AUDIT REPORT

Tennessee Board of Regents
Walters State Community College

For the Years Ended
June 30, 2007, and June 30, 2006

STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY

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STATE OF TENNESSEE

COMPTROLLER OF THE TREASURY

State Capitol
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John G. Morgan
Comptroller

November 6, 2008

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. Wade B. McCamey, President
Walters State Community College
500 South Davy Crockett Parkway
Morristown, Tennessee 37813-6899

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, 2007, and June 30, 2006. You will note from the independent auditor's report that unqualified opinions were given on the fairness of the presentation of the financial statements.

Consideration of internal control over financial reporting and tests of compliance disclosed a 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
08/047

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, 2007, and June 30, 2006

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 grant agreements; to determine the fairness of the presentation of the financial statements; and to recommend appropriate actions to correct any deficiencies.

INTERNAL CONTROL FINDING

The Assistant Vice President for Business Affairs and the Director of Accounting for College Advancement Did Not Exercise Due Care in Preparing Year-End Accounting Entries and Making Year-End Report Classifications, Resulting in Two Significant Reporting Errors on the College's Statements and Material Reporting Errors at Each Year-End on the Foundation's Statements
The Assistant Vice President for Business Affairs and the Director of Accounting for College Advancement for Walters State Community College did not exercise due care and therefore made errors in preparing year-end accounting entries and making year-end report classifications. As a result, several significant and material reporting errors were made in the college's financial report for the year ended June 30, 2007 (page 9).

OPINIONS ON THE FINANCIAL STATEMENTS

The opinions on the financial statements are unqualified.

Audit Report
Tennessee Board of Regents
Walters State Community College
For the Years Ended June 30, 2007, and June 30, 2006

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Tennessee Board of Regents
Walters State Community College
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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

The idea for Tennessee's community college system was conceived in 1957 when the state legislature ordered a study of community college programs, a study which resulted in the Pierce-Albright Report. Acting on the recommendation of the Governor and the 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, 2005, through June 30, 2007, 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 generally accepted government auditing standards. Financial statements are presented for the years ended June 30, 2007, and June 30, 2006. 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 opinions on the financial statements;

2. to determine compliance with certain provisions of laws, regulations, contracts, and grant agreements;

3. to determine the fairness of the presentation of the financial statements; and

4. to recommend appropriate actions to correct any deficiencies.

PRIOR AUDIT FINDING

Section 8-4-109, *Tennessee Code Annotated*, requires that each state department, agency, or institution report to the Comptroller of the Treasury the action taken to implement the recommendations in the prior audit report. The college filed its report with the Department of Audit on March 21, 2007. A follow-up of a prior audit finding was conducted as part of the current audit.

RESOLVED AUDIT FINDING

The current audit disclosed that the college has corrected a previous audit finding concerning the failure of college fiscal staff to maintain its foundation's accounting records and to prepare its foundation's financial statements in accordance with Governmental Accounting Standards Board Statement 39, *Determining Whether Certain Organizations Are Component Units*.

OBSERVATIONS AND COMMENTS

RESULTS OF BOOKSTORE AUDIT

Routinely the internal auditor conducts inventory test counts and cash counts in the bookstore during year-end procedures. During the development of the 2005-2006 fiscal year internal audit plan, the college's bookstore operations were selected for a more in-depth audit. In June of 2006, the college's internal auditor began an audit of the bookstore; the report for this audit is in progress. The last comprehensive internal audit of bookstore operations was performed in 1998.

Tests performed during the recent internal audit revealed certain discrepancies in the bookstore's records regarding cash refunds. Tests of refunds were expanded, resulting in the identification of apparent fraudulent transactions. The apparent fraudulent transactions were audited beginning with the summer semester of 2001 through the fall semester of 2006 and total at least $535,000. The apparent fraudulent transactions were facilitated by the override of internal controls established by the college.

Consistent with TBR policy, the college notified appropriate TBR officials who, in turn, notified state officials on June 15, 2006. Based upon the recommendation of state officials, the internal auditor obtained the assistance of the District Attorney and Tennessee Bureau of Investigation (TBI). In written statements obtained by the TBI on January 12, 2007, the Director of Bookstore, Switchboard and Postal Operations and the Bookstore Supervisor admitted to falsifying records and improper handling of college funds. Both individuals were terminated for gross misconduct on January 12, 2007. Beginning on July 1, 2007, the college's bookstore operations were contracted to an outside vendor.

In February 2008, the Office of Attorney General filed a civil lawsuit in the Chancery Court of Hamblen County against the Director of Bookstore, Switchboard and Postal Operations and the Bookstore Supervisor for the total loss. The civil case, number 2008-140, is currently on the court's docket. The matter also is under review by the District Attorney General's Office.

MANAGEMENT'S RESPONSIBILITY FOR RISK ASSESSMENT

Auditors and management are required to assess the risk of fraud in the operations of the institution. The risk assessment is based on a critical review of operations considering what frauds could be perpetrated in the absence of adequate controls. The auditors' risk assessment is limited to the period during which the audit is conducted and is limited to the transactions that the auditors are able to test during that period. The risk assessment by management is the primary method by which the institution is protected from fraud, waste, and abuse. Since new programs may be established at any time by management or older programs may be discontinued, that assessment is ongoing as part of the daily operations of the institution.

Risks of fraud, waste, and abuse are mitigated by effective internal controls. It is management's responsibility to design, implement, and monitor effective controls in the institution. Although internal and external auditors may include testing of controls as part of their audit procedures, these procedures are not a substitute for the ongoing monitoring required of management. After all, the auditor testing is limited and is usually targeted to test the effectiveness of particular controls. Even if controls appear to be operating effectively during the time of the auditor testing, they may be rendered ineffective the next day by management override or by other circumventions that, if left up to the auditor to detect, will not be noted until the next audit engagement and then only if the auditor tests the same transactions and controls. Furthermore, since staff may be seeking to avoid auditor criticisms, they may comply with the controls during the period that the auditors are on site and revert to ignoring or disregarding the control after the auditors have left the field.

The risk assessments and the actions of management in designing, implementing, and monitoring the controls should be adequately documented to provide an audit trail both for auditors and for management, in the event that there is a change in management or staff, and to maintain a record of areas that are particularly problematic.

FRAUD CONSIDERATIONS

Statement on Auditing Standards No. 99, *Consideration of Fraud in a Financial Statement Audit*, promulgated by the American Institute of Certified Public Accountants, requires auditors to specifically assess the risk of material misstatement of an audited entity's financial statements due to fraud. The standard also restates the obvious premise that management, not the auditors, is primarily responsible for preventing and detecting fraud in its own entity. Management's responsibility is fulfilled in part when it takes appropriate steps to assess the risk of fraud within the entity and to implement adequate internal controls to address the results of those risk assessments.

During our audit, we discussed these responsibilities with management and how management might approach meeting them. We also increased the breadth and depth of our inquiries of management and others in the entity as we deemed appropriate. We obtained formal assurances from top management that management had reviewed the entity's policies and procedures to ensure that they are properly designed to prevent and detect fraud and that management had made changes to the policies and procedures where appropriate. Top management further assured us that all staff had been advised to promptly alert management of all allegations of fraud, suspected fraud, or detected fraud and to be totally candid in all communications with the auditors. All levels of management assured us there were no known instances or allegations of fraud that were not disclosed to us.

TECHNOLOGY CENTER

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. The 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, 2007, and June 30, 2006, we considered internal control over financial reporting as a basis for designing auditing procedures for the purpose of expressing opinions 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 generally accepted government auditing standards. A material weakness, along with a recommendation and management's response, are detailed in the finding and recommendation section.

Compliance

The results of our tests disclosed no instances of noncompliance that are required to be reported under generally accepted government auditing standards.

Fairness of Financial Statement Presentation

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

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

September 12, 2008

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, and its discretely presented component unit as of and for the years ended June 30, 2007, and June 30, 2006, and have issued our report thereon dated September 12, 2008. 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 generally accepted government auditing standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the college's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the college's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the college's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the college's ability to initiate, authorize, record, process, or report financial data reliably in accordance with accounting principles generally accepted in the United States of America such that there is more than a remote likelihood that a misstatement of the college's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

The following significant deficiency was noted:

- The Assistant Vice President for Business Affairs and the Director of Accounting for College Advancement did not exercise due care in preparing year-end accounting entries and making year-end report classifications, resulting in two significant reporting errors on the college's statements and material reporting errors at each year-end on the foundation's statements.

This deficiency is described in the Finding and Recommendation section of this report.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe the significant deficiency described above is a material weakness.

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

Compliance and Other Matters

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 grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts.

However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under generally accepted government auditing standards.

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

This report is intended solely for the information and use of the General Assembly of the State of Tennessee, the Tennessee Board of Regents, 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., CPA
Director

AAH/sds

FINDING AND RECOMMENDATION

<u>The Assistant Vice President for Business Affairs and the Director of Accounting for College Advancement did not exercise due care in preparing year-end accounting entries and making year-end report classifications, resulting in two significant reporting errors on the college's statements and material reporting errors at each year-end on the foundation's statements</u>

Finding

The Assistant Vice President for Business Affairs and the Director of Accounting for College Advancement for Walters State Community College did not exercise due care and therefore made errors in preparing year-end accounting entries and making year-end report classifications. As a result, in the college's financial report, including the foundation's financial statements, for the year ended June 30, 2007, the following reporting errors were made:

On the college's June 30, 2007, statement of net assets, the Assistant Vice President for Business Affairs understated cash and cash equivalents by $875,093.89, and accounts payable were understated by the same amount as the result of a timing difference related to capital expense transactions that occurred during June 2007. The Assistant Vice President originally recorded a reduction of cash and an increase in expenses in the fiscal year ended June 30, 2007. However, when the State of Tennessee did not withdraw the funds from the college's Local Government Investment Pool (LGIP) account until after June 30, 2007, the Assistant Vice President should have reversed his original entry so that the financial statements properly reflect the amount in the cash balance, and the related payable should have been recorded. The state eventually withdrew cash from the LGIP account in September of 2007. We corrected the college's financial statements.

On the college's statement of net assets at June 30, 2006, the Assistant Vice President did not report $238,910.45 due from the Walters State Community College Foundation. The Assistant Vice President appropriately recognized accounts payable and capital expenses for the Sevierville Campus Expansion Project totaling $238,910.45. Expenses for this project were to be paid by the college and then reimbursed by the foundation. However, the Assistant Vice President failed to record the corresponding $238,910.45 as a receivable from the foundation, and the Assistant Vice President did not inform the Director of Accounting for College Advancement, who prepares the foundation's ledger and statements, that the foundation's payable to the college was due. The Director, therefore, did not report the payable on the foundation's statement of net assets at June 30, 2006. Adjusting entries were not made due to the immateriality of the amounts.

According to the Vice President for Business Affairs, these two errors on the college's statements were due to an oversight.

We also found that the Director of Accounting for College Advancement incorrectly classified the foundation's "unallocated market value adjustment fund." This fund represents cumulative market earnings for endowments. The Director incorrectly categorized these endowment amounts as restricted nonexpendable net assets (other) instead of restricted expendable net assets (scholarships) and restricted expendable net assets (other). According to state law, the foundation is authorized to spend net market appreciation. We made necessary entries to reclassify the endowment amounts of $2,083,701.38 at June 30, 2007, and $1,583,893.87 at June 30, 2006.

In addition, at June 30, 2007, and June 30, 2006, the Director of Accounting for College Advancement incorrectly reported $756,079.37 and $388,891.17, respectively, of foundation restricted nonexpendable net assets (other) as restricted nonexpendable net assets (scholarships and fellowships).

The Director of Accounting for College Advancement thought that since the corpus amounts of the foundation's endowments were nonexpendable, the market appreciation earnings were also nonexpendable. State law allows for the expenditure of net market appreciation. As to the second misclassification of net assets on the foundation's statement of net assets, the Director incorrectly classified corpus amounts whose income was unrestricted as to use as nonexpendable net assets (scholarships and fellowships) instead of nonexpendable net assets (other). The Director was new to his position during the 2006 fiscal year and lacked experience in this area.

Without an appropriate knowledge of reporting requirements and appropriate due care in financial statement preparation, management's risk of financial reporting errors is increased.

Recommendation

The Vice President for Business Affairs should ensure that the Assistant Vice President for Business Affairs and the Director of Accounting for College Advancement and any assisting fiscal staff have adequate detailed knowledge of reporting requirements to perform their responsibilities, and that they perform those duties with appropriate care and attention. Year-end entries should be recorded and reported properly and completely. Net market appreciation for endowment funds should be reported in expendable net assets.

The President and top management should ensure that the risks noted in this finding are adequately identified and assessed in management's documented risk-assessment activities which are currently ongoing. The President and top management should identify specific staff to be responsible for the design and implementation of internal controls to prevent and detect exceptions in a timely manner. The President and top management should also identify staff to be responsible for ongoing monitoring for compliance with all requirements and taking prompt action should exceptions occur.

Management’s Comment

We concur with the finding. The Vice President for Business Affairs will ensure that appropriate staff who are involved with the preparation of the financial statements have adequate knowledge of reporting requirements to perform their responsibilities, and that they perform those duties with appropriate care and attention. Specific procedures have been established and implemented to ensure payments for goods and services reported as capital expense transactions via the State of Tennessee Statewide Accounting and Reporting System (STARS) are properly categorized on the financial statements. With respect to the monthly reconciliation of the college’s Local Government Investment Pool (LGIP) accounts to the general ledger, the Director of Accounting Services for the institution will review any reconciling items to determine if additional entries need to be made to the general ledger in order to properly reflect the amount in the cash balance. In addition, the Director of Accounting for College Advancement and the Director of Accounting Services for the institution have established monthly meetings to review all reimbursement agreements between the college and foundation to ensure that all unreimbursed expenses are properly communicated and categorized on each entity’s financial statements. The Director of Accounting for College Advancement will continue to review foundation restricted funds to ensure proper classification on the foundation’s statement of net assets. Additionally, College Advancement staff will review state law as it relates to the handling of foundation endowment funds to increase awareness of appropriate reporting requirements. After discussion with state auditors during this audit cycle, the College Advancement staff believes that the Component Unit portion of the June 30, 2008, financial statements reflects the proper classification of the restricted funds on the statement of net assets.

The formal risk assessments for the Financial Management area of the college are currently underway and scheduled to be completed in October 2008. As a result of this finding, the college will closely examine all components as we go forward. Therefore, the Vice President for Business Affairs, the President, and their staff are very cognizant of the risks involved with financial reporting and remain committed to the establishment of internal controls necessary to minimize any risks.

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Independent Auditor's Report

September 12, 2008

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

Dear Mr. Morgan:

We have audited the accompanying basic 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, and its discretely presented component unit as of and for the years ended June 30, 2007, and June 30, 2006, as listed in the table of contents. These financial statements are the responsibility of the college's management. Our responsibility is to express opinions on these financial statements, based on our audit.

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

As discussed in Note 1, the financial statements of Walters State Community College, an institution of the Tennessee Board of Regents, are intended to present the financial position, the changes in financial position, and the cash flows of only Walters State Community College. They do not purport to, and do not, present fairly the financial position of the Tennessee Board of Regents as of June 30, 2007, and June 30, 2006, the changes in its financial position, and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Tennessee Board of Regents, Walters State Community College, and its discretely presented component unit as of June 30, 2007, and June 30, 2006, and the respective changes in financial position and cash flows thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis on pages 15 through 41 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.

Our audit was conducted for the purpose of forming opinions on the basic financial statements. The accompanying financial information on page 66 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with generally accepted government auditing standards, we have also issued our report dated September 12, 2008, 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 grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with generally accepted government auditing standards and should be read in conjunction with this report in considering the results of our audit.

Sincerely,

Arthur A. Hayes, Jr., CPA
Director

AAH/sds

Tennessee Board of Regents
Walters State Community College
Management's Discussion and Analysis
June 30, 2007, and June 30, 2006

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, 2007, with comparative information presented for the fiscal years ended June 30, 2006, and June 30, 2005. This discussion has been prepared by management along with the financial statements and related note disclosures and should be read in conjunction with the independent auditor's report, the audited financial statements, and the accompanying notes. The financial statements, notes, and this discussion are the responsibility of management.

The college has a discretely presented component unit, the Walters State Community College Foundation. More detailed information about the college's component unit is presented in Note 12 of the financial statements. Information and analysis regarding the component unit are also included in this section.

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 restricted net assets, which are divided into two categories, nonexpendable and expendable. The corpus of nonexpendable restricted resources is only available for investment purposes. 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.

Walters State Community College
Condensed Statements of Net Assets
(in thousands of dollars)

	2007	2006	2005
Assets:			
Current assets	$ 9,895	$ 8,421	$ 7,974
Capital assets, net	46,153	42,937	38,026
Other assets	9,925	3,772	3,063
Total assets	65,973	55,130	49,063
Liabilities:			
Current liabilities	5,950	4,832	4,413
Noncurrent liabilities	2,461	2,436	1,213
Total liabilities	8,411	7,268	5,626
Net assets:			
Invested in capital assets, net of related debt	44,592	41,149	37,574
Restricted – expendable	171	33	40
Unrestricted	12,799	6,680	5,823
Total net assets	$57,562	$ 47,862	$43,437

Comparison of fiscal year 2007 to fiscal year 2006

- The increase in current assets is primarily due to an increase in cash and cash equivalents. At June 30, 2007, approximately $890,000 was on hand to fund current capital project liabilities. Local Government Investment Pool assets also increased.

- The increase in capital assets is attributed to additional capital expenditures for a new Salt Shed & Storage Building and continuing work on the Humanities Safety, CCEN Renovation, Expo Center Barn, and the Sevier Campus Expansion projects.

- The increase in other assets is related to foundation gifts of cash for future expenditures for the Sevier County Expansion project.

- The increase in restricted expendable net assets is due to an increase in receivables under Workforce Investment Act grants.

- The increase in unrestricted net assets is due to plant construction on the Sevier County Campus Expansion project.

Comparison of fiscal year 2006 to fiscal year 2005

- The increase in current assets is primarily due to an increase in current auxiliary cash and cash equivalents.
- The increase in capital assets is attributed to the purchase of the Greeneville campus and the increase in construction in progress related to the Energy Savings Performance contract and the Administrative Software (Banner) project.
- The increase in noncurrent liabilities is related to the issuance of Tennessee State School Bond Authority (TSSBA) bonds for the cost of the Energy Savings Performance contract and the Administrative Software (Banner) project.
- Unrestricted net assets increased due to the increase in departmental charges for renewals and replacements for motor pool and computer services.

Walters State Community College Foundation
Condensed Statements of Net Assets
(in thousands of dollars)

	2007	2006	2005
Assets:			
Current assets	$ 3,563	$ 7,038	$ 2,918
Capital assets, net	-	1,180	965
Other assets	9,167	8,446	8,494
Total assets	12,730	16,664	12,377
Liabilities:			
Current liabilities	26	29	27
Total liabilities	26	29	27
Net assets:			
Invested in capital assets, net of related debt	-	1,180	965
Restricted – nonexpendable	7,328	6,869	8,443
Restricted – expendable	4,925	8,291	2,804
Unrestricted	451	295	138
Total net assets	$12,704	$16,635	$12,350

Comparison of fiscal year 2007 to fiscal year 2006

- Current assets decreased because the amount of funds in the foundation's Local Government Investment Pool (LGIP) account decreased from fiscal year 2006 to cover the costs of the Sevier County Campus Expansion project.

- Other assets increased due to an increase in the market value of investments for fiscal year 2007.

- Property on Allensville Road in Sevier County was sold during fiscal year 2007, which reduced the balance in capital assets.

- Restricted nonexpendable net assets increased due to an increase in additions to permanent endowments.

- Restricted expendable net assets decreased because the funds set aside in fiscal year 2006 for the Sevier County Campus Expansion project were transferred to the State of Tennessee.

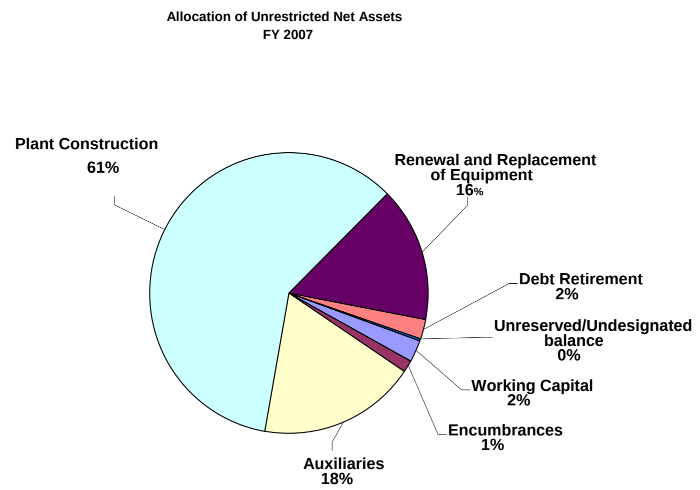
Comparison of fiscal year 2006 to fiscal year 2005

- Current assets increased due to an increase in cash and cash equivalents in excess of $4 million. As described above, this represented LGIP deposits related to the Sevier County Campus Expansion project.

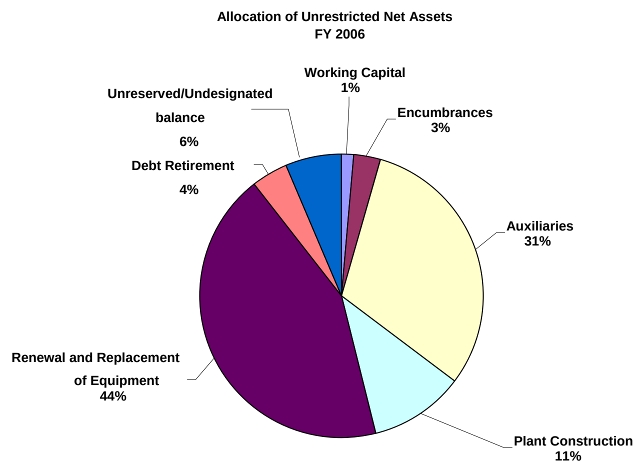
- Total liabilities increased due to an increase in accounts payable for the charitable remainder unitrusts.

- Restricted nonexpendable net assets decreased as the cumulative market earnings for endowments were incorrectly reported as restricted nonexpendable net assets at June 30, 2006, but were correctly reported as restricted expendable net assets at June 30, 2007.

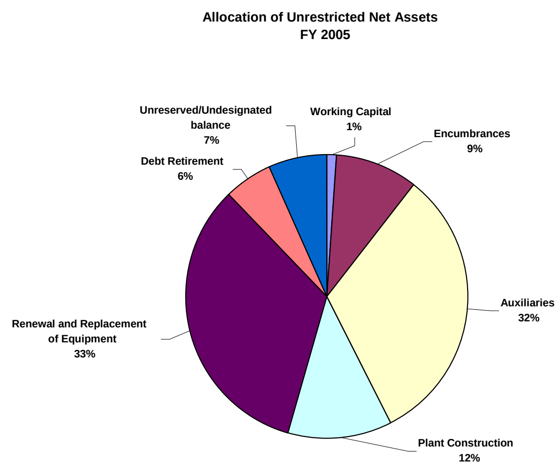
Many of the college's unrestricted net assets have been designated or reserved for specific purposes such as: repairs and replacement of equipment, future debt service, and capital projects. The following graphs show the allocations:



Allocation of Unrestricted Net Assets
FY 2007
Plant Construction
61%
Renewal and Replacement
of Equipment
16%
Debt Retirement
2%
Unreserved/Undesignated
balance
0%
Working Capital
2%
Encumbrances
1%
Auxiliaries
18%



Allocation of Unrestricted Net Assets
FY 2006
Working Capital
1%
Unreserved/Undesignated
balance
6%
Encumbrances
3%
Debt Retirement
4%
Auxiliaries
31%
Renewal and Replacement
of Equipment
44%
Plant Construction
11%



<u>Comparison of fiscal year 2007 to fiscal year 2006</u>

- There was an increase in the plant construction allocation due to the Sevier County Expansion project.

<u>Comparison of fiscal year 2006 to fiscal year 2005</u>

- There was an increase in the renewal and replacement of equipment allocation with the anticipation of costs for the Administrative Software project.

The foundation had only unreserved/undesignated unrestricted net assets at each year end.

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 accounting principles generally accepted in the United States of America.

Walters State Community College
Condensed Statements of Revenues, Expenses, and Changes in Net Assets
(in thousands of dollars)

	2007	2006	2005
Operating revenues:			
Net tuition and fees	$ 7,290	$ 6,606	$ 5,762
Grants and contracts	5,120	4,238	4,100
Auxiliary	2,488	2,255	2,248
Other	899	913	987
Total operating revenues	15,797	14,012	13,097
Operating expenses	45,336	40,568	38,914
Operating loss	(29,539)	(26,556)	(25,817)
Nonoperating revenues and expenses:			
State appropriations	18,394	16,999	16,780
Gifts	405	112	166
Grants & contracts	8,104	7,605	7,857
Investment income	528	426	191
Other revenues and expenses	(60)	(68)	(31)
Total nonoperating revenues and expenses	27,371	25,074	24,963
Income (loss) before other revenues, expenses, gains, or losses	(2,168)	(1,482)	(854)
Other revenues, expenses, gains, or losses:			
Capital appropriations	2,073	5,861	1,154
Capital grants and gifts	9,656	82	6
Other	139	(36)	8
Total other revenues, expenses, gains, or losses	11,868	5,907	1,168
Increase (decrease) in net assets	9,700	4,425	314
Net assets at beginning of year	47,862	43,437	43,123
Net assets at end of year	$57,562	$47,862	$43,437

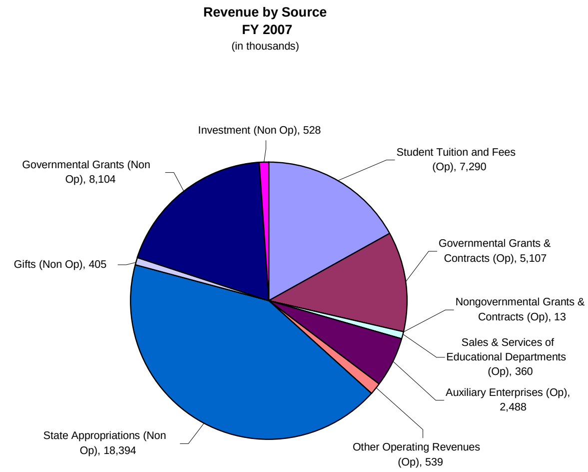
Walters State Community College Foundation
Condensed Statements of Revenues, Expenses, and Changes in Net Assets
(in thousands of dollars)

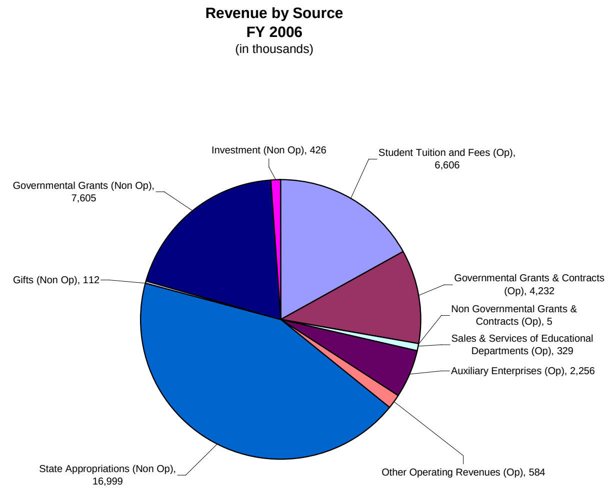
	2007	2006	2005
Operating revenues:			
Gifts	$ 4,858	$ 3,097	$ 617
Other	486	443	387
Total operating revenues	5,344	3,540	1,004
Operating expenses	10,466	711	684
Operating income/(loss)	(5,122)	2,829	320
Nonoperating revenues and expenses:			
Investment income	944	62	227
Other revenues and expenses	4	51	81
Total nonoperating revenues and expenses	948	113	308
Income (loss) before other revenues, expenses, gains, or losses	(4,174)	2,942	628
Other revenues, expenses, gains, or losses:			
Capital grants and gifts	-	1,180	-
Additions to permanent endowments	434	67	166
Other	(191)	96	-
Total other revenues, expenses, gains, or losses	243	1,343	166
Increase (decrease) in net assets	(3,931)	4,285	794
Net assets at beginning of year	16,635	12,350	11,556
Net assets at end of year	$12,704	$16,635	$12,350

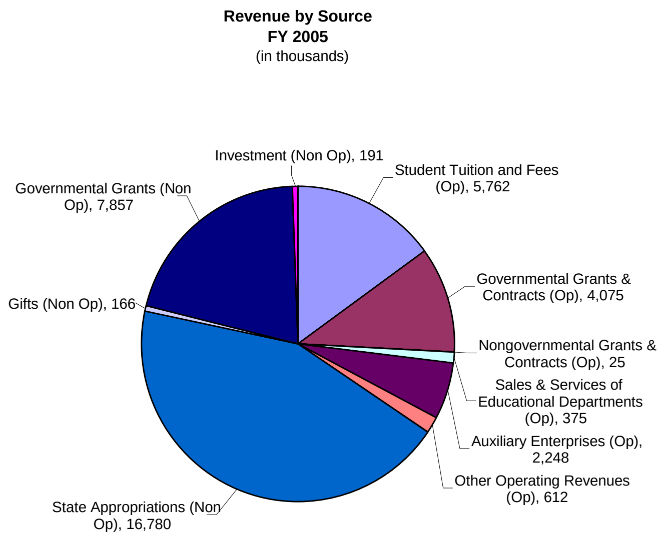
Revenues

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 years ended June 30, 2007; June 30, 2006; and June 30, 2005. Amounts are presented in thousands of dollars.

Tennessee Board of Regents
Walters State Community College
Management's Discussion and Analysis (Cont.)
June 30, 2007, and June 30, 2006







<u>Comparison of fiscal year 2007 to fiscal year 2006</u>

- The college's increase in tuition and fees primarily resulted from a 4.1% maintenance fee increase effective for the fall 2006 semester.

- The increase in grants and contracts is the result of increased funding during the second full year of the $1.9 million dollar Community Based Job Training grant with the U.S. Department of Labor.

- Auxiliary revenues increased due to the liquidating sale of bookstore merchandise. The college will contract out bookstore services beginning in fiscal year 2008.

- Nonoperating gifts increased due to the college experiencing an overall increase in gifts from private citizens, community organizations, and business entities.

- Investment income increased due to higher interest rates.

- Capital grants and gifts increased because of cash gifts from the Walters State Community College Foundation to fund the Sevierville Campus Expansion and Greeneville Center Renovations projects.

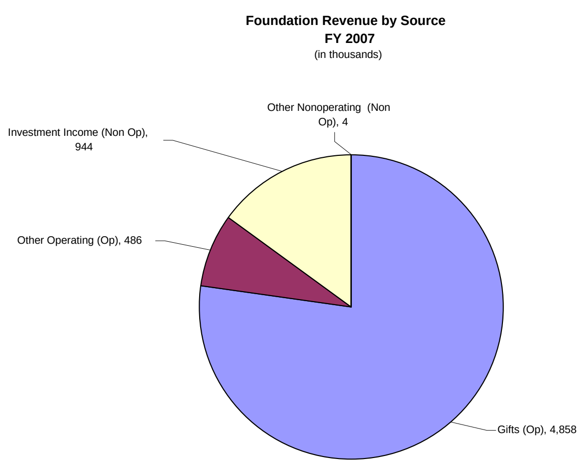
<u>Comparison of fiscal year 2006 to fiscal year 2005</u>

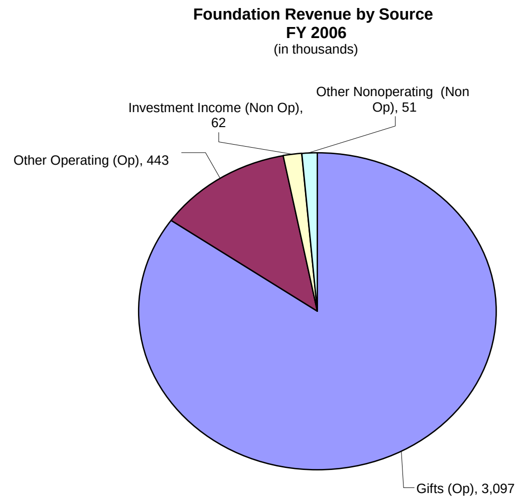
- The college's increase in tuition and fees primarily resulted from a 9.6% maintenance fee increase effective for the fall 2005 semester.

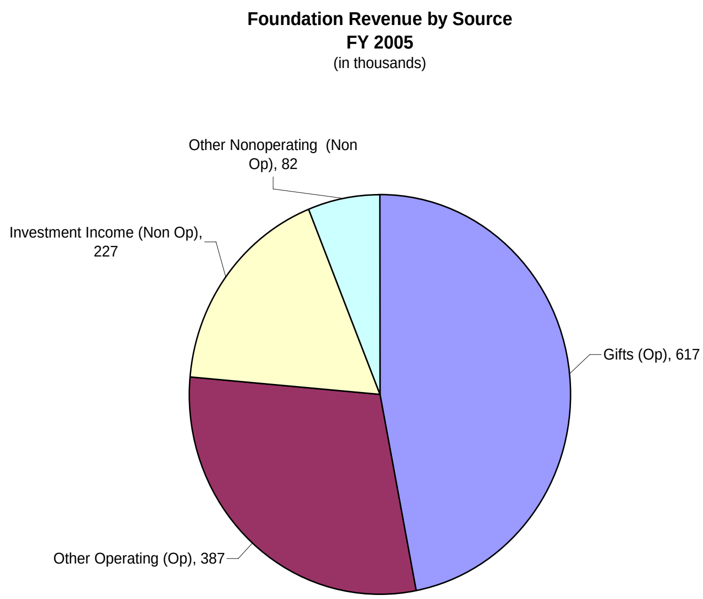
- The increase in the operating government grants and contracts is due to first year revenue from a $1.9 million dollar Community Based Job Training grant with the U.S. Department of Labor.

- Investment income increased due to increasing interest rates.

- Capital appropriations increased due to the $1 million purchase of the Greeneville campus and $5.2 million of state funding to the next phase of the Defensive & Tactical Driving course, which includes the renovation of the Public Safety facility.




Foundation Revenue by Source
FY 2006
(in thousands)
Other Nonoperating (Non Op), 51
Investment Income (Non Op), 62
Other Operating (Op), 443
Gifts (Op), 3,097


Foundation Revenue by Source
FY 2005
(in thousands)
Other Nonoperating (Non Op), 82
Investment Income (Non Op), 227
Gifts (Op), 617
Other Operating (Op), 387

Walters State Community College Foundation

Comparison of fiscal year 2007 to fiscal year 2006

- Gifts and contributions increased for fiscal year 2007 as a result of additional gifts for the Sevier County capital campaign.

- Investment income increased due to a larger amount of funds to invest for fiscal year 2007 in addition to an increase in interest rates and a higher return on the endowment and charitable remainder unitrusts.

Comparison of fiscal year 2006 to fiscal year 2005

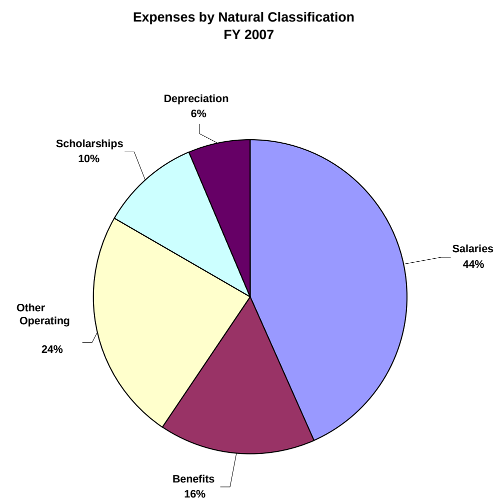
- Gifts and contributions increased for fiscal year 2006 as a result of a gift of land with a market value of \$1.1 million and \$2.8 million in gifts for the Sevier County capital campaign.

Expenses

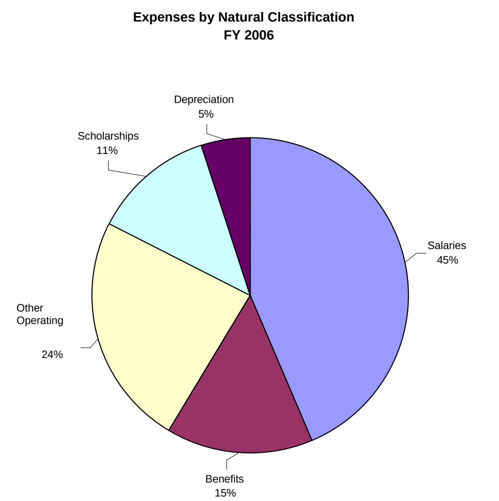
Operating expenses can be displayed in two formats, natural classification and program classification. Both formats are displayed below.

Natural Classification for College

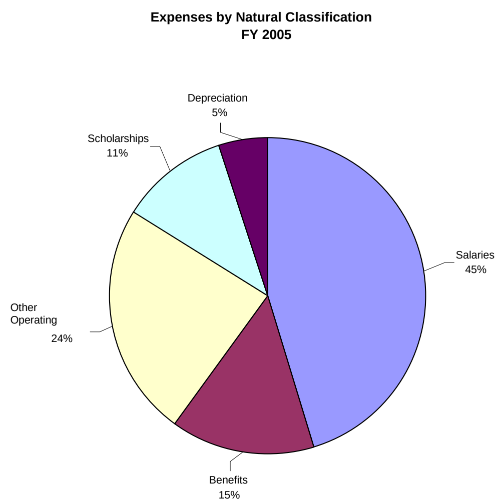
	FY 2007	**FY 2006**	**FY 2005**
Salaries	$19,643,771	$18,129,572	$17,573,535
Benefits	7,260,422	6,252,384	5,725,166
Other operating	10,931,793	9,864,460	9,397,839
Scholarships	4,659,572	4,285,195	4,282,321
Depreciation	2,839,910	2,036,527	1,935,308



Expenses by Natural Classification
FY 2007
Depreciation
6%
Scholarships
10%
Salaries
44%
Other
Operating
24%
Benefits
16%



Expenses by Natural Classification
FY 2006
Depreciation
5%
Scholarships
11%
Salaries
45%
Other
Operating
24%
Benefits
15%



<u>Comparison of fiscal year 2007 to fiscal year 2006</u>

- Salaries increased due to a state funded 2% cost of living pay raise and a one-time $350 bonus and a college funded 2% cost of living pay raise and a one-time $500 bonus.

- Retirement benefits increased due to the salary increase plus the 3.04% increased cost for TCRS retirement. Also, longevity pay was increased from 25 years of service to 30 years. There was also a $10 monthly increase in 401k match. In addition, health insurance premiums increased 6% at mid-year.

- The other operating expense increase was mainly attributed to an increase in book costs for the bookstore and general increases for postage, shipping, maintenance, and repairs.

- The increase in scholarships is due to an increase in Hope scholarships.

- The depreciation expense increase has three main factors: the first-year depreciation for Banner software, the first-year depreciation for the Energy Management System assets, and the depreciation for amounts transferred from construction in progress to the College Center Building.

<u>Comparison of fiscal year 2006 to fiscal year 2005</u>

- A 4.8% cost of living pay raise and a one-time 1% bonus caused the salaries and benefits to increase.

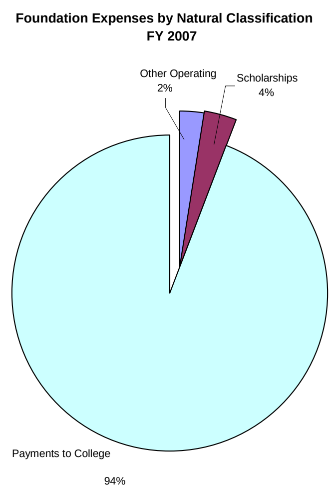
- A 9.6% tuition increase and more students receiving scholarships caused the increase in scholarships expense.

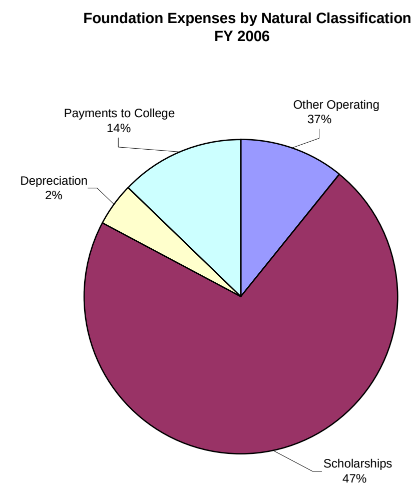
- The increase in other operating expenses is the direct result of an increase in energy costs.

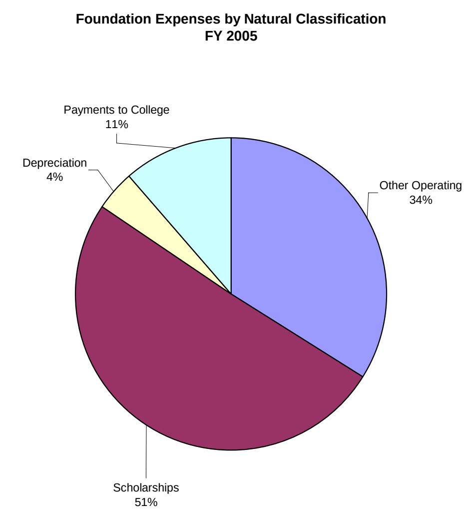
- The new addition of the Greeneville campus building along with other additions to buildings and equipment without comparable retirements caused the increased depreciation expense.

Natural Classification for Foundation

	FY 2007	FY 2006	FY 2005
Other operating	$ 253,099	$265,282	$ 231,729
Scholarships	367,359	332,498	346,837
Depreciation	-	16,171	27,508
Payments to college	9,845,062	96,744	78,491







Walters State Community College Foundation

Comparison of fiscal year 2007 to fiscal year 2006

- Depreciation decreased for fiscal year 2007 as all buildings owned by the foundation were sold during fiscal year 2006 and the foundation has no other depreciable assets.

- Payments to the college increased due to funds being provided by the foundation for the Sevier County Campus expansion, the Greeneville Center renovations, and the Great Smoky Mountains Expo Center expansion.

Comparison of fiscal year 2006 to fiscal year 2005

- Other operating expenses increased due to additional events for fund raising activities.

- A reclassification of expenditures was recognized resulting in expenses for fiscal year 2006 being classified as other operating instead of scholarships as in previous fiscal years.

- Depreciation expenses decreased due to the sale of the Greeneville Center and residential property during fiscal year 2006.

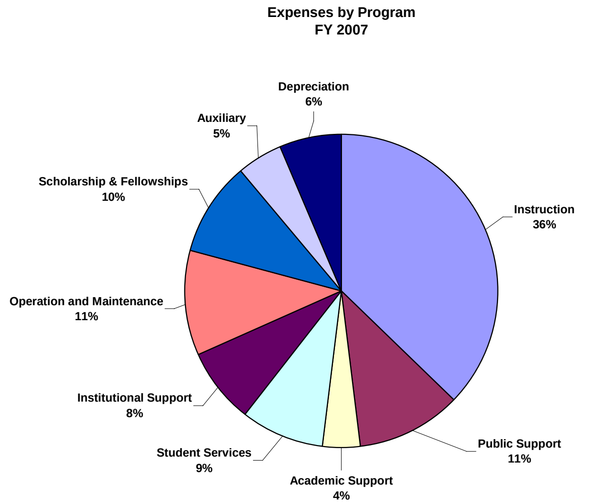
- Payments to the college increased due to expenditures associated with the Sevier County Campus expansion for fiscal year 2006.

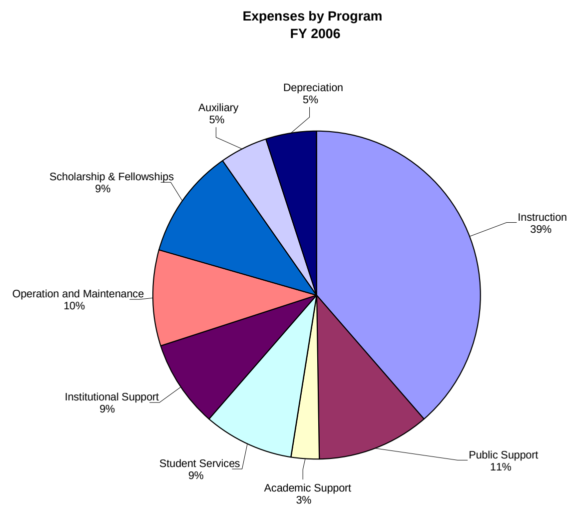
Program Classification for College

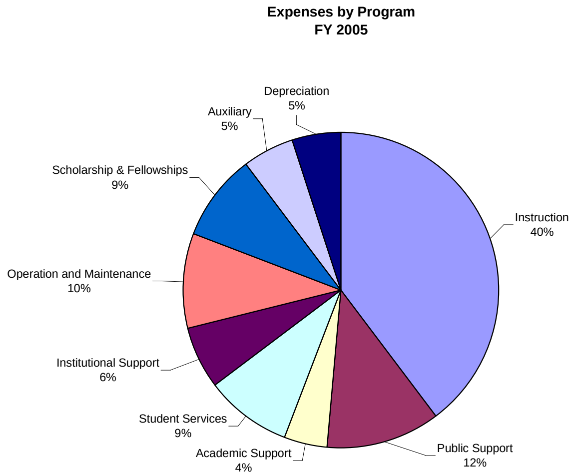
Operating Expenses by Function

	FY 2007	FY 2006	FY 2005
Instruction	$16,819,756	$16,035,329	$15,414,674
Public support	4,986,656	4,590,919	4,615,303
Academic support	1,759,615	1,201,816	1,651,082
Student services	3,857,321	3,658,140	3,497,519
Institutional support	3,518,960	3,589,927	2,452,464
Operation and maintenance	4,912,989	3,925,801	3,850,995
Scholarships & fellowships	4,483,195	3,487,945	3,479,909
Auxiliary	2,157,066	2,041,734	2,016,916
Depreciation	2,839,910	2,036,527	1,935,307

Tennessee Board of Regents
Walters State Community College
Management's Discussion and Analysis (Cont.)
June 30, 2007, and June 30, 2006







Comparison of fiscal year 2007 to fiscal year 2006

- Instructional expenses increased primarily due to a state funded 2% cost of living raise with a one-time $350 bonus and a college funded 2% cost of living raise with a one-time $500 bonus. Also, there were two additional speech instructors hired.

- Public support expenses also increased due to more classes taught by Community and Economic Development along with increased contract amounts by the Workforce Investment Act segment of the college.

- Academic support expenses increased due to the state funded 2% cost of living raise with the one-time $350 bonus and the college funded 2% cost of living raise with the one-time $500 bonus. Increased expenses were also associated with an increase in purchases of hardware, software, and the accompanying maintenance agreements.

- Student services expenses increased primarily due to the state funded 2% cost of living raise with the one-time $350 bonus and the college funded 2% cost of living raise with the one-time $500 bonus.

- Institutional support expenses decreased primarily due to a drop in bad debt expense. This resulted by redirecting which collection company received our first collection opportunities.

- Operation and maintenance expenses increased primarily due to the state funded 2% cost of living raise with the one-time $350 bonus and the college funded 2% cost of living raise with the one-time $500 bonus.

- Scholarships and fellowships increased due to an increase in students receiving Hope scholarships and a 4.1% increase in tuition.

- Auxiliary expense increases were related to the cost of purchasing books for resale.

- Depreciation expense increased due to the addition of depreciable facilities and equipment.

<u>Comparison of fiscal year 2006 to fiscal year 2005</u>

- Instructional expenses increased primarily due to a 4.8% cost of living raise with a one-time 1% bonus.

- Public support expenses decreased due to fewer contracts taken by the Workforce Investment Act segment of the college.

- Academic support expenses decreased primarily due to a reduced allocation of computer services expenses.

- Student services expenses increased primarily due to the 4.8% cost of living raise with the one-time 1% bonus.

- Institutional support expenses increased primarily due to the 4.8% cost of living raise with the one-time 1% bonus.

- Operation and maintenance expenses increased primarily due to the 4.8% cost of living raise with the one-time 1% bonus.

- Scholarships and fellowships increased due to a tuition increase of 9.6%.

- Depreciation expense increased due to the addition of depreciable facilities and equipment.

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.

Walters State Community College
Condensed Statements of Cash Flows
(in thousands of dollars)

	2007	2006	2005
Cash provided (used) by:			
Operating activities	$(26,386)	$(24,503)	$(23,289)
Noncapital financing activities	26,961	24,931	25,147
Capital and related financing activities	6,430	210	(786)
Investing activities	528	426	191
Net increase (decrease) in cash	7,533	1,064	1,263
Cash, beginning of year	10,862	9,798	8,535
Cash, end of year	$ 18,395	$ 10,862	$ 9,798

Comparison of fiscal year 2007 to fiscal year 2006

- The college's increase in cash used by operating activities is primarily due to a state funded 2% cost of living raise with a one-time $350 bonus and a college funded 2% cost of living raise with a one-time $500 bonus and the related increase in benefits.

- Cash provided by noncapital financing activities increased due to increases in state appropriations and gifts and grants.

- Cash provided by capital and related financing activities increased primarily due to a capital gift from the Walters State Community College Foundation for the Sevierville Campus expansion and the Greeneville Safety Code/Roofing project.

- Cash provided by investing activities increased due to higher interest rates.

Liquidity

- Walters State Community College experienced an increase in liquidity during fiscal year 2006-2007.

Comparison of fiscal year 2006 to fiscal year 2005

- The college's increase in cash used by operating activities is due to a 4.8% cost of living pay raise with a one-time 1% bonus and the related increase in benefits.

- Cash provided by capital and related financing activities increased due to the issuance of bonds for capital projects.

- Cash provided by investing activities increased due to the rising interest rates during the year.

Liquidity

- Walters State Community College also experienced an increase in liquidity during fiscal year 2005-2006.

Capital Assets and Debt Administration

Capital Assets

Walters State Community College had $46,152,707.92 invested in capital assets, net of accumulated depreciation of $22,804,900.21 at June 30, 2007; $42,936,964.96 invested in capital assets, net of accumulated depreciation of $20,016,608.58 at June 30, 2006; and $38,026,390.01 invested in capital assets, net of accumulated depreciation of $18,298,698.26 at June 30, 2005. Depreciation charges totaled $2,839,910.31, $2,036,527.34, and $1,935,307.81 for the years ended June 30, 2007; June 30, 2006; and June 30, 2005, respectively. Details of these assets are shown below.

Walters State Community College
Schedule of Capital Assets, Net of Depreciation
(in thousands of dollars)

	2007	2006	2005
Land	$ 650	$ 650	$ 555
Land improvements & infrastructure	1,543	558	610
Buildings	35,067	32,958	33,584
Equipment	1,869	1,531	1,682
Library holdings	324	150	152
Software	964	-	-
Projects in progress	5,736	7,089	1,443

Comparison of fiscal year 2007 to fiscal year 2006

Land improvements & infrastructure increased due to the transfer of the Energy Savings Performance Contract from projects in progress. Buildings increased due to construction of the Salt Shed & Storage Building and the transfer of the CCEN Renovations and CCEN Safety Correction projects from projects in progress to the College Center Building. Equipment increased because current-year purchases were greater than depreciation expense and equipment removed to surplus. Library holdings increased as periodicals, CDs, and DVDs were recognized as capitalized library holdings consistent with other TBR institutions. Software increased due to transferring Administrative Software implementation project (Banner) expenses from projects in progress. Projects in progress decreased because completed projects transferred to other capital accounts were greater than expenditures for ongoing projects such as the Sevier Campus Expansion, Expo Center Barn, Humanities Safety, and Defensive and Tactical Driving Course projects. The Sevier Campus Expansion and the Expo Center Barn projects are funded by gifts from the Walters State Community College Foundation. The Humanities Safety and other projects are funded by capital appropriations from the State of Tennessee.

Comparison of fiscal year 2006 to fiscal year 2005

Land increased due to the purchase of the Greeneville campus. Projects in progress increased due to ongoing renovations to campus buildings, the Energy Savings Performance contract, and the Administrative Software implementation project (Banner). The Tennessee State School Bond Authority (TSSBA) issued bonds to fund the latter two projects. The Greeneville Campus purchase and renovation projects are funded by capital appropriations from the state.

Walters State Community College Foundation
Schedule of Capital Assets, Net of Depreciation
(in thousands of dollars)

	2007	2006	2005
Land	-	$1,180	$168
Buildings	-	-	797

Comparison of fiscal year 2007 to fiscal year 2006

- Land owned by the foundation on Allensville Road in Sevier County was sold during fiscal year 2007.

Comparison of fiscal year 2006 to fiscal year 2005

- The Greeneville Center, as well as residential property, was sold during fiscal year 2006.
- A gift of land to the foundation was received during fiscal year 2006.

The college has several capital projects in process that will be continued during 2007-08 and one new project that will be initiated in 2007-08. The capital projects that will continue include the College Center Roofing, Humanities Safety Corrections, Defensive and Tactical Driving/Public Safety Building Renovations, Sevier Campus Expansion, and Greeneville Safety and Codes/Roofing projects. All projects except the Sevier Campus Expansion and the Greeneville Safety and Codes/Roofing projects are funded through capital appropriations from the state. These two projects are funded by gifts from the Walters State Community College Foundation. The capital project that will be initiated late in 2007-08 is the Student Services Building, and it will be funded by state capital appropriations. The Administrative Software (Banner) project began in 2005-2006 and will continue in 2007-2008. TSSBA retired commercial paper and issued bonds to fund this project. More detailed information about the college's capital assets is presented in Note 4 to the financial statements.

Debt

The college had $1,561,082.65, $1,787,711.15, and $452,200.00 in debt outstanding at June 30, 2007; June 30, 2006; and June 30, 2005, respectively. The table below summarizes these amounts by type of debt instrument.

Walters State Community College Outstanding Debt

	2007	2006	2005
Commercial paper	-	-	$452,200.00
Bonds payable	$1,561,082.65	$1,787,711.15	-

The Tennessee State School Bond Authority previously authorized the issuance of commercial paper for Walters State Community College to finance various capital projects. In 2006, an additional issuance of $1.5 million in commercial paper was made to fund the Administrative Software project and the Energy Savings Performance contract. On June 14, 2006, TSSBA sold bonds to retire this commercial paper debt. The first principal payment on the bonds was paid on May 1, 2007. The college paid interest of $60,118 and principal of $226,628 in fiscal year 2007 on the bonds. More detailed information about the college's long-term liabilities is presented in Note 5 to the financial statements.

Economic Factors That Will Affect the Future

The Governor's budget, as approved by the legislature for higher education, for the fiscal year ended June 30, 2008, contains additional appropriations in the amount of $1,056,100. Of this total, $627,600 is earmarked for an across-the-board 3% salary increase to include the cost of associated benefits. Additionally, our governing board approved a 6% maintenance fee increase which is estimated to generate approximately $600,000. Compensation guidelines from our governing board permit, to the extent recurring funds are available, the administration of a 1% bonus payment to employees and options to implement some or all of a compensation plan or up to an additional 2% across-the-board salary increase. The college completed a compensation study during 2006-07 and would like to implement at least a portion of that plan during 2007-08. If any funds should be available to prioritize toward an additional across-the-board salary increase, the college would like to take such action. Any action taken toward administering any pay increases (pay plan and/or across-the-board) will be predicated on sustained or increased enrollment levels for 2007-08 and the availability of recurring funds. The state legislature also approved a $10 increase in the monthly match toward 401K plans such that in the fiscal year 2007-08, employees' contributions toward such a plan can be matched up to $50 per month.

With respect to capital investments, the college has several projects approved and funded. Construction began during 2006-07 for campus expansion at the Sevier County campus which includes the addition of two buildings and associated moveable equipment for a cost of approximately $11,000,000 which is being funded totally from local community sources. The college was approved in 2006-07 for the renovation of the Public Safety facility from approximately $5,000,000 of state funds. Approximately $8,000,000 of state funds were approved for 2007-08 for the addition of a new student services building. The planning for this facility will begin in 2007-08. Private gifts in the amount of approximately $1,500,000 have enabled the college to begin expansion of facilities at the Expo Center. The college is also initiating efforts to improve its Greeneville campus from $1,000,000 that the state paid to Walters State Community College Foundation for the purchase of that facility.

As of 2007-08, the college will, for the first time since its inception in 1970, contract with an outside vendor for the management of its campus bookstore operation. Additionally, preliminary discussions are taking place and plans are being designed for a major construction project to the highway between the Morristown campus and the retail complex across the road from the Morristown campus. The preliminary design of this project is introducing major changes for access to our campus. The college initiated efforts to update its long-range Master Plan during

2006-07 to include the effects of this road project. From an academic perspective, a major initiative for 2007-08 is to introduce the nursing program to the Greeneville and Sevier County campuses. Institutional funds have been committed to define and/or renovate and equip space as well as provide staff for this initiative.

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. Rosemary Jackson, Vice President for Business Affairs, or Mr. Roger Beverly, Assistant Vice President for Business Affairs, at Walters State Community College, 500 South Davy Crockett Parkway, Morristown, Tennessee 37813-6899.

Exhibit A

TENNESSEE BOARD OF REGENTS
WALTERS STATE COMMUNITY COLLEGE
STATEMENTS OF NET ASSETS
JUNE 30, 2007, AND JUNE 30, 2006

	Walters State Community College		Component Unit - Walters State Community College Foundation	
	June 30, 2007	June 30, 2006	June 30, 2007	June 30, 2006
ASSETS				
Current assets:				
Cash and cash equivalents (Notes 2 and 12)	$ 8,470,314.59	$ 7,090,228.11	$ 3,514,186.28	$ 6,989,305.86
Accounts, notes, and grants receivable (net) (Notes 3 and 12)	1,100,671.60	534,868.50	4,350.00	13,100.00
Pledges receivable (net) (Note 12)	-	-	44,422.57	35,277.56
Inventories	278,364.24	753,217.33	-	-
Prepaid expenses and deferred charges	42,512.14	23,084.07	-	-
Other assets	3,991.84	19,668.99	-	-
Total current assets	9,895,854.41	8,421,067.00	3,562,958.85	7,037,683.42
Noncurrent assets:				
Cash and cash equivalents (Notes 2 and 12)	9,924,793.05	3,771,800.33	-	-
Investments (Note 12)	-	-	9,108,003.75	8,390,655.05
Pledges receivable (net) (Note 12)	-	-	59,139.90	55,994.42
Capital assets (net) (Note 4)	46,152,707.92	42,936,964.96	-	1,180,000.00
Total noncurrent assets	56,077,500.97	46,708,765.29	9,167,143.65	9,626,649.47
Total assets	65,973,355.38	55,129,832.29	12,730,102.50	16,664,332.89
LIABILITIES				
Current liabilities:				
Accounts payable	1,483,712.53	579,963.74	26,368.12	29,478.28
Accrued liabilities	1,577,664.90	1,603,285.58	-	-
Deferred revenue	497,877.63	469,346.57	-	-
Compensated absences (Note 5)	379,592.56	390,474.54	-	-
Accrued interest payable	10,764.23	-	-	-
Long-term liabilities, current portion (Note 5)	223,658.00	226,628.50	-	-
Deposits held in custody for others	1,693,588.19	1,503,020.50	-	-
Other liabilities	83,442.96	59,134.96	-	-
Total current liabilities	5,950,301.00	4,831,854.39	26,368.12	29,478.28
Noncurrent liabilities:				
Compensated absences (Note 5)	1,123,842.75	874,616.94	-	-
Long-term liabilities (Note 5)	1,337,424.65	1,561,082.65	-	-
Total noncurrent liabilities	2,461,267.40	2,435,699.59	-	-
Total liabilities	8,411,568.40	7,267,553.98	26,368.12	29,478.28
NET ASSETS				
Invested in capital assets, net of related debt	44,591,625.27	41,149,253.81	-	1,180,000.00
Restricted for:				
Nonexpendable:				
Scholarships and fellowships	-	-	4,975,263.94	4,908,072.21
Other	-	-	2,352,659.40	1,961,137.26
Expendable:				
Scholarships and fellowships	27,279.64	28,353.89	2,628,839.67	2,010,098.46
Instructional department uses	30,082.20	3,168.78	-	-
Capital projects	-	-	1,079,955.30	4,578,908.87
Other	113,634.02	1,473.66	1,216,391.35	1,701,339.64
Unrestricted (Note 6)	12,799,165.85	6,680,028.17	450,624.72	295,298.17
Total net assets	$ 57,561,786.98	$ 47,862,278.31	$ 12,703,734.38	$ 16,634,854.61

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

TENNESSEE BOARD OF REGENTS
WALTERS STATE COMMUNITY COLLEGE
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2007, AND JUNE 30, 2006

	Walters State Community College		Component Unit - Walters State Community College Foundation	
	Year Ended June 30, 2007	Year Ended June 30, 2006	Year Ended June 30, 2007	Year Ended June 30, 2006
REVENUES				
Operating revenues:				
Student tuition and fees (net of scholarship allowances of $4,852,681.75 for the year ended June 30, 2007, and $4,614,391.51 for the year ended June 30, 2006)	$ 7,289,505.81	$ 6,605,529.49	$ -	$ -
Gifts and contributions	-	-	4,857,941.32	3,097,044.50
Endowment income per spending plan	-	-	337,219.16	273,882.86
Governmental grants and contracts	5,107,221.70	4,232,432.96	-	-
Nongovernmental grants and contracts	12,741.69	5,223.21	-	-
Sales and services of educational departments	360,160.01	328,960.42	-	-
Auxiliary enterprises:				
Bookstore	2,467,382.28	2,233,797.05	-	-
Food service	7,006.02	7,167.38	-	-
Other	13,899.87	14,601.90	-	-
Other operating revenues	538,559.49	584,482.29	148,698.95	168,926.93
Total operating revenues	15,796,476.87	14,012,194.70	5,343,859.43	3,539,854.29
EXPENSES				
Operating expenses (Note 11):				
Salaries and wages	19,643,770.72	18,129,571.93	-	-
Benefits	7,260,422.16	6,252,383.52	-	-
Utilities, supplies, and other services	10,931,792.71	9,864,459.78	253,099.16	265,281.91
Scholarships and fellowships	4,659,572.18	4,285,195.20	367,359.09	332,498.06
Depreciation expense	2,839,910.31	2,036,527.34	-	16,171.20
Payments to or on behalf of Walters State Community College	-	-	9,845,062.07	96,743.78
Total operating expenses	45,335,468.08	40,568,137.77	10,465,520.32	710,694.95
Operating income (loss)	(29,538,991.21)	(26,555,943.07)	(5,121,660.89)	2,829,159.34
NONOPERATING REVENUES (EXPENSES)				
State appropriations	18,393,600.00	16,999,100.00	-	-
Gifts (college gifts include $279,104.05 from component unit in 2007 and $21,244.13 in 2006)	405,173.68	112,083.88	-	-
Grants and contracts	8,103,801.63	7,604,513.96	-	-
Investment income (for component unit, net of investment expense of $34,849.27 in 2007 and $33,660.04 in 2006)	528,406.94	426,182.03	943,524.21	61,869.97
Interest on capital asset-related debt	(60,118.17)	(54,343.84)	-	-
Bond issuance costs	-	(13,876.00)	-	-
Other nonoperating revenues (expenses)	-	(31.36)	3,931.59	51,199.14
Net nonoperating revenues	27,370,864.08	25,073,628.67	947,455.80	113,069.11
Income (loss) before other revenues, expenses, gains, or losses	(2,168,127.13)	(1,482,314.40)	(4,174,205.09)	2,942,228.45
Capital appropriations	2,072,837.14	5,861,237.24	-	-
Capital grants and gifts (college gifts include $9,565,958.02 from component unit in 2007 and $75,499.65 in 2006)	9,656,099.66	81,616.65	-	1,180,000.00
Additions to permanent endowments	-	-	434,379.93	67,383.61
Other	138,699.00	(35,559.47)	(191,295.07)	95,428.59
Total other revenues	11,867,635.80	5,907,294.42	243,084.86	1,342,812.20
Increase (decrease) in net assets	9,699,508.67	4,424,980.02	(3,931,120.23)	4,285,040.65
NET ASSETS				
Net assets - beginning of year	47,862,278.31	43,437,298.29	16,634,854.61	12,349,813.96
Net assets - end of year	$ 57,561,786.98	$ 47,862,278.31	$ 12,703,734.38	$ 16,634,854.61

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

Exhibit C

TENNESSEE BOARD OF REGENTS
WALTERS STATE COMMUNITY COLLEGE
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2007, AND JUNE 30, 2006

	Year Ended June 30, 2007	Year Ended June 30, 2006
CASH FLOWS FROM OPERATING ACTIVITIES		
Tuition and fees	$ 7,251,740.81	$ 6,586,007.68
Grants and contracts	4,792,358.21	4,251,543.76
Sales and services of educational activities	360,160.01	328,960.42
Payments to suppliers and vendors	(10,484,668.50)	(10,078,006.44)
Payments to employees	(19,585,060.51)	(18,080,837.13)
Payments for benefits	(7,105,951.26)	(6,111,850.57)
Payments for scholarships and fellowships	(4,649,739.81)	(4,285,468.00)
Auxiliary enterprise charges:		
Bookstore	2,465,390.22	2,279,249.39
Food services	5,985.12	8,259.06
Other	13,899.87	14,601.90
Other receipts	550,028.49	584,560.79
Net cash used by operating activities	(26,385,857.35)	(24,502,979.14)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State appropriations	18,391,100.00	16,999,000.00
Gifts and grants received for other than capital or endowment purposes	8,379,083.90	7,726,637.25
Federal student loan receipts	2,209,118.86	2,298,088.90
Federal student loan disbursements	(2,186,205.20)	(2,266,999.98)
Changes in deposits held for others	167,654.03	173,876.92
Other noncapital financing payments	-	(31.36)
Net cash provided by noncapital financing activities	26,960,751.59	24,930,571.73
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from capital debt	-	1,505,951.15
Capital appropriations	2,083,609.85	5,847,026.03
Capital grants and gifts received	9,219,500.35	75,499.65
Proceeds from sale of capital assets	13,489.00	23,156.47
Purchases of capital assets and construction	(4,618,750.07)	(6,999,701.23)
Principal paid on capital debt and leases	(226,628.50)	(170,440.00)
Interest paid on capital debt and leases	(41,442.61)	(58,206.47)
Bond issue costs paid on new debt issue	-	(13,876.00)
Other capital and related financing receipts	-	444.54
Net cash provided by capital and related financing activities	6,429,778.02	209,854.14
CASH FLOWS FROM INVESTING ACTIVITIES		
Income on investments	528,406.94	426,182.03
Net cash provided by investing activities	528,406.94	426,182.03
Net increase in cash and cash equivalents	7,533,079.20	1,063,628.76
Cash and cash equivalents at beginning of year	10,862,028.44	9,798,399.68
Cash and cash equivalents at end of year	$ 18,395,107.64	$ 10,862,028.44

TENNESSEE BOARD OF REGENTS
WALTERS STATE COMMUNITY COLLEGE
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2007, AND JUNE 30, 2006

	Year Ended June 30, 2007	Year Ended June 30, 2006
Reconciliation of operating loss to net cash used by operating activities:		
Operating loss	$ (29,538,991.21)	$ (26,555,943.07)
Adjustments to reconcile operating loss to net cash used by operating activities:		
Depreciation expense	2,839,910.31	2,036,527.34
Gifts in-kind	71,157.23	29,408.50
Change in assets and liabilities:		
Receivables, net	(515,341.63)	11,470.41
Inventories	474,853.09	(106,289.82)
Prepaid/deferred items	(27,339.40)	204.60
Other assets	15,677.15	-
Accounts payable	28,654.90	(110,727.86)
Accrued liabilities	(25,620.68)	79,216.71
Deferred revenue	28,531.06	29,601.13
Compensated absences	238,343.83	109,749.40
Other	24,308.00	(26,196.48)
Net cash used by operating activities	$ (26,385,857.35)	$ (24,502,979.14)
Noncash transactions		
Gifts in-kind	$ 71,157.23	$ 29,408.50
Gifts of capital assets	436,599.31	6,117.00
Loss on disposal of capital assets	(4,570.88)	(58,715.94)

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, 2007, and June 30, 2006

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*.

The Walters State Community College Foundation is considered a component unit of the college. Although the college does not control the timing or amount of receipts from the foundation, the majority of resources, or income thereon, that the foundation holds and invests are restricted to the activities of the college by the donors. Because these restricted resources held by the foundation can only be used by, or for the benefit of, the college, the foundation is considered a component unit of the college and is discretely presented in the college's financial statements. See Note 12 for more detailed information about the component unit and how to obtain the report.

Basis of Presentation

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

Basis of Accounting

For financial statement purposes, the college is considered a special-purpose government engaged only in business-type activities. Accordingly, the financial statements have been prepared using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all 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) certain 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) utilities, supplies, and other services; (4) scholarships and fellowships; and (5) depreciation.

All other activity is nonoperating in nature and includes (1) state appropriations for operations; (2) investment income; (3) bond issuance costs; (4) interest on capital asset-related debt; (5) certain grants and contracts; and (6) gifts and nonexchange transactions.

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

Cash Equivalents

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

Inventories

Inventories are valued at the lower of cost or market. 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, library holdings, and software, 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. The capitalization threshold for software is set at $100,000.

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

Local Workforce Investment Area Equipment

Under a contract with the Tennessee Department of Labor and Workforce Development, the college is the administrative entity and grant recipient for the Local Workforce Investment Area in Workforce Investment Area Number 2 of the State of Tennessee. The title to all the equipment purchased by Walters State Community College under the provisions of the Workforce Investment Act resides with the U.S. Government. Therefore, this equipment is not included in Walters State Community College capital assets.

Net Assets

The college's net assets are classified as follows:

<u>Invested in capital assets, net of related debt</u> - 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.

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

Expendable restricted net 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

At June 30, 2007, cash and cash equivalents consisted of $437,302.24 in bank accounts, $1,830.00 of petty cash on hand, $10,216,446.16 in the State of Tennessee Local Government Investment Pool (LGIP) administered by the State Treasurer, $7,368,791.89 in LGIP deposits for capital projects, and $370,737.35 in an overnight repurchase agreement. At June 30, 2006, cash and cash equivalents consisted of $1,565,728.95 in bank accounts, $9,785.00 of petty cash on hand, and $9,286,514.49 in the State of Tennessee Local Government Investment Pool administered by the State Treasurer.

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 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. RECEIVABLES

Receivables included the following:

	June 30, 2007	June 30, 2006
Student accounts receivable	$531,011.60	$510,271.06
Grants receivable	497,502.72	178,068.50
State appropriation receivable	40,700.00	38,200.00
Other receivables	377,532.41	107,276.29
Subtotal	1,446,746.73	833,815.85
Less allowance for doubtful accounts	346,075.13	298,947.35
Total receivables	$1,100,671.60	$534,868.50

NOTE 4. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2007, was as follows:

	Beginning Balance	Additions	Transfers	Reductions	Ending Balance
Land	$650,293.11	$ -	$ -	$ -	$650,293.11
Land improvements and infrastructure	1,059,129.89	-	1,092,075.15	-	2,151,205.04
Buildings	49,126,331.05	101,532.25	4,143,387.94	-	53,371,251.24
Equipment	4,761,270.69	800,130.07	-	187,748.04	5,373,652.72
Library holdings	267,398.78	347,337.00	-	10,445.39	604,290.39
Software	-	301,192.67	769,618.32	-	1,070,810.99
Projects in progress	7,089,150.02	4,652,036.03	(6,005,081.41)	-	5,736,104.64
Total	62,953,573.54	6,202,228.02	-	198,193.43	68,957,608.13
Less accum. depreciation:					
Land improvements and infrastructure	501,328.32	106,460.84	-	-	607,789.16
Buildings	16,167,962.22	2,136,185.84	-	-	18,304,148.06
Equipment	3,230,004.77	458,238.91	-	183,177.16	3,505,066.52
Library holdings	117,313.27	31,943.62	-	(131,558.48)	280,815.37
Software	-	107,081.10	-	-	107,081.10
Total accum. depreciation	20,016,608.58	2,839,910.31	-	51,618.68	22,804,900.21
Capital assets, net	$42,936,964.96	$3,362,317.71	$ -	$146,574.75	$46,152,707.92

Capital asset activity for the year ended June 30, 2006, was as follows:

	Beginning Balance	Additions	Transfers	Reductions	Ending Balance
Land	$555,293.11	$95,000.00	$ -	$ -	$650,293.11
Land improvements and infrastructure	1,059,129.89	-	-	-	1,059,129.89
Buildings	48,209,890.01	916,441.04	-	-	49,126,331.05
Equipment	4,794,074.76	322,147.01	-	354,951.08	4,761,270.69
Library holdings	263,086.29	26,694.37	-	22,381.88	267,398.78
Projects in progress	1,443,614.21	5,645,535.81	-	-	7,089,150.02
Total	56,325,088.27	7,005,818.23	-	377,332.96	62,953,573.54
Less accum. depreciation:					
Land improvements and infrastructure	449,471.24	51,857.08	-	-	501,328.32
Buildings	14,626,227.54	1,541,734.68	-	-	16,167,962.22
Equipment	3,112,282.41	413,957.50	-	296,235.14	3,230,004.77
Library holdings	110,717.07	28,978.08	-	22,381.88	117,313.27
Total accum. depreciation	18,298,698.26	2,036,527.34	-	318,617.02	20,016,608.58
Capital assets, net	$38,026,390.01	$4,969,290.89	$ -	$58,715.94	$42,936,964.96

NOTE 5. LONG-TERM LIABILITIES

Long-term liabilities activity for the year ended June 30, 2007, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
TSSBA debt:					
Bonds	$1,787,711.15	$ -	$226,628.50	$1,561,082.65	$223,658.00
Compensated absences	1,265,091.48	989,982.29	751,638.46	1,503,435.31	379,592.56
Total long-term liabilities	$3,052,802.63	$989,982.29	$978,266.96	$3,064,517.96	$603,250.56

Long-term liabilities activity for the year ended June 30, 2006, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
TSSBA debt:					
Bonds	$ -	$1,787,711.15	$ -	$1,787,711.15	$226,628.50
Commercial paper	452,200.00	1,492,075.15	1,944,275.15	-	-
Subtotal	452,200.00	3,279,786.30	1,944,275.15	1,787,711.15	226,628.50
Other liabilities:					
Compensated absences	1,155,342.08	998,065.36	888,315.96	1,265,091.48	390,474.54
Total long-term liabilities	$1,607,542.08	$4,277,851.66	$2,832,591.11	$3,052,802.63	$617,103.04

TSSBA Debt - Bonds

Bonds, with interest rates ranging from 4% to 4.5%, were issued by the Tennessee State School Bond Authority (TSSBA). The bonds are due serially to 2021 and are secured by pledges of the facilities' revenues to which they relate and certain other revenues and fees of the college, including state appropriations. The bonded indebtedness with the Tennessee State School Bond Authority included in long-term liabilities on the statement of net assets is shown net of unexpended debt proceeds. Unexpended debt proceeds were $22,924.85 at June 30, 2007, and $22,924.85 at June 30, 2006, and were restricted for capital projects.

Debt service requirements to maturity for the college's portion of TSSBA bonds at June 30, 2007, are as follows:

Year Ending June 30	Principal	Interest	Total
2008	$223,658.00	$64,831.00	$288,489.00
2009	233,051.50	55,884.68	288,936.18
2010	242,839.00	46,562.62	289,401.62
2011	64,770.00	36,849.06	101,619.06
2012	67,490.50	34,258.26	101,748.76
2013-2017	382,427.50	128,456.79	510,884.29
2018-2021	346,846.15	41,890.46	388,736.61
	$1,561,082.65	$408,732.87	$1,969,815.52

NOTE 6. UNRESTRICTED NET ASSETS

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

	June 30, 2007	June 30, 2006
Working capital	$317,158.33	$93,769.56
Encumbrances	169,601.82	208,736.45
Auxiliaries	2,356,521.14	2,057,799.01
Plant construction	7,653,388.86	711,015.37
Renewal and replacement of equipment	1,990,439.56	2,901,703.08
Debt retirement	284,403.13	276,249.80
Undesignated	27,653.01	430,754.90
Total	$12,799,165.85	$6,680,028.17

NOTE 7. PENSION PLANS

A. Defined Benefit Plans

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 13.66% 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, 2007, 2006, and 2005 were $1,789,853.31, $1,255,426.38, and $1,207,980.27. 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 $457,199.80 for the year ended June 30, 2007, and $439,509.83 for the year ended June 30, 2006. Contributions met the requirements for each year.

NOTE 8. OTHER POST-EMPLOYMENT BENEFITS

The State of Tennessee administers a group health insurance program which provides post-employment health insurance benefits to eligible college retirees. This benefit is provided and administered by the State of Tennessee. The college assumes no liability for retiree health care programs. Information related to this plan is available at the statewide level in the *Tennessee Comprehensive Annual Financial Report*. 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 9. INSURANCE-RELATED ACTIVITIES

It is the policy of the state not to purchase commercial insurance for the risks of losses for general liability, automobile liability, professional malpractice, and workers' compensation. The state's management believes it is more economical to manage these risks internally and set aside assets for claim settlement in its internal service fund, the Risk Management Fund. The state purchases commercial insurance for real property, flood, earthquake, and builder's risk losses and surety bond coverage on the state's officials and employees. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years. The Risk Management Fund is also responsible for claims for damages to state-owned property up to the amount of the property insurance aggregate deductible amount. The insurance policy deductibles vary from $25,000 per occurrence, depending on the type of coverage, to an aggregate of $5 million.

The college participates in the Risk Management 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. Information regarding the determination of the claims liabilities and the changes in the balances of the claims liabilities for the years ended June 30, 2007, and June 30, 2006, 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. Since the college participates in the Risk Management 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 Risk Management Fund. At June 30, 2007, the Risk Management Fund held $116.7 million in cash and cash equivalents designated for payment of claims. At June 30, 2006, the Risk Management Fund held $133.2 million in cash and cash equivalents designated for payment of claims.

At June 30, 2007, the scheduled coverage for the college was $127,276,600 for buildings and $19,443,300 for contents. At June 30, 2006, the scheduled coverage for the college was $79,169,050 for buildings and $21,236,900 for contents.

The state has also set aside assets in the Employee Group Insurance Fund, an internal service fund, to provide a program of health insurance coverage for the employees of the state with the risk retained by the state. The college participates in the Employee Group Insurance Fund. The fund allocates the cost of providing claims servicing and claims payment by charging a premium to the college based on estimates of the ultimate cost of claims that have been reported but not settled and of claims that have been incurred but not reported. Employees and providers have 13 months to file medical claims.

NOTE 10. COMMITMENTS AND CONTINGENCIES

Sick Leave - The college records the cost of sick leave when paid. Generally, since sick leave (earned one day per month with unlimited accumulation) is paid only 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 $6,222,514.08 at June 30, 2007, and $6,625,601.47 at June 30, 2006.

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 $137,349.96 and for personal property were $79,129.27 for the year ended June 30, 2007. Comparative amounts for the year ended June 30, 2006, were $137,310.96 and $83,411.61. All operating leases are cancelable at the lessee's option.

Construction in Progress - At June 30, 2007, outstanding commitments under construction contracts totaled $8,980,077.54 for the Sevier County Campus Expansion project, the Greeneville Campus Safety Codes/Roofing project, the Public Safety Renovation project, the College Center Roof Replacement project, and the Humanities Safety Corrections project, of which $3,245,464.51 will be funded by future state capital outlay appropriations.

Contract - In December 2004, the Tennessee Board of Regents system entered into a contract with SungardSCT for the purchase of a comprehensive enterprise resource planning system. The contract includes a multi-year phase-in of administrative software for financial, human resource, and student systems. The college's outstanding liability for this contract is $764,266.00 at June 30, 2007, and $1,064,251.00 at June 30, 2006.

NOTE 11. NATURAL CLASSIFICATIONS WITH FUNCTIONAL CLASSIFICATIONS

The college's operating expenses by functional classification for the year ended June 30, 2007, are as follows:

			Natural Classification			
Functional Classification	Salaries	Benefits	Other Operating	Scholarships	Depreciation	Total
Instruction	$10,665,064.71	$3,462,199.51	$2,664,650.99	$27,840.40	$ -	$16,819,755.61
Public service	1,644,276.66	639,378.01	2,663,729.08	39,271.78	-	4,986,655.53
Academic support	1,514,845.29	618,986.19	(374,216.79)	-	-	1,759,614.69
Student services	1,951,496.18	786,423.70	992,184.49	127,216.88	-	3,857,321.25
Institutional support	2,216,529.19	978,607.67	323,578.28	244.92	-	3,518,960.06
Operation & maintenance	1,485,044.08	725,496.50	2,702,448.65	-	-	4,912,989.23
Scholarships & fellowships	-	-	18,197.16	4,464,998.20	-	4,483,195.36
Auxiliary	166,514.61	49,330.58	1,941,220.85	-	-	2,157,066.04
Depreciation	-	-	-	-	2,839,910.31	2,839,910.31
Total	$19,643,770.72	$7,260,422.16	$10,931,792.71	$4,659,572.18	$2,839,910.31	$45,335,468.08

The college's operating expenses by functional classification for the year ended June 30, 2006, are as follows:

	Natural Classification					
Functional Classification	Salaries	Benefits	Other Operating	Scholarships	Depreciation	Total
Instruction	$9,843,942.57	$3,073,399.98	$2,805,964.95	$312,021.13	$ -	$16,035,328.63
Public service	1,494,750.02	536,148.41	2,560,020.20	-	-	4,590,918.63
Academic support	1,504,767.43	546,342.48	(867,628.02)	18,334.00	-	1,201,815.89
Student services	1,619,796.26	556,515.89	1,024,445.76	457,382.00	-	3,658,139.91
Institutional support	2,028,448.56	819,961.01	722,468.95	19,048.00	-	3,589,926.52
Operation & maintenance	1,464,419.58	646,707.92	1,814,673.36	-	-	3,925,800.86
Scholarships & fellowships	-	-	9,535.87	3,478,410.07	-	3,487,945.94
Auxiliary	173,447.51	73,307.83	1,794,978.71	-	-	2,041,734.05
Depreciation	-	-	-	-	2,036,527.34	2,036,527.34
Total	$18,129,571.93	$6,252,383.52	$9,864,459.78	$4,285,195.20	$2,036,527.34	$40,568,137.77

NOTE 12. COMPONENT UNIT

The Walters State Community College Foundation is a legally separate, tax-exempt organization supporting Walters State Community College. The foundation acts primarily as a fund-raising organization to supplement the resources that are available to the college in support of its programs. The 161-member board of the foundation is self-perpetuating and consists of graduates and friends of the college. Board members are elected to revolving three year terms. Although the college does not control the timing or amount of receipts from the foundation, the majority of resources, or income thereon, that the foundation holds and invests are restricted to the activities of the college by the donors. Because these restricted resources held by the foundation can only be used by, or for the benefit of, the college, the foundation is considered a component unit of the college and is discretely presented in the college's financial statements.

During the year ended June 30, 2007, the foundation made distributions of $9,845,062.07 to or on behalf of the college for both restricted and unrestricted purposes. During the year ended June 30, 2006, the foundation made distributions of $96,743.78 to or on behalf of the college for both restricted and unrestricted purposes. Complete financial statements for the foundation can be obtained from Mr. Henry Drinnon, c/o Walters State Community College Foundation, P. O. Box 1508, Morristown, TN 37816-1508.

Cash and cash equivalents - In addition to demand deposits and petty cash on hand, this classification includes instruments which are readily convertible to known amounts of cash and which have original maturities of three months or less. At June 30, 2007, cash and cash equivalents consisted of $80,272.02 in bank accounts, $500.00 of petty cash on hand, $2,714,914.91 in the State of Tennessee Local Government Investment Pool (LGIP) administered by the State Treasurer, and $718,499.35 in money market mutual funds. At June 30, 2006, cash and cash equivalents consisted of $55,910.02 in bank accounts, $500.00 of petty cash on hand, $6,597,932.65 in the State of Tennessee Local Government Investment Pool administered by the State Treasurer, and $334,963.19 in money market mutual funds.

Deposits - At June 30, 2007, $30,272.02 of the foundation's bank balance of $470,272.02 was uninsured and uncollateralized. At June 30, 2006, $5,660.02 of the foundation's bank balance of $445,660.02 was uninsured and uncollateralized.

Investments - The 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

At June 30, 2007, the foundation had the following investments and maturities.

		Investment Maturities (In Years)		
Investment Type	Fair Value	Less than 1	1 to 5	6 to 10
U.S. Treasury obligations	$914,290.40	$305,828.70	$126,790.70	$481,671.00
U.S. agency obligations	1,225,745.92	316,383.77	408,657.00	500,705.15
Corporate bonds	2,011,423.64	308,681.39	1,063,680.95	639,061.30
Certificates of deposit	390,000.00			
Cash surrender value of life insurance	69,315.15			
Corporate stock	3,422,834.75			
Mutual funds	1,792,893.24			
Amount reported as cash and cash equivalents	(718,499.35)			
Total	$9,108,003.75			

At June 30, 2006, the foundation had the following investments and maturities.

		Investment Maturities (In Years)			
Investment Type	Fair Value	Less than 1	1 to 5	6 to 10	More than 10
U.S. Treasury obligations	$519,137.48	$ -	$425,486.72	$93,650.76	$ -
U.S. agency obligations	1,499,130.89	-	712,648.88	596,294.01	190,188.00
Corporate bonds	2,304,750.54	388,559.15	1,188,264.94	727,926.45	-
Certificates of deposit	390,000.00				
Cash surrender value of life insurance	67,289.90				
Corporate stock	2,923,455.08				
Mutual funds	1,021,854.35				
Amount reported as cash and cash equivalents	(334,963.19)				
Total	$8,390,655.05				

Interest rate risk - Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of a debt investment. The foundation does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. However, investment management firms have been advised to monitor the foundation's exposure and have taken the posture of strictly limiting interest rate risk at the present. Our investment firms manage duration relative to benchmark and the shape of the yield curve combined with an intermediate ladder of maturities.

Credit risk - Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Securities are rated using Standard and Poor's or Moody's, and are presented below using the Standard and Poor's rating. The foundation's investment policy (guideline #6) states that fixed income investments will be limited to the issues which fall within the highest four ratings by Moody's and/or Standard & Poor's.

At June 30, 2007, the foundation's investments were rated as follows:

Investment Type	Fair Value	AAA	AA	A	BBB	BB
LGIP	$2,714,914.91	$ -	$ -	$ -	$ -	$ -
U.S. agency obligations	1,225,745.92	964,158.65	-	48,726.75	-	-
Corporate bonds	2,011,423.64	196,764.50	696,834.75	643,996.95	56,674.20	49,038.00
Mutual funds - bonds	857,419.11	-	-	-	-	-
Money market funds	760,130.04	-	-	-	-	-
Total	$7,569,633.62	$1,160,923.15	$696,834.75	$692,723.70	$56,674.20	$49,038.00

Investment Type	Unrated
LGIP	$2,714,914.91
U.S. agency obligations	212,860.52
Corporate bonds	368,115.24
Mutual funds - bonds	857,419.11
Money market funds	760,130.04
Total	$4,913,439.82

At June 30, 2006, the foundation's investments were rated as follows:

Investment Type	Fair Value	AAA	AA	A	BBB	BB
LGIP	$6,597,932.65	$ -	$ -	$ -	$ -	$ -
U.S. agency obligations	1,499,130.89	971,876.14	-	47,304.75	-	-
Corporate bonds	2,304,750.54	187,813.06	566,630.54	934,128.58	147,836.60	47,295.00
Mutual funds - bonds	494,323.36	-	-	-	-	-
Money market funds	365,149.70	-	-	-	-	-
Total	$11,261,287.14	$1,159,689.20	$566,630.54	$981,433.33	$147,836.60	$47,295.00

Investment Type	Unrated
LGIP	$6,597,932.65
U.S. agency obligations	479,950.00
Corporate bonds	421,046.76
Mutual funds - bonds	494,323.36
Money market funds	365,149.70
Total	$8,358,402.47

Custodial credit risk - For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the foundation will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The foundation does not have a policy for custodial credit risk. At June 30, 2007, the foundation had $7,556,874.53 of uninsured and unregistered investments for which the securities are held by the counterparty. At June 30, 2006, the foundation had $7,230,978.68 of uninsured and unregistered investments for which the securities are held by the counterparty.

Concentration of credit risk – The foundation's investment policy (guideline #5) states that the investment portfolio should be invested in such manner as to provide adequate diversification. No one holding shall exceed 5% of the value of that portion of the account in the hands of the investment manager, except upon approval by the investment committee of the board of trustees. The provision shall not apply to securities issued by the U.S. Government and its agencies whose securities are backed by the full faith and credit of the federal government. At June 30, 2007, more than 5% of the foundation's investments were invested in the following single issuer:

Issuer	Percentage of Total Investments
Federal Home Loan Bank (FHLB) obligations	6.4%

At June 30, 2006, more than 5% of the foundation's investments were invested in the following single issuer:

Issuer	Percentage of Total Investments
Federal Home Loan Bank (FHLB) obligations	9.3%

Pledges Receivable - Pledges receivable are summarized below net of the allowance for doubtful accounts.

	June 30, 2007	June 30, 2006
Current pledges	$44,422.57	$35,277.56
Pledges due in one to five years	60,400.00	54,945.13
Pledges due after five years	5,100.00	7,200.00
Subtotal	109,922.57	97,422.69
Less discount to net present value	(6,360.10)	(6,150.71)
Total pledges receivable, net	$103,562.47	$91,271.98

Capital assets - Capital asset activity for the year ended June 30, 2007, was as follows:

	Beginning Balance	Additions	Transfers	Reductions	Ending Balance
Land	$1,180,000.00	$ -	$ -	$1,180,000.00	$ -
Capital assets, net	$1,180,000.00	$ -	$ -	$1,180,000.00	$ -

Capital asset activity for the year ended June 30, 2006, was as follows:

	Beginning Balance	Additions	Transfers	Reductions	Ending Balance
Land	$168,000.00	$1,180,000.00	$ -	$ 168,000.00	$1,180,000.00
Buildings	964,092.00	-	-	964,092.00	-
Total	1,132,092.00	1,180,000.00	-	1,132,092.00	1,180,000.00
Less accum. depreciation:					
Buildings	167,116.64	-	-	167,116.64	-
Total accum. depreciation	167,116.64	-	-	167,116.64	-
Capital assets, net	$964,975.36	$1,180,000.00	$ -	$964,975.36	$1,180,000.00

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

The foundation chooses to spend only a portion of the investment income earned (not including changes in the value of investments) each year. Under the spending plan established by the foundation, the total interest and dividends earned and received less fees for the year ended June 30 have been authorized for expenditure. At June 30, 2007, net appreciation of $2,083,701.38 is available to be spent, of which $1,808,819.29 is included in restricted net assets expendable for scholarships and fellowships, and $274,882.09 is included in unrestricted net assets. At June 30, 2006, net appreciation of $1,583,893.87 is available to be spent, of which $1,467,607.93 is included in restricted net assets expendable for scholarships and fellowships, and $116,285.94 is included in unrestricted net assets.

TENNESSEE BOARD OF REGENTS
WALTERS STATE COMMUNITY COLLEGE
SUPPLEMENTARY INFORMATION
STATEMENTS OF CASH FLOWS - COMPONENT UNIT
FOR THE YEARS ENDED JUNE 30, 2007, AND JUNE 30, 2006

	Year Ended June 30, 2007	Year Ended June 30, 2006
CASH FLOWS FROM OPERATING ACTIVITIES		
Gifts and contributions	$ 4,854,400.83	$ 3,100,714.09
Endowment income per spending plan	337,219.16	273,882.86
Payments to suppliers and vendors	(619,350.49)	(263,301.63)
Payments for scholarships and fellowships	(367,359.09)	(332,498.06)
Payments to Walters State Community College	(9,481,920.90)	(96,743.78)
Other receipts	148,698.95	168,926.93
Net cash provided (used) by operating activities	(5,128,311.54)	2,850,980.41
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Private gifts for endowment purposes	434,379.93	67,383.61
Other noncapital financing receipts	3,931.59	51,199.14
Net cash provided by noncapital financing activities	438,311.52	118,582.75
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from sale of capital assets	988,704.93	1,044,232.75
Net cash provided by capital and related financing activities	988,704.93	1,044,232.75
CASH FLOWS FROM INVESTING ACTIVITIES		
Income on investments	457,864.86	111,262.42
Purchases of investments	(231,689.35)	(17,497.91)
Net cash provided by investing activities	226,175.51	93,764.51
Net increase (decrease) in cash and cash equivalents	(3,475,119.58)	4,107,560.42
Cash and cash equivalents at beginning of year	6,989,305.86	2,881,745.44
Cash and cash equivalents at end of year	$ 3,514,186.28	$ 6,989,305.86
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:		
Operating income (loss)	$ (5,121,660.89)	$ 2,829,159.34
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Depreciation expense	-	16,171.20
Change in assets and liabilities:		
Receivables, net	(3,540.49)	3,669.59
Accounts payable	(3,110.16)	1,980.28
Net cash provided (used) by operating activities	$ (5,128,311.54)	$ 2,850,980.41
Noncash transactions		
Gifts of capital assets	$ -	$ 1,180,000.00
Unrealized gains/losses on investments	520,884.86	(56,464.37)
Loss on disposal of capital assets	(192,661.02)	-
Gifts in-kind to Walters State Community College	363,141.17	-