AUDIT REPORT

Tennessee Board of Regents
Walters State Community College

For the Years Ended
June 30, 2011, and June 30, 2010

STATE OF TENNESSEE

COMPTROLLER OF THE TREASURY

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Division of State Audit

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August 30, 2012

The Honorable Bill Haslam, Governor
and
Members of the General Assembly
State Capitol
Nashville, Tennessee 37243
and
The Honorable John G. Morgan, Chancellor
Tennessee Board of Regents
1415 Murfreesboro Road, Suite 340
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, 2011, and June 30, 2010. 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
12/064

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, 2011, and June 30, 2010

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 Two Audits, the College Needs to Improve Financial Statement Preparation and Review Procedures to Prevent Errors in Its Financial Statements*
Walters State Community College's procedures for financial statement preparation should be improved to ensure the accuracy and proper classification of the information presented in its financial statements. This deficiency resulted in several significant reporting errors (page 8).

The deficiency described above was considered a material weakness. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the college's financial statements will not be prevented, or detected and corrected on a timely basis (page 5).

* This finding is repeated from prior audits.

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, 2011, and June 30, 2010

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Tennessee Board of Regents
Walters State Community College
For the Years Ended June 30, 2011, and June 30, 2010

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, 2009, through June 30, 2011, 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, 2011, and June 30, 2010. 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 April 7, 2011. 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 need for the college's fiscal staff to improve review procedures to prevent errors in the college's financial statements. The 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, 2011, and June 30, 2010, 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.

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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*

July 17, 2012

The Honorable Bill Haslam, Governor
and
Members of the General Assembly
State Capitol
Nashville, Tennessee 37243
and
The Honorable John G. Morgan, Chancellor
Tennessee Board of Regents
1415 Murfreesboro Road, Suite 340
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, 2011, and June 30, 2010, and have issued our report thereon dated July 17, 2012. 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 was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses, and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified a deficiency in internal control over financial reporting that we consider to be a material weakness.

A *deficiency in internal control* 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 and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the financial statements will not be prevented, or detected and corrected on a timely basis. We consider the following deficiency to be a material weakness:

- As reported in the previous two audits, the college needs to improve financial statement preparation and review procedures to prevent errors in its financial statements.

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

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 its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under generally accepted government auditing standards.

We noted certain matters that we reported to the management of Walters State Community College in a separate letter.

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 two audits, the college needs to improve financial statement preparation and review procedures to prevent errors in its financial statements</u>

Finding

Walters State Community College's procedures for financial statement preparation should be improved to ensure the accuracy and proper classification of information presented in its financial statements. Similar findings were reported in the previous two audits. The current weakness resulted in the following significant reporting errors:

College Financial Statements

- In preparing the depreciation schedules for capital assets for the college, the Director of Accounting Services understated depreciation expense for the College Center by $156,797.75 for the years ended June 30, 2010, and June 30, 2011. Further investigation revealed that management had also understated depreciation expense by the same amounts in the years ended June 30, 2008, and June 30, 2009. Therefore, accumulated depreciation was understated and capital assets were overstated by $470,393.25 at June 30, 2010, and by $627,191.00 at June 30, 2011. The audited financial statements and the related note to the financial statements were corrected.

- On the college's 2010 statement of cash flows, the Director of Accounting Services misclassified $13,173,081.02 of payments to suppliers and vendors as payments for scholarships and fellowships and misclassified $9,715,838.53 of payments for scholarships and fellowships as payments to suppliers and vendors. This was a typing error. A detailed review of this statement was not performed by another employee. The audited statement was corrected.

The method that the Director of Accounting Services used in preparing the depreciation schedules was proper; however, depreciation for a major College Center addition in 2008 was not included in total depreciation for 2008 through 2011. Adequate review would have shown that a large residual amount would have remained at the end of the useful life of the building and alerted financial staff to the error.

In a similar manner, the statement of cash flows for the college was prepared correctly, except that a typographical error resulted in the transposition of the "Payments to suppliers and vendors" line item and the "Payments for scholarships and fellowships" line item. Adequate review should have prevented this material misclassification on the statement of cash flows for 2010.

These reporting errors resulted in significant misstatements in the college's unaudited financial statements. As stated in the previous audit, with an improved review process, the college's fiscal staff could have detected and corrected these errors before the financial statements were completed.

Foundation Financial Statements

- On the foundation's statement of net assets at June 30, 2011, the Associate Vice President for College Advancement misclassified $1,125,703.46 of restricted expendable net assets - scholarships and fellowships and $141,193.47 of unrestricted net assets as restricted expendable net assets - other. In addition, on the foundation's statement of net assets at June 30, 2010, he misclassified $509,022.93 of restricted expendable net assets - scholarships and fellowships and $65,404.52 of unrestricted net assets as restricted expendable net assets - other. The Associate Vice President for College Advancement reported cumulative unrealized investment gains as restricted expendable net assets - other. He did not properly allocate the gains among all applicable net asset categories at year-end. The audited statements were corrected.

- The Associate Vice President for College Advancement misclassified net assets associated with three charitable remainder trusts. Restricted nonexpendable net assets - other at June 30, 2011, were overstated in the amount of $1,563,656.22, and restricted expendable net assets - other were understated by the same amount. Restricted nonexpendable net assets - other at June 30, 2010, were overstated in the amount of $1,542,689.98, and restricted expendable net assets - other were understated by the same amount. Assets of all three of the foundation's charitable remainder trusts should be classified as restricted expendable net assets, since there is no stipulation that the principal be held in perpetuity. The audited statements were corrected.

- In note 17 in the college's 2011 *Financial Report*, the Associate Vice President for College Advancement did not disclose the proper rating for four foundation investments totaling $208,081. In note 16 in the college's 2010 *Financial Report*, the Associate Vice President for College Advancement did not disclose the proper rating for three foundation investments totaling $86,873.08. For 2011, the proper rating for all four investments was an A. However, these investments were improperly disclosed in the notes to the financial statements as having a rating of AAA. None of the three major rating services rated these investments at this level. For 2010, the lowest rating for all three investments was an A. However, these investments were disclosed as having a rating of AA. According to question 1.9.1 in the GASB *Comprehensive Implementation Guide*, "When multiple ratings exist and the government is aware of the different ratings, the rating indicative of the greatest degree of risk should be presented." The audited note was corrected.

- On the foundation's 2011 and 2010 statements of cash flows, included as supplementary information in the college's 2011 and 2010 *Financial Reports*, unrealized gains on investments were materially misstated. For 2011, under noncash investing transactions, unrealized gains were reported at $774,963.75, rather than $480,771.78. For 2010, under noncash investing transactions, unrealized gains were reported at $36,656.25, rather than $412,554.62. The Associate Vice President for

College Advancement did not have documentation showing how he calculated these amounts. The statements were corrected.

Based on our discussions with the Associate Vice President for College Advancement, he knew that cumulative unrealized gains should be allocated to applicable net asset categories, but he had not developed a methodology that he considered acceptable. In the other three instances, the Associate Vice President apparently was not aware of, or did not fully understand, the reporting requirements.

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

Recommendation

The Vice President for Business Affairs should ensure that the Director of Accounting Services, the Associate Vice President for College Advancement, and any assisting fiscal staff have adequate knowledge of reporting requirements to perform their responsibilities, and that they perform the following duties with appropriate care and attention:

- depreciation schedules should be adequately reviewed each year for accuracy,
- the final financial statements should be carefully compared to supporting worksheets and properly reviewed to ensure accurate reporting,
- year-end entries and classifications should be recorded and reported properly, and
- the notes to the financial statements should contain accurate disclosures.

As to the foundation, the Associate Vice President for College Advancement should continue to improve his knowledge of accounting and reporting principles for endowments and split interest agreements (e.g., charitable remainder trusts). He should develop a better understanding of proper net asset classification through additional training and interaction with peer institutions.

Management's Comment

College Financial Statements

We concur with the finding and recommendation. The issues noted relate to the financial presentation but not the amounts extracted from the accounting system. Action has been taken to address each of the issues noted in the presentation of the financial data.

The Assistant Vice President for Business Affairs, the Director of Accounting Services, the Associate Vice President for College Advancement, and other appropriate Business Office staff will review all areas of the financial statements, notes, and other financial reports prior to publication of the college's annual financial statements. Management has also requested a review by the Internal Auditor at Walters State for the note disclosures to help increase accuracy prior to financial statement submission to the Tennessee Board of Regents. Specific actions already taken include the following:

- The Director of Accounting Services and other appropriate Business Office staff will review current year depreciation amounts by performing calculations through the remaining life of the capital asset to ensure full depreciation by the end of the asset's useful life. In addition, the summary sheet of the depreciation Excel workbook will be modified to allow future years' depreciation to be calculated to prove that the individual sheet calculations are correct. Further, the Assistant Vice President for Business Affairs will review the depreciation calculations using the trace precedents/dependents function within Excel.

- As stated in the previous audit finding for the years ended June 30, 2008, and June 30, 2009, new checklists and review sheets were developed to aid in the preparation of fiscal year 2011 and future financial statements. Based on review sheets and working statements for the year ended June 30, 2011, final financial statements were compared to supporting documentation. Additional items and language will be added to the current checklists and review sheets to ensure these review practices are enhanced and continue.

The college is continually reviewing and evaluating its internal controls through risk assessments. Financial statement reporting related risks and controls are evaluated annually. Staff 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 annually.

Foundation Financial Statements

Management concurs with the finding and recommendation. Training has already been initiated by the Associate Vice President for College Advancement by completing the Tennessee Board of Regents' Financial Statement Preparation Training class at Tennessee Technological University in early May 2012, which assisted in a better understanding of financial statement preparation and presentation, as well as providing a beneficial interaction with peer institution staff. Additional training materials developed by Campus Strategies, LLC, have been requested and received. These materials were used at a State Audit training session in late May 2012 and relate to reporting for split interest trusts and endowment reporting. Management has also requested a review by the Internal Auditor at Walters State for the note disclosures to help increase accuracy prior to financial statement submission to the Tennessee Board of Regents.

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Independent Auditor's Report

July 17, 2012

The Honorable Bill Haslam, Governor
and
Members of the General Assembly
State Capitol
Nashville, Tennessee 37243
and
The Honorable John G. Morgan, Chancellor
Tennessee Board of Regents
1415 Murfreesboro Road, Suite 340
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, 2011, and June 30, 2010, 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, 2011, and June 30, 2010, 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, 2011, and June 30, 2010, 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 17, the financial statements of Walters State Community College Foundation, a discretely presented component unit of Walters State Community College, include investments valued at $2,151,899.09 at June 30, 2011, (17.4 percent of component unit net assets), whose fair values have been estimated by management in the absence of readily determinable fair values. Management's estimates are based on information provided by the fund managers.

The management's discussion and analysis on pages 16 through 40 and the schedule of funding progress on page 72 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 73 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 July 17, 2012, 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 considered in assessing the results of our audit.

Sincerely,

Arthur A. Hayes, Jr., CPA
Director

AAH/sds

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

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 years ended June 30, 2011, and June 30, 2010, with comparative information presented for the fiscal year ended June 30, 2009. This discussion has been prepared by management along with the financial statements and related note disclosures and should be read in conjunction with the independent auditor's report, the audited financial statements, and the accompanying notes. The financial statements, notes, and this discussion are the responsibility of management.

The college has a discretely presented component unit, the Walters State Community College Foundation. More detailed information about the college's component unit is presented in Note 17 to the financial statements. Information and analysis regarding the component unit are 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 net assets. The corpus of nonexpendable restricted net assets 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)

	2011	2010	2009
Assets:			
Current assets	$ 17,295	$ 15,936	$ 13,094
Capital assets	54,695	53,691	52,924
Other assets	5,490	4,252	3,177
Total assets	**77,480**	**73,879**	**69,195**
Liabilities:			
Current liabilities	7,893	7,044	5,990
Noncurrent liabilities	4,439	4,170	3,769
Total liabilities	**12,332**	**11,214**	**9,759**
Net assets:			
Invested in capital assets, net of related debt	53,875	52,807	51,797
Restricted – expendable	336	282	333
Unrestricted	10,937	9,576	7,306
Total net assets	**$ 65,148**	**$ 62,665**	**$ 59,436**

Comparison of fiscal year 2011 to fiscal year 2010

- Current assets increased primarily due to the increase in cash and cash equivalents. This increase is primarily attributed to the increase in the deposit held in custody for the Tennessee Technology Center at Morristown and the reductions in accounts receivable, due from primary government, and inventories. The conservative management of one-time nonrecurring state appropriations received in lieu of State Fiscal Stabilization Funds (SFSF) and the Maintenance of Effort (MOE) state appropriations also increased cash and cash equivalents.

- Capital assets increased due to the completion of the Student Services Building on the Morristown campus, along with the additions of the 224 North Main Street house and the Laughlin Square Building, both on the Greeneville campus.

- Other assets increased due to an increase in noncurrent cash and cash equivalents associated with transfers from unrestricted net assets to unexpended plant fund projects and renewal and replacement plant fund projects.

- Current liabilities increased due to the increase in the deposit held in custody for the Tennessee Technology Center at Morristown, deferred summer school revenues, and accrued payroll salaries.

- Noncurrent liabilities increased due to an increase in compensated absences and other postemployment benefit (OPEB) obligations. The OPEB liability increased significantly as a result of actuarial valuations and the annual required contribution. Additional information regarding the state's postemployment benefit healthcare plan is provided in Note 11.

- Investment in capital assets, net of related debt, increased because of the capital additions mentioned above, and because normal payments were made on related debt, while no new debt was incurred.

- Restricted expendable net assets increased because of net fund additions in the following areas: restricted scholarships, instructional department uses - American Recovery and Reinvestment Act (ARRA) Health Information Technology Consortium (HIT) grant, and other - Student Government Fees.

- Unrestricted net assets increased due to the conservative management of nonrecurring state appropriations (SFSF/MOE) and educational and general (E&G) revenues.

<u>Comparison of fiscal year 2010 to fiscal year 2009</u>

- Current assets increased primarily due to the increase in cash and cash equivalents. The largest increase was the deposit held in custody for the Tennessee Technology Center at Morristown. Also, the utilization of ARRA funding enabling the conservative use of educational and general (E&G) revenues increased cash and cash equivalents. Auxiliary cash and cash equivalents increased because revenues were greater than expenditures/transfers.

- Capital assets increased due to the following projects in progress: the Greeneville Center Demolition/Safety Corrections project, the Technology Building Roof Replacement project, and construction of the Student Services Building.

- Other assets increased due to an increase in noncurrent cash and cash equivalents for the funding of new unexpended plant fund projects and renewal and replacement plant fund projects.

- Current liabilities increased due to the increase in the deposit held in custody for the Tennessee Technology Center at Morristown.

- Noncurrent liabilities increased due to the increase in OPEB obligations. The OPEB liability increased significantly as a result of actuarial valuations and the annual required contribution. Additional information regarding the state's postemployment benefit healthcare plan is provided in Note 11.

- Invested in capital assets, net of related debt, increased because of the capital additions mentioned above, and because normal payments were made on related debt, while no new debt was incurred.

- Restricted expendable net assets decreased due to reductions in amounts restricted for instructional department uses and other uses.

- The increase in unrestricted net assets is due to an increase in undesignated fund balance resulting from the utilization of ARRA funding and the resulting conservative use of E&G funds. Also, working capital increased due to an increase in student accounts receivable related to the increase in enrollment. In addition, auxiliaries increased because contracted bookstore services revenue was greater than expenditures/transfers.

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

	2011	2010	2009
Assets:			
Current assets	$ 2,124	$ 1,898	$ 2,097
Capital assets	1,697	1,479	1,126
Other assets	10,256	8,833	8,471
Total assets	**14,077**	**12,210**	**11,694**
Liabilities:			
Current liabilities	97	28	37
Noncurrent liabilities	1,625	-	-
Total liabilities	**1,722**	**28**	**37**
Net assets:			
Invested in capital assets, net of related debt	12	1,479	1,126
Restricted – nonexpendable	7,412	7,248	8,480
Restricted – expendable	4,461	3,328	1,850
Unrestricted	470	127	201
Total net assets	**$12,355**	**$12,182**	**$11,657**

Comparison of fiscal year 2011 to fiscal year 2010

- Current assets increased due to the increase in cash and cash equivalents. The proceeds from the sale of real property were deposited into the foundation LGIP account.

- Capital assets increased due to the foundation's new capital lease/purchase agreement with the Claiborne County Industrial Development Board for college classroom space in Tazewell, Tennessee.

- Other assets increased due to the increase in investments. The market value of investments increased due to favorable market conditions.

- Current liabilities increased due to the new capital lease/purchase agreement with the Claiborne County Industrial Development Board. The current portion of the capital lease is reflected in current liabilities.

- Noncurrent liabilities increased due to the new capital lease/purchase agreement with the Claiborne County Industrial Development Board. The capital lease agreement established during the fiscal year increased long-term liabilities to fulfill the 19-year lease/purchase agreement.

- Invested in capital assets, net of related debt, decreased because of the sale of property at 224 North Main Street in Greeneville, Tennessee, to the State of Tennessee and a gift of property at 228 North Main Street to the college.

- Restricted nonexpendable net assets increased slightly due to additions to endowments gifted during the fiscal year and increases in the market value of associated investments.

- Restricted expendable net assets increased due to improvements in the market value of associated investments, increased donations to non-endowment funds, and an associated increase in pledges receivable from the prior year.

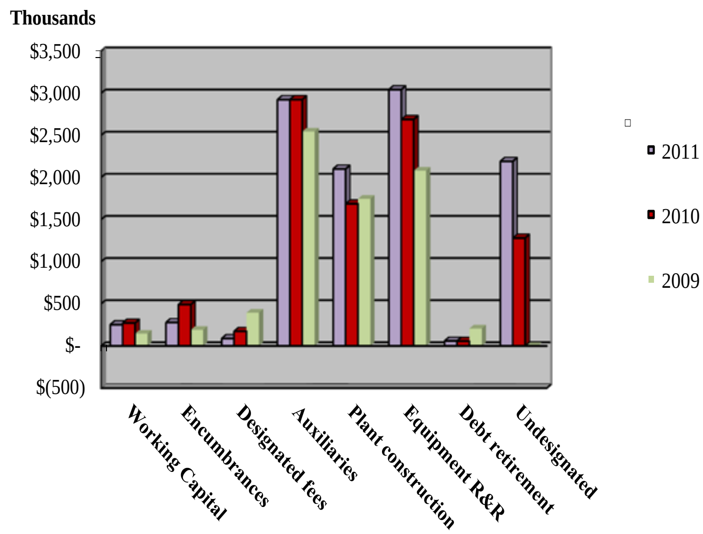
- Unrestricted net assets increased due to the receipt of proceeds from the sale of the 224 North Main Street property in Greeneville, Tennessee.

Comparison of fiscal year 2010 to fiscal year 2009

- Current assets decreased since current cash was used to purchase property adjacent to the campus and fund a demolition project in Greeneville, Tennessee. In addition, funds were used to provide increased operational support to the college in 2010.
- Capital assets increased from fiscal year 2009 due to the foundation's purchase of property adjacent to the Walters State Greeneville/Greene County Center.
- Other assets increased from fiscal year 2009 due to an increase in the amount invested in certificates of deposit and a slight increase in the market value of investments for fiscal year 2010.
- Invested in capital assets, net of related debt, increased due to the cash purchase of property adjacent to the Walters State Greeneville/Greene County Center.
- Restricted nonexpendable net assets decreased due to reclassification of charitable remainder unitrusts from nonexpendable to expendable.
- Restricted expendable net assets increased due to the reclassification of charitable remainder unitrusts from nonexpendable to expendable.
- Unrestricted net assets decreased due to the use of unrestricted funds to purchase property adjacent to the Walters State Greeneville/Greene County Center.

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

Allocation of Unrestricted Net Assets



<u>Comparison of fiscal year 2011 to fiscal year 2010</u>

- The allocation for working capital decreased slightly due to a reduction in accounts receivable and inventory.

- The allocation for encumbrances decreased due to fewer items being ordered but not received for payment by June 30, 2011.

- Designated fees allocations decreased because the International Fee and Technology Access Fee expenses were greater than current-year revenues.

- There was no significant change in the allocation for auxiliaries because current-year profits from the contracted bookstore services were transferred to unrestricted E&G funds.

- The allocation for plant construction increased because transfers to unexpended plant fund projects were greater than expenses.

- The allocation for equipment renewals and replacements increased because transfers to renewal and replacement projects were greater than expenses.

- There was no significant change in the allocation for debt retirement since no new debt was incurred, and there were no retirements other than required payments on long-term debt.

- Undesignated net assets increased due to the conservative management of nonrecurring state appropriations (SFSF/MOE) and E&G revenues.

Comparison of fiscal year 2010 to fiscal year 2009

- The allocation for working capital increased due to an increase in student accounts receivable related to the 17.1% enrollment increase in full-time equivalent students.

- The allocation for encumbrances increased due to a larger number of items ordered but not received for payment by June 30, 2010.

- The allocation for designated fees decreased due to an increased utilization of the International Fees and Technology Access Fees during the fiscal year.

- The allocation for auxiliaries increased because revenue from the contracted bookstore services was greater than expenses/transfers.

- The allocation for plant construction decreased since the new Student Services Building was near completion.

- The allocation for equipment renewals and replacements increased due to transfers to the project for Faculty/Staff PC Upgrades, and since other renewal and replacement fund additions were greater than expenses during the fiscal year.

- The allocation for debt retirement decreased with the retirement of Administrative Software debt.

- Undesignated fund balance increased because of the utilization of ARRA funding and conservative use of E&G funds.

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)

	2011	2010	2009
Operating revenues:			
Net tuition and fees	$ 9,986	$ 10,453	$ 9,872
Grants and contracts	5,475	8,625	6,043
Auxiliary	324	350	446
Other	675	683	689
Total operating revenues	**16,460**	**20,111**	**17,050**
Operating expenses	56,808	56,944	50,590
Operating loss	**(40,348)**	**(36,833)**	**(33,540)**
Nonoperating revenues and expenses:			
State appropriations	19,773	17,398	18,676
Gifts	119	329	262
Grants & contracts	18,447	18,247	12,129
Investment income	33	47	173
Other nonoperating revenues (expenses)	(37)	393	(34)
Total nonoperating revenues and expenses	**38,335**	**36,414**	**31,206**
Income (loss) before other revenues, expenses, gains, or losses	**(2,013)**	**(419)**	**(2,334)**
Other revenues, expenses, gains, or losses:			
Capital appropriations	3,337	3,908	1,441
Capital grants and gifts	1,159	53	710
Total other revenues, expenses, gains, or losses	**4,496**	**3,961**	**2,151**
Increase (decrease) in net assets	**2,483**	**3,542**	**(183)**
Net assets at beginning of year	**62,665**	**59,436**	**59,619**
Prior-period adjustment	**-**	**(313)**	**-**
Net assets at end of year	**$ 65,148**	**$ 62,665**	**$ 59,436**

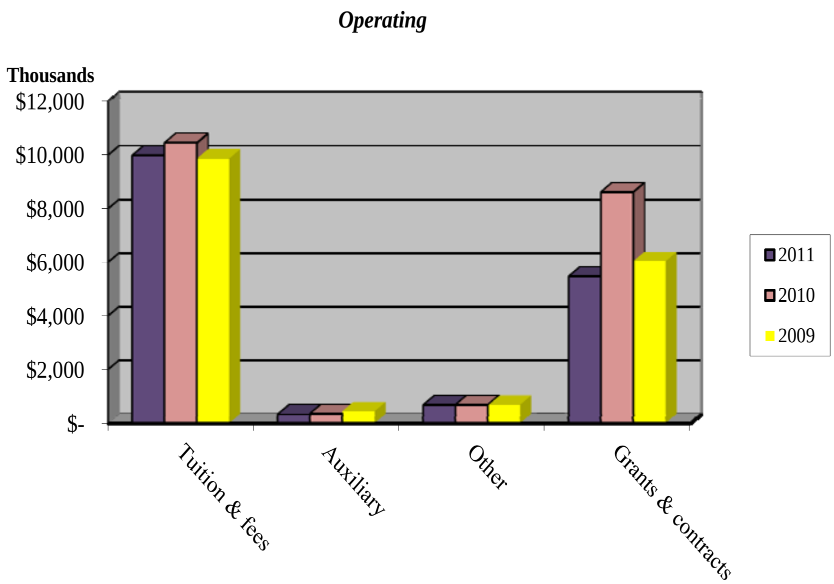
Walters State Community College Foundation
Condensed Statements of Revenues, Expenses, and Changes in Net Assets
(in thousands of dollars)

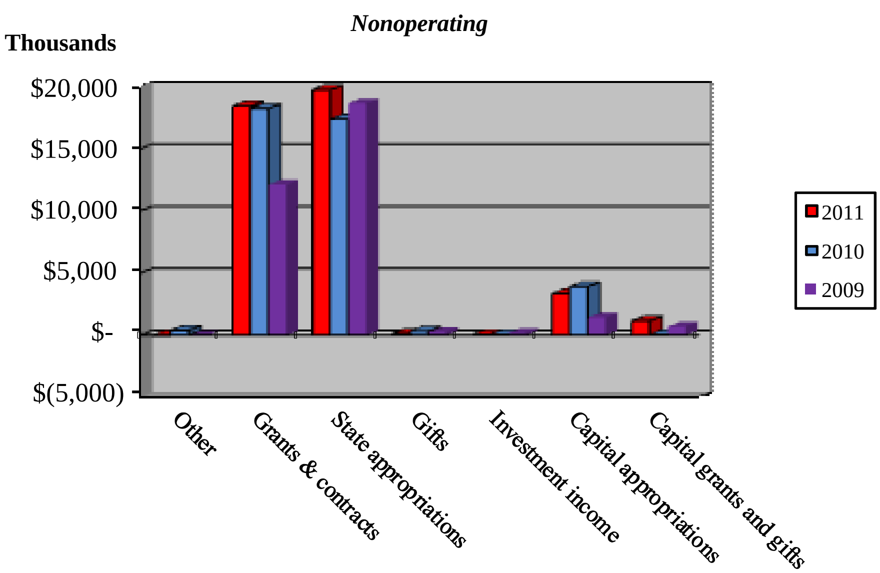
	2011	2010	2009
Operating revenues:			
Gifts	$ 501	$ 360	$ 357
Other	161	67	82
Total operating revenues	**662**	**427**	**439**
Operating expenses	1,691	914	1,635
Operating loss	**(1,029)**	**(487)**	**(1,196)**
Nonoperating revenues and expenses:			
Investment income	1,120	701	(626)
Other nonoperating revenues (expenses)	(50)	81	71
Total nonoperating revenues and expenses	**1,070**	**782**	**(555)**
Income (loss) before other revenues, expenses, gains, or losses	**41**	**295**	**(1,751)**
Other revenues, expenses, gains, or losses:			
Additions to permanent endowments	132	230	700
Capital grants and gifts	-	-	1,150
Total other revenues, expenses, gains, or losses	**132**	**230**	**1,850**
Increase in net assets	**173**	**525**	**99**
Net assets at beginning of year	**12,182**	**11,657**	**11,558**
Net assets at end of year	**$ 12,355**	**$ 12,182**	**$ 11,657**

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, 2011, and June 30, 2010. Amounts are presented in thousands of dollars.

College's Revenues by Source





Comparison of fiscal year 2011 to fiscal year 2010

- Operating tuition & fee revenue decreased due to the increase in scholarship allowances associated with the increase in the number of Federal Pell grant participants and award amounts, while enrollment remained relatively constant. Information regarding scholarship allowances can be located at the end of Note 1 in the Notes to the Financial Statements.

- Operating grant and contract revenue decreased because funding to the Workforce Investment Act (WIA) programs decreased.

- Nonoperating grant and contract revenue increased slightly due to the net effect of the reduction in ARRA funding and the increase in Federal Pell grants.

- State appropriation revenue increased due to one-time nonrecurring appropriations received in lieu of State Fiscal Stabilization Funds.

- Capital appropriation revenue decreased due to the completion of the Student Services Building project.

- Capital grant and gift revenue increased because of the WSCC Foundation's gift of the Laughlin Square Building and associated land at the Walters State Greeneville campus.

Comparison of fiscal year 2010 to fiscal year 2009

- Operating tuition and fee revenue increased due to a 6% maintenance fee increase along with a 17.1% enrollment increase in full-time equivalent students.

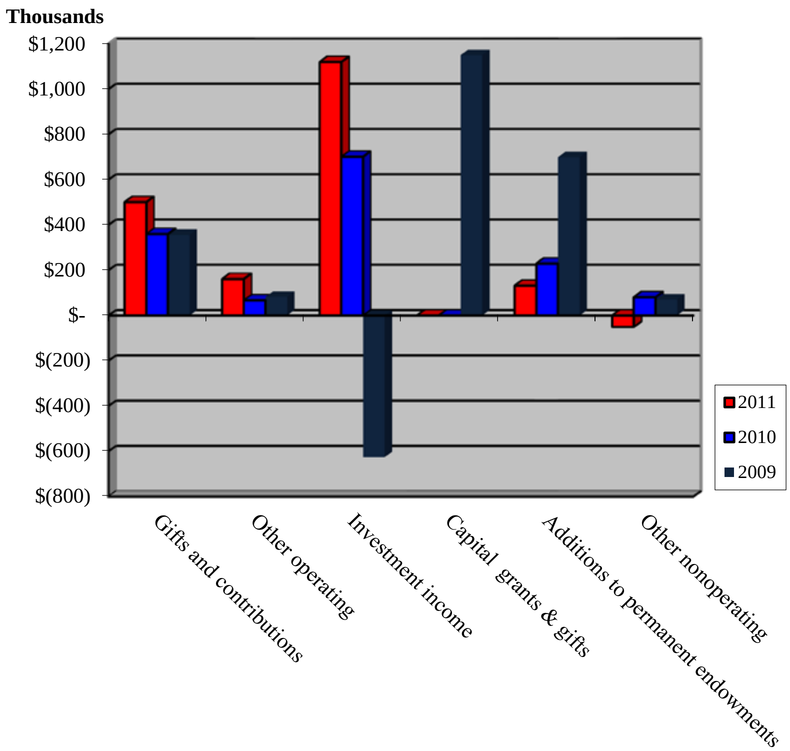
- Operating grant and contract revenue increased because the funding to the WIA program increased.

- Nonoperating grant and contract revenue increased due to an increase in students qualifying for Pell grants, along with an increase in the Pell grant award per student, and an infusion of American Recovery and Reinvestment Act funds.

- State appropriation revenue decreased slightly due to an economic downtown affecting sales tax revenue collected by the state.

- Capital appropriation revenue increased due to the CCEN Clerestroy Repair project.

Foundation Revenue by Source



Comparison of fiscal year 2011 to fiscal year 2010

- Gift and contribution revenue increased primarily as the result of an improving economy with gifts directed by donors towards nonendowment specific campaigns.
- Other operating revenue increased due to additional rental income received from leased real property.
- Investment income increased during the year due to the improvement in market conditions.

- Additions to permanent endowments decreased due to fewer gifts having been directed toward the endowment for the year. The foundation received fewer estate gifts during fiscal year 2011 as compared to fiscal year 2010.

- Other nonoperating income decreased due to increased losses on disposals of capital assets.

Comparison of fiscal year 2010 to fiscal year 2009

- Gifts and contribution revenue decreased for fiscal year 2010 as a result of a continuing slow economy and the unanticipated delay in initiating a major gift campaign during fiscal year 2010.

- Investment income increased during fiscal year 2010 due to improved market conditions.

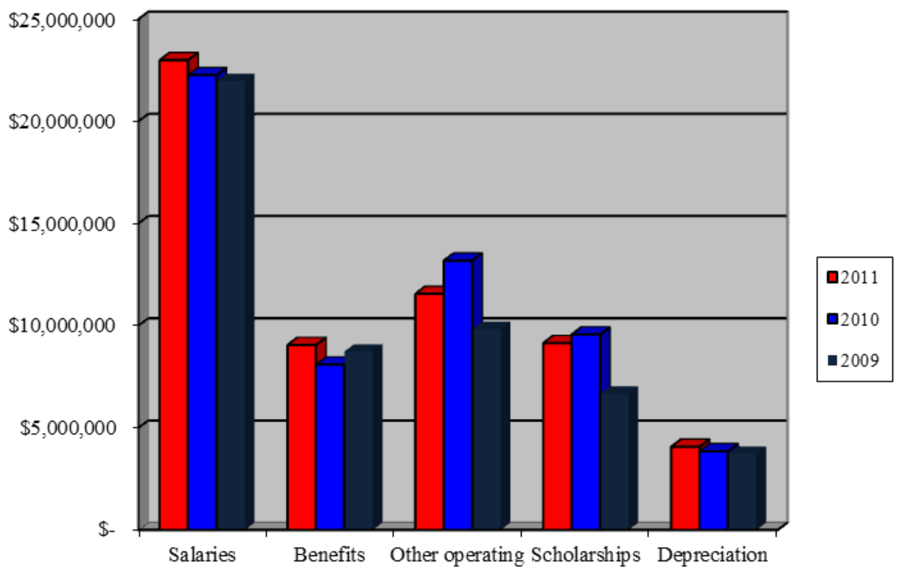
- Additions to permanent endowments decreased due to the decrease in gifts and contributions during fiscal year 2010.

Expenses

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

Natural Classification for College

	2011	2010	2009
Salaries	$22,991,526	$22,255,594	$21,963,344
Benefits	9,049,628	8,092,017	8,730,339
Other operating	11,552,179	13,177,403	9,828,251
Scholarships	9,145,185	9,566,428	6,663,469
Depreciation	4,069,797	3,852,377	3,404,851



Comparison of fiscal year 2011 to fiscal year 2010

- Salaries increased due to faculty and staff promotions. Also, there were three new positions: two professional support staff funded by the ARRA HIT grant and one instructor for the Sevier County campus.

- Benefits increased due to a return to a full twelve months of insurance premiums after a two-month premium holiday in 2010.

- Other operating expense decreased due to the decrease in WIA funding.

- Scholarships decreased due to the increase in scholarship allowances associated with an increase in Federal Pell grants.

- Depreciation expense increased due to completion of the Student Services Building, completion of the Demolition and Safety Corrections project at the Greeneville campus, the acquisition of the Laughlin Square property in Greeneville, and the acquisition of the 224 North Main property in Greeneville.

Comparison of fiscal year 2010 to fiscal year 2009

- Salaries increased due to additional utilization of adjunct faculty positions necessitated by the 17.1% enrollment increase in full-time equivalent students.

- Benefits decreased due to the statewide two-month health insurance holiday and a reduction in the other postemployment benefit (OPEB) expense.

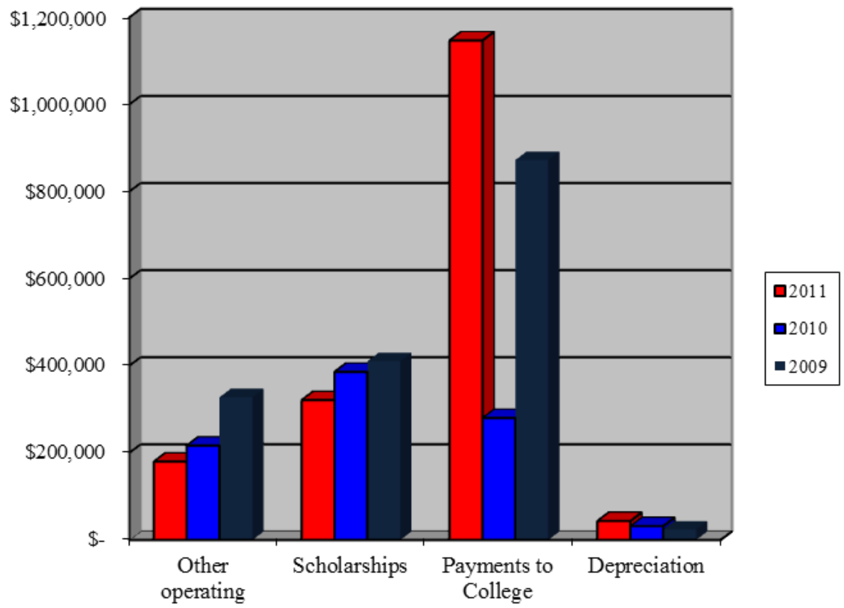
- Other operating expenses increased due to an increase in Technology Access Fee (TAF) expenses precipitated by the 17.1% enrollment increase in full-time equivalent students and a transfer from TAF Renewals and Replacements to equip "smart rooms" in the Math and Science Building.

- Scholarships increased due to the 6% tuition increase and an increase in Federal Pell and Tennessee Lottery awards.

- Depreciation expense increased due to the additions to the Public Safety Facility, Greeneville Center, and Humanities Complex.

Natural Classification for Foundation

	2011	**2010**	**2009**
Other operating	$ 179,756	$216,568	$327,817
Scholarships	321,132	385,923	410,541
Depreciation	43,500	31,755	23,863
Gifts of capital assets and payments to or on behalf of college	1,147,057	280,099	872,474



Comparison of fiscal year 2011 to fiscal year 2010

- Other operating expenses decreased for the fiscal year due to reduced activities related to special events fund raising.

- Scholarship expenses decreased for the fiscal year due to greater usage of partial scholarship awards for the year and a reduced number of annual scholarships awarded.

- Depreciation expense increased because of the capital lease/purchase agreement for the Claiborne County facility.

- Gifts and payments to the college increased due to the foundation's gift of the Laughlin Square property to the college during the fiscal year 2011.

Comparison of fiscal year 2010 to fiscal year 2009

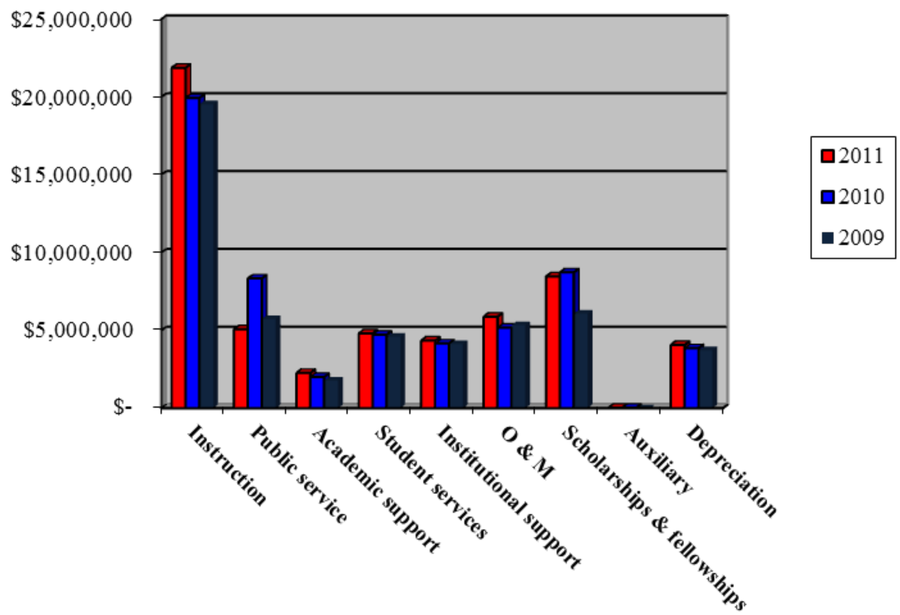
- Other operating expenses decreased for fiscal year 2010 due to a combination of reduced consulting fees and downsized or eliminated special events.

- Scholarship expenses decreased for fiscal year 2010 due to an initiative ending scholarships for Hancock County and Hawkins County funded by the foundation.

- Gifts and payments to the college decreased for fiscal year 2010 since no major capital projects were funded by the foundation during this time.

Program Classification for College
Operating Expenses by Function

	2011	**2010**	**2009**
Instruction	$21,865,330	$19,931,975	$19,526,217
Public service	5,071,657	8,334,487	5,733,426
Academic support	2,267,528	2,008,376	1,782,680
Student services	4,813,111	4,720,006	4,597,573
Institutional support	4,347,612	4,160,128	4,125,799
Operation and maintenance	5,883,630	5,172,157	5,332,292
Scholarships & fellowships	8,465,168	8,726,108	6,073,917
Auxiliary	24,481	38,204	13,499
Depreciation	4,069,767	3,852,377	3,404,851



Comparison of fiscal year 2011 to fiscal year 2010

- Instructional expenses increased due to salary and benefits associated with faculty and staff promotions. Also, there were three new positions: two professional support staff funded by the ARRA HIT grant and one instructor for the Sevier County campus. There was also an increase in Technology Access Fee expenses associated with the Division of Technical Education.

- Public service expenses decreased due to the decrease in WIA funding.

- Academic support expenses increased primarily due to salary and related benefit increases within the Office of Information and Educational Technologies department.

- Student services expenses increased due to an increase of expenses funded by the International Fee. There was also an increase in salaries and benefits due to filling a vacant professional support position funded by the Student Government Fee.

- Institutional support expenses increased due to equipment and supplies purchased with ARRA funds and a combination of increases in group health insurance and other insurance premiums.

- Operation and maintenance expenses increased due to increases in utilities, group health insurance, and compensated absences.

- Scholarship expenses decreased due to the increase in scholarship allowances associated with an increase of Federal Pell grants.

- Depreciation increased due to the completion of the Student Services Building, the completion of the Demolition and Safety Corrections project at the Greeneville campus, the acquisition of the Laughlin Square property in Greeneville, and the acquisition of the 224 North Main property in Greeneville.

Comparison of fiscal year 2010 to fiscal year 2009

- Instructional expenses increased due to salary and benefits associated with the increase in adjunct faculty necessitated by the 17.1% enrollment increase in full-time equivalent students. Also, Community Education was reorganized from the public service function to instruction. There was also an increase in Technology Access Fee expenses associated with equipping the Math and Science Building with "smart rooms."

- Public service expenses increased due to the local Workforce Investment Act program's receipt and expenditure of ARRA funds.

- Academic support expenses increased due to the utilization of the increase in Technology Access Fee and ARRA funds for the purchase of technology equipment in support of instruction.

- Student services expenses increased due to increased travel funded by the International Fee. There was also an increase in salaries and benefits funded by the International Fee and ARRA.

- Institutional support expenses increased slightly due to the reinstatement of employee maintenance fee reimbursement with ARRA funding.

- Operation and maintenance expenses decreased due to the reduction in electric and gas expenditures.

- Scholarship & fellowship expenses increased due to the 6% tuition increase and a related increase in Federal Pell and Tennessee Lottery awards.

- The increase in depreciation expense was related to the additions to the Public Safety Facility, Greeneville Center, and Humanities Complex.

Capital Assets and Debt Administration

Capital Assets

Walters State Community College had $54,695,080.77 invested in capital assets, net of accumulated depreciation of $36,818,048.48, at June 30, 2011; and $53,691,317.12 invested in capital assets, net of accumulated depreciation of $33,084,486.67, at June 30, 2010. Depreciation charges totaled $4,069,767.12 and $3,852,376.74 for the years ended June 30, 2011, and June 30, 2010, 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)

	2011	2010	2009
Land	$ 889	$ 650	$ 650
Land improvements & infrastructure	1,496	1,385	1,490
Buildings	49,079	43,799	41,143
Equipment	2,026	1,902	1,994
Library holdings	245	262	266
Intangible assets	667	801	926
Projects in progress	293	4,892	6,455
Total	**$54,695**	**$53,691**	**$52,924**

Comparison of fiscal year 2011 to fiscal year 2010

Land increased with the addition of land associated with the 224 North Main property in Greeneville and the Laughlin Square property in Greeneville. Land improvements and infrastructure increased with the completion of the detention pond. Buildings increased with the additions of the 224 North Main property and the Laughlin Square property, the completion of the Demolition and Safety project at the Greeneville campus, and the completion of the Student Services Building. Equipment increased because new purchases were greater than annual depreciation and disposals. Library holdings decreased because new purchases were less than annual depreciation. Intangible assets (software) decreased because annual depreciation exceeded additions. Projects in progress decreased due to the completion of the Demolition and Safety project at the Greeneville campus and the Student Services Building at the Morristown campus.

Comparison of fiscal year 2010 to fiscal year 2009

Land improvements & infrastructure decreased because there were no new additions, yet annual depreciation continued in a normal fashion. Buildings increased due to completion of renovation projects at the Public Safety Complex, the Greeneville Center, and the Humanities Complex. Equipment, intangible assets, and library holdings decreased because new purchases were less than annual depreciation and related disposals due to the college's efforts to reduce expenses. Projects in progress decreased because reductions related to the completion of the Public Safety Renovations, Greeneville Center Fire Alarm, and Humanities Complex projects exceeded increases related to the construction of the Student Services Building.

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

	2011	2010	2009
Land	$ -	$ 265	$ 195
Buildings	1,697	1,214	931
Total	**$1,697**	**$1,479**	**$1,126**

Comparison of fiscal year 2011 to fiscal year 2010

Land and buildings decreased due to the sale of property at 224 North Main Street in Greeneville, Tennessee, to the State of Tennessee, and the donation of the Laughlin Square facility at 228 North Main Street in Greeneville, Tennessee, to the college during fiscal year 2011. However, the total amount for buildings increased because the foundation entered into a capital lease/purchase agreement with the Claiborne County Industrial Development Board for the former Claiborne County High School building in Tazewell, Tennessee.

Comparison of fiscal year 2010 to fiscal year 2009

Land and buildings increased by a total of $353,000 in 2010 due to the purchase of a house and related land at 228 North Main Street in Greeneville, Tennessee, for the purpose of conveying the property to WSCC as an addition to the Greeneville campus. This purchase, along with ongoing depreciation on the existing Laughlin Square property, accounted for the increase in land and buildings.

See also Note 17 for more detailed information about the foundation's capital assets.

Debt

The college had $819,689 and $884,459 in debt outstanding at June 30, 2011, and June 30, 2010, respectively. The table below summarizes these amounts by type of debt instrument.

Walters State Community College Outstanding Debt

TSSBA debt:	2011	2010	2009
Bonds payable	$819,689.00	$884,459.00	$1,127,298.00

The Tennessee State School Bond Authority (TSSBA) previously authorized the issuance of commercial paper for Walters State Community College to finance various capital projects. In 2006, an additional issuance of $1.5 million in commercial paper was made to fund the Administrative Software project and the Energy Savings Performance Contract. On June 14, 2006, TSSBA sold bonds to retire this commercial paper debt. The first principal payment on the bonds was paid May 1, 2007. The college paid interest of $36,401.67 and principal of $64,770.00 in fiscal year 2011 on the bonds.

The ratings on debt issued by the Tennessee State School Bond Authority at June 30, 2011, were as follows:

Fitch	AA
Moody's Investor Service	Aa2
Standard & Poor's	AA

More information about the college's long-term liabilities is presented in Note 7 to the financial statements.

The foundation had a capital lease obligation of $1,685,000 at June 30, 2011. The Walters State Community College Foundation signed a capital lease agreement with the Claiborne County Industrial Development Board in July 2010. The leased space is the former Claiborne County High School located in Tazewell, Tennessee. The space was renovated by the Industrial Development Board and Walters State Community College, and WIA began occupying space in August 2011. The capital lease is an agreement that transfers ownership of the asset to the foundation at the end of the 19-year lease period or when all related Industrial Development Board debt has been paid.

More information about the foundation's long-term liabilities is presented in Note 17 to the financial statements.

Economic Factors That Will Affect the Future

As of June 30, 2011, the college received the last of the Maintenance of Effort (MOE) state appropriations and the state appropriations received in lieu of State Fiscal Stabilization Funds (SFSF). Also, as of June 30, 2011, the college has $27,854 of unobligated American Recovery and Reinvestment Act (ARRA) funds that were authorized for the college in 2009-2010 in the amount of $2,247,800. The college has until September 30, 2011, to obligate the remainder of these funds and until December 31, 2011, to spend them and be reimbursed for those expenses. Because of the discontinuance of MOE/SFSF and ARRA funding, the college prepared a balanced budget for 2011-2012 by making adjustments to its operations to reduce expenses and/or increase revenues from sources other than state appropriations and the federal sources of revenue.

The Tennessee Board of Regents (TBR) approved a 9.3% maintenance fee increase effective for fall 2011. The state legislature approved a 3% salary increase for college employees effective July 1, 2011. However, only about two-thirds of the 3% was funded by the state. Therefore, the other one-third was to be funded from the maintenance fee increase. In addition, the TBR authorized the college to administer salary increases above the 3% authorized by the legislature. Any additional salary increase was required to be funded from recurring, non-state appropriation sources. An option was also offered to allow the college to consider awarding employees with a nonrecurring bonus-type payment that was required to be funded by non-state appropriation sources. The college also has an externally prepared compensation pay plan that has not been fully implemented. The plan is divided into three implementation phases, the first of which was implemented in January 2011.

The college was approved for $9,000,000 of special state appropriations funding for the benefit of capital improvements. Redevelopment of the college's Greeneville campus was chosen as the top priority project. The special funding requires a minimum of 15% match that is being met by in-kind gifts of real property and cash gifts, as well as a planned capital campaign. The redevelopment project includes the construction of a new building and renovations to existing buildings. Construction began in early 2012, with completion scheduled for summer 2013.

The college serves as the administrative entity for Workforce Investment Act (WIA) funds for a geographic area coinciding with the college's ten-county service area. The amount of funding can fluctuate (up or down) in conjunction with factors that affect resources at the federal government level. WIA funds are managed via a board of directors representing the college's ten-county service area. As there may be fluctuations in funding, this board can make timely decisions to adjust program offerings throughout the fiscal year. The fluctuations of funds do not directly impact the operations of the college except through the amount of indirect cost recovery revenue flowing to the college.

Another significant economic/budgetary factor that the college will need to address is the passage of the "Complete College Tennessee Act of 2010." Among numerous changes for higher education in the State of Tennessee in this legislation, the most significant impact to the college will be the directive for the TBR, in conjunction with the Tennessee Higher Education Commission, to establish a comprehensive statewide community college system in Tennessee. To this end, there are three major initiatives that will have a negative financial impact on Walters State Community College. One initiative is a migration to a centralized operation of the system's Banner computer system. A second initiative will be the staffing at the central TBR office level to coordinate the creation of the community college system, as well as other statewide initiatives (e.g., system-wide marketing/branding, etc.). A third initiative will be the development and implementation of a new outcome based state appropriations funding formula (as opposed to the current enrollment-based formula). The first two initiatives will require an additional commitment of financial resources. The third initiative is not expected to have a significant financial impact for the first year of implementation but could have significant financial implications for future years. Per the requirements of the legislation, the statewide implementation is expected to be complete by the 2012-2013 fiscal year.

Economic Factors That Will Affect the Future of the Walters State Community College Foundation

In July 2011, the Claiborne County Industrial Development Board received a grant from the State of Tennessee Department of Economic and Community Development in the amount of $500,000. According to the lease/purchase agreement, this grant will be used to reduce the reported liability as it pertains to the capital lease/purchase between the Walters State Community College Foundation and the Claiborne County Industrial Development Board.

Requests for Information

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

Exhibit A

TENNESSEE BOARD OF REGENTS
WALTERS STATE COMMUNITY COLLEGE
STATEMENTS OF NET ASSETS
JUNE 30, 2011, AND JUNE 30, 2010

	Walters State Community College		Component Unit - Walters State Community College Foundation	
	June 30, 2011	June 30, 2010	June 30, 2011	June 30, 2010
ASSETS				
Current assets:				
Cash and cash equivalents (Notes 2, 3, and 17)	$ 16,254,187.90	$ 14,532,846.03	$ 2,039,062.92	$ 1,766,978.44
Accounts and grants receivable (net) (Note 4)	905,972.38	1,220,618.77	7,281.67	-
Due from primary government	52,053.79	102,214.94	-	-
Pledges receivable (net) (Note 17)	-	-	65,223.04	102,251.75
Inventories	19,765.45	27,910.94	-	-
Prepaid expenses and deferred charges	60,503.09	51,679.52	12,868.93	16,925.93
Accrued interest receivable	-	-	3.24	11,720.61
Other assets	2,873.34	876.09	-	-
Total current assets	17,295,355.95	15,936,146.29	2,124,439.80	1,897,876.73
Noncurrent assets:				
Cash and cash equivalents (Notes 2, 3, and 17)	5,489,503.19	4,251,405.43	-	-
Investments (Note 17)	-	-	10,135,648.50	8,761,940.81
Pledges receivable (net) (Note 17)	-	-	120,631.50	71,280.00
Capital assets (net) (Notes 5 and 17)	54,695,080.77	53,691,317.12	1,696,500.00	1,479,382.50
Total noncurrent assets	60,184,583.96	57,942,722.55	11,952,780.00	10,312,603.31
Total assets	77,479,939.91	73,878,868.84	14,077,219.80	12,210,480.04
LIABILITIES				
Current liabilities:				
Accounts payable (Note 6)	531,767.54	737,871.00	37,438.17	28,733.36
Accrued liabilities	2,020,255.12	1,857,762.02	-	-
Deferred revenue	1,177,718.18	792,894.59	-	-
Compensated absences (Note 7)	465,971.11	452,369.70	-	-
Accrued interest payable	5,922.19	6,369.58	-	-
Long-term liabilities, current portion (Notes 7 and 17)	67,490.50	64,770.00	60,000.00	-
Deposits held in custody for others	3,562,792.26	3,075,955.27	-	-
Other liabilities	61,086.73	56,234.17	-	-
Total current liabilities	7,893,003.63	7,044,226.33	97,438.17	28,733.36
Noncurrent liabilities:				
Net OPEB obligation (Note 11)	2,360,667.13	2,062,514.49	-	-
Compensated absences (Note 7)	1,325,752.58	1,287,614.70	-	-
Long-term liabilities (Notes 7 and 17)	752,198.50	819,689.00	1,625,000.00	-
Total noncurrent liabilities	4,438,618.21	4,169,818.19	1,625,000.00	-
Total liabilities	12,331,621.84	11,214,044.52	1,722,438.17	28,733.36
NET ASSETS				
Invested in capital assets, net of related debt	53,875,391.77	52,806,858.12	11,500.00	1,479,382.50
Restricted for:				
Nonexpendable:				
Scholarships and fellowships	-	-	6,065,729.29	5,909,437.32
Other	-	-	1,346,595.73	1,338,446.36
Expendable:				
Scholarships and fellowships	50,989.78	43,434.14	2,199,761.18	1,265,490.85
Instructional department uses	28,448.97	2,123.44	-	-
Other	256,248.05	235,982.07	2,260,918.14	2,062,259.39
Unrestricted (Note 8)	10,937,239.50	9,576,426.55	470,277.29	126,730.26
Total net assets	$ 65,148,318.07	$ 62,664,824.32	$ 12,354,781.63	$ 12,181,746.68

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

Exhibit B

TENNESSEE BOARD OF REGENTS
WALTERS STATE COMMUNITY COLLEGE
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2011, AND JUNE 30, 2010

	Walters State Community College		Component Unit - Walters State Community College Foundation	
	Year Ended June 30, 2011	Year Ended June 30, 2010	Year Ended June 30, 2011	Year Ended June 30, 2010
REVENUES				
Operating revenues:				
Student tuition and fees (net of scholarship allowances of $10,534,241.71 for the year ended June 30, 2011, and $8,961,311.78 for the year ended June 30, 2010)	$ 9,986,441.60	$ 10,452,607.01	$ -	$ -
Gifts and contributions	-	-	501,204.39	360,154.61
Governmental grants and contracts	5,465,630.90	8,615,087.40	-	-
Nongovernmental grants and contracts	9,588.00	9,750.50	-	-
Sales and services of educational departments	144,542.20	133,188.93	-	-
Auxiliary enterprises:				
Bookstore	303,012.63	324,250.00	-	-
Food service	6,638.07	9,466.31	-	-
Other	13,852.42	16,467.60	-	-
Other operating revenues	530,028.44	550,347.72	161,450.83	67,139.63
Total operating revenues	16,459,734.26	20,111,165.47	662,655.22	427,294.24
EXPENSES				
Operating expenses (Note 14):				
Salaries and wages	22,991,526.34	22,255,593.92	-	-
Benefits	9,049,627.42	8,092,017.21	-	-
Utilities, supplies, and other services	11,552,178.64	13,177,402.71	179,755.90	216,568.08
Scholarships and fellowships	9,145,185.25	9,566,428.21	321,131.95	385,923.41
Depreciation expense	4,069,767.12	3,852,376.74	43,500.00	31,755.00
Gifts of capital assets and payments to or on behalf of Walters State Community College	-	-	1,147,056.57	280,099.23
Total operating expenses	56,808,284.77	56,943,818.79	1,691,444.42	914,345.72
Operating income (loss)	(40,348,550.51)	(36,832,653.32)	(1,028,789.20)	(487,051.48)
NONOPERATING REVENUES (EXPENSES)				
State appropriations	19,772,711.00	17,397,995.50	-	-
Gifts (college gifts include $5,156.57 from component unit in 2011 and $251,539.23 in 2010)	119,318.65	328,702.63	-	-
Grants and contracts	18,446,865.54	18,247,115.82	-	-
Investment income (for component unit, net of investment expense of $41,129.40 in 2011 and $62,024.76 in 2010)	32,604.07	47,344.28	1,119,925.65	701,578.91
Interest on capital asset-related debt	(36,401.67)	(44,929.88)	-	-
Other nonoperating revenues (expenses)	92.01	437,393.96	(50,226.50)	80,827.41
Net nonoperating revenues	38,335,189.60	36,413,622.31	1,069,699.15	782,406.32
Income (loss) before other revenues, expenses, gains, or losses	(2,013,360.91)	(419,031.01)	40,909.95	295,354.84
Capital appropriations	3,337,326.39	3,907,611.54	-	-
Capital grants and gifts (college gifts include $1,141,900.00 from component unit in 2011 and $28,560.00 in 2010)	1,159,528.27	53,397.88	-	-
Additions to permanent endowments	-	-	132,125.00	229,523.18
Total other revenues	4,496,854.66	3,961,009.42	132,125.00	229,523.18
Increase in net assets	2,483,493.75	3,541,978.41	173,034.95	524,878.02
NET ASSETS				
Net assets - beginning of year	62,664,824.32	59,436,441.41	12,181,746.68	11,656,868.66
Prior period adjustment (Note 15)	-	(313,595.50)	-	-
Net assets - end of year	$ 65,148,318.07	$ 62,664,824.32	$ 12,354,781.63	$ 12,181,746.68

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

TENNESSEE BOARD OF REGENTS
WALTERS STATE COMMUNITY COLLEGE
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2011, AND JUNE 30, 2010

	Year Ended June 30, 2011	Year Ended June 30, 2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Tuition and fees	$ 10,127,357.13	$ 10,685,440.78
Grants and contracts	6,074,327.92	8,564,947.12
Sales and services of educational activities	144,542.20	133,188.93
Payments to suppliers and vendors	(11,680,874.36)	(13,173,081.02)
Payments to employees	(22,895,035.46)	(22,401,277.88)
Payments for benefits	(8,609,575.37)	(7,557,031.42)
Payments for scholarships and fellowships	(9,147,459.38)	(9,715,838.53)
Auxiliary enterprise charges:		
Bookstore	328,292.98	341,671.95
Food services	6,491.73	8,599.50
Other	13,852.42	16,467.60
Other receipts	531,881.44	551,298.72
Net cash used by operating activities	(35,106,198.75)	(32,545,614.25)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State appropriations	19,747,600.00	17,378,600.00
Gifts and grants received for other than capital or endowment purposes	18,464,589.58	18,632,211.94
Federal student loan receipts	3,032,629.00	3,147,569.53
Federal student loan disbursements	(3,041,403.00)	(3,149,376.45)
Changes in deposits held for others	486,564.05	1,211,756.06
Other noncapital financing receipts	-	436,309.77
Net cash provided by noncapital financing activities	38,689,979.63	37,657,070.85
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital appropriations	3,358,584.23	3,885,353.70
Proceeds from sale of capital assets	16,744.71	4,569.94
Purchases of capital assets and construction	(3,930,655.20)	(4,883,097.94)
Principal paid on capital debt	(64,770.00)	(242,839.00)
Interest paid on capital debt	(36,849.06)	(46,562.61)
Net cash used by capital and related financing activities	(656,945.32)	(1,282,575.91)
CASH FLOWS FROM INVESTING ACTIVITIES		
Income on investments	32,604.07	47,344.28
Net cash provided by investing activities	32,604.07	47,344.28
Net increase in cash	2,959,439.63	3,876,224.97
Cash at beginning of year	18,784,251.46	14,908,026.49
Cash at end of year	$ 21,743,691.09	$ 18,784,251.46

TENNESSEE BOARD OF REGENTS
WALTERS STATE COMMUNITY COLLEGE
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2011, AND JUNE 30, 2010

	Year Ended June 30, 2011	Year Ended June 30, 2010
Reconciliation of operating loss to net cash used by operating activities:		
Operating loss	$ (40,348,550.51)	$ (36,832,653.32)
Adjustments to reconcile operating loss to net cash used by operating activities:		
Depreciation expense	4,069,767.12	3,852,376.74
Gifts in-kind	84,176.94	32,964.13
Other adjustments	26,611.00	18,195.50
Change in assets and liabilities:		
Receivables, net	368,514.31	(103,764.32)
Inventories	8,145.49	(4,920.50)
Prepaid/deferred items	(8,823.57)	2,093.24
Other assets	(1,997.25)	116.00
Accounts payable	(206,103.46)	230,906.27
Accrued liabilities	162,493.10	(120,137.04)
Net OPEB obligation	298,152.64	472,266.10
Deferred revenue	384,823.59	68,318.29
Compensated absences	51,739.29	15,655.42
Due to grantors	-	(184,404.45)
Other	4,852.56	7,373.69
Net cash used by operating activities	$ (35,106,198.75)	$ (32,545,614.25)

Noncash investing, capital, or financing transactions

Gifts of capital assets	$ 1,159,528.27	$ 53,397.88
Loss on disposal of capital assets	$ (16,652.70)	$ (3,485.78)

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 college's 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 intangible assets, are reported in the statement of net assets at historical cost or at fair value at date of donation, less accumulated depreciation/amortization. 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 intangible assets 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.

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 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 the college's 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

This classification includes demand deposits and petty cash on hand. At June 30, 2011, cash consisted of $1,598,636.93 in bank accounts, $4,235.00 of petty cash on hand, $20,112,662.90 in the State of Tennessee Local Government Investment Pool (LGIP) administered by the State Treasurer, and $28,156.26 in LGIP deposits for capital projects. At June 30, 2010, cash consisted of $2,409,000.55 in bank accounts, $2,110.00 of petty cash on hand, $16,209,775.72 in LGIP, and $163,365.19 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 LGIP account. As expenses are incurred, funds are withdrawn from the LGIP account by the Tennessee Board of Regents and transferred to the Department of Finance and Administration. The funds in the account are not available to the college for any other purpose until the project is completed and the Tennessee Board of Regents releases any remaining funds.

NOTE 3. 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).

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. Prime banker's acceptances are required to be eligible for purchase by the Federal Reserve System. To be eligible, the original maturity must not be more than 270 days, and it must 1) arise out of the current shipment of goods between countries or with the United States, or 2) arise out of storage within the United States of goods under contract of sale or expected to move into the channel or trade within a reasonable time and that are secured throughout their life by a warehouse receipt or similar document conveying title to the underlying goods.

Tennessee Board of Regents policy requires that prime commercial paper shall be limited to that of corporations that meet the following criteria: 1) Senior long-term debt, if any, should have a minimum rating of A1 or equivalent, and short-term debt should have 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 rating must be A1 by all rating services (minimum of two). 2) The rating should be based on the merits of the issuer or guaranteed by a nonbank. 3) A financial review should be made to ascertain the issuer's financial strength to cover the debt. 4) Commercial paper of a banking institution should not be purchased. Prime commercial paper shall not have a maturity that exceeds 270 days.

As of June 30, 2011, and June 30, 2010, the college's investments consisted entirely of investments in the Local Government Investment Pool. The fair value of these investments was $20,140,819.16 at June 30, 2011, and $16,373,140.91 at June 30, 2010. 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, 2011	June 30, 2010
Student accounts receivable	$1,070,575.56	$ 933,787.99
Grants receivable	328,770.96	676,385.14
State appropriation receivable	35,800.00	37,300.00
Other receivables	66,660.97	39,738.09
Subtotal	1,501,807.49	1,687,211.22
Less allowance for doubtful accounts	595,835.11	466,592.45
Total receivables	$ 905,972.38	$1,220,618.77

NOTE 5. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2011, was as follows:

Tennessee Board of Regents
Walters State Community College
Notes to the Financial Statements (Cont.)
June 30, 2011, and June 30, 2010

	Beginning Balance	Additions	Transfers	Reductions	Ending Balance
Land	$ 650,293.11	$ 238,937.64	$ -	$ -	$ 889,230.75
Land improvements and infrastructure	2,310,089.87	-	227,739.40	-	2,537,829.27
Buildings	70,495,109.25	1,200,384.96	7,292,028.71	-	78,987,522.92
Equipment	6,594,071.45	692,340.71	-	352,858.01	6,933,554.15
Library holdings	538,100.25	37,782.00	-	-	575,882.25
Intangible assets	1,296,536.44	-	-	-	1,296,536.44
Projects in progress	4,891,603.42	2,920,738.16	(7,519,768.11)	-	292,573.47
Total	86,775,803.79	5,090,183.47	-	352,858.01	91,513,129.25
Less accumulated depreciation/amortization:					
Land improvements and infrastructure	924,972.64	116,748.29	-	-	1,041,720.93
Buildings	26,695,664.73	3,212,672.95	-	-	29,908,337.68
Equipment	4,691,936.01	551,642.50	-	336,205.31	4,907,373.20
Library holdings	276,177.07	55,236.68	-	-	331,413.75
Intangible assets	495,736.22	133,466.70	-	-	629,202.92
Total	33,084,486.67	4,069,767.12	-	336,205.31	36,818,048.48
Capital assets, net	$53,691,317.12	$1,020,416.35	$ -	$ 16,652.70	$54,695,080.77

Capital asset activity for the year ended June 30, 2010, was as follows:

	Beginning Balance	Additions	Transfers	Reductions	Ending Balance
Land	$ 650,293.11	$ -	$ -	$ -	$ 650,293.11
Land improvements and infrastructure	2,310,089.87	-	-	-	2,310,089.87
Buildings	64,534,360.86	-	5,960,748.39	-	70,495,109.25
Equipment	6,173,076.56	475,877.43	-	54,882.54	6,594,071.45
Library holdings	556,684.57	54,882.37	-	73,466.69	538,100.25
Intangible assets	1,288,149.76	8,386.68	-	-	1,296,536.44
Projects in progress	6,455,002.47	4,397,349.34	(5,960,748.39)	-	4,891,603.42
Total	81,967,657.20	4,936,495.82	-	128,349.23	86,775,803.79

Less accumulated depreciation/amortization:					
Land improvements and infrastructure	819,611.32	105,361.32	-	-	924,972.64
Buildings	23,705,027.58	2,990,637.15	-	-	26,695,664.73
Equipment	4,179,226.45	564,106.35	-	51,396.79	4,691,936.01
Library holdings	290,838.54	58,805.22	-	73,466.69	276,177.07
Intangible assets	362,269.52	133,466.70	-	-	495,736.22
Total	29,356,973.41	3,852,376.74	-	124,863.48	33,084,486.67
Capital assets, net	$52,610,683.79	$1,084,119.08	$ -	$ 3,485.75	$53,691,317.12

NOTE 6. ACCOUNTS PAYABLE

Accounts payable included the following:

	June 30, 2011	June 30, 2010
Vendors payable	$204,087.43	$181,550.70
Unapplied student payments	327,680.11	556,320.30
Total accounts payable	$531,767.54	$737,871.00

NOTE 7. LONG-TERM LIABILITIES

Long-term liabilities activity for the year ended June 30, 2011, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
TSSBA debt:					
Bonds	$ 884,459.00	$ -	$ 64,770.00	$819,689.00	$ 67,490.50
Subtotal	884,459.00	-	64,770.00	819,689.00	67,490.50
Other liabilities:					
Compensated absences	1,739,984.40	1,287,064.42	1,235,325.13	1,791,723.69	465,971.11
Subtotal	1,739,984.40	1,287,064.42	1,235,325.13	1,791,723.69	465,971.11
Total long-term liabilities	$2,624,443.40	$1,287,064.42	$1,300,095.13	$2,611,412.69	$533,461.61

Long-term liabilities activity for the year ended June 30, 2010, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
TSSBA debt:					
Bonds	$1,127,298.00	$ -	$ 242,839.00	$ 884,459.00	$ 64,770.00
Subtotal	1,127,298.00	-	242,839.00	884,459.00	64,770.00
Other liabilities:					
Compensated absences	1,724,328.98	1,252,136.83	1,236,481.41	1,739,984.40	452,369.70
Subtotal	1,724,328.98	1,252,136.83	1,236,481.41	1,739,984.40	452,369.70
Total long-term liabilities	$2,851,626.98	$1,252,136.83	$1,479,320.41	$2,624,443.40	$517,139.70

TSSBA Debt - Bonds

Bonds, with interest rates ranging from 4.00% to 4.50%, 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 9 for further detail.

Debt service requirements to maturity for the college's portion of TSSBA bonds at June 30, 2011, are as follows:

Year Ending June 30	Principal	Interest	Total
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	76,356.00	25,814.50	102,170.50
2016	79,563.00	22,760.26	102,323.26
2017 – 2021	452,676.00	61,468.21	514,144.21
Total	$819,689.00	$204,605.51	$1,024,294.51

More detailed information regarding the bonds can be found in the notes to the financial statements in the financial report for the Tennessee State School Bond

Authority. That report is available on the state's website at www.comptroller.tn.gov/tssba/cafr.asp.

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, 2011	June 30, 2010
Working capital	$ 252,719.15	$ 272,200.04
Encumbrances	278,836.92	491,028.61
Designated fees	88,185.81	173,567.31
Auxiliaries	2,924,182.08	2,924,821.23
Plant construction	2,100,681.81	1,687,994.44
Renewal and replacement of equipment	3,042,552.86	2,689,132.97
Debt retirement	58,842.58	56,614.25
Undesignated	2,191,238.29	1,281,067.70
Total	$10,937,239.50	$9,576,426.55

NOTE 9. PLEDGED REVENUES

The college has pledged certain revenues and fees, including state appropriations, to repay $819,689.00 in revenue bonds issued in June 2006. Proceeds from the bonds provided financing for the Energy Savings & Performance Contracting project. The bonds are payable through 2021. Annual principal and interest payments on the bonds are expected to require 0.24% of available revenues. The total principal and interest remaining to be paid on the bonds at June 30, 2011, is $1,024,294.51. Principal and interest paid for fiscal year 2011 and total available revenues in that year were $101,171.67 and $41,807,115.10, respectively. See Note 7 for further details.

NOTE 10. 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 14.91% 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, 2011, 2010, and 2009, were $2,275,007.87, $1,937,580.74, and $1,912,833.96, respectively. Contributions met the requirements for each year.

B. Defined Contribution Plans

Optional Retirement Plans

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 contributions made by the college to the plans were $466,190.97 for the year ended June 30, 2011, and $455,141.77 for the year ended June 30, 2010. Contributions met the requirements for each year.

NOTE 11. 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 post-employment health insurance benefits to eligible college retirees. This program includes two plans available to higher education employees—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 8-27-101, *Tennessee Code Annotated.* Prior to reaching age 65, retirees may participate in the State Employee Group Plan. In previous fiscal years, prior to reaching the age of 65, all members had the option of choosing a preferred provider organization (PPO), point of service (POS), or health maintenance organization (HMO) plan for healthcare benefits. However, as of January 1, 2011, the insurance plan structure was changed, and as a result, all members now have the option of choosing between the standard or partnership preferred provider organization plan for healthcare benefits. Subsequent to age 65, retirees who are also in the state's retirement system may participate in a state-administered Medicare supplement that does not include pharmacy. The state makes on-behalf payments to the Medicare supplement plan for the college's eligible retirees; see Note 16. The plans are reported in the State of Tennessee's *Comprehensive Annual Financial Report* (CAFR). The CAFR is available on the state's website at http://tennessee.gov/finance/act/cafr.html.

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 plan participants. In accordance with Section 8-27-205(b), *Tennessee Code Annotated*, 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 are subsidized 80 percent; 20 but less than 30 years, 70 percent; and less than 20 years, 60 percent. Retired employees who are 65 years of age or older have flat-rate premium subsidies based on years of service. Retirees with 30 years of service receive $50 per month; 20 but less than 30 years, $37.50; and 15 but less than 20 years, $25.

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

	2011	2010
Annual required contribution (ARC)	$ 768,000.00	$ 847,000.00
Interest on the net OPEB obligation	92,813.15	71,561.18
Adjustment to the ARC	(87,912.47)	(67,782.63)
Annual OPEB cost	772,900.68	850,778.55
Amount of contribution	(474,748.04)	(378,512.45)
Increase in net OPEB obligation	298,152.64	472,266.10
Net OPEB obligation – beginning of year	2,062,514.49	1,590,248.39
Net OPEB obligation – end of year	$2,360,667.13	$2,062,514.49

Year-end	Plan	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation at Year-end
June 30, 2011	State Employee Group Plan	$772,900.68	61.4%	$2,360,667.13
June 30, 2010	State Employee Group Plan	$850,778.55	44.5%	$2,062,514.49
June 30, 2009	State Employee Group Plan	$1,188,985.00	35.2%	$1,590,248.39

Funded Status and Funding Progress

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

State Employee Group Plan

Actuarial valuation date	July 1, 2010	July 1, 2009
Actuarial accrued liability (AAL)	$7,536,000.00	$8,408,000.00
Actuarial value of plan assets	-	-
Unfunded actuarial accrued liability (UAAL)	$7,536,000.00	$8,408,000.00
Actuarial value of assets as a percentage of the AAL	0%	0%
Covered payroll (active plan members)	$14,807,428.48	$14,791,924.35
UAAL as percentage of covered payroll	50.9%	56.8%

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, 2010, actuarial valuation, the Projected Unit Credit actuarial cost method was used. The actuarial assumptions included a 4.5% investment rate of return (net of administrative expenses) and an annual healthcare cost trend rate of 10 percent in fiscal year 2011. The rate decreases to 9.5 percent in fiscal year 2012, and then is reduced by decrements of 0.5 percent per year to an ultimate rate of 5 percent in fiscal year 2021. All 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 12. 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, 2011, and June 30, 2010, 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, 2011, the Risk Management Fund held $107.6 million in cash and cash equivalents designated for payment of claims. At June 30, 2010, the Risk Management Fund held $114.5 million in cash and cash equivalents designated for payment of claims.

At June 30, 2011, the scheduled coverage for the college was $138,465,900 for buildings and $24,823,400 for contents. At June 30, 2010, the scheduled coverage for the college was $137,656,200 for buildings and $23,716,300 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, including the cost of claims that have been reported but not settled and of claims that have been incurred but not reported. Employees and providers have 13 months to file medical claims.

NOTE 13. COMMITMENTS AND CONTINGENCIES

Sick Leave

The college records the cost of sick leave when paid. Generally, since sick leave (earned one day per month with unlimited accumulation) is paid only when an employee dies or is absent because of illness, injury, or related family death, there is no liability for sick leave at June 30. The dollar amount of unused sick leave was $7,367,014.24 at June 30, 2011, and $6,890,968.08 at June 30, 2010.

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 $87,398.37 and for personal property were $65,195.00 for the year ended June 30, 2011. These amounts for the year ended June 30, 2010, were $43,800.00 and $65,500.40. All operating leases are cancelable at the lessee's option.

Construction in Progress

At June 30, 2011, outstanding commitments under construction contracts totaled $1,088,085.24 for the Public Safety Complex Drainage project, the Greene County Campus Expansion project, the Heating and Cooling Corrections project, and exterior repair projects for several campus buildings, of which $1,015,204.45 will be funded by future state capital outlay appropriations.

Questioned Costs

As of June 30, 2011, the college had not resolved $56,245.00 of questioned costs resulting from a federal audit of the utilization of American Recovery and Reinvestment Act (ARRA) funds for the Workforce Investment Act (WIA) program.

Final resolution of these questioned costs will be determined by the grantor.

NOTE 14. NATURAL CLASSIFICATIONS WITH FUNCTIONAL CLASSIFICATIONS

The college's operating expenses for the year ended June 30, 2011, are as follows:

	Natural Classification					
Functional Classification	Salaries	Benefits	Other Operating	Scholarships	Depreciation	Total
Instruction	$13,330,268.83	$4,673,289.74	$ 3,813,752.37	$ 48,018.75	$ -	$21,865,329.69
Public service	1,533,126.45	692,999.54	2,508,107.59	337,423.50	-	5,071,657.08
Academic support	1,722,944.88	732,947.07	(188,363.63)	-	-	2,267,528.32
Student services	2,351,555.57	1,017,442.41	1,149,538.56	294,574.85	-	4,813,111.39
Institutional support	2,510,065.49	1,113,402.44	724,144.14	-	-	4,347,612.07
Maintenance & operation	1,543,565.12	819,546.22	3,520,518.34	-	-	5,883,629.68
Scholarships & fellowships	-	-	-	8,465,168.15	-	8,465,168.15
Auxiliary	-	-	24,481.27	-	-	24,481.27
Depreciation	-	-	-	-	4,069,767.12	4,069,767.12
Total	$22,991,526.34	$9,049,627.42	$11,552,178.64	$9,145,185.25	$4,069,767.12	$56,808,284.77

The college's operating expenses for the year ended June 30, 2010, are as follows:

	Natural Classification					
Functional Classification	Salaries	Benefits	Other Operating	Scholarships	Depreciation	Total
Instruction	$12,682,940.97	$4,034,128.24	$ 3,098,481.51	$ 116,424.72	$ -	$19,931,975.44
Public service	1,624,000.10	647,409.34	5,638,551.18	424,526.73	-	8,334,487.35
Academic support	1,607,826.36	653,001.18	(252,451.51)	-	-	2,008,376.03
Student services	2,336,914.30	971,741.55	1,109,450.11	301,900.03	-	4,720,005.99
Institutional support	2,494,253.90	1,060,682.78	605,191.09	-	-	4,160,127.77
Maintenance & operation	1,509,658.29	725,054.12	2,937,444.92	-	-	5,172,157.33
Scholarships & fellowships	-	-	2,531.60	8,723,576.73	-	8,726,108.33
Auxiliary	-	-	38,203.81	-	-	38,203.81
Depreciation	-	-	-	-	3,852,376.74	3,852,376.74
Total	$22,255,593.92	$8,092,017.21	$13,177,402.71	$9,566,428.21	$3,852,376.74	$56,943,818.79

NOTE 15. PRIOR-PERIOD ADJUSTMENT

Due to calculation errors, depreciation expense for buildings was understated by $156,797.75 for both the 2009 and 2008 fiscal years. A prior-period adjustment of $313,595.50 was necessary to correct the errors.

NOTE 16. ON-BEHALF PAYMENTS

During the year ended June 30, 2011, the State of Tennessee made payments of $26,611.00 on behalf of the college for retirees participating in the Medicare Supplement Plan. The amount for the year ended June 30, 2010, was $18,195.50. The Medicare Supplement Plan is a post-employment benefit healthcare plan and is discussed further in Note 11. 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 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 163-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, 2011, the foundation made distributions of $1,147,056.57 to or on behalf of the college for both restricted and unrestricted purposes. During the year ended June 30, 2010, the foundation made distributions of $280,099.23 to or on behalf of the college for both restricted and unrestricted purposes. Complete financial statements for the foundation can be obtained from Dr. Mark Hurst, Walters State Community College, 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, 2011, cash and cash equivalents consisted of $104,008.31 in bank accounts, $500.00 of petty cash on hand, $1,685,166.09 in the State of Tennessee Local Government Investment Pool (LGIP) administered by the State Treasurer, $195,776.86 of cash in a Hillard Lyons investment account, and $53,611.66 in money market mutual funds. At June 30, 2010, cash and cash equivalents consisted of $72,317.50 in bank accounts, $500.00 of petty cash on hand, $1,432,772.87 in the State of Tennessee Local Government Investment Pool (LGIP) administered by the State Treasurer, and $261,388.07 in money market mutual funds.

Investments

The foundation is authorized to invest funds in accordance with its board of trustees' policies. All investments permitted to be reported at fair value under GASB Statement 31, as amended, are reported at fair value, including those with a maturity date of one year or less at the time of purchase.

At June 30, 2011, 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
Corporate bonds	$ 290,353.75	$102,255.00	$188,098.75	$ -	$ -
Mutual funds – bonds	1,120,634.80	-	105,386.25	979,557.54	35,691.01
Money market funds	53,611.66	53,611.66	-	-	-
Certificates of deposit	415,000.00				
Cash surrender value of life insurance	82,446.81				
Corporate stocks	26,077.67				
Mutual funds - equity	6,049,236.38				
Hedge fund	2,151,899.09				
Less: cash equivalents	(53,611.66)				
Total	$10,135,648.50				

At June 30, 2010, 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	$ 506,475.30	$ 44,910.94	$ 361,888.10	$ 99,676.26	$ -
U.S. agency obligations	1,330,934.51	60,069.67	576,046.20	382,312.50	312,506.14
Corporate bonds	2,472,808.21	349,917.85	1,583,855.33	539,035.03	-
Municipal bonds	139,801.70	-	84,173.20	55,628.50	-
Mutual funds – bonds	991,293.10	-	153,141.66	838,151.44	-
Money market funds	261,388.07	261,388.07	-	-	-
Certificates of deposit	415,000.00				
Cash surrender value of life insurance	75,797.44				
Corporate stocks	2,704,040.81				
Mutual funds - equity	125,789.74				
Less: cash equivalents	(261,388.07)				
Total	$8,761,940.81				

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.

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. For fiscal year ending June 30, 2011, the foundation had no investment policy limiting its investment choices based on ratings issued by nationally recognized statistical rating organizations. For fiscal year ending June 30, 2010, the foundation's investment policy (guideline #6) stated that fixed income investments would be limited to the issues which fell within the highest four ratings by Moody's and/or Standard & Poor's.

At June 30, 2011, the foundation's investments were rated as follows:

		Credit Quality Rating		
Investment Type	Fair Value	A	BBB	Unrated
LGIP	$1,685,166.09	$ -	$ -	$1,685,166.09
Corporate bonds	290,353.75	208,081.00	82,272.75	-
Mutual funds - bonds	1,120,634.80	-	-	1,120,634.80
Money market funds	53,611.66	-	-	53,611.66
Total	$3,149,766.30	$208,081.00	$82,272.75	$2,859,412.55

At June 30, 2010, the foundation's investments were rated as follows:

		Credit Quality Rating				
Investment Type	Fair Value	AAA	AA	A	BBB	Unrated
LGIP	$1,432,772.87	$ -	$ -	$ -	$ -	$1,432,772.87
U.S. agency obligations	1,330,934.51	1,330,934.51	-	-	-	-
Corporate bonds	2,472,808.21	251,688.58	84,175.30	1,187,447.99	949,496.34	-
Municipal bonds	139,801.70	-	139,801.70	-	-	-
Mutual funds - bonds	991,293.10	-	-	-	-	991,293.10
Money market funds	261,388.07	-	-	-	-	261,388.07
Total	$6,628,998.46	$1,582,623.09	$223,977.00	$1,187,447.99	$949,496.34	$2,685,454.04

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, 2011, the foundation had $290,353.75 of uninsured and unregistered investments for which the securities are held by the counterparty. At June 30, 2010, the foundation had $7,134,140.40 of uninsured and unregistered investments for which the securities are held by the counterparty.

Concentration of credit risk – For fiscal year ending June 30, 2011, the foundation placed no limit on the amount it could invest in any one issuer. For fiscal year ending June 30, 2010, the foundation's investment policy (guideline #5) stated that the investment portfolio should be invested in a manner as to provide adequate diversification. No one holding should exceed 5% of the value of that portion of the account in the hands of an investment manager, except upon approval by the investment committee of the board of trustees. The provision did not apply to securities issued by the U.S. Government and its agencies whose securities were backed by the full faith and credit of the federal government.

At June 30, 2010, more than 5% of the foundation's investments were invested in the following single issuers:

Issuer	Percentage of Total Investments
Federal Home Loan Mortgage Corporation	6.1%
Federal National Mortgage Association	5.4%

Foreign currency risk – Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment. For fiscal year ending June 30, 2011, the foundation's investment policy placed no limits on the amount that may be invested in foreign investments. For fiscal year ending June 30, 2010, the foundation's investment policy guideline #7 was in effect. This guideline stated that foreign investments may not exceed 5% of the investment portfolio.

At June 30, 2011, the foundation's exposure to foreign currency risk was as follows:

Investment	Currency	Fair Value
Corporate bonds	Euro	$53,584.00

At June 30, 2010, the foundation's exposure to foreign currency risk was as follows:

Investment	Currency	Fair Value
Corporate stock	Various	$187,813.80
Corporate bonds	Euro	$54,566.00
Mutual funds - equity	Various	$16,745.03

Alternative Investment

The foundation has an investment in a hedge fund. The hedge fund is a "fund of funds," a hedge fund which invests in other hedge funds. The estimated fair value of these assets is $2,151,899.09 at June 30, 2011.

The foundation believes that the carrying amount of its alternative investment is a reasonable estimate of fair value as of June 30, 2011. Because these investments are not readily marketable, the estimated value is subject to uncertainty, and therefore, may differ from the value that would have been used had a ready market for the investments existed, and such differences could be material. These investments are made in accordance with the foundation's investment policy. These investments are designed to enhance diversification and provide reductions in overall portfolio volatility. These fair values are estimated using an industry recognized pricing service.

Pledges Receivable

Pledges receivable are summarized below net of the estimated uncollectible allowance of $10,165.06 at June 30, 2011, and $9,133.25 at June 30, 2010.

	June 30, 2011	June 30, 2010
Current pledges	$ 71,502.82	$105,813.72
Pledges due in one to five years	115,570.22	68,438.03
Subtotal	187,073.04	174,251.75
Less discount to net present value	(1,218.50)	(720.00)
Total pledges receivable, net	$185,854.54	$173,531.75

Capital Assets

Capital asset activity for the year ended June 30, 2011, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance
Land	$ 264,800.00	$ -	$ 264,800.00	$ -
Buildings	1,270,200.00	1,740,000.00	1,270,200.00	1,740,000.00
Total	1,535,000.00	1,740,000.00	1,535,000.00	1,740,000.00
Less accumulated depreciation/amortization:				
Buildings	55,617.50	43,500.00	55,617.50	43,500.00
Total accumulated depreciation	55,617.50	43,500.00	55,617.50	43,500.00
Capital assets, net	$1,479,382.50	$1,696,500.00	$1,479,382.50	$1,696,500.00

Capital asset activity for the year ended June 30, 2010, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance
Land	$ 195,500.00	$ 69,300.00	$ -	$ 264,800.00
Buildings	954,500.00	315,700.00	-	1,270,200.00
Total	1,150,000.00	385,000.00	-	1,535,000.00
Less accumulated depreciation/amortization:				
Buildings	23,862.50	31,755.00	-	55,617.50
Total accumulated depreciation	23,862.50	31,755.00	-	55,617.50
Capital assets, net	$1,126,137.50	$353,245.00	$ -	$1,479,382.50

Long-term Liabilities

Long-term liabilities activity for the year ended June 30, 2011, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Capital lease obligations	$ -	$1,740,000.00	$55,000.00	$1,685,000.00	$60,000.00

Capital Lease

The foundation has a capital lease agreement with the Claiborne County Industrial Development Board for the former Claiborne County High School Building. This agreement began in August 2010 and ends on the earlier of June 30, 2029, or upon the retirement of the indebtedness incurred by the Claiborne County Industrial Development Board to purchase and renovate the building. There is no imputed interest rate. The asset balance at June 30, 2011, was $1,696,500.00, net of accumulated depreciation of $43,500.00. The foundation is renting the space to Walters State Community College to serve as its Claiborne County campus. The following is a schedule by years of future minimum lease payments under the capital lease together with the present value of the net minimum lease payments at June 30, 2011:

Year Ending June 30	
2012	$ 60,000.00
2013	60,000.00
2014	60,000.00
2015	60,000.00
2016	60,000.00
2017 - 2021	300,000.00
2022 - 2026	300,000.00
2027 - 2029	785,000.00
Total minimum lease payments	1,685,000.00
Less amount representing interest	-
Present value of net minimum lease payments	$1,685,000.00

Endowments

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

The foundation chooses to spend only a portion of the investment income (including changes in the value of investments) each year. Under the spending plan established by the foundation, a percentage (4.5%) of the rolling five-year average of the endowment market value has been authorized for expenditure. The remaining amount, if any, is retained to be used in future years when the amount computed using the spending plan exceeds the investment income. At June 30, 2011, net appreciation of $1,360,309.52 is available to be spent, of which $1,125,703.47 is included in restricted net assets expendable for scholarships and fellowships; $93,412.58 is included in restricted net assets expendable for other purposes; and $141,193.47 is included in unrestricted net assets. At June 30, 2010, net appreciation of $617,784.09 is available to be spent, of which $509,022.93 is included in restricted net assets expendable for scholarships and fellowships; $43,356.64 is included in restricted net assets expendable for other purposes; and $65,404.52 is included in unrestricted net assets.

Subsequent Event

The Claiborne County Industrial Development Board received a grant from the State of Tennessee Department of Economic and Community Development in July 2011 in the amount of $500,000. The Industrial Development Board will use this amount to reduce its indebtedness on the former Claiborne County High School Building.

Under the terms of the capital lease agreement with the foundation, this will reduce the foundation’s capital lease obligation by $500,000.

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, 2010	State Employee Group Plan	$ -	$7,536,000.00	$7,536,000.00	0%	$14,807,428.48	50.9%
July 1, 2009	State Employee Group Plan	$ -	$8,408,000.00	$8,408,000.00	0%	$14,791,924.35	56.8%
July 1, 2007	State Employee Group Plan	$ -	$11,047,000.00	$11,047,000.00	0%	$14,111,113.00	78.3%

The amount reported here for covered payroll relates to the fiscal year in which the valuations were performed.

TENNESSEE BOARD OF REGENTS
WALTERS STATE COMMUNITY COLLEGE
SUPPLEMENTARY INFORMATION
SCHEDULES OF CASH FLOWS - COMPONENT UNIT
FOR THE YEARS ENDED JUNE 30, 2011 AND JUNE 30, 2010

	Year Ended June 30, 2011	Year Ended June 30, 2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Gifts and contributions	$ 488,881.60	$ 291,580.29
Payments to suppliers and vendors	(170,828.83)	(254,228.51)
Payments for scholarships and fellowships	(321,131.95)	(385,923.41)
Payments to Walters State Community College	(1,321.83)	(250,750.00)
Other receipts	154,169.16	67,139.63
Net cash provided (used) by operating activities	149,768.15	(532,182.00)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Private gifts for endowment purposes	132,125.00	229,523.18
Other noncapital financing receipts	2,256.00	80,827.41
Net cash provided by noncapital financing activities	134,381.00	310,350.59
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from sale of capital assets	285,000.00	-
Principal paid on capital lease	(55,000.00)	-
Purchase of capital assets and construction	-	(385,000.00)
Nest cash provided (used) by capital and related financing activities	230,000.00	(385,000.00)
CASH FLOWS FROM INVESTING ACTIVITIES		
Income on investments	344,961.90	588,697.72
Purchases of investments	(587,026.57)	(210,965.28)
Net cash provided (used) by investing activities	(242,064.67)	377,732.44
Net increase (decrease) in cash and cash equivalents	272,084.48	(229,098.97)
Cash and cash equivalents at beginning of year	1,766,978.44	1,996,077.41
Cash and cash equivalents at end of year	$ 2,039,062.92	$ 1,766,978.44
Reconciliation of operating loss to net cash provided (used) by operating activities:		
Operating loss	$ (1,028,789.20)	$ (487,051.48)
Adjustments to reconcile operating loss to net cash provided (used) by operating activities:		
Gift of capital asset to the college	1,141,900.00	-
Change in assets and liabilities:		
Depreciation expense	43,500.00	31,755.00
Receivables, net	(19,604.46)	(68,574.32)
Prepaid/deferred items	4,057.00	20.12
Accounts payable	8,704.81	(8,331.32)
Net cash provided (used) by operating activities	$ 149,768.15	$ (532,182.00)
Noncash investing, capital, or financing transactions		
Unrealized gains on investments	$ 480,771.78	$ 412,554.62
Loss on disposal of capital assets	$ (52,482.50)	$ -
Gift of capital asset to Walters State Community College	$ (1,141,900.00)	$ -
Acquisition of Claiborne County facility by capital lease	$ 1,740,000.00	$ -