AUDIT REPORT

Tennessee Board of Regents
Walters State Community College

For the Years Ended
June 30, 2009, and June 30, 2008

STATE OF TENNESSEE

COMPTROLLER OF THE TREASURY

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October 26, 2010

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, 2009, and June 30, 2008. 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,

Arthur A. Hayes, Jr., CPA
Director

AAH/sds
10/046

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, 2009, and June 30, 2008

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

As Reported in the Previous Audit, the College Needs Improved Review Procedures to Prevent Errors in the Preparation of the College's Financial Statements*
Walters State Community College's procedures for financial statement preparation should be improved to ensure the accuracy of the information presented in the financial statements. This deficiency resulted in several significant reporting errors (page 9).

The significant deficiency described above was considered a material weakness. 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 college's internal control (page 6).

* This finding is repeated from the prior audit.

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, 2009, and June 30, 2008

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Tennessee Board of Regents
Walters State Community College
For the Years Ended June 30, 2009, and June 30, 2008

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 Executive 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, 2007, through June 30, 2009, 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, 2009, and June 30, 2008. 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 September 22, 2008. A follow-up of the prior audit finding was conducted as part of the current audit. The prior audit report contained a finding concerning the failure of the college's fiscal staff to exercise due care in preparing year-end accounting entries and making year-end report classifications. This finding has not been resolved and is repeated in this report.

OBSERVATIONS AND COMMENTS

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, 2009, and June 30, 2008, 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. Consideration of internal control over financial reporting disclosed a material weakness.

Compliance and Other Matters

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.

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 24, 2010

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:

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, 2009, and June 30, 2008, and have issued our report thereon dated September 24, 2010. During the year ended June 30, 2008, the college implemented GASB Statement 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions.* 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.

We consider the following deficiency to be a significant deficiency in internal control over financial reporting:

- As reported in the previous audit, the college needs improved review procedures to prevent errors in the preparation of the college's financial 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.

Walters State Community College's response to the finding identified in our audit is included in the Finding and Recommendation section of this report. We did not audit the college's response and, accordingly, we express no opinion on it.

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>As reported in the previous audit, the college needs improved review procedures to prevent errors in the preparation of the college's financial statements</u>

Finding

Walters State Community College's procedures for financial statement preparation should be improved to ensure the accuracy of the information presented in the financial statements. A similar finding was reported in the previous audit. The current weakness resulted in several significant reporting errors:

- On the college's 2009 statement of revenues, expenses, and changes in net assets, nonoperating grants and contracts were overstated by $1,025,400, and operating governmental grants and contracts were understated by the same amount. In a year-end entry to reclassify certain operating grants and contracts to nonoperating grants and contracts, the Assistant Vice President for Business Affairs included American Recovery and Reinvestment Act (ARRA) funds in the amount of $1,025,400 in the reclassification. In error, he also individually reclassified the ARRA funds. The error was corrected on the audited financial statement.

- In note 11 to the college's 2009 financial statements, the Assistant Vice President for Business Affairs correctly reported the college's annual OPEB cost as $1,188,985.00 in one schedule in the note and incorrectly as $1,888,985.00 in another schedule in the same note. This was a typing error that was not caught by review. The audited note was corrected.

According to the Assistant Vice President for Business Affairs, these first two errors were due to oversight.

- In note 16 to the college's 2009 financial statements, a corporate bond with a market value of $127,510 was excluded from the foundation's credit risk rating schedule. The audited note was corrected.

- On the foundation's statement of net assets at June 30, 2009, the Director of Advancement Services misclassified $2,538,982.20 related to restricted net assets in the unrestricted net assets category. As a result, restricted expendable net assets - other were overstated by $1,632,472.42, restricted expendable net assets - scholarships were overstated by $178,319.31, restricted nonexpendable net assets - other were overstated by $30,073.97, restricted nonexpendable net assets - scholarships were understated by $698,116.50, and unrestricted net assets were understated by $1,142,749.20. The amounts were classified correctly in the accounting system but were misclassified on an extract used to prepare the financial statements. The Director of Advancement Services did not notice the error during the statement preparation process. The audited statement of net assets was corrected.

According to the Director of Advancement Services, the third and fourth errors occurred because there was a missing staff member in the Office of College Advancement, and financial statement review processes already in place were not properly carried out.

These reporting errors resulted in significant misstatements in the college's unaudited financial statements. With an improved review process, the Vice President for Business Affairs, the Assistant Vice President for Business Affairs, or other staff members could have detected and corrected these errors before the financial statements were completed.

Management concurred with the previous audit finding and stated:

> 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. . . .
>
> 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.

The results of our audit of the financial statements have indicated that, despite management's assurances, the controls over financial reporting have not operated effectively.

Recommendation

The Vice President for Business Affairs should ensure that the Assistant Vice President for Business Affairs and the Director of Advancement Services and any assisting fiscal staff have adequate knowledge of reporting requirements to perform their responsibilities, and that they perform those duties with appropriate care and attention. Year-end entries and classifications should be recorded and reported properly. The notes to the financial statements should be mathematically accurate and free from error. In addition, the Vice President for Business Affairs should develop improved review procedures to ensure that errors have not been made in the report preparation process.

Management's Comment

We concur with the finding. Although the issues noted only related to the financial presentation and not the amounts reported from the accounting system, actions have been taken to address each of the issues noted in the audit report.

The Assistant Vice President for Business Affairs, the Director of Accounting Services, the Director of Advancement Services, and other appropriate staff will review all areas of the financial statements, notes, and other financial reporting documents prior to publication of the college's annual financial statements. Specific actions already taken include the following:

> The Assistant Vice President for Business Affairs and the Director of Accounting Services performed analytical procedures on the college's financial statement line items in order to identify and explain unexpected conditions. In addition, due care was taken to review all reclassification entries to mitigate errors.
>
> The Assistant Vice President for Business Affairs, the Director of Accounting Services, the Director of Advancement Services, and other appropriate staff reviewed calculations in the notes to the financial statements for mathematical errors and statement balances for agreement with the financial statements.
>
> New checklists and review sheets are being developed to aid in the preparation of fiscal year 2011 and future financial statements. In addition, the financial statement preparation timeline will be adjusted to allow for additional review time to ensure errors are not made in the preparation process.
>
> College staff are currently working on an ARGOS report to extract the information needed for the component unit's restricted fund totals to compare to net asset classification totals extracted from Banner statement extracts. This comparison will identify any reclassification errors in the statement extracts.

The college is continually reviewing and evaluating its internal controls through risk assessments. Risks and controls related to financial statement reporting are evaluated annually. Management is responsible for monitoring internal processes for identifying risks, putting controls in place to mitigate these risks, and taking prompt action when exceptions occur. Documented risk assessments are submitted to the Tennessee Board of Regents twice a year.

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Independent Auditor's Report

September 24, 2010

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:

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, 2009, and June 30, 2008, 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, 2009, and June 30, 2008, and the changes in its financial position and 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 Walters State Community College, and its discretely presented component unit as of June 30, 2009, and June 30, 2008, 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.

As discussed in Note 14, during the year ended June 30, 2008, the college implemented GASB Statement 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions.*

The management's discussion and analysis on pages 15 through 38 and the schedule of funding progress on page 69 are not a required part of the basic financial statements but are 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 70 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 24, 2010, 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.

Arthur A. Hayes, Jr., CPA
Director

AAH/sds

Tennessee Board of Regents
Walters State Community College
Management's Discussion and Analysis

This section of Walters State Community College's financial report presents a discussion and analysis of the financial performance of the college during the fiscal year ended June 30, 2009, with comparative information presented for the fiscal years ended June 30, 2008, and June 30, 2007. 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 and the audited financial statements and 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 17 to the financial statements. Information and analysis regarding the component unit is also included in this section.

Using This 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 is divided into two categories, nonexpendable and expendable. Only the foundation has nonexpendable restricted assets of which the corpus 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)

	2009	2008	2007
Assets:			
Current assets	$13,094	$11,200	$ 9,895
Capital assets, net	52,924	54,467	46,153
Other assets	3,177	3,271	9,925
Total assets	**69,195**	**68,938**	**65,973**
Liabilities:			
Current liabilities	5,990	6,130	5,950
Noncurrent liabilities	3,769	3,189	2,461
Total liabilities	**9,759**	**9,319**	**8,411**
Net assets:			
Invested in capital assets, net of related debt	51,797	53,107	44,592
Restricted – expendable	333	301	171
Unrestricted	7,306	6,211	12,799
Total net assets	**$59,436**	**$59,619**	**$57,562**

Comparison of fiscal year 2009 to fiscal year 2008

- Current assets increased due to the increase in cash required for current payables associated with capital projects such as the Greeneville Campus Fire Alarm project and the Greeneville Campus Safety/Demolition project. Also, the auxiliary cash associated with the bookstore and grants accounts receivable increased.

- The capital asset reduction is because depreciation expense exceeded additions to capital assets by $1.5 million.

- The decrease in other assets is related to the further reduction of noncurrent cash equivalents associated with unexpended plant funds as progress is made toward the completion of projects such as the Public Safety Building renovation.

- Current liabilities decreased due to the reduction of the Tennessee Technology Center at Morristown's cash reported in deposits held in custody for others.

- Noncurrent liabilities increased due to the second year of implementation of GASB Statement 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions.*

- Investment in capital assets decreased because additions were less than the depreciation expense for the year.

- The increase in restricted – expendable net assets is due to the Workforce Investment Act funding associated with the American Recovery and Reinvestment Act.

- The increase in unrestricted net assets is due to increased balances in the International and Technology Access designated fees balances. Also, auxiliaries increased because no expenditures or transfers were made against the recognized revenue from the contracted bookstore services.

<u>Comparison of fiscal year 2008 to fiscal year 2007</u>

- The increase in current assets is the net effect of a reduction of inventory due to contracting out bookstore services on July 1, 2007, and the increase in Tennessee Technology Center at Morristown's cash due to unspent equipment appropriations.

- The increase in capital assets is attributed to the completion of the Conner Short Center and Cates Cutshaw Hall buildings on the Sevier Campus and the completion of the Expo Center Equestrian Complex.

- The decrease in other assets is related to the reduction of noncurrent cash associated with unexpended plant funds due to the completion of several major renovations and special projects including the Sevier Campus Expansion and Expo Center projects.

- The increase in current liabilities is related to increases in deferred summer school revenue, payroll liabilities at year-end, and an increase in deposits held in custody for others due to the Tennessee Technology Center at Morristown's increase in cash due to unspent equipment appropriations.

- Noncurrent liabilities increased due to the implementation of GASB Statement 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions.*

- The increase in restricted expendable net assets is due to an increase in scholarships and Workforce Investment Act fund balances at year-end.

- The unrestricted net assets decrease is due to several factors. The unexpended plant fund balance has been greatly reduced with the completion of the Sevier Campus and Expo Center projects. Working capital was reduced due to contracting out bookstore services on July 1, 2007. The unreserved/undesignated balance was greatly reduced due to the implementation of GASB Statement 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*.

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

	2009	2008	2007
Assets:			
Current assets	$2,097	$ 2,480	$ 3,563
Capital assets	1,126	-	-
Other assets	8,471	9,134	9,167
Total assets	**11,694**	**11,614**	**12,730**
Liabilities:			
Current liabilities	37	56	26
Total liabilities	**37**	**56**	**26**
Net assets:			
Invested in capital assets, net of related debt	1,126	-	-
Restricted – nonexpendable	8,480	7,812	7,328
Restricted – expendable	1,850	3,660	4,925
Unrestricted	201	86	451
Total net assets	**$11,657**	**$11,558**	**$12,704**

Walters State Community College Foundation

Comparison of fiscal year 2009 to fiscal year 2008

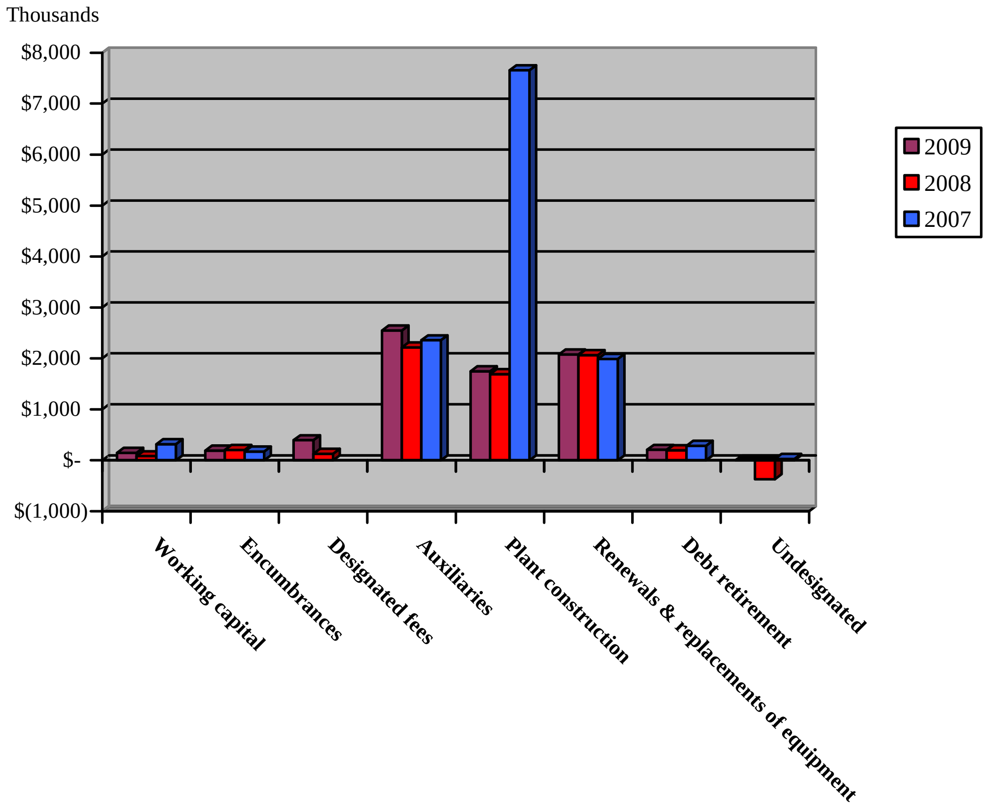
- Current assets decreased due to a reduction in the amount of funds invested in the foundation's Local Government Investment Pool (LGIP) account from fiscal year 2008 in order to cover the costs of the Greeneville/Greene County Center Demolition project.
- Capital assets increased due to the foundation receiving a building and land as a gift valued at $1,150,000.
- Other assets decreased due to a decrease in the market value of investments for fiscal year 2009.
- Current liabilities decreased due to fewer payables at June 30th.

Comparison of fiscal year 2008 to fiscal year 2007

- Current assets decreased due to the amount of funds in the foundation's Local Government Investment Pool (LGIP) account decreasing from fiscal year 2007 to cover the costs of the Expo Center Equestrian Complex expansion and moveable equipment purchased for the Sevier County Campus Expansion project.
- Other assets decreased due to a decrease in the market value of investments for fiscal year 2008.
- Current liabilities increased due to a payable to the college for moveable equipment purchased for the Sevier County Campus expansion project.

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 graph shows the allocations.

College's Allocation of Unrestricted Net Assets



Comparison of fiscal year 2009 to fiscal year 2008

- Designated fees continued to increase due primarily to the international fee and a larger amount of funds carried over relative to technology access fees for future purchase of technology equipment/services for students.

- Auxiliaries increased because no expenditures or transfers were made against the recognized revenue from the contracted bookstore services.

Comparison of fiscal year 2008 to fiscal year 2007

- Working capital was reduced due to contracting out bookstore services on July 1, 2007.

- Designated fees increased with the inception of the international student fee for fall 2007.

- Plant construction was reduced with the completion of Sevier Campus and Expo Center projects.

- The undesignated balance was greatly reduced due to the implementation of GASB Statement 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*.

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)

	2009	2008	2007
Operating revenues:			
Net tuition and fees	$ 9,872	$ 8,374	$ 7,290
Grants and contracts	6,043	5,768	5,120
Auxiliary	446	431	2,488
Other	689	569	899
Total operating revenues	**17,050**	**15,142**	**15,797**
Operating expenses	50,590	49,058	45,336
Operating loss	**(33,540)**	**(33,916)**	**(29,539)**
Nonoperating revenues and expenses:			
State appropriations	18,676	19,537	18,394
Gifts	262	425	405
Grants & contracts	12,129	8,780	8,104
Investment income	173	437	528
Other revenues and expenses	(34)	(64)	(60)
Total nonoperating revenues and expenses	**31,206**	**29,115**	**27,371**
Income (loss) before other revenues, expenses, gains, or losses	**(2,334)**	**(4,801)**	**(2,168)**
Other revenues, expenses, gains, or losses:			
Capital appropriations	1,441	3,984	2,073
Capital grants and gifts	710	2,901	9,656
Other	-	(27)	139
Total other revenues, expenses, gains, or losses	**2,151**	**6,858**	**11,868**
Increase (decrease) in net assets	**(183)**	**2,057**	**9,700**
Net assets at beginning of year	**59,619**	**57,562**	**47,862**
Net assets at end of year	**$59,436**	**$59,619**	**$57,562**

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

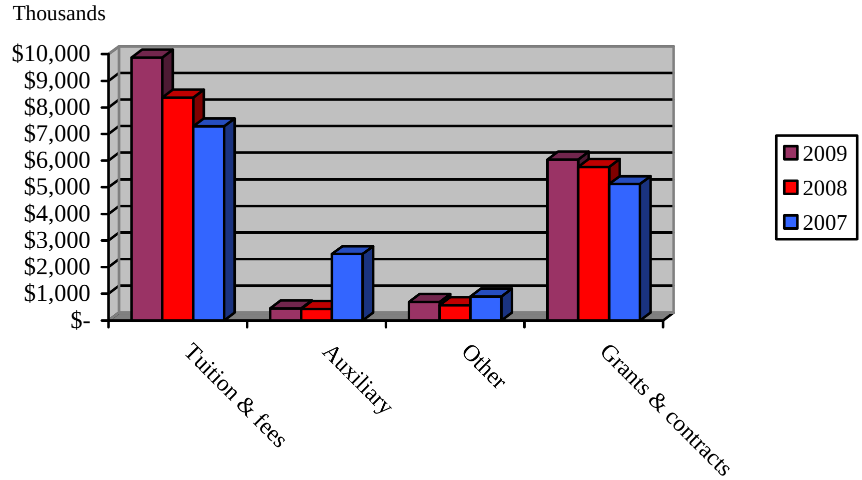
	2009	2008	2007
Operating revenues:			
Gifts	$357	$ 2,132	$ 4,858
Other	82	89	486
Total operating revenues	**439**	**2,221**	**5,344**
Operating expenses	1,635	3,885	10,466
Operating income (loss)	**(1,196)**	**(1,664)**	**(5,122)**
Nonoperating revenues and expenses:			
Investment income	(626)	1	944
Other revenues and expenses	71	12	4
Total nonoperating revenues and expenses	**(555)**	**13**	**948**
Income (loss) before other revenues, expenses, gains, or losses	**(1,751)**	**(1,651)**	**(4,174)**
Other revenues, expenses, gains, or losses:			
Additions to permanent endowments	700	505	434
Capital grants and gifts	1,150	-	-
Other	-	-	(191)
Total other revenues, expenses, gains, or losses	**1,850**	**505**	**243**
Increase (decrease) in net assets	**99**	**(1,146)**	**(3,931)**
Net assets at beginning of year	**11,558**	**12,704**	**16,635**
Net assets at end of year	**$11,657**	**$11,558**	**$12,704**

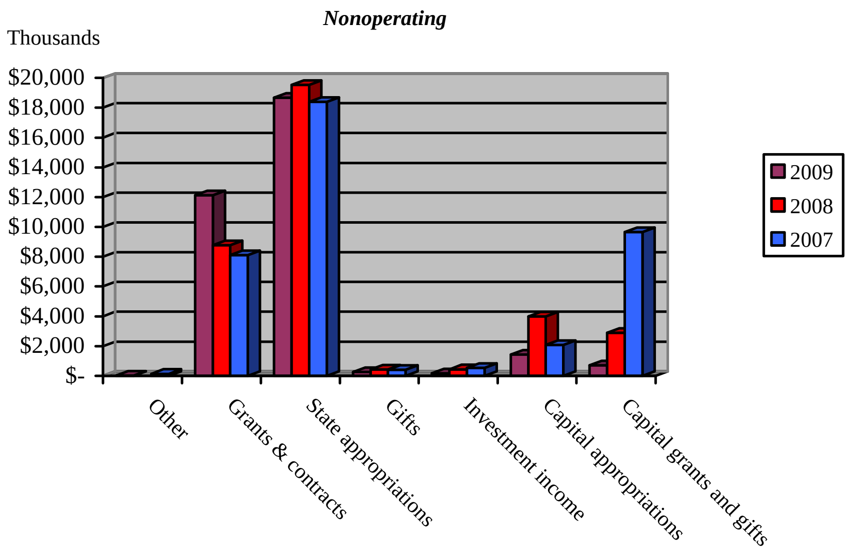
Revenues

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, 2009; June 30, 2008; and June 30, 2007. Amounts are presented in thousands of dollars.

College's Revenues by Source

Operating





Comparison of fiscal year 2009 to fiscal year 2008

- The college's increase in tuition and fees primarily resulted from a 6% maintenance fee increase and a slight enrollment increase.

- State appropriations decreased slightly due to an economic downtown affecting sales tax revenue collected by the state, which serves as the primary source for state appropriations to higher education.

- Capital appropriations decreased due to the completion of the renovations to the Defensive & Tactical Driving Course and the Public Safety Facility.

- Capital grants and gifts decreased due to reduced cash gifts from the WSCC Foundation.

- The increase in nonoperating grants and contracts is the result of the federal American Recovery and Reinvestment Act and an increase in federal Pell grants.

Comparison of fiscal year 2008 to fiscal year 2007

- The college's increase in tuition and fees primarily resulted from a 6% maintenance fee increase and the implementation of the new international education fee during fall semester 2007.

- The increase in operating government grants and contracts is due to the Workforce Investment Act staff salary and benefit increase associated with a 3% cost of living pay raise and a one-time bonus of $500 or 1% of an employee's salary, whichever was greater. There was also an increase in state funded access and diversity grants.

- The increase in nonoperating government grants is related to an increase in Pell grants due to the tuition increase.

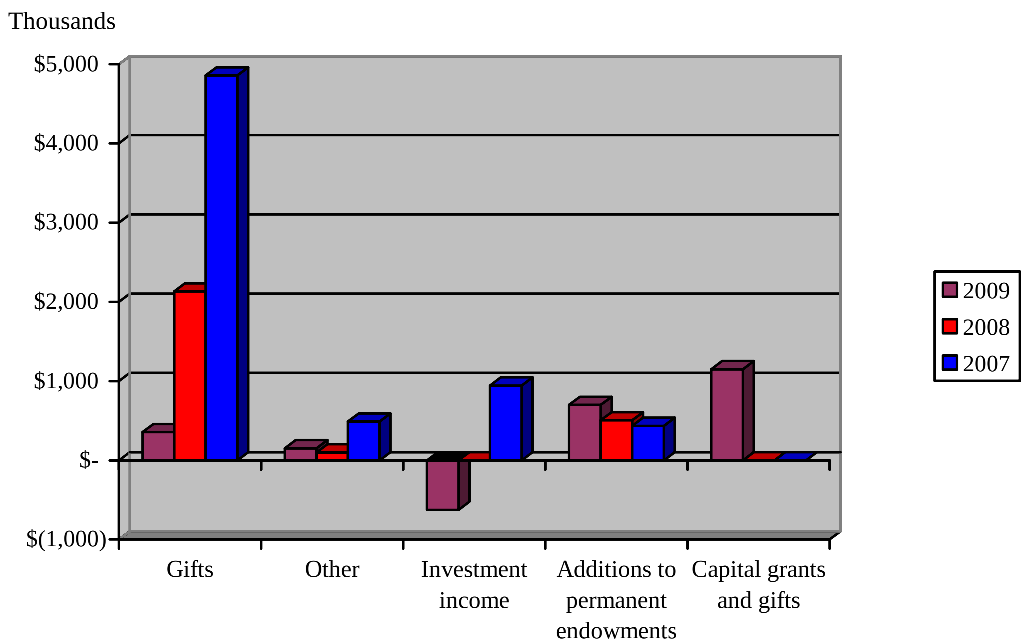
- Auxiliary revenues decreased after contracting out bookstore services on July 1, 2007.

- Investment income decreased due to LGIP interest rates dropping from 5.29% in July 2007 to 2.25% in June 2008.

- Capital appropriations increased due to increased state funding for Defensive & Tactical Driving Course (Public Safety Facility) and CCEN Roof Replacement projects.

- Capital grants and gifts decreased due to reduced cash gifts from the WSCC Foundation with the completion of the Sevierville Campus Expansion project.

Foundation Revenue by Source



Walters State Community College Foundation

<u>Comparison of fiscal year 2009 to fiscal year 2008</u>

- Gifts and contributions decreased for fiscal year 2009 as a result of a declining economy and no new capital campaigns initiated in fiscal year 2009.

- Investment income declined because the LGIP earnings rate for fiscal year 2009 was approximately 3% below that of fiscal year 2008. A loss in the market value of the endowment for fiscal year 2009 also contributed to the reduction in investment income for fiscal year 2009.

<u>Comparison of fiscal year 2008 to fiscal year 2007</u>

- Gifts and contributions decreased for fiscal year 2008 as a result of no new capital campaigns started in fiscal year 2008, and the Sevier County Campus capital campaign ended in fiscal year 2007.

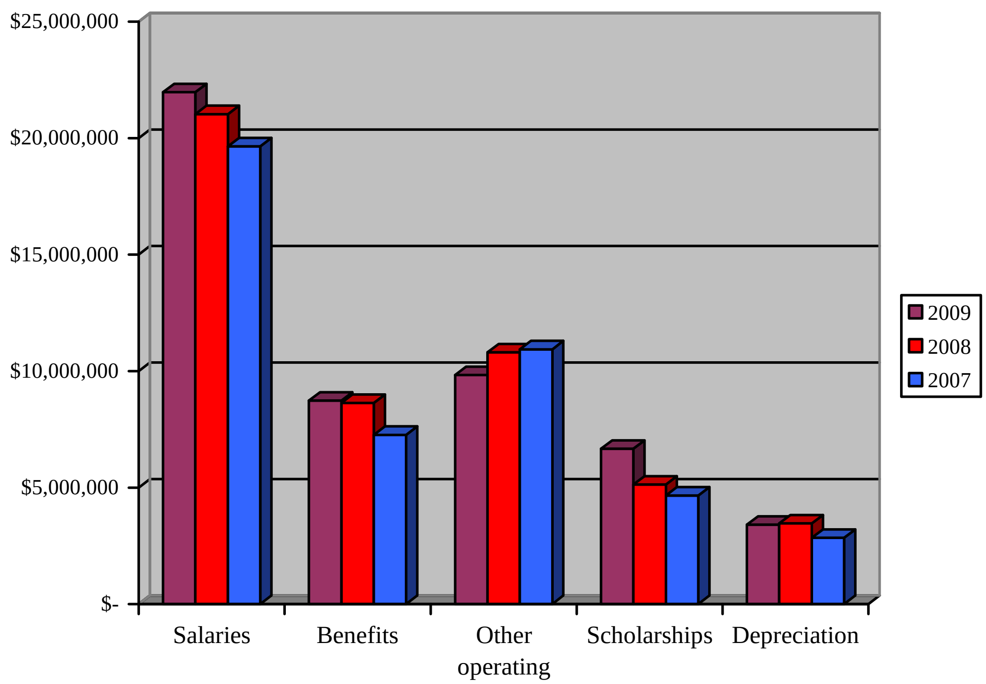
- Investment income decreased due to a reduction in the amount of interest earned in fiscal year 2008 from the Local Government Investment Pool (LGIP) and from certificates of deposit. A loss in the market value of the endowment for fiscal year 2008 also contributed to the reduction in investment income for fiscal year 2008.

Expenses

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

Natural Classification for College

	FY 2009	FY 2008	FY 2007
Salaries	$21,963,344	$21,028,103	$19,643,771
Benefits	8,730,339	8,631,992	7,260,422
Other operating	9,828,251	10,802,634	10,931,793
Scholarships	6,663,469	5,134,565	4,659,572
Depreciation	3,404,851	3,461,216	2,839,910
Totals	$50,590,254	$49,058,510	$45,335,468



<u>Comparison of fiscal year 2009 to fiscal year 2008</u>

- Salaries increased due to a state funded one-time bonus of $400 as well as filling vacant positions and new faculty positions due to enrollment growth.

- Benefits increased due to the aforementioned salary activity.

- Other operating expense reduction resulted primarily from an across the institution cut-back on spending for instructional and administrative supplies and services due to the reduction in state appropriations.

- The scholarship increase is due to the 6% tuition increase.

- Depreciation expense decreased slightly after adjustments associated with the College Center Renovation project.

<u>Comparison of fiscal year 2008 to fiscal year 2007</u>

- Salaries increased due to a state funded 3% cost of living pay raise and a WSCC funded one-time bonus of $500 or 1% of an employee's salary, whichever was greater.

- Benefits increased due to the aforementioned salary increases and implementation of GASB Statement 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. Also, health insurance premiums increased 7% at mid-year.

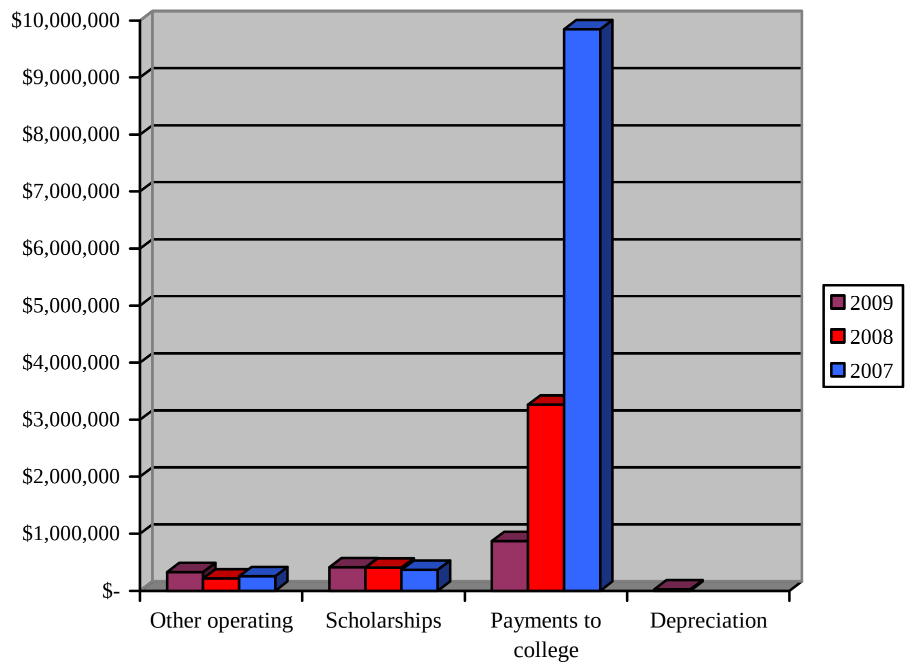
- The other operating expense decrease was mainly attributed to contracting out bookstore services on July 1, 2007.

- The scholarship increase is due to the 6% tuition increase.

- The depreciation expense increase is due to the first year depreciation for the Conner Short Center and Cates Cutshaw Hall buildings on the Sevier Campus and the Expo Center Equestrian Complex.

Natural Classification for Foundation

	FY 2009	**FY 2008**	**FY 2007**
Other operating	$327,817	$217,168	$ 253,099
Scholarships	410,541	408,054	367,359
Depreciation	23,863	-	-
Payments to or on behalf of the college	872,474	3,260,271	9,845,062



Walters State Community College Foundation

Comparison of fiscal year 2009 to fiscal year 2008

- Other operating expenses increased for fiscal year 2009 due to repairs and routine maintenance made to a donated building received during fiscal year 2009, and fees paid to a fund raising consultant in preparation for a major capital campaign.

- Depreciation expense was recognized for fiscal year 2009 directly related to a donated commercial building received during fiscal year 2009.

- Payments to or on behalf of the college decreased due to completion of the Walters State Expo Center enhancements during fiscal year 2008 and moveable equipment purchased.

Comparison of fiscal year 2008 to fiscal year 2007

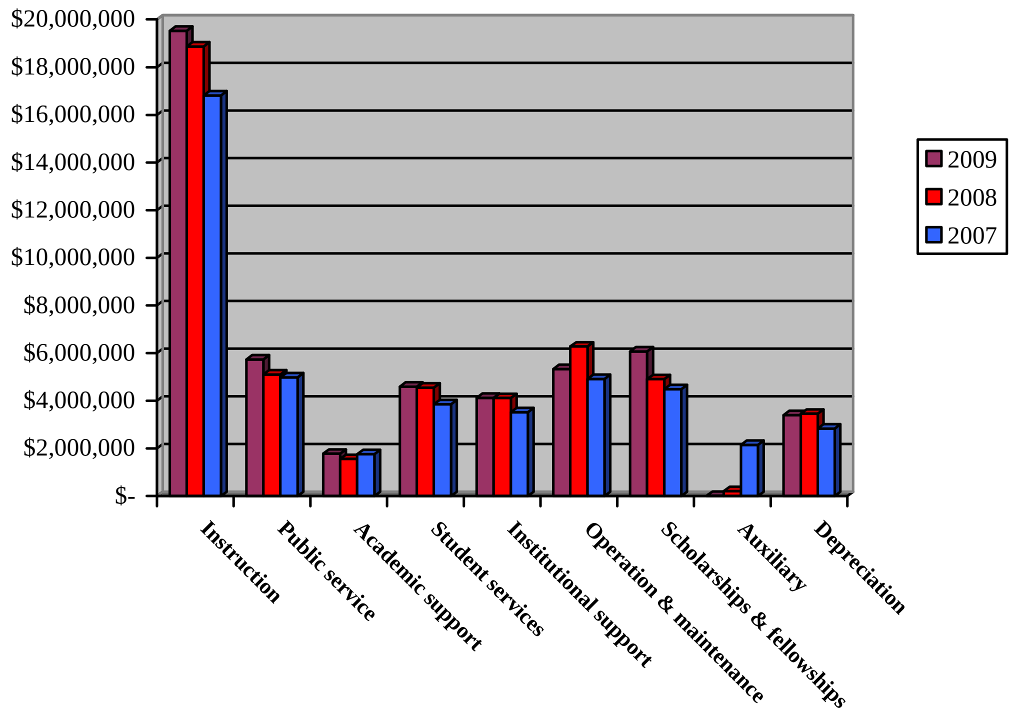
- Scholarships increased for fiscal year 2008 due to an increase in tuition by 6%, as well as additional funds available due to increased investment income from fiscal year 2007, which allowed for additional scholarships awarded for fiscal year 2008.

- Payments to or on behalf of the college decreased due to the fact that the Sevier County Campus expansion was in the final stages of completion for fiscal year 2008.

Program Classification for College

Operating Expenses by Function

	FY 2009	FY 2008	FY 2007
Instruction	$19,526,217	$18,868,734	$16,819,756
Public service	5,733,426	5,104,055	4,986,656
Academic support	1,782,680	1,556,546	1,759,615
Student services	4,597,573	4,558,281	3,857,321
Institutional support	4,125,799	4,117,546	3,518,960
Operation and maintenance	5,332,292	6,278,319	4,912,989
Scholarships & fellowships	6,073,917	4,908,354	4,483,195
Auxiliary	13,499	205,459	2,157,066
Depreciation	3,404,851	3,461,216	2,839,910
Totals	$50,590,254	$49,058,510	$45,335,468



<u>Comparison of fiscal year 2009 to fiscal year 2008</u>

- Instructional expenses increased primarily due to a state funded one-time bonus of $400, the filling of vacant positions, and new faculty positions due to enrollment growth.

- Public service expenses increased primarily due to a state funded one-time bonus of $400, the annual leave pay-out of employees who elected the Voluntary Buyout Plan, and increased operating expenses for events at the Expo Center. (The Voluntary Buyout Plan was a severance package offered to reduce staff in order to meet budgetary constraints.)

- Academic support expenses increased due to a state funded one-time bonus of $400, increased maintenance costs for information technology equipment and software, and increased technology access fee expenditures for the purchase of technology equipment in support of instruction.

- Student services expenses increased slightly due to a state funded one-time bonus of $400, the filling of a counselor's position, the provision of additional international events, and the annual leave pay-out of employees who elected the Voluntary Buyout.

- Institutional support expenses increased slightly due to a state funded one-time bonus of $400, a postage rate increase, motor pool costs due to fuel cost increases, and filling a position in College Advancement.

- Operation and maintenance expenses decreased due to not refilling two custodial positions that became vacant during the year, and generally cutting back on services provided to buildings and grounds due to reduced state appropriations.

- Scholarships & fellowships increased relative to the 6% tuition increase, enrollment increase, and awarding additional academic performance scholarships.

- Auxiliary expenses decreased significantly due to the accounting close-out of bookstore inventory subsequent to contracting for the operation of the bookstore in fiscal year 2008.

- Depreciation expense decreased slightly after adjustments associated with the College Center Renovation project.

<u>Comparison of fiscal year 2008 to fiscal year 2007</u>

- Instructional expenses increased primarily due to a state funded 3% cost of living pay raise and a college funded one-time bonus of $500 or 1% of an employee's salary, whichever was greater. Also, there were personnel additions of a culinary arts instructor, an administrative assistant, an information specialist, and two tutors. An increase also occurred due to the reorganization of some community service activities from public service to instruction.

- The increase in public service expenses is the net result of an increase due to a state funded 3% cost of living pay raise and a college funded one-time bonus of $500 or 1% of an employee's salary, whichever was greater, and a decrease due to the reorganization of various community service activities to the instruction program.

- The decrease in academic support expenses is due to increased allocations of Information and Educational Technology (IET) expenses across affected functions related to increased costs in technology.

- Student services expenses increased primarily due to a state funded 3% cost of living pay raise and a college funded one-time bonus of $500 or 1% of an employee's salary, whichever was greater. Staffing was increased by a financial aid clerk.

- The institutional support expenses increase is primarily due to a state funded 3% cost of living pay raise and a college funded one-time bonus of $500 or 1% of an employee's salary, whichever was greater.

- Operation and maintenance expenses increased primarily due to a state funded 3% cost of living pay raise and a college funded one-time bonus of $500 or 1% of an employee's salary, whichever was greater. Staffing was increased by a custodian.

- Scholarships and fellowships expenses increased due to a 6% tuition increase.

- Auxiliary expenses decreased due to contracting out bookstore services on July 1, 2007.

- Depreciation expense increased due to the first year depreciation for the Conner Short Center and Cates Cutshaw Hall buildings on the Sevier Campus and the Expo Center Equestrian Complex.

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.

Capital Assets and Debt Administration

Capital Assets

Walters State Community College had $52,924,279.29 invested in capital assets, net of accumulated depreciation of $29,043,377.91 at June 30, 2009; $54,466,949.66 invested in capital assets, net of accumulated depreciation of $25,986,933.47 at June 30, 2008; and $46,152,707.92 invested in capital assets, net of accumulated depreciation of $22,804,900.21 at June 30, 2007. Depreciation charges totaled $3,404,850.71, $3,461,216.41, and $2,839,910.31 for the years ended June 30, 2009; June 30, 2008; and June 30, 2007, respectively. Details of these assets are shown below and in Note 5 to the financial statements.

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

	2009	2008	2007
Land	$650	$ 650	$ 650
Land improvements & infrastructure	1,490	1,437	1,543
Buildings	41,143	43,637	35,067
Equipment	1,994	2,255	1,869
Library holdings	266	286	324
Software	926	983	964
Projects in progress	6,455	5,218	5,736
Total	**$52,924**	**$54,466**	**$46,153**

Comparison of fiscal year 2009 to fiscal year 2008

Land improvements & infrastructure increased due to the completion of two new horse barns and a campground at the Expo Center. The decrease in buildings is due to depreciation and no new additions. The decrease in equipment, library holdings, and software is due to annual depreciation, and any related disposal is greater than new purchases. The increase in projects in progress is related to work being performed on the Student Services Building project, Public Safety Renovations project, Greeneville Center Fire Alarm project, and Technology Building Roof Replacement project.

Comparison of fiscal year 2008 to fiscal year 2007

Land improvements & infrastructure decreased due to no new additions netted against depreciation expense. Buildings increased due to the completion of the Conner Short Center and Cates Cutshaw Hall buildings on the Sevier Campus and the completion of the Expo Center Equestrian Complex. Equipment increased because current year purchases were greater than deprecation and equipment removed to surplus. Library holdings decreased due to corrections associated with a prior period adjustment in 2007 recognizing periodicals, CDs, and DVDs as capital library holdings to be consistent with other TBR institutions. Software increased due to the recognition of additional payments for Administrative Software implementation (the Banner system). Projects in progress decreased because completed projects (see above) transferred to buildings were greater than expenditures for ongoing projects such as the Student Services Building and the Defensive & Tactical Driving Course (Public Safety Facility), which are funded by capital appropriations from the state.

Debt

The college had $1,127,298, $1,360,349.50 and $1,561,082.65 in debt outstanding at June 30, 2009; June 30, 2008; and June 30, 2007, respectively. The table below summarizes these amounts by type of debt instrument.

Walters State Community College
Outstanding Debt
(in thousands of dollars)

TSSBA debt:	2009	2008	2007
Bonds payable	$1,127,298.00	$1,360,349.50	$1,561,082.65
Total	**$1,127,298.00**	**$1,360,349.50**	**$1,561,082.65**

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. TSSBA bond ratings are as follows: Fitch: AA, Moody's Investor's Service: Aa2; Stable Outlook, and Standard & Poor's: AA; Stable Outlook. The first principal payment on the bonds was paid May 1, 2007. The college paid interest of $54,339 and principal of $233,051 in fiscal year 2009 on the bonds. More detailed information about the college's long-term liabilities is presented in Note 7 to the financial statements.

Economic Factors That Will Affect the Future

The economic slow-down that began in 2007-08 had a greater impact on the college in 2008-09 than in 2007-08. The college's state appropriations for 2008-09 were reduced by $458,000, and a further reversion of $654,600 of state appropriations was averted due to the implementation of the federal American Recovery and Reinvestment Act (ARRA). While the base state appropriations funding for the college for 2009-10 has been reduced significantly, the infusion of ARRA funding and maintenance of effort (MOE) funding combined have restored the college's level of funding close to the 2008-09 level. However, the amount of the infusion for 2009-10, approximately $3,200,000, is only available/guaranteed through 2010-11. After 2010-11, the college must be poised to make adjustments to its operations to reduce expenditures and/or increase revenues from sources other than state appropriations to continue the activities funded by ARRA and MOE sources. In addition to the infusion of ARRA and MOE funding, the

Tennessee Board of Regents (TBR) approved a maintenance fee increase in the amount of 6% to be effective for fall 2009. In December 2008, also effective for fall 2009, the TBR approved the removal of the capping of fees paid by students at the 12 credit-hour level; however, to help minimize an immediate cost increase to the student, the TBR approved a discount of 95% of the additional fee cost above the 12 credit-hour level. This discounting approach may be phased out over several future years. The state has approved continued funding for up to a $50 per month match for 401K contributions.

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.

TENNESSEE BOARD OF REGENTS
WALTERS STATE COMMUNITY COLLEGE
STATEMENTS OF NET ASSETS
JUNE 30, 2009, AND JUNE 30, 2008

	Walters State Community College		Component Unit - Walters State Community College Foundation	
	June 30, 2009	June 30, 2008	June 30, 2009	June 30, 2008
ASSETS				
Current assets:				
Cash and cash equivalents (Notes 2, 3, and 17)	$ 11,731,660.17	$ 9,968,358.46	$ 1,996,077.41	$ 2,318,541.54
Accounts, notes, and grants receivable (net) (Note 4)	1,284,910.17	1,168,564.55	-	3,574.72
Pledges receivable (net) (Note 17)	-	-	81,840.93	101,866.57
Inventories	22,990.44	27,276.84	-	-
Prepaid expenses and deferred charges	53,772.76	30,761.91	16,946.05	-
Accrued interest receivable	-	-	1,899.15	56,078.03
Other assets	992.09	5,554.71	-	-
Total current assets	13,094,325.63	11,200,516.47	2,096,763.54	2,480,060.86
Noncurrent assets:				
Cash and cash equivalents (Notes 2, 3, and 17)	3,176,366.32	3,270,645.82	-	-
Investments (Note 17)	-	-	8,447,915.80	9,087,888.16
Pledges receivable (net) (Note 17)	-	-	23,116.50	46,582.40
Capital assets (net) (Note 5)	52,924,279.29	54,466,949.66	1,126,137.50	-
Total noncurrent assets	56,100,645.61	57,737,595.48	9,597,169.80	9,134,470.56
Total assets	69,194,971.24	68,938,111.95	11,693,933.34	11,614,531.42
LIABILITIES				
Current liabilities:				
Accounts payable (Note 6)	506,964.73	463,962.24	37,064.68	56,443.05
Accrued liabilities	1,977,899.06	1,933,168.60	-	-
Due to primary government	184,404.45	-	-	-
Deferred revenue	724,576.30	676,990.44	-	-
Compensated absences (Note 7)	430,424.29	396,282.67	-	-
Accrued interest payable	8,002.31	9,568.24	-	-
Long-term liabilities, current portion (Note 7)	242,839.00	233,051.50	-	-
Deposits held in custody for others	1,865,947.13	2,360,217.13	-	-
Other liabilities	48,860.48	56,523.31	-	-
Total current liabilities	5,989,917.75	6,129,764.13	37,064.68	56,443.05
Noncurrent liabilities:				
Net OPEB obligation (Notes 7 and 10)	1,590,248.39	819,336.95	-	-
Compensated absences (Note 7)	1,293,904.69	1,242,770.37	-	-
Long-term liabilities (Note 7)	884,459.00	1,127,298.00	-	-
Total noncurrent liabilities	3,768,612.08	3,189,405.32	-	-
Total liabilities	9,758,529.83	9,319,169.45	37,064.68	56,443.05
NET ASSETS				
Invested in capital assets, net of related debt	51,796,981.29	53,106,600.16	1,126,137.50	-
Restricted for:				
Nonexpendable:				
Scholarships and fellowships	-	-	6,144,242.14	5,434,635.64
Other	-	-	2,335,597.94	2,377,161.91
Expendable:				
Scholarships and fellowships	36,325.04	41,352.92	538,436.61	709,521.07
Instructional department uses	37,515.08	22,142.71	-	-
Other	258,983.51	238,258.56	1,311,384.14	2,951,091.41
Unrestricted (Note 8)	7,306,636.49	6,210,588.15	201,070.33	85,678.34
Total net assets	$ 59,436,441.41	$ 59,618,942.50	$ 11,656,868.66	$ 11,558,088.37

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

TENNESSEE BOARD OF REGENTS
WALTERS STATE COMMUNITY COLLEGE
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2009, AND JUNE 30, 2008

	Walters State Community College		Component Unit - Walters State Community College Foundation	
	Year Ended June 30, 2009	Year Ended June 30, 2008	Year Ended June 30, 2009	Year Ended June 30, 2008
REVENUES				
Operating revenues:				
Student tuition and fees (net of scholarship allowances of $6,390,162.33 for the year ended June 30, 2009, and $5,360,859.79 for the year ended June 30, 2008)	$ 9,872,145.11	$ 8,374,007.03	$ -	$ -
Gifts and contributions	-	-	356,785.74	2,131,877.91
Governmental grants and contracts	6,043,231.54	5,753,081.21	-	-
Nongovernmental grants and contracts	-	14,763.99	-	-
Sales and services of educational departments	142,432.14	107,861.82	-	-
Auxiliary enterprises:				
Bookstore	424,999.74	410,888.12	-	-
Food service	8,008.46	7,938.58	-	-
Other	13,389.90	11,952.60	-	-
Other operating revenues	546,444.71	461,697.19	82,279.57	89,348.12
Total operating revenues	17,050,651.60	15,142,190.54	439,065.31	2,221,226.03
EXPENSES				
Operating expenses (Note 13):				
Salaries and wages	21,963,344.38	21,028,103.17	-	-
Benefits	8,730,338.85	8,631,991.51	-	-
Utilities, supplies, and other services	9,828,251.13	10,802,633.78	327,817.07	217,168.07
Scholarships and fellowships	6,663,469.02	5,134,564.66	410,541.16	408,053.99
Depreciation expense	3,404,850.71	3,461,216.41	23,862.50	-
Payments to or on behalf of Walters State Community College	-	-	872,473.81	3,260,270.51
Total operating expenses	50,590,254.09	49,058,509.53	1,634,694.54	3,885,492.57
Operating income (loss)	(33,539,602.49)	(33,916,318.99)	(1,195,629.23)	(1,664,266.54)
NONOPERATING REVENUES (EXPENSES)				
State appropriations	18,676,495.50	19,536,600.00	-	-
Gifts (college gifts include $168,366.66 from component unit in 2009 and $364,094.32 in 2008)	262,083.53	424,664.51	-	-
Grants and contracts	12,128,626.85	8,780,629.23	-	-
Investment income (for component unit, net of investment expense of $36,770.37 in 2009 and $39,924.29 in 2008)	172,948.04	437,922.30	(626,003.90)	1,498.12
Interest on capital asset-related debt	(54,318.75)	(62,304.85)	-	-
Other nonoperating revenues (expenses)	19,359.54	(2,082.50)	70,796.92	11,960.84
Net nonoperating revenues	31,205,194.71	29,115,428.69	(555,206.98)	13,458.96
Income (loss) before other revenues, expenses, gains, or losses	(2,334,407.78)	(4,800,890.30)	(1,750,836.21)	(1,650,807.58)
Capital appropriations	1,441,069.68	3,984,216.38	-	-
Capital grants and gifts (college gifts include $704,107.15 from component unit in 2009 and $2,896,176.19 in 2008)	710,837.01	2,901,007.84	1,150,000.00	-
Additions to permanent endowments	-	-	699,616.50	505,161.57
Other	-	(27,178.40)	-	-
Total other revenues	2,151,906.69	6,858,045.82	1,849,616.50	505,161.57
Increase (decrease) in net assets	(182,501.09)	2,057,155.52	98,780.29	(1,145,646.01)
NET ASSETS				
Net assets - beginning of year	59,618,942.50	57,561,786.98	11,558,088.37	12,703,734.38
Net assets - end of year	$ 59,436,441.41	$ 59,618,942.50	$ 11,656,868.66	$ 11,558,088.37

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

Exhibit C

TENNESSEE BOARD OF REGENTS
WALTERS STATE COMMUNITY COLLEGE
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2009, AND JUNE 30, 2008

	Year Ended June 30, 2009	Year Ended June 30, 2008
CASH FLOWS FROM OPERATING ACTIVITIES		
Tuition and fees	$ 10,216,014.20	$ 8,471,035.09
Grants and contracts	6,000,039.58	5,511,793.48
Sales and services of educational activities	142,432.14	107,861.82
Payments to suppliers and vendors	(10,207,830.36)	(10,330,543.28)
Payments to employees	(21,901,374.56)	(20,926,483.25)
Payments for benefits	(7,874,333.00)	(7,397,521.84)
Payments for scholarships and fellowships	(6,661,409.32)	(5,139,933.39)
Auxiliary enterprise charges:		
Bookstore	341,198.59	425,424.75
Food services	9,438.31	7,051.27
Other	13,389.90	11,952.60
Other receipts	548,697.71	430,652.17
Net cash used by operating activities	(29,373,736.81)	(28,828,710.58)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State appropriations	18,663,300.00	19,536,200.00
Gifts and grants received for other than capital or endowment purposes	12,346,901.12	9,236,565.89
Federal student loan receipts	2,901,831.14	2,528,337.86
Federal student loan disbursements	(2,924,714.05)	(2,498,051.30)
Changes in deposits held for others	(466,387.09)	631,342.38
Other noncapital financing receipts	184,404.45	-
Net cash provided by noncapital financing activities	30,705,335.57	29,434,394.83
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital appropriations	1,556,858.77	3,871,865.79
Capital grants and gifts received	732,643.76	1,891,538.21
Proceeds from sale of capital assets	16,075.08	7,611.11
Purchases of capital assets and construction	(1,871,525.56)	(11,707,269.85)
Principal paid on capital debt	(233,051.50)	(200,733.15)
Interest paid on capital debt	(55,884.68)	(63,500.84)
Recovery of bond issue costs	-	778.82
Other capital and related financing receipts	19,359.54	-
Net cash provided (used) by capital and related financing activities	164,475.41	(6,199,709.91)
CASH FLOWS FROM INVESTING ACTIVITIES		
Income on investments	172,948.04	437,922.30
Net cash provided by investing activities	172,948.04	437,922.30
Net increase (decrease) in cash	1,669,022.21	(5,156,103.36)
Cash at beginning of year	13,239,004.28	18,395,107.64
Cash at end of year	$ 14,908,026.49	$ 13,239,004.28

Exhibit C (Cont.)

TENNESSEE BOARD OF REGENTS
WALTERS STATE COMMUNITY COLLEGE
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2009, AND JUNE 30, 2008

	Year Ended June 30, 2009	Year Ended June 30, 2008
Reconciliation of operating loss to net cash used by operating activities:		
Operating loss	$ (33,539,602.49)	$ (33,916,318.99)
Adjustments to reconcile operating loss to net cash used by operating activities:		
Depreciation expense	3,404,850.71	3,461,216.41
Gifts in-kind	48,427.46	146,999.15
Other adjustments	18,195.50	-
Change in assets and liabilities:		
Receivables, net	(275,289.52)	(99,877.05)
Inventories	4,286.40	251,087.40
Prepaid/deferred items	(23,010.85)	11,750.23
Other assets	4,562.62	(1,562.87)
Accounts payable	43,002.49	(144,656.40)
Accrued liabilities	44,730.46	355,503.70
Net OPEB obligation	770,911.44	819,336.95
Deferred revenue	47,585.86	179,112.81
Compensated absences	85,275.94	135,617.73
Other	(7,662.83)	(26,919.65)
Net cash used by operating activities	$ (29,373,736.81)	$ (28,828,710.58)
Noncash investing, capital, or financing transactions		
Gifts of capital assets	$ 6,729.86	$ 980,933.02
Loss on disposal of capital assets	(16,075.08)	(10,472.43)

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

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 significant financial support; the system is discretely presented in the *Tennessee Comprehensive Annual Financial Report*. The financial statements present only that portion of the Tennessee Board of Regents' activities that is attributable to the transactions of Walters State Community College.

The Walters State Community College Foundation is considered a component unit of the college. Although the college does not control the timing or amount of receipts from the foundation, the majority of resources, or income thereon, that the foundation holds and invests are restricted to the activities of the college by 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 17 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) interest on capital asset-related debt; (4) certain grants and contracts; and (5) 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.

Inventories

Inventories are valued at the lower of cost or market on an average cost or first-in, first-out basis.

Compensated Absences

The college's employees accrue annual 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:

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

Nonexpendable restricted net assets - 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

At June 30, 2009, cash consisted of $189,403.57 in bank accounts, $4,160.00 of petty cash on hand, $13,987,494.61 in the State of Tennessee Local Government Investment Pool (LGIP) administered by the State Treasurer, and $726,968.31 in LGIP deposits for capital projects. At June 30, 2008, cash consisted of $1,137,566.34 in bank accounts, $2,060.00 of petty cash on hand, $11,596,834.58 in the State of Tennessee Local Government Investment Pool administered by the State Treasurer, and $502,543.36 in LGIP deposits for capital projects.

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. INVESTMENTS

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The college is authorized by statute to invest funds in accordance with Tennessee Board of Regents policies. Under the current policy, funds other than endowments may be invested only in obligations of the United States or its agencies which are backed by the full faith and credit of the United States, repurchase agreements for United States securities, certificates of deposit in banks and savings and loan associations, banker's acceptances, commercial paper, money market mutual funds, and the State of Tennessee Local Government Investment Pool (LGIP). Securities are rated using Standard and Poor's, Moody's, and/or Fitch's. Tennessee Board of Regents policy restricts investments in banker's acceptances and commercial paper. The policy requires that prime banker's acceptances must be issued by domestic banks with a minimum AA rating or foreign banks with a AAA long-term debt rating by a majority of the rating services that have rated the issuer. The policy further requires that commercial paper must be issued by corporations with a minimum rating of A1 or equivalent as provided by a majority of the rating services that rate the issuer. If there is no long-term debt rating, the short-term debt must be rated A1 by all rating services (minimum of two). Commercial paper of a banking institution must not be purchased. As of June 30, 2009, and June 30, 2008, the college's investments consisted entirely of investments in the Local Government Investment Pool. The fair value of these investments was $14,714,462.92 at June 30, 2009, and $12,099,377.94 at June 30, 2008. LGIP investments are not rated by nationally recognized statistical ratings organizations.

The LGIP is part of the State Pooled Investment Fund. The fund's required risks disclosures are presented in the *State of Tennessee's Treasurer's Report*. That report is available on the state's website at http://www.tn.gov/treasury or by calling (615) 741-2956.

NOTE 4. RECEIVABLES

Receivables included the following:

	June 30, 2009	June 30, 2008
Student accounts receivable	$ 612,746.42	$ 555,028.17
Grants receivable	994,608.78	663,512.95
State appropriation receivable	36,100.00	41,100.00
Other receivables	43,955.15	280,365.94
Subtotal	1,687,410.35	1,540,007.06
Less allowance for doubtful accounts	402,500.18	371,442.51
Total receivables	$1,284,910.17	$1,168,564.55

NOTE 5. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2009, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance
Land	$ 650,293.11	$ -	$ -	$ 650,293.11
Land improvements and infrastructure	2,151,205.04	158,884.83	-	2,310,089.87
Buildings	64,534,360.86	-	-	64,534,360.86
Equipment	6,118,669.92	369,282.09	314,875.45	6,173,076.56
Library holdings	568,067.09	38,223.38	49,605.90	556,684.57
Software	1,213,359.52	74,790.24	-	1,288,149.76
Projects in progress	5,217,927.59	1,237,074.88	-	6,455,002.47
Total	80,453,883.13	1,878,255.42	364,481.35	81,967,657.20
Less accumulated depreciation:				
Land improvements and infrastructure	714,250.00	105,361.32	-	819,611.32
Buildings	20,897,116.12	2,494,315.96	-	23,391,432.08
Equipment	3,863,399.56	614,627.26	298,800.37	4,179,226.45
Library holdings	282,166.87	58,277.57	49,605.90	290,838.54
Software	230,000.92	132,268.60	-	362,269.52

Total accumulated depreciation	25,986,933.47	3,404,850.71	348,406.27	29,043,377.91
Capital assets, net	$54,466,949.66	$(1,526,595.29)	$16,075.08	$52,924,279.29

Capital asset activity for the year ended June 30, 2008, was as follows:

	Beginning Balance	Additions	Transfers	Reductions	Ending Balance
Land	$ 650,293.11	$ -	$ -	$ -	$ 650,293.11
Land improvements and infrastructure	2,151,205.04	-	-	-	2,151,205.04
Buildings	53,371,251.24	-	11,163,109.62	-	64,534,360.86
Equipment	5,373,652.72	976,681.26	-	231,664.06	6,118,669.92
Library holdings	604,290.39	48,946.62	-	85,169.92	568,067.09
Software	1,070,810.99	142,548.53	-	-	1,213,359.52
Projects in progress	5,736,104.64	10,644,932.57	(11,163,109.62)	-	5,217,927.59
Total	68,957,608.13	11,813,108.98	-	316,833.98	80,453,883.13
Less accumulated depreciation:					
Land improvements and infrastructure	607,789.16	106,460.84	-	-	714,250.00
Buildings	18,304,148.06	2,592,968.06	-	-	20,897,116.12
Equipment	3,505,066.52	579,524.67	-	221,191.63	3,863,399.56
Library holdings	280,815.37	59,343.02	-	57,991.52	282,166.87
Software	107,081.10	122,919.82	-	-	230,000.92
Total accumulated depreciation	22,804,900.21	3,461,216.41	-	279,183.15	25,986,933.47
Capital assets, net	$46,152,707.92	$ 8,351,892.57	$ -	$ 37,650.83	$54,466,949.66

NOTE 6. ACCOUNTS PAYABLE

Accounts payable included the following:

	June 30, 2009	June 30, 2008
Vendors payable	$128,688.15	$160,289.26
Unapplied student payments	24,411.43	23,197.97

Other payables	353,865.15	280,475.01
Total accounts payable	$506,964.73	$463,962.24

NOTE 7. LONG-TERM LIABILITIES

Long-term liabilities activity for the year ended June 30, 2009, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
TSSBA debt:					
Bonds	$1,360,349.50	$ -	$ 233,051.50	$1,127,298.00	$242,839.00
Subtotal	1,360,349.50	-	233,051.50	1,127,298.00	242,839.00
Other liabilities:					
Compensated absences	1,639,053.04	1,045,922.44	960,646.50	1,724,328.98	430,424.29
Net OPEB obligation	819,336.95	1,188,985.00	418,073.56	1,590,248.39	-
Subtotal	2,458,389.99	2,234,907.44	1,378,720.06	3,314,577.37	430,424.29
Total long-term liabilities	$3,818,739.49	$2,234,907.44	$1,611,771.56	$4,441,875.37	$673,263.29

Long-term liabilities activity for the year ended June 30, 2008, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
TSSBA debt:					
Bonds	$1,561,082.65	$ 13,897.00	$ 214,630.15	$1,360,349.50	$233,051.50
Subtotal	1,561,082.65	13,897.00	214,630.15	1,360,349.50	233,051.50
Other liabilities:					
Compensated absences	1,503,435.31	1,029,374.80	893,757.07	1,639,053.04	396,282.67
Net OPEB obligation	-	819,336.95	-	819,336.95	-
Subtotal	1,503,435.31	1,848,711.75	893,757.07	2,458,389.99	396,282.67
Total long-term liabilities	$3,064,517.96	$1,862,608.75	$1,108,387.22	$3,818,739.49	$629,334.17

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. See Note 18 for information on revenues pledged for debt repayment.

Debt service requirements to maturity for the college's portion of TSSBA bonds at June 30, 2009, are as follows:

Year Ending June 30	Principal	Interest	Total
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	70,325.00	31,558.64	101,883.64
2014	73,278.50	28,745.64	102,024.14
2015 – 2019	415,442.00	97,004.14	512,446.14
2020 – 2021	193,153.00	13,038.82	206,191.82
Total	$1,127,298.00	$288,017.18	$1,415,315.18

NOTE 8. 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, 2009	June 30, 2008
Working capital	$ 145,999.69	$ 81,080.24
Encumbrances	191,282.17	204,755.69
Designated fees	394,634.35	128,319.72
Auxiliaries	2,545,208.08	2,215,887.05
Plant construction	1,746,515.81	1,687,898.25
Renewal and replacement of equipment	2,079,835.69	2,067,413.77
Debt retirement	206,983.13	198,968.13
Undesignated	(3,822.43)	(373,734.70)

Total	$7,306,636.49	$6,210,588.15

NOTE 9. PENSION PLANS

A. Defined Benefit Plan

Tennessee Consolidated Retirement System

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

The TCRS issues a publicly available financial report that includes financial statements and required supplementary information for SETHEEPP. That report is available on the state's website at http://www.state.tn.us/treasury/tcrs/index.html.

Funding Policy - Plan members are noncontributory. The college is required to contribute an actuarially determined rate. The current rate is 13.02% 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, 2009, 2008, and 2007, were $1,912,833.96, $1,938,684.63, and $1,789,853.51. 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), ING 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 $463,671.37 for the year ended June 30, 2009, and $470,735.25 for the year ended June 30, 2008. Contributions met the requirements for each year.

NOTE 10. OTHER POST-EMPLOYMENT BENEFITS

Healthcare is the only "other postemployment benefit" (OPEB) provided to employees. The State of Tennessee administers a group health insurance program which provides postemployment health insurance benefits to eligible college retirees. This program includes two plans — the State Employee Group Plan and the Medicare Supplement Plan. For accounting purposes, the plans are agent multiple-employer defined benefit OPEB plans. Benefits are established and amended by an insurance committee created by Section 8-27-201, *Tennessee Code Annotated,* for the State Employee Group Plan and Section 8-27-701, *Tennessee Code Annotated*, for the Medicare Supplement Plan. Prior to reaching age 65, retirees may participate in the State Employee Group Plan. Members of this plan have the option of choosing a preferred provider organization (PPO), point of service (POS), or health maintenance organization (HMO) plan for healthcare benefits. Subsequent to age 65, retirees who are also in the state's retirement system may participate in the Medicare Supplement Plan that does not include pharmacy. The state makes on-behalf payments to the Medicare supplement plan for the college's eligible retirees; see Note 15. The plans are reported in the *Tennessee Comprehensive Annual Financial Report*. That report is available on the state's website at http://tennessee.gov/finance/act/cafr.html, or by calling (615) 741-2140.

Special Funding Situation

The State of Tennessee is legally responsible for contributions to the Medicare Supplement Plan that covers the retirees of other governmental entities, including Walters State Community College. The state is the sole contributor for the college retirees that participate in the Medicare Supplement Plan and, therefore, is acting as the employer.

Funding Policy

The premium requirements of members of the State Employee Group Plan are established and may be amended by the insurance committee. The plan is self-insured and financed on a pay-as-you-go basis with the risk shared equally among the participants. Claims liabilities of the plan are periodically computed using actuarial and statistical techniques to establish premium rates. Administrative costs of the plan are allocated to participants. Retirees in the State Employee Group Plan pay the same base premium as active employees in the plan adjusted for years of service. Retirees with 30 years of service pay 20% of the total premium. Retirees with 20 but less than 30 years of service pay 30% of the total premium. Retirees with less than 20 years of service pay 40% of the total premium.

College's Annual OPEB Cost and Net OPEB Obligation
State Employee Group Plan

	2009	2008
Annual required contribution (ARC)	$1,188,000.00	$1,174,000.00
Interest on the net OPEB obligation	36,870.00	-
Adjustment to the ARC	(35,885.00)	-
Annual OPEB cost	1,188,985.00	1,174,000.00
Amount of contribution	(418,073.56)	(354,663.05)
Increase (decrease) in net OPEB obligation	770,911.44	819,336.95
Net OPEB obligation – beginning of year	819,336.95	-
Net OPEB obligation – end of year	$1,590,248.39	$ 819,336.95

Year-end	Plan	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation at Year-end
June 30, 2009	State Employee Group Plan	$1,188,985.00	35.2%	$1,590,248.39
June 30, 2008	State Employee Group Plan	$1,174,000.00	30.2%	$819,336.95

Funded Status and Funding Progress

The funded status of the college's portion of the State Employee Group Plan as of July 1, 2007, was as follows:

State Employee Group Plan	
Actuarial valuation date	July 1, 2007
Actuarial accrued liability (AAL)	$11,047,000.00
Actuarial value of plan assets	-
Unfunded actuarial accrued liability (UAAL)	$11,047,000.00
Actuarial value of assets as a percentage of the AAL	0%
Covered payroll (active plan members)	$14,111,112.92
UAAL as percentage of covered payroll	78.3%

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future, and actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. The schedule of funding progress, presented as RSI following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Actuarial Methods and Assumptions

Calculations are based on the types of benefits provided under the terms of the substantive plan at the time of each valuation and on the pattern of sharing of costs between the employer and plan members to that point. Actuarial calculations reflect a long-term perspective. Consistent with that perspective, actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets.

In the July 1, 2007, actuarial valuation, the Projected Unit Credit actuarial cost method was used. The actuarial assumptions included a 4.5 percent investment rate of return (net of administrative expenses) and an annual healthcare cost trend rate of 7 percent initially, increased to 11 percent in the second year and then reduced by decrements to an ultimate rate of 5 percent after 12 years. Both rates include a 3 percent inflation assumption. The unfunded actuarial accrued liability is being amortized as a level percentage of payroll on a closed basis over a 30-year period beginning with July 1, 2007.

NOTE 11. 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. The amounts of settlements have not exceeded insurance coverage for each 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, 2009, and June 30, 2008, are presented in the *Tennessee Comprehensive Annual Financial Report*. The CAFR is available on the state's website at http://tennessee.gov/finance/act/cafr.html. 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, 2009, the Risk Management Fund held $127.0 million in cash and cash equivalents designated for payment of claims. At June 30, 2008, the Risk Management fund held $123.9 million in cash and cash equivalents designated for payment of claims.

At June 30, 2009, the scheduled coverage for the college was $141,324,800 for buildings and $23,541,600 for contents. At June 30, 2008, the scheduled coverage for the college was $126,621,600 for buildings and $23,727,100 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 12. COMMITMENTS AND CONTINGENCIES

Sick Leave

The college records the cost of sick leave when paid. Generally, since sick leave (earned one day per month with unlimited accumulation) is paid only when an employee dies or is absent because of illness, injury, or related family death, there is no liability for sick leave at June 30. The dollar amount of unused sick leave was $7,132,342.83 at June 30, 2009, and $6,714,777.00 at June 30, 2008.

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 $177,907.00 and for personal property were $77,411.22 for the year ended June 30, 2009. The amounts for the year ended June 30, 2008, were $136,449.96 and $50,916.66. All operating leases are cancelable at the lessee's option.

Construction in Progress

At June 30, 2009, outstanding commitments under construction contracts totaled $260,377.97 for the Student Services Building project, the Public Safety Renovations project, the Greeneville Center Fire Alarm project, and the Technology Building Roof Replacement project, all of which will be funded by future state capital outlay appropriations.

NOTE 13. NATURAL CLASSIFICATIONS WITH FUNCTIONAL CLASSIFICATIONS

The college's operating expenses by functional classification for the year ended June 30, 2009, are as follows:

	Natural Classification					
Functional Classification	Salaries	Benefits	Other Operating	Scholarships	Depreciation	Total
Instruction	$12,352,507.64	$4,321,433.16	$2,688,031.69	$164,244.79	$ -	$19,526,217.28
Public service	1,584,585.16	683,501.24	3,314,233.28	151,106.50	-	5,733,426.18
Academic support	1,546,572.18	681,707.62	(445,599.43)	-	-	1,782,680.37
Student services	2,303,958.43	993,581.46	1,019,795.48	280,237.76	-	4,597,573.13
Institutional support	2,513,305.32	1,149,736.05	462,757.63	-	-	4,125,799.00
Operation & maintenance	1,662,415.65	900,379.32	2,769,496.63	-	-	5,332,291.60
Scholarships & fellowships	-	-	6,037.27	6,067,879.97	-	6,073,917.24
Auxiliary	-	-	13,498.58	-	-	13,498.58
Depreciation	-	-	-	-	3,404,850.71	3,404,850.71
Total	$21,963,344.38	$8,730,338.85	$9,828,251.13	$6,663,469.02	$3,404,850.71	$50,590,254.09

The college's operating expenses by functional classification for the year ended June 30, 2008, are as follows:

	Natural Classification					
Functional Classification	Salaries	Benefits	Other Operating	Scholarships	Depreciation	Total
Instruction	$11,765,161.75	$4,273,177.32	$ 2,786,201.71	$ 44,193.00	$ -	$18,868,733.78
Public service	1,580,477.37	678,767.30	2,784,156.47	60,653.41	-	5,104,054.55
Academic support	1,502,487.32	701,481.95	(647,423.19)	-	-	1,556,546.08
Student services	2,170,839.73	943,901.48	1,322,175.53	121,364.19	-	4,558,280.93
Institutional support	2,448,327.34	1,181,720.70	487,497.96	-	-	4,117,546.00
Operation & maintenance	1,560,809.66	858,617.34	3,858,891.89	-	-	6,278,318.89
Scholarships & fellowships	-	-	-	4,908,354.06	-	4,908,354.06
Auxiliary	-	(5,674.58)	211,133.41	-	-	205,458.83
Depreciation	-	-	-	-	3,461,216.41	3,461,216.41
Total	$21,028,103.17	$8,631,991.51	$10,802,633.78	$5,134,564.66	$3,461,216.41	$49,058,509.53

NOTE 14. CHANGE IN ACCOUNTING PRINCIPLE

During the year ended June 30, 2008, the college implemented Governmental Accounting Standards Board's Statement 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. This statement establishes standards for the measurement, recognition, and display of OPEB expense and related liabilities, note disclosures, and required supplementary information. The statement was implemented prospectively with a zero net OPEB obligation at transition.

NOTE 15. ON-BEHALF PAYMENTS

During the year ended June 30, 2009, the State of Tennessee made payments of $18,195.50 on behalf of the college for retirees participating in the Medicare Supplement Plan. The amount for the year ended June 30, 2008, was $21,872.02. The Medicare Supplement Plan is a postemployment benefit healthcare plan and is discussed further in Note 10. The plan is reported in the *Tennessee Comprehensive Annual Financial Report*. That report is available on the state's website at http://tennessee.gov/finance/act/cafr.html.

NOTE 16. VOLUNTARY BUYOUT PROGRAM

The college implemented a Voluntary Buyout Plan in fiscal year 2009 as a strategy in addressing budgetary constraints due to state appropriation reversions and potential budget reductions in the forthcoming fiscal year. Fourteen employees participated in the Voluntary Buyout Plan with all 14 of those employees terminating by June 30, 2009.

Severance pay was payable in July 2009, the month following the June employee separation date. Severance pay included:

- Service payment of $500 for each full year of college service in a regular full-time position as of the Voluntary Separation Date. Partial years of service in a regular full-time position in excess of one year were rounded to the nearest full year of service.

- Amount equivalent to the employee’s next longevity payment based on their years of creditable state service.

Two faculty members, who are among the 14 participating employees described above, chose to participate in Post-Retirement Service as authorized by Tennessee Board of Regents Guideline P-160, with both terminating by June 3, 2009.

As of June 30, 2009, expenditures for payout of accrued annual leave, compensatory time, or worked holidays for the Voluntary Buyout Plan and the Post-Retirement Service Program were $58,648.45. Accrued expenses for severance pay were $184,404.45 at June 30, 2009.

NOTE 17. COMPONENT UNIT

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

During the year ended June 30, 2009, the foundation made distributions of \$872,473.81 to or on behalf of the college for both restricted and unrestricted purposes. During the year ended June 30, 2008, the foundation made distributions of \$3,260,270.51 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, 2009, cash and cash equivalents consisted of \$60,315.40 in bank accounts, \$500.00 of petty cash on hand, \$1,438,664.87 in the State of Tennessee Local Government Investment Pool (LGIP) administered by the State Treasurer, and \$496,597.14 in money market mutual funds. At June 30, 2008, cash and cash equivalents consisted of \$42,646.28 in bank accounts, \$500.00 of petty cash on hand, \$1,628,076.14 in the State of Tennessee Local Government Investment Pool administered by the State Treasurer, and \$647,319.12 in money market mutual funds.

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, 2009, 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	$ 296,518.20	$ -	$190,276.20	$106,242.00	$ -
U.S. agency obligations	571,854.25	75,867.00	339,931.00	156,056.25	-
Corporate bonds	2,144,794.55	224,020.00	1,761,330.35	159,444.20	-
Municipal bonds	145,640.60	-	94,269.10	51,371.50	-
Mutual funds - bonds	2,450,268.95	496,597.14	561,586.58	1,291,805.23	100,280.00
Certificates of deposit	365,000.00				
Cash surrender value of life insurance	73,720.37				
Corporate stocks	2,763,764.68				
Mutual funds - equity	132,951.34				
Less cash and cash equivalents:	(496,597.14)				
Total	$8,447,915.80				

At June 30, 2008, 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	$ 563,538.15	$ -	$252,031.15	$311,507.00	$ -
U.S. agency obligations	838,427.10	227,307.25	339,227.25	271,892.60	-
Corporate bonds	2,624,039.35	345,287.05	1,853,839.20	251,243.10	173,670.00
Municipal bonds	100,916.00	-	100,916.00	-	-
Mutual funds - bonds	2,026,313.35				
Certificates of deposit	365,000.00				
Cash surrender value of life insurance	71,634.54				
Corporate stocks	2,990,271.33				
Mutual funds - equity	155,067.46				
Less cash and cash equivalents:	(647,319.12)				
Total	$9,087,888.16				

The foundation could not obtain maturity dates for its mutual bond funds in 2008.

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, Moody's, and/or Fitch and are presented below using the Standard and Poor's rating scale. 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, 2009, the foundation's investments were rated as follows:

		Credit Quality Rating					
Investment Type	Fair Value	AAA	AA	A	BBB	BB	Unrated
LGIP	$1,438,664.87	$ -	$ -	$ -	$ -	$ -	$1,438,664.87
U.S. agency obligations	571,854.25	571,854.25	-	-	-	-	-
Corporate bonds	2,144,794.55	51,688.50	147,334.00	1,144,636.30	644,143.25	29,482.50	127,510.00
Municipal bonds	145,640.60	-	145,640.60	-	-	-	-
Mutual funds - bonds	1,953,671.81	-	-	-	-	-	1,953,671.81
Money market funds	496,597.14	-	-	-	-	-	496,597.14
Total	$6,751,223.22	$623,542.75	$292,974.60	$1,144,636.30	$644,143.25	$29,482.50	$4,016,443.82

At June 30, 2008, the foundation's investments were rated as follows:

		Credit Quality Rating					
Investment Type	Fair Value	AAA	AA	A	BBB	B	Unrated
LGIP	$1,628,076.14	$ -	$ -	$ -	$ -	$ -	$1,628,076.14
U.S. agency obligations	838,427.10	838,427.10	-	-	-	-	-
Corporate bonds	2,624,039.35	203,554.00	736,137.75	1,119,600.20	309,202.90	34,755.50	220,789.00
Municipal bonds	100,916.00	-	100,916.00	-	-	-	-
Mutual funds - bonds	1,378,994.23	-	-	-	-	-	1,378,994.23
Money market funds	647,319.12	298,786.68	-	-	-	-	348,532.44
Total	$7,217,771.94	$1,340,767.78	$837,053.75	$1,119,600.20	$309,202.90	$34,755.50	$3,576,391.81

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, 2009, the foundation had $5,902,325.07 of uninsured and unregistered investments for which the securities are held by the counterparty. At June 30, 2008, the foundation had $7,099,928.54 of uninsured and unregistered investments for which the securities are held by the counterparty.

Foreign currency risk - Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment. The foundation's investment policy (guideline #7) states that all foreign investments may not exceed 5% of the investment portfolio.

At June 30, 2009, the foundation's exposure to foreign currency risk is as follows:

Investment	Currency	Fair Value
Corporate stocks	Various	$203,658.55
Mutual funds - equity	Various	$17,693.21
Corporate bonds	Euro	$50,683.50

At June 30, 2008, the foundation's exposure to foreign currency risk is as follows:

Investment	Currency	Fair Value
Mutual funds - equity	Various	$13,572.00

Pledges Receivable

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

	June 30, 2009	June 30, 2008
Current pledges	$ 83,005.97	$ 96,791.25
Pledges due in one to five years	22,184.96	51,262.14
Pledges due after five years	-	950.18
Subtotal	105,190.93	149,003.47
Less discount to net present value	(233.50)	(554.50)
Total pledges receivable, net	$104,957.43	$148,448.97

Capital Assets

Capital asset activity for the year ended June 30, 2009, was as follows:

	Beginning Balance	Additions	Transfers	Reductions	Ending Balance
Land	$ -	$ 195,500.00	$ -	$ -	$ 195,500.00
Buildings	-	954,500.00	-	-	954,500.00
Total	-	1,150,000.00	-	-	1,150,000.00
Less accumulated depreciation:					
Buildings	-	23,862.50	-	-	23,862.50
Total accumulated depreciation	-	23,862.50	-	-	23,862.50
Capital assets, net	$ -	$1,126,137.50	$ -	$ -	$1,126,137.50

Endowments

The Walters State Community College Foundation's endowment consists of approximately 120 individual funds established for a variety of purposes. Its endowment includes both donor-restricted endowment funds and funds designated by the Board of Trustees to function as endowments. As required by GAAP, net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of relevant law - The Board of Trustees of the Walters State Community College Foundation has interpreted the Uniform Prudent Management of Institutional Funds Act (the Act) as adopted by Tennessee. (The Board of Trustees has not formalized a written interpretation of the Act.) Action by the Board, however, has been consistent with a change in the interpretation of the manner in which foundation funds may be allocated for expenditure in order to meet the funding needs of the program services of the foundation. Namely, on February 19, 2007, the Foundation Executive Committee adopted a change in policy from utilizing only interest and dividends earned and received on endowment fund investments to that of determining a five-year average of the fair value of endowment funds and then applying a percentage (currently 4.5%) in order to determine the annual distribution to endowment earnings funds. The Board of Trustees ratified the action of the Executive Committee on May 14, 2007. As a result of this interpretation, the Walters State Community College Foundation classifies as permanently restricted net assets (1) the original value of gifts donated to the permanent endowment; (2) the original value of subsequent gifts to the permanent endowment; and (3) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in restricted nonexpendable net assets is classified as restricted expendable net assets until those amounts are appropriated for expenditure by the foundation in a manner consistent with the standard of prudence prescribed by the Act. In accordance with the Act, the foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the fund; (2) the purposes of the foundation and the endowment fund; (3) general economic conditions; (4) the possible effect of inflation or deflation; (5) the expected total return from income and the appreciation of investments; (6) other resources of the foundation; and (7) the investment policies of the foundation.

Return objectives and risk parameters - The foundation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the organization must hold in perpetuity or for a donor-specified period as well as board-designated funds. Under this policy, as approved by the Board of Trustees, the endowment assets are invested in a manner that is intended to produce results that are equal to or greater than the foundation benchmark returns of the Standard and Poor's (S&P) 500 for the equity portion of the investment portfolio and Barclay's (Lehman) International Bond Index for the fixed portion of the portfolio. The foundation expects its endowment funds, over time, to provide an average rate of return of approximately 6% annually. Actual returns in any given year may vary from this amount.

Strategies employed for achieving objectives - To satisfy its long-term rate-of-return objectives, the foundation relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The foundation targets a diversified asset allocation that places a greater emphasis on fixed income-based investments to achieve its long-term return objectives within prudent risk restraints.

Spending policy and how the investment objectives relate - The foundation has a policy of appropriating for distribution each year 4.5% of a five-year average of the fair value of endowment funds. In establishing this policy, the foundation considered the long-term expected return on its endowment. Accordingly, over the long-term, the foundation expects the current spending policy to allow its endowment to grow at an average of 1.5% annually (benchmark percent compound annual return less annual spending plan distribution). This is consistent with the foundation's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return. The foundation's spending policy will be evaluated at least annually by the executive committee of the foundation.

At June 30, 2009, net appreciation of $684,286.95 is available to be spent, of which $47,025.12 is included in restricted net assets expendable for scholarships and fellowships and $637,261.83 is included in restricted net assets expendable for other uses. At June 30, 2008, net appreciation of $1,848,262.81 is available to be spent, of which $273,791.85 is included in restricted net assets expendable for scholarships and fellowships and $1,574,470.96 is included in restricted net assets expendable for other uses.

NOTE 18. PLEDGED REVENUES

The college has pledged certain revenues and fees, including state appropriations, to repay $1,127,298.00 of revenue bonds outstanding at June 30, 2009, and $1,360,349.50 of revenue bonds outstanding at June 30, 2008. The bonds were issued in June 2006. Proceeds from the bonds provided financing for the Energy Savings and Performance Contracting project and the Administrative Computing Equipment and Associated Software project. The bonds are payable through May 2021. Annual principal and interest payments on the bonds constituted .8% of available revenues for the 2009 fiscal year and .8% of available revenues for the 2008 fiscal year. The total principal and interest remaining to be paid on the bonds at June 30, 2009, was $1,415,315.18. Principal and interest paid for the 2009 fiscal year and total available revenues were $287,370.25 and $36,434,984.13, respectively. Principal and interest paid for the 2008 fiscal year and total available revenues were $276,935.00 and $35,239,115.82, respectively.

Tennessee Board of Regents
Walters State Community College
Required Supplementary Information
OPEB Schedule of Funding Progress
Unaudited

Actuarial Valuation Date	Plan	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b-a)/c)]
July 1, 2007	State Employee Group Plan	$ -	$11,047,000.00	$11,047,000.00	0%	$14,111,112.92	78.3%

TENNESSEE BOARD OF REGENTS
WALTERS STATE COMMUNITY COLLEGE
SUPPLEMENTARY INFORMATION
SCHEDULES OF CASH FLOWS - COMPONENT UNIT
FOR THE YEARS ENDED JUNE 30, 2009, AND JUNE 30, 2008

	Year Ended June 30, 2009	Year Ended June 30, 2008
CASH FLOWS FROM OPERATING ACTIVITIES		
Gifts and contributions	$ 356,785.74	$ 2,131,877.91
Payments to suppliers and vendors	(381,595.08)	(1,321,343.06)
Payments for scholarships and fellowships	(410,541.16)	(408,053.99)
Payments to Walters State Community College	(855,020.22)	(2,126,020.59)
Other receipts	129,345.83	45,236.90
Net cash used by operating activities	(1,161,024.89)	(1,678,302.83)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Private gifts for endowment purposes	699,616.50	505,161.57
Other noncapital financing receipts	70,796.92	11,960.84
Net cash provided by noncapital financing activities	770,413.42	517,122.41
CASH FLOWS FROM INVESTING ACTIVITIES		
Income on investments	399,574.79	394,111.51
Purchases of investments	(331,427.45)	(428,575.83)
Net cash provided (used) by investing activities	68,147.34	(34,464.32)
Net decrease in cash and cash equivalents	(322,464.13)	(1,195,644.74)
Cash and cash equivalents at beginning of year	2,318,541.54	3,514,186.28
Cash and cash equivalents at end of year	$ 1,996,077.41	$ 2,318,541.54
Reconciliation of operating loss to net cash used by operating activities:		
Operating loss	$ (1,195,629.23)	$ (1,664,266.54)
Adjustments to reconcile operating loss to net cash used by operating activities:		
Depreciation expense	23,862.50	-
Change in assets and liabilities:		
Receivables, net	47,066.26	(44,111.22)
Prepaid/deferred items	(16,946.05)	-
Accounts payable	(19,378.37)	30,074.93
Net cash used by operating activities	$ (1,161,024.89)	$ (1,678,302.83)
Noncash investing, capital, or financing transactions		
Gifts of capital assets	$ 1,150,000.00	$ -
Unrealized losses on investments	(971,399.81)	(448,691.42)