



FINANCIAL AND COMPLIANCE AUDIT REPORT

Walters State Community College

For the Year Ended June 30, 2023

Jason E. Mumpower
Comptroller of the Treasury



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JASON E. MUMPOWER
Comptroller

July 23, 2024

The Honorable Bill Lee, Governor
Members of the General Assembly
The Honorable Flora W. Tydings, Chancellor
Dr. Anthony R. Miksa, President

Ladies and Gentlemen:

Transmitted herewith is the financial and compliance audit of the Tennessee Board of Regents, Walters State Community College, for the year ended June 30, 2023. You will note from the independent auditor's report that an unmodified opinion was given on the fairness of the presentation of the financial statements.

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

Sincerely,

A handwritten signature in blue ink that reads "Katherine J. Stickel".

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

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Audit Report
Tennessee Board of Regents
Walters State Community College
For the Year Ended June 30, 2023

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WALTERS STATE COMMUNITY COLLEGE

AUDIT HIGHLIGHTS

Walters State Community College’s Mission

Through a focus on student success and innovative teaching, Walters State enriches the lives of our students and our community.

Opinions on the Financial Statements

The opinions on the financial statements are unmodified.

Audit Findings

The audit report contains no findings.

Prior Audit Findings

There were no findings in the prior audit report.



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. Anthony R. Miksa, President

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying financial statements of Walters State Community College, an institution of the State University and Community College System of Tennessee, which is a component unit of the State of Tennessee, its fiduciary fund information, and its discretely presented component unit as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of Walters State Community College and its discretely presented component unit as of June 30, 2023; and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis of Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibility for the Audit of the Financial Statements section of our report. We are required to be independent of the college and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit.

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

Responsibilities of Management 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the college's ability to continue as a going concern for 12 months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibility for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement whether due to fraud or error, and to issue an auditor's report that includes our opinions.

Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we

- exercise professional judgment and maintain professional skepticism throughout the audit;
- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks; such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements;
- obtain an understanding of internal control relevant to the audit 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 college's internal control; accordingly, no such opinion is expressed;
- evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements; and
- conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the college's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Emphasis of Matters

As discussed in Note 1, the financial statements of Walters State Community College, an institution of the State University and Community College System of Tennessee, are intended to present the financial position, the changes in financial position, and the cash flows of only Walters State Community College. They do not purport to, and do not, present fairly the financial position of the State University and Community College System of Tennessee as of June 30, 2023, and the changes in financial position and cash flows thereof for the year 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 1, the college implemented Governmental Accounting Standards Board Statement 96, *Subscription-Based Information Technology Arrangements*, during the year ended June 30, 2023. Our opinion is not modified with respect to this matter.

As discussed in Note 17, the financial statements of the Walters State Community College Foundation, a discretely presented component unit of Walters State Community College, include investments valued at \$1,689,949 at June 30, 2023 (7.52% 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 manager. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 6 through 17; the schedule of Walters State Community College's proportionate share of the net pension liability (asset) – Closed State and Higher Education Employee Pension Plan within TCRS on page 61; the schedule of Walters State Community College's proportionate share of the net pension asset – State and Higher Education Employee Retirement Plan within TCRS on page 62; the schedule of Walters State Community College's contributions – Closed State and Higher Education Employee Pension Plan within TCRS on page 63; the schedule of Walters State Community College's contributions – State and Higher Education Employee Retirement Plan within TCRS on page 64; the schedule of Walters State Community College's proportionate share of the collective total/net OPEB liability – Closed State Employee Group OPEB Plan on page 65; the schedule of Walters State Community College's contributions – Closed State Employee Group OPEB Plan on page 66; and the schedule of Walters State Community College's proportionate share of the collective total OPEB liability – Closed Tennessee OPEB Plan on page 67 be presented to supplement the basic financial statements. Such information is the responsibility of management, and 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 schedule of cash flows – component unit on page 68 is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary schedule of cash flows – component unit is the responsibility of the college's management and was derived from, and relates 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 schedule of cash flows – component unit is 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 June 25, 2024, 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, CPA, CGFM, Director
Division of State Audit
June 25, 2024

Tennessee Board of Regents
WALTERS STATE COMMUNITY COLLEGE
Management's Discussion and Analysis
June 30, 2023

Introduction

This section of Walters State Community College's financial report presents a discussion and analysis of the financial performance of the college during the fiscal year ended June 30, 2023, with comparative information presented for the year ended June 30, 2022. 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 Walters State Community College Foundation. More detailed information about the foundation is presented in Note 17 to the financial statements. This discussion and analysis focuses on the college and does not include the foundation.

Overview of the Financial Statements

The financial statements have been prepared in accordance with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB), which establishes standards for external financial reporting for public colleges and universities. The college is reported as a business-type activity. Separate fiduciary fund statements are presented to report those activities.

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

The Statement of Net Position

The statement of net position is a point-in-time financial statement. The statement of net position presents the financial position of the college at the end of the fiscal year. To aid the reader in determining the college's ability to meet immediate and future obligations, the statement includes all assets, liabilities, deferred outflows/inflows of resources, and net position

of the college and segregates the assets and liabilities into current and noncurrent components. Current assets are those that are available to satisfy current liabilities, inclusive of assets that will be converted to cash within one year. Current liabilities are those that will be paid within one year. The statement of net position is prepared under the accrual basis of accounting; assets and liabilities are recognized when goods or services are provided or received despite when cash is actually exchanged.

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

The statement of net position also indicates the availability of net position for expenditure by the college. Net position is divided into three major categories. The first category, net investment in capital assets, represents the college's total investment in property, plant, and equipment, net of outstanding debt obligations 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, 2023, and June 30, 2022.

Summary of Net Position
(in thousands of dollars)

	<u>2023</u>	<u>2022</u>
Assets:		
Current assets	\$ 26,994	\$25,831
Capital assets, net	88,193	86,253
Other assets	10,496	13,229
Total assets	125,683	125,313

Deferred outflows of resources		
Deferred outflows related to OPEB	2,079	1,504
Deferred outflows related to pensions	8,371	8,352
Total deferred outflows of resources	10,450	9,856
Liabilities:		
Current liabilities	4,934	5,584
Noncurrent liabilities	16,097	8,674
Total liabilities	21,031	14,258
Deferred inflows of resources		
Deferred inflows related to OPEB	2,280	2,790
Deferred inflows related to pensions	784	14,424
Total deferred inflows of resources	3,064	17,214
Net position:		
Net investment in capital assets	85,329	83,753
Restricted – expendable	1,909	5,738
Unrestricted	24,800	14,206
Total net position	\$112,038	\$103,697

Comparison of Fiscal Year 2023 to Fiscal Year 2022

- Current assets increased \$1,163,661, mainly due to the net effect of an increase in cash and a decrease in accounts receivable. Cash and cash equivalents increased due to additional funding set aside for future budget needs. Accounts receivable decreased largely due to not having a HEERF receivable in the current year.
- Noncurrent assets decreased \$793,715, mainly due to the net effect of an increase in cash and decrease in net pension asset. Cash and cash equivalents increased due to additional funding set aside for unexpended plant projects, renewals and replacements, and projected increase in interest expense related to indebtedness. The decrease in net pension asset resulted from of a change in the net difference between projected and actual earnings for the Tennessee Consolidated Retirement System (TCRS) Closed State and Higher Education Employee Pension Plan at the June 30 measurement date. Historically, this plan has been represented as a net pension liability. However, in the previous year, it was presented as a net pension asset. More detailed information about the college’s pension plans is presented in Note 9 to the financial statements.
- Noncurrent liabilities increased \$7,422,686, primarily due to a net pension liability increase and implementation of GASB Statement No. 96, *Subscription-Based Information Technology Arrangements* (SBITAs). For fiscal year 2022, net

pension liability for the TCRS Closed State and Higher Education Employee Pension Plan was eliminated. For fiscal year 2023, a net pension liability of \$6,775,042 was re-established. Additionally, the implementation of GASB Statement No. 96 requires recognition of the initial subscription liability amount. More detailed information about the college's pension plans and SBITAs is presented in Notes 9 and 6, respectively.

- Deferred inflows of resources related to pensions decreased \$13,639,420, mainly as a result of a change in the net difference between projected and actual earnings on pension plan investments. More detailed information about the college's pension plans is presented in Note 9 to the financial statements.

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

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

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

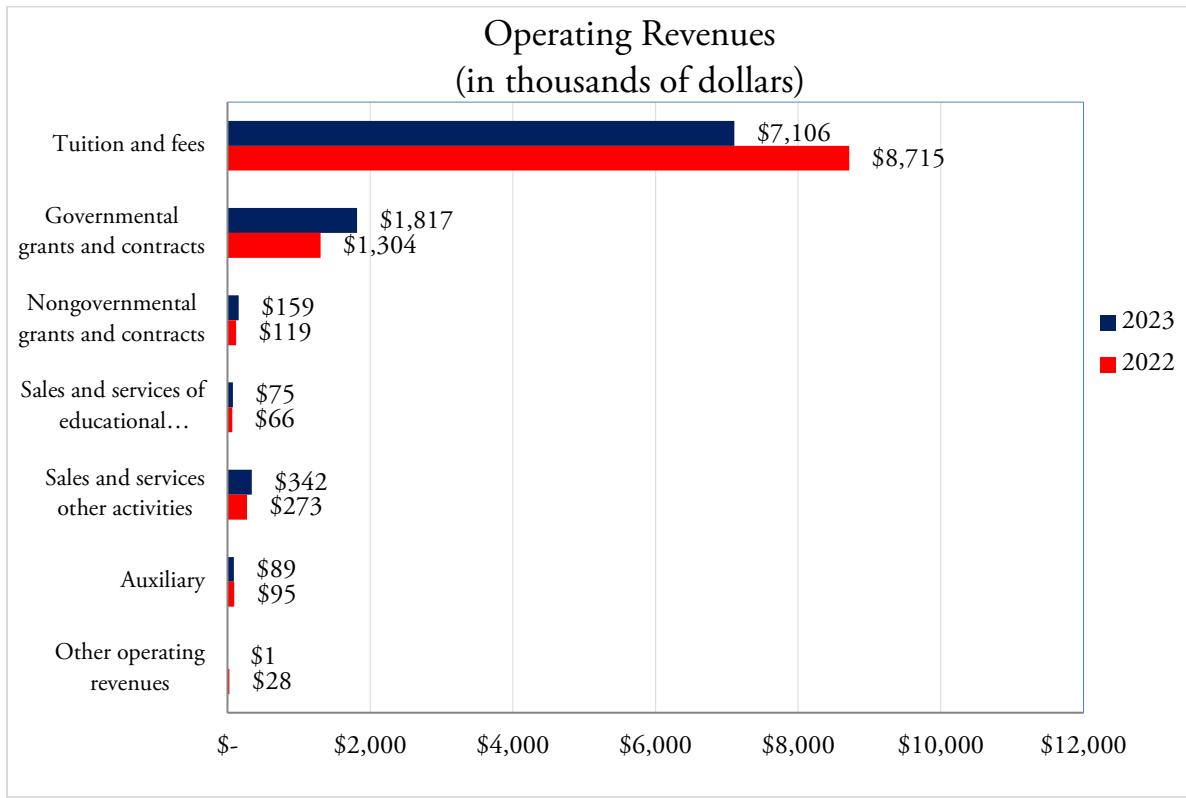
A summary of the college's revenues, expenses, and changes in net position for the year ended June 30, 2023, and June 30, 2022, follows.

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

	<u>2023</u>	<u>2022</u>
Operating revenues	\$ 9,589	\$ 10,600
Operating expenses	58,433	59,999
Operating loss	(48,844)	(49,399)
Nonoperating revenues and expenses	55,449	60,916
Income before other revenues, expenses, gains, or losses	6,605	11,517
Other revenues, expenses, gains, or losses	1,736	2,485
Increase in net position	8,341	14,002
Net position at beginning of year	103,697	89,695
Net position at end of year	\$112,038	\$103,697

Operating Revenues

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

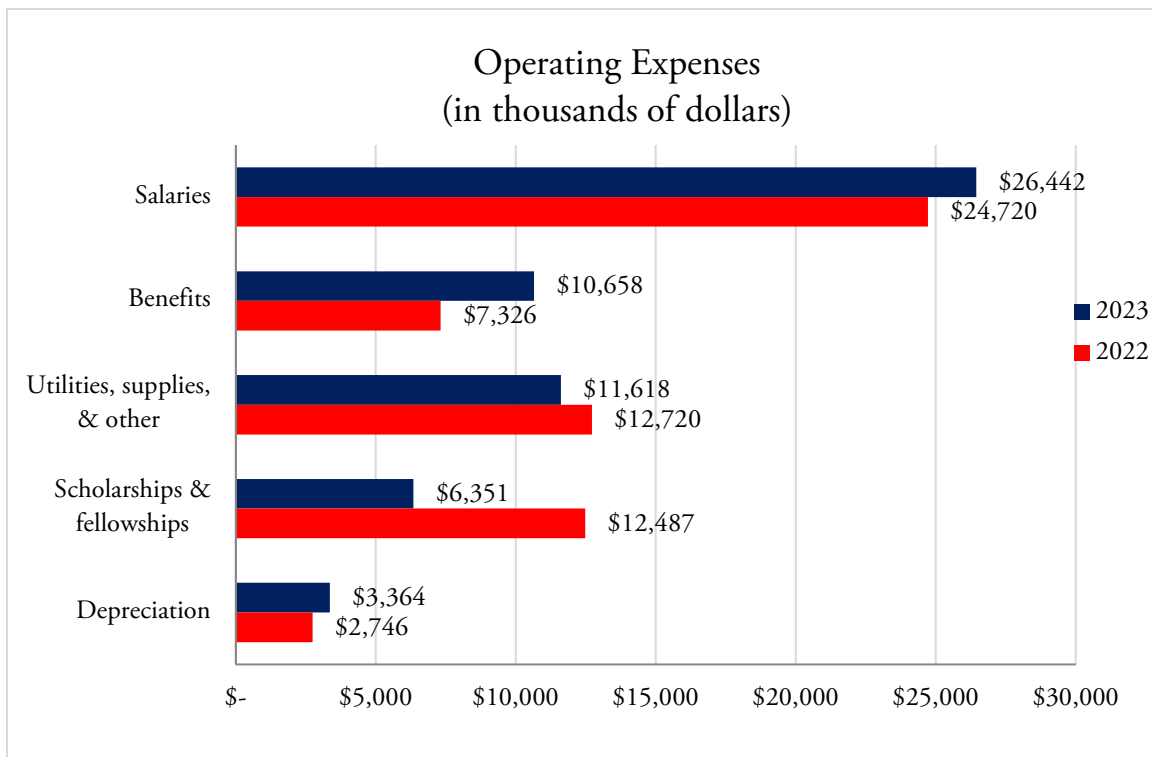


Comparison of Fiscal Year 2023 to Fiscal Year 2022

- Tuition and fees decreased \$1,609,372, mainly due to a change in measurement methodology related to accounting for and reporting financial aid as a discount to tuition and other fee revenues. In 2023, Tennessee Community Colleges chose to implement the NACUBO Advisory Report 2023-01. This advisory recommended a change in calculating the discount from the Alternate Method (NACUBO Advisory Report 2000-05) to an estimation and measurement methodology that more accurately reflects how financial aid is provided to students. This change in methodology had no impact on prior-year net position.
- Governmental grants and contracts funding increased \$513,525, primarily due to a net effect of HEERF funding coming to an end, new grants received to support workforce training and apprenticeships, and an increase in dual enrollment grant funding associated with an increase in enrollment of dual enrollment students.

Operating Expenses

Operating expenses may be reported by nature or function. 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 two fiscal years:



Comparison of Fiscal Year 2023 to Fiscal Year 2022

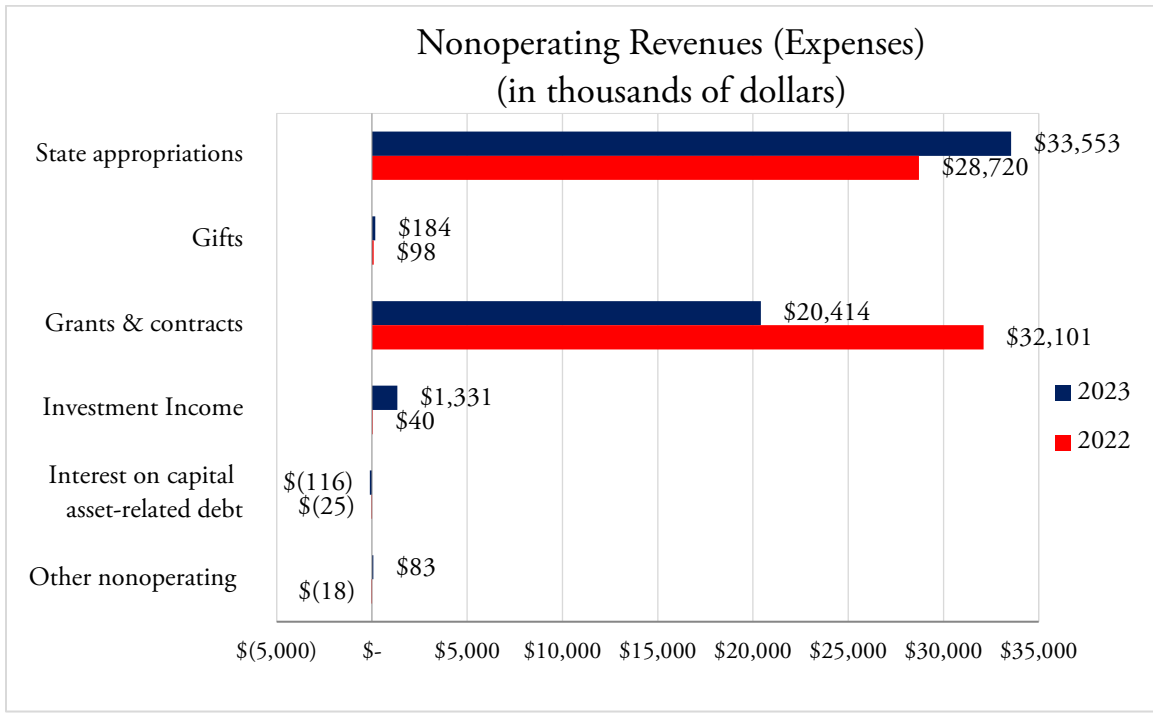
- Benefits increased \$3,332,697, primarily due to an increase in pension expense and other postemployment benefits (OPEB).
- Scholarships and fellowships decreased \$6,136,409, primarily due to fully expending the student portion of HEERF funds in fiscal year 2022 along with a change in measurement methodology related to accounting for and reporting financial aid as a discount to tuition and other fee revenues. In 2023, Tennessee Community Colleges chose to implement the NACUBO Advisory Report 2023-01. This advisory recommended a change in calculating the discount from the alternate method (NACUBO Advisory Report 2000-05) to an estimation and measurement methodology that more accurately reflects how financial aid is provided to students. This change in methodology had no impact on prior-year net position.
- Depreciation expense increased \$618,161 due to the completion of the surveillance camera system expansion, roof replacement on warm-up barns at the Expo Center, exterior signage for the Sevier County campus, network infrastructure and technology projects, and expansion for parking and sidewalks at the Niswonger campus.

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 two fiscal years:

Nonoperating Revenues (Expenses) (in thousands of dollars)

		<u>2023</u>		<u>2022</u>
State appropriations	\$	33,553	\$	28,720
Gifts		184		98
Grants and contracts		20,414		32,101
Investment income		1,331		40
Interest on capital asset-related debt		(116)		(25)
Other nonoperating revenue (expenses)		83		(18)
Total nonoperating revenues (expenses)	\$	55,449	\$	60,916



Comparison of Fiscal Year 2023 to Fiscal Year 2022

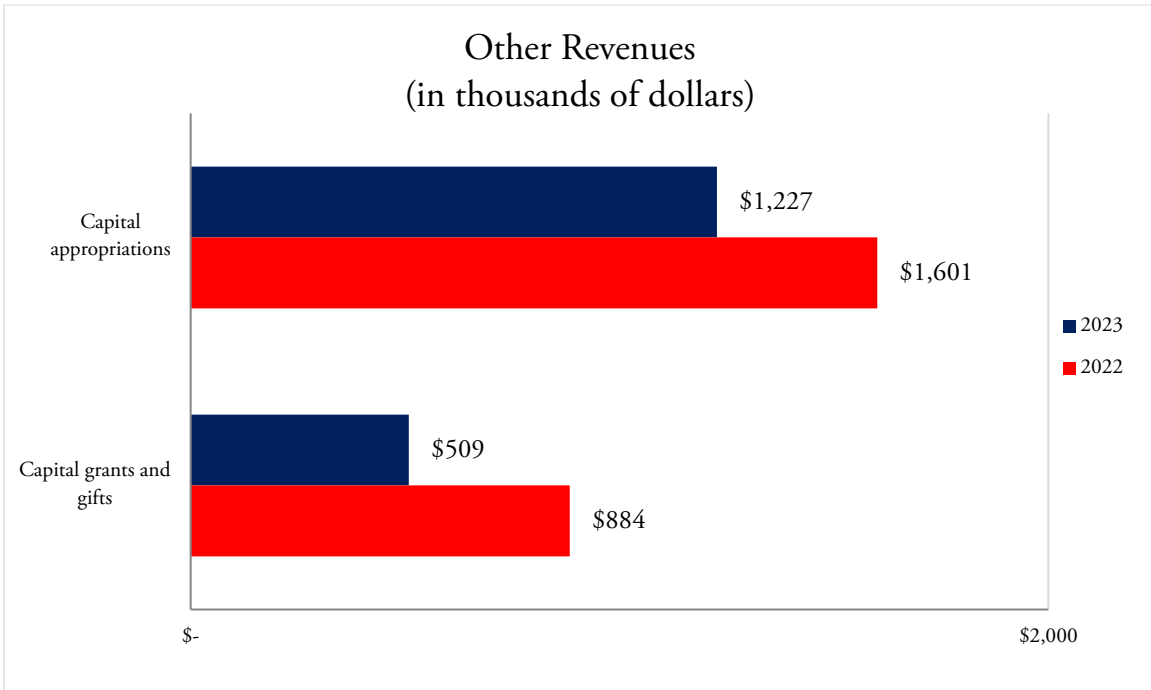
- Nonoperating grants and contracts funding decreased by \$11,686,577, primarily due to a reduction in HEERF spending in the current year. HEERF funds were fully expended in April 2023.
- Investment income increased \$1,291,078 due to a gradual increase in interest rates from 1.38% in July 2022 to 5.06% in June 2023.
- Other nonoperating revenues increased \$100,522, primarily due to an increase in funding for an employee Incentivized Wellness Program, easement proceeds for a pipeline project on the Morristown campus, and insurance proceeds related to an air quality project for Maples Marshall Hall at the Sevier County campus.

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 two fiscal years:

Other Revenues
(in thousands of dollars)

	<u>2023</u>	<u>2022</u>
Capital appropriations \$	1,227 \$	1,601
Capital grants and gifts	509	884
Total other revenues \$	1,736 \$	2,485



Comparison of Fiscal Year 2023 to Fiscal Year 2022

- Capital appropriations decreased by \$374,037, primarily due to the completion of the Sevier County mechanical upgrades project.
- Capital grants and gifts decreased by \$375,510, primarily due to one-time gifts received in the prior fiscal year for assistance with the baseball field turf installation and the purchase of solar-powered picnic tables.

Capital Assets and Debt Administration

Capital Assets

Walters State Community College had \$88,192,972 invested in capital assets, net of accumulated depreciation of \$59,762,863 at June 30, 2023; and \$86,253,271 invested in capital assets, net of accumulated depreciation of \$57,203,643 at June 30, 2022. Depreciation

charges totaled \$3,364,460 and \$2,746,299 for the years ended June 30, 2023, and June 30, 2022, respectively.

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

	<u>2023</u>	<u>2022</u>
Land	\$ 1,136	\$ 1,136
Land improvements and infrastructure	8,514	7,823
Buildings	70,559	72,038
Equipment	4,777	3,653
Library holdings	69	63
Art and historical collections	32	24
Projects in progress	2,210	1,516
Intangible assets:		
SBITAs	896	-
Total	\$88,193	\$86,253

Comparison of Fiscal Year 2023 to Fiscal Year 2022

There were several additions to capital assets in fiscal year 2023, mainly in the category of land improvements and infrastructure. The additions resulted from completion of surveillance camera system expansion, roof replacement on warm-up barns at the Expo Center, exterior signage for the Sevier County campus, network infrastructure and technology, and recognition of SBITAs, due to implementation of GASB Statement No. 96.

At June 30, 2023, outstanding commitments under construction contracts totaled \$5,377,350 for various renovations and repairs of buildings and infrastructure. Future state capital outlay appropriations will fund \$4,116,030 of these costs.

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

Debt

The college had \$2,000,000 and \$2,500,000 in debt outstanding at June 30, 2023, and June 30, 2022, respectively. The table below summarizes these amounts by type of debt instrument.

Schedule of Outstanding Debt
(in thousands of dollars)

		<u>2023</u>		<u>2022</u>
Revolving credit facility	\$	2,000	\$	2,500
Total	\$	2,000	\$	2,500

The Tennessee State School Bond Authority receives loans from the revolving credit facility to finance the costs of various capital projects during the construction phase. When projects are placed in service, TSSBA issues long-term, fixed-rate debt to finance the project over its useful payback period and repays the revolving credit facility debt. The total outstanding loans from the revolving credit facility was \$2,000,000 at June 30, 2023.

The ratings on debt issued by the Tennessee State School Bond Authority at June 30, 2023, 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 8 to the financial statements.

Economic Factors That Will Affect the Future

The final state budget, as proposed by Governor Lee and subsequently approved by the state legislature, provides for an increase of \$2.2 million in state appropriations for Walters State Community College in the 2023-24 General Appropriations Act passed by the 113th General Assembly. The increase in appropriations will fund the majority of an across-the-board salary increase of 5%, as well as increases in operating costs for insurance. The remainder of the appropriation increase is from the outcomes-based funding formula and an inflationary adjustment that will be used to cover various fixed-cost expenses and increase program offerings. The Tennessee Board of Regents approved a 3% tuition increase for fiscal year 2024 for all community colleges in the system to cover a small portion of the inflationary cost increases and the college's share of the salary increases not funded by the state budget.

Governor Lee's fiscal year 2024 budget also included \$1.47 million in capital maintenance funds for multiple campuses of the college. The Building System Upgrades project funds the correction of sprinkler and fire alarm deficiencies in the College Center and Student Services Building, along with updates to the data and electrical infrastructure. The Morristown Campus is the oldest campus for the college, and several buildings will require upgrades and

enhancements to maintain safety and efficiency in the coming budget cycles. Continued funding for capital maintenance projects by state funds has been very timely and will be utilized in the most efficient means possible as the institution tries to manage inflation in construction and infrastructure upgrades. Inflation continues to be difficult to manage within areas such as construction, technology, and wages for our employees. The college is in various stages of construction with multiple capital maintenance projects. Bids for these projects have come back higher than available funding. In addition, the estimated time to completion is taking longer than estimated. The college chose to add local funds to these particular projects rather than delay starting them and pursue additional funds from the state budget. The college cannot continue to add funds to projects if bids come back higher than estimates, which could lead to projects being delayed until additional state funding is secured.

Walters State is reliant upon people to accomplish our mission. Attracting and retaining employees at the college has been slightly more difficult in fiscal year 2023, and that does not appear to be subsiding in fiscal year 2024. Positions remain vacant in a few critical areas of the institution due to unsuccessful searches leading up to the academic year. The college is relying on temporary part-time employees and assistance from vendors to fill those gaps until candidates for the open positions can be identified. Enrollment is higher in both headcount and FTE for fall 2023 at this point; however, enrollment still remains below pre-pandemic enrollment for fall 2019 in both headcount and FTE.

The college is not aware of any other factors, decisions, or conditions that are expected to have a significant impact on the college's financial position or results of operations during the upcoming fiscal year.

Tennessee Board of Regents
WALTERS STATE COMMUNITY COLLEGE
Statement of Net Position
June 30, 2023

	College	Component Unit
Assets		
Current assets:		
Cash and cash equivalents (Notes 2, 3, and 17)	\$ 26,302,273.77	\$ 2,101,651.52
Accounts and grants receivable (net) (Note 4)	478,466.78	-
Due from State of Tennessee	6,375.00	-
Pledges receivable (net) (Note 17)	-	494,959.50
Inventories	19,455.66	-
Prepaid expenses	186,141.77	4,698.25
Other assets	1,776.09	-
Total current assets	26,994,489.07	2,601,309.27
Noncurrent assets:		
Cash and cash equivalents (Notes 2, 3, and 17)	9,713,401.62	696,046.55
Investments (Notes 3 and 17)	-	18,136,876.68
Investment in Tennessee Retiree Group Trust	666,546.00	-
Accounts and grants receivable (net) (Note 4)	4,150.00	-
Pledges receivable (net) (Note 17)	-	1,435,307.50
Capital assets (net) (Notes 5 and 17)	88,192,971.63	756,658.92
Net pension asset (Note 9)	111,876.00	-
Total noncurrent assets	98,688,945.25	21,024,889.65
Total assets	125,683,434.32	23,626,198.92
Deferred outflows of resources		
Deferred outflows related to pensions (Note 9)	8,371,140.00	-
Deferred outflows related to OPEB (Note 11)	2,078,405.00	-
Total deferred outflows of resources	10,449,545.00	-
Liabilities		
Current liabilities:		
Accounts payable (Note 7)	763,347.81	9,217.42
Accrued liabilities	2,198,308.41	-
Due to State of Tennessee	137,451.81	-
SBITA liability (Note 6)	293,221.00	-
Unearned revenue	1,068,151.08	-
Compensated absences (Note 8)	359,428.91	-
Deposits held in custody for others	63,491.20	-
Other liabilities	50,506.54	-
Total current liabilities	4,933,906.76	9,217.42
Noncurrent liabilities:		
SBITA liability (Note 6)	571,059.00	-
Compensated absences (Note 8)	1,855,608.62	-
Long-term liabilities (Note 8)	2,000,000.00	-
Net pension liability (Note 9)	6,775,042.00	-
Net OPEB liability (Note 11)	4,895,220.00	-
Total noncurrent liabilities	16,096,929.62	-
Total liabilities	21,030,836.38	9,217.42
Deferred inflows of resources		
Deferred inflows related to pensions (Note 9)	784,641.00	-
Deferred inflows related to OPEB (Note 11)	2,279,795.00	-
Deferred inflows related to split-interest agreement	-	1,143,095.87
Total deferred inflows of resources	3,064,436.00	1,143,095.87
Net position		
Net investment in capital assets	85,328,691.63	756,658.92
Restricted for:		
Nonexpendable:		
Scholarships and fellowships	-	12,049,789.55
Other	-	1,817,144.11
Expendable:		
Scholarships and fellowships	24,890.97	4,105,494.14
Instructional department uses	11,375.18	-
Capital projects	969,743.37	-
Pension	111,876.00	-
Other	790,881.83	3,272,196.53
Unrestricted	24,800,247.96	472,602.38
Total net position	\$ 112,037,706.94	\$ 22,473,885.63

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

Tennessee Board of Regents
WALTERS STATE COMMUNITY COLLEGE
Statement of Revenues, Expenses, and Changes in Net Position
For the Year Ended June 30, 2023

	College	Component Unit
Revenues		
Operating revenues:		
Student tuition and fees (Note 12)	\$ 7,105,681.93	\$ -
Gifts and contributions (Note 17)	-	283,462.77
Governmental grants and contracts	1,817,626.84	-
Nongovernmental grants and contracts	159,243.76	-
Sales and services of educational activities	75,483.37	-
Sales and services of other activities (Note 12)	341,726.48	-
Auxiliary enterprises:		
Bookstore	83,832.84	-
Food service	4,712.39	-
Other auxiliaries	11.25	-
Other operating revenues	511.04	51,362.14
Total operating revenues	9,588,829.90	334,824.91
Expenses		
Operating expenses (Note 15):		
Salaries and wages	26,442,051.72	-
Benefits	10,658,239.86	-
Utilities, supplies, and other services	11,617,483.99	114,465.17
Scholarships and fellowships	6,350,508.88	572,053.15
Depreciation expense	3,364,460.06	18,236.23
Payments to or on behalf of Walters State Community College (Note 17)	-	639,884.87
Total operating expenses	58,432,744.51	1,344,639.42
Operating loss	(48,843,914.61)	(1,009,814.51)
Nonoperating revenues (expenses)		
State appropriations	33,552,838.50	-
Gifts (including \$139,884.87 from component unit)	184,028.96	-
Grants and contracts	20,413,972.27	-
Investment income (net of investment expense of \$51,421.92 for the component unit)	1,331,052.12	965,541.16
Interest on capital asset-related debt	(116,204.42)	-
Other nonoperating revenues (expenses)	82,988.77	-
Total nonoperating revenues (expenses)	55,448,676.20	965,541.16
Income (loss) before other revenues, expenses, gains, or losses	6,604,761.59	(44,273.35)
Other revenues:		
Capital appropriations	1,227,149.53	-
Capital grants and gifts (including \$500,000.00 from component unit)	509,094.95	-
Additions to permanent endowments	-	272,725.80
Total other revenues	1,736,244.48	272,725.80
Increase in net position	8,341,006.07	228,452.45
Net position - beginning of year	103,696,700.87	22,245,433.18
Net position - end of year	\$ 112,037,706.94	\$ 22,473,885.63

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

Tennessee Board of Regents
WALTERS STATE COMMUNITY COLLEGE
Statement of Cash Flows
For the Year Ended June 30, 2023

	Year Ended June 30, 2023
Cash flows from operating activities	
Tuition and fees	\$ 7,153,534.21
Grants and contracts	1,331,860.45
Sales and services of educational activities	75,483.37
Sales and services of other activities	344,478.77
Payments to suppliers and vendors	(11,028,430.46)
Payments to employees	(26,518,590.74)
Payments for benefits	(11,772,018.25)
Payments for scholarships and fellowships	(6,350,508.88)
Funds received for deposits held for others	35,361.95
Funds disbursed for deposits held for others	(19,148.07)
Auxiliary enterprise charges:	
Bookstore	85,821.60
Food services	4,718.06
Other auxiliaries	11.25
Other receipts (payments)	2,607.27
Net cash used for operating activities	(46,654,819.47)
Cash flows from noncapital financing activities	
State appropriations	30,931,400.00
Gifts and grants received for other than capital or endowment purposes	21,495,076.86
Other noncapital financing receipts	104,773.55
Net cash provided by noncapital financing activities	52,531,250.41
Cash flows from capital and related financing activities	
Capital grants and gifts received	500,000.00
Proceeds from sale of capital assets	32,359.23
Purchase of capital assets and construction	(3,131,355.45)
Principal paid on capital debt	(807,119.00)
Interest paid on capital debt	(103,998.72)
Net cash used for capital and related financing activities	(3,510,113.94)
Cash flows from investing activities	
Income on investments	1,291,593.12
Purchase of investments	(110,730.00)
Net cash provided by investing activities	1,180,863.12
Net increase in cash	3,547,180.12
Cash - beginning of year	32,468,495.27
Cash - end of year	\$ 36,015,675.39

Tennessee Board of Regents
WALTERS STATE COMMUNITY COLLEGE
Statement of Cash Flows (continued)
For the Year Ended June 30, 2023

	Year Ended June 30, 2023
Reconciliation of operating loss to net cash used for operating activities:	
Operating loss	\$ (48,843,914.61)
Adjustments to reconcile operating loss to net cash used for operating activities:	
Noncash operating expenses	4,331,145.32
Change in assets, liabilities, and deferrals:	
Receivables, net	96,640.55
Due from State of Tennessee	16,837.13
Inventories	1,650.59
Prepaid items	121,797.96
Net pension asset	4,051,463.00
Deferred outflows of resources	1,445,411.00
Accounts payable	(436,355.98)
Accrued liabilities	12,611.00
Unearned revenue	(711,472.99)
Compensated absences	97,707.80
Net pension liability	6,775,042.00
Net OPEB liability	523,829.00
Deferred inflows of resources	(14,149,249.00)
Other	12,037.76
Net cash used for operating activities	\$ (46,654,819.47)

Noncash investing, capital, or financing transactions

Gifts of capital assets	\$ 9,094.95
Loss on disposal of capital assets	\$ (28,159.78)
Purchases of capital assets and construction with capital appropriations	\$ 939,154.28
Acquisition of right-to-use SBITA assets through incurrence of liability	\$ 1,171,399.00

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

Tennessee Board of Regents
WALTERS STATE COMMUNITY COLLEGE
Statement of Fiduciary Net Position
June 30, 2023

	Custodial Funds
Assets	
Cash (Notes 2 and 3)	\$ 315,389.07
Total assets	315,389.07
 Net position	
Restricted for:	
Individuals and organizations	315,389.07
Total net position	\$ 315,389.07

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

Tennessee Board of Regents
WALTERS STATE COMMUNITY COLLEGE
Statement of Changes in Fiduciary Net Position
For the Year Ended June 30, 2023

		Custodial Funds
Additions		
Receipts for student scholarships and other aid	\$	462,160.36
Receipts for other organizations		69,267.95
Total additions		531,428.31
Deductions		
Disbursements for student scholarships and other aid		471,022.81
Disbursements for other organizations		58,221.96
Total deductions		529,244.77
Net increase in fiduciary net position		2,183.54
Net position - beginning of year		313,205.53
Net position - end of year	\$	315,389.07

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

Tennessee Board of Regents
WALTERS STATE COMMUNITY COLLEGE
Notes to the Financial Statements
June 30, 2023

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 Tennessee's *Annual Comprehensive Financial Report*. That report is available at <https://www.tn.gov/finance/rd-doa/fa-accfina-ar.html>.

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

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

Basis of Presentation

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

Basis of Accounting

In May 2020, the GASB issued Statement 96, *Subscription-Based Information Technology Arrangements* (SBITAs). This statement requires recognition of a right-to-use subscription asset, initially measured as the sum of the initial subscription liability amount, payments made to the vendor before the commencement of the subscription term, and capitalizable implementation costs. The subscription asset is then amortized over the subscription term. The college implemented this standard as of July 1, 2022.

Notes to the Financial Statements (Continued)

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

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

Nonoperating revenues and expenses include activities that have the characteristics of nonexchange transactions, such as gifts and contributions, and other activities that are defined as nonoperating by GASB Statement 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*, and GASB Statement 34, *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 an average cost or first-in, first-out basis.

Compensated Absences

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

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

Notes to the Financial Statements (Continued)

Capital Assets

Capital assets, which include property, plant, equipment, library holdings, works of art, historical treasures/collections, intangible software assets, and intangible SBITA assets are reported in the statement of net position at historical cost or at acquisition value at date of donation or the present value of SBITA payments plus other associated SBITA costs 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 software assets is set at \$100,000. The capitalization threshold for art, historical treasures/collections, and similar assets is set at \$5,000. The capitalization threshold for intangible SBITAs is set at \$60,000.

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 1+ 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 (OPEB) liability, 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.

Notes to the Financial Statements (Continued)

Fiduciary Activities

The college holds deposits as custodian or fiscal agent for students, student organizations, and certain other organized activities related to the college. These amounts are not college funds and are shown in separate statements.

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

Notes to the Financial Statements (Continued)

Note 2. Cash

This classification includes demand deposits and petty cash on hand. At June 30, 2023, cash consisted of \$2,502,401.39 in bank accounts; \$5,850.00 of petty cash on hand; \$33,695,747.70 in the Local Government Investment Pool (LGIP) administered by the State Treasurer, and \$127,065.37 in LGIP deposits for capital projects. Of the \$36,331,064.46 total cash at June 30, 2023, \$315,389.07 is held by the fiduciary fund.

The LGIP is administered by the State Treasurer. The LGIP is part of the State Pooled Investment Fund and is measured at amortized cost. The fund's required risk disclosures are presented in the financial statements for the State Pooled Investment Fund. That report is available on the state's website at <https://treasury.tn.gov/Explore-Your-TN-Treasury/About-the-Treasury/Department-Reports>.

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 within the United States, or (2) arise out of storage within the United States of goods that are under contract of sale or

Notes to the Financial Statements (Continued)

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, 2023, 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 \$33,822,813.07 at June 30, 2023. LGIP investments are not rated by nationally recognized statistical ratings organizations.

Note 4. Receivables

Receivables included the following:

	<u>June 30, 2023</u>
Student accounts receivable	\$ 552,844.42
Grants receivable	262,319.78
Other receivables	17,233.84
Subtotal	<u>832,398.04</u>
Less allowance for doubtful accounts	(349,781.26)
Total receivables	<u>\$ 482,616.78</u>

Note 5. Capital Assets

Capital asset activity for the year ended June 30, 2023, was as follows:

Notes to the Financial Statements (Continued)

	Beginning				Ending
	Balance	Additions	Transfers	Reductions	
Land	\$ 1,136,497.82	\$ -	\$ -	\$ -	\$ 1,136,497.82
Land improvements and infrastructure	11,457,035.76	-	1,281,233.62	-	12,738,269.38
Buildings	118,282,309.44	-	171,662.40	63,430.00	118,390,541.84
Equipment	9,476,944.31	2,010,115.12	-	793,175.58	10,693,883.85
Library holdings	148,353.30	21,866.91	-	13,303.51	156,916.70
Art and historical treasures	23,515.00	8,000.00	-	-	31,515.00
Intangible assets					
Software	1,416,286.39	-	-	-	1,416,286.39
SBITA asset - software	795,178.00	386,594.00	-	-	1,181,772.00
Projects in progress	1,515,971.98	2,147,075.29	(1,452,896.02)	-	2,210,151.25
Total	144,252,092.00	4,573,651.32	-	869,909.09	147,955,834.23
Less accumulated depreciation/amortization:					
Land improvements and infrastructure	3,633,946.50	590,566.54	-	-	4,224,513.04
Buildings	46,244,028.63	1,597,280.62	-	9,574.34	47,831,734.91
Equipment	5,823,737.63	875,233.27	-	782,362.23	5,916,608.67
Library holdings	85,643.47	15,691.63	-	13,303.51	88,031.59
Intangible assets					
Software	1,416,286.39	-	-	-	1,416,286.39
SBITA asset - software	-	285,688.00	-	-	285,688.00
Total	57,203,642.62	3,364,460.06	-	805,240.08	59,762,862.60
Capital assets, net	\$ 87,048,449.38	\$ 1,209,191.26	\$ -	\$ 64,669.01	\$ 88,192,971.63

Note 6. Subscription-based Information Technology Arrangements

Subscription-based Information Technology Arrangements (SBITA) assets are reported with capital assets, and SBITA liabilities are reported separately in the statement of net position.

The college has entered into subscription-based arrangements for various types of software, the terms of which expire in various years through 2027.

SBITA liability activity for the college for the year ended June 30, 2023, is summarized below:

Notes to the Financial Statements (Continued)

	Beginning Balance	Additions	Remeasurements	Reductions	Ending Balance	Current Portion
SBITA liabilities	\$ 795,178	\$ 376,221	\$ -	\$ 307,119	\$ 864,280	\$ 293,221

The following is a schedule by year of payments under the subscription arrangements as of June 30, 2023:

Year Ending June 30	Principal	Interest	Total
2024	\$ 293,221	\$ 27,743	\$ 320,964
2025	252,469	18,331	270,800
2026	235,255	10,227	245,482
2027	83,335	2,675	86,010
Total	\$ 864,280	\$ 58,976	\$ 923,256

An addendum to the Ellucian Master agreement began on January 1, 2023, that included a subscription to the Intelligent Learning Platform (ILP). The SBITA term will not commence until after fiscal year 2023. The cash commitments for this subscription total were \$79,414.05, of which \$14,958.00 was recorded as prepaid expense in fiscal year 2023.

Note 7. Accounts Payable

Accounts payable included the following:

	June 30, 2023
Vendors payable	\$ 683,125.61
Other payables	80,222.20
Total accounts payable	\$ 763,347.81

Note 8. Long-term Liabilities

Long-term liabilities activity for the year ended June 30, 2023, was as follows:

Notes to the Financial Statements (Continued)

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
TSSBA debt:					
Revolving credit facility	\$ 2,500,000.00	-	\$ 500,000.00	\$ 2,000,000.00	-
Subtotal	2,500,000.00	-	500,000.00	2,000,000.00	-
Other liabilities:					
Compensated absences	2,117,329.73	1,498,735.65	1,401,027.85	2,215,037.53	359,428.91
Subtotal	2,117,329.73	1,498,735.65	1,401,027.85	2,215,037.53	359,428.91
Total long-term liabilities	\$ 4,617,329.73	\$ 1,498,735.65	\$ 1,901,027.85	\$ 4,215,037.53	\$ 359,428.91

TSSBA Debt – Revolving Credit Facility

The Tennessee State School Bond Authority (TSSBA) obtains loans from the revolving credit facility to finance the costs of various capital projects during the construction phase. When projects are placed in service, TSSBA issues long-term, fixed-rate debt to finance the project over its useful payback period and repays the revolving credit facility debt. The total outstanding loans from the revolving credit facility for the college were \$2,000,000 at June 30, 2023.

More detailed information regarding the bonds and revolving credit facility can be found in the notes to the financial statements in the financial report for the TSSBA. That report is available on the state's website at <https://www.comptroller.tn.gov/boards/tennessee-state-school-bond-authority/investor-information/tssba-financial-reports.html>.

Note 9. Pension Plans

Defined Benefit Plans

Closed State and Higher Education Employee Pension Plan

General Information About the Pension Plan

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

Notes to the Financial Statements (Continued)

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 <https://treasury.tn.gov/Retirement/Boards-and-Governance/Reporting-and-Investment-Policies>.

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:

$$\begin{array}{ccccccc} \text{Average of member's highest} & & & & & & \\ \text{compensation for 5 consecutive} & & & & & & \\ \text{years (up to Social Security} & \times & 1.50\% & \times & \text{Years of Service} & \times & 105\% \\ \text{integration level)} & & & & \text{Credit} & & \end{array}$$

Plus:

$$\begin{array}{ccccccc} \text{Average of member's highest} & & & & & & \\ \text{compensation for 5 consecutive} & & & & & & \\ \text{years (over the Social Security} & \times & 1.75\% & \times & \text{Years of Service} & \times & 105\% \\ \text{integration level)} & & & & \text{Credit} & & \end{array}$$

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.

Notes to the Financial Statements (Continued)

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 year ended June 30, 2023, to the Closed State and Higher Education Employee Pension Plan were \$2,662,383. Additional contributions of \$2,039,451 were made to the pension plan by the State of Tennessee on behalf of the college. 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, 2023, the college reported a liability of \$6,775,042 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2022, 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, 2022, to the pension plan relative to the contributions of all participating state and higher education agencies. At the June 30, 2022, measurement date, the college's proportion was 0.568681%. At the June 30, 2021, measurement date, the college's proportion was 0.618719%.

Pension expense – For the year ended June 30, 2023, the college recognized pension expense of \$1,918,092.

Deferred outflows of resources and deferred inflows of resources – For the year ended June 30, 2023, the college reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

Notes to the Financial Statements (Continued)

<u>Fiscal Year 2023</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 1,310,604	\$ 403,293
Net difference between projected and actual earnings on pension plan investments	96,758	-
Changes in assumptions	1,838,090	-
Changes in proportion of net pension asset	69,730	334,051
Contributions subsequent to the measurement date	4,701,834	-
Total	\$ 8,017,016	\$ 737,344

Deferred outflows of resources, resulting from employer contributions of \$4,701,834 subsequent to the measurement date, will be recognized as a reduction in net pension liability in the year ending June 30, 2024. 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

2024	\$ 1,375,686
2025	\$ (94,596)
2026	\$ (980,526)
2027	\$ 2,277,274

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, 2022, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.25%
Salary increases	Graded salary ranges from 8.72% to 3.44% based on age, including inflation, averaging 4%
Investment rate of return	6.75%, net of pension plan investment expenses, including inflation
Cost-of-living adjustment	2.125%

Notes to the Financial Statements (Continued)

Mortality rates were based on actual experience including a projection of mortality improvement using Scale MP-2021 (generational projection).

The actuarial assumptions used in the June 30, 2022, actuarial valuation were based on the results of an actuarial experience study performed for the period July 1, 2016, through June 30, 2020. As a result of the 2020 actuarial experience study, investment and 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, 2020, actuarial experience study. A blend of future capital market projections and historical market returns was used in 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 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 of 2.25%. 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:

<u>Asset Class</u>	<u>Long-term Expected Real Rate of Return</u>	<u>Target Allocation</u>
U.S. equity	4.88%	31%
Developed market international equity	5.37%	14%
Emerging market international equity	6.09%	4%
Private equity and strategic lending	6.57%	20%
U.S. fixed income	1.20%	20%
Real estate	4.38%	10%
Short-term securities	0.00%	1%
		<hr style="width: 100%; border: 0.5px solid black;"/> 100%

The long-term expected rate of return on pension plan investments was established by the TCRS Board of Trustees as 6.75% based on a blending of the factors described above.

Discount rate – The discount rate used to measure the total pension liability was 6.75%. 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

Notes to the Financial Statements (Continued)

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 (asset) to changes in the discount rate – The following presents the college’s proportionate share of the net pension liability (asset) calculated using the discount rate of 6.75%, as well as what the college’s proportionate share of the net pension liability (asset) would be if it were calculated using a discount rate that is 1 percentage point lower (5.75%) or 1 percentage point higher (7.75%) than the current rate:

	1% Decrease <u>(5.75%)</u>	Current Discount Rate <u>(6.75%)</u>	1% Increase <u>(7.75%)</u>
College’s proportionate share of the net pension liability (asset)	\$19,873,680	\$6,775,042	\$(4,224,022)

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>

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 5 consecutive year average compensation by 1% multiplied by the member’s years of service credit. A reduced early retirement is available at age 60 with 5 years of service

Notes to the Financial Statements (Continued)

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 year ended June 30, 2023, to the State and Higher Education Employee Retirement Plan were \$187,222 which is 2.48% of covered payroll. The employer rate, when combined with member contributions, is expected to finance the costs of benefits earned by members during the year and the cost of administration, as well as an amortized portion of any unfunded liability.

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

Pension asset – At June 30, 2023, the college reported an asset of \$111,876 for its proportionate share of the net pension asset. The net pension asset was measured as of June 30, 2022, 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, 2022, to the pension plan relative to the contributions of all participating state and higher education agencies. At the June 30, 2022, measurement date, the college's proportion was 0.448603%. At the June 30, 2021, measurement date, the college's proportion was 0.445703%.

Pension expense – For the year ended June 30, 2023, the college recognized a pension expense of \$138,996.

Notes to the Financial Statements (Continued)

Deferred outflows of resources and deferred inflows of resources – For the year ended June 30, 2023, the college reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

<u>Fiscal Year 2023</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 20,658	\$ 37,985
Net difference between projected and actual earnings on pension plan investments	34,293	-
Changes in assumptions	93,456	-
Changes in proportion of net pension asset	18,495	9,312
Contributions subsequent to the measurement date	187,222	-
Total	\$ 354,124	\$ 47,297

Deferred outflows of resources, resulting from the college's employer contributions of \$187,222 subsequent to the measurement date, will be recognized as a decrease in net pension liability in the year ending June 30, 2024. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ending June 30</u>	
2024	\$ 11,068
2025	\$ 11,975
2026	\$ 6,029
2027	\$ 63,752
2028	\$ 12,883
Thereafter	\$ 13,898

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, 2022, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Notes to the Financial Statements (Continued)

Inflation	2.25%
Salary increases	Graded salary ranges from 8.72% to 3.44% based on age, including inflation, averaging 4%
Investment rate of return	6.75%, net of pension plan investment expenses, including inflation
Cost-of-living adjustment	2.125%

Mortality rates were based on actual experience, including a projection of mortality improvement using Scale MP-2021 (generational projection).

The actuarial assumptions used in the June 30, 2022, actuarial valuation were based on the results of an actuarial experience study performed for the period July 1, 2016, through June 30, 2020. 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, 2020, actuarial experience study. A blend of future capital market projections and historical market returns was used in 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 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 of 2.25%. 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:

<u>Asset Class</u>	<u>Long-term Expected Real Rate of Return</u>	<u>Target Allocation</u>
U.S. equity	4.88%	31%
Developed market international equity	5.37%	14%
Emerging market international equity	6.09%	4%
Private equity and strategic lending	6.57%	20%
U.S. fixed income	1.20%	20%
Real estate	4.38%	10%
Short-term securities	0.00%	1%
		100%

Notes to the Financial Statements (Continued)

The long-term expected rate of return on pension plan investments was established by the TCRS Board of Trustees as 6.75% based on a blending of the factors described above.

Discount rate – The discount rate used to measure the total pension liability was 6.75%. 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 6.75%, 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 (5.75%) or 1 percentage point higher (7.75%) than the current rate:

	1% Decrease (5.75%)	Current Discount Rate (6.75%)	1% Increase (7.75%)
College’s proportionate share of the net pension liability (asset)	\$456,376	\$(111,876)	\$(538,747)

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>.

Total Defined Benefit Pension Expense

The total pension expense for the year ended June 30, 2023, for all state and local government defined benefit pension plans was \$2,057,088.

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

Notes to the Financial Statements (Continued)

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 \$426,796.66 for the year ended June 30, 2023, and \$400,007.13 for the year ended June 30, 2022. 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.

Deferred Compensation Plan

The college, through the State of Tennessee, provides a deferred compensation plan pursuant to the Internal Revenue Code (IRC), Section 401(k). The plan is outsourced to a third-party vendor, and the administrative costs assessed by the vendor of this plan are the responsibility of plan participants. Section 401(k) plan assets remain the property of the contributing employees, and they are not presented in the accompanying financial statements. Section 401(k) establishes participation, contribution, and withdrawal provisions for the plan. The college provides up to a \$100 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.

Notes to the Financial Statements (Continued)

Employees are immediately vested in both the employee and employer contributions to the plan. 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 the plan.

During the year ended June 30, 2023, contributions totaling \$824,718.69 were made by employees participating in the 401(k) plan, and the college recognized pension expense of \$779,881.74 for employer contributions. During the year ended June 30, 2022, contributions totaling \$787,532.36 were made by employees participating in the 401(k) plan, with contributions of \$532,631.95 made by the college.

Note 10. Other Employee Benefits

Deferred Compensation Plans

Employees are offered two deferred compensation plans that are not considered pension plans. The college, through the State of Tennessee, provides a plan pursuant to the Internal Revenue Code (IRC), Section 457, and another is administered by the college and was established in accordance with IRS, 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 403(b) and Section 457 plan assets remain the property of the contributing employees; therefore, they are not presented in the accompanying financial statements. Sections 403(b) and 457 establish participation, contribution, and withdrawal provisions for the plans.

Note 11. 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

Notes to the Financial Statements (Continued)

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 Section 8-27-201, *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%.

Contributions – Annually, an insurance committee, created in accordance with Section 8-27-201, *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. Employers contribute to the OPEB Trust based on an actuarially determined contribution (ADC) rate calculated in a manner to meet the funding goals of the state. The total ADC rate for plan employers for the year ended June 30, 2023, was \$115.7 million. The college's share of the ADC was \$758,948 for 2023. For the year ended June 30, 2023, the college contributed \$758,948 to the OPEB Trust. 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 \$4,895,220 at June 30, 2023. At the June 30, 2022, measurement date, the college's proportion of the collective net OPEB liability was 0.691437%. The proportion existing at the prior measurement date was 0.613071%. This resulted in a change in proportion of 0.078366% 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

Notes to the Financial Statements (Continued)

total OPEB liability was determined by an actuarial valuation with a valuation date of June 30, 2022, and a measurement date of June 30, 2022.

OPEB expense – For the year ended June 30, 2023, the college recognized OPEB expense of \$197,962.

Deferred outflows of resources and deferred inflows of resources – For the year ended June 30, 2023, the college reported deferred outflows of resources and deferred inflows of resources related to OPEB paid by the EGOP from the following sources:

<u>Fiscal Year 2023</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ -	\$ 451,862
Net difference between actual and projected investment earnings	246,093	1,078,418
Changes in assumptions	287,766	-
Changes in proportion and differences between benefits paid and proportionate share of benefits paid	785,598	749,515
Contributions subsequent to the measurement date	758,948	-
Total	\$ 2,078,405	\$ 2,279,795

Deferred outflows of resources, resulting from the college's employer contributions of \$758,948 subsequent to the measurement date, will be recognized as a decrease in net OPEB liability in the year ending June 30, 2024. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

<u>Year Ending June 30</u>	
2024	\$ (388,745)
2025	\$ (389,953)
2026	\$ (379,779)
2027	\$ 165,618
2028	\$ 32,521

Notes to the Financial Statements (Continued)

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

Actuarial assumptions – The collective total OPEB liability in the June 30, 2022, 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, averaging 4%
Healthcare cost trend rates	8.37% for 2023, decreasing annually to an ultimate rate of 4.50% for 2030 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, 2022, valuations were the same as those employed in the July 1, 2021, 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, 2016, through June 30, 2020. 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. For pre-retirement non-disabled general employees, the mortality rates employed in this valuation are taken from the PUB-2010 Headcount-Weighted Employee mortality table projected generationally with MP-2020 from 2010. Post-retirement tables are Headcount-Weighted Below Median Healthy Annuitant and adjusted with a 6% load for males and a 14% load for females, projected generationally from 2010 with MP-2020. 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, projected generationally from 2018 with MP-2020.

Long-term expected rate of return – 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 asset 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

Notes to the Financial Statements (Continued)

percentage and by adding expected inflation. Section 8-27-802, *Tennessee Code Annotated*, 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:

<u>Asset Class</u>	<u>Allocation Range</u>		<u>Total Allocation</u>
	<u>Minimum</u>	<u>Maximum</u>	
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, 2022, are summarized in the following table:

<u>Asset Class</u>	<u>Long-term Expected Real Rate of Return</u>
U.S. equity	4.89%
Developed market international equity	5.38%
Emerging markets international equity	5.97%
U.S. fixed income	2.74%
Real Estate	4.79%
Private equity and strategic lending	5.18%
Cash (government)	1.17%

Discount rate – The discount rate used to measure the total OPEB liability was 6%. This is the same rate used at the prior measurement date. The projection of cash flows used to determine the discount rate assumed plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the ADC rates. For this purpose, only employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs of future plan members and their beneficiaries, as well as projected contributions from future plan members, are not

Notes to the Financial Statements (Continued)

included. Based on these assumptions, the OPEB Trust fiduciary net position was projected to be available to make all projected future benefit payments for 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.

Changes in assumptions – The medical and drug trend rate assumptions were updated to reflect more recent experience and a change in expected per capita health claims to reflect more recent information as of the measurement date. These changes decreased the liability by 2.57%.

Changes in benefit terms – Tennessee Highway Patrol members who retire with at least 25 years of service shall receive 80% of the schedule premium, regardless of the date of hire. Also, any commissioned member of the Tennessee Wildlife Resources Agency or Tennessee Bureau of Investigation who retires with at least 25 years of service shall receive 80% of the schedule premium.

Sensitivity of the proportionate share of the collective net OPEB liability to changes in the discount rate – 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:

	1% Decrease (5%)	Current Discount Rate (6%)	1% Increase (7%)
College’s proportionate share of the collective net OPEB liability	\$5,448,621	\$4,895,220	\$4,378,726

Sensitivity of the proportionate share of the collective net OPEB liability to changes in the healthcare cost trend rate – 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 (7.37% decreasing to 3.5%) or 1 percentage point higher (9.37% decreasing to 5.5%) than the current rate:

	1% Decrease (7.37% decreasing to 3.5%)	Healthcare Cost Trend Rates (8.37% decreasing to 4.5%)	1% Increase (9.37% decreasing to 5.5%)
College’s proportionate share of the collective net OPEB liability	\$4,224,158	\$4,895,220	\$5,662,530

Notes to the Financial Statements (Continued)

OPEB plan fiduciary net position – Detailed information about the OPEB plan’s fiduciary net position is available in the State of Tennessee’s *Annual Comprehensive Financial Report* found at <http://www.tn.gov/finance/rd-doa/fa-accfin-ar.html>.

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 Section 8-27-209, *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 \$60,787.50 for OPEB as the benefits came due during the fiscal year ended June 30, 2023. 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 Section 8-27-209, *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

Notes to the Financial Statements (Continued)

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 \$1,006,157 at June 30, 2023. At the June 30, 2022, measurement date, the proportion of the collective total OPEB liability associated with the college was 0.668645%. This represents a change of 0.006635% from the prior proportion of 0.662010%. 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, 2022, and a measurement date of June 30, 2022.

Actuarial assumptions – The total OPEB liability in the June 30, 2022, 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, 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, 2022, valuations were the same as those employed in the July 1, 2021, 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, 2016, through June 30, 2020. 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. For pre-retirement non-disabled general employees, the mortality rates employed in this valuation are taken from the PUB-2010 Headcount-Weighted Employee mortality table projected generationally with MP-2020 from 2010. Post-retirement tables are Headcount-Weighted Below Median Healthy Annuitant and adjusted with a 6% load for males and a 14% load

Notes to the Financial Statements (Continued)

for females, projected generationally from 2010 with MP-2020. 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, projected generationally from 2018 with MP-2020.

Discount rate – The discount rate used to measure the total OPEB liability was 3.54%. 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 – The discount rate was changed from 2.16% to 3.54% as of June 30, 2022. This change in assumption decreased the total OPEB liability by 14.6%.

Sensitivity of the proportionate share of the collective total OPEB liability to changes in the discount rate – 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 (2.54%) or 1 percentage point higher (4.54%) than the current rate. The college does not report a proportionate share of the OPEB liability for employees in the TNP.

	1% Decrease <u>(2.54%)</u>	Current Discount Rate <u>(3.54%)</u>	1% Increase <u>(4.54%)</u>
Primary government’s proportionate share of the collective total OPEB liability	\$1,124,931	\$1,006,157	\$905,885

OPEB expense – For the year ended June 30, 2023, the primary government recognized OPEB expense of \$13,690 for employees of the college participating in the TNP.

Total OPEB Expense

The total OPEB expense for the year ended June 30, 2023, was \$211,652, which consisted of OPEB expense of \$197,962 for the EGOP and \$13,690 paid by the primary government for the TNP.

Note 12. Revenues

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

Notes to the Financial Statements (Continued)

Fiscal Year 2023 Revenue Source	Gross Revenue	Less Scholarship Allowances	Uncollectible Debt Adjustment	Net Revenue
Operating revenues:				
Tuition and fees	\$ 20,738,875.01	\$ (13,481,001.78)	\$ (152,191.30)	\$ 7,105,681.93
Sales and services of other activities	340,364.25	-	1,362.23	341,726.48
Total	\$ 21,079,239.26	\$ (13,481,001.78)	\$ (150,829.07)	\$ 7,447,408.41

Uncollectible debt adjustments are negative when the associated allowance for doubtful accounts increases and are positive when the associated allowance for doubtful accounts decreases.

Note 13. 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 self-insures against property and cyber liability losses through the RMF and the State of Tennessee Captive Insurance Company (TCIC). The state purchases commercial insurance for real property and crime and fidelity coverage on the state's officials and employees above the limits of the RMF and TCIC. For property coverage, the deductible for an individual state agency is the first \$25,000 to \$75,000 of losses based on a tiered deductible system that accounts for averaged losses over a three-year period, and the type of loss. The RMF is responsible for property losses of \$2.5 million per occurrence for all perils. The TCIC is responsible for property losses in excess of the RMF limits up to an annual aggregate of \$25 million. Purchased insurance coverage is responsible for losses exceeding these limits to the maximum insurance coverage of \$600 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, except there is only \$25 million of coverage in the New Madrid Zone. For cyber coverage, the RMF is responsible for \$1.5 million per occurrence. The TCIC is responsible for losses in excess of the RMF limits up to an aggregate of \$10 million. Settled claims resulting from these risks have not exceeded maximum commercial insurance coverage in any 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

Notes to the Financial Statements (Continued)

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, 2023, is presented in Tennessee's *Annual Comprehensive Financial Report*, which is available on the state's website at <https://www.tn.gov/finance/rd-doa/fa-accfin-ar.html>. At June 30, 2023, the Risk Management Fund held \$254 million in cash designated for payment of claims.

At June 30, 2023, the scheduled coverage for the college was \$230,520,876 for buildings and \$31,469,738 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 14. Commitments and Contingencies

Sick Leave

The college records the cost of sick leave when paid. The dollar amount of unused sick leave was \$10,118,759.91 at June 30, 2023.

Construction in Progress

At June 30, 2023, outstanding commitments under construction contracts totaled \$5,377,349.73 for the Sevier County Campus expansion; the Niswonger Campus expansion; building roof replacements; Humanities mechanical, electrical and plumbing improvements; fire and safety remediation; infrastructure repairs and mechanical and electrical upgrades on the Sevier County Campus, of which \$4,116,029.69 will be funded by future state capital outlay appropriations.

Litigation

The college is involved in a lawsuit which is not expected to have a material effect on the accompanying financial statements.

Notes to the Financial Statements (Continued)

Note 15. Natural Classification With Functional Classifications

The college's operating expenses for the year ended June 30, 2023, are as follows:

Functional Classification	Natural Classification					Total
	Salaries	Benefits	Other Operating	Scholarships	Depreciation	
Instruction	\$ 15,568,437.17	\$ 5,740,631.14	\$ 4,848,433.92	\$ 130,377.00	\$ -	\$ 26,287,879.23
Public service	179,592.50	68,828.38	174,984.64	-	-	423,405.52
Academic support	2,565,669.78	1,070,718.60	(1,307,571.51)	-	-	2,328,816.87
Student services	3,308,238.01	1,535,736.25	2,182,595.17	15,428.95	-	7,041,998.38
Institutional support	2,694,108.93	1,211,656.14	1,622,374.96	-	-	5,528,140.03
Maintenance and operation	2,126,005.33	1,030,669.35	4,037,111.15	-	-	7,193,785.83
Scholarships and fellowships	-	-	-	6,204,702.93	-	6,204,702.93
Auxiliary	-	-	59,555.66	-	-	59,555.66
Depreciation	-	-	-	-	3,364,460.06	3,364,460.06
Total	\$ 26,442,051.72	\$ 10,658,239.86	\$ 11,617,483.99	\$ 6,350,508.88	\$ 3,364,460.06	\$ 58,432,744.51

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 \$3,129,015.74 for the year ended June 30, 2023, were reallocated from academic support to the other functional areas and caused academic support operating expenses to appear as a negative amount in the schedule above.

Note 16. On-behalf Payments

During the year ended June 30, 2023, the State of Tennessee made payments of \$60,787.50 on behalf of the college for retirees participating in the Closed Tennessee OPEB Plan. The Closed Tennessee OPEB Plan is a postemployment benefit healthcare plan and is discussed further in Note 11. The plan is reported in Tennessee's *Annual Comprehensive Financial Report*, which is available on the state's website at <https://www.tn.gov/finance/rd-doa/fa-accfin-ar.html>.

Notes to the Financial Statements (Continued)

During the year ended June 30, 2023, the State of Tennessee also made payments of \$2,039,451 on behalf of the college for retirees participating in the Closed State and Higher Education Employee Pension Plan. The Closed State and Higher Education Employee Pension Plan is a defined benefit pension plan with membership in the Tennessee Consolidated Retirement System and is discussed further in Note 9. The TCRS issues a publicly available financial report that can be obtained at <https://treasury.tn.gov/Retirement/Boards-and-Governance/Reporting-and-Investment-Policies>.

Note 17. Component Unit

The Walters State Community College Foundation is a legally separate, tax-exempt organization supporting Walters State Community College. The foundation acts primarily as a fund-raising organization to supplement the resources that are available to the college in support of its programs. The 124-member board of the foundation is self-perpetuating and consists of graduates and friends of the college. Although the college does not control the timing or amount of receipts from the foundation, the majority of resources, or income thereon, that the foundation holds and invests are restricted to the activities of the college by the donors. Because these restricted resources held by the foundation can only be used by, or for the benefit of, the college, the foundation is considered a component unit of the college and is discretely presented in the college's financial statements.

During the year ended June 30, 2023, the foundation made distributions of \$639,884.87 to or on behalf of the college for both restricted and unrestricted purposes. Complete financial statements for the foundation can be obtained from Dr. Mark Hurst, Walters State Community College Foundation, P. O. Box 1508, Morristown, TN 37816-1508.

Cash and Cash Equivalents

In addition to demand deposits and petty cash on hand, this classification includes instruments that are readily convertible to known amounts of cash and that have original maturities of three months or less. At June 30, 2023, cash and cash equivalents consisted of \$109,177.18 in bank accounts; \$500.00 of petty cash on hand; \$1,991,974.34 in the Local Government Investment Pool (LGIP) administered by the State Treasurer; and \$696,046.55 in money market funds.

The foundation's deposits in the Local Government Investment Pool (LGIP) are administered by the State Treasurer. The LGIP is measured at amortized cost and is part of the State Pooled Investment Fund. The fund's required risk disclosures are presented in the financial statements for the State Pooled Investment Fund. That report is available on the state's website at <https://treasury.tn.gov/Explore-Your-TN-Treasury/About-the-Treasury/Department-Reports>.

Notes to the Financial Statements (Continued)

Investments

The foundation is authorized to invest funds in accordance with its board of directors' policies. In accordance with GASB Statement 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, as amended, and GASB Statement 72, *Fair Value Measurement and Application*, as amended, investments are reported at fair value, including those with a maturity date of one year or less at the time of purchase, unless otherwise noted.

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

At June 30, 2023, the foundation had the following debt investments and maturities:

Investment Type	Fair Value	Investment Maturities (in Years)			
		Less than 1	1 to 5	6 to 10	More than 10
Mutual bond funds	\$ 6,154,940.32	\$ 324,127.17	\$ 367,030.73	\$ 5,285,762.67	\$ 178,019.75
Money market funds	696,046.55	696,046.55	-	-	-
Total debt investments	\$ 6,850,986.87	\$ 1,020,173.72	\$ 367,030.73	\$ 5,285,762.67	\$ 178,019.75

Non-fixed income investments

Corporate stock	79,973.37
Mutual equity funds	9,754,938.24
Private equity funds	1,689,949.00
Certificates of deposit	367,701.70
Cash surrender value of life insurance	89,374.05
Total investments and cash equivalents	18,832,923.23
Less cash equivalents	696,046.55
Total investments	\$18,136,876.68

Credit risk – Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The foundation has no investment policy limiting its investment choices based on

Notes to the Financial Statements (Continued)

ratings issued by nationally recognized statistical rating organizations. Securities are rated using Standard and Poor's, Moody's Investors Service, and/or Fitch Ratings and are presented below using the Standard and Poor's rating scale.

At June 30, 2023, the foundation's investments were rated as follows:

Investment Type	Reported Value	<u>Credit Quality Rating</u>					
		AAA	AA	A	BBB	BB or lower	Unrated
LGIP (amortized cost)	\$1,991,974.34	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,991,974.34
Mutual bond funds	6,154,940.32	3,040,309.60	537,166.43	719,546.17	1,055,053.66	638,852.61	164,011.85
Money market funds	696,046.55	-	-	-	-	-	696,046.55
Total	\$8,842,961.21	\$ 3,040,309.60	\$ 537,166.43	\$ 719,546.17	\$ 1,055,053.66	\$ 638,852.61	\$ 2,852,032.74

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

At June 30, 2023, the foundation's exposure to foreign currency risk was as follows:

Investment	Currency	Fair Value
Mutual equity funds	Various	\$ 1,672,862.58
Mutual bond funds	Various	\$ 82,649.06

Alternative investments – The foundation had investments in private equity funds. The estimated fair value of these assets was \$1,689,949 at June 30, 2023.

The foundation believes that the carrying amount of its alternative investments is a reasonable estimate of fair value as of June 30, 2023. Because these investments are not readily marketable, the estimated value is subject to uncertainty and, therefore, may differ from the value that would have been used had a ready market for the investments existed, and such differences could be material. These investments are made in accordance with the foundation's investment policy that approves the allocation of funds to various asset classes in order to ensure the proper level of diversification. These investments are designed to enhance diversification and provide reductions in overall portfolio volatility. These fair values are estimated using various valuation techniques.

Notes to the Financial Statements (Continued)

Fair Value Measurement

The foundation categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The foundation has the following recurring fair value measurements as of June 30, 2023:

	June 30, 2023	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Investments Measured at the Net Asset Value (NAV)
Assets by fair value level:					
Debt securities:					
Mutual bond funds	\$ 6,154,940.32	\$ 6,154,940.32	\$ -	\$ -	\$ -
Total debt securities	6,154,940.32	6,154,940.32	-	-	-
Equity securities:					
Corporate stock	79,973.37	79,973.37	-	-	-
Mutual equity funds	9,754,938.24	9,754,938.24	-	-	-
Private equities	1,689,949.00	-	-	-	1,689,949.00
Total other investments	11,524,860.61	9,834,911.61	-	-	1,689,949.00
Total assets at fair value	\$ 17,679,800.93	\$ 15,989,851.93	\$ -	\$ -	\$ 1,689,949.00

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

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

	Fair Value at June 30, 2023	Unfunded Commitments
Assets Measured at the NAV		
ValStone Opportunity Fund	\$ 1,689,949	\$ -

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

Notes to the Financial Statements (Continued)

Pledges Receivable

Pledges receivable are summarized below, net of the estimated uncollectible allowance of \$101,593.00 at June 30, 2023:

	June 30, 2023
Current pledges	\$ 494,959.50
Pledges due in one to five years	1,435,241.00
Pledges due after five years	66.50
Total pledges receivable, net	\$ 1,930,267.00

Capital Assets

Capital asset activity for the year ended June 30, 2023, was as follows:

	Beginning Balance	Additions	Transfers	Reductions	Ending Balance
Land	\$ 291,514.00	\$ 27,407.86	\$ -	\$ -	\$ 318,921.86
Land improvements and infrastructure	287,000.00	-	-	-	287,000.00
Buildings	136,000.00	97,173.30	-	-	233,173.30
Total	714,514.00	124,581.16	-	-	839,095.16
Less accumulated depreciation/amortization:					
Land improvements and infrastructure	57,400.00	14,350.00	-	-	71,750.00
Buildings	6,800.01	3,886.23	-	-	10,686.24
Total	64,200.01	18,236.23	-	-	82,436.24
Capital assets, net	\$ 650,313.99	\$ 106,344.93	\$ -	\$ -	\$ 756,658.92

Endowments

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

Notes to the Financial Statements (Continued)

general economic conditions. Any net appreciation that is spent is required to be spent for the purposes for which the endowment was established.

The foundation chooses to spend only a portion of the investment income (including changes in the value of investments) each year. Under the spending plan established by the foundation, 4.5% of a rolling five-year average of the endowment fair value has been authorized for expenditure. The remaining amount, if any, is retained to be used in future years when the amount computed using the spending plan exceeds the investment income. At June 30, 2023, net appreciation of \$2,700,063.44 is available to be spent, of which \$2,361,462.75 is included in restricted net position expendable for scholarships and fellowships; \$139,460.72 is included in restricted net position expendable for other purposes; and \$199,139.97 is included in unrestricted net position.

Revenues

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

Fiscal Year 2023		Less Scholarship	Uncollectible		
Revenue Source	Gross Revenue	Allowances	Debt Adjustments	Net Revenue	
Gifts and contributions	\$ 256,971.27	-	\$ 26,491.50	\$	283,462.77
Total	\$ 256,971.27	-	\$ 26,491.50	\$	283,462.77

Uncollectible debt adjustments are negative when the associated allowance for doubtful accounts increases and are positive when the associated allowance for doubtful accounts decreases.

Tennessee Board of Regents
WALTERS STATE COMMUNITY COLLEGE
Required Supplementary Information
Schedule of Walters State Community College's Proportionate Share
of the Net Pension Liability (Asset)
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
2023	0.568681%	\$ 6,775,042	\$ 11,861,682	57.12%	93.80%
2022	0.618719%	(3,785,621)	13,058,998	28.99%	103.30%
2021	0.604811%	9,908,686	13,384,583	74.03%	90.58%
2020	0.601409%	8,492,883	13,560,045	62.63%	91.67%
2019	0.629454%	10,168,271	14,566,010	69.81%	90.26%
2018	0.619921%	11,094,109	14,872,187	74.60%	88.88%
2017	0.652970%	11,913,869	15,942,453	74.73%	87.96%
2016	0.601842%	7,759,448	15,715,442	49.37%	91.26%
2015	0.616921%	4,256,441	16,853,800	25.26%	95.11%

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

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

	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
2023	0.448603%	\$ 111,876	\$ 6,544,812	1.71%	104.81%
2022	0.445703%	377,718	5,557,338	6.80%	121.71%
2021	0.419904%	147,862	4,806,461	3.08%	112.90%
2020	0.458682%	190,250	4,302,712	4.42%	122.36%
2019	0.484258%	186,793	3,542,473	5.27%	132.39%
2018	0.495442%	102,747	2,604,349	3.95%	131.51%
2017	0.523906%	44,135	1,616,272	2.73%	130.56%
2016	0.635797%	17,681	692,355	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
WALTERS STATE COMMUNITY COLLEGE
Required Supplementary Information
Schedule of Walters State Community College's Contributions
Closed State and Higher Education
Employee Pension Plan Within TCRS

	Contractually Determined Contributions	Contributions in Relation to Contractually Determined Contributions	Contribution Deficiency (Excess)	Covered Payroll	Contribution as a Percentage of Covered Payroll
2023	\$ 2,662,383	\$ 4,701,834	\$ (2,039,451)	\$ 12,168,112	38.64%
2022	2,431,645	3,853,348	(1,421,703)	11,861,682	32.49%
2021	2,641,835	2,641,835	-	13,058,998	20.23%
2020	2,631,999	2,631,999	-	13,387,583	19.66%
2019	2,607,597	2,607,597	-	13,560,045	19.23%
2018	2,748,606	2,748,606	-	14,566,010	18.87%
2017	2,233,803	2,233,803	-	14,872,187	15.02%
2016	2,396,151	2,396,151	-	15,942,453	15.03%
2015	2,362,031	2,362,031	-	15,715,442	15.03%
2014	2,533,126	2,533,126	-	16,853,800	15.03%

Notes to Schedule:

- 1) To correspond with the reporting date, the amounts presented were determined as of June 30 of the stated fiscal year.
- 2) Additional contributions were made to the plan by the State of Tennessee on behalf of the college for the years ended June 30, 2023, and June 30, 2022.

**Tennessee Board of Regents
WALTERS STATE COMMUNITY COLLEGE
Required Supplementary Information
Schedule of Walters State Community College's Contributions
State and Higher Education
Employee Retirement Plan Within TCRS**

	Contractually Determined Contributions	Contributions in Relation to Contractually Determined Contributions	Contribution Deficiency (Excess)	Covered Payroll	Contribution as a Percentage of Covered Payroll
2023	\$ 187,222	\$ 187,222	\$ -	\$ 7,549,256	2.48%
2022	121,734	121,734	-	6,544,812	1.86%
2021	101,576	101,576	-	5,557,338	1.83%
2020	83,152	83,152	-	4,806,461	1.73%
2019	71,425	71,425	-	4,302,712	1.66%
2018	138,801	138,801	-	3,542,473	3.92%
2017	101,312	101,312	-	2,604,349	3.89%
2016	62,467	62,467	-	1,616,272	3.86%
2015	26,794	26,794	-	692,355	3.87%

Notes to Schedule:

- 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 fiscal year.

**Tennessee Board of Regents
WALTERS STATE COMMUNITY COLLEGE
Required Supplementary Information
Schedule of Walters 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
2023	0.691437%	\$ 4,895,220	\$ 15,301,219	31.99%	38.59%
2022	0.613071%	4,371,391	17,398,871	25.12%	38.52%
2021	0.593128%	4,965,068	17,050,732	29.12%	25.20%
2020	0.604589%	5,756,775	18,571,997	31.00%	18.33%
2019	0.637555%	8,831,661	17,653,154	50.03%	N/A
2018	0.602818%	8,093,074	18,292,023	44.24%	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 fiscal year 2019, the plan transitioned from a pay-as-you-go OPEB plan to a prefunding arrangement where assets are accumulated in a qualifying trust and benefits are paid from that trust. This change was reflected in the June 30, 2020, reporting period due to the one-year lookback on OPEB measurement.
- 4) The OPEB liability measured as of June 30, 2019, was measured with a 6% discount rate. This was a significant increase from the rate used in prior years and was due to the OPEB plan's transition from pay-as-you-go funding to a prefunding arrangement through a qualifying trust.

**Tennessee Board of Regents
WALTERS STATE COMMUNITY COLLEGE
Required Supplementary Information
Schedule of Walters State Community College's Contributions
Closed State Employee Group OPEB Plan**

	Actuarially Determined Contributions	Contributions in Relation to Contractually Determined Contributions	Contribution Deficiency (Excess)	Covered-employee Payroll	Contributions as a Percentage of Covered-employee Payroll
2023	\$ 758,948	\$ 758,948	\$ -	\$ 15,534,732	4.89%
2022	816,931	816,931	-	15,301,219	5.34%
2021	905,910	905,910	-	17,398,871	5.21%
2020	910,403	910,403	-	17,050,732	5.34%
2019	847,002	731,163	115,839	18,571,997	3.94%

- 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
WALTERS STATE COMMUNITY COLLEGE
Required Supplementary Information
Schedule of Walters 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	Primary Government's Proportionate Share of the Collective Total OPEB Liability	College's Covered- employee Payroll	College's Proportionate Share of the Collective Total OPEB Liability as a Percentage of Its Covered- employee Payroll
2023	0.00%	\$ 1,006,157	\$ 16,889,162	0.00%
2022	0.00%	1,176,742	19,626,834	0.00%
2021	0.00%	1,342,973	18,678,149	0.00%
2020	0.00%	1,140,445	21,535,803	0.00%
2019	0.00%	1,062,269	20,006,942	0.00%
2018	0.00%	1,101,935	20,339,092	0.00%

- 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
Tennessee Board of Regents
WALTERS STATE COMMUNITY COLLEGE
Schedule of Cash Flows - Component Unit
For the Year Ended June 30, 2023

	Year Ended June 30, 2023
Cash flows from operating activities	
Gifts and contributions	\$ 786,801.27
Payments to suppliers and vendors	(145,698.98)
Payments for scholarships and fellowships	(572,053.15)
Payments to Walters State Community College	(603,626.45)
Other receipts	51,362.14
Net cash used for operating activities	(483,215.17)
Cash flows from noncapital financing activities	
Private gifts for endowment purposes	272,725.80
Net cash provided by noncapital financing activities	272,725.80
Cash flows from capital and related financing activities	
Purchases of capital assets and construction	(124,581.16)
Net cash used for capital and related financing activities	(124,581.16)
Cash flows from investing activities	
Proceeds from sales and maturities of investments	1,069,475.14
Income on investments	1,080,721.53
Purchases of investments	(2,608,008.27)
Net cash used for investing activities	(457,811.60)
Net decrease in cash and cash equivalents	(792,882.13)
Cash and cash equivalents - beginning of year	3,590,580.20
Cash and cash equivalents - end of year	\$ 2,797,698.07
Reconciliation of operating loss to net cash used for operating activities:	
Operating loss	\$ (1,009,814.51)
Adjustments to reconcile operating loss to net cash used for operating activities:	
Noncash operating expenses	18,236.23
Change in assets and liabilities:	
Receivables, net	503,338.50
Prepaid items	4,917.00
Accounts payable	107.61
Net cash used for operating activities	\$ (483,215.17)
Noncash investing, capital, and financing activities	
Unrealized losses on investments	\$ (377,123.30)



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. Anthony R. Miska, President

We have audited the financial statements of Walters State Community College, an institution of the State University and Community College System of Tennessee, which is a component unit of the State of Tennessee, and its discretely presented component unit as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the college's basic financial statements, and have issued our report thereon dated June 25, 2024. 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.

Report on Internal Control Over Financial Reporting

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

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

material misstatement of the financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Report on Compliance and Other Matters

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

Purpose of This Report

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



Katherine J. Stickel, CPA, CGFM, Director
Division of State Audit
June 25, 2024