Tennessee Comptroller of the Treasury

Financial and Compliance Audit Report

Chattanooga State Community College

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

Jason E. Mumpower
Comptroller of the Treasury

Division of State Audit

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Jason E. Mumpower
Comptroller

October 5, 2021

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

Ladies and Gentlemen:

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

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

Sincerely,

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

21/027

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

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Chattanooga State Community College

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

Opinions on the Financial Statements

The opinions on the financial statements are unmodified.

Audit Finding

Chattanooga State Community College Did Not Provide Adequate Internal Controls in Four Areas That Were Reported in the Prior Audit*

Chattanooga State Community College did not design and monitor internal controls in four areas. For the second consecutive audit, we found internal control deficiencies related to one of the college's systems. Although management has taken steps to correct these conditions, we are reporting internal control deficiencies for the second consecutive audit because corrective action was not sufficient. These deficiencies are considered a significant deficiency in internal control. The details of this finding are confidential pursuant to Section 10-7-504(i) *Tennessee Code Annotated* (page 75).

* This finding is repeated from the prior audit.

Tennessee Comptroller of the Treasury

Jason E. Mumpower
Comptroller

Independent Auditor's Report

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

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

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

Emphasis of Matters

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

As discussed in Note 16, the financial statements of Chattanooga State Community College Foundation, a discretely presented component unit of Chattanooga State Community College, include investments valued at $776,623 at June 30, 2020, (8.64% of net position of the foundation) and $786,642 at June 30, 2019, (8.99% of net position of the foundation) whose fair values have been estimated by management in the absence of readily determinable fair values. Management's estimates are based on information provided by the fund's general partner. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 through 16; the schedule of Chattanooga State Community College's proportionate share of the net pension liability – Closed State and Higher Education Employee Pension Plan within TCRS on page 65; the schedule of Chattanooga State Community College's proportionate share of the net pension asset – State and Higher Education Employee Retirement Plan within TCRS on page 66; the schedule of Chattanooga State Community College's contributions – Closed State and Higher Education Employee Pension Plan within TCRS on page 67; the schedule of Chattanooga State Community College's contributions – State and Higher Education Employee Retirement Plan within TCRS on page 68; the schedule of Chattanooga State Community College's proportionate share of the collective total/net OPEB liability – Closed State Employee Group OPEB Plan on page 69; the schedule of Chattanooga State Community College's contributions – Closed State Employee Group OPEB Plan on page 70; and the schedule of Chattanooga State Community College's proportionate share of the collective total OPEB liability – Closed Tennessee OPEB Plan on page 71 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 72 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 2, 2021, on our consideration of the college's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the college's internal control over financial reporting and compliance.

Katherine J. Stickel

Katherine J. Stickel, CPA, CGFM, Director
Division of State Audit
September 2, 2021

CHATTANOOGA STATE COMMUNITY COLLEGE
Management's Discussion and Analysis

Introduction

This section of Chattanooga State Community College's financial report presents a discussion and analysis of the financial performance of the college during the fiscal years ended June 30, 2020, and June 30, 2019, with comparative information presented for the year ended June 30, 2018. This discussion has been prepared by management along with the financial statements and related note disclosures and should be read in conjunction with the independent auditor's report, financial statements, and notes to the financial statements. The financial statements, notes, and this discussion are the responsibility of management.

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

Overview of the Financial Statements

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

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

The Statement of Net Position

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

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

The statement of net position also indicates the availability of net position for expenditure by the college. Net position is divided into three major categories. The first category, net investment in capital assets, represents the college's total investment in property, plant, and equipment, net of outstanding debt obligations and deferred outflows/inflows of resources related to these capital assets. To the extent debt or deferred inflows of resources have been incurred but not yet expended for capital assets, such amounts are not included. The next category is restricted net position, which is subdivided into two categories, nonexpendable and expendable. Nonexpendable restricted net position includes endowment and similar resources whose use is limited by donors or other outside sources and as a condition of the gift, the principal is to be maintained in perpetuity. Expendable restricted net position is available for expenditure by the college but must be spent for purposes as determined by donors and/or external entities that have placed time or purpose restrictions on the use of the resources. The final category is unrestricted net position. Unrestricted net position is available to the college for any lawful purpose of the college.

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

Summary of Net Position
(in thousands of dollars)

	2020	2019	2018
Assets:			
Current assets	$22,621	$19,295	$17,974
Capital assets, net	58,027	55,806	55,880
Other assets	19,003	16,732	14,794
Total assets	**99,651**	**91,833**	**88,648**
Deferred outflows of resources:			
Deferred amount on debt refunding	54	67	79
Deferred outflows related to OPEB	1,667	1,600	523
Deferred outflows related to pensions	3,561	5,021	6,285
Total deferred outflows of resources	**5,282**	**6,688**	**6,887**
Liabilities:			
Current liabilities	7,230	6,601	6,259
Noncurrent liabilities	17,223	21,752	23,265
Total liabilities	**24,453**	**28,353**	**29,524**

Deferred inflows of resources:			
Deferred inflows related to OPEB	3,124	755	303
Deferred inflows related to pensions	1,997	640	500
Total deferred inflows of resources	**5,121**	**1,395**	**803**
Net position:			
Net investment in capital assets	56,668	54,407	54,443
Restricted – expendable	977	796	814
Unrestricted	17,714	13,570	9,951
Total net position	**$75,359**	**$68,773**	**$65,208**

Comparison of Fiscal Year 2020 to Fiscal Year 2019

- The increase in current assets includes an increase in unrestricted current cash of $2.6 million due to unrestricted current revenues exceeding expenses and transfers and an increase in restricted current cash of $942 thousand due to receipt of prior-year grant receivables.
- The increase in capital assets, net includes an increase of $2.4 million in the Center for Engineering, Technologies, Arts and Sciences (CETAS) Interior Modernization project in progress and an increase of $1.5 million in the Motorcycle Marine Upgrade project in progress.
- The increase in other assets includes an increase of $1.86 million in noncurrent cash due to transfers to the Renovations and Telecommunications plant funds; an increase in due from primary government of $548 thousand for the CETAS Interior Modernization capital project; and a decrease in due from primary government of $298 thousand for the Motorcycle Marine Upgrade capital project.
- The decrease in deferred outflows related to pensions of $1.46 million was mainly due to changes in actuarial assumptions and differences between actual and projected experience.
- The increase in current liabilities includes an increase of $548 thousand in accounts payable for the CETAS Interior Modernization capital project; an increase of $455 thousand in unearned revenue for the Tennessee Higher Education Commission (THEC) GIVE grant; an increase of $242 thousand in due to primary government for Tennessee Consolidated Retirement System (TCRS) retirement payments; and a decrease of $755 thousand in the current portion of the other postemployment benefits (OPEB) obligation.
- The decrease in noncurrent liabilities includes a decrease in OPEB obligations of $2.3 million and a decrease in net pension liability of $2.2 million.
- The increase in deferred inflows related to OPEB of $2.4 million was mainly due to changes in actuarial assumptions and changes in proportion and differences between benefits paid and proportionate share of benefits paid.

- The increase in deferred inflows related to pensions of $1.4 million was mainly due to differences between projected and actual earnings on pension plan investments.

Comparison of Fiscal Year 2019 to Fiscal Year 2018

- The increase in current assets includes an increase in unrestricted current cash of $2.7 million due to unrestricted current revenues exceeding expenses and transfers, and a decrease in due from primary government of $1.1 million due to the receipt of the receivable for the sale of the East Campus in fiscal year 2018.
- The decrease in capital assets, net includes a decrease of $1.4 million in buildings due to the sale of the Sequatchie Valley site, an increase of $1.3 million in projects in progress due to the Motorcycle Marine Upgrade, and an increase of $457 thousand in additions to the Greenhouse project in progress.
- The increase in other assets includes an increase of $1.4 million in noncurrent cash due to transfers to the Renovations and TTC Instructional Equipment plant funds, and an increase in due from primary government of $298 thousand for the Motorcycle Marine Upgrade capital project.
- The increase in deferred outflows related to OPEB of $1.1 million includes the annual increase to the employer's proportionate share of collective deferred outflows of resources related to changes in assumptions, changes in proportion, and differences between benefits paid and proportionate share of benefits paid.
- The decrease in deferred outflows related to pensions of $1.26 million was due mainly to changes in assumptions and other actuarial determinations.
- The decrease in noncurrent liabilities includes a decrease in net pension liability of $1.47 million.

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

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

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

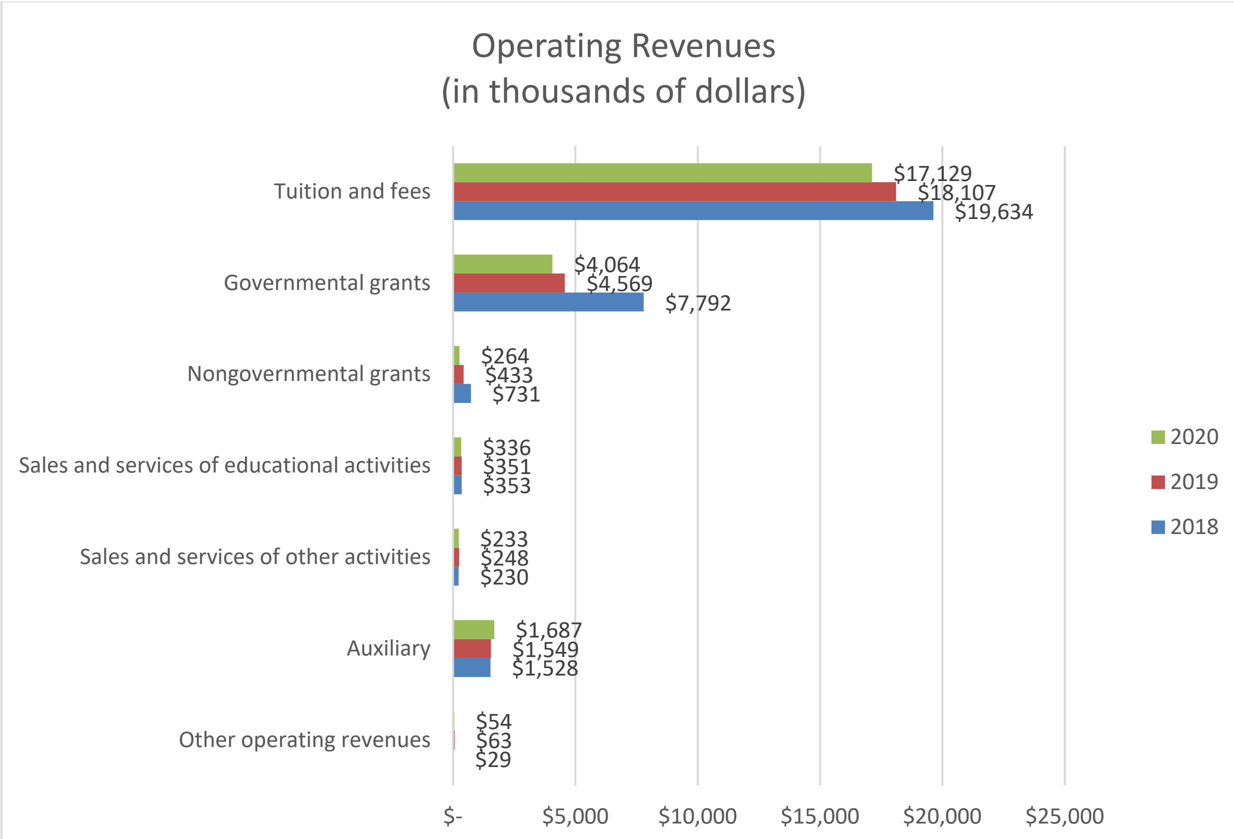
A summary of the college's revenues, expenses, and changes in net position for the years ended June 30, 2020; June 30, 2019; and June 30, 2018, follows.

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

	2020	2019	2018
Operating revenues	$23,767	$25,320	$30,297
Operating expenses	91,595	89,736	88,887
Operating loss	(67,828)	(64,416)	(58,590)
Nonoperating revenues and expenses	68,695	63,433	61,405
Income (loss) before other revenues, expenses, gains, or losses	867	(983)	2,815
Other revenues, expenses, gains, or losses	5,719	4,548	3,817
Increase in net position	6,586	3,565	6,632
Net position at beginning of year, as originally reported	68,773	65,208	62,929
Cumulative effect of change in accounting principal	-	-	(4,353)
Net position at beginning of year, restated	68,773	65,208	58,576
Net position at end of year	$75,359	$68,773	$65,208

Operating Revenues

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



Comparison of Fiscal Year 2020 to Fiscal Year 2019

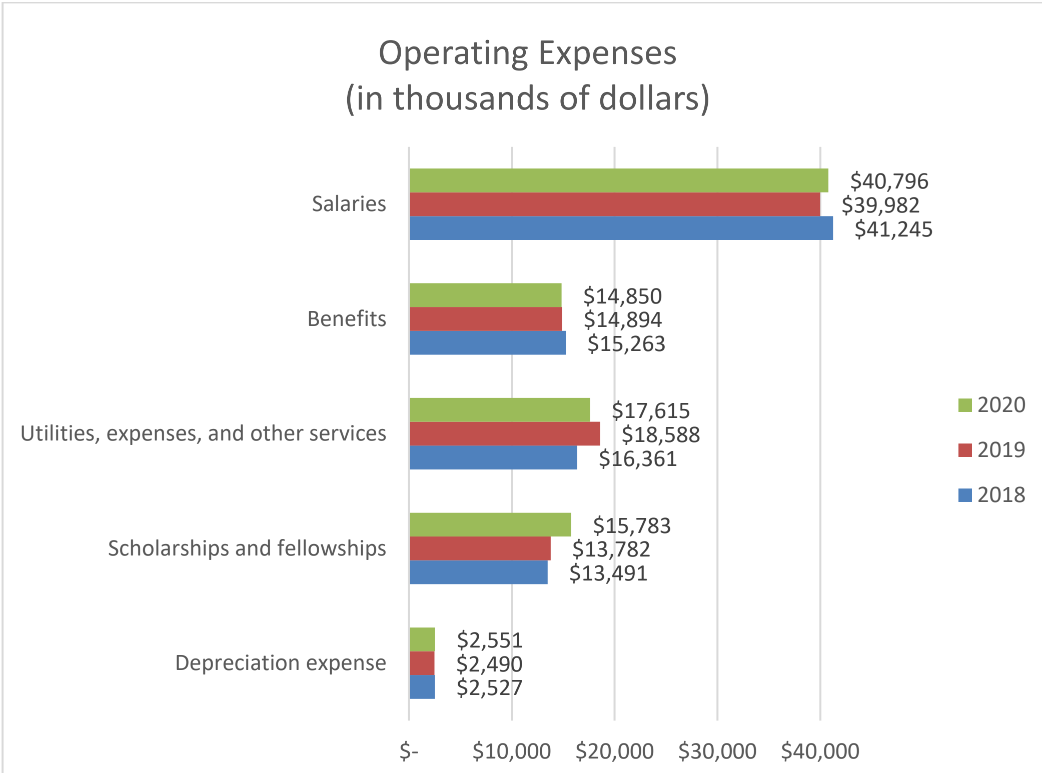
- Student tuition and fees decreased by $978 thousand due to an increase in scholarship allowance of $732 thousand. The increase in scholarship allowance was mainly due to the $437 thousand increase in the Tennessee Student Assistance Corporation (TSAC) Grant.

Comparison of Fiscal Year 2019 to Fiscal Year 2018

- Student tuition and fees decreased by $1.5 million due to an increase in scholarship allowance of $2 million. The increase in scholarship allowance was mainly due to the $1.7 million increase in the TN Reconnect Grant.
- Grants and contracts decreased by $3.5 million due to a decrease in the THEC SAILS TN grant of $3.1 million, which ended in fiscal year 2018, and a decrease in the AJC Career Services DOL/WIOA grant of $465 thousand.

Operating Expenses

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



Comparison of Fiscal Year 2020 to Fiscal Year 2019

- The increase in salaries and wages of $814 thousand was due to a 2% across-the-board salary increase in fiscal year 2020.
- The net decrease in utilities, supplies, and other services was due to increases and decreases in plant fund expenses. The Elevator updates plant fund had a decrease of $1.0 million. The CETAS building roof replacement plant fund had a decrease of $815 thousand. The TCAT (Tennessee College of Applied Technology) parking, paving, and repairs plant fund had an increase of $497 thousand. The TCAT roof replacement project plant fund had an increase of $269 thousand, and the TCAT Instructional Equipment plant fund had an increase of $195 thousand.
- The increase in scholarships and fellowships of $2.0 million was due to the Coronavirus Aid, Relief, and Economic Security (CARES) Act grant, which had scholarship expenses of $2.3 million.

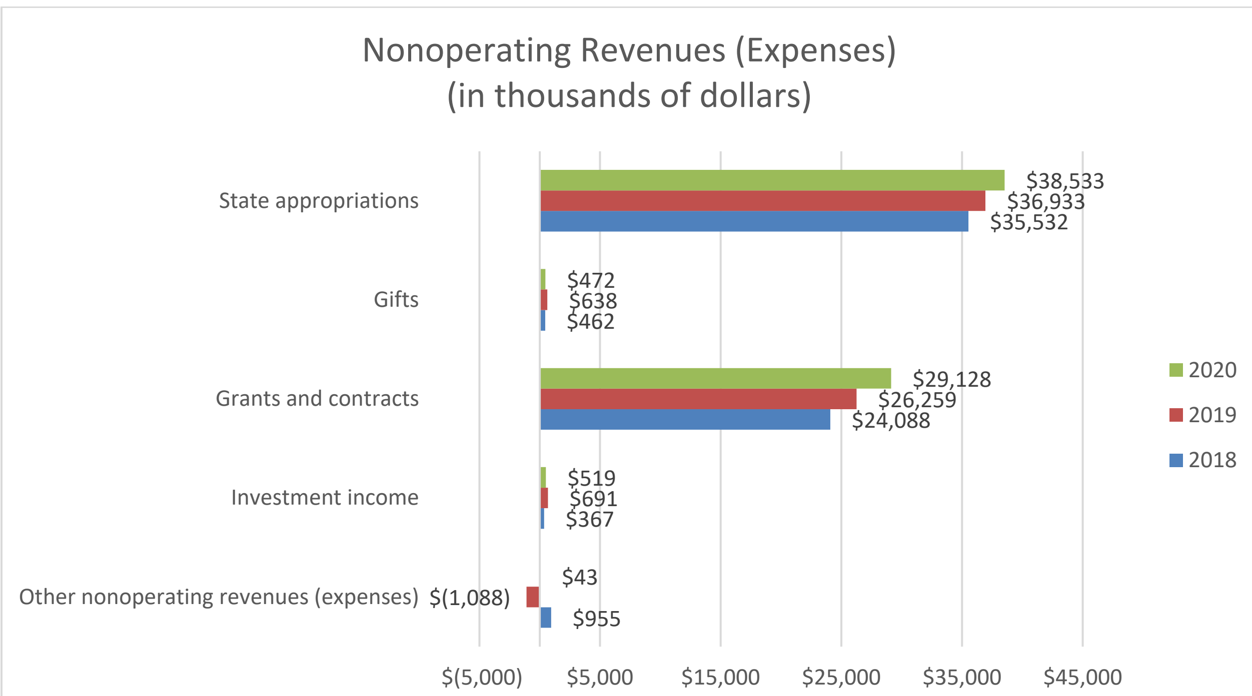
Comparison of Fiscal Year 2019 to Fiscal Year 2018

- The decrease in salaries and wages was due to the ending of the THEC SAILS TN grant in fiscal year 2018. The grant had $1.5 million in salaries and wages in fiscal year 2018 and none in fiscal year 2019.

- The decrease in benefits was also mainly due to the ending of the THEC SAILS TN grant in fiscal year 2018. The grant had $621 thousand in benefits in fiscal year 2018 and none in fiscal year 2019.
- The increase in utilities, supplies, and other services was due to expense increases in plant funds. The Elevator updates plant fund had an increase of $965 thousand. The CETAS building roof replacement plant fund had an increase of $775 thousand, and the Renovations plant fund had an increase of $557 thousand.

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:



Comparison of Fiscal Year 2020 to Fiscal Year 2019

- The increase in state appropriations of $1.6 million was due to an increase in state funding.
- The decrease in gifts of $166 thousand includes a decrease in gifts from the foundation of $207 thousand and an increase in gifts of $100 thousand for the Advanced Manufacturing Building.
- The increase in grants and contracts includes an increase of $437 thousand in the TSAC grant and $2.46 million of CARES Act funding.

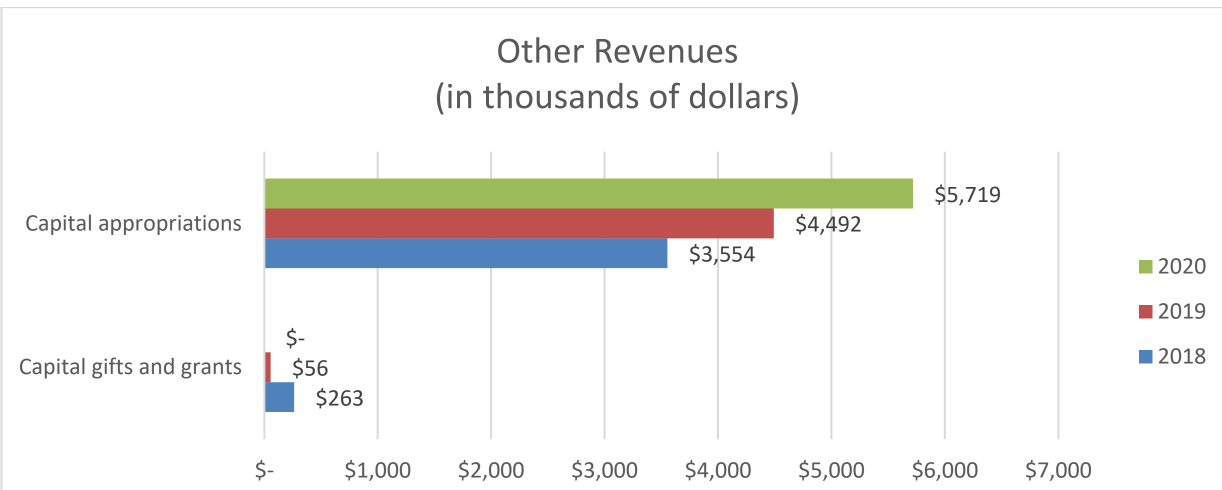
- The increase in other nonoperating revenues of $1.1 million was due to a $1.2 million loss on the sale of the Sequatchie Valley site building in fiscal year 2019.

Comparison of Fiscal Year 2019 to Fiscal Year 2018

- The increase in state appropriations of $1.4 million was due to an increase in state funding.
- The increase in grants and contracts includes an increase of $1.7 million in the TN Reconnect grant.
- The decrease in other nonoperating revenues of $2 million was due to the combination of the sale of the East Campus in fiscal year 2018, which had a gain of $870 thousand in fiscal year 2018; and the sale of the Sequatchie Valley site building in fiscal year 2019, which had a loss of $1.2 million in fiscal year 2019.

Other Revenues

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



Comparison of Fiscal Year 2020 to Fiscal Year 2019

- The increase in capital appropriations includes an increase of $1.65 million for the CETAS Interior Modernization project, an increase of $383 thousand for the Lift Station Replacement project, an increase of $348 thousand for the Advance Technology Building roof project, a decrease of $1.0 million for the Elevator Updates project, which had expenditures in fiscal year 2019, but not in FY2020. There was also a decrease of $815 thousand for the CETAS Building Roof Replacement project, an increase of $497 thousand for parking, paving, and repairs, an increase of $269 thousand for other roof replacements, an increase of $307 thousand for the Motorcycle Marine Upgrade project, and a decrease of $457 thousand for the Greenhouse project, which had expenditures in fiscal year 2019 but not in fiscal year 2020.

Comparison of Fiscal Year 2019 to Fiscal Year 2018

- The increase in capital appropriations includes an increase of $965 thousand for the Elevator Updates project, an increase of $775 thousand for the CETAS Building Roof Replacement project, an increase of $309 thousand for the CETAS Interior Modernization project, and a decrease of $520 thousand for the Instructional Materials Building Roof project, which had expenditures in fiscal year 2018 but not in fiscal year 2019. There was also a decrease of $1.6 million for the Greenhouse project and an increase of $1.3 million for the Motorcycle Marine Upgrade project.

Capital Assets and Debt Administration

Capital Assets

Chattanooga State Community College had $58,026,727.43 invested in capital assets, net of accumulated depreciation of $49,921,845.90 at June 30, 2020; $55,806,142.56 invested in capital assets, net of accumulated depreciation of $48,282,941.42 at June 30, 2019; and $55,879,824.44 invested in capital assets, net of accumulated depreciation of $47,492,572.01 at June 30, 2018. Depreciation charges totaled $2,551,458.20; $2,490,165.49; and $2,526,657.34 for the years ended June 30, 2020; June 30, 2019; and June 30, 2018, respectively.

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

	2020	2019	2018
Land	$ 3,594	$ 3,594	$ 3,594
Land improvements and infrastructure	1,729	1,899	2,079
Buildings	43,203	41,310	40,325
Equipment	5,421	6,001	6,077
Library holdings	169	171	164
Intangible assets	36	48	61
Art and historical collections	271	271	271
Projects in progress	3,604	2,512	3,309
Total	**$58,027**	**$55,806**	**$55,880**

Significant additions to capital assets occurred in fiscal year 2020. These additions were from the interior modernization of the CETAS building totaling $2.4 million; and from the Motorcycle Marine Upgrade project in progress totaling $1.5 million. The Motorcycle Marine Upgrade project in progress was completed in fiscal year 2020 and capitalized as an addition to buildings at a value of $2.83 million.

Significant additions and reductions to capital assets occurred in fiscal year 2019. The additions were from the interior modernization of the CETAS building totaling $753 thousand, the Motorcycle Marine Upgrade project in progress totaling $1.3 million, and the Greenhouse project in progress totaling $457 thousand. The Greenhouse project in progress was completed in fiscal year 2019 and capitalized as a building at a value of $2.57 million. The reduction of $1.4 million in buildings came from the sale of the Sequatchie Valley site building.

At June 30, 2020, outstanding commitments under construction contracts totaled $5,631,798 for various renovations and repairs of buildings and infrastructure. Future state capital outlay appropriations will fund $4,501,878 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 $1,813,476.51; $2,052,573.87; and $2,282,478.11 in debt outstanding at June 30, 2020; June 30, 2019; and June 30, 2018, respectively. The table below summarizes these amounts by type of debt instrument.

Schedule of Outstanding Debt
(in thousands of dollars)

	2020	2019	2018
TSSBA debt:			
Bonds	$1,607	$1,815	$2,014
Unamortized bond premium	206	238	268
Total	$1,813	$2,053	$2,282

The Tennessee State School Bond Authority (TSSBA) issued bonds with interest rates ranging from 2.5% to 5% due serially to 2042 on behalf of Chattanooga State Community College. The college is responsible for the debt service of these bonds. The current portion of the $1,606,916.82 outstanding at June 30, 2020, is $219,009.52.

The ratings on debt issued by the TSSBA at June 30, 2020, 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

On December 31, 2019, China reported cases of the COVID-19 virus occurring in Wuhan City, China, to the World Health Organization (WHO). At that time, there was little confirmed evidence of human-to-human transmission and the WHO did not declare the outbreak to be a public health emergency of international concern until January 31, 2020. On March 11, 2020, the WHO declared

COVID-19 to be a global pandemic. To help slow the transmission of the virus in Tennessee, the Tennessee Board of Regents (TBR) took the following actions: 1) Employees whose job responsibilities allowed were instructed to begin an alternate work-from-home schedule beginning March 17, 2020. 2) Most TBR institutions were on spring break the week of March 17. Spring break was extended an additional week to allow faculty to convert classes to an online format. All classes were resumed on March 30 and followed an online format until the end of the spring 2020 semester, and most extended the online format through the summer 2020 semester. At this time, TBR institutions are considering their options for the fall 2020 semester and whether ground classes will resume at that time or the online format will continue. For the academic year 2020-21, Chattanooga State Community College plans to continue its online format for the majority of classes with a few classes meeting on campus. COVID-19 could have a negative impact on the state's revenue collections, state funding for higher education, higher education enrollment, the fair value of higher education's investments, demand for on-campus housing, and interest in the college's programs involving international travel. The full impact of COVID-19 and the scope of any adverse impact on the college's finances and operations cannot be fully determined at this time.

The economic position of Chattanooga State Community College is closely tied to that of the State of Tennessee. For the 2020 fiscal year, state appropriations comprised 52.3% of the total educational and general revenues. Tuition and fees comprised 45.7% of the total educational and general revenues for that year. These two categories were the largest sources of funding.

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

	Chattanooga State Community College		Component Unit - Chattanooga State Community College Foundation	
	June 30, 2020	June 30, 2019	June 30, 2020	June 30, 2019
Assets				
Current assets:				
Cash and cash equivalents (Notes 2, 3, and 16)	$ 20,881,270.26	$ 16,815,284.98	$ 950,173.28	$ 548,003.52
Accounts and grants receivable (net) (Note 4)	1,083,974.38	1,726,077.95	105,000.00	-
Due from State of Tennessee	426,787.51	614,849.51	-	-
Due from CHSCC Foundation	11,061.80	58,717.75	-	-
Pledges receivable (net) (Note 16)	-	-	153,212.00	173,589.00
Inventories	56,996.26	48,442.27	-	-
Prepaid expenses	160,817.62	31,925.21	-	3,500.00
Total current assets	22,620,907.83	19,295,297.67	1,208,385.28	725,092.52
Noncurrent assets:				
Cash and cash equivalents (Notes 2, 3, and 16)	17,901,646.41	16,050,957.69	-	-
Investments (Note 16)	-	-	6,901,436.03	7,023,847.56
Investment in Tennessee Retiree Group Trust	280,233.75	127,756.97	-	-
Due from State of Tennessee	568,053.93	317,842.25	-	-
Pledges receivable (net) (Note 16)	-	-	885,492.29	1,065,263.93
Capital assets (net) (Note 5)	58,026,727.43	55,806,142.56	-	-
Net pension asset (Note 9)	253,558.00	235,091.00	-	-
Total noncurrent assets	77,030,219.52	72,537,790.47	7,786,928.32	8,089,111.49
Total assets	99,651,127.35	91,833,088.14	8,995,313.60	8,814,204.01
Deferred outflows of resources				
Deferred amount on debt refunding	53,483.03	66,412.60	-	-
Deferred outflows related to OPEB (Note 10)	1,667,105.00	1,600,184.00	-	-
Deferred outflows related to pensions (Note 9)	3,561,129.00	5,021,119.00	-	-
Total deferred outflows of resources	5,281,717.03	6,687,715.60	-	-
Liabilities				
Current liabilities:				
Accounts payable (Note 6)	1,209,672.84	633,580.19	-	-
Accrued liabilities	1,505,346.66	1,432,049.98	-	-
Due to State of Tennessee	960,220.59	921,752.57	-	-
Due to CHSCC	-	-	11,061.80	58,717.75
Unearned revenue	2,251,562.22	1,608,258.59	-	520.00
Total OPEB obligation (Note 10)	-	755,423.00	-	-
Compensated absences (Note 7)	905,133.22	847,778.82	-	-
Accrued interest payable	12,103.21	13,838.16	-	-
Long-term liabilities, current portion (Note 7)	219,009.52	208,194.17	-	-
Deposits held in custody for others	166,477.56	180,563.05	-	-
Total current liabilities	7,229,525.82	6,601,438.53	11,061.80	59,237.75
Noncurrent liabilities:				
Net OPEB obligation (Note 10)	5,460,361.00	-	-	-
Total OPEB obligation (Note 10)	-	7,736,177.00	-	-
Net pension liability (Note 9)	8,156,244.00	10,355,516.00	-	-
Compensated absences (Note 7)	2,012,377.24	1,815,489.14	-	-
Long-term liabilities (Note 7)	1,594,466.99	1,844,379.70	-	-
Total noncurrent liabilities	17,223,449.23	21,751,561.84	-	-
Total liabilities	24,452,975.05	28,353,000.37	11,061.80	59,237.75
Deferred inflows of resources				
Deferred inflows related to OPEB (Note 10)	3,123,569.00	754,487.00	-	-
Deferred inflows related to pensions (Note 9)	1,997,101.00	640,323.00	-	-
Total deferred inflows of resources	5,120,670.00	1,394,810.00	-	-
Net position				
Net investment in capital assets	56,667,842.61	54,407,377.41	-	-
Restricted for:				
Nonexpendable:				
Scholarships and fellowships	-	-	2,595,213.95	2,507,901.82
Instructional department uses	-	-	361,639.60	360,639.60
Other	-	-	125,800.46	58,398.68
Expendable:				
Scholarships and fellowships	-	-	2,141,645.59	2,091,555.92
Instructional department uses	-	-	2,261,290.88	2,372,286.81
Loans	20,361.48	20,361.48	-	-
Capital projects	46,428.68	52,979.30	19,424.40	19,424.40
Pensions	253,558.00	235,091.00	-	-
Other	656,739.89	487,327.68	336,283.53	242,054.72
Unrestricted	17,714,268.67	13,569,856.50	1,142,953.39	1,102,704.31
Total net position	$ 75,359,199.33	$ 68,772,993.37	$ 8,984,251.80	$ 8,754,966.26

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

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

	Chattanooga State Community College		Component Unit - Chattanooga State Community College Foundation	
	Year Ended June 30, 2020	Year Ended June 30, 2019	Year Ended June 30, 2020	Year Ended June 30, 2019
Revenues				
Operating revenues:				
Student tuition and fees (Note 11)	$ 17,128,883.87	$ 18,106,852.42	$ -	$ -
Gifts and contributions	-	-	501,739.44	495,205.02
Endowment income (per spending plan)	-	-	133,214.00	264,753.00
Governmental grants and contracts	4,064,291.75	4,568,643.97	-	-
Nongovernmental grants and contracts	264,450.21	432,757.45	-	-
Sales and services of educational activities	336,068.67	350,777.98	-	-
Sales and services of other activities	232,870.95	247,911.50	-	-
Auxiliary enterprises:				
Bookstore	355,396.91	367,344.20	-	-
Food service	564,500.72	751,651.84	-	-
Other auxiliaries	766,630.26	431,108.25	-	-
Other operating revenues	54,214.89	63,029.26	23,920.00	26,803.41
Total operating revenues	23,767,308.23	25,320,076.87	658,873.44	786,761.43
Expenses				
Operating expenses (Notes 14 and 16):				
Salaries and wages	40,795,985.38	39,982,045.87	84,408.84	78,657.16
Benefits	14,849,550.48	14,894,318.87	28,372.04	28,293.56
Utilities, supplies, and other services	17,615,331.07	18,588,684.71	77,047.44	54,350.21
Scholarships and fellowships	15,783,077.52	13,781,571.49	258,405.50	373,963.03
Depreciation expense	2,551,458.20	2,490,165.49	-	-
Payments to or on behalf of Chattanooga State Community College	-	-	292,521.91	499,093.62
Total operating expenses	91,595,402.65	89,736,786.43	740,755.73	1,034,357.58
Operating income (loss)	(67,828,094.42)	(64,416,709.56)	(81,882.29)	(247,596.15)
Nonoperating revenues (expenses)				
State appropriations	38,532,687.50	36,932,671.60	-	-
Gifts (including $292,521.91 from component unit for the year ended June 30, 2020, and $499,093.62 for the year ended June 30, 2019)	471,850.89	638,257.34	-	-
Grants and contracts	29,128,167.65	26,259,247.89	-	-
Investment income (net of investment expense of $51,477.15 for the component unit for the year ended June 30, 2020, and $52,380.81 for the year ended June 30, 2019)	518,746.34	691,427.40	110,074.82	100,575.00
Interest on capital asset-related debt	(38,778.64)	(49,325.93)	-	-
Interest on noncapital debt	(19,749.55)	(19,438.86)	-	-
College support (Note 16)	-	-	112,780.88	106,950.72
Other nonoperating revenues (expenses)	101,902.99	(1,019,609.75)	-	-
Total nonoperating revenues (expenses)	68,694,827.18	63,433,229.69	222,855.70	207,525.72
Income (loss) before other revenues, expenses, gains, or losses	866,732.76	(983,479.87)	140,973.41	(40,070.43)
Capital appropriations	5,719,473.20	4,492,419.76	-	-
Capital grants and gifts	-	55,746.00	-	-
Additions to permanent endowments	-	-	88,312.13	113,236.32
Total other revenues	5,719,473.20	4,548,165.76	88,312.13	113,236.32
Increase in net position	6,586,205.96	3,564,685.89	229,285.54	73,165.89
Net position - beginning of year	68,772,993.37	65,208,307.48	8,754,966.26	8,681,800.37
Net position - end of year	$ 75,359,199.33	$ 68,772,993.37	$ 8,984,251.80	$ 8,754,966.26

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

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

	Year Ended June 30, 2020	Year Ended June 30, 2019
Cash flows from operating activities		
Tuition and fees	$ 17,645,306.47	$ 18,645,405.00
Grants and contracts	5,064,181.44	4,517,545.47
Sales and services of educational activities	319,587.27	350,777.98
Sales and services of other activities	232,967.70	248,514.75
Payments to suppliers and vendors	(15,786,122.10)	(16,368,597.94)
Payments to employees	(40,760,651.58)	(39,925,013.83)
Payments for benefits	(14,371,394.88)	(14,340,583.28)
Payments for scholarships and fellowships	(15,755,592.28)	(13,785,047.03)
Funds received for deposits held for others	722,434.01	1,165,978.57
Funds disbursed for deposits held for others	(736,954.00)	(1,120,563.74)
Auxiliary enterprise charges:		
Bookstore	366,083.58	346,236.00
Food services	565,848.52	751,442.05
Other auxiliaries	766,630.26	431,108.25
Other receipts	59,650.88	57,953.27
Net cash used for operating activities	(61,668,024.71)	(59,024,844.48)
Cash flows from noncapital financing activities		
State appropriations	38,505,200.00	35,810,600.00
Gifts and grants received for other than capital or endowment purposes	29,550,584.47	27,093,079.17
Federal student loan receipts	10,306,390.00	11,603,936.00
Federal student loan disbursements	(10,308,979.00)	(11,603,936.00)
Principal paid on noncapital debt	(175,222.17)	(167,618.05)
Interest paid on noncapital debt	(32,274.54)	(31,900.49)
Other noncapital financing receipts	187,567.79	165,382.29
Net cash provided by noncapital financing activities	68,033,266.55	62,869,542.92
Cash flows from capital and related financing activities		
Capital grants and gifts received	-	42,296.00
Proceeds from sales of capital assets	242,516.10	1,253,247.61
Purchase of capital assets and construction	(978,419.78)	(1,484,303.98)
Principal paid on capital debt	(32,972.00)	(31,383.00)
Interest paid on capital debt	(45,961.74)	(56,495.78)
Net cash used for capital and related financing activities	(814,837.42)	(276,639.15)
Cash flows from investing activities		
Income on investments	509,565.46	684,797.91
Purchase of investments	(143,295.88)	(121,127.48)
Net cash provided by investing activities	366,269.58	563,670.43
Net increase in cash	5,916,674.00	4,131,729.72
Cash - beginning of year	32,866,242.67	28,734,512.95
Cash - end of year	$ 38,782,916.67	$ 32,866,242.67

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

	Year Ended June 30, 2020	Year Ended June 30, 2019
Reconciliation of operating loss to net cash used for operating activities:		
Operating loss	$ (67,828,094.42)	$ (64,416,709.56)
Adjustments to reconcile operating loss to net cash used for operating activities:		
Noncash operating expenses	4,392,864.71	5,488,462.02
Change in assets, liabilities, and deferrals:		
Receivables, net	741,012.57	125,773.69
Due from State of Tennessee	(325,285.63)	(352,441.69)
Due from CHSCC Foundation	47,655.95	192,965.94
Inventories	(8,553.99)	(4,657.90)
Prepaid items	(128,892.41)	40,570.98
Net pension asset	(18,467.00)	(98,203.00)
Deferred outflows of resources	1,393,068.52	185,894.47
Accounts payable	576,092.65	248,156.44
Accrued liabilities	73,296.68	23,242.15
Due to State of Tennessee	38,468.02	118,737.49
Unearned revenue	643,303.63	(181,438.97)
Compensated absences	254,242.50	(168,752.37)
Net pension liability	(2,199,272.00)	(1,467,010.00)
Total OPEB obligation	-	603,528.00
Net OPEB obligation	(3,031,239.00)	-
Deferred inflows of resources	3,725,860.00	591,954.00
Deposits held in custody for others	(14,085.49)	45,083.83
Net cash used for operating activities	$ (61,668,024.71)	$ (59,024,844.48)
Noncash investing, capital, or financing transactions		
Gifts of capital assets	$ -	$ 13,450.00
Loss on disposal of capital assets	$ (124,800.90)	$ (1,236,676.08)
Purchases of capital assets and construction with capital appropriations	$ 3,917,654.19	$ 2,520,094.83

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

Note 1. Summary of Significant Accounting Policies

Reporting Entity

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

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

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

Basis of Presentation

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

Basis of Accounting

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

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

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

Nonoperating revenues and expenses include activities that have the characteristics of nonexchange transactions, such as gifts, contributions, and other activities that are defined as nonoperating by GASB Statement 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*, and GASB Statement 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments,* such as state appropriations and investment income.

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

Cash Equivalents

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

Inventories

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

Compensated Absences

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

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

Capital Assets

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

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

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

Pensions

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

Other Postemployment Benefits

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

Net Position

The college's net position is classified as follows:

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

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

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

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

Scholarship Discounts and Allowances

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

Note 2. Cash

This classification includes demand deposits and petty cash on hand. At June 30, 2020, cash consisted of $3,483,248.79 in bank accounts; $5,900.00 of petty cash on hand; $35,247,339.20 in the Local Government Investment Pool (LGIP) administered by the State Treasurer; and $46,428.68 in LGIP deposits for capital projects. At June 30, 2019, cash consisted of $2,407,291.15 in bank accounts; $5,900.00 of petty cash on hand; $30,400,072.22 in the LGIP; and $52,979.30 in LGIP deposits for capital projects.

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

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

Note 3. Investments

Credit Risk

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

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

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

As of June 30, 2020, and June 30, 2019, the college's investments consisted entirely of investments in the Local Government Investment Pool, which are valued at amortized cost. The value of these investments was $35,293,767.88 at June 30, 2020, and $30,453,051.52 at June 30, 2019. LGIP investments are not rated by nationally recognized statistical ratings organizations.

Note 4. Receivables

Receivables included the following:

	June 30, 2020	June 30, 2019
Student accounts receivable	$1,406,725.84	$1,794,672.83
Grants receivable	696,572.39	1,056,976.97
Other receivables	251,349.68	113,441.69
Subtotal	2,354,647.91	2,965,091.49
Less allowance for doubtful accounts	(1,270,673.53)	(1,239,013.54)
Total receivables	$1,083,974.38	$1,726,077.95

Note 5. Capital Assets

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

	Beginning Balance	Additions	Transfers	Reductions	Ending Balance
Land	$ 3,594,000.00	$ -	$ -	$ -	$ 3,594,000.00
Land improvements and infrastructure	5,588,814.09	-	-	-	5,588,814.09
Buildings	70,828,163.21	-	2,825,883.97	-	73,654,047.18
Equipment	18,525,094.32	945,528.80	-	998,352.29	18,472,270.83
Library holdings	365,391.78	33,750.86	-	39,092.21	360,050.43
Intangible assets	2,404,536.40	-	-	-	2,404,536.40
Art and historical treasures	271,450.00	-	-	-	271,450.00
Projects in progress	2,511,634.18	3,917,654.19	(2,825,883.97)	-	3,603,404.40
Total	104,089,083.98	4,896,933.85	-	1,037,444.50	107,948,573.33
Less accumulated depreciation/amortization:					
Land improvements and infrastructure	3,690,200.71	169,368.61	-	-	3,859,569.32
Buildings	29,518,042.93	933,273.24	-	-	30,451,316.17
Equipment	12,524,390.01	1,400,717.32	-	873,551.39	13,051,555.94
Library holdings	194,101.37	36,016.53	-	39,002.33	191,115.57
Intangible assets	2,356,206.40	12,082.50	-	-	2,368,288.90
Total	48,282,941.42	2,551,458.20	-	912,553.72	49,921,845.90
Capital assets, net	$ 55,806,142.56	$ 2,345,475.65	$ -	$ 124,890.78	$ 58,026,727.43

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

	Beginning Balance	Additions	Transfers	Reductions	Ending Balance
Land	$ 3,594,000.00	$ -	$ -	$ -	$ 3,594,000.00
Land improvements and infrastructure	5,588,814.09	-	-	-	5,588,814.09
Buildings	70,075,855.61	-	3,314,611.61	2,562,304.01	70,828,163.21
Equipment	17,767,840.77	1,295,406.22	-	538,152.67	18,525,094.32
Library holdings	360,808.13	44,004.13	-	39,420.48	365,391.78
Intangible assets	2,404,536.40	-	-	-	2,404,536.40
Art and historical treasures	271,450.00	-	-	-	271,450.00
Projects in progress	3,309,091.45	2,517,154.34	(3,314,611.61)	-	2,511,634.18
Total	103,372,396.45	3,856,564.69	-	3,139,877.16	104,089,083.98
Less accumulated depreciation/amortization:					
Land improvements and infrastructure	3,509,653.91	180,546.80	-	-	3,690,200.71
Buildings	29,751,327.79	896,078.94	-	1,129,363.80	29,518,042.93
Equipment	11,690,511.27	1,364,915.54	-	531,036.80	12,524,390.01
Library holdings	196,955.14	36,541.71	-	39,395.48	194,101.37
Intangible assets	2,344,123.90	12,082.50	-	-	2,356,206.40
Total	47,492,572.01	2,490,165.49	-	1,699,796.08	48,282,941.42
Capital assets, net	$ 55,879,824.44	$1,366,399.20	$ -	$ 1,440,081.08	$ 55,806,142.56

Note 6. Accounts Payable

Accounts payable included the following:

	June 30, 2020	June 30, 2019
Vendors payable	$ 1,193,865.84	$ 597,669.31
Other payables	15,807.00	35,910.88
Total accounts payable	$ 1,209,672.84	$ 633,580.19

Note 7. Long-term Liabilities

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

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
TSSBA debt:					
Bonds	$ 1,815,110.99	$ -	$ 208,194.17	$ 1,606,916.82	$ 219,009.52
Unamortized bond premium	237,462.88	-	30,903.19	206,559.69	-
Subtotal	2,052,573.87	-	239,097.36	1,813,476.51	219,009.52
Other liabilities:					
Compensated absences	2,663,267.96	2,283,899.68	2,029,657.18	2,917,510.46	905,133.22
Subtotal	2,663,267.96	2,283,899.68	2,029,657.18	2,917,510.46	905,133.22
Total long-term liabilities	$ 4,715,841.83	$ 2,283,899.68	$ 2,268,754.54	$ 4,730,986.97	$ 1,124,142.74

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

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
TSSBA debt:					
Bonds	$ 2,014,112.04	$ -	$ 199,001.05	$ 1,815,110.99	$ 208,194.17
Unamortized bond premium	268,366.07	-	30,903.19	237,462.88	-
Subtotal	2,282,478.11	-	229,904.24	2,052,573.87	208,194.17
Other liabilities:					
Compensated absences	2,832,020.33	2,204,706.21	2,373,458.58	2,663,267.96	847,778.82
Subtotal	2,832,020.33	2,204,706.21	2,373,458.58	2,663,267.96	847,778.82
Total long-term liabilities	$ 5,114,498.44	$ 2,204,706.21	$ 2,603,362.82	$ 4,715,841.83	$ 1,055,972.99

TSSBA Debt – Bonds

Bonds, with interest rates ranging from 2.5% to 5%, were issued by the Tennessee State School Bond Authority (TSSBA). The bonds are due serially to 2042 and are secured by pledges of the facilities' revenues to which they relate and certain other revenues and fees of the college, including state appropriations; see Note 8 for further details.

Debt service requirements to maturity for the college's portion of TSSBA bonds at June 30, 2020, are as follows:

Year Ending June 30	Principal	Interest	Total
2021	$ 219,009.52	$ 67,789.46	$ 286,798.98
2022	229,815.50	57,315.33	287,130.83
2023	33,810.40	50,547.56	84,357.96
2024	35,543.50	48,813.71	84,357.21
2025	37,366.80	46,990.95	84,357.75
2026 – 2030	221,338.10	204,721.90	426,060.00
2031 – 2035	297,568.00	145,578.73	443,146.73
2036 – 2040	363,711.00	79,434.89	443,145.89
2041 – 2042	168,754.00	8,504.54	177,258.54
Total	$1,606,916.82	$709,697.07	$ 2,316,613.89

Note 8. Pledged Revenues

The college has pledged certain revenues and fees, including state appropriations, to repay $1,606,916.82 in revenue bonds issued from August 2012 to September 2017 (see Note 7 for further detail). Proceeds from the bonds provided financing for energy savings and athletic field upgrades. The bonds are payable through 2042. Annual principal and interest payments on the bonds are expected to require 0.42% of available revenues. The total principal and interest remaining to be paid on the bonds at June 30, 2020, is $2,316,613.89. Principal and interest paid for fiscal year 2020 and total available revenues were $286,430.45 and $67,851,313.50, respectively. Principal and interest paid for fiscal year 2019 and total available revenues were $287,397.33 and $66,664,847.90, respectively.

Note 9. Pension Plans

<u>Defined Benefit Plans</u>

Closed State and Higher Education Employee Pension Plan

General Information About the Pension Plan

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

retirees. Beginning July 1, 2014, a new agent defined benefit retirement plan, the State and Higher Education Employee Retirement Plan, became effective for state employees and higher education employees hired on or after July 1, 2014.

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

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

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

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

Contributions – Contributions for state employees and higher education employees are established in the statutes governing the TCRS and may only be changed by the Tennessee General Assembly. The college's employees are noncontributory, as are most members in the Closed State and Higher Education Employee Pension Plan. State and higher education agencies make employer contributions at the rate set by the Board of Trustees as determined by an actuarial valuation. By law, employer contributions for the Closed State and Higher Education Employee Pension Plan are required to be paid. Employer contributions by the college for the years ended June 30, 2020, and June 30, 2019, to the Closed State and Higher Education Employee Pension Plan were $2,420,654 and $2,504,246, respectively, which is 19.66% and 19.23% of covered payroll, respectively. The employer rate, when combined with member contributions, is expected to finance the costs of benefits earned by members during the year and the cost of administration, as well as an amortized portion of any unfunded liability.

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

Pension liability – At June 30, 2020, the college reported a liability of $8,156,244 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2019, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The college's proportion of the net pension liability was based on a projection of the college's contributions during the year ended June 30, 2019, to the pension plan relative to the contributions of all participating state and higher education agencies. At the June 30, 2019, measurement date, the college's proportion was 0.577572%.

At June 30, 2019, the college reported a liability of $10,355,516 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The college's proportion of the net pension liability was based on a projection of the college's contributions during the year ended June 30, 2018, to the pension plan relative to the contributions of all participating state and higher education agencies. At the June 30, 2018, measurement date, the college's proportion was 0.641046%.

Pension expense – For the years ended June 30, 2020, and June 30, 2019, the college recognized pension expense of $3,051,609 and $2,353,675, respectively.

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

Fiscal Year 2020	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 383,451	$ 128,943
Net difference between projected and actual earnings on pension plan investments	-	1,072,801
Changes in assumptions	586,711	-
Changes in proportion of net pension liability	15,488	772,341
College's contributions subsequent to the measurement date of June 30, 2019	2,420,654	-
Total	$ 3,406,304	$ 1,974,085

Fiscal Year 2019	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 935,480	$ 48,141
Net difference between projected and actual earnings on pension plan investments	-	297,650
Changes in assumptions	1,302,379	-
Changes in proportion of net pension liability	145,280	279,147
College's contributions subsequent to the measurement date of June 30, 2018	2,504,246	-
Total	$ 4,887,385	$ 624,938

Deferred outflows of resources, resulting from the college's employer contributions of $2,420,654 subsequent to the measurement date, will be recognized as a decrease in net pension liability in the year ending June 30, 2021. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending June 30	
2021	$ 490,940
2022	$ (985,134)
2023	$ (459,460)
2024	$ (34,781)

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

Actuarial assumptions – The total pension liability as of the June 30, 2019, and June 30, 2018, actuarial valuations was determined using the following actuarial assumptions, applied to all periods included in the measurement:

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

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

The actuarial assumptions used in the June 30, 2019, and June 30, 2018, actuarial valuations were based on the results of an actuarial experience study performed for the period July 1, 2012, through June 30, 2016. The demographic assumptions were adjusted to more closely reflect actual and expected future experience.

The long-term expected rate of return on pension plan investments was established by the TCRS Board of Trustees in conjunction with the June 30, 2016, actuarial experience study. This return was selected from a range of values developed using historical market returns and future capital market projections. The future capital market projections were produced using a building-block method in which a best estimate of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) is developed for each major asset class. These best estimates are combined to produce the future capital market projection by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation of 2.5%. The best estimates of geometric real rates of return and the TCRS investment policy target asset allocation for each major asset class are summarized in the following table:

Asset Class	Long-term Expected Real Rate of Return	Target Allocation
U.S. equity	5.69%	31%
Developed market international equity	5.29%	14%
Emerging market international equity	6.36%	4%
Private equity and strategic lending	5.79%	20%
U.S. fixed income	2.01%	20%
Real estate	4.32%	10%
Short-term securities	0.00%	1%
		100%

The long-term expected rate of return on pension plan investments was established by the TCRS Board of Trustees as 7.25% based on a comparison of historical market returns and future capital market projections.

Discount rate – The discount rate used to measure the total pension liability at the June 30, 2019, and June 30, 2018, measurement dates was 7.25%. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current rate and that contributions from all state and higher education agencies will be made at the actuarially determined contribution rate in accordance with the funding policy of the TCRS Board of Trustees and as required to be paid by state statute. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make projected future benefit payments of current active and inactive members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the proportionate share of net pension liability to changes in the discount rate – The following presents the college's proportionate share of the net pension liability calculated using the discount rate of 7.25%, as well as what the college's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (6.25%) or 1 percentage point higher (8.25%) than the current rate:

June 30, 2020	1% Decrease (6.25%)	Current Discount Rate (7.25%)	1% Increase (8.25%)
College's proportionate share of the net pension liability (asset)	$19,683,126	$8,156,244	$(1,220,920)

June 30, 2019	1% Decrease (6.25%)	Current Discount Rate (7.25%)	1% Increase (8.25%)
College's proportionate share of the net pension liability (asset)	$22,759,476	$10,355,516	$(83,560)

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

Payable to the Pension Plan

At June 30, 2020, and June 30, 2019, the college reported a payable of $208,158.80 and $214,293.95, respectively, for the outstanding amount of legally required contributions to the pension plan required for the years then ended.

State and Higher Education Employee Retirement Plan

General Information About the Pension Plan

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

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

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

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. The higher education institutions make employer contributions at the rate set by the Board of Trustees as determined by an actuarial valuation. By law, employer contributions for the State and Higher Education Employee Retirement Plan are required to be paid. Employer contributions by the college for the years ended June 30, 2020, and June 30, 2019, to the State and Higher Education Employee Retirement Plan were $117,677 and $95,193, respectively, which is 1.73%

and 1.66% of covered payroll, respectively. The employer rate, when combined with member contributions, is expected to finance the costs of benefits earned by members during the year and the cost of administration, as well as an amortized portion of any unfunded liability.

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

Pension asset – At June 30, 2020, the college reported an asset of $253,558 for its proportionate share of the net pension asset. The net pension asset was measured as of June 30, 2019, and the total pension liability used to calculate the net pension asset was determined by an actuarial valuation as of that date. The college's proportion of the net pension asset was based on a projection of the college's contributions during the year ended June 30, 2019, to the pension plan relative to the contributions of all participating state and higher education agencies. At the June 30, 2019, measurement date, the college's proportion was 0.611317%.

At June 30, 2019, the college reported an asset of $235,091 for its proportionate share of the net pension asset. The net pension asset was measured as of June 30, 2018, and the total pension liability used to calculate the net pension asset was determined by an actuarial valuation as of that date. The college's proportion of the net pension asset was based on a projection of the college's contributions during the year ended June 30, 2018, to the pension plan relative to the contributions of all participating state and higher education agencies. At the June 30, 2018, measurement date, the college's proportion was 0.609474%.

Pension expense – For the years ended June 30, 2020, and June 30, 2019, the college recognized a pension expense of $85,749 and $72,308, respectively.

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

Fiscal Year 2020	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 5,653	$ 8,225
Net difference between projected and actual earnings on pension plan investments	-	10,473
Changes in assumptions	7,008	-
Changes in proportion of net pension asset	24,487	4,318
College's contributions subsequent to the measurement date of June 30, 2019	117,677	-
Total	$ 154,825	$ 23,016

Fiscal Year 2019	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 6,575	$ 3,941
Net difference between projected and actual earnings on pension plan investments	-	11,352
Changes in assumptions	7,986	-
Changes in proportion of net pension asset	23,980	92
College's contributions subsequent to the measurement date of June 30, 2018	95,193	-
Total	$ 133,734	$ 15,385

Deferred outflows of resources, resulting from the college's employer contributions of $117,677 subsequent to the measurement date, will be recognized as a decrease in net pension liability in the year ending June 30, 2021. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending June 30	
2021	$ 149
2022	$ (1,168)
2023	$ 1,579
2024	$ 3,086
2025	$ 4,320
Thereafter	$ 6,166

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

Actuarial assumptions – The total pension liability as of the June 30, 2019, and June 30, 2018, actuarial valuations was determined using the following actuarial assumptions, applied to all periods included in the measurement:

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

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

The actuarial assumptions used in the June 30, 2019, and June 30, 2018, actuarial valuations were based on the results of an actuarial experience study performed for the period July 1, 2012, through June 30, 2016. The demographic assumptions were adjusted to more closely reflect actual and expected future experience.

The long-term expected rate of return on pension plan investments was established by the TCRS Board of Trustees in conjunction with the June 30, 2016, actuarial experience study. This return was selected from a range of values developed using historical market returns and future capital market projections. The future capital market projections were produced using a building-block method in which a best estimate of expected real rates of return (expected returns, net of pension plan investment expense and inflation) is developed for each major asset class. These best estimates are combined to produce the future capital market projection by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation of 2.5%. The best estimates of geometric real rates of return and the TCRS investment policy target asset allocation for each major asset class are summarized in the following table:

Asset Class	Long-term Expected Real Rate of Return	Target Allocation
U.S. equity	5.69%	31%
Developed market international equity	5.29%	14%
Emerging market international equity	6.36%	4%
Private equity and strategic lending	5.79%	20%
U.S. fixed income	2.01%	20%
Real estate	4.32%	10%
Short-term securities	0.00%	1%
		100%

The long-term expected rate of return on pension plan investments was established by the TCRS Board of Trustees as 7.25% based on a comparison of historical market returns and future capital market projections.

Discount rate – The discount rate used to measure the total pension liability at June 30, 2020, and June 30, 2019, was 7.25%. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current rate and that contributions from all state and higher education agencies will be made at the actuarially determined contribution rate in accordance with the funding policy of the TCRS Board of Trustees and as required to be paid by state statute. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make projected future benefit payments of current active and inactive members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the proportionate share of net pension asset to changes in the discount rate – The following presents the college's proportionate share of the net pension asset calculated using the discount rate of 7.25%, as well as what the college's proportionate share of the net pension asset would be if it were calculated using a discount rate that is 1 percentage point lower (6.25%) or 1 percentage point higher (8.25%) than the current rate:

June 30, 2020	1% Decrease (6.25%)	Current Discount Rate (7.25%)	1% Increase (8.25%)
College's proportionate share of the net pension liability (asset)	$41,538	$(253,558)	$(475,553)

June 30, 2019	1% Decrease (6.25%)	Current Discount Rate (7.25%)	1% Increase (8.25%)
College's proportionate share of the net pension liability (asset)	$(38,995)	$(235,091)	$(381,829)

Pension plan fiduciary net position – Detailed information about the pension plan's fiduciary net position is available in a separately issued TCRS financial report at https://treasury.tn.gov/Retirement/Boards-and-Governance/Reporting-and-Investment-Policies.

Payable to the Pension Plan

At June 30, 2020, and at June 30, 2019, the college reported a payable of $10,927.72 and $9,370.63, 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, 2020, for all state and local government defined benefit pension plans was $3,137,358. The total pension expense for the year ended June 30, 2019, for all state and local government defined benefit pension plans was $2,425,983.

Defined Contribution Plans

Optional Retirement Plans

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

Funding policy – For employees employed prior to July 1, 2014, plan members are noncontributory. The college contributes an amount equal to 10% of the employee's base salary up to the social security wage base and 11% above the social security wage base. For employees hired after June 30, 2014, plan members will contribute 5% to the ORP and the college will contribute 9% of the employee's base salary. Pension expense equaled the required contributions made to the ORP and was $1,673,359.86 for the year ended June 30, 2020; $1,635,814.50 for the year ended June 30, 2019; and $1,647,745.28 for the year ended June 30, 2018. Contributions met the requirements for each year.

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

Deferred Compensation Plans

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

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

During the year ended June 30, 2020, contributions totaling $973,997.24 were made by employees participating in the 401(k) plan, and the college recognized pension expense of $667,966.00 for employer contributions. During the year ended June 30, 2019, contributions totaling $910,156.38 were made by employees participating in the 401(k) plan, with contributions of $603,364.87 made by the college. During the year ended June 30, 2018, contributions totaling $873,192.39 were made by employees participating in the 401(k) plan, with contributions of $566,247.08 made by the college.

Note 10. Other Postemployment Benefits

Closed State Employee Group OPEB Plan

General Information About the OPEB Plan

Plan description – Employees of the college who were hired prior to July 1, 2015, and choose coverage, are provided with pre-65 retiree health insurance benefits through the Closed State Employee Group OPEB Plan (EGOP) administered by the Tennessee Department of Finance and Administration. This plan is considered to be a single-employer defined benefit plan that is used to provide postemployment benefits other than pensions (OPEB). This plan is closed to the employees of all participating employers that were hired on or after July 1, 2015. The employers participating in this plan include the State of Tennessee (primary government), the Tennessee Student Assistance Corporation, the Tennessee Housing Development Agency, the University of Tennessee, and the institutions that make up the State University and Community College System. The State of Tennessee Postemployment Benefits Trust (OPEB Trust) was established to accumulate resources to pay for the retiree benefits of EGOP participants. The OPEB Trust prepares a stand-alone financial report that can be found at https://www.tn.gov/finance/rd-doa/opeb22121.html.

Benefits provided – The EGOP is offered to provide health insurance coverage to eligible retired and disabled participants and is the only postemployment benefit provided to eligible pre-65 participants. Benefits are established and amended by an insurance committee created by Title 8, Chapter 27, Section 201, *Tennessee Code Annotated*. All retirees and disabled employees of the primary government and certain component units, who are eligible and choose coverage, and who have not yet reached the age of 65, are enrolled in this plan. All members have the option of choosing between the premier preferred provider organization (PPO) plan, the standard PPO plan, or the wellness health savings consumer-driven health plan (CDHP) for healthcare benefits. Retired plan members receive the same plan benefits as active employees, at a blended premium rate that considers the cost of active and retired employees. This creates an implicit subsidy for the retirees. The retirees' cost is then directly subsidized, by the employers, based on years of service. Therefore, retirees with 30 years of service are subsidized 80%; 20 but less than 30 years, 70%; and less than 20 years, 60%. Previously, this plan was funded on a pay-as-you-go basis, and there were no assets accumulating in a trust that meets the criteria of paragraph 4 of GASB Statement 75. However, during the fiscal year ended June 30, 2019, the plan transitioned to a prefunding arrangement where assets will be accumulating in a qualifying trust.

Contributions – Annually, an insurance committee, created in accordance with Title 8, Chapter 27, Section 201, *Tennessee Code Annotated*, establishes the required contributions to the plan by member employees through the premiums established to approximate claims cost for the year. Pre-age 65 retired members of the EGOP pay a premium based on a blended rate that considers the cost of active and retired employees as well as their individual years of service. Therefore, retirees pay either 20%, 30%, 40%, or 100% of the appropriate premium rate. These payments are deposited into the OPEB Trust. Once the plan transitioned to the prefunding arrangement through the qualifying trust, employers began making contributions to the OPEB Trust based on an actuarially determined contribution (ADC) rate calculated in a manner to meet the funding goals of the state. These payments are deposited into the OPEB Trust. The total ADC rate for plan employers for the year ended June 30, 2020, was $145.4 million. The college's share of the ADC was $963,146. For the years ended June 30, 2020, and June 30, 2019, the college contributed $963,146 and $755,423 to the OPEB Trust, respectively. The Tennessee General Assembly has the authority to change the contribution requirements of the employees participating in the EGOP.

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

Proportionate share – The college's proportionate share of the collective net OPEB liability related to the EGOP was $5.46 million at June 30, 2020. At the June 30, 2019, measurement date, the college's proportion of the collective net OPEB liability was 0.573458%. The proportion existing at the prior measurement date was 0.613006%. This resulted in a change in proportion of (.039548%) between the current and prior measurement dates. The college's proportion of the collective net OPEB liability was based on a projection of the long-term share of contributions to the OPEB plan relative to the projected share of contributions of all participating employers, actuarially determined. The collective total OPEB liability was determined by an actuarial valuation with a valuation date of June 30, 2019, and a measurement date of June 30, 2019.

The college's proportionate share of the collective total OPEB liability related to the EGOP was $8.49 million at June 30, 2019. At the June 30, 2018, measurement date, the college's proportion of the collective total OPEB liability was 0.613006%. This resulted in a change in proportion of 0.025458% between the current and prior measurement dates. The college's proportion of the collective total OPEB liability was based on a projection of the long-term share of contributions to the OPEB plan relative to the projected share of contributions of all participating employers, actuarially determined. The collective total OPEB liability was determined by an actuarial valuation with a valuation date of June 30, 2018, and a measurement date of June 30, 2018.

OPEB expense – For the years ended June 30, 2020, and June 30, 2019, the college recognized OPEB expense of $234,067 and $701,542, respectively.

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ -	$ 347,678
Changes in assumptions	298,430	1,304,302
Net difference between actual and projected investment earnings	4,009	-
Changes in proportion and differences between benefits paid and proportionate share of benefits paid	401,520	1,471,589
Contributions subsequent to the measurement date	963,146	-
Total	$ 1,667,105	$ 3,123,569

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ -	$ 303,533
Changes in assumptions	374,013	271,068
Changes in proportion and differences between benefits paid and proportionate share of benefits paid	470,748	179.886
Contributions subsequent to the measurement date	755,423	-
Total	$ 1,600,184	$ 754,487

Deferred outflows of resources, resulting from the college's employer contributions of $963,146 subsequent to the measurement date, will be recognized as a decrease in net OPEB liability in the year ending June 30, 2021. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year Ending June 30	
2021	$(401,354)
2022	$(401,354)
2023	$(401,354)
2024	$(401,354)
2025	$(402,356)
Thereafter	$(411,838)

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

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

Inflation	2.2%
Salary increases	Graded salary ranges from 8.72% to 3.44% based on age, including inflation, averaging 4%
Healthcare cost trend rates	6.03% for 2020, decreasing annually to an ultimate rate of 4.50% for 2029 and later years
Retiree's share of benefit-related costs	Members are required to make monthly contributions in order to maintain their coverage. For the purpose of this valuation, a weighted average has been used with weights derived from the current distribution of members among plans offered.

Unless noted otherwise, the actuarial demographic assumptions used in the June 30, 2019, valuations were the same as those employed in the July 1, 2017, pension actuarial valuation of the Tennessee Consolidated Retirement System (TCRS) for Group I employees. These assumptions were developed by TCRS based on the results of an actuarial experience study for the period July 1, 2012, through June 30, 2016. The demographic assumptions were adjusted to more closely reflect actual and expected future experience. Mortality tables are used to measure the probabilities of participants dying before and after retirement. The mortality rates employed in this valuation are taken from the RP-2014 Healthy Participant Mortality Table for pre-retirement mortality and the RP-2014 Mortality Table for Annuitants for non-disabled post-retirement mortality, with mortality improvement projected to all future years using Scale MP-2016. Post-retirement tables are Blue Collar and adjusted with a 2% load for males and a -3% load for females. Mortality rates for impaired lives are the same as those used by TCRS and are taken from a gender-distinct table published in the IRS Ruling 96-7 for disabled lives with a 10% load.

Long-term expected rate of return at June 30, 2019 – The long-term expected rate of return of 6% on OPEB Trust investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of OPEB plan investment expense and inflation) are developed for each major class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. TCA 8-27-802 establishes the responsibility of the trustees to adopt written investment policies authorizing how assets in the

OPEB Trust may be invested and reinvested by the State Treasurer. The treasurer may invest trust assets in any security or investment in which the Tennessee Consolidated Retirement System (TCRS) is permitted to invest, provided that investments by the OPEB Trust shall be governed by the investment policies and guidelines adopted by the trustees. Any changes to the investment policy will be the responsibility of the established trustees. The OPEB Trust investment policy target asset allocation and allocation range for each major asset class is summarized in the following table:

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

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

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

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

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

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

	1% Decrease (5%)	Current Discount Rate (6%)	1% Increase (7%)
College's proportionate share of the collective net OPEB liability	$5,886	$5,460	$5,061

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

	1% Decrease (5.03% decreasing to 3.5%)	Healthcare Cost Trend Rates (6.03% decreasing to 4.5%)	1% Increase (7.03% decreasing to 5.5%)
College's proportionate share of the collective net OPEB liability	$4,902	$5,460	$6,101

Actuarial assumptions used for the measurement date of June 30, 2018 – The collective total OPEB liability in the June 30, 2018, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.25%
Salary increases	Graded salary ranges from 8.72% to 3.44% based on age, including inflation
Healthcare cost trend rates	6.75% for 2019, decreasing annually to an ultimate rate of 3.91% for 2050 and later years
Retiree's share of benefit-related costs	Members are required to make monthly contributions in order to maintain their coverage. For the purpose of this valuation, a weighted

average has been used with weights derived from the current distribution of members among plans offered.

Unless noted otherwise, the actuarial demographic assumptions used in the June 30, 2018, valuations were the same as those employed in the July 1, 2017, pension actuarial valuation of the Tennessee Consolidated Retirement System (TCRS). These assumptions were developed by TCRS based on the results of an actuarial experience study for the period July 1, 2012, through June 30, 2016. The demographic assumptions were adjusted to more closely reflect actual and expected future experience. Mortality tables are used to measure the probabilities of participants dying before and after retirement. The mortality rates employed in this valuation are taken from the RP-2014 Healthy Participant Mortality Table for pre-retirement mortality and the RP-2014 Mortality Table for Annuitants for non-disabled post-retirement mortality, with mortality improvement projected to all future years using Scale MP-2016. Post-retirement tables are Blue Collar and adjusted with a 2% load for males and a -3% load for females. Mortality rates for impaired lives are the same as those used by TCRS and are taken from a gender-distinct table published in the IRS Ruling 96-7 for disabled lives with a 10% load.

Discount rate – The discount rate used to measure the total OPEB liability was 3.62%. This rate reflects the interest rate derived from yields on 20-year, tax-exempt general obligation municipal bonds, prevailing on the measurement date, with an average rating of AA/Aa as shown on the Fidelity 20-Year Municipal GO AA index.

Changes in assumptions used for the measurement date of June 30, 2018 – The discount rate was changed from 3.56% as of the beginning of the measurement period to 3.62% as of June 30, 2018. This change in assumption decreased the total OPEB liability. Additionally, the near-term healthcare cost trend rates were changed from 5.4%, 5.3%, and 5.2% for plan years 2019, 2020, and 2021, respectively, to 6.75%, 6.25%, and 5.75%, respectively. Furthermore, the assumed initial per capita costs and premium amounts were revised to reflect rates adopted for the 2019 plan year. These two changes in assumptions increased the total OPEB liability.

Significant changes subsequent to the measurement date of June 30, 2018 – During fiscal year 2019, the EGOP transitioned from a pay-as-you-go funding arrangement to a prefunded arrangement where assets would be deposited and accumulated in a qualifying trust, and benefits would be paid directly from the trust assets. In the first year of this arrangement, participating employers made estimated total contributions to the trust of $297.2 million. The trust had an estimated net position of $213.3 million at June 30, 2019. These plan assets will significantly reduce the net OPEB liability recorded by employers for the year ended June 30, 2020.

Sensitivity of the proportionate share of the collective total OPEB liability to changes in the discount rate at June 30, 2019 – The following presents the college's proportionate share of the collective total OPEB liability of the EGOP, as well as what the proportionate share of the collective total OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower (2.62%) or 1 percentage point higher (4.62%) than the current rate (expressed in thousands):

	1% Decrease (2.62%)	Current Discount Rate (3.62%)	1% Increase (4.62%)
College's proportionate share of the collective total OPEB liability	$9,060	$8,492	$7,957

Sensitivity of the proportionate share of the collective total OPEB liability to changes in the healthcare cost trend rate at June 30, 2019 – The following presents the college's proportionate share of the collective total OPEB liability of the EGOP, as well as what the proportionate share of the collective total OPEB liability would be if it were calculated using a healthcare cost trend rate that is 1 percentage point lower (5.75% decreasing to 2.91%) or 1 percentage point higher (7.75% decreasing to 4.91%) than the current rate (expressed in thousands):

	1% Decrease (5.75% decreasing to 2.91%)	Healthcare Cost Trend Rates (6.75% decreasing to 3.91%)	1% Increase (7.75% decreasing to 4.91%)
College's proportionate share of the collective total OPEB liability	$7,669	$8,492	$9,453

Closed Tennessee OPEB Plan

General Information About the OPEB Plan

Plan description – Employees of the college who were hired prior to July 1, 2015, and choose coverage, are provided with post-65 retiree health insurance benefits through the Closed Tennessee OPEB Plan (TNP) administered by the Tennessee Department of Finance and Administration. This plan is considered to be a multiple-employer defined benefit plan that is used to provide postemployment benefits other than pensions (OPEB). However, for accounting purposes, this plan will be treated as a single-employer plan. This plan is closed to the employees of all participating employers that were hired on or after July 1, 2015. The State of Tennessee (primary government), as well as the Tennessee Student Assistance Corporation, the Tennessee Housing Development Agency, the University of Tennessee, and the other institutions that make up the State University and Community College System, also participate in this plan. This plan also serves eligible post-65 retirees of employers who participate in the state-administered Teacher Group Insurance and Local Government Group Insurance Plans.

Benefits provided – The TNP is offered to help fill most of the coverage gaps created by Medicare and is the only postemployment benefit provided to eligible post-65 retired and disabled employees of participating employers. This plan does not include pharmacy. In accordance with Title 8, Chapter 27, Section 209, *Tennessee Code Annotated*, benefits are established and amended by cooperation of insurance committees created by Sections 8-27-201, 301, and 701, *Tennessee Code Annotated*. Retirees and disabled employees of the state, component units, local education agencies, and certain local governments, who have reached the age of 65, are Medicare-eligible, and also receive a benefit from the Tennessee Consolidated Retirement System, may participate in this plan. All plan members receive the same plan benefits at the same premium rates. Many retirees receive direct subsidies toward their premium cost; however, participating employers determine their own policy in this regard. The primary government contributes to the premiums of component unit retirees based on years of service. Therefore, retirees with 30 years of service receive $50 per month; 20 but less than 30 years, $37.50; and 15 but less than 20 years, $25. The college does not provide any subsidies for retirees in the TNP. The primary government paid $39,587.50 for OPEB as the benefits came due during the fiscal year ended June 30, 2020, and $40,100 for OPEB as the benefits came due during the fiscal year ended June 30, 2019. This plan is funded on a pay-as-you-go basis, and there are no assets accumulating in a trust that meets the criteria of paragraph 4 of GASB Statement 75.

In accordance with Title 8, Chapter 27, Part 209, *Tennessee Code Annotated*, the state insurance committees established by Sections 8-27-201, 301, and 701, *Tennessee Code Annotated,* determine the required payments to the plan by member employers and employees. Claims liabilities of the plan are periodically computed using actuarial and statistical techniques to establish premium rates. Administrative costs are allocated to plan participants.

Total OPEB Liability and OPEB Expense

Proportionate share – The primary government is entirely responsible for the TNP OPEB liability associated with the college's employees. The primary government's proportionate share of the total OPEB liability associated with the college was $1,203,741 at June 30, 2020. At the June 30, 2019, measurement date, the proportion of the collective total OPEB liability associated with the college was 0.687672%. This represents a change of 0.01704% from the prior proportion of 0.670632%. The proportion of the collective total OPEB liability associated with the college was based on a projection of the long-term share of contributions to the OPEB plan relative to the projected share of contributions of all participating employers, actuarially determined. The collective total OPEB liability was determined by an actuarial valuation with a valuation date of June 30, 2019, and measurement date of June 30, 2019.

The primary government's proportionate share of the total OPEB liability associated with the college was $1,159,279 at June 30, 2019. At the June 30, 2018, measurement date, the proportion of the collective total OPEB liability associated with the college was 0.670632%. The proportion of the collective total OPEB liability associated with the college was based on a projection of the long-term share of contributions to the OPEB plan relative to the projected share of contributions of all participating employers, actuarially determined. There has been no change in the college's proportion since the prior measurement date. The collective total OPEB liability was determined by an actuarial valuation with a valuation date of June 30, 2018, and a measurement date of June 30, 2018.

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

Inflation	2.2%
Salary increases	Graded salary ranges from 8.72% to 3.44% based on age, including inflation, averaging 4%
Healthcare cost trend rates	The premium subsidies provided to retirees in the Closed Tennessee OPEB Plan are assumed to remain unchanged for the entire projection; therefore, trend rates are not applicable.

Unless noted otherwise, the actuarial demographic assumptions used in the June 30, 2019, valuations were the same as those employed in the July 1, 2017, pension actuarial valuation of the Tennessee Consolidated Retirement System (TCRS) for Group I employees. These assumptions were developed by TCRS based on the results of an actuarial experience study for the period July 1, 2012, through June 30, 2016. The demographic assumptions were adjusted to more closely reflect actual and expected future experience. Mortality tables are used to measure the probabilities of participants dying before and after retirement. The mortality rates employed in this valuation are taken from the RP-2014 Healthy Participant Mortality Table for pre-retirement mortality and the RP-2014 Mortality Table for Annuitants for non-disabled post-retirement mortality, with mortality improvement projected to all future years using Scale MP-2016. Post-retirement tables are Blue Collar and adjusted with a 2% load for males and a -3% load for females. Mortality rates for impaired lives are the same as those used by TCRS and are taken from a gender-distinct table published in IRS Ruling 96-7 for disabled lives with a 10% load.

Discount rate at June 30, 2020 – The discount rate used to measure the total OPEB liability was 3.51%. This rate reflects the interest rate derived from yields on 20-year, tax-exempt general obligation municipal bonds, prevailing on the measurement date, with an average rating of AA/Aa as shown on the Bond Buyer GO 20-Bond Municipal Bond Index.

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

Sensitivity of the proportionate share of the collective total OPEB liability to changes in the discount rate at June 30, 2020 – The following presents the primary government's proportionate share of the college's related collective total OPEB liability, as well as what the proportionate share of the collective total OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower (2.51%) or 1 percentage point higher (4.51%) than the current rate. The college does not report a proportionate share of the OPEB liability for employees in the TNP.

	1% Decrease (2.51%)	Current Discount Rate (3.51%)	1% Increase (4.51%)
Primary government's proportionate share of the collective total OPEB liability	$1,361,598	$1,203,741	$1,071,465

Actuarial assumptions used for the measurement date of June 30, 2018 – The total OPEB liability in the June 30, 2018, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.25%
Salary increases	Graded salary ranges from 8.72% to 3.44% based on age, including inflation
Healthcare cost trend rates	The premium subsidies provided to retirees in the Closed Tennessee OPEB Plan are assumed to remain unchanged for the entire projection; therefore, trend rates are not applicable.

Unless noted otherwise, the actuarial demographic assumptions used in the June 30, 2018, valuations were the same as those employed in the July 1, 2017, pension actuarial valuation of the Tennessee Consolidated Retirement System (TCRS). These assumptions were developed by TCRS based on the results of an actuarial experience study for the period July 1, 2012, through June 30, 2016. The demographic assumptions were adjusted to more closely reflect actual and expected future experience. Mortality tables are used to measure the probabilities of participants dying before and after retirement. The mortality rates employed in this valuation are taken from the RP-2014 Healthy Participant Mortality Table for pre-retirement mortality and the RP-2014 Mortality Table for Annuitants for non-disabled post-retirement mortality, with mortality improvement projected to all future years using Scale MP-2016. Post-retirement tables are Blue Collar and adjusted with a 2% load for males and a -3% load for females. Mortality rates for impaired lives are the same as those used by TCRS and are taken from a gender-distinct table published in IRS Ruling 96-7 for disabled lives with a 10% load.

Discount rate at June 30, 2019 – The discount rate used to measure the total OPEB liability was 3.62%. This rate reflects the interest rate derived from yields on 20-year, tax-exempt general obligation municipal bonds, prevailing on the measurement date, with an average rating of AA as shown on the Fidelity 20-Year Municipal GO AA index.

Changes in assumptions used for the measurement date of June 30, 2018 – The discount rate was changed from 3.56% as of the beginning of the measurement period to 3.62% as of June 30, 2018. This change in assumption decreased the total OPEB liability.

Sensitivity of the proportionate share of the collective total OPEB liability to changes in the discount rate at June 30, 2019 – The following presents the primary government's proportionate share of the college's related collective total OPEB liability, as well as what the proportionate share of the collective total OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower (2.62%) or 1 percentage point higher (4.62%) than the current rate. The college does not report a proportionate share of the OPEB liability for employees in the TNP.

	1% Decrease (2.62%)	Current Discount Rate (3.62%)	1% Increase (4.62%)
Primary government's proportionate share of the collective total OPEB liability	$1,308,805	$1,159,279	$1,033,693

OPEB expense – For the years ended June 30, 2020, and June 30, 2019, the primary government recognized OPEB expense of $41,860 and $41,799, respectively, for employees of the college participating in the TNP.

Total OPEB Expense

The total OPEB expense for the year ended June 30, 2020, was $275,927, which consisted of OPEB expense of $234,067 for the EGOP and $41,860 paid by the primary government for the TNP. The total OPEB expense for the year ended June 30, 2019, was $743,341, which consisted of OPEB expense of $701,542 for the EGOP and $41,799 paid by the primary government for the TNP.

Note 11. Revenues

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

Fiscal Year 2020 Revenue Source	Gross Revenue	Less Scholarship Allowances	Less Uncollectible Debts	Net Revenue
Operating revenues:				
Tuition and fees	$34,448,169.87	$(16,519,286.00)	$(800,000.00)	$17,128,883.87
Total	$34,448,169.87	$(16,519,286.00)	$(800,000.00)	$17,128,883.87

Fiscal Year 2019 Revenue Source	Gross Revenue	Less Scholarship Allowances	Less Uncollectible Debts	Net Revenue
Operating revenues:				
Tuition and fees	$34,694,624.42	$(15,787,772.00)	$(800,000.00)	$18,106,852.42
Total	$34,694,624.42	$(15,787,772.00)	$(800,000.00)	$18,106,852.42

Note 12. Insurance-related Activities

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

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

At June 30, 2020, the scheduled coverage for the college was $225,760,290 for buildings and $46,500,000 for contents. At June 30, 2019, the scheduled coverage for the college was $225,088,290 for buildings and $45,829,300 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 $10,538,182.31 at June 30, 2020, and $11,716,359.17 at June 30, 2019.

Operating Leases

The college has entered into various operating leases for buildings and equipment. Such leases will probably continue to be required. Expenses under operating leases for real property were $330,152.00, and expenses for personal property were $89,436.97 for the year ended June 30, 2020. The amounts for the year ended June 30, 2019, were $287,026.00 and $89,209.31. All operating leases are cancelable at the lessee's option.

Construction in Progress

At June 30, 2020, outstanding commitments under construction contracts totaled $5,631,797.57 for CETAS building interior modernization, CETAS building remediation and abatement, CETAS building roof replacement, and CBIH building envelope waterproofing, of which $4,501,878 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, 2020, are as follows:

Functional Classification	Natural Classification Salaries	Benefits	Other Operating	Scholarships	Depreciation	Total
Instruction	$ 23,489,830.83	$ 7,704,335.08	$ 7,136,493.54	$ 41,895.05	$ -	$38,372,554.50
Public service	409,719.78	128,134.00	129,456.39	114,900.11	-	782,210.28
Academic support	5,348,382.27	2,248,395.92	(634,106.33)	5,447.20	-	6,968,119.06
Student services	4,247,476.97	1,735,633.63	1,804,615.12	2,367,702.06	-	10,155,427.78
Institutional support	4,343,404.40	1,781,822.09	2,089,427.81	4,012.50	-	8,218,666.80
Maintenance and operation	2,386,406.69	1,082,888.18	5,862,881.91	4,786.90	-	9,336,963.68
Scholarships and fellowships	225,514.97	6,252.69	-	13,244,333.70	-	13,476,101.36
Auxiliary	345,249.47	162,088.89	1,226,562.63	-	-	1,733,900.99
Depreciation	-	-	-	-	2,551,458.20	2,551,458.20
Total	$ 40,795,985.38	$ 14,849,550.48	$ 17,615,331.07	$ 15,783,077.52	$ 2,551,458.20	$91,595,402.65

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

Functional Classification	Natural Classification Salaries	Benefits	Other Operating	Scholarships	Depreciation	Total
Instruction	$ 23,004,795.92	$ 7,779,704.98	$ 7,273,117.31	$ 33,026.96	$ -	$ 38,090,645.17
Public service	773,844.73	238,284.29	309,797.50	138,358.74	-	1,460,285.26
Academic support	5,334,298.39	2,259,519.22	(256,142.74)	7,310.55	-	7,344,985.42
Student services	4,119,358.63	1,730,574.37	1,810,311.22	42,070.80	-	7,702,315.02
Institutional support	4,029,271.85	1,671,895.52	2,022,711.13	8,490.35	-	7,732,368.85
Maintenance and operation	2,178,660.47	1,036,605.34	6,541,418.20	7,323.50	-	9,764,007.51
Scholarships and fellowships	221,120.35	6,184.10	1,924.96	13,544,990.59	-	13,774,220.00
Auxiliary	320,695.53	171,551.05	885,547.13	-	-	1,377,793.71
Depreciation	-	-	-	-	2,490,165.49	2,490,165.49
Total	$ 39,982,045.87	$ 14,894,318.87	$ 18,588,684.71	$ 13,781,571.49	$ 2,490,165.49	$ 89,736,786.43

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 $3,676,969.93 for the year ended June 30, 2020, and $3,767,520.89 for the year ended June 30, 2019, 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.

Note 15. On-behalf Payments

During the year ended June 30, 2020, the State of Tennessee made payments of $39,587.50 on behalf of the college for retirees participating in the Closed Tennessee OPEB Plan.

During the year ended June 30, 2019, the State of Tennessee made payments of $985,871.60 and $40,100, respectively, on behalf of the college for retirees participating in the State Employee Group OPEB Plan and the Closed Tennessee OPEB Plan.

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

Note 16. Component Unit

The Chattanooga State Community College Foundation is a legally separate, tax-exempt organization supporting Chattanooga State Community College. The foundation acts primarily as a fund-raising organization to supplement the resources that are available to the college in support of its programs. The 16-member board of the foundation is self-perpetuating and consists of graduates and friends of the college. Although the college does not control the timing or amount of receipts from the foundation, the majority of resources, or income thereon, that the foundation holds and invests are restricted to the activities of the college by the donors. Because these restricted resources held by the foundation can only be used by, or for the benefit of, the college, the foundation is considered a component unit of the college and is discretely presented in the college's financial statements.

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

During the year ended June 30, 2020, the foundation made distributions of $292,521.91 to or on behalf of the college for both restricted and unrestricted purposes. During the year ended June 30, 2019, the foundation made distributions of $499,093.62 to or on behalf of the college for both restricted and unrestricted purposes. Complete financial statements for the foundation can be obtained from the college at 4501 Amnicola Highway, Chattanooga, TN 37406.

Fair Value Measurements

The foundation reports certain assets at fair value. Fair value has been determined using quoted prices in active markets for identical assets that are accessible at the measurement date (Level 1); inputs other than quoted market prices included in Level 1 that are directly or indirectly observable for the asset (Level 2); or significant unobservable inputs (Level 3). The following table categorizes the recurring fair value measurements for assets at June 30, 2020, and at June 30, 2019.

	June 30, 2020	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Investments Measured at the Net Asset Value (NAV)
Assets:					
Cash equivalents	$ 499,022.40	$ 499,022.40	$ -	$ -	$ -
Investments	6,901,436.03	6,124,813.03	-	776,623.00	-
Pledges receivable	1,038,704.29	-	-	1,038,704.29	-
Total assets	$ 8,439,162.72	$ 6,623,835.43	$ -	$1,815,327.29	$ -

	June 30, 2019	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Investments Measured at the Net Asset Value (NAV)
Assets:					
Cash equivalents	$ 205,574.16	$ 205,574.16	$ -	$ -	$ -
Investments	7,023,847.56	6,237,205.56	-	786,642.00	-
Pledges receivable	1,238,852.93	-	-	1,238,852.93	-
Total assets	$ 8,468,274.65	$ 6,442,779.72	$ -	$ 2,025,494.93	$ -

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

At June 30, 2020	Beginning Balance	Total Gains/ (Losses), Realized and Unrealized	Settlements	Other	Ending Balance
Assets:					
Investments	$ 786,642.00	$19,981.00	$(30,000.00)	$ -	$ 776,623.00
Pledges receivable	1,238,852.93	-	-	(200,148.64)	1,038,704.29
Total assets	$2,025,494.93	$19,981.00	$(30,000.00)	$(200,148.64)	$ 1,815,327.79

At June 30, 2019	Beginning Balance	Total Gains/ (Losses), Realized and Unrealized	Settlements	Other	Ending Balance
Assets:					
Investments	$ 814,001.00	$12,641.00	$(40,000.00)	$ -	$ 786,642.00
Pledges receivable	1,370,748.55	-	-	(131,895.62)	1,238,852.93
Total assets	$2,184,749.55	$12,641.00	$(40,000.00)	$(131,895.62)	$2,025,494.93

All gains and losses, both realized and unrealized, have been reported on the statement of revenues, expenses, and changes in net position as investment income. Of this total, $(71,196) is attributable to the change in unrealized gains or losses relating to those assets still held at June 30, 2020, and $(79,091) is attributable to the change in unrealized gains or losses relating to those assets still held at June 30, 2019.

Cash and Cash Equivalents

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

Investments

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

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

	Cost	Fair Value
U.S. treasury obligations	$ 241,928.29	$ 254,950.62
Corporate stock	1,650,648.00	2,151,831.25
Corporate bonds	181,296.66	195,874.27
Mutual bond funds	1,262,244.43	1,286,043.52
Mutual equity funds	2,139,452.91	2,236,113.37
Investment as limited partner in hedge fund	855,850.00	776,623.00
Total investments	$ 6,331,420.29	$ 6,901,436.03

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

	Cost	Fair Value
U.S. treasury obligations	$ 298,033.58	$ 306,463.71
Corporate stock	1,658,619.35	2,122,309.43
Corporate bonds	209,072.95	216,287.09
Mutual bond funds	1,171,963.26	1,184,733.74
Mutual equity funds	2,295,631.54	2,407,411.59
Investment as limited partner in hedge fund	794,673.00	786,642.00
Total investments	$ 6,427,993.68	$ 7,023,847.56

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.

	2020	2019
Dividends and interest, net of expenses of $51,477.15 for 2020 and $52,380.81 for 2019	$ 163,617.03	$ 161,062.55
Net realized and unrealized gains	79,671.79	204,265.45
Total return on investments	243,288.82	365,328.00
Endowment income per spending plan	(133,214.00)	(264,753.00)
Investment return in excess of amounts designated for current operations	$ 110,074.82	$ 100,575.00

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

Alternative investments – The foundation had investments in a limited partnership hedge fund. The estimated fair value of these assets was $776,623 at June 30, 2020, and $786,642 at June 30, 2019.

The hedge fund partnership is a "fund of funds," a hedge fund which invests for the most part in other hedge funds. The foundation believes the carrying amount of its alternative investments is a reasonable estimate of fair value as of June 30, 2020, and as of June 30, 2019. Because this investment is not readily marketable, the estimated value is subject to uncertainty and, therefore, may differ from the value that would have been used had a ready market for the investments existed, and such differences could be material. This investment is made in accordance with the foundation's investment policy that approves the allocation of funds to various asset classes in order to ensure the proper level of diversification. This investment is designed to enhance diversification and provide reductions in overall portfolio volatility. These fair values are estimated using various valuation techniques.

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

Pledges Receivable

Pledges receivable are summarized below:

	June 30, 2020	June 30, 2019
Current pledges	$ 153,212.00	$ 173,589.00
Pledges due in one to five years	606,000.00	680,200.00
Pledges due after five years	300,000.00	470,000.00
Subtotal	1,059,212.00	1,323,789.00
Less discount to net present value	(20,507.71)	(84,936.07)
Total pledges receivable, net	$ 1,038,704.29	$ 1,238,852.93

Liquidity and Availability

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

	At June 30, 2020	At June 30, 2019
Cash and cash equivalents	$ 950,173.28	$548,003.52
Accounts receivable	105,000.00	-
Operating investments	98,841.91	610,438.54
Total	$1,154,015.19	$1,158,442.06

The foundation's endowment funds consist of donor-restricted endowments and a term endowment. Income from donor-restricted endowments is restricted for specific purposes and, therefore, is not available for general expenditure.

The foundation does not have a liquidity management plan.

Endowments

The Chattanooga State Community College Foundation's endowments consist of approximately 70 individual funds established for a variety of purposes. Its endowment includes donor-restricted endowment funds and a term endowment fund. As required by accounting principles generally accepted in the United States of America, net position associated with endowment funds is classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of relevant law – The Chattanooga State Community College Foundation is subject to the Uniform Prudent Management of Institutional Funds Act (the Act) as adopted by Tennessee and thus classifies amounts in its donor-restricted endowment funds as net assets with donor restrictions because those net assets are time restricted until the foundation's board appropriates such amounts for expenditure. Most of those net assets are also subject to purpose restrictions that must be met before reclassifying those net assets to net assets without donor restrictions. The foundation's board has interpreted the Uniform Prudent Management of

Institutional Funds Act (the Act) as adopted by Tennessee as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, when reviewing its donor-restricted endowment funds, the foundation considers a fund to be underwater if the fair value of the fund is less than the sum of (1) the original value of initial and subsequent gift amounts donated to the fund and (2) any accumulations to the fund that are required to be maintained in perpetuity in accordance with the direction of the applicable gift instrument. The foundation has interpreted the Act to permit spending from underwater funds in accordance with prudent measures required under the law. Additionally in accordance with the Act, the foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the fund; (2) the purposes of the foundation and the donor-restricted endowment fund; (3) general economic conditions; (4) the possible effect of inflation or deflation; (5) the expected total return from income and the appreciation of investments; (6) the other resources of the foundation; and (7) the investment policies of the foundation.

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

	Without Donor Restrictions	With Donor Restrictions	Total
Donor-restricted endowment funds:			
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor	$ -	$3,082,654.01	$3,082,654.01
Accumulated investment gains	-	2,144,035.96	2,144,035.96
Term endowment	-	124,817.46	124,817.46
Total funds	$ -	$5,351,507.43	$5,351,507.43

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

	Without Donor Restrictions	With Donor Restrictions	Total
Donor-restricted endowment funds:			
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor	$ -	$2,926,940.10	$2,926,940.10
Accumulated investment gains	-	2,073,924.58	2,073,924.58
Term endowment	-	56,947.68	56,947.68
Total funds	$ -	$5,057,812.36	$5,057,812.36

Changes in Endowment Net Assets
As of June 30, 2020

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	$ -	$ 5,057,812.36	$ 5,057,812.36
Investment return, net	-	194,670.64	194,670.64
Contributions	-	221,486.13	221,486.13
Appropriation of endowment assets for expenditure	-	(122,461.70)	(122,461.70)
Endowment net assets, end of year	$ -	$ 5,351,507.43	$ 5,351,507.43

Changes in Endowment Net Assets
As of June 30, 2019

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	$ -	$ 4,834,032.19	$ 4,834,032.19
Investment return, net	-	304,253.69	304,253.69
Contributions	-	169,572.32	169,572.32
Appropriation of endowment assets for expenditure	-	(250,045.84)	(250,045.84)
Endowment net assets, end of year	$ -	$ 5,057,812.36	$ 5,057,812.36

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. Under this policy, as approved by the board of directors, the endowment assets are invested in a manner that is intended to produce results that preserve, protect, and grow its assets by earning a total return with appropriate consideration given to time horizon, distribution requirements, and risk tolerance. The foundation expects its endowment funds, over time, to provide an average rate of return of approximately 5% annually. Actual returns in any given year may vary from this amount.

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

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

Natural Classifications With Functional Classifications

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

Functional Classification	Salaries	Benefits	Other Operating	Scholarships	Payments Made to or on Behalf of College	Total
Program services	$ -	$ -	$31,250.94	$258,405.50	$292,521.91	$ 582,178.35
Support activities	84,408.84	28,372.04	45,796.50	-	-	158,577.38
Total expenses	$84,408.84	$28,372.04	$77,047.44	$258,405.50	$292,521.91	$740,755.73

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

Functional Classification	Salaries	Benefits	Other Operating	Scholarships	Payments Made to or on Behalf of College	Total
Program services	$ -	$ -	$10,616.83	$373,963.03	$499,093.62	$ 883,673.48
Support activities	78,657.16	28,293.56	43,733.38	-	–	150,684.10
Total expenses	$78,657.16	$28,293.56	$54,350.21	$373,963.03	$499,093.62	$1,034,357.58

Support From Chattanooga State Community College

The college paid certain payroll costs for college personnel who also performed services supporting the foundation amounting to $112,780.88 in fiscal year 2020 and $106,950.72 in fiscal year 2019. These supporting costs paid by the college are reflected in the statement of revenues, expenses, and changes in net position as college support, with a like amount included in expenses. The college provides office space and the use of certain common facilities and services to the foundation at no cost. These costs have not been recorded as college support because they are not considered to be significant to the operations of the foundation.

Change in Accounting Principle

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

As originally stated:	Unrestricted	Permanently Restricted	Temporarily Restricted	Total
Net assets, beginning of year	$1,042,323.21	$2,785,065.34	$4,854,411.82	$8,681,800.37

As restated:	Without Donor Restrictions	With Donor Restrictions	Total
Net assets, beginning of year	$1,042,323.21	$7,639,477.16	$8,681,800.37

Tennessee Board of Regents

Chattanooga State Community College

Required Supplementary Information

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

	Proportion of the Net Pension Liability	Proportionate Share of the Net Pension Liability	Covered Payroll	Proportionate Share of the Net Pension Liability as a Percentage of Its Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2020	0.577572%	$ 8,156,244	$13,022,598	62.63%	91.67%
2019	0.641046%	10,355,516	14,804,238	69.95%	90.26%
2018	0.660626%	11,822,526	15,848,700	74.60%	88.88%
2017	0.658410%	12,013,092	16,075,180	74.73%	87.96%
2016	0.626439%	8,076,568	16,357,717	49.37%	91.26%
2015	0.644100%	4,443,960	17,596,299	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 is available.

Tennessee Board of Regents

Chattanooga State Community College

Required Supplementary Information

Schedule of Chattanooga State Community College's Proportionate Share of the Net Pension Asset State and Higher Education Employee Retirement Plan Within TCRS

	Proportion of the Net Pension Asset	Proportionate Share of the Net Pension Asset	Covered Payroll	Proportionate Share of the Net Pension Asset as a Percentage of Its Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2020	0.611317%	$253,558	$5,734,502	4.42%	122.36%
2019	0.609474%	235,091	4,886,520	4.81%	132.39%
2018	0.660074%	136,888	3,576,338	3.83%	131.51%
2017	0.823333%	69,360	2,552,154	2.72%	130.56%
2016	1.017721%	28,302	1,108,267	2.55%	142.55%

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

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

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

	Contractually Determined Contributions	Contributions in Relation to Contractually Determined Contributions	Contribution Deficiency (Excess)	Covered Payroll	Contributions as a Percentage of Covered Payroll
2020	$2,420,654	$2,420,654	$ -	$12,312,577	19.66%
2019	2,504,246	2,504,246	-	13,022,598	19.23%
2018	2,793,561	2,793,561	-	14,804,238	18.87%
2017	2,380,476	2,380,476	-	15,848,700	15.02%
2016	2,416,100	2,416,100	-	16,075,180	15.03%
2015	2,458,565	2,458,565	-	16,357,717	15.03%
2014	2,644,724	2,644,724	-	17,596,299	15.03%
2013	2,514,444	2,514,444	-	16,729,498	15.03%
2012	2,374,907	2,374,907	-	15,928,281	14.91%
2011	2,273,295	2,273,295	-	15,246,782	14.91%

Notes to Schedule:

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

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

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

	Contractually Determined Contributions	Contributions in Relation to Contractually Determined Contributions	Contribution Deficiency (Excess)	Covered Payroll	Contributions as a Percentage of Covered Payroll
2020	$ 117,677	$ 117,677	$ -	$6,788,553	1.73%
2019	95,193	95,193	-	5,734,502	1.66%
2018	192,530	192,530	-	4,886,520	3.94%
2017	135,000	135,000	-	3,576,338	3.77%
2016	98,765	98,765	-	2,552,154	3.87%
2015	42,890	42,890	-	1,108,267	3.87%

Notes to Schedule:

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

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

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

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

	College's Proportion of the Collective Total/Net OPEB Liability	College's Proportionate Share of the Collective Total/Net OPEB Liability	College's Covered-employee Payroll	College's Proportionate Share of the Collective Total/Net OPEB Liability as a Percentage of Its Covered-employee Payroll	OPEB Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability
2020	0.573458%	$5,460,361	$21,989,192	24.83%	18.33%
2019	0.613006%	8,491,600	23,981,693	35.41%	N/A
2018	0.587548%	7,888,072	25,485,464	30.95%	N/A

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

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

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

Tennessee Board of Regents
Chattanooga State Community College
Required Supplementary Information
Schedule of Chattanooga State Community College's Contributions
Closed State Employee Group OPEB Plan

	Actuarially Determined Contributions	Contributions in Relation to Actuarially Determined Contributions	Contribution Deficiency (Excess)	Covered-employee Payroll	Contributions as a Percentage of Covered-employee Payroll
2020	$963,146	$963,146	$ -	$20,248,614	4.76%
2019	875,107	755,423	119,684	21,989,192	3.44%

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

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

Tennessee Board of Regents

Chattanooga State Community College

Required Supplementary Information
Schedule of Chattanooga State Community College's Proportionate Share of the Collective Total OPEB Liability
Closed Tennessee OPEB Plan

	College's Proportion of the Collective Total OPEB Liability	College's Proportionate Share of the Collective Total OPEB Liability	Primary Government's Proportionate Share of the Collective Total OPEB Liability	Total OPEB Liability Associated With the College	College's Covered-employee Payroll	College's Proportionate Share of the Collective Total OPEB Liability as a Percentage of Its Covered-employee Payroll
2020	0.0%	$ -	$1,203,741	$1,203,741	$25,383,678	0.0%
2019	0.0%	-	1,159,279	1,159,279	27,372,783	0.0%
2018	0.0%	-	1,205,678	1,205,678	29,378,990	0.0%

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

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

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

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

	Year Ended June 30, 2020	Year Ended June 30, 2019
Cash flows from operating activities		
Gifts and contributions	$ 593,033.35	$ 612,659.41
Payments to suppliers and vendors	(73,547.44)	(53,985.40)
Payments for scholarships and fellowships	(258,405.50)	(373,963.03)
Payments to Chattanooga State Community College	(340,177.86)	(692,059.56)
Other receipts	23,400.00	26,803.41
Net cash used for operating activities	(55,697.45)	(480,545.17)
Cash flows from noncapital financing activities		
Private gifts for endowment purposes	197,166.86	127,677.55
Net cash provided by noncapital financing activities	197,166.86	127,677.55
Cash flows from investing activities		
Proceeds from sales and maturities of investments	105,509.93	330,217.38
Income on investments	163,617.03	161,062.55
Purchases of investments	(8,426.61)	(169,872.95)
Net cash provided by investing activities	260,700.35	321,406.98
Net increase (decrease) in cash and cash equivalents	402,169.76	(31,460.64)
Cash and cash equivalents - beginning of year	548,003.52	579,464.16
Cash and cash equivalents - end of year	$ 950,173.28	$ 548,003.52
Reconciliation of operating loss to net cash used for operating activities:		
Operating loss	$ (81,882.29)	$ (247,596.15)
Adjustments to reconcile operating loss to net cash used for operating activities:		
Noncash operating expenses	112,780.88	106,950.72
Endowment income per spending plan	(133,214.00)	(264,753.00)
Change in assets and liabilities:		
Receivables, net	91,293.91	117,454.39
Prepaid items	3,500.00	364.81
Due to CHSCC	(47,655.95)	(192,965.94)
Unearned revenues	(520.00)	-
Net cash used for operating activities	$ (55,697.45)	$ (480,545.17)
Noncash investing, capital, and financing activities		
Unrealized losses on investments	$ (25,938.14)	$ (125,951.93)

Tennessee Comptroller of the Treasury

Jason E. Mumpower
Comptroller

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

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

We have audited the financial statements of Chattanooga State Community College, an institution of the State University and Community College System of Tennessee, which is a component unit of the State of Tennessee, and its discretely presented component unit as of and for the years ended June 30, 2020, and June 30, 2019, and the related notes to the financial statements, which collectively comprise the college's basic financial statements, and have issued our report thereon dated September 2, 2021. We conducted our audit in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the college's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion 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 entity's 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, and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, as described below, that we consider to be significant deficiencies.

- Chattanooga State Community College did not provide adequate internal controls in four areas that were reported in the prior audit.

These deficiencies are described in the Finding and Recommendation section of this report.

Compliance and Other Matters

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

Chattanooga State Community College's Response to Finding

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

Purpose of This Report

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

Katherine J. Stickel

Katherine J. Stickel, CPA, CGFM, Director
Division of State Audit
September 2, 2021

Finding and Recommendation

Chattanooga State Community College did not provide adequate internal controls in four areas that were reported in the prior audit

Finding

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

Ineffective design and implementation of internal controls increase the likelihood of errors and unauthorized access to college information. Pursuant to Standard 4.40 of the U.S. Government Accountability Office's *Government Auditing Standards*, we omitted details from this finding because they are confidential under the provisions of Section 10-7-504(i), *Tennessee Code Annotated*. We provided the college with detailed information regarding the specific conditions we identified, as well as the related criteria, causes, and our specific recommendations for improvement.

Recommendation

The President should ensure that management corrects these conditions by thoroughly evaluating the details of this finding and promptly developing and consistently implementing effective internal controls in these areas.

Management's Comment

Chattanooga State Community College concurs with the findings of the four areas as reported.

Observation and Comment

College of Applied Technology

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