

**Tennessee Board of Regents
Walters State Community College**

**For the Years Ended
June 30, 1999, and June 30, 1998**

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STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY

State Capitol
Nashville, Tennessee 37243-0260
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John G. Morgan
Comptroller

July 21, 2000

The Honorable Don Sundquist, Governor
and

Members of the General Assembly
State Capitol
Nashville, Tennessee 37243

and

The Honorable Charles Manning, Chancellor
Tennessee Board of Regents
1415 Murfreesboro Road, Suite 350
Nashville, Tennessee 37217

and

Dr. Jack E. Campbell, President
Walters State Community College
500 South Davy Crockett Parkway
Morristown, Tennessee 37813

Ladies and Gentlemen:

Transmitted herewith is the financial and compliance audit of the Tennessee Board of Regents, Walters State Community College, for the years ended June 30, 1999, and June 30, 1998. You will note from the independent auditor's report that an unqualified opinion was given on the fairness of the presentation of the financial statements.

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

Sincerely,

John G. Morgan
Comptroller of the Treasury

JGM/sdr
00/040

State of Tennessee

Audit Highlights

Comptroller of the Treasury

Division of State Audit

Financial and Compliance Audit
Walters State Community College
For the Years Ended June 30, 1999, and June 30, 1998

AUDIT OBJECTIVES

The objectives of the audit were to consider the college's internal control over financial reporting; to determine compliance with certain provisions of laws, regulations, contracts, and grants; to determine the fairness of the presentation of the financial statements; and to recommend appropriate actions to correct any deficiencies.

AUDIT FINDINGS

The audit report contains no findings.

OPINION ON THE FINANCIAL STATEMENTS

The opinion on the financial statements is unqualified.

"Audit Highlights" is a summary of the audit report. To obtain the complete audit report, which contains all findings, recommendations, and management comments, please contact

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Audit Report
Tennessee Board of Regents
Walters State Community College
For the Years Ended June 30, 1999, and June 30, 1998

TABLE OF CONTENTS

	<u>Exhibit</u>	<u>Page</u>
INTRODUCTION		1
Post-Audit Authority		1
Background		1
Organization		1
AUDIT SCOPE		2
OBJECTIVES OF THE AUDIT		2
PRIOR AUDIT FINDINGS		2
OBSERVATIONS AND COMMENTS		3
Title IX of the Education Amendments of 1972		3
RESULTS OF THE AUDIT		3
Audit Conclusions		3
Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i>		4
FINANCIAL SECTION		6
Independent Auditor's Report		6
Financial Statements		
Balance Sheets	A	8
Statement of Changes in Fund Balances for the Year Ended June 30, 1999	B	10

TABLE OF CONTENTS (CONT.)

	<u>Exhibit</u>	<u>Page</u>
Statement of Changes in Fund Balances for the Year Ended June 30, 1998	C	11
Statement of Current Funds Revenues, Expenditures, and Other Changes for the Year Ended June 30, 1999	D	12
Statement of Current Funds Revenues, Expenditures, and Other Changes for the Year Ended June 30, 1998	E	13
Notes to the Financial Statements		14

**Tennessee Board of Regents
Walters State Community College
For the Years Ended June 30, 1999, and June 30, 1998**

INTRODUCTION

POST-AUDIT AUTHORITY

This is a report on the financial and compliance audit of the Tennessee Board of Regents, Walters State Community College. The audit was conducted pursuant to Section 4-3-304, *Tennessee Code Annotated*, which authorizes the Department of Audit to “perform currently a post-audit of all accounts and other financial records of the state government, and of any department, institution, office, or agency thereof in accordance with generally accepted auditing standards and in accordance with such procedures as may be established by the comptroller.”

Section 8-4-109, *Tennessee Code Annotated*, authorizes the Comptroller of the Treasury to audit any books and records of any state governmental entity that handles public funds when the Comptroller considers an audit to be necessary or appropriate.

BACKGROUND

In 1957, the state legislature ordered a study of community college programs. Acting on the recommendation of the Governor and the State Department of Education, the General Assembly authorized the Department of Education to establish several community colleges throughout Tennessee. Walters State Community College was established in 1967; the college first admitted students in the fall of 1970. The General Assembly vested the governance of Walters State Community College in the Tennessee Board of Regents on July 1, 1972.

ORGANIZATION

The governance of Walters State Community College is vested in the Tennessee Board of Regents. The Governor, the Commissioner of Education, the Commissioner of Agriculture, and the Director of the Tennessee Higher Education Commission serve *ex officio* on this board. The chief administrative officer of the college is the president, who is assisted and advised by members of the faculty and administrative staff.

AUDIT SCOPE

The audit was limited to the period July 1, 1997, through June 30, 1999, and was conducted in accordance with generally accepted government auditing standards. Financial statements are presented for the years ended June 30, 1999, and June 30, 1998. Walters State Community College is an institution of the Tennessee Board of Regents, which is an integral part of state government. As such, the Tennessee Board of Regents has been included as a component unit in the *Tennessee Comprehensive Annual Financial Report*.

OBJECTIVES OF THE AUDIT

The objectives of the audit were

1. to consider the college's internal control over financial reporting to determine auditing procedures for the purpose of expressing an opinion on the financial statements;
 2. to determine compliance with certain provisions of laws, regulations, contracts, and grants;
 3. to determine the fairness of the presentation of the financial statements; and
 4. to recommend appropriate actions to correct any deficiencies.
-

PRIOR AUDIT FINDINGS

There were no findings in the prior audit report.

OBSERVATIONS AND COMMENTS

TITLE IX OF THE EDUCATION AMENDMENTS OF 1972

Tennessee Code Annotated, Section 4-4-123, requires each state governmental entity subject to the requirements of Title IX of the Education Amendments of 1972 to submit an annual Title IX compliance report and implementation plan to the Department of Audit by June 30, 1999, and each June 30 thereafter. The college did not file its compliance report and implementation plan by June 30, 1999, in violation of this statutory requirement.

Title IX of the Education Amendments of 1972 is a federal law. The act requires all state agencies receiving federal money to develop and implement plans to ensure that no one receiving benefits under a federally funded education program and activity is discriminated against on the basis of gender. The untimely filing of the compliance report and implementation plan required by state law does not necessarily mean that the college is not in compliance with the federal law.

RESULTS OF THE AUDIT

AUDIT CONCLUSIONS

Internal Control

As part of the audit of the college's financial statements for the years ended June 30, 1999, and June 30, 1998, we considered internal control over financial reporting to determine auditing procedures for the purpose of expressing an opinion on the financial statements, as required by generally accepted government auditing standards. Consideration of internal control over financial reporting disclosed no material weaknesses.

Compliance

The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Fairness of Financial Statement Presentation

The Division of State Audit has rendered an unqualified opinion on the college's financial statements.



STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
DEPARTMENT OF AUDIT
DIVISION OF STATE AUDIT

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**Report on Compliance and on Internal Control
Over Financial Reporting Based on an Audit of
Financial Statements Performed in Accordance With
*Government Auditing Standards***

May 1, 2000

The Honorable John G. Morgan
Comptroller of the Treasury
State Capitol
Nashville, Tennessee 37243

Dear Mr. Morgan:

We have audited the financial statements of Walters State Community College, an institution of the Tennessee Board of Regents, which is a component unit of the State of Tennessee, as of and for the years ended June 30, 1999, and June 30, 1998, and have issued our report thereon dated May 1, 2000. Our report was unqualified. We conducted our audit in accordance with generally accepted government auditing standards .

Compliance

As part of obtaining reasonable assurance about whether the college's financial statements are free of material misstatement, we performed tests of the college's compliance with certain provisions of laws, regulations, contracts, and grants, 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 that are required to be reported under *Government Auditing Standards*.

We did, however, note certain less significant instances of noncompliance, which we have reported to the college's management in a separate letter.

The Honorable John G. Morgan
May 1, 2000
Page Two

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the college's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

However, we noted certain matters involving the internal control over financial reporting, which we have reported to the college's management in a separate letter.

This report is intended solely for the information and use of the General Assembly of the State of Tennessee and management and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record.

Sincerely,

A handwritten signature in black ink that reads "Arthur A. Hayes, Jr." with a stylized, cursive script.

Arthur A. Hayes, Jr., CPA, Director
Division of State Audit

AAH/sdr



STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
DEPARTMENT OF AUDIT
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Independent Auditor's Report

May 1, 2000

The Honorable John G. Morgan
Comptroller of the Treasury
State Capitol
Nashville, Tennessee 37243

Dear Mr. Morgan:

We have audited the accompanying balance sheets of Walters State Community College, an institution of the Tennessee Board of Regents, which is a component unit of the State of Tennessee, as of June 30, 1999, and June 30, 1998, and the related statements of changes in fund balances and current funds revenues, expenditures, and other changes for the years then ended. These financial statements are the responsibility of the college's management. Our responsibility is to express an opinion on these financial statements, based on our audit.

We conducted our audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Tennessee Board of Regents, Walters State Community College, as of June 30, 1999, and June 30, 1998, and the changes in fund balances and the current funds revenues, expenditures, and other changes for the years then ended in conformity with generally accepted accounting principles.

The Honorable John G. Morgan
May 1, 2000
Page Two

As discussed in Notes 12 and 13 to the financial statements, the college implemented GASB 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, and GASB 16, *Accounting for Compensated Absences*, in conformity with generally accepted accounting principles. Also, as discussed in Note 12, the college changed the threshold for capitalizing equipment.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 1, 2000, on our consideration of the college's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants.

Sincerely,

A handwritten signature in black ink, reading "Arthur A. Hayes, Jr." in a cursive style.

Arthur A. Hayes, Jr., CPA, Director
Division of State Audit

AAH/sdr

TENNESSEE BOARD OF REGENTS
WALTERS STATE COMMUNITY COLLEGE
BALANCE SHEETS
JUNE 30, 1999, AND JUNE 30, 1998

<u>ASSETS</u>	<u>June 30, 1999</u>	<u>June 30, 1998</u>	<u>LIABILITIES AND FUND BALANCES</u>	<u>June 30, 1999</u>	<u>June 30, 1998</u>
Current funds:			Current funds:		
Unrestricted:			Unrestricted:		
General:			General:		
Cash and cash equivalents (Notes 2 and 3)	\$ 1,320,945.82	\$ 2,287,101.62	Liabilities:		
Accounts receivable (net of allowance of \$40,492.28 at June 30, 1999, and \$18,220.40 at June 30, 1998)	180,533.59	166,312.77	Accounts payable	\$ 87,181.84	\$ 99,618.02
Inventories	21,989.90	27,396.88	Accrued liabilities	978,025.78	925,939.91
Prepaid expenses and deferred charges	125,502.98	118,431.05	Deferred revenue	626,170.00	603,446.50
Due from restricted current funds	1,023,596.09	146,566.96	Compensated absences	813,236.60	750,098.23
Due from unexpended plant funds	61,488.35	-	Other liabilities	68,005.21	68,357.82
Other assets	6,391.42	5,410.90	Total liabilities	2,572,619.43	2,447,460.48
			Fund balances:		
			Nondiscretionary allocations:		
			Allocation for working capital	133,771.43	146,269.83
			Allocation for encumbrances	195,740.35	214,800.98
			Allocation for designated state appropriations	-	1,809.25
			Discretionary allocations:		
			Allocation for athletics	2,117.45	1,959.55
			Allocation for technology access fee	24,376.49	-
			Allocation for subsequent budget	624,000.00	595,000.00
			Allocation for compensated absences	(813,236.60)	(750,098.23)
			Unallocated	1,059.60	94,018.32
			Total fund balances	167,828.72	303,759.70
Total general	2,740,448.15	2,751,220.18	Total general	2,740,448.15	2,751,220.18
Auxiliary enterprises:			Auxiliary enterprises:		
Assets:			Liabilities:		
Cash and cash equivalents (Notes 2 and 3)	536,993.85	311,769.41	Accounts payable	30,952.37	3,442.35
Accounts receivable (net of allowance of \$619.01 at June 30, 1999, and \$771.11 at June 30, 1998)	60,572.01	26,327.58	Compensated absences	10,786.58	10,228.54
Inventories	401,206.62	414,769.94	Total liabilities	41,738.95	13,670.89
			Fund balances:		
			Nondiscretionary allocations:		
			Allocation for working capital	461,778.63	441,097.52
			Allocation for encumbrances	49,585.09	16,691.09
			Discretionary allocation:		
			Allocation for contingencies	85,947.87	84,512.22
			Allocation for compensated absences	(10,786.58)	(10,228.54)
			Unallocated	370,508.52	207,123.75
			Total fund balances	957,033.53	739,196.04
Total auxiliary enterprises	998,772.48	752,866.93	Total auxiliary enterprises	998,772.48	752,866.93
Total unrestricted	3,739,220.63	3,504,087.11	Total unrestricted	3,739,220.63	3,504,087.11
Restricted:			Restricted:		
Cash and cash equivalents (Notes 2 and 3)	343,819.76	82,465.42	Liabilities:		
Accounts and grants receivable	1,274,184.34	856,190.41	Accounts payable	349,040.44	345,632.26
			Accrued liabilities	16,753.39	15,196.74
			Due to unrestricted current funds	1,023,596.09	146,566.96
			Compensated absences	76,470.50	67,163.19
			Total liabilities	1,465,860.42	574,559.15
			Fund balance	152,143.68	364,096.68
Total restricted	1,618,004.10	938,655.83	Total restricted	1,618,004.10	938,655.83
Total current funds	\$ 5,357,224.73	\$ 4,442,742.94	Total current funds	\$ 5,357,224.73	\$ 4,442,742.94
Loan funds:			Loan funds:		
Assets:			Fund balances:		
Cash and cash equivalents (Notes 2 and 3)	\$ 1,011.57	\$ 962.59	U.S. government grants refundable	\$ 885.65	\$ 841.57
			Institutional funds:		
			Restricted - matching	98.41	93.51
			Restricted - other	27.51	27.51
Total loan funds	\$ 1,011.57	\$ 962.59	Total loan funds	\$ 1,011.57	\$ 962.59

TENNESSEE BOARD OF REGENTS
WALTERS STATE COMMUNITY COLLEGE
BALANCE SHEETS
JUNE 30, 1999, AND JUNE 30, 1998

	June 30, 1999	June 30, 1998		June 30, 1999	June 30, 1998
<u>ASSETS</u>			<u>LIABILITIES AND FUND BALANCES</u>		
Plant funds:			Plant funds:		
Unexpended plant:			Unexpended plant:		
Cash and cash equivalents (Notes 2 and 3)	\$ 728,163.04	\$ 929,213.69	Liabilities:		
LGIP deposit - capital projects	1,155,919.52	3,560,699.92	Accounts payable	\$ 2,005,486.02	\$ 2,440.61
Accounts receivable	967,586.41	-	Due to unrestricted current funds	61,488.35	-
			Total liabilities	2,066,974.37	2,440.61
			Fund balance:		
			Unrestricted (Note 5)	784,694.60	4,487,473.00
Total unexpended plant	2,851,668.97	4,489,913.61	Total unexpended plant	2,851,668.97	4,489,913.61
Renewals and replacements:			Renewals and replacements:		
Cash and cash equivalents (Notes 2 and 3)	630,981.06	728,723.04	Fund balance:		
			Unrestricted (Note 5)	630,981.06	728,723.04
Total renewals and replacements	630,981.06	728,723.04	Total renewals and replacements	630,981.06	728,723.04
Retirement of indebtedness:			Retirement of indebtedness:		
Cash and cash equivalents (Notes 2 and 3)	113,358.98	25,180.40	Liabilities:		
			Accrued interest payable	-	1,236.99
			Fund balance:		
			Unrestricted	113,358.98	23,943.41
Total retirement of indebtedness	113,358.98	25,180.40	Total retirement of indebtedness	113,358.98	25,180.40
Investment in plant:			Investment in plant:		
Land	555,293.11	555,293.11	Liabilities:		
Buildings	18,292,533.37	18,230,133.69	Accounts payable	2,530.03	-
Improvements other than buildings	1,618,894.22	1,837,586.37	Loan payable (Note 6)	352,000.00	352,000.00
Equipment	8,075,667.86	7,185,244.29	Tennessee State School Bond Authority indebtedness (Note 6)	770,000.00	770,000.00
Library books	2,321,328.00	2,296,896.00	Total liabilities	1,124,530.03	1,122,000.00
Other library holdings	718,388.00	705,692.00	Fund balance:		
Construction in progress	21,347,830.07	14,912,545.79	Net investment in plant	51,805,404.60	44,601,391.25
Total investment in plant	52,929,934.63	45,723,391.25	Total investment in plant	52,929,934.63	45,723,391.25
Total plant funds	\$ 56,525,943.64	\$ 50,967,208.30	Total plant funds	\$ 56,525,943.64	\$ 50,967,208.30
Agency funds:			Agency funds:		
Foundation:			Foundation:		
Cash and cash equivalents (Notes 2 and 3)	\$ 4,766,630.46	\$ 3,750,390.24	Liabilities:		
Investments (Note 4)	4,859,787.25	4,594,777.74	Accounts payable	\$ 976,132.59	\$ -
Accounts receivable	111,222.22	184,888.89	Accrued interest payable	858.07	1,557.22
Other assets	1,897,515.60	1,312,515.60	Notes payable (Note 6)	623,673.81	326,666.67
			Deposits held in custody for foundation	9,534,341.06	9,514,348.58
Total foundation	11,635,155.53	9,842,572.47	Other liabilities	500,150.00	-
Nonfoundation:			Total foundation	11,635,155.53	9,842,572.47
Cash and cash equivalents (Notes 2 and 3)	514,322.34	519,379.94	Nonfoundation:		
Accounts receivable	6,311.70	2,878.00	Liabilities:		
Total nonfoundation	520,634.04	522,257.94	Deposits held in custody for others	520,634.04	522,257.94
Total agency funds	\$ 12,155,789.57	\$ 10,364,830.41	Total nonfoundation	520,634.04	522,257.94
			Total agency funds	\$ 12,155,789.57	\$ 10,364,830.41

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 FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 1999

	Current Funds			Plant Funds			
	Unrestricted	Restricted	Loan Funds	Unexpended	Renewals and Replacements	Retirement of Indebtedness	Investment in Plant
REVENUES AND OTHER ADDITIONS							
Unrestricted current fund revenues	\$ 20,954,040.79	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Auxiliary enterprise revenues	1,718,957.51	-	-	-	-	-	-
State appropriations	-	92,500.00	-	2,126,618.13	-	-	-
Federal grants and contracts	-	10,362,996.60	-	-	-	-	-
State grants and contracts	-	19,123.72	-	-	-	-	-
Local grants and contracts	-	224.72	-	-	-	-	-
Private gifts, grants, and contracts	-	928,618.73	-	967,586.41	-	-	-
Tuition and fees	-	63,432.22	-	-	-	-	-
Investment income	-	-	48.98	-	-	-	-
Equipment use charges	-	-	-	-	111,100.00	-	-
Interest on loans receivable	-	-	216.36	-	-	-	-
Expended for plant facilities (including \$736,106.18 charged to current fund expenditures)	-	-	-	-	-	-	7,487,405.40
Other	-	-	-	19,500.00	-	-	-
Total revenues and other additions	22,672,998.30	11,466,895.99	265.34	3,113,704.54	111,100.00	-	7,487,405.40
EXPENDITURES AND OTHER DEDUCTIONS							
Educational and general expenditures	20,989,571.77	11,434,516.71	-	-	-	-	-
Auxiliary enterprise expenditures	1,478,115.87	-	-	-	-	-	-
Indirect costs recovered	-	195,956.45	-	-	-	-	-
Provision for doubtful accounts	-	-	216.36	-	-	-	-
Expended for plant facilities	-	-	-	6,592,713.99	158,585.23	-	-
Expended for noncapital items	-	-	-	231,142.95	31,660.90	-	-
Interest on indebtedness	-	-	-	-	-	29,584.43	-
Disposal of plant facilities	-	-	-	-	-	-	218,931.23
Library holdings revaluation	-	-	-	-	-	-	44,960.82
Other	-	48,375.83	-	15,626.00	-	-	19,500.00
Total expenditures and other deductions	22,467,687.64	11,678,848.99	216.36	6,839,482.94	190,246.13	29,584.43	283,392.05
TRANSFERS BETWEEN FUNDS-ADDITIONS (DEDUCTIONS)							
Mandatory:							
Principal and interest	(119,000.00)	-	-	-	-	119,000.00	-
Nonmandatory:							
Unrestricted current funds	18,595.85	-	-	-	(18,595.85)	-	-
Unexpended plant funds	(23,000.00)	-	-	23,000.00	-	-	-
Total transfers	(123,404.15)	-	-	23,000.00	(18,595.85)	119,000.00	-
Net increases (decreases) for the year	81,906.51	(211,953.00)	48.98	(3,702,778.40)	(97,741.98)	89,415.57	7,204,013.35
Fund balances at beginning of year	1,042,955.74	364,096.68	962.59	4,487,473.00	728,723.04	23,943.41	44,601,391.25
Fund balances at end of year	\$ 1,124,862.25	\$ 152,143.68	\$ 1,011.57	\$ 784,694.60	\$ 630,981.06	\$ 113,358.98	\$ 51,805,404.60

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 FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 1998

	Current Funds			Plant Funds			
	Unrestricted	Restricted	Loan Funds	Unexpended	Renewals and Replacements	Retirement of Indebtedness	Investment in Plant
REVENUES AND OTHER ADDITIONS							
Unrestricted current fund revenues	\$ 19,791,772.00	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Auxiliary enterprise revenues	1,690,244.42	-	-	-	-	-	-
State appropriations	-	89,500.00	-	4,279,436.19	-	-	-
Federal grants and contracts	-	8,396,600.10	-	-	-	-	-
State grants and contracts	-	19,925.35	-	47,303.00	-	-	-
Local grants and contracts	-	6,440.00	-	-	-	-	-
Private gifts, grants, and contracts	-	212,191.35	-	3,000,000.00	-	-	-
Investment income	-	-	51.65	-	-	-	-
Interest on loans receivable	-	-	216.36	-	-	-	-
Equipment use charges	-	-	-	-	109,100.00	-	-
Expended for plant facilities (including \$496,090.61 charged to current fund expenditures)	-	-	-	-	-	-	4,855,502.22
Other	-	-	-	-	3,402.00	-	-
Total revenues and other additions	21,482,016.42	8,724,656.80	268.01	7,326,739.19	112,502.00	-	4,855,502.22
EXPENDITURES AND OTHER DEDUCTIONS							
Educational and general expenditures	19,308,413.93	8,485,936.55	-	-	-	-	-
Auxiliary enterprise expenditures	1,471,871.80	-	-	-	-	-	-
Refunded to grantors	-	4,094.44	-	-	-	-	-
Indirect costs recovered	-	170,518.22	-	-	-	-	-
Provision for doubtful accounts	-	-	216.36	-	-	-	-
Expended for plant facilities	-	-	-	4,291,594.23	67,817.38	-	-
Expended for noncapital items	-	-	-	300,908.67	27,505.83	-	-
Interest on indebtedness	-	-	-	-	-	26,056.59	-
Disposal of plant facilities	-	-	-	-	-	-	967,110.26
Library holdings revaluation	-	-	-	-	-	-	131,526.40
Other	-	12,341.50	-	57,732.34	-	-	-
Total expenditures and other deductions	20,780,285.73	8,672,890.71	216.36	4,650,235.24	95,323.21	26,056.59	1,098,636.66
TRANSFERS BETWEEN FUNDS-ADDITIONS (DEDUCTIONS)							
Mandatory:							
Principal and interest	(50,000.00)	-	-	-	-	50,000.00	-
Nonmandatory:							
Unexpended plant	(75,000.00)	-	-	75,000.00	-	-	-
Renewals and replacements	(343,049.41)	-	-	-	343,049.41	-	-
Total transfers	(468,049.41)	-	-	75,000.00	343,049.41	50,000.00	-
Net increases for the year	233,681.28	51,766.09	51.65	2,751,503.95	360,228.20	23,943.41	3,756,865.56
Fund balances at beginning of year (Note 13)	809,274.46	312,330.59	910.94	1,735,969.05	368,494.84	-	41,699,910.53
Cumulative effect of change in accounting principle (Note 12)	-	-	-	-	-	-	(855,384.84)
Fund balances at beginning of year, restated	809,274.46	312,330.59	910.94	1,735,969.05	368,494.84	-	40,844,525.69
Fund balances at end of year	\$ 1,042,955.74	\$ 364,096.68	\$ 962.59	\$ 4,487,473.00	\$ 728,723.04	\$ 23,943.41	\$ 44,601,391.25

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

TENNESSEE BOARD OF REGENTS
WALTERS STATE COMMUNITY COLLEGE
STATEMENT OF CURRENT FUNDS REVENUES, EXPENDITURES, AND OTHER CHANGES
FOR THE YEAR ENDED JUNE 30, 1999

	<u>Unrestricted</u>	<u>Restricted</u>	<u>Total</u>
<u>REVENUES</u>			
Tuition and fees	\$ 5,466,141.91	\$ 22,660.11	\$ 5,488,802.02
State appropriations	14,265,400.00	92,500.00	14,357,900.00
Federal grants and contracts	195,852.55	10,325,636.32	10,521,488.87
State grants and contracts	6,696.16	19,123.72	25,819.88
Local grants and contracts	13,301.13	1,251.00	14,552.13
Private gifts, grants, and contracts	25,612.10	973,345.56	998,957.66
Sales and services of educational activities	412,473.88	-	412,473.88
Sales and services of auxiliary enterprises	1,718,957.51	-	1,718,957.51
Investment income	252,559.69	-	252,559.69
Other sources	316,003.37	-	316,003.37
Total current revenues	<u>22,672,998.30</u>	<u>11,434,516.71</u>	<u>34,107,515.01</u>
<u>EXPENDITURES AND TRANSFERS</u>			
Educational and general:			
Expenditures:			
Instruction	11,688,176.71	1,202,905.93	12,891,082.64
Public service	504,479.22	6,687,544.00	7,192,023.22
Academic support	1,753,566.93	25,641.32	1,779,208.25
Student services	2,114,866.69	75,459.52	2,190,326.21
Institutional support	2,073,737.57	2,795.81	2,076,533.38
Operation and maintenance of plant	2,621,372.36	8,546.18	2,629,918.54
Scholarships and fellowships	233,372.29	3,431,623.95	3,664,996.24
Total educational and general expenditures	<u>20,989,571.77</u>	<u>11,434,516.71</u>	<u>32,424,088.48</u>
Mandatory transfer for:			
Principal and interest	119,000.00	-	119,000.00
Nonmandatory transfers for:			
Unexpended plant	23,000.00	-	23,000.00
Renewals and replacements	(41,600.00)	-	(41,600.00)
Total educational and general	<u>21,089,971.77</u>	<u>11,434,516.71</u>	<u>32,524,488.48</u>
Auxiliary enterprises:			
Expenditures:			
Expenditures	1,478,115.87	-	1,478,115.87
Nonmandatory transfer for:			
Renewals and replacements	23,004.15	-	23,004.15
Total auxiliary enterprises	<u>1,501,120.02</u>	<u>-</u>	<u>1,501,120.02</u>
Total expenditures and transfers	<u>22,591,091.79</u>	<u>11,434,516.71</u>	<u>34,025,608.50</u>
<u>OTHER ADDITION (DEDUCTIONS)</u>			
Excess of restricted receipts over transfers to revenues			
	-	32,379.28	32,379.28
Indirect costs recovered	-	(195,956.45)	(195,956.45)
Other deductions	-	(48,375.83)	(48,375.83)
Net increase (decrease) in fund balances	<u>\$ 81,906.51</u>	<u>\$ (211,953.00)</u>	<u>\$ (130,046.49)</u>

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

TENNESSEE BOARD OF REGENTS
WALTERS STATE COMMUNITY COLLEGE
STATEMENT OF CURRENT FUNDS REVENUES, EXPENDITURES, AND OTHER CHANGES
FOR THE YEAR ENDED JUNE 30, 1998

	<u>Unrestricted</u>	<u>Restricted</u>	<u>Total</u>
<u>REVENUES</u>			
Tuition and fees	\$ 5,351,161.58	\$ 19,365.84	\$ 5,370,527.42
State appropriations	13,132,300.00	89,500.00	13,221,800.00
Federal grants and contracts	170,499.82	8,225,474.40	8,395,974.22
State grants and contracts	246.00	12,995.35	13,241.35
Local grants and contracts	-	6,061.00	6,061.00
Private gifts, grants, and contracts	106,283.00	132,539.96	238,822.96
Sales and services of educational activities	414,213.22	-	414,213.22
Sales and services of auxiliary enterprises	1,690,244.42	-	1,690,244.42
Investment income	288,870.22	-	288,870.22
Other sources	328,198.16	-	328,198.16
Total current revenues	<u>21,482,016.42</u>	<u>8,485,936.55</u>	<u>29,967,952.97</u>
<u>EXPENDITURES AND TRANSFERS</u>			
Educational and general:			
Expenditures:			
Instruction	10,913,981.10	381,866.57	11,295,847.67
Public service	545,491.50	4,927,861.05	5,473,352.55
Academic support	1,217,464.70	47,289.67	1,264,754.37
Student services	1,895,052.22	69,855.21	1,964,907.43
Institutional support	2,040,915.21	11,301.94	2,052,217.15
Operation and maintenance of plant	2,496,958.27	614.13	2,497,572.40
Scholarships and fellowships	198,550.93	3,047,147.98	3,245,698.91
Total educational and general expenditures	<u>19,308,413.93</u>	<u>8,485,936.55</u>	<u>27,794,350.48</u>
Mandatory transfer for:			
Principal and interest	50,000.00	-	50,000.00
Nonmandatory transfers for:			
Unexpended plant	75,000.00	-	75,000.00
Renewals and replacements	322,600.00	-	322,600.00
Total educational and general	<u>19,756,013.93</u>	<u>8,485,936.55</u>	<u>28,241,950.48</u>
Auxiliary enterprises:			
Expenditures	1,471,871.80	-	1,471,871.80
Nonmandatory transfer for:			
Renewals and replacements	20,449.41	-	20,449.41
Total auxiliary enterprises	<u>1,492,321.21</u>	<u>-</u>	<u>1,492,321.21</u>
Total expenditures and transfers	<u>21,248,335.14</u>	<u>8,485,936.55</u>	<u>29,734,271.69</u>
<u>OTHER ADDITION (DEDUCTIONS)</u>			
Excess of restricted receipts over transfers to revenues	-	238,720.25	238,720.25
Refunded to grantors	-	(4,094.44)	(4,094.44)
Indirect costs recovered	-	(170,518.22)	(170,518.22)
Other deductions	-	(12,341.50)	(12,341.50)
Net increases in fund balances	<u>\$ 233,681.28</u>	<u>\$ 51,766.09</u>	<u>\$ 285,447.37</u>

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, 1999, and June 30, 1998**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The college is part of the State University and Community College System of Tennessee (Tennessee Board of Regents). 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 financial support; the system is discretely presented in the *Tennessee Comprehensive Annual Financial Report*.

Basis of Presentation

The financial statements of the college have been prepared in conformity with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB). The college uses the AICPA College Guide model for accounting and financial reporting.

Basis of Accounting

The financial statements of the college have been prepared on the accrual basis, except that depreciation on plant assets is not recorded and revenues and expenditures of an academic term encompassing more than one fiscal year are reported solely in the fiscal year in which the term is predominantly conducted. All restricted resources are recorded as additions to the fund balances of the appropriate fund groups. Restricted current resources are then recorded as revenues during the period in which they are expended. The statement of current funds revenues, expenditures, and other changes is a statement of financial activities of current funds related to the current reporting period. It does not purport to present the results of operations or the net income or loss for the period, as would a statement of income or a statement of revenues and expenses.

To the extent that current funds are used to finance plant assets, the funds are accounted for as (1) expenditures, for normal replacement of movable equipment and library holdings; (2) mandatory transfers, for required debt amortization and interest; and (3) nonmandatory transfers, for all other cases.

Fund Accounting

To ensure observance of limitations and restrictions placed on the use of the resources available, the college maintains accounts in accordance with the principles of fund accounting. With this procedure, resources for various purposes are classified for accounting and reporting purposes into funds for specified activities or

**Tennessee Board of Regents
Walters State Community College
Notes to the Financial Statements (Cont.)
June 30, 1999, and June 30, 1998**

objectives. Separate accounts are maintained for each fund; however, in the accompanying financial statements, funds with similar characteristics have been combined into fund groups. Accordingly, all financial transactions have been recorded and reported by fund group.

Within each fund group, fund balances restricted by outside sources are so indicated and are distinguished from unrestricted funds which are allocated to specific purposes by the governing board. Externally restricted funds may be used only in accordance with the purposes established by the source of such funds and contrast with unrestricted funds over which the governing board retains full control to use in achieving any of its institutional purposes.

All gains and losses arising from the sale, collection, or other disposition of investments and other noncash assets are accounted for in the fund that owned such assets. Ordinary income derived from investments, receivables, and the like is accounted for in the fund owning such assets. All other unrestricted revenue is accounted for in the unrestricted current funds. Restricted gifts, grants, appropriations, and other restricted resources are accounted for in the appropriate restricted funds. Restricted current funds are reported as revenues and expenditures when expended for current operating purposes.

Current Funds

Unrestricted current funds consist of those funds over which the college retains full control for use in achieving any of its authorized institutional purposes. Auxiliary enterprises activities are included in unrestricted current funds and include the college bookstore, contracted food services, and other vending. Restricted current funds are externally restricted and may be used only in accordance with the purposes established by their source.

Loan Funds

Loan funds consist of resources made available for student loans.

Plant Funds

The plant funds group consists of (1) funds set aside for the acquisition of physical properties for institutional purposes; (2) funds set aside for the renewal and replacement of institutional properties; (3) funds set aside for debt service charges and for the retirement of the indebtedness on institutional properties; and (4) funds expended for, and thus invested in, institutional properties.

**Tennessee Board of Regents
Walters State Community College
Notes to the Financial Statements (Cont.)
June 30, 1999, and June 30, 1998**

Agency Funds

In handling these funds, the college acts solely as an agent; consequently, transactions of these funds do not affect the college's operating statements.

LGIP Deposit – 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 Local Government Investment Pool (LGIP) account. As expenditures are incurred, funds are withdrawn from the LGIP account by the Tennessee Board of Regents 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 any remaining funds are released by the Tennessee Board of Regents.

Inventories

Inventories are valued at the lower of cost or market. Textbooks included in the inventory are recorded on a first-in, first-out basis. All other items are also maintained on a first-in, first-out basis.

Compensated Absences

The college's employees accrue annual leave at varying rates, depending on length of service or classification. The amount of this liability and the related benefits are recorded in the current funds. Since the liability is expected to be funded primarily from future unrestricted and restricted revenue sources, a related allocation has been made to the current fund balances so that these fund balances reflect current available funds.

Allocation for Working Capital

The unrestricted fund balance is allocated for the amount of working capital. "Working capital" is defined as the total of all petty cash, accounts receivable, inventories, and prepaid expenses in the unrestricted fund at the balance sheet date, except for student receivables credited to deferred revenue, accrued interest, and amounts due on federal letters of credit, less the accrued benefits on accrued faculty salaries.

**Tennessee Board of Regents
Walters State Community College
Notes to the Financial Statements (Cont.)
June 30, 1999, and June 30, 1998**

Plant Assets

The physical plant and equipment are stated at cost at date of purchase or at fair value at date of donation. The college has adopted a policy of capitalizing interest costs during construction on projects funded by Tennessee State School Bond Authority indebtedness. All other interest costs are expensed. Library books are valued at \$48 per volume, and other library holdings are valued at various standardized values which approximate current costs. Depreciation on the physical plant and equipment is not recorded.

In the case of service departments, the college charges renewal and replacement of plant assets to current expenditures; these charges are also reported as additions to funds for renewals and replacements.

Under a contract with the Tennessee Department of Labor, the college is the administrative entity and grant recipient for the Job Training Partnership Act in service delivery area two of the State of Tennessee. The title to all the equipment purchased by the college under the provisions of the act resides with the U.S. Department of Labor. Therefore, this equipment is not included in the college's plant fund assets.

Walters State Community College Foundation

The college is the sole beneficiary of the Walters State Community College Foundation. This private, nonprofit foundation is controlled by a board independent of the college. The financial records, investments, and other financial transactions are handled by the college, and the assets and liabilities of the foundation are included in the agency funds on the college's balance sheet.

NOTE 2. CASH AND CASH EQUIVALENTS

In addition to demand deposits and petty cash on hand, this classification includes instruments which are readily convertible to known amounts of cash and which have original maturities of three months or less. At June 30, 1999, cash and cash equivalents consisted of \$268,030.36 in bank accounts, \$6,905.00 of petty cash on hand, \$8,376,447.72 in the State of Tennessee Local Government Investment Pool administered by the State Treasurer, \$304,390.23 in money market mutual funds, and \$453.57 in overnight repurchase agreements. At June 30, 1998, cash and cash equivalents consisted of \$501,179.26 in bank accounts, \$6,475.00 of petty cash on hand, \$7,769,011.76 in the State of Tennessee Local Government Investment Pool,

**Tennessee Board of Regents
Walters State Community College
Notes to the Financial Statements (Cont.)
June 30, 1999, and June 30, 1998**

\$357,432.79 in money market mutual funds, and \$1,087.54 in overnight repurchase agreements.

NOTE 3. DEPOSITS

The bank balances of certain deposits as of the balance sheet dates were entirely insured. The college's remaining deposits are in a financial institution which participates in the bank collateral pool administered by the State Treasurer. The securities pledged to protect these accounts are pledged in the aggregate rather than against each individual account. The members of the pool may be required by agreement to pay an assessment to cover any deficiency. Under this additional assessment agreement, public fund accounts covered by the pool are considered to be insured for purposes of credit risk disclosure.

The college also has deposits in the Local Government Investment Pool (LGIP) administered by the State Treasurer. The LGIP is part of the Pooled Investment Fund. The fund's investment policy and custodial credit risk are presented in the *Tennessee Comprehensive Annual Financial Report*.

NOTE 4. INVESTMENTS

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 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. The policy requires that investments of endowments in equity securities be limited to funds from private gifts or other sources external to the college and that endowment investments be prudently diversified. The Walters State Community College Foundation is authorized to invest funds in accordance with its board of directors' policies. All investments permitted to be reported at fair value under GASB Statement 31 are reported at fair value, including those with a maturity date of one year or less at the time of purchase. Certificates of deposit have been included with other deposits in Note 3 to determine the adequacy of collateral security pledged.

**Tennessee Board of Regents
Walters State Community College
Notes to the Financial Statements (Cont.)
June 30, 1999, and June 30, 1998**

The college's and foundation's investments are categorized below to indicate the level of risk assumed by the college or foundation at year-end. Category 1 consists of insured or registered investments or investments for which the securities are held by the college or foundation or its agent in the college's or foundation's name. Category 2 consists of uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the college's or foundation's name. Category 3 consists of uninsured and unregistered investments for which the securities are held by the counterparty or by its trust department or agent but not in the college's or foundation's name.

The college had \$1,087.54 invested in overnight repurchase agreements at June 30, 1998, and had \$453.57 invested in overnight repurchase agreements at June 30, 1999. These amounts are classified as cash and cash equivalents on the college's balance sheets. During the years ended June 30, 1998, and June 30, 1999, the college's investments in these repurchase agreements ranged from \$1,087.54 to \$1,264,324.55 and \$246.12 to \$1,458,830.24, respectively.

June 30, 1999

	<u>Fair Value</u>
Category 1:	
Corporate stocks	\$ 6,963.59
Category 3:	
U.S. government securities	2,106,264.10
Repurchase agreements	453.57
Corporate bonds	910,107.47
Corporate stocks	1,734,678.78
Investments not susceptible to credit risk categorization:	
Mutual funds	304,390.23
Cash surrender value of life insurance	51,773.31
Certificates of deposit classified as investments	50,000.00
Amount classified as cash equivalents	<u>(304,843.80)</u>
Total investments on the balance sheet	<u><u>\$4,859,787.25</u></u>

**Tennessee Board of Regents
Walters State Community College
Notes to the Financial Statements (Cont.)
June 30, 1999, and June 30, 1998**

<u>June 30, 1998</u>	<u>Fair Value</u>
Category 1:	
Corporate stocks	\$ 5,834.81
Category 3:	
U.S. government securities	2,102,683.83
Repurchase agreements	1,087.54
Corporate bonds	724,490.14
Corporate stocks	1,659,820.81
Investments not susceptible to credit risk categorization:	
Mutual funds	357,432.79
Cash surrender value of life insurance	51,948.15
Certificates of deposit classified as investments	50,000.00
Amount classified as cash equivalents	<u>(358,520.33)</u>
Total investments on the balance sheet	<u><u>\$4,594,777.74</u></u>

NOTE 5. PLANT FUND ENCUMBRANCES

Plant fund encumbrances outstanding at June 30, 1999, amounted to \$3,125,174.29 for unexpended plant and \$2,158.93 for renewals and replacements. Plant fund encumbrances outstanding at June 30, 1998, amounted to \$998,402.43 for unexpended plant.

NOTE 6. NOTES PAYABLE, LOAN PAYABLE, AND TSSBA INDEBTEDNESS

On September 14, 1995, the Walters State Community College Foundation entered into a purchase agreement with Greene County, Tennessee, wherein the foundation acquired from Greene County the property formerly known as Laughlin Memorial Hospital, Greeneville, Tennessee. Under the terms of the agreement and promissory note, and a separate agreement executed on September 13, 1995, with the Town of Greeneville, Tennessee, one-third of the note will be paid by the foundation, the Town of Greeneville, and Greene County. Amounts equal to payment of principal and interest made by both the Town of Greeneville and Greene County are donated

**Tennessee Board of Regents
Walters State Community College
Notes to the Financial Statements (Cont.)
June 30, 1999, and June 30, 1998**

annually to the Walters State Community College Foundation. The total note has a face amount of \$650,000, bears an annual interest rate of 4%, and has a due date of May 1, 2000. Annual payments of principal and interest are made each June. The total balance owed as of June 30, 1999, was \$108,333.33.

Additionally, the foundation acquires an annual loan from Citizens National Bank to pay the portion of the note applicable to the Town of Greeneville, who reimburses the foundation subsequent to year-end. The current note bears an annual interest rate of 5.95%, has a face amount of \$90,000, and has a due date of June 22, 2000. The balance as of June 30, 1999, was \$90,000.

On August 20, 1998, the Walters State Community College Foundation also entered into an agreement to purchase property formerly known as the Maple Crest Townhouses. The note has a face amount of \$430,000.00, requires monthly payments of principal and interest totaling \$3,318.81, bears an annual interest rate of 8%, and has a due date of September 1, 2023. The balance owed, as of June 30, 1999, was \$425,340.48.

The Tennessee Board of Regents, on behalf of the college, borrowed funds from the State of Tennessee's Energy Management Loan Program to fund the installation of a gas engine driven chiller and a new boiler. The loan bears no interest and has a principal amount of \$352,000.00, a minimum annual debt service of \$88,000.00, and a due date of September 2001. The loan balance owed by the college at June 30, 1999, was \$352,000.00.

The debt service requirements to maturity at June 30, 1999, for the loan payable and all notes payable are as follows:

Year Ending <u>June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2000	\$380,349.22	\$ 43,498.16	\$ 423,847.38
2001	94,515.20	33,310.52	127,825.72
2002	95,055.96	32,769.76	127,825.72
2003	7,641.61	32,184.11	39,825.72
2004	8,275.86	31,549.86	39,825.72
2005-2024	<u>389,835.96</u>	<u>373,490.12</u>	<u>763,326.08</u>
	<u>\$975,673.81</u>	<u>\$546,802.53</u>	<u>\$1,522,476.34</u>

**Tennessee Board of Regents
Walters State Community College
Notes to the Financial Statements (Cont.)
June 30, 1999, and June 30, 1998**

The Tennessee State School Bond Authority authorized the issuance of commercial paper to finance the costs of various capital projects. The amount issued for projects at the college was \$770,000.00 at June 30, 1999, and \$770,000.00 at June 30, 1998.

For the commercial paper program, the Tennessee State School Bond Authority maintains an interest rate reserve fund. The college contributes amounts to the reserve fund based on the amounts drawn. The principal of the reserve will be contributed to pay off notes or credited back to the college when the notes are converted to bonds. The interest earned on the reserve is used to pay interest due during the month.

NOTE 7. PENSION PLANS

A. Defined Benefit Plan

Tennessee Consolidated Retirement System

Plan Description - The college contributes to the State Employees, Teachers, and Higher Education Employees Pension Plan (SETHEEPP), a cost-sharing, multiple-employer, defined benefit pension plan administered by the Tennessee Consolidated Retirement System (TCRS). TCRS provides retirement, death, and disability benefits as well as annual cost-of-living adjustments to plan members and their beneficiaries. Title 8, Chapters 34-37, *Tennessee Code Annotated*, establishes benefit provisions. State statutes are amended by the Tennessee General Assembly.

The TCRS issues a publicly available financial report that includes financial statements and required supplementary information for SETHEEPP. That report may be obtained by writing to the Tennessee Department of the Treasury, Consolidated Retirement System, 10th Floor Andrew Jackson Building, Nashville, Tennessee 37243-0230, or by calling (615) 741-8202.

Funding Policy - Plan members are noncontributory. The college is required to contribute an actuarially determined rate. The current rate is 5.43% of annual covered payroll. Contribution requirements for the college are established and may be amended by the TCRS Board of Trustees. The college's contributions to TCRS for the years ended June 30, 1999, 1998, and 1997, were \$524,341.35, \$317,730.79, and \$639,301.39. Contributions met the requirements for each year.

**Tennessee Board of Regents
Walters State Community College
Notes to the Financial Statements (Cont.)
June 30, 1999, and June 30, 1998**

B. Defined Contribution Plans

Optional Retirement Plans (ORP)

Plan Description - The college contributes to three defined contribution plans: Teachers Insurance and Annuity Association–College Retirement Equities Fund (TIAA-CREF), Aetna Life Insurance and Annuity Company, and Variable Annuity Life Insurance Company (VALIC). These plans are administered by the Tennessee Department of the Treasury. Each plan provides retirement benefits to faculty and staff who are exempt from the overtime provisions of the Fair Labor Standards Act and who waive membership in the TCRS. Benefits depend solely on amounts contributed to the plan plus investment earnings. Plan provisions are established by state statute in Title 8, Chapter 35, Part 4, *Tennessee Code Annotated*. State statutes are amended by the Tennessee General Assembly.

Funding Policy - 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. Contribution requirements are established and amended by state statute. The contribution made by the college to the plans for the year ended June 30, 1999, was \$318,300.16, and for the year ended June 30, 1998, was \$299,788.03. Contributions met the requirements for each year.

NOTE 8. OTHER POST-EMPLOYMENT BENEFITS

The State of Tennessee administers a group health insurance program which provides post-employment health insurance benefits to eligible college retirees. This benefit is provided and administered by the State of Tennessee. The college assumes no liability for retiree health care programs. Information related to this plan is available at the statewide level in the *Tennessee Comprehensive Annual Financial Report*.

NOTE 9. INSURANCE-RELATED ACTIVITIES

The state purchases commercial insurance for real property losses above \$5 million per year and surety bond coverage on the state's officials and employees. During the year ended June 30, 1999, the state incurred losses in Clarksville and Jackson

**Tennessee Board of Regents
Walters State Community College
Notes to the Financial Statements (Cont.)
June 30, 1999, and June 30, 1998**

due to damage from tornadoes. Final settlement has not been made but is expected to be approximately \$6 million. In the prior two fiscal years, the state had not had any claims filed with the commercial insurer. A designation for casualty losses in the amount of \$8.219 million has been established in the state's general fund to provide for any property losses not covered by the commercial insurance.

At June 30, 1999, the scheduled coverage for the college was \$49,979,900 for buildings and \$18,474,700 for contents. At June 30, 1998, the scheduled coverage was \$40,021,600 for buildings and \$16,814,600 for contents.

The state has set aside assets for claim settlement in an internal service fund, the Claims Award Fund. This fund services all claims for risk of loss to which the state is exposed, including general liability, automotive liability, professional malpractice, and workers' compensation. The college participates in the Claims Award Fund. The fund allocates the cost of providing claims servicing and claims payment by charging a premium to the college based on a percentage of the college's expected loss costs, which include both experience and exposures. This charge considers recent trends in actual claims experience of the state as a whole. An actuarial valuation is performed as of fiscal year-end to determine the fund liability and premium allocation. Since the college participates in the Claims Award Fund, it is subject to the liability limitations under the provisions of the Tennessee Claims Commission Act, *Tennessee Code Annotated*, Section 9-8-101 et seq. Liability for negligence of the college for bodily injury and property damage is limited to \$300,000 per person and \$1,000,000 per occurrence. The limits of liability under workers' compensation are set forth in *Tennessee Code Annotated*, Section 50-6-101 et seq. Claims are paid through the state's Claims Award Fund.

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 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 10. COMMITMENTS AND CONTINGENCIES

Sick Leave - The college records the cost of sick leave when paid. Generally, since sick leave (earned one day per month with unlimited accumulation) is paid only

**Tennessee Board of Regents
Walters State Community College
Notes to the Financial Statements (Cont.)
June 30, 1999, and June 30, 1998**

when an employee dies or is absent because of illness, injury, or related family death, there is no liability for sick leave at June 30. The dollar amount of unused sick leave was \$5,612,293.77 at June 30, 1999, and \$5,207,917.55 at June 30, 1998.

Operating Leases - The college has entered into various operating leases for buildings and equipment. Such leases will probably continue to be required. Expenditures under operating leases for real property were \$113,561.92 and for personal property were \$62,083.57 for the year ended June 30, 1999. The amounts for the year ended June 30, 1998, were \$106,149.92 and \$55,253.90. All operating leases are cancelable at the lessee's option.

Construction in Progress - At June 30, 1999, outstanding commitments under construction contracts totaled \$2,909,483.08, which included campus expansion preplanning for the math/science building and the library, the Agribusiness Expo Center, the Sevier County Development Center, the Life Science Building renovation, the tactical driving course project, and the college center renovation, of which \$524,765.40 will be funded by future state capital outlay appropriations.

NOTE 11. PLEDGES

At June 30, 1999, unrecorded pledges of the Walters State Community College Foundation totaled \$340,952. Pledges totalling \$17,005 were unrestricted as to use. The remainder of the pledges were to be used for scholarships, student loans, professional development, operation of the college's expo center, and facilities construction at the Sevier County campus. These pledges are due to be collected over the next 11 fiscal years as follows:

Year Ending June 30	Amount
2000	\$152,316
2001	65,396
2002	26,840
2003	26,840
2004 and beyond	69,560
Total	\$340,952

It is not practicable to estimate the net realizable value of such pledges; therefore, they are not reflected in the accompanying financial statements.

**Tennessee Board of Regents
Walters State Community College
Notes to the Financial Statements (Cont.)
June 30, 1999, and June 30, 1998**

NOTE 12. CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE

During the year ended June 30, 1998, the college implemented GASB Statement 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, which requires reporting at fair value certain investments with a remaining maturity of more than one year at the time of purchase. The cumulative effect of this change in accounting principle is reported in the accompanying balance sheets as a restatement of the June 30, 1998, balance of deposits held in custody for the foundation.

During the year ended June 30, 1998, the threshold for capitalizing equipment increased from \$500 to \$1,000. As a result of the change, equipment decreased by \$855,384.84. The cumulative effect of this change in accounting principle is reported in the accompanying financial statements as a restatement of the beginning fund balance.

NOTE 13. PRIOR-YEAR RESTATEMENT

The college implemented GASB Statement 16, *Accounting for Compensated Absences*. As a result, the beginning fund balance for unrestricted current funds on Exhibit C was decreased by \$701,307.49, and the beginning fund balance for restricted current funds was decreased by \$63,414.62.