways grant (\$45,000), offset by capital project increases of \$205,000.
- Scholarship expenses increased by \$57,000 (0.6%) due to an increase in TN Promise and TN Lottery funds, offset by decreases in Pell and TN Achieves funds.
- Depreciation expenses for equipment and other capital assets decreased by \$185,000 (5.9%).

Comparison of Fiscal Year 2016 to Fiscal Year 2015

- Total operating expenses decreased by \$131,000.

- Salary and benefit expense increased by \$2,991,000 due to compensation plan adjustments, group medical rate increases, an increasing number of full-time faculty and grant employees, and an increase in pension expense.
- Operating expenses (utilities, supplies, and other) decreased by \$2,544,000 due to the completion of the Strawberry Plains campus HVAC replacement and Mega Lab project and the Magnolia Avenue campus renovations project completion.
- Scholarships decreased by \$495,000 due to a decrease in Pell grant awards due to an enrollment decline, the end of the AMP grant scholarship, and the Dual Enrollment grant scholarship payment schedule change, offset with the implementation of the Tennessee Promise Grant.

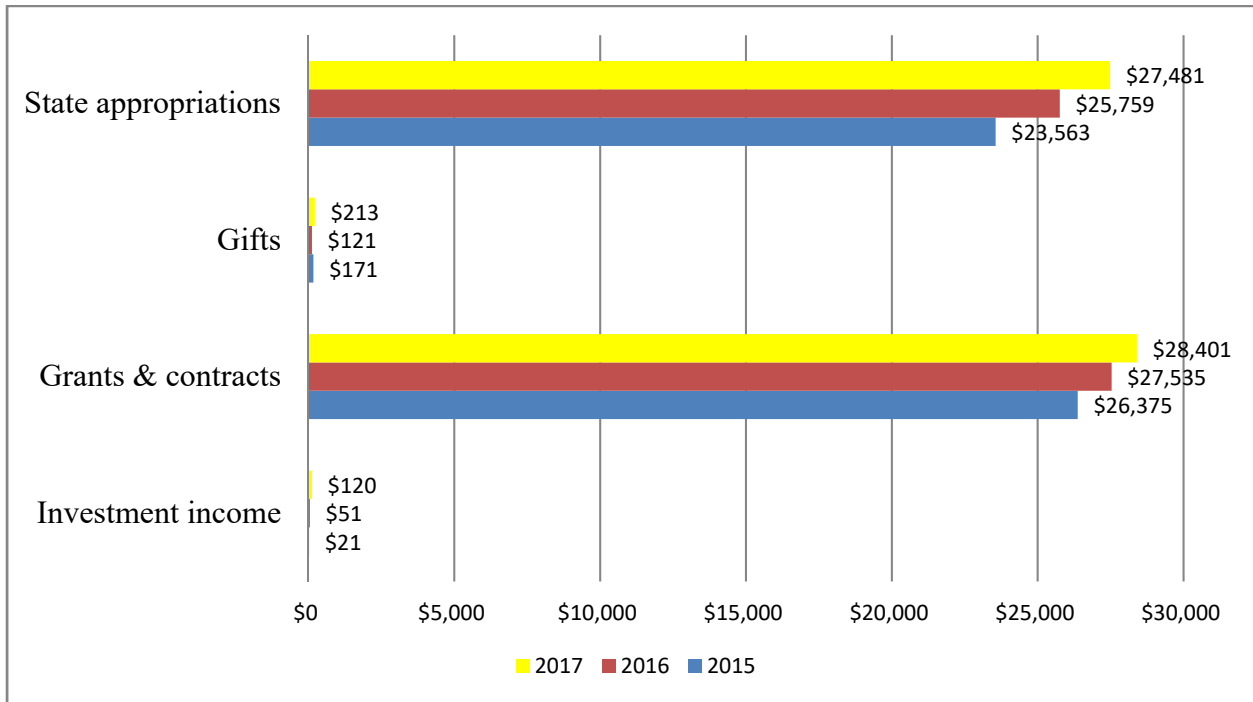
### Nonoperating Revenues and Expenses

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 and Expenses (in thousands of dollars)**

	<u>2017</u>	<u>2016</u>	<u>2015</u>
State appropriations	\$27,481	\$25,759	\$23,563
Gifts	213	121	171
Grants and contracts	28,401	27,535	26,375
Investment income	120	51	21
Interest on noncapital debt	(26)	(33)	(31)
Other nonoperating revenues (expenses)	(7)	(14)	(55)
<b>Total nonoperating revenues (expenses)</b>	<b>\$56,182</b>	<b>\$53,419</b>	<b>\$50,044</b>

**Nonoperating Revenues  
(in thousands of dollars)**



Comparison of Fiscal Year 2017 to Fiscal Year 2016

- Total nonoperating revenues and expenses increased by \$2,763,000 (5.2%).
- Noncapital state appropriations increased by \$1,722,000 (6.7%) due to the various funding formula benchmarks and increased state funding of the formula.
- Grants and contracts revenue increased by \$866,000 (3.1%). New programs (KITE and Leg-Up) generated \$707,000. Student assistance programs (Pell, Promise, Lottery, Achieves, Dual Enrollment) increased by \$580,000. Programs ending this year (RxTN, Advanced Manufacturing) accounted for \$423,000.
- Miscellaneous sources (gifts, investment income) generated \$175,000.

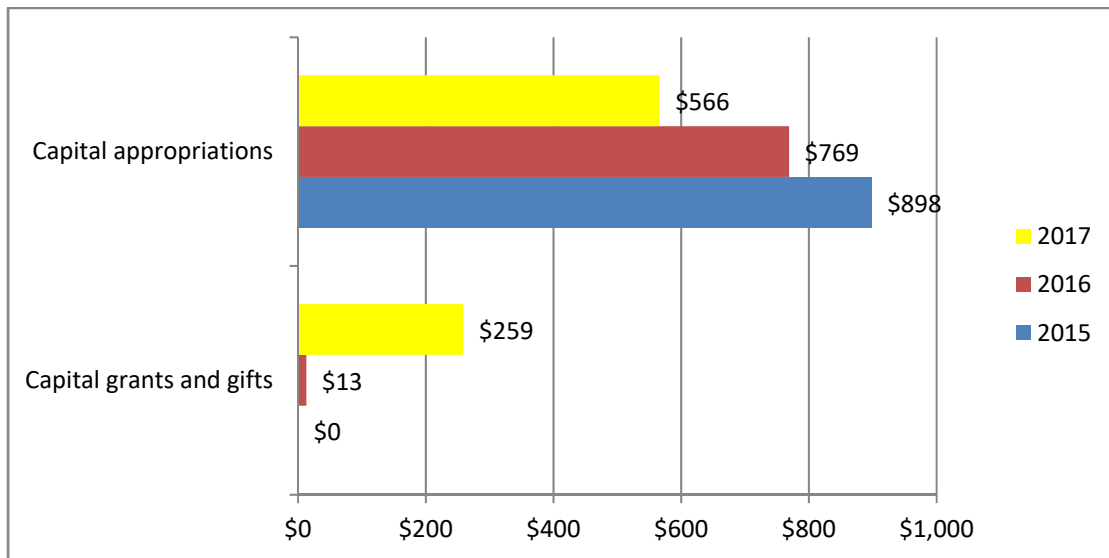
Comparison of Fiscal Year 2016 to Fiscal Year 2015

- Total nonoperating revenues and expenses increased by \$3,375,000.
- State appropriations increased by \$2,196,000 due to completion of benchmarks in the funding formula.
- Grants and contracts increased by \$1,160,000 due to the Tennessee Promise Grant, the Universal Pathways to Employment Grant, and the RX Tennessee Grant, offset with the completion of the Tennessee Governor’s Competitive Grant.

## Other Revenues

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

**Other Revenues**  
**(in thousands of dollars)**



### Comparison of Fiscal Year 2017 to Fiscal Year 2016

- Capital appropriations decreased by \$203,000 (26.3%) due to the completion of the Magnolia systems project and the Division Street codes project, offset by increases in the Goins ADA restroom project, HVAC updates, and the Hardin Valley boiler and chiller projects.
- Capital gifts increased \$246,000 due to PSCC Foundation funded capital purchases.

### Comparison of Fiscal Year 2016 to Fiscal Year 2015

- Capital appropriations decreased \$129,000 due to the completion of the HVAC updates and subsurface repairs, offset by the increase in funding for Magnolia Avenue campus systems updates, Division Street campus renovations, and boiler and chiller upgrades.
- Capital gifts consisting of nursing equipment and a thermal fluke were received by the college in fiscal year 2016.

## Capital Assets and Debt Administration

### Capital Assets

Pellissippi State Community College had \$67,980,599.99 invested in capital assets, net of accumulated depreciation of \$53,396,166.39 at June 30, 2017; \$69,044,350.23 invested in capital assets, net of accumulated depreciation of \$51,015,810.60 at June 30, 2016; and \$68,572,271.09 invested in capital assets, net of accumulated depreciation of \$48,353,418.75 at June 30, 2015. Depreciation charges totaled \$2,940,520.37, \$3,125,521.42, and \$3,208,597.67 for the years ended June 30, 2017; June 30, 2016; and June 30, 2015, respectively.

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

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Land	\$ 7,215	\$ 7,211	\$ 6,813
Land improvements and infrastructure	5,712	6,107	6,405
Buildings	50,287	47,187	46,404
Equipment	4,112	4,195	4,397
Library holdings	427	451	477
Intangible assets	-	-	268
Art and historical collections	35	35	35
Projects in progress	193	3,858	3,773
<b>Total</b>	<b>\$67,981</b>	<b>\$69,044</b>	<b>\$68,572</b>

Capital assets, net of depreciation, decreased \$1,063,000 in fiscal year 2017. The net decrease was a result of:

- Purchase of equipment and library holdings, \$1,103,000.
- Phone system upgrades, \$58,000.
- Strawberry Plains campus renovations, \$159,000.
- Student Recreation Center upgrades, \$424,000.
- ADA adaptation projects, \$98,000.
- Other renovations at Magnolia, Division Street parking lots, Hardin Valley solar demonstration projects, \$40,000.
- Depreciation and equipment disposals (\$2,945,000).

At June 30, 2017, outstanding commitments under construction contracts totaled \$2,884,606.19 for various renovations and repairs of buildings and infrastructure. Future state capital outlay appropriations will fund \$937,981.57 of these costs.

Capital assets, net of depreciation, increased \$472,000 in fiscal year 2016. The net increase was a result of the following:

- Purchase of equipment and library holdings, \$998,000.
- Phone system upgrades, \$154,000.
- Student Recreation Center upgrades, \$167,000.
- Strawberry Plains campus upgrades, \$1,790,000.
- Land purchase at Hardin Valley campus, \$385,000.
- Various improvement projects including Magnolia Avenue campus renovations, Division Street campus parking lots and renovations, Hardin Valley campus outdoor stage, Performing Arts Center lighting, and multi-purpose building planning, \$119,000.
- Depreciation and equipment disposals - \$(3,141,000).

At June 30, 2016, outstanding commitments under construction contracts totaled \$582,340.87 for various renovations and repairs of buildings and infrastructure. Future state capital outlay appropriations will fund \$479,558.54 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 \$727,088.19, \$850,474.78, and \$976,978.68 in debt outstanding at June 30, 2017; June 30, 2016; and June 30, 2015, respectively. The table below summarizes these amounts by type of debt instrument.

#### **Schedule of Outstanding Debt (in thousands of dollars)**

	<u>2017</u>	<u>2016</u>	<u>2015</u>
TSSBA debt:			
Bonds payable	\$727	\$850	\$ 977
Unamortized bond premium	95	116	137
<b>Total</b>	<b>\$822</b>	<b>\$966</b>	<b>\$1,114</b>

The Tennessee State School Board Authority (TSSBA) issued bonds with interest rates ranging from 3.00% to 5.00% due serially to 2023 on behalf of Pellissippi State Community College. The college is responsible for the debt service of these bonds. The current portion of the \$727,088.19 outstanding at June 30, 2017, is \$130,249.51.

The ratings on debt issued by the TSSBA at June 30, 2017, were as follows:

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

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

### **Economic Factors That Will Affect the Future**

For fiscal year 2018, significant changes that will affect the financial position of the college include:

- Student maintenance fees will increase by 2.6%.
- State appropriation funding will increase by \$2,542,200 (9.3%).



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

	Pellissippi State Community College		Component Unit - Pellissippi State Community College Foundation	
	June 30, 2017	June 30, 2016	June 30, 2017	June 30, 2016
<b>Assets</b>				
<b>Current assets:</b>				
Cash (Notes 2, 3, and 17)	\$ 15,102,452.18	\$ 14,675,284.41	\$ 164,042.36	\$ 678,132.68
Short-term investments (Note 17)	-	-	4,331,731.08	2,804,881.23
Accounts and grants receivable (net) (Note 4)	1,599,096.44	2,029,229.63	1,052.29	298.25
Due from State of Tennessee	167,400.36	121,334.99	-	-
Due from PSCC Foundation	109,098.73	-	-	-
Pledges receivable (net) (Note 17)	-	-	397,731.49	147,421.93
Prepaid expenses	189,154.27	133,020.48	-	2,500.00
<b>Total current assets</b>	<b>17,167,201.98</b>	<b>16,958,869.51</b>	<b>4,894,557.22</b>	<b>3,633,234.09</b>
<b>Noncurrent assets:</b>				
Cash (Notes 2, 3, and 17)	8,996,079.34	6,316,043.85	-	878.37
Investments (Note 17)	-	-	10,763,055.65	9,425,865.09
Net pension asset (Note 9)	47,043.00	18,125.00	-	-
Pledges receivable (net) (Note 17)	-	-	1,262,414.19	187.29
Capital assets (net) (Note 5)	67,980,599.99	69,044,350.23	-	-
<b>Total noncurrent assets</b>	<b>77,023,722.33</b>	<b>75,378,519.08</b>	<b>12,025,469.84</b>	<b>9,426,930.75</b>
<b>Total assets</b>	<b>94,190,924.31</b>	<b>92,337,388.59</b>	<b>16,920,027.06</b>	<b>13,060,164.84</b>
<b>Deferred outflows of resources</b>				
Deferred amount on debt refunding	44,287.87	53,469.83	-	-
Deferred outflows related to pensions (Note 9)	6,451,958.68	3,385,544.57	-	-
<b>Total deferred outflows of resources</b>	<b>6,496,246.55</b>	<b>3,439,014.40</b>	<b>-</b>	<b>-</b>
<b>Liabilities</b>				
<b>Current liabilities:</b>				
Accounts payable (Note 6)	606,381.37	770,532.57	17,245.52	556.50
Accrued liabilities	1,869,574.03	2,274,153.10	-	-
Due to State of Tennessee	658,045.63	-	-	-
Due to PSCC	-	-	109,098.73	-
Unearned revenue	1,456,498.97	1,626,814.76	-	-
Compensated absences (Note 7)	595,921.63	525,507.97	-	-
Accrued interest payable	5,957.66	6,794.34	-	-
Long-term liabilities, current portion (Note 7)	130,249.51	123,386.59	-	-
Deposits held in custody for others	1,886,447.30	2,442,406.06	-	-
Other	45,149.60	35,463.10	-	-
<b>Total current liabilities</b>	<b>7,254,225.70</b>	<b>7,805,058.49</b>	<b>126,344.25</b>	<b>556.50</b>
<b>Noncurrent liabilities:</b>				
Net OPEB obligation (Note 10)	2,707,757.96	2,765,738.57	-	-
Net pension liability (Note 9)	10,894,992.00	6,963,599.00	-	-
Compensated absences (Note 7)	1,169,568.60	1,075,731.14	-	-
Long-term liabilities (Note 7)	691,503.32	842,895.87	-	-
<b>Total noncurrent liabilities</b>	<b>15,463,821.88</b>	<b>11,647,964.58</b>	<b>-</b>	<b>-</b>
<b>Total liabilities</b>	<b>22,718,047.58</b>	<b>19,453,023.07</b>	<b>126,344.25</b>	<b>556.50</b>
<b>Deferred inflows of resources</b>				
Deferred inflows related to pensions (Note 9)	583,946.00	1,504,867.00	-	-
<b>Total deferred inflows of resources</b>	<b>583,946.00</b>	<b>1,504,867.00</b>	<b>-</b>	<b>-</b>
<b>Net position</b>				
Investment in capital assets	67,980,599.99	69,044,350.23	-	-
<b>Restricted for:</b>				
<b>Nonexpendable:</b>				
Scholarships and fellowships	-	-	2,212,115.18	2,167,863.80
Instructional department uses	-	-	86,570.78	60,501.18
Other	-	-	602,027.15	599,217.15
<b>Expendable:</b>				
Scholarships and fellowships	-	-	7,617,092.60	6,495,493.80
Instructional department uses	-	-	1,331,858.09	1,308,792.65
Loans	1,005.61	1,005.61	57,831.68	56,780.18
Capital projects	1,746,635.16	1,172,019.10	4,016,585.30	1,954,014.68
Pensions	47,043.00	18,125.00	-	-
Other	582,596.38	529,953.57	421,781.96	302,645.13
<b>Unrestricted</b>	<b>7,027,297.14</b>	<b>4,053,059.41</b>	<b>447,820.07</b>	<b>114,299.77</b>
<b>Total net position</b>	<b>\$ 77,385,177.28</b>	<b>\$ 74,818,512.92</b>	<b>\$ 16,793,682.81</b>	<b>\$ 13,059,608.34</b>

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

**Tennessee Board of Regents**  
**PELLISSIPPI STATE COMMUNITY COLLEGE**  
**Statements of Revenues, Expenses, and Changes in Net Position**  
**For the Years Ended June 30, 2017, and June 30, 2016**

	Pellissippi State Community College		Component Unit - Pellissippi State Community College Foundation	
	Year Ended June 30, 2017	Year Ended June 30, 2016	Year Ended June 30, 2017	Year Ended June 30, 2016
<b>Revenues</b>				
Operating revenues:				
Student tuition and fees (see Note 11)	\$ 18,888,913.26	\$ 19,143,513.12	\$ -	\$ -
Gifts and contributions	-	-	2,843,155.24	413,454.80
Endowment income (per spending plan)	-	-	215,358.57	116,295.47
Governmental grants and contracts	325,947.65	278,848.56	-	-
Nongovernmental grants and contracts	292,815.19	254,298.32	-	-
Sales and services of educational activities	36,195.55	33,207.42	-	-
Sales and services of other activities	1,698,054.29	1,545,215.44	-	-
Auxiliary enterprises:				
Bookstore	435,692.63	513,463.40	-	-
Food service	32,901.51	32,857.90	-	-
Other operating revenues	96,311.04	115,428.75	27,332.94	22,770.95
<b>Total operating revenues</b>	<b>21,806,831.12</b>	<b>21,916,832.91</b>	<b>3,085,846.75</b>	<b>552,521.22</b>
<b>Expenses</b>				
Operating expenses (Note 14):				
Salaries and wages	37,180,788.31	36,523,134.88	400,037.83	465,950.48
Benefits	13,169,690.48	11,255,784.40	151,846.17	174,008.07
Utilities, supplies, and other services	13,106,267.35	13,859,264.86	338,556.60	236,673.46
Scholarships and fellowships	9,849,562.34	9,792,772.42	222,188.35	196,207.50
Depreciation expense	2,940,520.37	3,125,521.42	-	-
Gifts of capital assets & payments to or on behalf of Pellissippi State Community College (Note 17)	-	-	474,616.15	130,059.48
<b>Total operating expenses</b>	<b>76,246,828.85</b>	<b>74,556,477.98</b>	<b>1,587,245.10</b>	<b>1,202,898.99</b>
<b>Operating income (loss)</b>	<b>(54,439,997.73)</b>	<b>(52,639,645.07)</b>	<b>1,498,601.65</b>	<b>(650,377.77)</b>
<b>Nonoperating revenues (expenses)</b>				
State appropriations	27,481,400.00	25,759,550.00	-	-
Gifts (including \$212,816.73 from component unit for the year ended June 30, 2017, and \$117,035.37 for the year ended June 30, 2016)	212,816.73	121,035.37	-	-
Grants and contracts	28,401,512.64	27,534,932.15	-	-
Investment income (net of investment expense of \$43,974.31 for the component unit for the year ended June 30, 2017, and \$42,126.07 for the year ended June 30, 2016)	120,021.49	50,604.68	1,454,565.28	(201,408.57)
Interest on noncapital debt	(26,282.27)	(32,760.81)	-	(14,600.00)
College support (Note 17)	-	-	708,020.87	794,581.75
Other nonoperating revenues (expenses)	(7,320.40)	(14,281.24)	-	-
<b>Total nonoperating revenues (expenses)</b>	<b>56,182,148.19</b>	<b>53,419,080.15</b>	<b>2,162,586.15</b>	<b>578,573.18</b>
<b>Income (loss) before other revenues, expenses, gains, or losses</b>	<b>1,742,150.46</b>	<b>779,435.08</b>	<b>3,661,187.80</b>	<b>(71,804.59)</b>
Capital appropriations	565,441.98	769,180.39	-	-
Capital grants and gifts (including \$259,071.92 from the component unit for the year ended June 30, 2017, and \$13,024.11 for the year ended June 30, 2016)	259,071.92	13,024.11	-	-
Additions to permanent endowments	-	-	72,886.67	18,448.07
<b>Total other revenues</b>	<b>824,513.90</b>	<b>782,204.50</b>	<b>72,886.67</b>	<b>18,448.07</b>
<b>Increase (decrease) in net position</b>	<b>2,566,664.36</b>	<b>1,561,639.58</b>	<b>3,734,074.47</b>	<b>(53,356.52)</b>
Net position - beginning of year	74,818,512.92	73,256,873.34	13,059,608.34	13,112,964.86
<b>Net position - end of year</b>	<b>\$ 77,385,177.28</b>	<b>\$ 74,818,512.92</b>	<b>\$ 16,793,682.81</b>	<b>\$ 13,059,608.34</b>

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

**Tennessee Board of Regents**  
**PELLISSIPPI STATE COMMUNITY COLLEGE**  
**Statements of Cash Flows**  
**For the Years Ended June 30, 2017, and June 30, 2016**

	Year Ended June 30, 2017	Year Ended June 30, 2016
<b>Cash flows from operating activities</b>		
Tuition and fees	\$ 18,946,540.95	\$ 19,640,426.28
Grants and contracts	618,375.50	989,000.17
Sales and services of educational activities	35,095.55	33,307.42
Sales and services of other activities	1,693,390.29	1,521,106.66
Payments to suppliers and vendors	(12,792,653.49)	(12,765,350.63)
Payments to employees	(37,016,462.83)	(36,508,017.02)
Payments for benefits	(13,057,729.19)	(12,476,572.64)
Payments for scholarships and fellowships	(9,834,728.34)	(9,796,650.58)
Auxiliary enterprise charges:		
Bookstore	440,673.48	551,135.75
Food services	34,895.72	36,592.36
Other receipts	96,697.55	120,912.67
Net cash used by operating activities	(50,835,904.81)	(48,654,109.56)
<b>Cash flows from noncapital financing activities</b>		
State appropriations	27,436,200.00	25,739,400.00
Gifts and grants received for other than capital or endowment purposes	28,722,630.47	27,542,472.19
Federal student loan receipts	7,431,710.00	7,993,804.00
Federal student loan disbursements	(7,457,844.00)	(7,937,109.00)
Changes in deposits held for others	(375,327.66)	(89,280.43)
Principal paid on noncapital debt	(123,386.59)	(126,503.90)
Interest paid on noncapital debt	(39,080.03)	(45,669.63)
Other noncapital financing receipts (payments)	1,377.90	508.77
Net cash provided by noncapital financing activities	55,596,280.09	53,077,622.00
<b>Cash flows from capital and related financing activities</b>		
Capital grants and gifts received	259,071.92	7,724.11
Purchase of capital assets and construction	(2,032,265.43)	(3,416,131.87)
Net cash used by capital and related financing activities	(1,773,193.51)	(3,408,407.76)
<b>Cash flows from investing activities</b>		
Income on investments	120,021.49	50,604.68
Net cash provided by investing activities	120,021.49	50,604.68
Net increase in cash	3,107,203.26	1,065,709.36
Cash - beginning of year	20,991,328.26	19,925,618.90
Cash - end of year	\$ 24,098,531.52	\$ 20,991,328.26

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

	Year Ended June 30, 2017	Year Ended June 30, 2016
Reconciliation of operating loss to net cash used by operating activities:		
Operating loss	\$ (54,439,997.73)	(52,639,645.07)
Adjustments to reconcile operating loss to net cash used by operating activities:		
Noncash operating expenses	3,514,736.31	3,988,017.42
Change in assets, liabilities, deferred outflows, and deferred inflows:		
Receivables, net	275,557.65	389,825.53
Due from PSCC Foundation	7,165.03	-
Due from State of Tennessee	(10,917.69)	272,475.70
Prepaid expenses	(56,133.79)	(45,645.42)
Accounts payable	(126,032.78)	306,200.36
Accrued liabilities	(394,892.57)	59,948.08
Due to State of Tennessee	639,269.57	-
Net pension asset	(28,918.00)	(18,125.00)
Deferred outflows related to pensions	(537,544.11)	(3,768,805.34)
Net pension liability	3,931,393.00	3,438,116.00
Deferred inflows related to pensions	(3,449,791.00)	(1,045,937.00)
Net OPEB obligation	(57,980.61)	6,025.13
Unearned revenue	(266,069.21)	308,198.68
Compensated absences	164,251.12	95,241.37
Net cash used by operating activities	\$ (50,835,904.81)	\$ (48,654,109.56)
<b>Noncash investing, capital, or financing transactions</b>		
Gains (loss) on disposal of capital assets	\$ (7,957.00)	\$ 15,531.31
Gifts of capital assets	\$ -	\$ 5,300.00
Transfer of equipment from grantor	\$ -	\$ 197,000.00

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

**Tennessee Board of Regents**  
**PELLISSIPPI STATE COMMUNITY COLLEGE**  
**Notes to the Financial Statements**  
**June 30, 2017, and June 30, 2016**

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**Note 1. Summary of Significant Accounting Policies**

**Reporting Entity**

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

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

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

**Basis of Presentation**

The college'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; and 3) sales and services of auxiliary enterprises. Operating expenses include 1) salaries and wages;

## **Notes to the Financial Statements (Continued)**

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2) employee benefits; 3) utilities, supplies, and other services; 4) scholarships and fellowships; and 5) depreciation.

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

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

### **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

## **Notes to the Financial Statements (Continued)**

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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:

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

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

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

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

### **Scholarship Discounts and Allowances**

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

## **Notes to the Financial Statements (Continued)**

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### **Note 2. Cash**

This classification includes demand deposits and petty cash on hand. At June 30, 2017, cash consisted of \$2,859,440.46 in bank accounts; \$1,880.00 of petty cash on hand; \$19,490,575.90 in the Local Government Investment Pool (LGIP) administered by the State Treasurer; and \$1,746,635.16 in LGIP deposits for capital projects. At June 30, 2016, cash consisted of \$2,417,447.57 in bank accounts; \$1,880.00 of petty cash on hand; \$17,399,981.59 in the LGIP; and \$1,172,019.10 in LGIP deposits for capital projects.

The LGIP, which is part of the State Pooled Investment Fund, is administered by the State Treasurer and is measured at amortized cost. 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](http://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, funds are withdrawn from the LGIP account by the system and transferred to the Department of Finance and Administration. The funds in the account are not available to the college for any other purpose until the project is completed and the system releases any remaining funds.

### **Note 3. Investments**

#### **Credit Risk**

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

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



## **Notes to the Financial Statements (Continued)**

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are secured throughout their life by a warehouse receipt or similar document conveying title to the underlying goods.

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

As of June 30, 2017, and June 30, 2016, the college's investments consisted entirely of investments in the Local Government Investment Pool, which are valued at amortized cost. The value of these investments was \$21,237,211.06 at June 30, 2017, and \$18,572,000.69 at June 30, 2016. LGIP investments are not rated by nationally recognized statistical ratings organizations.

### **Note 4. Receivables**

Receivables included the following:

	<u>June 30, 2017</u>	<u>June 30, 2016</u>
Student accounts receivable	\$1,324,419.18	\$1,553,002.10
Grants receivable	375,191.94	378,413.98
Other receivables	529,485.32	757,813.55
<hr/>		
Subtotal	2,229,096.44	2,689,229.63
Less allowance for doubtful accounts	630,000.00	660,000.00
<hr/>		
Total receivables	\$1,599,096.44	\$2,029,229.63

### **Note 5. Capital Assets**

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

## Notes to the Financial Statements (Continued)

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Transfers</u>	<u>Reductions</u>	<u>Ending Balance</u>
Land	\$ 7,210,699.27	\$ 4,130.75	\$ -	\$ -	\$ 7,214,830.02
Land improvements and infrastructure	10,178,843.44	58,210.45	-	-	10,237,053.89
Buildings	81,731,780.21	592,171.07	3,788,929.72	-	86,112,881.00
Equipment	13,437,516.98	1,020,161.86	-	441,890.84	14,015,788.00
Library holdings	1,106,365.55	82,947.51	-	122,890.74	1,066,422.32
Intangible assets	2,501,820.84	-	-	-	2,501,820.84
Art and historical treasures	35,200.00	-	-	-	35,200.00
Projects in progress	3,857,934.54	127,105.49	(3,788,929.72)	3,340.00	192,770.31
<b>Total</b>	<b>120,060,160.83</b>	<b>1,884,727.13</b>	<b>-</b>	<b>568,121.58</b>	<b>121,376,766.38</b>
Less accumulated depreciation/amortization:					
Land improvements and infrastructure	4,071,157.47	454,455.30	-	-	4,525,612.77
Buildings	34,545,147.72	1,280,526.36	-	-	35,825,674.08
Equipment	9,242,269.52	1,098,896.45	-	437,273.84	9,903,892.13
Library holdings	655,415.05	106,642.26	-	122,890.74	639,166.57
Intangible assets	2,501,820.84	-	-	-	2,501,820.84
<b>Total</b>	<b>51,015,810.60</b>	<b>2,940,520.37</b>	<b>-</b>	<b>560,164.58</b>	<b>53,396,166.39</b>
<b>Capital assets, net</b>	<b>\$69,044,350.23</b>	<b>\$(1,055,793.24)</b>	<b>\$ -</b>	<b>\$ 7,957.00</b>	<b>\$ 67,980,599.99</b>

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

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Transfers</u>	<u>Reductions</u>	<u>Ending Balance</u>
Land	\$ 6,813,299.27	\$ 387,850.00	\$ 9,550.00	\$ -	\$ 7,210,699.27
Land improvements and infrastructure	10,024,786.20	154,057.24	-	-	10,178,843.44
Buildings	79,753,476.45	330,852.74	1,647,451.02	-	81,731,780.21
Equipment	12,861,511.40	913,448.21	-	337,442.63	13,437,516.98
Library holdings	1,162,640.85	84,942.95	-	141,218.25	1,106,365.55
Intangible assets	2,501,820.84	-	-	-	2,501,820.84
Art and historical treasures	35,200.00	-	-	-	35,200.00
Projects in progress	3,772,954.83	1,741,980.73	(1,657,001.02)	-	3,857,934.54
<b>Total</b>	<b>116,925,689.84</b>	<b>3,613,131.87</b>	<b>-</b>	<b>478,660.88</b>	<b>120,060,160.83</b>

## Notes to the Financial Statements (Continued)

Less accumulated depreciation/amortization:					
Land improvements and infrastructure	3,619,612.70	451,544.77	-	-	4,071,157.47
Buildings	33,349,869.79	1,195,277.93	-	-	34,545,147.72
Equipment	8,464,554.18	1,099,626.66	-	321,911.32	9,242,269.52
Library holdings	685,996.76	110,636.54	-	141,218.25	655,415.05
Intangible assets	2,233,385.32	268,435.52	-	-	2,501,820.84
<b>Total</b>	<b>48,353,418.75</b>	<b>3,125,521.42</b>	<b>-</b>	<b>463,129.57</b>	<b>51,015,810.60</b>
<b>Capital assets, net</b>	<b>\$ 68,572,271.09</b>	<b>\$ 487,610.45</b>	<b>\$ -</b>	<b>\$ 15,531.31</b>	<b>\$ 69,044,350.23</b>

### Note 6. Accounts Payable

Accounts payable included the following:

	<u>June 30, 2017</u>	<u>June 30, 2016</u>
Vendors payable	\$590,767.46	\$761,090.00
Unapplied student payments	15,613.91	9,442.57
<b>Total accounts payable</b>	<b>\$606,381.37</b>	<b>\$770,532.57</b>

### Note 7. Long-term Liabilities

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

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Current Portion</u>
TSSBA debt:					
Bonds	\$ 850,474.78	\$ -	\$123,386.59	\$ 727,088.19	\$130,249.51
Unamortized bond premium	115,807.68	-	21,143.04	94,664.64	-
<b>Subtotal</b>	<b>966,282.46</b>	<b>-</b>	<b>144,529.63</b>	<b>821,752.83</b>	<b>130,249.51</b>
Other liabilities:					
Compensated absences	1,601,239.11	194,191.99	29,940.87	1,765,490.23	595,921.63
<b>Subtotal</b>	<b>1,601,239.11</b>	<b>194,191.99</b>	<b>29,940.87</b>	<b>1,765,490.23</b>	<b>595,921.63</b>
<b>Total long-term liabilities</b>	<b>\$2,567,521.57</b>	<b>\$194,191.99</b>	<b>\$174,470.50</b>	<b>\$2,587,243.06</b>	<b>\$726,171.14</b>

## Notes to the Financial Statements (Continued)

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

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Current Portion</u>
TSSBA debt:					
Bonds	\$ 976,978.68	\$ -	\$126,503.90	\$ 850,474.78	\$123,386.59
Unamortized bond premium	136,950.72	-	21,143.04	115,807.68	-
Subtotal	1,113,929.40	-	147,646.94	966,282.46	123,386.59
Other liabilities:					
Compensated absences	1,505,997.74	118,029.80	22,788.43	1,601,239.11	525,507.97
Subtotal	1,505,997.74	118,029.80	22,788.43	1,601,239.11	525,507.97
Total long-term liabilities	\$2,619,927.14	\$118,029.80	\$170,435.37	\$2,567,521.57	\$648,894.56

### TSSBA Debt – Bonds

Bonds, with interest rates ranging from 3.00% to 5.00%, were issued by the Tennessee State School Bond Authority (TSSBA). The bonds are due serially to 2023 and are secured by pledges of the facilities' revenues to which they relate and certain other revenues and fees of the college, including state appropriations; see Note 8 for further details.

Debt service requirements to maturity for the college's portion of TSSBA bonds at June 30, 2017, are as follows:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$130,249.51	\$ 33,661.47	\$163,910.98
2019	139,265.88	27,273.52	166,539.40
2020	146,117.91	20,187.00	166,304.91
2021	153,868.41	12,737.97	166,606.38
2022	76,788.41	5,959.61	82,748.02
2023	80,798.07	2,019.95	82,818.02
Total	\$727,088.19	\$101,839.52	\$828,927.71

## **Notes to the Financial Statements (Continued)**

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### **Note 8. Pledged Revenues**

The college has pledged certain revenues and fees, including state appropriations, to repay \$727,088.19 in revenue bonds issued from January 2008 to August 2014 (see Note 7 for further detail). Proceeds from the bonds provided financing for Energy Management Projects. The bonds are payable through 2023. Annual principal and interest payments on the bonds are expected to require 0.2% of available revenues. The total principal and interest remaining to be paid on the bonds at June 30, 2017, is \$828,927.71. Principal and interest paid for fiscal year 2017 and total available revenues were \$162,466.62 and \$65,287,549.25, respectively. Principal and interest paid for fiscal year 2016 and total available revenues were \$172,173.53 and \$63,165,963.91, respectively.

### **Note 9. Pension Plans**

#### **Defined Benefit Plans**

##### **Closed State and Higher Education Employee Pension Plan**

###### *General Information About the Pension Plan*

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

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

## Notes to the Financial Statements (Continued)

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

Plus:

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

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

Contributions – Contributions for state employees and higher education employees are established in the statutes governing the TCRS and may only be changed by the Tennessee General Assembly. The college's employees are non-contributory, as are most members in the Closed State and Higher Education Employee Pension Plan. State and higher education agencies make employer contributions at the rate set by the Board of Trustees as determined by an actuarial valuation. By law, employer contributions for the Closed State and Higher Education Employee Pension Plan are required to be paid. Employer contributions by the college for the years ended June 30, 2017, and June 30, 2016, to the Closed State and Higher Education Employee Pension Plan were \$2,186,570.99 and \$2,186,426.77, respectively, which is 15.02% and 15.03% of covered payroll, respectively. The employer rate, when combined with member contributions, is expected to finance the costs of benefits earned by members during the year and the cost of administration, as well as an amortized portion of any unfunded liability.

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

Pension liability – At June 30, 2017, the college reported a liability of \$10,894,992.00 for its proportionate share of the net pension liability. The net pension liability was measured as of June

## Notes to the Financial Statements (Continued)

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30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The college's proportion of the net pension liability was based on a projection of the college's contributions during the year ended June 30, 2016, to the pension plan relative to the contributions of all participating state and higher education agencies. At the June 30, 2016, measurement date, the college's proportion was 0.59713%.

At June 30, 2016, the college reported a liability of \$6,963,599.00 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 0.540114%. At the June 30, 2014, measurement date, the college's proportion was 0.510978%.

Pension expense – For the years ended June 30, 2017, and June 30, 2016, the college recognized pension expense of \$2,180,932.00 and \$846,929.00, respectively.

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

<u>Fiscal Year 2017</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 610,986.00	\$578,891.00
Net difference between projected and actual earnings on pension plan investments	2,634,935.00	-
Changes in proportion of net pension liability	905,959.00	-
College's contributions subsequent to the measurement date of June 30, 2016	2,186,570.99	-
<b>Total</b>	<b>\$6,338,450.99</b>	<b>\$578,891.00</b>

## Notes to the Financial Statements (Continued)

<u>Fiscal Year 2016</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 736,863.00	\$602,934.00
Net difference between projected and actual earnings on pension plan investments	-	895,190.00
Changes in proportion of net pension liability	392,544.00	-
College's contributions subsequent to the measurement date of June 30, 2015	2,186,426.77	-
<b>Total</b>	<b>\$3,315,833.77</b>	<b>\$1,498,124.00</b>

Deferred outflows of resources, resulting from the college's employer contributions of \$2,186,570.99 subsequent to the measurement date, will be recognized as a decrease in net pension liability in the year ending June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ending June 30</u>	
2018	\$ 441,165.00
2019	441,165.00
2020	1,925,196.00
2021	765,463.00

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%



## Notes to the Financial Statements (Continued)

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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:

<u>Asset Class</u>	<u>Long-term Expected Real Rate of Return</u>	<u>Target Allocation</u>
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%
		<hr/> 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.

## Notes to the Financial Statements (Continued)

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

	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
College’s proportionate share of net pension liability	\$21,410,925.00	\$10,894,992.00	\$2,027,708.00

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](http://www.treasury.tn.gov/tcrs).

### State and Higher Education Employee Retirement Plan

#### *General Information About the Pension Plan*

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

Benefits provided – Title 8, Chapters 34-37, *Tennessee Code Annotated*, establishes the benefit terms and can be amended only by the Tennessee General Assembly. Members of the State and Higher Education Employee Retirement Plan are eligible to retire at age 65 with 5 years of service credit or pursuant to the rule of 90 in which the member’s age and service credit total 90. Members are entitled to receive unreduced service retirement benefits, which are determined by a formula multiplying the member’s highest 5 consecutive year average compensation by 1% multiplied by the member’s years of service credit. A reduced early retirement is available at age 60 with 5 years of service credit or pursuant to the rule of 80 in which a member’s age and service credit total 80. Service-related disability benefits are provided regardless of length of service. Five years of service is required for non-service-related disability eligibility. The service-related and non-service-related disability benefits are determined in the same manner as a service retirement benefit but are reduced 10% and include projected service credit. A variety of death benefits are available under various eligibility criteria.

## **Notes to the Financial Statements (Continued)**

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

Contributions – Contributions for state and higher education employees are established in the statutes governing the TCRS and may only be changed by the Tennessee General Assembly. Employees contribute 5% of their salary to the State and Higher Education Employee Retirement Plan. By law, employer contributions for the State and Higher Education Employee Retirement Plan are required to be paid. Employer contributions by the college for the years ended June 30, 2017, and June 30, 2016, to the State and Higher Education Employee Retirement Plan were \$103,015.69 and \$68,659.80, respectively, which is 3.81% and 3.87% of covered payroll, respectively. The employer rate, when combined with member contributions, is expected to finance the costs of benefits earned by members during the year and the cost of administration, as well as an amortized portion of any unfunded liability.

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

Pension asset – At June 30, 2017, the college reported an asset of \$47,043.00 for its proportionate share of the net pension asset. The net pension asset was measured as of June 30, 2016, and the total pension asset used to calculate the net pension asset was determined by an actuarial valuation as of that date. The college's proportion of the net pension asset was based on a projection of the college's contributions during the year ended June 30, 2016, to the pension plan relative to the contributions of all participating state and higher education agencies. At the June 30, 2016, measurement date, the college's proportion was 0.558407%.

At June 30, 2016, the college reported an asset of \$18,125.00 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 0.651752%, representing the first-time presentation of this proportion.

Pension expense – For the years ended June 30, 2017, and June 30, 2016, the college recognized a pension expense of \$26,536.00 and \$15,034.00, respectively.

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

**Notes to the Financial Statements (Continued)**

<u>Fiscal Year 2017</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 3,423.00	\$5,055.00
Net difference between projected and actual earnings on pension plan investments	5,486.00	-
Changes in proportion of net pension asset	1,583.00	-
College's contributions subsequent to the measurement date of June 30, 2016	103,015.69	-
<b>Total</b>	<b>\$113,507.69</b>	<b>\$5,055.00</b>

<u>Fiscal Year 2016</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ -	\$6,743.00
Net difference between projected and actual earnings on pension plan investments	1,051.00	-
College's contributions subsequent to the measurement date of June 30, 2015	68,659.80	-
<b>Total</b>	<b>\$69,710.80</b>	<b>\$6,743.00</b>

Deferred outflows of resources, resulting from the college's employer contributions of \$103,015.69 subsequent to the measurement date, will be recognized as a decrease in net pension liability in the year ending June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ending June 30</u>	
2018	\$1,331.00
2019	\$1,331.00
2020	\$1,331.00
2021	\$1,106.00
2022	\$(96.00)
Thereafter	\$434.00

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

Actuarial assumptions – The total pension asset was determined by actuarial valuations using the following actuarial assumptions, applied to all periods included in the measurement:

## Notes to the Financial Statements (Continued)

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:

<u>Asset Class</u>	<u>Long-term Expected Real Rate of Return</u>	<u>Target Allocation</u>
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.

## Notes to the Financial Statements (Continued)

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

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

	1% Decrease <u>(6.5%)</u>	Current Discount Rate <u>(7.5%)</u>	1% Increase <u>(8.5%)</u>
College’s proportionate share of net pension asset	\$(5,626.00)	\$(47,043.00)	\$(78,071.00)

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](http://www.treasury.tn.gov/tcrs).

### *Payable to the Pension Plan*

At June 30, 2017, and at June 30, 2016, the college reported a payable of \$34.83 and \$3,021.79, respectively, for the outstanding amount of legally required contributions to the pension plan required for the years then ended.

### **Total Defined Benefit Pension Expense**

The total pension expense for the year ended June 30, 2017, for all state and local government defined benefit pension plans was \$2,207,468.00. The total pension expense for the year ended June 30, 2016, for all state and local government defined benefit pension plans was \$861,963.00.

### **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 35, Part 4, *Tennessee Code Annotated*. This statute also sets out the plan provisions. The plan provisions are amended by the Tennessee General Assembly. The ORP was designed to provide benefits at retirement to faculty and staff who are

## **Notes to the Financial Statements (Continued)**

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exempt from the overtime provision of the Fair Labor Standards Act and who waive membership in the TCRS. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings.

Funding policy – For employees employed prior to July 1, 2014, plan members are noncontributory. The college contributes an amount equal to 10% of the employee's base salary up to the social security wage base and 11% above the social security wage base. For employees hired after June 30, 2014, plan members will contribute 5% to the ORP and the college will contribute 9% of the employee's base salary. Pension expense equaled the required contributions made to the ORP and was \$1,420,294.46 for the year ended June 30, 2017; \$1,412,916.33 for the year ended June 30, 2016; and \$1,368,830.53 for the year ended June 30, 2015. Contributions met the requirements for each year.

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

### **Deferred Compensation Plans**

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

## **Notes to the Financial Statements (Continued)**

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

During the year ended June 30, 2017, contributions totaling \$933,418.28 were made by employees participating in the 401(k) plan, and the college recognized pension expense of \$398,462.40 for employer contributions. During the year ended June 30, 2016, contributions totaling \$837,084.71 were made by employees participating in the 401(k) plan, with contributions of \$346,496.16 made by the college. During the year ended June 30, 2015, contributions totaling \$810,356.78 were made by employees participating in the 401(k) plan, with contributions of \$288,739.57 made by the college.

### **Note 10. Other Postemployment Benefits**

Healthcare is the only “other postemployment benefit” (OPEB) provided to employees. The State of Tennessee administers a group health insurance program that provides postemployment health insurance benefits to eligible college retirees. This program includes two plans available to higher education employees—the State Employee Group Plan and the Medicare Supplement Plan. For accounting purposes, the plans are agent multiple-employer defined benefit OPEB plans. Benefits are established and amended by an insurance committee created by Section 8-27-201, *Tennessee Code Annotated*, for the State Employee Group Plan and for the Medicare Supplement Plan. The State Employee Group Plan covers retirees until they reach the age of 65. Members have the option of choosing between the standard or partnership preferred provider organization plan for healthcare benefits. Subsequent to age 65, members who are also in the state’s retirement system may participate in a state-administered Medicare supplement that does not include pharmacy. Employees hired on or after July 1, 2015, are not eligible to continue insurance coverage at retirement in either the State Employee Group Plan or the Medicare Supplement Plan. The state makes on-behalf payments to the Medicare Supplement Plan for the college’s eligible retirees; see Note 15. The plans are reported in the *Tennessee Comprehensive Annual Financial Report* (CAFR). The CAFR is available on the state’s website at [www.tn.gov/finance/article/fa-accfin-cafr](http://www.tn.gov/finance/article/fa-accfin-cafr).

### **Special Funding Situation**

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

### **Funding Policy**

The premium requirements of plan members are established and may be amended by the insurance committee. The plans are self-insured and financed on a pay-as-you-go basis with the risk shared equally among the participants. The plan’s claims liabilities are periodically computed using



## Notes to the Financial Statements (Continued)

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

	<u>2017</u>	<u>2016</u>
Annual required contribution (ARC)	\$ 680,000.00	\$ 657,000.00
Interest on the net OPEB obligation	103,715.20	103,489.25
Adjustment to the ARC	(104,131.72)	(103,904.87)
Annual OPEB cost	679,583.48	656,584.38
Amount of contribution	(737,564.09)	(650,559.25)
Increase (decrease) in net OPEB obligation	(57,980.61)	6,025.13
Net OPEB obligation – beginning of year	2,765,738.57	2,759,713.44
Net OPEB obligation – end of year	\$2,707,757.96	\$2,765,738.57

<u>Year-end</u>	<u>Plan</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation at Year-end</u>
June 30, 2017	State Employee Group Plan	\$679,583.48	108.5%	\$2,707,757.96
June 30, 2016	State Employee Group Plan	\$656,584.38	99.1%	\$2,765,738.57
June 30, 2015	State Employee Group Plan	\$610,880.04	105.8%	\$2,759,713.44

### **Funded Status and Funding Progress**

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

## Notes to the Financial Statements (Continued)

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### State Employee Group Plan

Actuarial valuation date	July 1, 2015
Actuarial accrued liability (AAL)	\$4,848,000.00
Actuarial value of plan assets	-
Unfunded actuarial accrued liability (UAAL)	\$4,848,000.00
Actuarial value of assets as a percentage of the AAL	0.00%
Covered payroll (active plan members)	\$24,365,701.18
UAAL as percentage of covered payroll	19.9%

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

#### Actuarial Methods and Assumptions

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

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

#### Note 11. Revenues

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

## Notes to the Financial Statements (Continued)

Fiscal Year 2017 <u>Revenue Source</u>	<u>Gross Revenue</u>	<u>Less Scholarship Allowances</u>	<u>Less Uncollectible Debts</u>	<u>Net Revenue</u>
<b>Operating revenues:</b>				
Tuition and fees	\$35,555,462.88	\$15,994,138.27	\$672,411.35	\$18,888,913.26
Other operating revenue	98,672.75	-	2,361.71	96,311.04
<b>Total</b>	<b>\$35,654,135.63</b>	<b>\$15,994,138.27</b>	<b>\$674,773.06</b>	<b>\$18,985,224.30</b>

Fiscal Year 2016 <u>Revenue Source</u>	<u>Gross Revenue</u>	<u>Less Scholarship Allowances</u>	<u>Less Uncollectible Debts</u>	<u>Net Revenue</u>
<b>Operating revenues:</b>				
Tuition and fees	\$35,408,689.45	\$15,537,430.33	\$727,746.00	\$19,143,513.12
Other operating revenue	122,780.01	-	7,351.26	115,428.75
<b>Total</b>	<b>\$35,531,469.46</b>	<b>\$15,537,430.33</b>	<b>\$735,097.26</b>	<b>\$19,258,941.87</b>

### Note 12. Insurance-related Activities

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

The college participates in the RMF. The fund allocates the cost of providing claims servicing and claims payment by charging a premium to the college based on a percentage of the college's expected loss costs, which include both experience and exposures. This charge considers recent trends in actual claims experience of the state as a whole. Information regarding the determination

## **Notes to the Financial Statements (Continued)**

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of the claims liabilities and the changes in the balances of the claims liabilities for the year ended June 30, 2017, is presented in the *Tennessee Comprehensive Annual Financial Report (CAFR)*. The CAFR is available on the state's website at [www.tn.gov/finance/article/fa-accfin-cafr](http://www.tn.gov/finance/article/fa-accfin-cafr). At June 30, 2017, the Risk Management Fund held \$167 million in cash designated for payment of claims. At June 30, 2016, the Risk Management Fund held \$142.9 million in cash designated for payment of claims.

At June 30, 2017, the scheduled coverage for the college was \$224,136,370 for buildings and \$25,651,200 for contents. At June 30, 2016, the scheduled coverage for the college was \$149,943,000 for buildings and \$24,606,200 for contents.

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

### **Note 13. Commitments and Contingencies**

#### **Sick Leave**

The college records the cost of sick leave when paid. The dollar amount of unused sick leave was \$10,658,208.75 at June 30, 2017, and \$10,264,913.57 at June 30, 2016.

#### **Construction in Progress**

At June 30, 2017, outstanding commitments under construction contracts totaled \$2,884,606.19 for the ADA Adaptations project, the HVAC Updates project, the Boiler and Chiller Updates project, the Student Resource Center Upgrades project, the Outdoor Classroom and Solar Demonstration project, and the Strawberry Plains Science Lab project, of which \$937,981.57 will be funded by future state capital outlay appropriations.

### **Note 14. Natural Classification With Functional Classifications**

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

## Notes to the Financial Statements (Continued)

<u>Natural Classification</u>						
<u>Functional Classification</u>	<u>Salaries</u>	<u>Benefits</u>	<u>Other Operating</u>	<u>Scholarships</u>	<u>Depreciation</u>	<u>Total</u>
Instruction	\$22,170,175.57	\$ 7,082,622.42	\$ 5,375,514.05	\$ 12,480.00	\$ -	\$34,640,792.04
Public service	320,992.36	105,479.57	207,310.32	-	-	633,782.25
Academic support	4,669,668.42	1,870,803.90	(769,914.48)	44,094.00	-	5,814,651.84
Student services	4,754,067.61	1,798,717.57	1,936,062.39	109,681.42	-	8,598,528.99
Institutional support	3,794,307.32	1,529,766.68	1,747,030.61	1,573.00	-	7,072,677.61
Maintenance & operation	1,469,751.03	781,674.27	4,393,369.28	-	-	6,644,794.58
Scholarships & fellowships	1,826.00	626.07	728.36	9,679,661.92	-	9,682,842.35
Auxiliary	-	-	216,166.82	2,072.00	-	218,238.82
Depreciation	-	-	-	-	2,940,520.37	2,940,520.37
<b>Total</b>	<b>\$37,180,788.31</b>	<b>\$13,169,690.48</b>	<b>\$13,106,267.35</b>	<b>\$9,849,562.34</b>	<b>\$2,940,520.37</b>	<b>\$76,246,828.85</b>

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

<u>Natural Classification</u>						
<u>Functional Classification</u>	<u>Salaries</u>	<u>Benefits</u>	<u>Other Operating</u>	<u>Scholarships</u>	<u>Depreciation</u>	<u>Total</u>
Instruction	\$21,891,767.65	\$ 6,263,471.11	\$ 5,464,824.29	\$ 56,628.36	\$ -	\$33,676,691.41
Public service	326,142.02	85,111.61	222,438.63	200.00	-	633,892.26
Academic support	4,473,389.38	1,453,449.63	(389,346.20)	23,460.00	-	5,560,952.81
Student services	4,654,005.41	1,505,410.78	2,017,020.52	119,529.50	-	8,295,966.21
Institutional support	3,810,801.37	1,313,304.92	1,684,640.62	4,167.00	-	6,812,913.91
Maintenance & operation	1,367,029.05	635,036.35	4,626,063.31	-	-	6,628,128.71
Scholarships & fellowships	-	-	1,950.00	9,588,787.56	-	9,590,737.56
Auxiliary	-	-	231,673.69	-	-	231,673.69
Depreciation	-	-	-	-	3,125,521.42	3,125,521.42
<b>Total</b>	<b>\$36,523,134.88</b>	<b>\$11,255,784.40</b>	<b>\$13,859,264.86</b>	<b>\$9,792,772.42</b>	<b>\$3,125,521.42</b>	<b>\$74,556,477.98</b>

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 \$3,483,855.00 for the year ended June 30, 2017, and \$3,552,046.00 for the year ended June 30, 2016, were reallocated from academic support to the other functional areas and caused academic support operating expenses to appear as a negative amount in the schedules above.

## **Notes to the Financial Statements (Continued)**

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### **Note 15. On-behalf Payments**

During the year ended June 30, 2017, the State of Tennessee made payments of \$26,500.00 on behalf of the college for retirees participating in the Medicare Supplement Plan. The amount for the year ended June 30, 2016, was \$20,150.00. The Medicare Supplement Plan is a postemployment benefit healthcare plan and is discussed further in Note 10.

### **Note 16. Operating Leases**

The college has two operating leases for the rental of building space at the Strawberry Plains facility. The facility has 221,706 square feet with a cost of \$13,791,741.96 and accumulated depreciation of \$1,157,153.77 at June 30, 2017. The State of Tennessee, Department of General Services has leased 72,740 square feet, or 32.8% of the facility. The lease was in effect for the fiscal years ended June 30, 2017, and June 30, 2016. Payments received totaled \$773,710.00 for fiscal year 2017 and \$740,616.00 for fiscal year 2016. Knox County Board of Education has leased 25,765 square feet, or 11.6% of the facility. The lease was in effect for the fiscal years ended June 30, 2017, and June 30, 2016. Payments received totaled \$299,520.00 for fiscal year 2017 and \$269,562.00 for fiscal year 2016. Both leases are cancelable at the college's option. There are no contingent rental options in either lease.

### **Note 17. Component Unit**

The Pellissippi State Community College Foundation is a legally separate, tax-exempt organization supporting Pellissippi State Community College. The foundation acts primarily as a fund-raising organization to supplement the resources that are available to the college in support of its programs. The 26-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.

## Notes to the Financial Statements (Continued)

During the year ended June 30, 2017, the foundation made distributions of \$474,616.15 to or on behalf of the college for both restricted and unrestricted purposes. During the year ended June 30, 2016, the foundation made distributions of \$130,059.48 to or on behalf of the college for both restricted and unrestricted purposes. Complete financial statements for the foundation can be obtained from Pellissippi State Community College, P.O. Box 22990, Knoxville, TN 37933-0990.

### 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, 2017, and at June 30, 2016.

	<u>June 30, 2017</u>	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Investments	\$15,094,786.73	\$4,478,355.75	\$ -	\$10,616,430.98
Pledges receivable	1,660,145.68	-	-	1,660,145.68
<b>Total assets</b>	<b>\$16,754,932.41</b>	<b>\$4,478,355.75</b>	<b>\$ -</b>	<b>\$12,276,576.66</b>

	<u>June 30, 2016</u>	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Investments	\$12,230,746.32	\$2,636,885.60	\$ -	\$9,593,860.72
Pledges receivable	147,609.22	-	-	147,609.22
<b>Total assets</b>	<b>\$12,378,355.54</b>	<b>\$2,636,885.60</b>	<b>\$ -</b>	<b>\$9,741,469.94</b>

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

At June 30, 2017	Beginning Balance	Total Gains/ (Losses), Realized and Unrealized	Purchases, Additional Pledges	Change in Allowance and Discount	Pledge Receipts and Writeoffs	Settlements	Ending Balance
Assets:							
Pooled investment funds:							
Multi-strategy equity	\$6,521,243.22	\$1,227,753.30	\$ 446,200.81	\$ -	\$ -	\$ (761,047.80)	\$7,434,149.53
Multi-strategy bond	2,216,312.79	45,810.94	940,124.70	-	-	(30,386.86)	3,171,861.57
Intermediate term fund	596,470.06	(1,510.83)	-	-	-	(594,959.23)	-
Hedge funds	259,834.65	4,694.64	-	-	-	(254,109.41)	10,419.88
Pledges receivable	147,609.22	-	2,115,000.00	(141,773.54)	(460,690.00)	-	1,660,145.68
<b>Total assets</b>	<b>\$9,741,469.94</b>	<b>\$1,276,748.05</b>	<b>\$3,501,325.51</b>	<b>\$(141,773.54)</b>	<b>\$(460,690.00)</b>	<b>\$(1,640,503.30)</b>	<b>\$12,276,576.66</b>

## Notes to the Financial Statements (Continued)

At June 30, 2016	Beginning Balance	Total Gains/ (Losses), Realized and Unrealized	Purchases, Additional Pledges	Change in Allowance and Discount	Pledge Receipts and Writeoffs	Settlements	Ending Balance
Assets:							
Pooled investment funds:							
Multi-strategy equity	\$ 6,130,223.72	\$(144,536.97)	\$ 742,553.63	\$ -	\$ -	\$ (206,997.16)	\$6,521,243.22
Multi-strategy bond	2,656,844.02	91,180.91	206,997.16	-	-	(738,709.30)	2,216,312.79
Intermediate term fund	-	8,470.06	588,000.00	-	-	-	596,470.06
Hedge funds	288,534.84	(28,700.19)	-	-	-	-	259,834.65
Pledges receivable	996,593.66	-	-	53,115.56	(902,100.00)	-	147,609.22
<b>Total assets</b>	<b>\$10,072,196.24</b>	<b>\$ (73,586.19)</b>	<b>\$1,537,550.79</b>	<b>\$53,115.56</b>	<b>\$(902,100.00)</b>	<b>\$(945,706.46)</b>	<b>\$9,741,469.94</b>

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 or endowment income per spending plan. Of this total, \$1,173,670.15 is attributable to the change in unrealized gains or losses relating to those assets still held at June 30, 2017, and \$(218,842.53) is attributable to the change in unrealized gains or losses relating to those assets still held at June 30, 2016.

### Cash

Cash consists of demand deposit accounts and Local Government Investment Pool (LGIP) deposits. The bank balances of deposits at June 30, 2016, and June 30, 2017, were entirely insured.

### Investments

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

Investments held at June 30, 2017, were as follows:

	<u>Cost</u>	<u>Fair Value</u>
Pooled investment funds:		
Multi-strategy equity	\$3,542,323.68	\$ 7,434,149.53
Multi-strategy bond	1,518,138.73	3,171,861.57
Mutual bond funds	1,272,705.29	1,272,659.66
Mutual equity funds	3,050,636.54	3,199,268.80
Money market funds	6,427.29	6,427.29
Other:		
Hedge funds	10,419.88	10,419.88
<b>Total investments</b>	<b>\$9,400,651.41</b>	<b>\$15,094,786.73</b>



## Notes to the Financial Statements (Continued)

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

	<u>Cost</u>	<u>Fair Value</u>
Pooled investment funds:		
Multi-strategy equity	\$3,044,682.67	\$ 6,521,243.22
Multi-strategy bond	1,304,863.99	2,216,312.79
Intermediate term	594,080.32	596,470.06
Corporate stock	43,766.54	46,061.82
Mutual bond funds	724,268.00	736,655.07
Mutual equity funds	1,734,069.67	1,795,882.67
Money market funds	12,270.94	12,270.94
Other:		
Hedge funds	281,279.15	259,834.65
Other mutual funds	53,658.08	46,015.10
<hr/>		
<b>Total investments</b>	<b>\$7,792,939.36</b>	<b>\$12,230,746.32</b>

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.

	<u>2017</u>	<u>2016</u>
Dividends and interest, net of expenses of \$43,974.31 for 2017 and \$42,126.07 for 2016	\$ 171,473.68	\$ 197,726.02
Net realized and unrealized gains	1,498,450.17	(282,839.12)
<b>Total return on investments</b>	<b>1,669,923.85</b>	<b>(85,113.10)</b>
Endowment income per spending plan	(215,358.57)	(116,295.47)
Investment return in excess of amounts designated for current operations	\$1,454,565.28	\$(201,408.57)

Operating return – The foundation’s board 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 investments – The foundation had investments in hedge funds and pooled investment funds. The estimated fair value of these assets was \$10,616,430.98 at June 30, 2017, and \$9,593,860.72 at June 30, 2016.

The foundation believes the carrying amount of its alternative investments is a reasonable estimate of fair value as of June 30, 2017, and as of June 30, 2016. Because these investments are not readily marketable, the estimated value is subject to uncertainty and, therefore, may differ from

## **Notes to the Financial Statements (Continued)**

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the value that would have been used had a ready market for the investments existed, and such differences could be material. These investments are made in accordance with the foundation's investment policy that approves the allocation of funds to various asset classes in order to ensure the proper level of diversification. These investments are designed to enhance diversification and provide reductions in overall portfolio volatility. These fair values are estimated using various valuation techniques and are valued by using reports received directly from the foundation's investment manager.

### **Pledges Receivable**

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

	<u>June 30, 2017</u>	<u>June 30, 2016</u>
Current pledges	\$ 404,987.52	\$149,007.91
Pledges due in one to five years	1,336,750.08	194.17
Subtotal	1,741,737.60	149,202.08
Less discount to net present value	(81,591.92)	(1,592.86)
Total pledges receivable, net	\$1,660,145.68	\$147,609.22

### **Endowments**

The Pellissippi State Community College Foundation's endowments consist of 135 individual funds established for a variety of purposes. Its endowment includes both donor-restricted endowment funds and funds designated by the Board of Trustees to function as endowments. As required by accounting principles generally accepted in the United States of America, net position associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, is classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of relevant law – The Board of Trustees of the Pellissippi 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 donor restricted endowment funds, absent explicit donor stipulations to the contrary. As a result of this interpretation, the Pellissippi State Community College Foundation classifies as permanently restricted net position 1) the original value of gifts donated to the permanent endowment and 2) the original value of subsequent gifts to the permanent endowment. 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

## Notes to the Financial Statements (Continued)

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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, 2017

	<u>Permanently Restricted</u>	<u>Temporarily Restricted</u>	<u>Unrestricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$2,900,713.11	\$4,846,059.50	\$ -	\$7,746,772.61
Board-designated endowment funds	-	1,738,776.12	-	1,738,776.12
<b>Total funds</b>	<b>\$2,900,713.11</b>	<b>\$6,584,835.62</b>	<b>\$ -</b>	<b>\$9,485,548.73</b>

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

	<u>Permanently Restricted</u>	<u>Temporarily Restricted</u>	<u>Unrestricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$2,827,582.13	\$3,922,460.65	\$(2.83)	\$6,750,039.95
Board-designated endowment funds	-	1,500,484.81	-	1,500,484.81
<b>Total funds</b>	<b>\$2,827,582.13</b>	<b>\$5,422,945.46</b>	<b>\$(2.83)</b>	<b>\$8,250,524.76</b>

## Notes to the Financial Statements (Continued)

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### Changes in Endowment Net Position For the Fiscal Year Ended June 30, 2017

	<u>Permanently Restricted</u>	<u>Temporarily Restricted</u>	<u>Unrestricted</u>	<u>Total</u>
Endowment net position, beginning of year	\$2,827,582.13	\$5,422,945.46	\$(2.83)	\$8,250,524.76
Investment return:				
Investment income	-	122,597.51	-	122,597.51
Net appreciation (realized and unrealized)	-	1,214,593.05	-	1,214,593.05
<b>Total investment return</b>	<b>-</b>	<b>1,337,190.56</b>	<b>-</b>	<b>1,337,190.56</b>
Contributions	72,886.67	40,061.00	-	112,947.67
Appropriations of endowment assets for expenditure	-	(215,358.57)	-	(215,358.57)
Transfers	538.25	(2.83)	2.83	538.25
Other:				
Change in allowance and discounts on endowment pledges	(293.94)	-	-	(293.94)
<b>Endowment net position, end of year</b>	<b>\$2,900,713.11</b>	<b>\$6,584,835.62</b>	<b>\$ -</b>	<b>\$9,485,548.73</b>

## Notes to the Financial Statements (Continued)

### 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	\$2,809,095.64	\$5,855,305.07	\$(24.50)	\$8,664,376.21
Investment return:				
Investment income	-	144,022.35	-	144,022.35
Net appreciation (realized and unrealized)	-	(193,152.03)	-	(193,152.03)
Total investment return	-	(49,129.68)	-	(49,129.68)
Contributions	18,448.07	-	-	18,448.07
Appropriations of endowment assets for expenditure	-	(383,208.26)	-	(383,208.26)
Transfers	47.17	(21.67)	21.67	47.17
Other:				
Change in allowance and discounts on endowment pledges	(8.75)	-	-	(8.75)
Endowment net position, end of year	\$2,827,582.13	\$5,422,945.46	\$ (2.83)	\$8,250,524.76

Funds with deficiencies – From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the foundation is required to retain in a fund of perpetual duration. In accordance with accounting principles generally accepted in the United States of America, deficiencies of this nature are reported in unrestricted net position. These deficiencies resulted from unfavorable market fluctuations that occurred after the investment of permanently restricted contributions and/or continued appropriation for fees and previously approved budgeted expenditures. At June 30, 2016, deficiencies of this nature totaled \$77.02.

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 historical dollar value 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, as well as board-designated funds. Under this policy, as approved by the Board of Trustees, the endowment assets are invested in a manner that is intended to produce results that will maximize the benefit intended by the donor, to produce current income to support donor objectives and the programs at Pellissippi State Community College, and to achieve growth of both principal value and income over time. The foundation expects its endowment funds, over time, to provide an average rate of return of approximately 10% annually including interest, dividends, and capital appreciation (realized and unrealized gains). Actual returns in any given year may vary from this amount.

## **Notes to the Financial Statements (Continued)**

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

Spending policy and how the investment objectives relate – The foundation has a policy of appropriating for distribution each year all realized investment earnings (interest, dividends, and realized gains) for regular endowment funds and one-half of realized investment earnings for Challenge grant-related endowment funds. 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 5% annually. 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 Pellissippi State Community College**

The college paid certain payroll and other costs supporting the foundation amounting to \$708,020.87 in fiscal year 2017 and \$794,581.75 in fiscal year 2016. 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.

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

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	Proportion of the Net Pension Liability	Proportionate Share of the Net Pension Liability	Covered Payroll	Proportionate Share of the Net Pension Liability as a Percentage of Its Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2017	0.59713%	\$10,894,992.00	\$14,547,084.30	74.89%	87.96%
2016	0.540114%	6,963,599.00	14,087,080.04	49.43%	91.26%
2015	0.510978%	3,525,483.00	13,959,499.00	25.26%	95.11%

- 1) To correspond with the measurement date, the amounts presented were determined as of June 30 of the prior fiscal year.
- 2) This is a 10-year schedule; however, the information in this schedule is not required to be presented retroactively. Years will be added to this schedule in future years until 10 years of information are available.

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

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	<u>2017</u>	<u>2016</u>
College's proportion of the net pension asset	0.558407%	0.651752%
College's proportionate share of the net pension asset	\$ 47,043.00	\$ 18,125.00
College's covered payroll	\$1,774,155.04	\$731,811.37
College's proportionate share of the net pension asset as a percentage of its covered payroll	2.65%	2.48%
Plan fiduciary net position as a percentage of the total pension liability	130.56%	142.55%

- 1) To correspond with the measurement date, the amounts presented were determined as of June 30 of the prior fiscal year.
  
- 2) This is a 10-year schedule; however, the information in this schedule is not required to be presented retroactively. Years will be added to this schedule in future years until 10 years of information are available.



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

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	Contractually Determined Contributions	Contributions in Relation to Contractually Determined Contributions	Contribution Deficiency (Excess)	Covered Payroll	Contributions as a Percentage of Covered Payroll
2017	\$2,186,570.99	\$2,186,570.99	\$ -	\$14,557,729.63	15.02%
2016	2,186,426.77	2,186,426.77	-	14,547,084.30	15.03%
2015	2,117,288.13	2,117,288.13	-	14,087,080.04	15.03%
2014	2,098,113.00	2,098,113.00	-	13,959,499.00	15.03%
2013	1,879,240.77	1,879,240.77	-	12,503,265.26	15.03%
2012	1,749,847.71	1,749,847.71	-	11,736,067.81	14.91%
2011	1,599,845.74	1,599,845.74	-	10,730,018.38	14.91%
2010	1,318,976.71	1,318,976.71	-	10,130,388.71	13.02%
2009	1,275,086.93	1,275,086.93	-	9,793,294.39	13.02%
2008	1,258,569.68	1,258,569.68	-	9,240,599.71	13.62%

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

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	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually determined contributions	\$ 103,015.69	\$ 68,659.80	\$ 28,321.10
Contributions in relation to the contractually determined contributions	103,015.69	68,659.80	28,321.10
Contribution deficiency (excess)	\$ -	\$ -	\$ -
Covered payroll	\$2,703,518.63	\$1,774,155.04	\$731,811.37
Contributions as a percentage of covered payroll	3.81%	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  
Pellissippi 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	\$ -	\$4,848,000.00	\$4,848,000.00	0%	\$24,365,701.18	19.90%
July 1, 2013	State Employee Group Plan	\$ -	\$4,613,000.00	\$4,613,000.00	0%	\$21,638,603.12	21.32%
July 1, 2011	State Employee Group Plan	\$ -	\$5,479,000.00	\$5,479,000.00	0%	\$19,584,467.95	27.98%

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

**Supplementary Information**  
**PELLISSIPPI STATE COMMUNITY COLLEGE FOUNDATION**  
**Supplementary Schedules of Cash Flows - Component Unit**  
**For the Years Ended June 30, 2017, and June 30, 2016**

	Year Ended June 30, 2017	Year Ended June 30, 2016
<b>Cash flows from operating activities</b>		
Gifts and contributions	\$ 1,177,542.41	\$ 1,208,835.98
Payments to suppliers and vendors	(82,933.40)	(101,007.60)
Payments for scholarships and fellowships	(222,188.35)	(196,207.50)
Payments to Pellissippi State Community College	(286,218.46)	(56,893.87)
Loans issued to students	(26,920.92)	(15,844.82)
Collection of loans from students	25,896.38	15,890.04
Other receipts	27,305.19	22,427.48
<b>Net cash provided by operating activities</b>	<b>612,482.85</b>	<b>877,199.71</b>
<b>Cash flows from noncapital financing activities</b>		
Private gifts for endowment purposes	66,665.02	21,774.46
Principal paid on noncapital debt	-	(700,000.00)
Interest paid on noncapital debt	-	(19,937.50)
<b>Net cash provided (used) by noncapital financing activities</b>	<b>66,665.02</b>	<b>(698,163.04)</b>
<b>Cash flows from investing activities</b>		
Proceeds from sales and maturities of investments	1,017,076.48	10,000.00
Income on investments	171,473.68	197,726.02
Purchases of investments	(2,382,666.72)	(787,760.48)
<b>Net cash used by investing activities</b>	<b>(1,194,116.56)</b>	<b>(580,034.46)</b>
<b>Net decrease in cash</b>	<b>(514,968.69)</b>	<b>(400,997.79)</b>
<b>Cash - beginning of year</b>	<b>679,011.05</b>	<b>1,080,008.84</b>
<b>Cash - end of year</b>	<b>\$ 164,042.36</b>	<b>\$ 679,011.05</b>
<b>Reconciliation of operating gain (loss) to net cash provided by operating activities:</b>		
Operating gain (loss)	\$ 1,498,601.65	\$ (650,377.77)
Adjustments to reconcile operating gain (loss) to net cash provided by operating activities:		
Noncash operating expenses	708,020.87	794,581.75
Endowment income per spending plan	(215,358.57)	(116,295.47)
Change in assets and liabilities:		
Receivables, net	(1,506,314.81)	845,658.05
Prepaid expenses	2,500.00	2,750.00
Accounts payable	125,787.75	556.50
Loans to students	(754.04)	326.65
<b>Net cash provided by operating activities</b>	<b>\$ 612,482.85</b>	<b>\$ 877,199.71</b>
<b>Noncash investing, capital, or financing activities</b>		
Unrealized gains (losses) on investments	\$ 1,256,402.94	\$ (284,228.77)



JUSTIN P. WILSON  
*Comptroller*

JASON E. MUMPOWER  
*Chief of Staff*

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

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

We have audited the financial statements of Pellissippi State Community College, an institution of the State University and Community College System of Tennessee, which is a component unit of the State of Tennessee, and its discretely presented component unit as of and for the years ended June 30, 2017, and June 30, 2016, and the related notes to the financial statements, which collectively comprise the college's basic financial statements, and have issued our report thereon dated September 5, 2018. We conducted our audit in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

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

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

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

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

### **Compliance and Other Matters**

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

### **Purpose of This Report**

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



Deborah V. Loveless, CPA, Director  
Division of State Audit  
September 5, 2018

## **Observations and Comments**

### **College of Applied Technology**

Pellissippi State Community College serves as the lead institution under an agreement with the Tennessee College of Applied Technology at Knoxville. Under this agreement, Pellissippi State Community College performs the accounting and reporting functions for the college. The chief administrative officer of each college is the director, who is assisted and advised by members of the faculty and administrative staff. The director is responsible to the Chancellor of the Tennessee Board of Regents.