Tennessee Board of Regents
Walters State Community College

For the Years Ended
June 30, 2003, and June 30, 2002

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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

September 9, 2004

The Honorable Phil Bredesen, 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, 2003, and June 30, 2002. 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 disclosed one deficiency, which is detailed in the Results of the Audit section of this report. The college's administration has responded to the audit finding; the response is included following the finding. The Division of State Audit will follow up the audit to examine the application of the procedures instituted because of the audit finding.

Sincerely,

John G. Morgan
Comptroller of the Treasury

JGM/sds
04/040

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, 2003, and June 30, 2002

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.

COMPLIANCE FINDING

Failure to Detect Financial Aid Overawards
A computer-assisted audit technique performed on fiscal year 2002 federal financial aid recipients indicated 12 instances where recipients were overawarded without the overaward being detected by financial aid personnel. The overawards totaled $12,155.00 (page 6).

OPINION ON THE FINANCIAL STATEMENTS

The opinion on the financial statements is unqualified.

Audit Report
Tennessee Board of Regents
Walters State Community College
For the Years Ended June 30, 2003, and June 30, 2002

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Tennessee Board of Regents
Walters State Community College
For the Years Ended June 30, 2003, and June 30, 2002

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, 2001, through June 30, 2003, and was conducted in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Financial statements are presented for the years ended June 30, 2003, and June 30, 2002. 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

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

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, 2003, and June 30, 2002, 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 auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. 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*. An immaterial instance of noncompliance, along with the recommendation and management's response, is included in the finding and recommendation.

Fairness of Financial Statement Presentation

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

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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*

July 8, 2004

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, 2003, and June 30, 2002, and have issued our report thereon dated July 8, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. As discussed in Note 11, during the year ended June 30, 2002, the college implemented GASB Statement 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, and GASB Statement 35, *Basic Financial Statements—and Management's Discussion and Analysis—for Public Colleges and Universities*. The college also implemented GASB Statement 37, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments: Omnibus*, and GASB Statement 38, *Certain Financial Statement Note Disclosures*.

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 an immaterial instance of noncompliance that we have included in the Finding and Recommendation section of this report. We also noted certain other 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,

Arthur A. Hayes, Jr.

Arthur A. Hayes, Jr., CPA,
Director

AAH/sds

FINDING AND RECOMMENDATION

Failure to detect financial aid overawards

Finding

A computer-assisted audit technique performed on all fiscal year 2002 federal financial aid recipients indicated 12 instances where recipients were overawarded without the overaward being detected by financial aid personnel. The overawards totaled $12,155.00. An overaward can occur when a student's need-based federal aid package exceeds the student's need.

According to the *Student Financial Aid Handbook*, volume 1, chapter 7, page 1-117:

> A student must have financial need to receive all SFA funds except for unsubsidized Stafford and PLUS loans under the Direct Loan and FFEL programs. Financial need is simply defined as the difference between the student's cost of attendance and the family's ability to pay these costs, the EFC [Expected Family Contribution]. For programs other than the Pell Grant Program, other aid the student receives known as *resources* under the Campus-based programs or as *estimated financial assistance* under the Stafford programs, is also subtracted from the cost of attendance to determine financial need.

The Student Information System at the college indicates potential overawards as they occur, and financial aid personnel should take steps to detect and resolve any actual overawards at that point. Financial aid personnel did not recognize these overawards even though the Student Information System indicated the need for further review. Also, there was no managerial or other review process after award packaging to detect possible overawards.

According to the current financial aid director, since the 2002 fiscal year, steps have been taken to train financial aid personnel so that they will better recognize overawards and better understand the operation of the Student Information System. The financial aid director has also instituted review procedures after award packaging to detect possible overawards.

Recommendation

The financial aid director should ensure that federal financial aid is awarded in compliance with federal regulations. Procedures should be in place to detect and resolve financial aid overawards.

Management's Comment

We concur with the finding. This finding primarily resulted in students receiving subsidized loans instead of unsubsidized loans. In all instances, the lending institutions were notified and the loans were recertified to correct the type of loan.

The following procedures have been implemented to prevent future overawards. The financial aid staff has received training to better coordinate financial aid packaging. Staff members have also been instructed to post anticipated award notices to the Student Information System (SIS) so that new awards can be adjusted as needed. Reports to detect overawards have been developed and are currently reviewed at least once a month. A new web-based system implemented by the State allows up-to-date access on Vocational Rehabilitation awards.

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Independent Auditor's Report

July 8, 2004

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

Dear Mr. Morgan:

We have audited the accompanying statements of net assets 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, 2003, and June 30, 2002, and the related statements of revenues, expenses, and changes in net assets and cash flows 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 auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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, 2003, and June 30, 2002, and the revenues, expenses, and changes in net assets and the cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The Honorable John G. Morgan
July 8, 2004
Page Two

As discussed in Note 11, during the year ended June 30, 2002, the college implemented GASB Statement 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments,* and GASB Statement 35, *Basic Financial Statements—and Management's Discussion and Analysis—for Public Colleges and Universities*. The college also implemented GASB Statement 37, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments: Omnibus,* and GASB Statement 38, *Certain Financial Statement Note Disclosures*.

The management's discussion and analysis on pages 10 through 23 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 8, 2004, 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,

Arthur A. Hayes, Jr.

Arthur A. Hayes, Jr., CPA,
Director

AAH/sds

Management's Discussion and Analysis

This section of Walters State Community College's annual financial report presents a discussion and analysis of the financial performance of the college during the fiscal year ended June 30, 2003, with comparative information presented for the fiscal year ended June 30, 2002. This discussion has been prepared by management along with the financial statements and related note disclosures and should be read in conjunction with the financial statements and notes. The financial statements, notes, and this discussion are the responsibility of management.

Using This Annual Report

This report consists of three basic financial statements. The statement of net assets; the statement of revenues, expenses, and changes in net assets; and the statement of cash flows provide information on Walters State Community College as a whole and present a long-term view of the college's finances.

The Statement of Net Assets

The statement of net assets presents the financial position of the college at the end of the fiscal year and includes all assets and liabilities of the college. The difference between total assets and total liabilities—net assets—is an indicator of the current financial condition of the college. Assets and liabilities are generally measured using current values. One notable exception is capital assets, which are stated at historical cost less an allowance for depreciation.

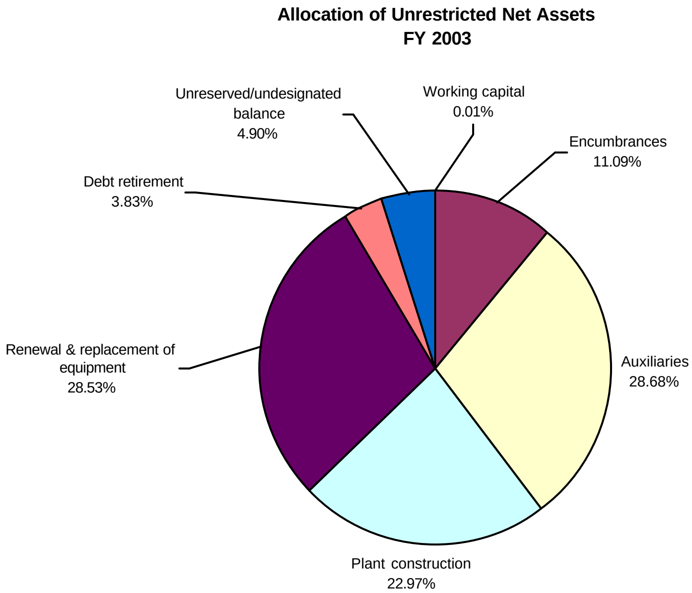
Net assets are divided into three major categories. The first category, invested in capital assets, net of related debt, provides the college's equity in property, plant, and equipment owned by the college. The next asset category is expendable restricted net assets. Expendable restricted net assets are available for expenditure by the college but must be spent for purposes as determined by donors and/or external entities that have placed time or purpose restrictions on the use of the assets. The final category is unrestricted net assets. Unrestricted net assets are available to the institution for any lawful purpose of the institution.

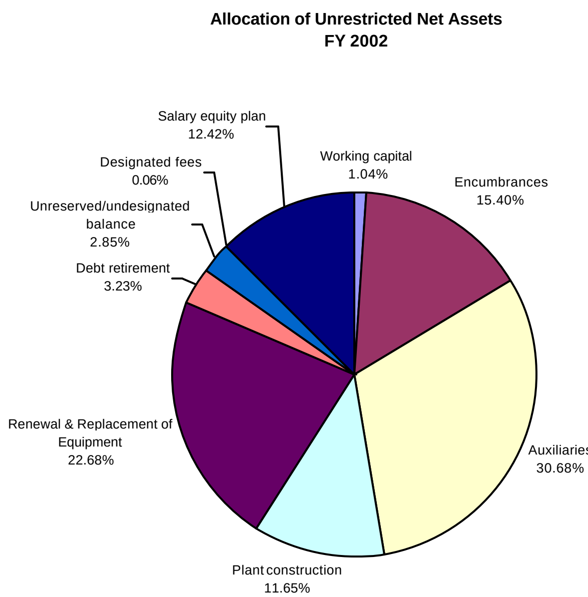
Statements of Net Assets
(in thousands of dollars)

	2003	2002
Assets:		
Current assets	$14,734	$14,598
Capital assets, net	38,605	38,726
Other assets	6,323	5,325
Total assets	59,662	58,649
Liabilities:		
Current liabilities	14,937	14,768
Noncurrent liabilities	1,424	1,623
Total liabilities	16,361	16,391
Net Assets:		
Invested in capital assets, net of related debt	37,988	38,040
Restricted – expendable	256	160
Unrestricted	5,057	4,058
Total net assets	$43,301	$42,258

- Current assets increased due to an increase in the amount on deposit in the LGIP account while demand deposits decreased.
- Capital assets decreased primarily due to the retirement of equipment and books.
- Other assets increased in the areas of unexpended plant funds, renewals and replacements, and retirement of indebtedness.
- Current liabilities increased primarily due to an increase in deposits held in custody for others, (i.e., foundation unitrusts).
- Noncurrent liabilities decreased due to payments toward commercial paper and the retirement of debt relative to an asset of the Walters State Community College Foundation.

Many of the college's unrestricted net assets have been designated or reserved for specific purposes such as: repairs and replacement of equipment, future debt service, and capital projects. The following graphs show the allocations:





- The allocation for working capital decreased primarily due to a decrease in student accounts receivable.
- The allocation for encumbrances decreased due to more purchase orders being processed as of 6/30/02 than at 6/30/03.
- The allocation for designated fees decreased because there were no undesignated technology access fees at 6/30/03.
- The allocation for plant construction at 6/30/02 included amounts for the completion of baseball/softball dugouts and the renovation to the Math and Behavioral & Social Services Building.
- The allocation for renewals and replacements increased due to funds set aside for the migration to a new relational student information software system.
- Payment toward the principal reduced the amount allocated for retirement of indebtedness.
- During 2002-2003, salary equity adjustments were administered from a special designation set aside at 6/30/02 for that purpose.

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

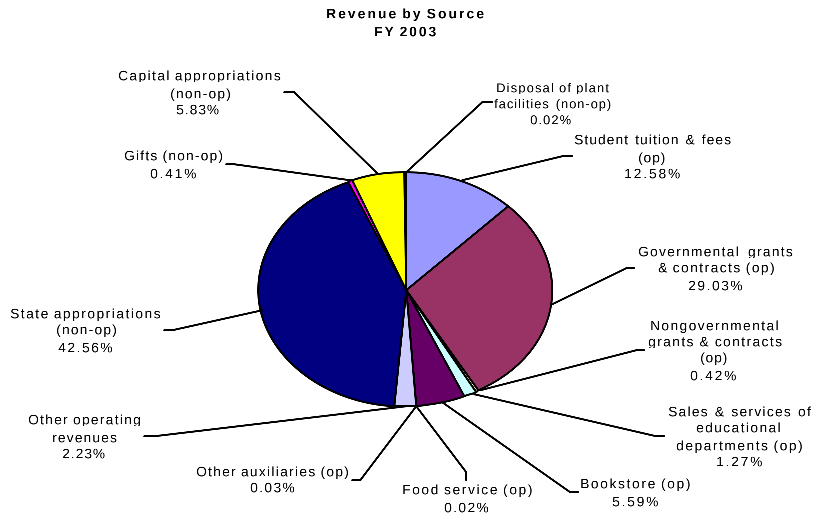
The statement of revenues, expenses, and changes in net assets presents the operating results of the college, as well as the nonoperating revenues and expenses. Annual state appropriations, while budgeted for operations, are considered nonoperating revenues according to generally accepted accounting principles.

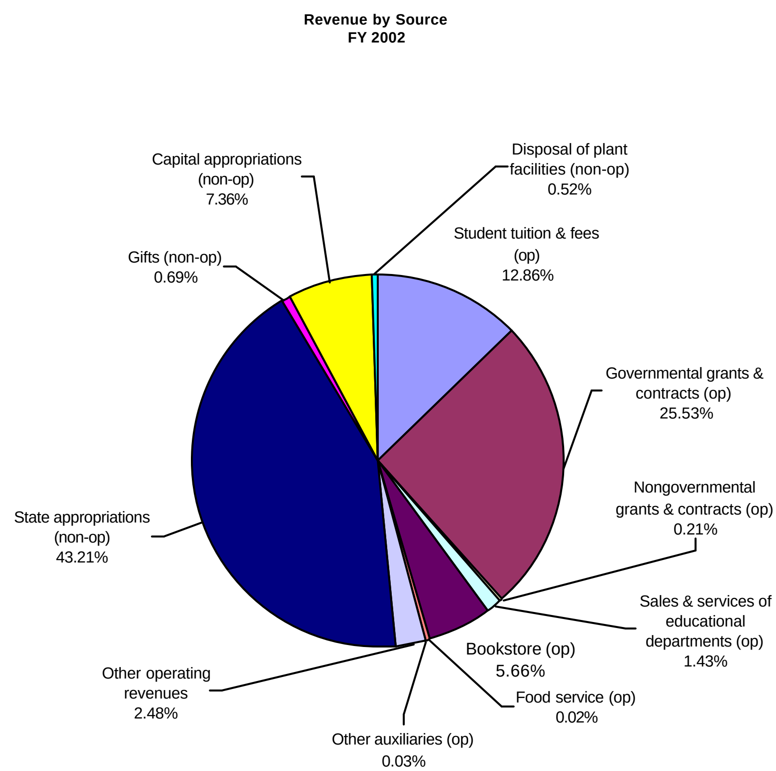
Statements of Revenues, Expenses and Changes in Net Assets
(in thousands of dollars)

	2003	2002
Operating revenues:		
Net tuition and fees	$ 4,744	$ 4,680
Grants and contracts	11,105	9,370
Auxiliary	2,125	2,081
Other	1,182	1,277
Total operating revenues	19,156	17,408
Operating expenses	36,055	33,560
Operating loss	(16,899)	(16,152)
Nonoperating revenues and expenses:		
State appropriations	16,045	15,731
Gifts	133	218
Investment income	139	146
Other revenues and expenses	(590)	(1,040)
Total nonoperating revenues and expenses	15,727	15,055
Income (loss) before other revenues, expenses, gains, or losses	(1,172)	(1,097)
Other revenues, expenses, gains, or losses:		
Capital appropriations	2,198	2,679
Capital grants and gifts	21	33
Other	(4)	(220)
Total other revenues, expenses, gains, or losses	2,215	2,492
Increase (decrease) in net assets	1,043	1,395
Net assets at beginning of year	42,258	57,347
Cumulative effects of changes in accounting principle	-	(16,484)
Net assets at beginning of period, restated	42,258	40,863
Net assets at end of year	$ 43,301	$ 42,258

Revenues

The following is a graphic illustration of revenues by source (both operating and nonoperating), which are used to fund the college's operating activities for the year ended June 30, 2003, and the year ended June 30, 2002. Amounts are presented in thousands of dollars.





Composition of Institution's Revenues
(in thousands of dollars)

	2003	**2002**
Student tuition and fees (operating)	4,744	4,680
Governmental grants & contracts (operating)	10,946	9,294
Nongovernmental grants & contracts (operating)	159	76
Sales & services of educational departments (operating)	479	539
Bookstore (operating)	2,107	2,062
Food service (operating)	8	8
Other auxiliaries (operating)	10	11
Other operating revenues	703	737
State appropriations (nonoperating)	16,045	15,731
Gifts (nonoperating)	155	251
Capital appropriations (nonoperating)	2,198	2,679
Disposal of plant facilities (nonoperating)	8	188
Investment income (nonoperating)	139	146

- Student tuition and fees increased primarily due to a 7.5% increase in tuition.
- State appropriations increased primarily due to legislative increases for salaries and rate increases for health insurance premiums.
- Sales and services of educational departments decreased due to fewer revenues generated primarily from Culinary Arts activities and the Early Learning Center.
- Disposal of plant facilities decreased due to the sale of the President's residence in the prior year.
- Governmental grants and contract revenues increased due to additional grants being sought and awards received.

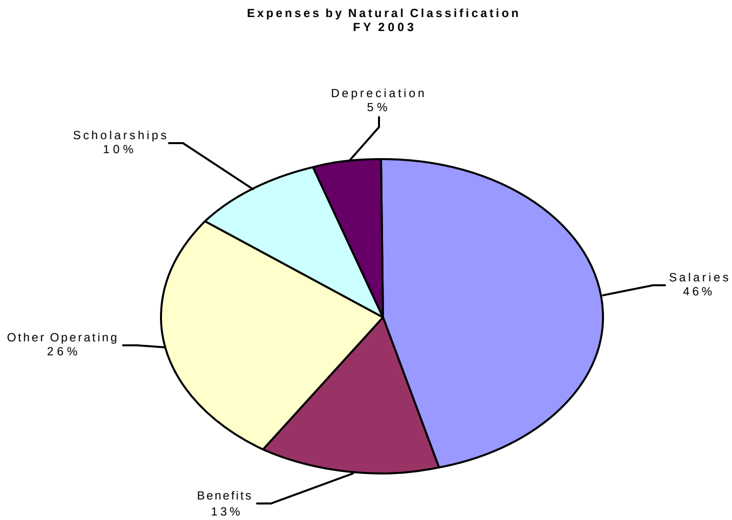
Expenses

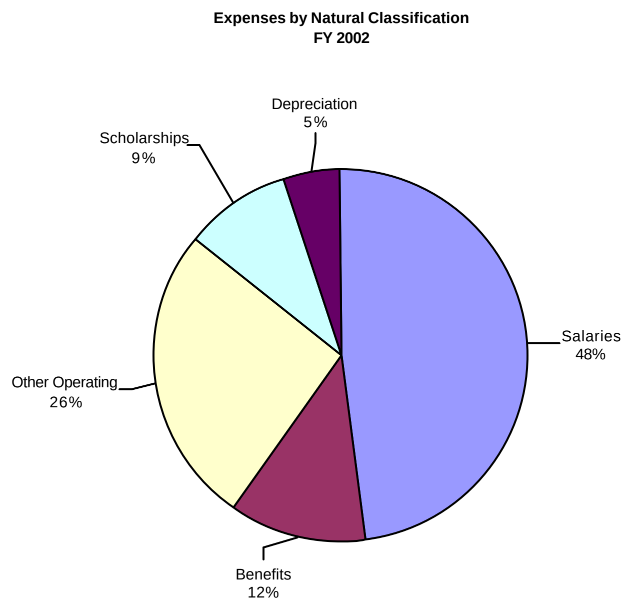
Operating expenses can be displayed in two formats, natural classification and program classification. Both formats are displayed below.

Natural Classification

Operating Expenses by Natural Classification

	Salaries	Benefits	Other Operating	Scholarships	Depreciation
FY 2003	16,476,547	4,754,973	9,529,061	3,502,774	1,791,340
FY 2002	16,015,016	4,037,152	8,793,803	3,051,685	1,662,273

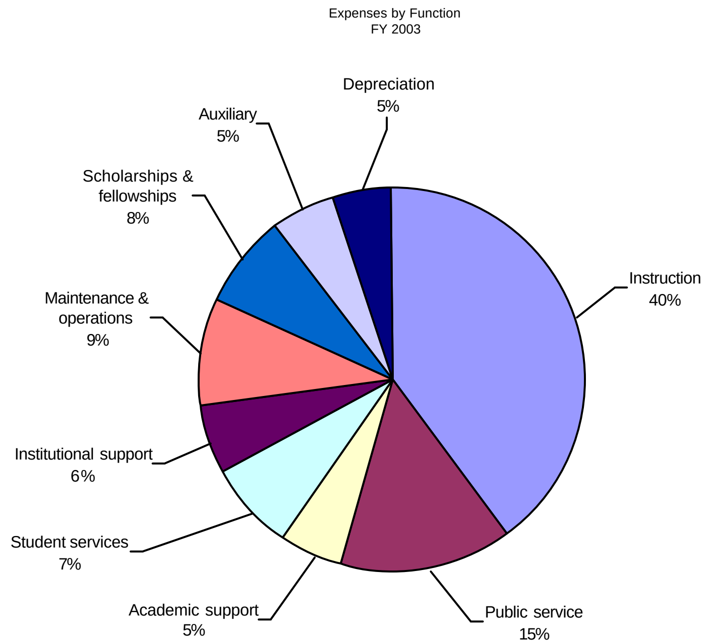


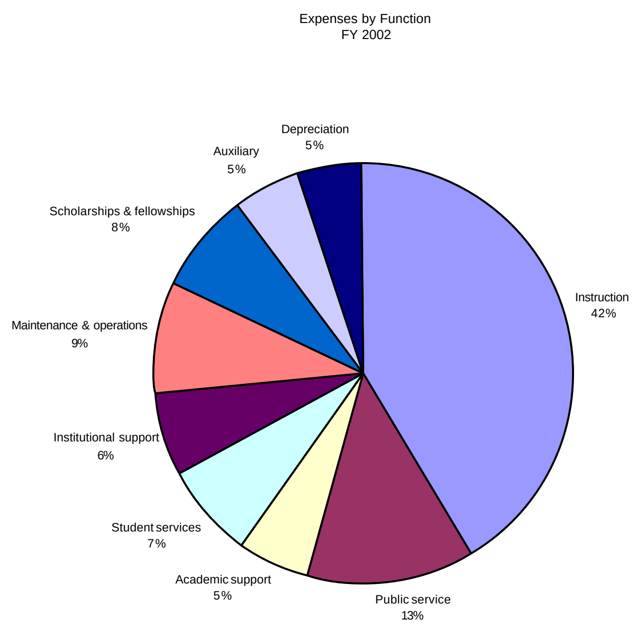


- Salaries and benefits increased due to the implementation of the final phase of the college's salary equity pay plan and across-the-board legislated salary increase as well as an increase in the health insurance premium rate.
- Scholarship expenses increased primarily due to a fee increase.
- Other operating costs increased primarily due to inflationary costs of instructional and operating supplies.
- Depreciation expense increased due to the addition of facilities to depreciate (e.g., baseball/softball dugouts and MBSS building).

Program Classification
Operating Expenses by Function

	2003	2002
Instruction	14,327,665	13,929,904
Public service	5,242,707	4,293,448
Academic support	1,834,613	1,834,034
Student services	2,693,964	2,434,023
Institutional support	2,125,378	2,084,369
Operation and maintenance of plant	3,280,414	2,965,101
Scholarships & fellowships	2,865,007	2,544,117
Auxiliary	1,893,607	1,812,659
Depreciation	1,791,339	1,662,273





- Across all functions, except scholarships and fellowships as well as depreciation, increased functional expenses were primarily due to salary increases and associated benefit costs as well as inflationary costs in instructional and operating supplies.

- Scholarships and fellowships increased primarily due to fee increases.

- Depreciation expenses increased due to the addition of facilities to depreciate (e.g., baseball/softball dugouts and MBSS building).

The Statement of Cash Flows

The statement of cash flows provides information about cash receipts and cash payments during the year. This statement also assists users in assessing the college's ability to generate net cash flows, its ability to meet its obligations as they come due, and its need for external financing.

Statements of Cash Flows
(in thousands of dollars)

	2003	2002
Cash provided (used) by:		
Operating activities	($14,754)	($13,200)
Noncapital financing activities	16,019	14,323
Capital and related financing activities	77	(313)
Investing activities	139	146
Net increase (decrease) in cash	1,481	956
Cash, beginning of year	7,693	6,737
Cash, end of year	$9,174	$7,693

Material Sources/Uses of Cash

- The material sources of cash from operating activities include tuition and fees, grants and contracts, auxiliary operations, and sales and services of educational departments. The material uses of cash for operating activities include payments to employees and for benefits, the purchase of materials and services from outside vendors, and scholarships for students.
- Noncapital financing activities are funded primarily from state appropriations and gifts and grants.
- Investment proceeds (i.e., interest) are derived primarily from the state's Local Government Investment Pool (LGIP).

Liquidity

- Walters State Community College experienced a slight improvement in liquidity during fiscal year 2002-2003.

Capital Assets and Debt Administration

Capital Assets

At June 30, 2003, Walters State Community College had $38,604,773.27 invested in capital assets, net of accumulated depreciation of $14,952,104.03. Depreciation charges totaled $1,791,339.59 for the current fiscal year. Details of these assets are shown below.

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

	2003	**2002**
Land	$555	$555
Land improvements & infrastructure	643	691
Buildings	35,765	34,068
Equipment	1,377	1,166
Library holdings	122	127
Projects in progress	143	2,118

Major Capital Additions Completed During the Fiscal Year and Their Source of Funding

- Additions to capital assets included those funded from unexpended plant funds, renewals and replacements funds, current unrestricted funds, and retirement of indebtedness funds. Unexpended plant funds are derived from state capital appropriations and institutional funds set aside for capital expenditure. Renewals and replacements funds are primarily generated from department charges for the use of equipment such as motor pool vehicles, computers, printing, postage, and telephone; additionally, non-mandatory transfers have been made from current unrestricted funds. Retirement of indebtedness funds are set-aside generally from current unrestricted funds for the purpose of debt retirement.

- Additions to capital assets included the completion of the baseball/softball dugouts and the Life Science (MBSS) renovation project, equipment purchases, and debt repayments relative to the purchase of the Public Safety facility. Other projects initiated include the seating replacement project in the gymnasium and the renovation of public bathrooms on the first and second floors of the College Center Building.

Planned Capital Expenditures in the Next Fiscal Year and Their Source of Funding

Two significant capital expenditures are planned for the next fiscal year. The major project is the completion of the replacement of seating in the auditorium/gymnasium of the College Center Building and will be funded from state capital appropriations. Additionally, proceeds from the sale of the President's residence will be used to complete the public bathroom renovations in the College Center Building as well as provide three smoker shelters across campus. On a smaller scale will be the purchase of equipment from current unrestricted funds as well as from renewals and replacements funds. More detailed information about the college's capital assets is presented in Note 6 to the financial statements.

Debt

At June 30, 2003, the college had $674,472.08 in debt outstanding. The table below summarizes these amounts by type of debt instrument.

Outstanding Debt

	Notes Payable	**Commercial Paper**
FY 2003	58,095.00	616,377.08
FY 2002	463,848.43	686,283.85

The Walters State Community College Foundation assumed a note with a face value of $430,000.00 in 1998 to purchase real estate property referred to as the Maple Crest Townhouses. In December 2002, the property was sold and the note retired. Currently, the Walters State Community College Foundation has a $58,095.00 annual renewable note payable associated with the Cates/Cutshaw Remainder Unitrust. The Tennessee State School Board authorized the issuance of commercial paper for Walters State Community College to finance various capital projects. In the 2003 fiscal year, Walters State Community College made an annual payment of $69,906.77 toward retiring the commercial paper. The Tennessee State School Bond Authority is currently rated AA- by Standard & Poor's. More detailed information about the college's long-term liabilities is presented in Note 7 to the financial statements.

Economic Factors That Will Affect the Future

Although the Tennessee state legislature approved a one percent increase in the sales tax rate in a special called legislative session on July 3, 2002, the tax increase has not provided adequate funding for higher education. In fact, the impact of the limited state resources was a 5 percent impoundment in 2002-2003 and a 9 percent reduction in funding for 2003-2004. Additionally, the college's governing board approved a 7½ percent fee increase effective with the fall 2002 semester and a 14% fee increase effective with the fall 2003 semester. The effect of fee increases should generate approximately $1,000,000 in new operating revenues for the 2004 fiscal year. There is some concern that the current sales tax rate is so high that consumers residing on the state's borders will spend even more of their incomes out-of-state. If this in fact happens at a significant level, then the concern is that the estimated sales tax collections in the state will be less than projected and could jeopardize future funding levels.

Requests for Information

This financial report is designed to provide a general overview of the institution's finances for all those with an interest in the college's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be directed to Dr. Julian Jordan, Dr. Rosemary Jackson, or Mr. Roger Beverly at Walters State Community College, 500 South Davy Crockett Parkway, Morristown, Tennessee 37813-6899.

Exhibit A

WALTERS STATE COMMUNITY COLLEGE
STATEMENTS OF NET ASSETS
JUNE 30, 2003, AND JUNE 30, 2002

	June 30, 2003	June 30, 2002
ASSETS		
Current assets:		
Cash and cash equivalents (Notes 2 and 3)	$ 6,209,449.37	$ 5,775,614.64
Short-term investments (Notes 3 and 4)	6,660,344.76	6,191,528.18
Accounts, notes, and grants receivable (net) (Note 5)	707,266.23	904,224.58
Inventories (at lower of cost or market)	453,666.69	465,855.56
Prepaid expenses and deferred charges	8,700.43	13,577.43
Other assets	694,646.72	1,247,389.33
Total current assets	14,734,074.20	14,598,189.72
Noncurrent assets:		
Cash and cash equivalents (Notes 2 and 3)	2,964,272.62	1,917,462.70
Investments (Notes 3 and 4)	359,261.61	407,481.48
Capital assets (net) (Note 6)	38,604,773.27	38,725,978.23
Other assets	3,000,000.00	3,000,000.00
Total noncurrent assets	44,928,307.50	44,050,922.41
Total assets	59,662,381.70	58,649,112.13
LIABILITIES		
Current liabilities:		
Accounts payable	335,299.51	340,946.61
Accrued liabilities	1,306,353.96	1,228,038.92
Student deposits	-	51.00
Deferred revenue	346,511.74	334,404.08
Compensated absences (Note 7)	327,560.61	499,857.90
Accrued interest payable	-	5,427.75
Long-term liabilities, current portion (Note 7)	58,095.00	65,736.61
Deposits held in custody for others	12,489,308.01	12,208,975.14
Other liabilities	74,289.15	84,396.63
Total current liabilities	14,937,417.98	14,767,834.64
Noncurrent liabilities:		
Compensated absences (Note 7)	807,822.83	537,866.06
Long-term liabilities (Note 7)	616,377.08	1,084,395.67
Due to grantors (Note 7)	-	1,133.14
Total noncurrent liabilities	1,424,199.91	1,623,394.87
Total liabilities	16,361,617.89	16,391,229.51
NET ASSETS		
Invested in capital assets, net of related debt	37,988,396.19	38,039,694.38
Restricted for:		
Expendable:		
Scholarships and fellowships	20,623.17	22,428.67
Instructional department uses	2,189.74	1,518.58
Other	233,034.51	135,822.87
Unrestricted (Note 8)	5,056,520.20	4,058,418.12
Total net assets	$ 43,300,763.81	$ 42,257,882.62

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

Exhibit B

WALTERS STATE COMMUNITY COLLEGE
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2003, AND JUNE 30, 2002

	Year Ended June 30, 2003	Year Ended June 30, 2002
REVENUES		
Operating revenues:		
Student tuition and fees (net of scholarship allowances of $3,653,673.70 for the year ended June 30, 2003, and $3,131,596.72 for the year ended June 30, 2002)	$ 4,743,511.30	$ 4,680,003.05
Governmental grants and contracts	10,945,715.09	9,293,574.63
Non-governmental grants and contracts	159,177.10	76,328.33
Sales and services of educational departments	479,257.28	539,547.83
Auxiliary enterprises:		
Bookstore	2,106,779.63	2,062,413.34
Food service	8,013.58	8,249.58
Other auxiliaries	10,218.53	10,721.94
Interest earned on loans to students	-	216.36
Other operating revenues	702,791.22	737,319.44
Total operating revenues	19,155,463.73	17,408,374.50
EXPENSES		
Operating expenses (Note 14):		
Salaries and wages	16,476,546.81	16,015,015.67
Benefits	4,754,972.87	4,037,151.72
Utilities, supplies, and other services	9,529,060.67	8,793,802.68
Scholarships and fellowships	3,502,774.24	3,051,684.78
Depreciation expense	1,791,339.59	1,662,272.96
Total operating expenses	36,054,694.18	33,559,927.81
Operating loss	(16,899,230.45)	(16,151,553.31)
NONOPERATING REVENUES (EXPENSES)		
State appropriations	16,044,520.00	15,731,020.00
Gifts	133,349.40	217,498.00
Investment income	138,718.54	145,820.89
Interest on capital asset-related debt	(6,500.31)	(13,475.56)
Other nonoperating expenses	(583,027.95)	(1,026,227.73)
Net nonoperating revenues	15,727,059.68	15,054,635.60
Loss before other revenues, expenses, gains, or losses	(1,172,170.77)	(1,096,917.71)
Capital appropriations	2,197,680.79	2,678,551.84
Capital grants and gifts	21,285.75	33,415.00
Other	(3,914.58)	(219,847.85)
Total other revenues	2,215,051.96	2,492,118.99
Increase (decrease) in net assets	1,042,881.19	1,395,201.28
NET ASSETS		
Net assets - beginning of year	42,257,882.62	57,346,664.42
Cumulative effects of changes in accounting principle (Note 11)		
Adoption of capitalization criteria for buildings and additions	-	(1,380,747.59)
Change in method of capitalizing library holdings	-	(3,488,998.56)
Adoption of depreciation on capital assets	-	(11,681,147.36)
Deferred revenue recognition	-	68,016.34
Reclassification of U.S. government grants refundable	-	(1,105.91)
Net assets - beginning of year, as restated	42,257,882.62	40,862,681.34
Net assets - end of year	$ 43,300,763.81	$ 42,257,882.62

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

WALTERS STATE COMMUNITY COLLEGE
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2003, AND JUNE 30, 2002

	Year Ended June 30, 2003	Year Ended June 30, 2002
CASH FLOWS FROM OPERATING ACTIVITIES		
Tuition and fees	$ 4,845,742.88	$ 4,676,761.69
Grants and contracts	11,042,820.23	10,195,941.28
Sales and services of educational activities	479,257.28	518,607.52
Payments to suppliers and vendors	(9,417,649.24)	(8,381,610.28)
Payments to employees	(16,452,591.77)	(16,023,765.18)
Payments for benefits	(4,600,172.39)	(3,991,574.45)
Payments for scholarships and fellowships	(3,502,774.24)	(3,043,569.44)
Auxiliary enterprise charges:		
Bookstore	2,129,985.25	2,071,974.89
Food services	7,962.98	8,441.46
Other auxiliaries	10,218.53	10,721.94
Other receipts (payments)	702,791.22	758,476.11
Net cash provided (used) by operating activities	(14,754,409.27)	(13,199,594.46)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State appropriations	16,164,220.00	15,567,820.00
Gifts and grants received for other than capital or endowment purposes	56,627.11	195,802.00
Changes in deposits held for others	381,034.54	(414,527.60)
Other noncapital financing receipts (payments)	(583,027.95)	(1,026,227.73)
Net cash provided (used) by noncapital financing activities	16,018,853.70	14,322,866.67
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital appropriations	2,197,680.79	2,678,551.84
Capital grants and gifts received	21,285.75	33,415.00
Proceeds from sale of capital assets	(3,914.58)	(254,683.87)
Purchases of capital assets and construction	(1,670,134.63)	(2,634,188.03)
Principal paid on capital debt and leases	(475,660.20)	(120,677.11)
Interest paid on capital debt and leases	(11,928.06)	(15,620.89)
Other capital and related financing receipts (payments)	20,152.61	-
Net cash provided (used) by capital and related financing activities	77,481.68	(313,203.06)
CASH FLOWS FROM INVESTING ACTIVITIES		
Income on investments	138,718.54	145,820.89
Net cash provided (used) by investing activities	138,718.54	145,820.89
Net increase (decrease) in cash and cash equivalents	1,480,644.65	955,890.04
Cash and cash equivalents - beginning of year	7,693,077.34	6,737,187.30
Cash and cash equivalents - end of year	$ 9,173,721.99	$ 7,693,077.34

WALTERS STATE COMMUNITY COLLEGE
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2003, AND JUNE 30, 2002

		Year Ended June 30, 2003		Year Ended June 30, 2002
Reconciliation of operating loss to net cash used by operating activities:				
Operating loss	$	(16,899,230.45)	$	(16,151,553.31)
Adjustments to reconcile operating loss to net cash provided (used) by operating activities:				
Depreciation expense		1,791,339.59		1,662,272.96
Gifts of books, minor equipment, and supplies to the college		55,436.54		8,696.00
Change in assets and liabilities:				
Receivables, net		51,203.20		859,559.32
Inventories		12,188.87		(30,186.46)
Prepaid expenses and deferred charges		557,619.61		6,004.93
Accounts payable		(500,890.33)		450,021.52
Accrued liabilities		78,315.04		13,686.46
Deferred revenue		12,107.66		(26,840.44)
Deposits		(51.00)		51.00
Compensated absences		97,659.48		5,261.65
Other		(10,107.48)		3,431.91
Net cash used by operating activities	$	(14,754,409.27)	$	(13,199,594.46)

Non-Cash Transactions

Gifts of books, minor equipment, and supplies	$55,436.54	$8,696.00
Gifts of capital assets to the college	$21,285.75	$13,000.00

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The college is a part of the State University and Community College System of Tennessee (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). In June 1999, the GASB issued Statement 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments.* This was followed in November 1999 by GASB Statement 35, *Basic Financial Statements—and Management's Discussion and Analysis—for Public Colleges and Universities*. The financial statement presentation required by those statements provides a comprehensive, entity-wide perspective of the college's assets, liabilities, net assets, revenues, expenses, changes in net assets, and cash flows, and replaces the fund-group perspective previously required.

Significant accounting changes made in order to comply with the new requirements include (1) adoption of depreciation on capital assets and (2) reporting summer school revenues and expenses between fiscal years rather than in one fiscal year.

Basis of Accounting

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

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. The college has the option of following private-sector guidance issued subsequent to November 30, 1989, subject to the above limitation. The college has elected not to follow private-sector guidance issued subsequent to November 30, 1989.

Amounts reported as operating revenues include (1) tuition and fees, net of waivers and discounts; (2) federal, state, local, and private grants and contracts; (3) sales and services of auxiliary enterprises; and (4) other sources of revenue. Operating expenses for the college include (1) salaries and wages; (2) employee benefits; (3) scholarships and fellowships; (4) depreciation; and (5) utilities, supplies, and other services.

All other activity is nonoperating in nature and includes (1) state appropriations for operations; (2) investment income; (3) interest on capital asset-related debt; and (4) gifts.

When both restricted and unrestricted resources are available for use, generally it is the college's policy to use the restricted resources first.

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 maintained on an average cost or first-in, first-out basis.

Compensated Absences

The college's employees accrue annual leave at varying rates, depending on length of service or classification. Some employees also earn compensatory time. The amount of these liabilities and their related benefits are reported in the statement of net assets.

Capital Assets

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

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

These assets, with the exception of land, are depreciated using the straight-line method over the estimated useful lives, which range from 5 to 40 years.

Under a contract with the Tennessee Department of Labor and Workforce Development, the college is a service provider for the Local Workforce Investment Area in Workforce Investment Area 2 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 capital assets.

Walters State Community College Foundation

The college is the sole beneficiary of the Walters State Community College Foundation. A board independent of the college controls this private, nonprofit foundation. The college handles the financial records, investments, and other financial transactions, and the assets and liabilities of the foundation are included on the college's statement of net assets.

Net Assets

The college's net assets are classified as follows:

Invested in capital assets, net of related debt – This represents the college's total investment in capital assets, net of outstanding debt obligations related to those capital assets. To the extent debt has been incurred but not yet expended for capital assets, such amounts are not included as a component of invested in capital assets, net of related debt.

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

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

Scholarship Discounts and Allowances

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

NOTE 2. CASH 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, 2003, cash and cash equivalents consisted of $181,024.76 in bank accounts, $13,195.00 of petty cash on hand, $8,334,224.49 in the State of Tennessee Local Government Investment Pool administered by the State Treasurer, $476,773.07 in LGIP deposits for capital projects, $168,300.15 in money market mutual funds, and $204.52 in overnight repurchase agreements. At June 30, 2002, cash and cash equivalents consisted of $479,113.89 in bank accounts, $13,195.00 of petty cash on hand, $6,624,609.97 in the State of Tennessee Local Government Investment Pool administered by the State Treasurer, $112,415.62 in LGIP deposits for capital projects, $463,502.61 in money market mutual funds, and $240.25 in overnight repurchase agreements.

LGIP deposits for capital projects - Payments related to the college's capital projects are made by the State of Tennessee's Department of Finance and Administration. The college's estimated local share of the cost of each project is held in a separate Local Government Investment Pool (LGIP) account. As expenses 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 the Tennessee Board of Regents releases any remaining funds.

NOTE 3. DEPOSITS

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.

Some of the college's deposits are in financial institutions that 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.

The college's remaining deposits are entirely insured by the Federal Deposit Insurance Corporation.

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*. That report may be obtained by writing to the Tennessee Department of Finance and Administration, Division of Accounts, 14th Floor William R. Snodgrass Tennessee Tower, 312 Eighth Avenue North, Nashville, Tennessee 37243-0298, or by calling (615) 741-2140.

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.

The college had $240.25 invested in overnight repurchase agreements at June 30, 2002, and had $204.52 invested in overnight repurchase agreements at June 30, 2003. These amounts are classified as cash and cash equivalents on the college's statements of net assets. During the years ended June 30, 2002, and June 30, 2003, the college's investments in these repurchase agreements ranged from $240.25 to $2,137,930.17, and $130.14 to $2,212,407.74, respectively.

	June 30, 2003	June 30, 2002
Category 1:		
Repurchase agreements	$ 204.52	$ 240.25
Corporate stocks	10,685.68	8,648.50
Category 3:		
U.S. government securities	1,917,830.51	1,619,328.71
Corporate bonds	1,639,126.70	1,928,904.56
Corporate stocks	2,839,075.41	2,563,069.20
Investments not susceptible to credit risk categorization:		
Mutual funds	331,125.31	499,200.24
Cash surrender value of life insurance	60,062.91	53,361.06
Certificates of deposit classified as investments	390,000.00	390,000.00
Amount classified as cash equivalents	(168,504.67)	(463,742.86)
Total	$7,019,606.37	$6,599,009.66

NOTE 5. RECEIVABLES

Receivables included the following:

	June 30, 2003	June 30, 2002
Student accounts receivable	$166,555.12	$234,113.75
Grants receivable	413,112.48	358,233.29
Pledges receivable	14,960.00	22,376.00
State appropriation receivable	43,500.00	-
Other receivables	168,327.10	375,660.41
Subtotal	806,454.70	990,383.45
Less allowance for doubtful accounts	(99,188.47)	(86,158.87)
Total receivables	$707,266.23	$904,224.58

Pledges receivable are promises of private donations that are reported as accounts receivable and revenue.

NOTE 6. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2003, was as follows:

	Beginning Balance	Additions	Transfers	Reductions	Ending Balance
Land	$555,293.11	$ -	$ -	$ -	$555,293.11
Land improvements and infrastructure	988,702.89	-	-	-	988,702.89
Buildings	44,318,133.87	807,374.65	2,313,309.69	-	47,438,818.21
Equipment	3,833,805.08	517,591.55	-	156,165.05	4,195,231.58
Library holdings	255,259.32	22,119.31	-	41,100.01	236,278.62
Projects in progress	2,118,204.28	337,658.30	(2,313,309.69)	-	142,552.89
Total	52,069,398.55	1,684,743.81	-	197,265.06	53,556,877.30
Less accum. depreciation:					
Land improvements and infrastructure	297,421.36	48,335.73	-	.01	345,757.08
Buildings	10,250,138.38	1,423,599.84	-	-	11,673,738.22
Equipment	2,667,943.72	291,666.14	-	141,555.87	2,818,053.99
Library holdings	127,916.86	27,737.88	-	41,100.00	114,554.74
Total accum. depreciation	13,343,420.32	1,791,339.59	-	182,655.88	14,952,104.03
Capital assets, net	$38,725,978.23	($106,595.78)	$ -	$ 14,609.18	$38,604,773.27

Capital asset activity for the year ended June 30, 2002, was as follows:

	Beginning Balance	Additions	Transfers	Reductions	Ending Balance
Land	$555,293.11	$ -	$ -	$ -	$ 555,293.11
Land improvements and infrastructure	1,340,702.89	-	(352,000.00)	-	988,702.89
Buildings	41,597,533.16	437,046.91	2,283,553.80	-	44,318,133.87
Equipment	4,111,265.64	168,338.79	-	445,799.35	3,833,805.08
Library holdings	250,000.44	43,369.36	-	38,110.48	255,259.32
Projects in progress	1,532,551.78	2,517,206.30	(1,931,553.80)	-	2,118,204.28
Total	49,387,347.02	3,165,961.36	-	483,909.83	52,069,398.55

Less accum. depreciation:					
Land improvements and infrastructure	249,085.63	48,335.73	-	-	297,421.36
Buildings	8,949,286.91	1,300,851.47	-	-	10,250,138.38
Equipment	2,384,194.96	283,748.76	-	-	2,667,943.72
Library holdings	98,579.86	29,337.00	-	-	127,916.86
Total accum. depreciation	11,681,147.36	1,662,272.96	-	-	13,343,420.32
Capital assets, net	$37,706,199.66	$1,503,688.40	$ -	$483,909.83	$38,725,978.23

NOTE 7. LONG-TERM LIABILITIES

Long-term liabilities activity for the year ended June 30, 2003, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Payables:					
Notes	$ 463,848.43	$ -	$ 405,753.43	$ 58,095.00	$ 58,095.00
Commercial paper	686,283.85	-	69,906.77	616,377.08	-
Subtotal	1,150,132.28	-	475,660.20	674,472.08	58,095.00
Other liabilities:					
Compensated absences	1,037,723.96	918,442.25	820,782.77	1,135,383.44	327,560.61
Due to grantors	1,133.14	-	1,133.14	-	-
Subtotal	1,038,857.10	918,442.25	821,915.91	1,135,383.44	327,560.61
Total long-term liabilities	$2,188,989.38	$ 918,442.25	$1,297,576.11	$1,809,855.52	$385,655.61

Long-term liabilities activity for the year ended June 30, 2002, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Payables:					
Notes	$470,309.39	$ 595.00	$ 7,055.96	$ 463,848.43	$65,736.61
Loans	88,000.00	-	88,000.00	-	-
Commercial paper	770,000.00	-	83,716.15	686,283.85	-
Subtotal	1,328,309.39	595.00	178,772.11	1,150,132.28	65,736.61

Other liabilities:					
Compensated absences	988,571.24	113,523.25	64,370.53	1,037,723.96	499,857.90
Due to grantors	1,106.57	26.57	-	1,133.14	-
Subtotal	989,677.81	113,549.82	64,370.53	1,038,857.10	499,857.90
Total long-term liabilities	$2,317,987.20	$114,144.82	$243,142.64	$2,188,989.38	$565,594.51

Notes Payable

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 had a face amount of $430,000.00, required monthly payments of principal and interest totaling $3,318.81, and had an annual interest rate of 8%. The balance owed as of June 30, 2002, was $405,753.43.

The foundation also has a line of credit with Tennessee State Bank. The line of credit bears an annual interest rate of 7% with interest paid quarterly. The balance owed on this note payable was $58,095.00 at June 30, 2003, and $58,095.00 at June 30, 2002.

The debt service requirements to maturity at June 30, 2003, for all notes payable are as follows:

Year Ending June 30	Principal	Interest	Total
2004	$58,095.00	$4,066.65	$62,161.65

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 $616,377.08 at June 30, 2003, and $686,283.85 at June 30, 2002.

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 8. UNRESTRICTED NET ASSETS

Unrestricted net assets include funds that have been designated or reserved for specific purposes. The unrestricted net assets are composed of the following:

	June 30, 2003	June 30, 2002
Working capital	$ 552.98	$ 42,253.40
Encumbrances	560,648.81	624,836.38
Designated fees	-	2,292.99
Auxiliaries	1,450,195.45	1,245,042.88
Plant construction	1,161,292.32	472,914.01
Renewal and replacement of equipment	1,442,612.29	920,278.02
Debt retirement	193,500.63	130,939.41
Unreserved/undesignated	247,717.72	619,861.03
Total	$5,056,520.20	$4,058,418.12

NOTE 9. 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 7.29% 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, 2003, 2002, and 2001 were $787,832.48, $628,820.76, and $615,135.28. 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 $386,801.23 for the year ended June 30, 2003, and $396,944.33 for the year ended June 30, 2002. Contributions met the requirements for each year.

NOTE 10. 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*. That report may be obtained by writing to the Tennessee Department of Finance and Administration, Division of Accounts, 14th Floor William R. Snodgrass Tennessee Tower, 312 Eighth Avenue North, Nashville, Tennessee 37243-0298, or by calling (615) 741-2140.

NOTE 11. CUMULATIVE EFFECTS OF CHANGES IN ACCOUNTING PRINCIPLE

During the year ended June 30, 2002, the college implemented GASB Statement 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, and GASB Statement 35, *Basic Financial Statements—and Management's Discussion and Analysis—for Public Colleges and Universities*. As a result of this implementation, the college was required to make changes in certain accounting principles, specifically the (1) adoption of capitalization criteria of $100,000 and $50,000 for buildings and additions, respectively; (2) change in the method of capitalizing library holdings; (3) adoption of depreciation on capital assets; (4) recording of certain summer semester revenues between fiscal years rather than in the fiscal year in which the semester was predominantly conducted; and (5) reclassification of the U.S. government grants refundable amount as a liability. The cumulative effects of these changes on net assets are shown below:

Adoption of capitalization criteria for buildings and additions	($1,380,747.59)
Change in method of capitalizing library holdings	($3,488,998.56)
Adoption of depreciation on capital assets	($11,681,147.36)
Deferred revenue recognition	$68,016.34
Reclassification of U.S. government grants refundable	($1,105.91)

NOTE 12. 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. In the past three fiscal years, the state has had no claims filed with the commercial insurer. Designations for casualty losses in the amount of $3.271 million for incurred losses at June 30, 2003, and $5 million for deductibles and $1.356 million for incurred losses at June 30, 2002, were established in the state's general fund to provide for any property losses not covered by the commercial insurance.

At June 30, 2003, the scheduled coverage for the college was $44,030,200 for buildings and $19,776,100 for contents. At June 30, 2002, the scheduled coverage for the college was $45,769,350 for buildings and $19,802,400 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 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 13. 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 $6,522,706.97 at June 30, 2003, and $5,890,343.36 at June 30, 2002.

Operating Leases - The college has entered into various operating leases for buildings and equipment. Such leases will probably continue to be required. Expenses under operating leases for real property were $107,515.00 and for personal property were $54,868.06 for the year ended June 30, 2003. Amounts for the year ended June 30, 2002, were $104,200.00 and $62,433.75. All operating leases are cancelable at the lessee's option.

Construction in Progress - At June 30, 2003, outstanding commitments under construction contracts totaled $858,966.22 for major projects such as gymnasium renovation, public safety building roof replacement, and the college center renovation, of which $858,716.22 will be funded by future state capital outlay appropriations.

NOTE 14. NATURAL CLASSIFICATIONS WITH FUNCTIONAL CLASSIFICATIONS

The college's operating expenses by functional classification for the year ended June 30, 2003, are as follows:

	Natural Classification					
Functional Classification	Salaries	Benefits	Other Operating	Scholarships	Depreciation	Total
Instruction	$8,977,682.78	$2,383,022.05	$2,692,609.81	$274,350.01	$ -	$14,327,664.65
Public service	1,449,042.75	396,981.56	3,394,644.00	2,039.00	-	5,242,707.31
Academic support	1,693,043.12	464,203.28	(354,237.85)	31,604.50	-	1,834,613.05
Student services	1,168,294.33	358,939.25	818,154.01	348,576.54	-	2,693,964.13
Institutional support	1,818,664.14	602,275.23	(308,298.69)	12,736.95	-	2,125,377.63
Operation & maintenance of plant	1,225,499.70	496,735.75	1,556,139.51	2,039.00	-	3,280,413.96
Scholarships & fellowships	-	-	33,578.72	2,831,428.24	-	2,865,006.96
Auxiliary	144,319.99	52,815.75	1,696,471.16	-	-	1,893,606.90
Depreciation	-	-	-	-	1,791,339.59	1,791,339.59
Total	$16,476,546.81	$4,754,972.87	$9,529,060.67	$3,502,774.24	$1,791,339.59	$36,054,694.18

The college's operating expenses by functional classification for the year ended June 30, 2002, are as follows:

Functional Classification	Natural Classification Salaries	Benefits	Other Operating	Scholarships	Depreciation	Total
Instruction	$9,172,452.94	$2,106,184.00	$2,418,675.89	$232,590.73	$ -	$13,929,903.56
Public service	1,046,191.35	292,404.07	2,940,381.18	14,471.00	-	4,293,447.60
Academic support	1,625,497.53	408,807.26	(229,072.70)	28,802.20	-	1,834,034.29
Student services	1,136,694.24	285,634.58	707,911.37	303,782.82	-	2,434,023.01
Institutional support	1,746,104.54	499,868.31	(172,478.83)	10,875.24	-	2,084,369.26
Operation & maintenance of plant	1,147,732.54	407,615.67	1,409,753.09	-	-	2,965,101.30
Scholarships & fellowships	-	-	82,953.91	2,461,162.79	-	2,544,116.70
Auxiliary	140,342.53	36,637.83	1,635,678.77	-	-	1,812,659.13
Depreciation	-	-	-	-	1,662,272.96	1,662,272.96
Total	$16,015,015.67	$4,037,151.72	$8,793,802.68	$3,051,684.78	$1,662,272.96	$33,559,927.81