

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

**For the Years Ended
June 30, 2001, and June 30, 2000**

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Financial/compliance audits of colleges and universities are available on-line at
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STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY

State Capitol
Nashville, Tennessee 37243-0260
(615) 741-2501

John G. Morgan
Comptroller

August 8, 2002

The Honorable Don Sundquist, Governor

and

Members of the General Assembly

State Capitol

Nashville, Tennessee 37243

and

The Honorable Charles W. 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, 2001, and June 30, 2000. 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/sds
02/026

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, 2001, and June 30, 2000

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, please contact

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Audit Report
Tennessee Board of Regents
Walters State Community College
For the Years Ended June 30, 2001, and June 30, 2000

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
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		
Independent Auditor's Report		6
Financial Statements		
Balance Sheets	A	8
Statement of Changes in Fund Balances for the Year Ended June 30, 2001	B	10
Statement of Changes in Fund Balances for the Year Ended June 30, 2000	C	11

TABLE OF CONTENTS (CONT.)

	<u>Exhibit</u>	<u>Page</u>
Statement of Current Funds Revenues, Expenditures, and Other Changes for the Year Ended June 30, 2001	D	12
Statement of Current Funds Revenues, Expenditures, and Other Changes for the Year Ended June 30, 2000	E	13
Notes to the Financial Statements		14

**Tennessee Board of Regents
Walters State Community College
For the Years Ended June 30, 2001, and June 30, 2000**

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 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, 1999, through June 30, 2001, and was conducted in accordance with government auditing standards generally accepted in the United States of America. Financial statements are presented for the years ended June 30, 2001, and June 30, 2000. 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.

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, 2001, and June 30, 2000, 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 government auditing standards generally accepted in the United States of America. 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***

June 6, 2002

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, 2001, and June 30, 2000, and have issued our report thereon dated June 6, 2002. We conducted our audit in accordance with government auditing standards generally accepted in the United States of America. As discussed in Note 9 to the financial statements, the college changed the threshold for capitalizing equipment. Also, as discussed in Note 13 to the financial statements, the college implemented GASB 33, *Accounting and Financial Reporting for Nonexchange Transactions*.

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*.

The Honorable John G. Morgan
June 6, 2002
Page Two

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

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

AAH/sds



**STATE OF TENNESSEE
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Independent Auditor's Report

June 6, 2002

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, 2001, and June 30, 2000, 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 government auditing standards generally accepted in the United States of America. 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, 2001, and June 30, 2000, and the changes in fund balances and the current funds revenues, expenditures, and other changes for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The Honorable John G. Morgan
June 6, 2002
Page Two

As discussed in Note 9, the college changed the threshold for capitalizing equipment. Also, as discussed in Note 13, the college implemented GASB 33, *Accounting and Financial Reporting for Nonexchange Transactions*.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 6, 2002, 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. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Sincerely,

A handwritten signature in black ink that reads "Arthur A. Hayes, Jr." with a stylized flourish at the end.

Arthur A. Hayes, Jr., CPA,
Director

AAH/sds

TENNESSEE BOARD OF REGENTS
WALTERS STATE COMMUNITY COLLEGE
BALANCE SHEETS
JUNE 30, 2001, AND JUNE 30, 2000

<u>ASSETS</u>	<u>June 30, 2001</u>	<u>June 30, 2000</u>	<u>LIABILITIES AND FUND BALANCES</u>	<u>June 30, 2001</u>	<u>June 30, 2000</u>
Current funds:			Current funds:		
Unrestricted:			Unrestricted:		
General:			General:		
Cash and cash equivalents (Notes 2 and 3)	\$ 2,400,656.72	\$ 2,123,606.77	Liabilities:		
Accounts receivable (net of allowance of \$81,264.66 at June 30, 2001, and \$81,148.59 at June 30, 2000)	182,327.75	137,252.34	Accounts payable	\$ 129,434.02	\$ 104,170.63
Inventories	20,391.87	26,692.24	Accrued liabilities	1,030,516.36	940,071.83
Prepaid expenses and deferred charges	167,536.22	140,614.81	Deferred revenue	719,864.27	604,039.38
Due from restricted current funds	582,858.00	721,666.90	Compensated absences	927,508.21	860,366.06
Due from unexpended plant funds	15,521.00	-	Other liabilities	80,964.72	66,277.51
Other assets	8,504.95	5,268.65	Total liabilities	2,888,287.58	2,574,925.41
			Fund balances:		
			Nondiscretionary allocations:		
			Allocation for working capital	140,931.72	121,328.44
			Allocation for encumbrances	155,493.83	227,880.39
			Allocation for technology access fee	1,371.47	-
			Discretionary allocation:		
			Allocation for subsequent budget	719,100.00	690,000.00
			Allocation for compensated absences	(927,508.21)	(860,366.06)
			Unallocated	400,120.12	401,333.53
			Total fund balances	489,508.93	580,176.30
Total general	3,377,796.51	3,155,101.71	Total general	3,377,796.51	3,155,101.71
Auxiliary enterprises:			Auxiliary enterprises:		
Assets:			Liabilities:		
Cash and cash equivalents (Notes 2 and 3)	883,835.12	688,178.72	Accounts payable	18,987.23	15,207.54
Accounts receivable (net of allowance of \$2,256.65 at June 30, 2001, and \$1,440.57 at June 30, 2000)	86,692.50	25,026.76	Compensated absences	12,771.09	11,189.56
Inventories	415,277.23	456,804.58	Total liabilities	31,758.32	26,397.10
			Fund balances:		
			Nondiscretionary allocations:		
			Allocation for working capital	501,969.73	481,831.34
			Allocation for encumbrances	22,262.79	137,165.57
			Discretionary allocation:		
			Allocation for contingencies	94,457.17	86,538.00
			Allocation for compensated absences	(12,771.09)	(11,189.56)
			Unallocated	748,127.93	449,267.61
			Total fund balances	1,354,046.53	1,143,612.96
Total auxiliary enterprises	1,385,804.85	1,170,010.06	Total auxiliary enterprises	1,385,804.85	1,170,010.06
Total unrestricted	4,763,601.36	4,325,111.77	Total unrestricted	4,763,601.36	4,325,111.77
Restricted:			Restricted:		
Cash and cash equivalents (Notes 2 and 3)	563,642.64	583,591.52	Liabilities:		
Accounts and grants receivable	1,199,940.55	871,353.05	Accounts payable	149,762.32	198,413.61
Prepaid expenses	8,449.34	-	Accrued liabilities	4,483.25	5,995.13
			Due to unrestricted current funds	582,858.00	721,666.90
			Deferred revenues	41,268.01	38,250.00
			Compensated absences	92,183.01	85,338.50
			Total liabilities	870,554.59	1,049,664.14
			Fund balance	901,477.94	405,280.43
Total restricted	1,772,032.53	1,454,944.57	Total restricted	1,772,032.53	1,454,944.57
Total current funds	\$ 6,535,633.89	\$ 5,780,056.34	Total current funds	\$ 6,535,633.89	\$ 5,780,056.34
Loan funds:			Loan funds:		
Assets:			Fund balances:		
Cash and cash equivalents (Notes 2 and 3)	\$ 1,134.08	\$ 1,071.09	U.S. government grants refundable	\$ 998.90	\$ 939.22
			Institutional funds:		
			Restricted - matching	107.67	104.36
			Restricted - other	27.51	27.51
Total loan funds	\$ 1,134.08	\$ 1,071.09	Total loan funds	\$ 1,134.08	\$ 1,071.09

TENNESSEE BOARD OF REGENTS
WALTERS STATE COMMUNITY COLLEGE
BALANCE SHEETS
JUNE 30, 2001, AND JUNE 30, 2000

	June 30, 2001	June 30, 2000		June 30, 2001	June 30, 2000
ASSETS			LIABILITIES AND FUND BALANCES		
Plant funds:			Plant funds:		
Unexpended plant:			Unexpended plant:		
Cash and cash equivalents (Notes 2 and 3)	\$ 458,959.21	\$ 726,479.53	Liabilities:		
LGIP deposit - capital projects	114,549.00	132,759.57	Accounts payable	\$ 12,231.63	\$ 92,106.96
Accounts receivable	14.95	-	Due to unrestricted current funds	15,521.00	-
	<u>573,523.16</u>	<u>859,239.10</u>	Total liabilities	<u>27,752.63</u>	<u>92,106.96</u>
Total unexpended plant			Fund balance:		
			Unrestricted (Note 5)	545,770.53	767,132.14
			Total unexpended plant	<u>573,523.16</u>	<u>859,239.10</u>
Renewals and replacements:			Renewals and replacements:		
Cash and cash equivalents (Notes 2 and 3)	576,038.47	816,728.24	Liabilities:		
	<u>576,038.47</u>	<u>816,728.24</u>	Accounts payable	1,433.00	6,317.00
Total renewals and replacements			Total liabilities	<u>1,433.00</u>	<u>6,317.00</u>
			Fund balance:		
			Unrestricted (Note 5)	574,605.47	810,411.24
			Total renewals and replacements	<u>576,038.47</u>	<u>816,728.24</u>
Retirement of indebtedness:			Retirement of indebtedness:		
Cash and cash equivalents (Notes 2 and 3)	91,372.37	31,041.58	Liabilities:		
	<u>91,372.37</u>	<u>31,041.58</u>	Accrued interest payable	7,573.08	-
Total retirement of indebtedness			Total liabilities	<u>7,573.08</u>	<u>-</u>
			Fund balance:		
			Unrestricted	83,799.29	31,041.58
			Total retirement of indebtedness	<u>91,372.37</u>	<u>31,041.58</u>
Investment in plant:			Investment in plant:		
Land	555,293.11	555,293.11	Liabilities:		
Buildings	42,016,298.60	41,909,672.06	Accounts payable	2,771.52	-
Improvements other than buildings	2,302,685.04	2,302,685.04	Loan payable (Note 6)	88,000.00	176,000.00
Equipment	4,111,265.64	3,858,909.74	Tennessee State School Bond Authority indebtedness (Note 6)	770,000.00	770,000.00
Library books	3,029,040.00	2,282,832.00	Total liabilities	<u>860,771.52</u>	<u>946,000.00</u>
Other library holdings	709,959.00	741,324.00	Fund balance:		
Construction in progress	1,532,551.78	54,040.00	Net investment in plant	53,396,321.65	50,758,755.95
Total investment in plant	<u>54,257,093.17</u>	<u>51,704,755.95</u>	Total investment in plant	<u>54,257,093.17</u>	<u>51,704,755.95</u>
Total plant funds	<u>\$ 55,498,027.17</u>	<u>\$ 53,411,764.87</u>	Total plant funds	<u>\$ 55,498,027.17</u>	<u>\$ 53,411,764.87</u>
Agency funds:			Agency funds:		
Foundation:			Foundation:		
Cash and cash equivalents (Notes 2 and 3)	\$ 1,095,467.58	\$ 1,347,037.87	Liabilities:		
Investments (Note 4)	6,999,533.13	5,674,884.94	Accrued interest payable	\$ -	\$ 144.00
Accounts receivable	-	37,555.55	Accounts payable	8,257.41	6,324.38
Other assets	4,235,000.00	4,235,000.00	Notes payable (Note 6)	470,309.39	479,324.59
Total foundation	<u>12,330,000.71</u>	<u>11,294,478.36</u>	Deposits held in custody for foundation	11,851,433.91	10,808,685.39
Nonfoundation:			Total foundation	<u>12,330,000.71</u>	<u>11,294,478.36</u>
Cash and cash equivalents (Notes 2 and 3)	551,532.11	562,500.36	Nonfoundation:		
Accounts receivable	2,228.00	2,701.00	Liabilities:		
Total nonfoundation	<u>553,760.11</u>	<u>565,201.36</u>	Deposits held in custody for others	553,760.11	565,201.36
Total agency funds	<u>\$ 12,883,760.82</u>	<u>\$ 11,859,679.72</u>	Total nonfoundation	<u>553,760.11</u>	<u>565,201.36</u>
			Total agency funds	<u>\$ 12,883,760.82</u>	<u>\$ 11,859,679.72</u>

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, 2001

	Current Funds		Loan Funds	Plant Funds			
	Unrestricted	Restricted		Unexpended	Renewals and Replacements	Retirement of Indebtedness	Investment in Plant
REVENUES AND OTHER ADDITIONS							
Unrestricted current fund revenues	\$ 23,453,629.68	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Auxiliary enterprise revenues	1,889,143.30	-	-	-	-	-	-
State appropriations	-	95,920.00	-	1,548,349.65	-	-	-
Federal grants and contracts	-	9,314,514.29	-	-	-	-	-
State grants and contracts	-	1,350.50	-	-	-	-	-
Local grants and contracts	-	-	-	4,000.00	-	-	-
Private gifts, grants, and contracts	-	908,064.81	-	314,250.80	-	-	-
Tuition and fees	-	66,847.77	-	-	-	-	-
Investment income	-	-	62.99	-	-	-	-
Equipment use charges	-	-	-	-	168,100.00	-	-
Interest on loans receivable	-	-	216.36	-	-	-	-
Expended for plant facilities (including \$178,650.35 charged to current fund expenditures)	-	-	-	-	-	-	1,971,119.94
Retirement of indebtedness	-	-	-	-	-	-	88,000.00
Library holdings revaluation	-	-	-	-	-	-	628,092.91
Other	-	11,949.92	-	2,387.09	-	-	53,916.21
Total revenues and other additions	25,342,772.98	10,398,647.29	279.35	1,868,987.54	168,100.00	-	2,741,129.06
EXPENDITURES AND OTHER DEDUCTIONS							
Educational and general expenditures	23,252,778.55	9,685,706.04	-	-	-	-	-
Auxiliary enterprise expenditures	1,654,609.73	-	-	-	-	-	-
Indirect costs recovered	-	214,071.54	-	-	-	-	-
Provision for doubtful accounts	-	-	216.36	-	-	-	-
Expended for plant facilities	-	-	-	1,528,450.59	264,019.00	-	-
Expended for noncapital items	-	-	-	591,651.32	211,986.77	-	-
Interest on indebtedness	-	-	-	-	-	45,342.29	-
Retirement of indebtedness	-	-	-	-	-	88,000.00	-
Disposal of plant facilities	-	-	-	-	-	-	103,563.36
Other	3,418.50	2,672.20	-	24,247.24	-	-	-
Total expenditures and other deductions	24,910,806.78	9,902,449.78	216.36	2,144,349.15	476,005.77	133,342.29	103,563.36
TRANSFERS BETWEEN FUNDS-ADDITIONS (DEDUCTIONS)							
Mandatory:							
Principal and interest	(186,100.00)	-	-	-	-	186,100.00	-
Nonmandatory:							
Unexpended plant	(54,000.00)	-	-	54,000.00	-	-	-
Renewals and replacements	(72,100.00)	-	-	-	72,100.00	-	-
Total transfers	(312,200.00)	-	-	54,000.00	72,100.00	186,100.00	-
Net increases (decreases) for the year	119,766.20	496,197.51	62.99	(221,361.61)	(235,805.77)	52,757.71	2,637,565.70
Fund balances at beginning of year	1,723,789.26	405,280.43	1,071.09	767,132.14	810,411.24	31,041.58	50,758,755.95
Fund balances at end of year	\$ 1,843,555.46	\$ 901,477.94	\$ 1,134.08	\$ 545,770.53	\$ 574,605.47	\$ 83,799.29	\$ 53,396,321.65

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, 2000

	Current Funds		Loan Funds	Plant Funds			
	Unrestricted	Restricted		Unexpended	Renewals and Replacements	Retirement of Indebtedness	Investment in Plant
REVENUES AND OTHER ADDITIONS							
Unrestricted current fund revenues	\$ 22,019,192.41	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Auxiliary enterprise revenues	1,730,767.84	-	-	-	-	-	-
State appropriations	-	92,800.00	-	829,771.07	-	-	-
Federal grants and contracts	-	10,652,577.50	-	-	-	-	-
State grants and contracts	-	30,257.73	-	-	-	-	-
Private gifts, grants, and contracts	-	594,756.57	-	2,494,413.59	-	-	-
Tuition and fees	-	62,049.64	-	-	-	-	-
Investment income	-	-	59.52	-	-	-	-
Equipment use charges	-	-	-	-	161,100.00	-	-
Interest on loans receivable	-	-	216.36	-	-	-	-
Expended for plant facilities (including \$278,984.06 charged to current fund expenditures)	-	-	-	-	-	-	3,463,384.08
Retirement of indebtedness	-	-	-	-	-	-	176,000.00
Other	18,012.00	-	-	132.70	-	-	17,410.03
Total revenues and other additions	23,767,972.25	11,432,441.44	275.88	3,324,317.36	161,100.00	-	3,656,794.11
EXPENDITURES AND OTHER DEDUCTIONS							
Educational and general expenditures	21,420,856.83	10,962,326.29	-	-	-	-	-
Auxiliary enterprise expenditures	1,521,888.41	-	-	-	-	-	-
Indirect costs recovered	-	216,842.65	-	-	-	-	-
Provision for doubtful accounts	-	-	216.36	-	-	-	-
Expended for plant facilities	-	-	-	3,126,568.44	57,831.58	-	-
Expended for noncapital items	-	-	-	212,781.35	31,138.24	-	-
Interest on indebtedness	-	-	-	-	-	25,317.40	-
Retirement of indebtedness	-	-	-	-	-	176,000.00	-
Disposal of plant facilities	-	-	-	-	-	-	152,860.00
Library holdings revaluation	-	-	-	-	-	-	96,637.58
Other	-	135.75	-	2,530.03	-	-	-
Total expenditures and other deductions	22,942,745.24	11,179,304.69	216.36	3,341,879.82	88,969.82	201,317.40	249,497.58
TRANSFERS BETWEEN FUNDS-ADDITIONS (DEDUCTIONS)							
Mandatory:							
Principal and interest	(119,000.00)	-	-	-	-	119,000.00	-
Nonmandatory:							
Renewals and replacements	(107,300.00)	-	-	-	107,300.00	-	-
Total transfers	(226,300.00)	-	-	-	107,300.00	119,000.00	-
Net increases (decreases) for the year	598,927.01	253,136.75	59.52	(17,562.46)	179,430.18	(82,317.40)	3,407,296.53
Fund balances at beginning 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
Cumulative effect of change in accounting principle (Note 9)	-	-	-	-	-	-	(4,453,945.18)
Fund balances at beginning of year, restated	1,124,862.25	152,143.68	1,011.57	784,694.60	630,981.06	113,358.98	47,351,459.42
Fund balances at end of year	\$ 1,723,789.26	\$ 405,280.43	\$ 1,071.09	\$ 767,132.14	\$ 810,411.24	\$ 31,041.58	\$ 50,758,755.95

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, 2001

	<u>Unrestricted</u>	<u>Restricted</u>	<u>Total</u>
<u>REVENUES</u>			
Tuition and fees	\$ 6,355,063.05	\$ 66,847.77	\$ 6,421,910.82
State appropriations	15,173,100.00	95,920.00	15,269,020.00
Federal grants and contracts	215,488.49	9,314,514.29	9,530,002.78
State grants and contracts	16,310.00	1,350.50	17,660.50
Local grants and contracts	500.00	-	500.00
Private gifts, grants, and contracts	307,584.91	908,064.81	1,215,649.72
Sales and services of educational activities	550,678.43	-	550,678.43
Sales and services of auxiliary enterprises	1,889,143.30	-	1,889,143.30
Investment income	311,131.46	-	311,131.46
Other sources	523,773.34	11,949.92	535,723.26
Total current revenues	<u>25,342,772.98</u>	<u>10,398,647.29</u>	<u>35,741,420.27</u>
<u>EXPENDITURES AND TRANSFERS</u>			
Educational and general:			
Expenditures:			
Instruction	13,056,285.34	959,266.94	14,015,552.28
Public service	752,180.97	4,998,662.40	5,750,843.37
Academic support	1,781,593.93	14,176.36	1,795,770.29
Student services	2,140,504.71	109,221.65	2,249,726.36
Institutional support	2,268,808.75	20,354.76	2,289,163.51
Operation and maintenance of plant	3,060,812.92	87,176.99	3,147,989.91
Scholarships and fellowships (Note 11)	192,591.93	3,496,846.94	3,689,438.87
Total educational and general expenditures	<u>23,252,778.55</u>	<u>9,685,706.04</u>	<u>32,938,484.59</u>
Mandatory transfer for:			
Principal and interest	186,100.00	-	186,100.00
Nonmandatory transfers for:			
Unexpended plant	54,000.00	-	54,000.00
Renewals and replacements	48,000.00	-	48,000.00
Total educational and general	<u>23,540,878.55</u>	<u>9,685,706.04</u>	<u>33,226,584.59</u>
Auxiliary enterprises:			
Expenditures	1,654,609.73	-	1,654,609.73
Nonmandatory transfer for:			
Renewals and replacements	24,100.00	-	24,100.00
Total auxiliary enterprises	<u>1,678,709.73</u>	<u>-</u>	<u>1,678,709.73</u>
Total expenditures and transfers	<u>25,219,588.28</u>	<u>9,685,706.04</u>	<u>34,905,294.32</u>
<u>OTHER DEDUCTIONS</u>			
Indirect costs recovered	-	(214,071.54)	(214,071.54)
Other deductions	(3,418.50)	(2,672.20)	(6,090.70)
Net increases in fund balances	<u>\$ 119,766.20</u>	<u>\$ 496,197.51</u>	<u>\$ 615,963.71</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, 2000

	<u>Unrestricted</u>	<u>Restricted</u>	<u>Total</u>
<u>REVENUES</u>			
Tuition and fees	\$ 5,850,559.15	\$ 62,049.64	\$ 5,912,608.79
State appropriations	14,766,800.00	92,800.00	14,859,600.00
Federal grants and contracts	222,508.63	10,652,577.50	10,875,086.13
State grants and contracts	11,574.88	30,257.73	41,832.61
Local grants and contracts	785.00	-	785.00
Private gifts, grants, and contracts	71,239.55	594,756.57	665,996.12
Sales and services of educational activities	348,098.91	-	348,098.91
Sales and services of auxiliary enterprises	1,730,767.84	-	1,730,767.84
Investment income	300,178.64	-	300,178.64
Other sources	465,459.65	-	465,459.65
Total current revenues	<u>23,767,972.25</u>	<u>11,432,441.44</u>	<u>35,200,413.69</u>
<u>EXPENDITURES AND TRANSFERS</u>			
Educational and general:			
Expenditures:			
Instruction	12,012,562.95	261,314.62	12,273,877.57
Public service	661,759.44	6,869,899.07	7,531,658.51
Academic support	1,616,421.94	18,993.33	1,635,415.27
Student services	1,942,287.91	89,237.80	2,031,525.71
Institutional support	2,104,682.82	21,681.93	2,126,364.75
Operation and maintenance of plant	2,905,343.35	506,686.94	3,412,030.29
Scholarships and fellowships (Note 11)	177,798.42	3,194,512.60	3,372,311.02
Total educational and general expenditures	<u>21,420,856.83</u>	<u>10,962,326.29</u>	<u>32,383,183.12</u>
Mandatory transfer for:			
Principal and interest	119,000.00	-	119,000.00
Nonmandatory transfer for:			
Renewals and replacements	85,000.00	-	85,000.00
Total educational and general	<u>21,624,856.83</u>	<u>10,962,326.29</u>	<u>32,587,183.12</u>
Auxiliary enterprises:			
Expenditures			
Expenditures	1,521,888.41	-	1,521,888.41
Nonmandatory transfer for:			
Renewals and replacements	22,300.00	-	22,300.00
Total auxiliary enterprises	<u>1,544,188.41</u>	<u>-</u>	<u>1,544,188.41</u>
Total expenditures and transfers	<u>23,169,045.24</u>	<u>10,962,326.29</u>	<u>34,131,371.53</u>
<u>OTHER DEDUCTIONS</u>			
Indirect costs recovered	-	(216,842.65)	(216,842.65)
Other deductions	-	(135.75)	(135.75)
Net increases in fund balances	<u>\$ 598,927.01</u>	<u>\$ 253,136.75</u>	<u>\$ 852,063.76</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, 2001, and June 30, 2000**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The college is a 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 have been prepared in conformity with accounting principles generally accepted in the United States of America 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 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 or all eligibility requirements have been met. 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

**Tennessee Board of Regents
Walters State Community College
Notes to the Financial Statements (Cont.)
June 30, 2001, and June 30, 2000**

accounting. With this procedure, resources for various purposes are classified for accounting and reporting purposes into funds for specified activities or 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 when expended or when all eligibility requirements have been met 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 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.

**Tennessee Board of Regents
Walters State Community College
Notes to the Financial Statements (Cont.)
June 30, 2001, and June 30, 2000**

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.

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.

**Tennessee Board of Regents
Walters State Community College
Notes to the Financial Statements (Cont.)
June 30, 2001, and June 30, 2000**

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.

Plant Assets

The physical plant and equipment are stated at cost at date of purchase or at fair value at date of donation. 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 a service provider for the Local Workforce Investment Area in workforce investment area two of the State of Tennessee. The title to all the equipment purchased by the college under the provisions of the Workforce Investment Act resides with the U.S. government. Therefore, this equipment is not included in the college's plant fund assets.

Interest Costs

The college has adopted a policy of capitalizing all construction-related interest costs for capital projects funded by Tennessee State School Bond Authority indebtedness. All other interest costs are expensed.

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.

**Tennessee Board of Regents
Walters State Community College
Notes to the Financial Statements (Cont.)
June 30, 2001, and June 30, 2000**

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, 2001, cash and cash equivalents consisted of \$827,386.97 in bank accounts, \$24,755.00 of petty cash on hand, \$5,602,566.12 in the State of Tennessee Local Government Investment Pool administered by the State Treasurer, \$167,418.92 in money market mutual funds, and \$511.29 in overnight repurchase agreements. At June 30, 2000, cash and cash equivalents consisted of \$299,074.04 in bank accounts, \$6,655.00 of petty cash on hand, \$6,354,683.87 in the State of Tennessee Local Government Investment Pool, \$218,647.96 in money market mutual funds, and \$1,174.81 in overnight repurchase agreements.

NOTE 3. DEPOSITS

The bank balances of certain deposits as of the balance sheet dates were entirely insured.

The laws of the State of Tennessee require that collateral be pledged to secure all uninsured deposits. Tennessee Board of Regents policies require that the market value of collateral pledged equal 115%, 100%, or 90% of the uninsured deposits at financial institutions participating in the collateral pool and 105% of the uninsured deposits at all other financial institutions. The pledge level for financial institutions participating in the collateral pool is based on financial criteria set by the Collateral Pool Board with the financially strongest institutions being eligible for the lowest pledge level.

The college's remaining deposits are in financial institutions which participate 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.

Tennessee Board of Regents
Walters State Community College
Notes to the Financial Statements (Cont.)
June 30, 2001, and June 30, 2000

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.

The college's and the 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.

**Tennessee Board of Regents
Walters State Community College
Notes to the Financial Statements (Cont.)
June 30, 2001, and June 30, 2000**

The college had \$1,174.81 invested in overnight repurchase agreements at June 30, 2000, and had \$511.29 invested in overnight repurchase agreements at June 30, 2001. These amounts are classified as cash and cash equivalents on the college's balance sheets. During the years ended June 30, 2000, and June 30, 2001, the college's investments in these repurchase agreements ranged from \$1,174.81 to \$1,822,876.99 and \$511.29 to \$1,748,747.28, respectively.

<u>June 30, 2001</u>	<u>Fair Value</u>
Category 1:	
Repurchase agreements	\$511.29
Corporate stocks	8,395.67
Category 3:	
U.S. government securities	2,688,568.62
Corporate bonds	1,334,058.29
Corporate stocks	2,797,420.66
Investments not susceptible to credit risk categorization:	
Mutual funds	187,740.16
Cash surrender value of life insurance	50,768.65
Certificates of deposit classified as investments	100,000.00
Amount classified as cash equivalents	<u>(167,930.21)</u>
Total investments on the balance sheet	<u>\$6,999,533.13</u>

<u>June 30, 2000</u>	<u>Fair Value</u>
Category 1:	
Repurchase agreements	\$1,174.81
Corporate stocks	186,567.49
Category 3:	
U.S. government securities	2,308,683.79
Corporate bonds	853,228.71
Corporate stocks	2,152,469.82
Investments not susceptible to credit risk categorization:	
Mutual funds	242,825.88
Cash surrender value of life insurance	49,757.21

**Tennessee Board of Regents
Walters State Community College
Notes to the Financial Statements (Cont.)
June 30, 2001, and June 30, 2000**

Certificates of deposit classified as investments	100,000.00
Amount classified as cash equivalents	<u>(219,822.77)</u>
Total investments on the balance sheet	<u>\$5,674,884.94</u>

NOTE 5. PLANT FUND ENCUMBRANCES

Plant fund encumbrances outstanding at June 30, 2001, amounted to \$2,100,403.99 for unexpended plant and \$24,782.87 for renewals and replacements. Plant fund encumbrances outstanding at June 30, 2000, amounted to \$465,573.55 for unexpended plant and \$119,503.80 for renewals and replacements.

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

On August 20, 1998, the Walters State Community College Foundation entered into an agreement to purchase property formerly known as the Maple Crest Townhouses. The related 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, 2001, was \$412,809.39.

The foundation also has a line of credit with Tennessee State Bank. The line of credit bears an annual interest rate of 9% with interest paid quarterly. The balance owed on this note payable at June 30, 2001, was \$57,500.00.

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, 2001, was \$88,000.00.

The debt service requirements to maturity at June 30, 2001, for the loan payable and all notes payable are as follows:

**Tennessee Board of Regents
Walters State Community College
Notes to the Financial Statements (Cont.)
June 30, 2001, and June 30, 2000**

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2002	\$152,555.96	\$ 32,769.76	\$185,325.72
2003	7,641.61	32,184.11	39,825.72
2004	8,275.86	31,549.86	39,825.72
2005	8,962.73	30,862.99	39,825.72
2006	9,706.64	30,119.08	39,825.72
2007-2024	<u>371,166.59</u>	<u>312,508.03</u>	<u>683,674.62</u>
	<u>\$558,309.39</u>	<u>\$469,993.83</u>	<u>\$1,028,303.22</u>

The Tennessee State School Bond Authority also 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, 2001, and \$770,000.00 at June 30, 2000.

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.

Tennessee Board of Regents
Walters State Community College
Notes to the Financial Statements (Cont.)
June 30, 2001, and June 30, 2000

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 6.19% 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, 2001, 2000, and 1999, were \$615,135.28, \$525,326.14, and \$524,341.35. Contributions met the requirements for each year.

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 was \$369,783.65 for the year ended June 30, 2001, and \$323,132.56 for the year ended June 30, 2000. Contributions met the requirements for each year.

**Tennessee Board of Regents
Walters State Community College
Notes to the Financial Statements (Cont.)
June 30, 2001, and June 30, 2000**

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. CUMULATIVE EFFECT OF A CHANGE IN ACCOUNTING PRINCIPLE

During the year ended June 30, 2000, the threshold for capitalizing equipment increased from \$1,000 to \$5,000. As a result of the change, equipment decreased by \$4,453,945.18.

NOTE 10. 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 due to damage from tornadoes. The final settlement of \$8.96 million for the tornado damage in Clarksville was made during the year ended June 30, 2001. In the years ended June 30, 2000, and June 30, 1998, the state did not have any claims filed with the commercial insurer. A designation for casualty losses in the amount of \$8.731 million at June 30, 2001, and \$7.256 million at June 30, 2000, was established in the state's general fund to provide for any property losses not covered by the commercial insurance.

At June 30, 2001, the scheduled coverage for the college was \$49,800,800 for buildings and \$20,946,800 for contents. At June 30, 2000, the scheduled coverage was \$49,898,300 for buildings and \$19,922,100 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, automobile 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

**Tennessee Board of Regents
Walters State Community College
Notes to the Financial Statements (Cont.)
June 30, 2001, and June 30, 2000**

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 11. FEDERAL STUDENT FINANCIAL ASSISTANCE

The restricted expenditure function scholarships and fellowships includes \$3,480,982.56 of federal financial assistance for students for the year ended June 30, 2001, and \$3,176,606.42 for the year ended June 30, 2000. These programs include Federal Pell Grants and Federal Supplemental Educational Opportunity Grants.

NOTE 12. 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 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 \$5,867,307.70 at June 30, 2001, and \$5,661,666.36 at June 30, 2000.

**Tennessee Board of Regents
Walters State Community College
Notes to the Financial Statements (Cont.)
June 30, 2001, and June 30, 2000**

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 \$103,852.97 and for personal property were \$81,728.69 for the year ended June 30, 2001. The amounts for the year ended June 30, 2000, were \$116,136.21 and \$43,556.65. All operating leases are cancelable at the lessee's option.

Construction in Progress - At June 30, 2001, outstanding commitments under construction contracts totaled \$2,084,073.79, which included campus expansion preplanning for the library, the Agribusiness Expo Center (Phase 2), the Life Science Building renovation, the College Center renovation, the College Center safety corrections project, and the softball/baseball project, of which \$2,025,070.17 will be funded by future state capital outlay appropriations.

NOTE 13. PRIOR-YEAR RESTATEMENT

During the year ended June 30, 2001, the college implemented GASB Statement 33, *Accounting and Financial Reporting for Nonexchange Transactions*. As a result, prior-year amounts were restated as noted below:

<u>Fund</u>	<u>Account</u>	<u>Amount</u>
Exhibit A		
Restricted	Deferred revenue	\$38,250.00
Restricted	Fund balance	(\$38,250.00)
Exhibit E		
Restricted	Tuition and fees	\$37,711.31
Restricted	Federal grants and contracts	\$441,980.55
Restricted	State grants and contracts	\$649.80
Restricted	Private gifts, grants, and contracts	(\$10,226.51)
Restricted	Excess of restricted receipts over transfers to revenues	(\$508,365.15)

Tennessee Board of Regents
Walters State Community College
Notes to the Financial Statements (Cont.)
June 30, 2001, and June 30, 2000

NOTE 14. NEW ACCOUNTING PRONOUNCEMENTS

In November 1999, the Governmental Accounting Standards Board (GASB) issued Statement 35, *Basic Financial Statements—and Management’s Discussion and Analysis—for Public Colleges and Universities, an amendment of GASB Statement No. 34*. As originally issued, Statement 34, *Basic Financial Statements—and Management’s Discussion and Analysis—for States and Local Governments* was not applicable to public institutions. Rather than issuing separate standards, GASB decided to provide financial reporting guidance for public institutions by amending Statement 34 to extend its applicability to them. Statement 35 supersedes GASB Statement 15, which currently allows public institutions to choose one of two models when preparing their financial statements—the AICPA College Guide model or the governmental model. As component units of a state government, most public institutions will implement GASB Statement 35 at the same time as the state government implements GASB Statement 34.

Under the provisions of the GASB standards, the college is permitted to report as a special purpose government engaged only in business-type activities (BTA). BTA reporting will require the college to present only the basic financial statements and required supplementary information (RSI) for an enterprise fund that includes management’s discussion and analysis; a statement of net assets or a balance sheet; a statement of revenues, expenses, and changes in net assets; a statement of cash flows; notes to the financial statements; and other applicable RSI. The required basic financial statements described above are prepared using the economic resources measurement focus and the accrual basis of accounting. Fund financial statements are not required for BTA reporting.

Statement 34 will also require the college to retroactively and prospectively report all capital assets, net of accumulated depreciation, including infrastructure assets (long-lived capital assets such as roads and bridges) in the statement of net assets and report depreciation expense in the statement of revenues, expenses, and changes in net assets. Retroactive reporting of capital assets will require a prior-period adjustment to net assets. Management has not yet determined the effect of the implementation of this statement on the college’s financial statements.