AUDIT REPORT

Tennessee Board of Regents
Volunteer State Community College

For the Years Ended
June 30, 2006, and June 30, 2005

STATE OF TENNESSEE

COMPTROLLER OF THE TREASURY

Department of Audit

Division of State Audit

Tennessee Comptroller of the Treasury

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February 10, 2009

The Honorable Phil Bredesen, Governor
and
Members of the General Assembly
State Capitol
Nashville, Tennessee 37243
and
The Honorable Charles W. Manning, Chancellor
Tennessee Board of Regents
1415 Murfreesboro Road, Suite 350
Nashville, Tennessee 37217
and
Dr. Warren R. Nichols, President
Volunteer State Community College
1480 Nashville Pike
Gallatin, Tennessee 37066

Ladies and Gentlemen:

Transmitted herewith is the financial and compliance audit of the Tennessee Board of Regents, Volunteer State Community College, for the years ended June 30, 2006, and June 30, 2005. 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 certain 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/ddb
07/042

State of Tennessee

Audit Highlights

Comptroller of the Treasury — Division of State Audit

Financial and Compliance Audit
Volunteer State Community College
For the Years Ended June 30, 2006, and June 30, 2005

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.

AUDIT FINDING

INTERNAL CONTROL FINDING

The Vice President for Business and Finance Did Not Ensure That the College's and the Affiliated Foundation's Financial Statements and Notes to the Financial Statements Were Accurately Prepared

We found that management made calculation errors, classification errors, and errors based on lack of proper supporting documentation during the preparation of financial statements and notes. Although these reporting errors did not result in a material misstatement of the financial statements, they increased the risk that amounts could have been materially misstated and that critical financial decisions not in the best interest of the college and the affiliated foundation could have been made based on inaccurate information (page 9).

OPINIONS ON THE FINANCIAL STATEMENTS

The opinions on the financial statements are unqualified.

Audit Report
Tennessee Board of Regents
Volunteer State Community College
For the Years Ended June 30, 2006, and June 30, 2005

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Tennessee Board of Regents
Volunteer State Community College
For the Years Ended June 30, 2006, and June 30, 2005

INTRODUCTION

POST-AUDIT AUTHORITY

This is a report on the financial and compliance audit of the Tennessee Board of Regents, Volunteer 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.

Volunteer State Community College was approved by the State Board of Education as one of Tennessee's ten community colleges in 1969. The college moved to its present 100-acre campus in 1972. In June 1973, Volunteer State Community College graduated its first class. The college currently offers the Associate of Arts Degree, the Associate of Science Degree, the Associate of Applied Science Degree, and technical certificates.

ORGANIZATION

The governance of Volunteer State Community College is vested in the Tennessee Board of Regents. The Governor, the Commissioner of Education, the Commissioner of Agriculture, and the Director of the Tennessee Higher Education Commission serve *ex officio* on this board. The chief administrative officer of the college is the president, who is assisted and advised by members of the faculty and administrative staff.

AUDIT SCOPE

The audit was limited to the period July 1, 2004, through June 30, 2006, 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, 2006, and June 30, 2005. Volunteer 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 FINDINGS

There were no findings in the prior audit 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 CENTERS

Volunteer State Community College serves as the lead institution under agreements with the Tennessee Technology Center at Hartsville and the Tennessee Technology Center at Livingston. Under these agreements, Volunteer State Community College performs the accounting and reporting functions for the centers. The chief administrative officer of each center is the director, who is assisted and advised by members of the faculty and administrative staff. Each director is responsible to the Chancellor of the Tennessee Board of Regents.

RESULTS OF THE AUDIT

AUDIT CONCLUSIONS

Internal Control

As part of the audit of the college's financial statements for the years ended June 30, 2006, and June 30, 2005, we considered internal control over financial reporting to determine auditing procedures for the purpose of expressing opinions on the financial statements, as required by auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in generally accepted government auditing standards. A reportable condition, along with a recommendation and management's response, is detailed in the finding and recommendation section of this report. Consideration of internal control over financial reporting disclosed no material weaknesses.

Compliance and Other Matters

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

Fairness of Financial Statement Presentation

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

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

December 17, 2007

The Honorable Phil Bredesen, Governor
and
Members of the General Assembly
State Capitol
Nashville, Tennessee 37243
and
The Honorable Charles W. Manning, Chancellor
Tennessee Board of Regents
1415 Murfreesboro Road, Suite 350
Nashville, Tennessee 37217
and
Dr. Warren R. Nichols, President
Volunteer State Community College
1480 Nashville Pike
Gallatin, Tennessee 37066

Ladies and Gentlemen:

We have audited the financial statements of Volunteer 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, 2006, and June 30, 2005, and have issued our report thereon dated December 17, 2007. 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. During the year ended June 30, 2006, the college implemented GASB Statement 42, *Accounting and Financial Reporting for Impairment of Capital Assets and* *for Insurance Recoveries*. During the year ended June 30, 2005, the college implemented GASB Statement 40, *Deposit and Investment Risk Disclosures*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the college's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the college's ability to record, process, summarize, and report financial data consistent with management's assertions in the financial statements.

The following reportable condition was noted:

- The Vice President for Business and Finance did not ensure that the college's and affiliated foundation's financial statements and notes to the financial statements were accurately prepared, which increased the risk that amounts could be materially misstated and that financial decisions not in the best interest of the college and the affiliated foundation could be made based on inaccurate information

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

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition described above is not a material weakness.

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

Compliance and Other Matters

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

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

This report is intended solely for the information and use of the General Assembly of the State of Tennessee, the Tennessee Board of Regents, and management and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record.

Sincerely,

Arthur A. Hayes, Jr.

Arthur A. Hayes, Jr., CPA
Director

AAH/ddb

FINDING AND RECOMMENDATION

<u>The Vice President for Business and Finance did not ensure that the college's and the affiliated foundation's financial statements and notes to the financial statements were accurately prepared, which increased the risk that amounts could have been materially misstated and that critical financial decisions could have been made based on inaccurate information</u>

Finding

The Vice President for Business and Finance of Volunteer State Community College did not ensure that the college's and the affiliated foundation's June 30, 2006, and June 30, 2005, financial statements and notes to the financial statements included in the *Annual Financial Reports* were accurately prepared. We found that management made calculation errors, classification errors, and errors based on lack of proper supporting documentation during the preparation of financial statements and notes.

Based on our audit, we found that the former Assistant Vice President for Business and Finance made the following errors because of carelessness, oversight, or misapplication of the accounting standards or accounting guidance. Specifically, we found:

<u>CALCULATION ERRORS</u>

- The amounts for purchases, sales, and investment income reported on the foundation's statements of cash flows for the years ended June 30, 2006, and June 30, 2005, were incorrectly calculated.

- The allocation of cash and cash equivalents between current and noncurrent as reported on the statement of net assets was misallocated. Specifically, for the fiscal year ended June 30, 2006, the college's current cash and cash equivalents was understated and noncurrent cash and cash equivalents was overstated by $117,571.84. For the fiscal year ended June 30, 2005, the college's current cash and cash equivalents was understated and noncurrent cash and cash equivalents was overstated by $1,364.95, and the foundation's current cash and cash equivalents was overstated and noncurrent cash and cash equivalents was understated by $80,344.80. These errors apparently occurred because instructions from the Assistant Vice Chancellor for Business and Finance at the Tennessee Board of Regents regarding the allocation of cash and cash equivalents between current and noncurrent were not followed.

- For the fiscal years ended June 30, 2006, and June 30, 2005, the foundation's U. S. Government National Mortgage Association investments (GNMAs) held by Edward Jones were improperly reported on the statements of net assets and in the notes to the financial statements. The difference between the maturity value and the cash surrender value of the Certificates of Deposit (CDs) was deducted from the recorded value of the GNMAs so the total maturity value shown on the statement from Edward Jones would be reflected in the financial statements. The difference between the maturity value and the cash surrender value of the CDs should not have been taken into consideration and should not have been deducted from the GNMAs.

- A careless typographical error was included on the spreadsheet used to calculate the foundation's costs of the various types of investments resulting in a $30,000 understatement of the cost for the Government National Mortgage Association (GNMA) investments as reported in the fiscal year ended June 30, 2006, notes to the financial statements.

- The market values for a Federal National Mortgage Association (FNMA) investment and a Federal Home Loan Mortgage (FHLM) investment were accidentally switched on the spreadsheet used to calculate the foundation's values of investment types in support of the fiscal year ended June 30, 2006, notes to the financial statements, resulting in a $4,091.47 understatement of the FNMA investment and a $4,091.47 overstatement of the FHLM investment.

- The cost of investments by investment category as presented in the component unit note was incorrectly computed. The cost was computed by combining the market value and the cumulative net unrealized gains and losses that had been recorded rather than relying on the cost reflected on the investment statements from AmSouth and Edward Jones. This resulted in an overstatement in the note disclosure of the total cost of investments by $130,736.99 for the fiscal year ended June 30, 2006, and $129,391.51 for the fiscal year ended June 30, 2005.

- The carrying amount of the impaired capital assets at June 30, 2006, was overstated by $195,568.28 in the notes to the financial statements. Impaired capital assets were reported in the Annual Financial Report as $559,871.18. We calculated impaired capital assets as $364,302.90 based on the documentation provided to us by college personnel.

- The wrong percentage was used to calculate the benefits related to compensated absences for the fiscal year ended June 30, 2005. Sixteen percent was used rather than the required 18%, which resulted in an understatement of the ending balance by $15,543.26. The compensated absences reductions for the fiscal year ended June 30, 2006, were understated by $102,773.98 because the related fringe benefits were not included.

CLASSIFICATION ERRORS

- A capital financing payable for $1,371,893.43 was classified as a payment to suppliers and vendors in the operating section of the fiscal year ended June 30, 2006, statement of cash flows rather than other capital and related financing payments in the capital financing section.

- Two of the foundation's certificates of deposit (CDs) totaling $110,000 were incorrectly classified as investments rather than cash and cash equivalents at June 30, 2005. Both of the CDs had an original maturity of three months. The foundation's cash and cash equivalents policy requires instruments that are readily convertible to known amounts of cash and have original maturities of three months or less to be classified as cash and cash equivalents rather than investments.

- Expenditures for the infrastructure improvement project totaling $114,038.57 were incorrectly classified as buildings when the expenditure should have been classified as land improvements and infrastructure in the accounting system and in the fiscal year ended June 30, 2005, notes to the financial statements. This error also affects the depreciation expense since infrastructure is depreciated over 20 years and buildings are depreciated over 40 years.

- Foundation investment expenses were not consistently classified on the statement of revenues, expenses, and changes in net assets. Foundation investment expenses were classified under utilities, supplies, and other services as an operating expense for the year ended June 30, 2005, and under investment income as a nonoperating expense for the year ended June 30, 2006. During the previous audit covering the fiscal years ended June 30, 2004, and June 30, 2003, foundation investment expenses were classified under investment income as a nonoperating expense. Although investment expenses can be classified as operating or nonoperating expenses under the standards established by the Governmental Accounting Standards Board, the expenses should be consistently classified.

ERRORS RESULTING FROM DISCREPANCIES IN SUPPORTING DOCUMENTATION

- The June 30, 2005, comparative amounts for cash in bank and the Local Government Investment Pool (LGIP) included in the June 30, 2006, note to the financial statements did not agree with the amounts reported in the June 30, 2005, *Annual Financial Report*. In addition, the total cash and cash equivalents as reported in the June 30, 2006, notes to the financial statements did not agree with the total cash and cash equivalents reported in the statement of net assets.

- The amount for LGIP was understated by $715,629.92 in the June 30, 2006, cash and cash equivalents note, which resulted in a reporting difference between the notes to the financial statements and the financial statements.

- The interest amount due in 2007 as reported in the fiscal year ended June 30, 2006, debt service requirements table of the unaudited long-term liabilities note did not agree with the amount reported on the Tennessee State School Bond Authority's bond amortization schedule.

Although these reporting errors did not result in a material misstatement of the financial statements, they increased the risk that amounts could have been materially misstated and that critical financial decisions not in the best interest of the college and the affiliated foundation could have been made based on inaccurate information.

The former Assistant Vice President for Business and Finance, who resigned in August 2006, prepared the June 30, 2006, and June 30, 2005, *Annual Financial Reports*. Since he was no longer employed by Volunteer State Community College, we asked our questions to the current Assistant Vice President for Business and Finance and the former Director of Accounting who resigned in April 2007. We frequently were told that the former Assistant Vice President for Business and Finance "did that" and they did not know what he had done or how the amount was calculated; thus, they could not explain why the error occurred. Volunteer State employees contacted the former Assistant Vice President for Business and Finance throughout the audit and asked him to help resolve some of these reporting errors, which he willingly did.

Management could have detected and corrected several of the noted errors if appropriate reviews and comparisons had been made between related supporting schedules, financial statements, and notes to the financial statements. Also, if the Vice President for Business and Finance had required all employees to prepare and maintain adequate supporting calculations for amounts that did not directly agree with the general ledger, questions relating to how an amount was calculated by the former Assistant Vice President for Business and Finance could have been explained by current employees. We made audit adjustments to correct the financial statements and notes to the financial statements for the audit report.

Recommendation

The President and Vice President for Business and Finance should ensure that the financial report is accurately prepared. The Vice President for Business and Finance should also ensure that adequate supporting calculations are maintained for any amounts in the financial report that do not directly agree with the general ledger. Someone independent of the preparer of the financial report should compare the supporting schedules, management's discussion and analysis, financial statements, and notes to the financial statements to ensure that corresponding amounts agree and all amounts are adequately supported.

The President and Vice President for Business and Finance should ensure that risks associated with report preparation are adequately identified and assessed in the college's documented risk assessment activities. The Vice President for Business and Finance should also implement effective controls to adequately mitigate those assessed risks, assign personnel to be responsible for ongoing monitoring of the risks and mitigating controls, and take action if deficiencies occur.

Management's Comment

We concur with the calculation, classification, and documentation errors that were identified in the auditor's report. Although the individual errors were immaterial to the scope of the audit, we understand the auditor's concern regarding the errors.

In seeking to address these concerns, Volunteer State Community College has taken steps that will improve the accuracy of the financial statements. When the monetary pressures allowed, the college added another degreed accountant to its staff. This allows for greater dispersion of duties among the Business Office staff members.

A new staff member was hired to replace the former Assistant Vice President for Business and Finance. In examining the duties that were performed by that position, it was determined that many of the duties needed to be distributed to other personnel within the Business Office. That has been accomplished and leads to opportunities for a better system of checks and balances.

The period that was audited included the final year on the outgoing software product and the first year of operation in a new Enterprise Resource Planning System. The President and the Vice President of Business and Finance arrived in close proximity to the beginning of the initial fiscal year being audited. A certain amount of time is needed to become familiar with any software. This familiarization was complicated by the fact that the school transitioned to new Enterprise Resource Planning software beginning in July 2005. That product is now established and more familiar. This enhances management's ability to monitor the accuracy of the financial data on an ongoing basis.

In conclusion, all areas identified by the auditor will be examined thoroughly and improvements will be made. Unfortunately, because of the lapse in time between the audit period and the receipt of the audit report, some of these concerns may not be addressed until the current fiscal year.

STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
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Independent Auditor's Report

December 17, 2007

The Honorable Phil Bredesen, Governor
and
Members of the General Assembly
State Capitol
Nashville, Tennessee 37243
and
The Honorable Charles W. Manning, Chancellor
Tennessee Board of Regents
1415 Murfreesboro Road, Suite 350
Nashville, Tennessee 37217
and
Dr. Warren R. Nichols, President
Volunteer State Community College
1480 Nashville Pike
Gallatin, Tennessee 37066

Ladies and Gentlemen:

We have audited the accompanying basic financial statements of Volunteer 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, 2006, and June 30, 2005, 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 Volunteer 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 Volunteer 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, 2006, and June 30, 2005, the changes in its financial position, and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Tennessee Board of Regents, Volunteer State Community College, and its discretely presented component unit as of June 30, 2006, and June 30, 2005, 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.

During the year ended June 30, 2006, the college implemented GASB Statement 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*. During the year ended June 30, 2005, the college implemented GASB Statement 40, *Deposit and Investment Risk Disclosures*.

The management's discussion and analysis on pages 17 through 37 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the basic financial statements. The accompanying financial information on page 61 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 December 17, 2007, on our consideration of the college's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with generally accepted government auditing standards and should be read in conjunction with this report in considering the results of our audit.

Sincerely,

Arthur A. Hayes, Jr., CPA
Director

AAH/ddb

Tennessee Board of Regents
Volunteer State Community College
Management's Discussion and Analysis
June 30, 2006, and June 30, 2005

This section of Volunteer State Community College's annual financial report presents a discussion and analysis of the financial performance of the college during the fiscal year ended June 30, 2006, with comparative information presented for the fiscal years ended June 30, 2005, and June 30, 2004. 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. Volunteer State College Foundation is a legally separate, tax-exempt organization supporting Volunteer State Community College. The foundation is considered a component unit of the college and is discretely presented in the college's financial statements. More detailed information about the Volunteer State College Foundation is presented in note 16 to the financial statements.

Using This Annual Report

This report consists of three basic financial statements. The Statement of Net Assets; the Statement of Revenues, Expenses, and Changes in Net Assets; and the Statement of Cash Flows that provide information on Volunteer 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 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. The corpus of nonexpendable restricted resources is only available for investment purposes. Expendable restricted net assets are available for expenditure by the college but must be spent for purposes as determined by donors and/or external entities that have placed time or purpose restrictions on the use of the assets. The final category is unrestricted net assets. Unrestricted assets are available to the institution for any lawful purpose of the institution.

Condensed Statements of Net Assets (in thousands of dollars)

	College			Component Unit		
	2006	**2005**	**2004**	**2006**	**2005**	**2004**
Assets						
Current assets	$ 10,775	$ 7,798	$ 7,622	$ 723	$ 556	$ 536
Capital assets, net	29,161	28,328	27,569	-	-	-
Other assets	8,652	10,688	8,676	3,947	3,052	2,905
Total assets	48,588	46,814	43,867	4,670	3,608	3,441
Liabilities:						
Current liabilities	7,395	5,752	5,028	1	17	-
Noncurrent liabilities	1,456	1,475	916	-	-	-
Total liabilities	8,851	7,227	5,944	1	17	-
Net assets:						
Invested in capital assets, net of related debt	28,602	27,648	27,430	-	-	-
Restricted – expendable	106	84	144	763	646	652
Restricted – nonexpendable	109	106	104	3,386	2,494	2,388
Unrestricted	10,920	11,749	10,245	520	451	401
Total net assets	$ 39,737	$ 39,587	$ 37,923	$ 4,669	$ 3,591	$ 3,441

- In 2006, the largest asset in the current assets category is cash and cash equivalents in the amount of $8,808,795. Included in the cash and cash equivalents is approximately $2,600,326 that Volunteer State is holding as custodian for others such as student organizations and the Tennessee Technology Centers at Livingston and Hartsville. Also included in cash and cash equivalents is approximately $645,209 that has been generated by auxiliary enterprises and is presently allocated for auxiliary enterprises. Additionally, about $199,271 of the cash and cash equivalents have been designated to pay current liabilities related to the acquisition of plant assets. Overall, current assets increased in 2006.

- For 2006, increases in current assets were primarily the result of cash transferred from noncurrent to pay for outstanding liabilities related to construction projects and renewal and replacement of equipment. For 2005, increases in current assets were the result of gifts received for the construction of the Livingston facility and transfers of current asset cash to the other asset category to be used for future capital purchases and improvements.

- For 2006, capital assets consist of land, buildings, software, projects in progress, equipment, other improvements, and library holdings. The land has a book value of $1,175,577. The main campus in Gallatin consists of 14 primary buildings. The VSCC Center at Livingston consists of one building. The buildings have a net book value of $19,278,081. The equipment has a net book value of $1,167,351. Additionally, software has a net book value of $890,324. Projects in progress have a book value of $2,184,417. Projects in progress consist of $99,679 for the Ramer Building restoration, $2,077,386 for the Livingston Center expansion, and $7,351 for an upgrade of the fire alarm systems. Other improvements have a net book value of $3,930,127. Library holdings have a net book value of $535,103.

- For 2005, the land has a book value of $1,141,132. During 2005, additional land was donated to the VSCC Center at Livingston for the future expansion of the Livingston facility. This land was valued at approximately $24,000. The main campus in Gallatin consists of 14 primary buildings. The VSCC Center at Livingston consists of one building. The buildings have a net book value of $20,409,319. The equipment has a net book value of $1,382,672. Projects in progress have a book value of $817,813. Projects in progress consist of $641,991 of a new administrative software system, $168,470 for the Livingston Center expansion, and $7,351 for an upgrade of the fire alarm systems. Other improvements have a net book value (net of debt and depreciation) of $4,034,895. Library holdings have a net book value of $542,331.

- In 2006, other assets consist primarily of cash and cash equivalents and investments. Approximately $8,531,888 of the cash and cash equivalents and investments have been designated for the future renewal and replacement of equipment and for various capital projects. Additionally, $109,165 of the cash and cash equivalents is for restricted and nonexpendable endowments.

- In 2005, other assets consist primarily of cash and cash equivalents and investments. Approximately $10,573,213 of the cash and cash equivalents and investments have been designated for the future renewal and replacement of equipment and for various capital projects. For 2005, increases in current assets were the result of gifts received for the construction of the Livingston facility and transfers of current asset cash to the other asset category to be used for future capital purchases and improvements. Additionally, $106,175 of the cash and cash equivalents is for restricted and nonexpendable endowments.

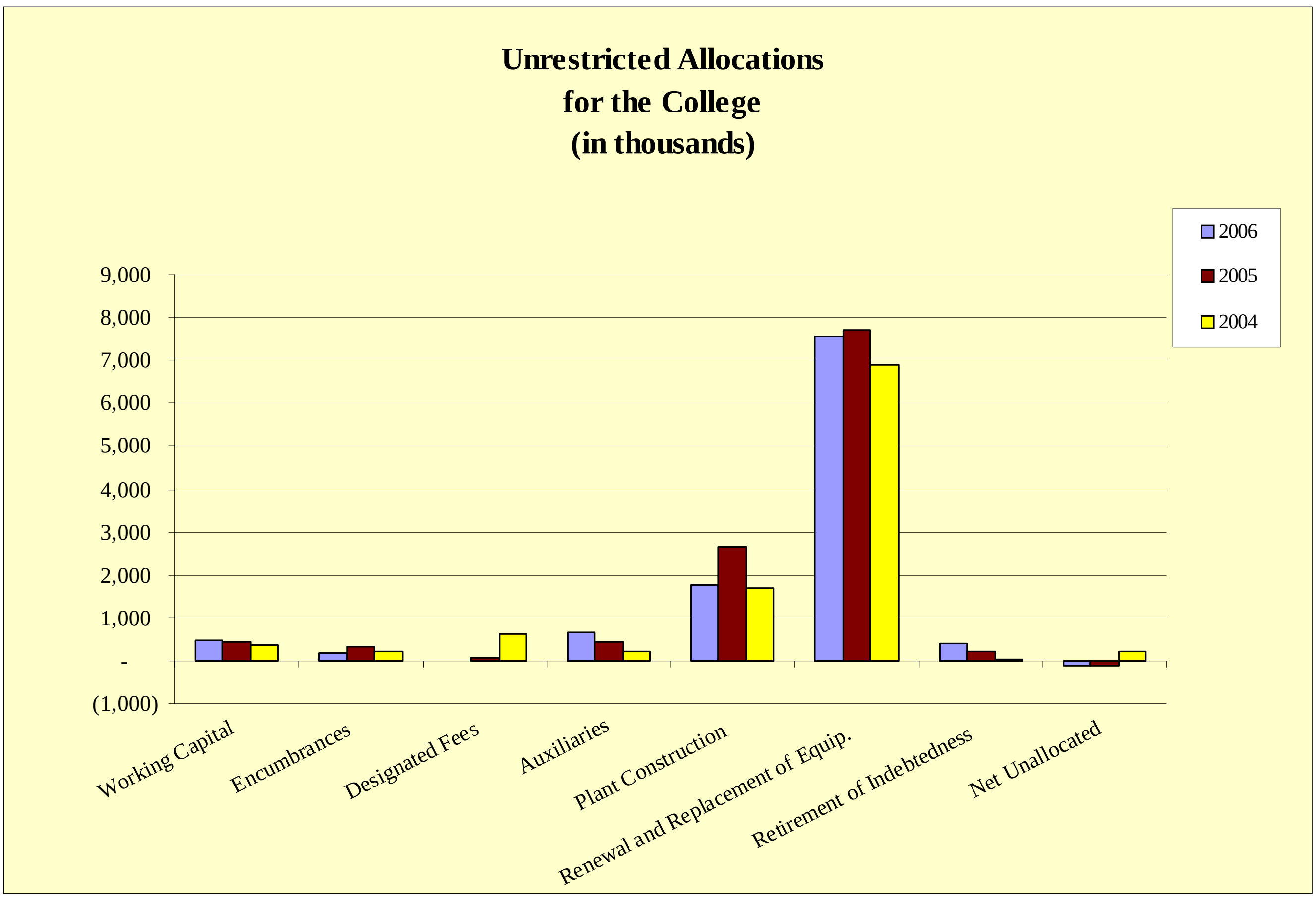
- Current liabilities in 2006 consist of deposits held in custody for others of $2,597,489; accrued liabilities of $1,715,295; deferred revenue of $785,650; compensated absences of $301,351; accounts payable of $1,857,455; current portion of long-term liabilities $119,354; and miscellaneous other current liabilities of $18,097. In 2005, current liabilities consist of deposits held in custody for others of $2,514,363; accrued liabilities of $1,620,866; deferred revenue of $719,366; compensated absences of $270,836; accounts payable of $492,830; and miscellaneous other current liabilities of $134,077. Accrued liabilities consist primarily of accrued salaries, benefits, and other payroll withholdings payable. Most of the accrued salaries are the result of faculty contracts that begin in August and end in May, but are paid over a 12-month period. Thus, one month of pay (and related benefits) is accrued at June 30. Also, most of the compensation for summer school instruction is paid by Volunteer State in July and August. However, a portion of the compensation is earned before June 30 and thus recorded as an accrued liability at June 30. Also, summer semester classes normally begin in May and end in August. Revenues that are collected before June 30, but that are earned after June 30, are recorded as deferred revenue. Additionally, employees of the college are permitted to accrue and carry forward vacation time. Based on historical trends, the portion of the accumulated vacation time at June 30 estimated to be used during the next fiscal year (and related benefits) is accrued as a current liability. Accounts payable are generated through normal operating activities and are for goods or services received by June 30, but not paid as of June 30. Increases in current liabilities were primarily from increased accounts payable related to tornado restoration projects. A liability was recorded for restoration expenditure reimbursements due to the state after insurance and FEMA proceeds are received. Accrued liabilities increased in 2006 and 2005 due to an overall rise in payroll costs.

- In 2006, the remaining portion of the accumulated vacation time is accrued as a noncurrent liability, which amounted to approximately $1,014,742. Long-term liabilities decreased because of principal payments made on outstanding debt for chiller replacements and the Banner software project. The long-term portion of the bonds outstanding was $439,828. Also, there was $1,498 due to grantors.

- In 2005, the remaining portion of the accumulated vacation time is accrued as a noncurrent liability, which amounted to approximately $917,052. The additional increase in noncurrent liability is the result of commercial paper that was issued to finance the purchase of the new administrative software system. Debt issued for this project was $552,800. Additionally, the college has some outstanding bond debt for bonds that were issued to fund a portion of the cost for the chiller replacement project. The long-term portion of the bonds outstanding was $115,079. Also, there was $1,122 due to grantors.

- For the component unit in 2006, overall the net assets increased by approximately $1,078,670 because of increases in permanent endowments and excess revenues over transfers to the college. Of the total net asset increase, $895,375 was attributable to an increase in other assets which was primarily due to a large bequest that was received as an addition to permanent endowments in 2006. This will also account for the increase in restricted nonexpendable net assets for 2006.

Many of the college's unrestricted net assets have been designated or reserved for specific purposes such as: repairs and replacement of equipment, capital projects, designated fees, encumbrances, and working capital. The following graph shows the allocations for the college:



Working capital increased in 2006 and 2005 primarily because of an increase in prepaid expenses.

- The allocation for encumbrances decreased in 2006 compared to 2005. In 2005, purchase orders were issued late in the fiscal year to increase marketing and advertising efforts which caused an increase in encumbrances in 2005 compared to 2006.

- In 2006, the allocations for designated fees decreased significantly during the year due to an increase in expenditures of the technology access fee revenues. In 2005, the allocations for designated fees decreased significantly during the year due to an increase in expenditures of the technology access fee revenues. Additionally, much of the unspent technology access fees from the previous year were transferred to the renewal and replacement fund where they will be held to meet future technology needs.

- Allocations for auxiliaries increased during the 2006 and 2005 fiscal years as the result of an accumulation of unspent current year earnings.

- In 2006, allocations for plant construction decreased because of expenditures for the new Livingston Center facility. Additionally, expenditures related to the tornado restoration resulted in a decrease in the allocation for plant construction.

- In 2005, allocations for plant construction increased because of private gifts received for the funding of the new Livingston Center facility. Additionally, several projects were completed this year that used funds previously set aside for these projects. However, overall there was a net increase in funds allocated for plant construction.

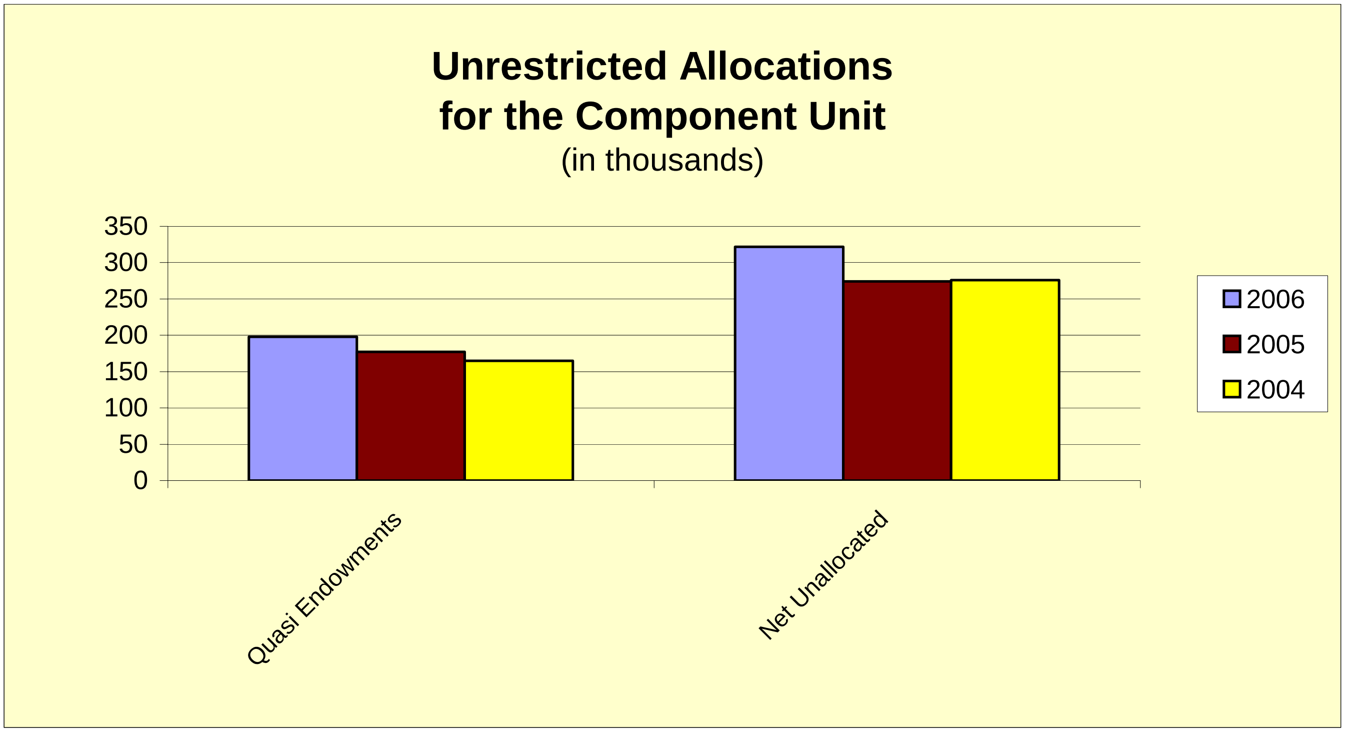
- In 2006, renewal and replacement balances decreased slightly in large part because of the transfers to plant construction.

- In 2005, renewal and replacement balances increased in large part because of the transfer of unspent technology access fees to the renewal and replacement fund. Additionally, approximately $300,000 was set aside in renewal and replacement for future needs related to the administrative software project.

- Retirement of indebtedness balances increased in 2006 and 2005 due to funds being set aside to fund future payments on the debt incurred for the administrative software system.

- There was no significant change in the unreserved/undesignated balance in 2006.

- In 2005, the net unallocated balance decreased because unallocated dollars were allocated to fund transfers to the renewal and replacement fund and to the retirement of indebtedness fund.



- There were no significant changes to the unrestricted allocations for the component unit during 2006 or 2005.

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

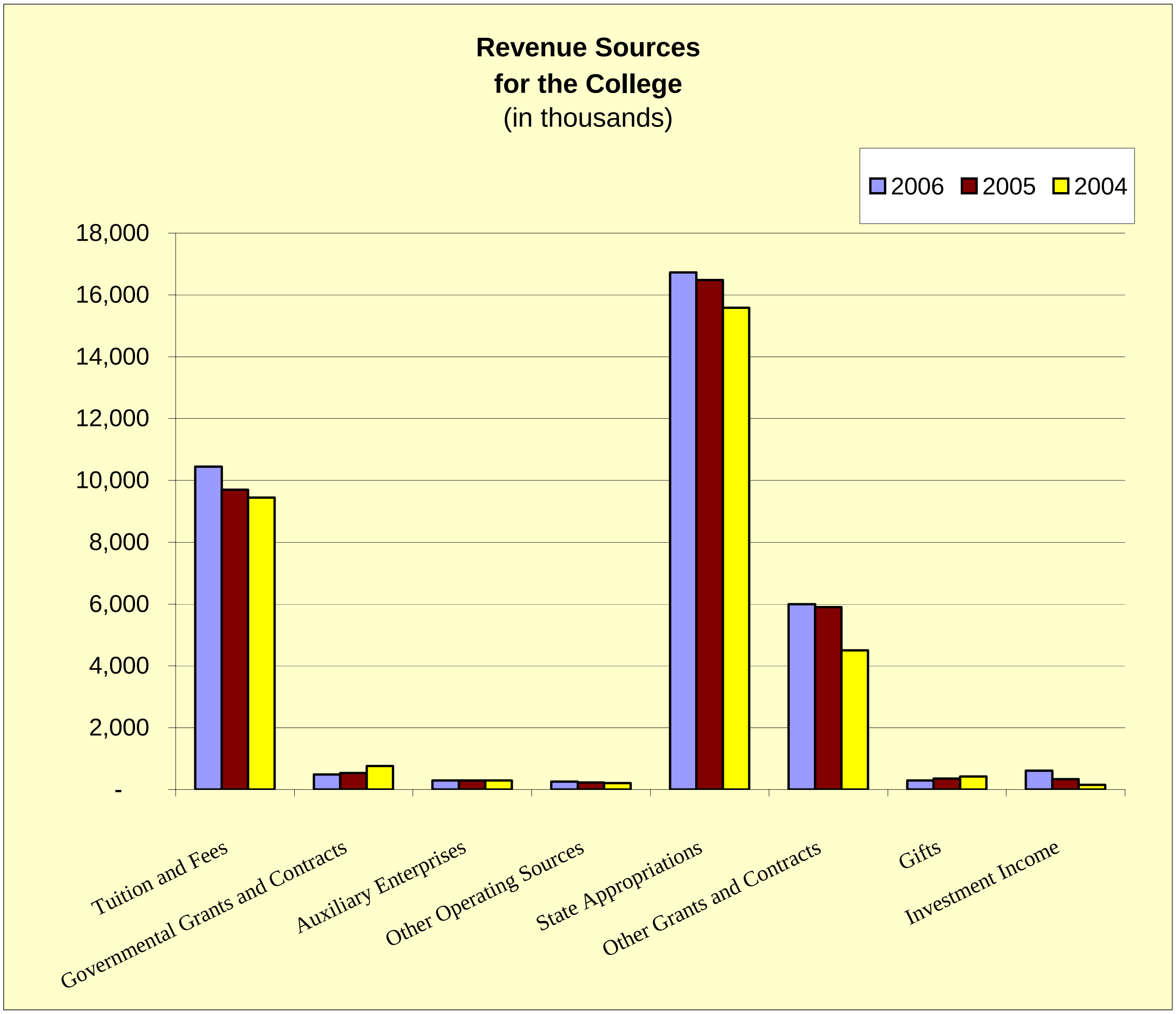
The Statement of Revenues, Expenses, and Changes in Net Assets presents the operating results of the college, as well as the nonoperating revenues and expenses. Annual state appropriations, while budgeted for operations, are considered nonoperating revenues according to generally accepted accounting principles.

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

	College 2006	College 2005	College 2004	Component Unit 2006	Component Unit 2005	Component Unit 2004
Operating revenues:						
Net tuition and fees	$ 10,447	$ 9,703	$ 9,442	$ 142	$ -	$ -
Gifts and contributions	-	-	-	75	216	549
Endowment income per spending plan	-	-	-	-	110	45
Auxiliary	293	292	295	-	-	-
Grants and contracts	492	535	762	-	-	-
Other	253	222	206	55	48	46
Total operating revenues	11,485	10,752	10,705	272	374	640
Operating expenses	36,550	35,472	31,545	563	2,052	438
Operating income (loss)	(25,065)	(24,720)	(20,840)	(291)	(1,678)	202
Nonoperating revenues and expenses						
State appropriations	16,723	16,476	5,585	-	-	-
Gifts	297	361	427	-	-	-
Grants and contracts	5,997	5,902	4,504	-	-	-
Investment income	616	336	149	23	6	3
Other revenues and expenses	(24)	(14)	-	-	-	-
Total nonoperating revenues and expenses	23,609	23,061	20,665	23	6	3
Income (loss) before other revenues, expenses, gains, or losses	(1,456)	(1,659)	(175)	(268)	(1,672)	205
Other revenues, expenses, gains, or losses:						
Capital appropriations	757	1,573	2,432	-	-	-
Capital grants and gifts	211	1,762		446	1,752	-
Additions to permanent endowments	1	2	3	900	70	82
Other capital	637	(14)	-	-	-	-
Total revenues, expenses, gains, or losses	1,606	3,323	2,435	1,346	1,822	82
Increase (decrease) in net assets	150	1,664	2,260	1,078	150	287
Net assets at beginning of the year	39,587	37,923	35,663	3,591	3,441	3,154
Net assets at end of the year	$ 39,737	$ 39,587	$ 37,923	$ 4,669	$ 3,591	$ 3,441

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, 2006; June 30, 2005; and June 30, 2004.



- State appropriations are the largest single source of revenue received by the college. State appropriations are requested by the Tennessee Higher Education Commission based on funding formula calculations. The State of Tennessee General Assembly determines the final state appropriations. The primary source of revenue for the State of Tennessee is sales tax collections. State appropriations account for about 46 percent of the college's total operating and nonoperating revenues. State appropriations increased slightly in 2006. Most of the increase was designated to fund state mandated salary increases and benefit increases.

- In 2005, state appropriations accounted for about 44 percent of the college's total operating and nonoperating revenues. Although state appropriations increased significantly in 2005, all but $138,000 of the increase was designated to fund state mandated salary increases, a one-time bonus, and benefit increases. The $138,000 increase was to restore some of the previous year's reductions.

- The next largest source of revenue is from student tuition and fees. Tuition and fees (net of scholarship allowances of $3,820,478) account for approximately 28 percent of the college's total operating and nonoperating revenues. Rates for tuition and fees are recommended by the Tennessee Higher Education Commission and approved by the Tennessee Board of Regents. Revenues from tuition and fees may fluctuate depending upon enrollments. Net tuition and fees increased because of a tuition rate increase for 2006.

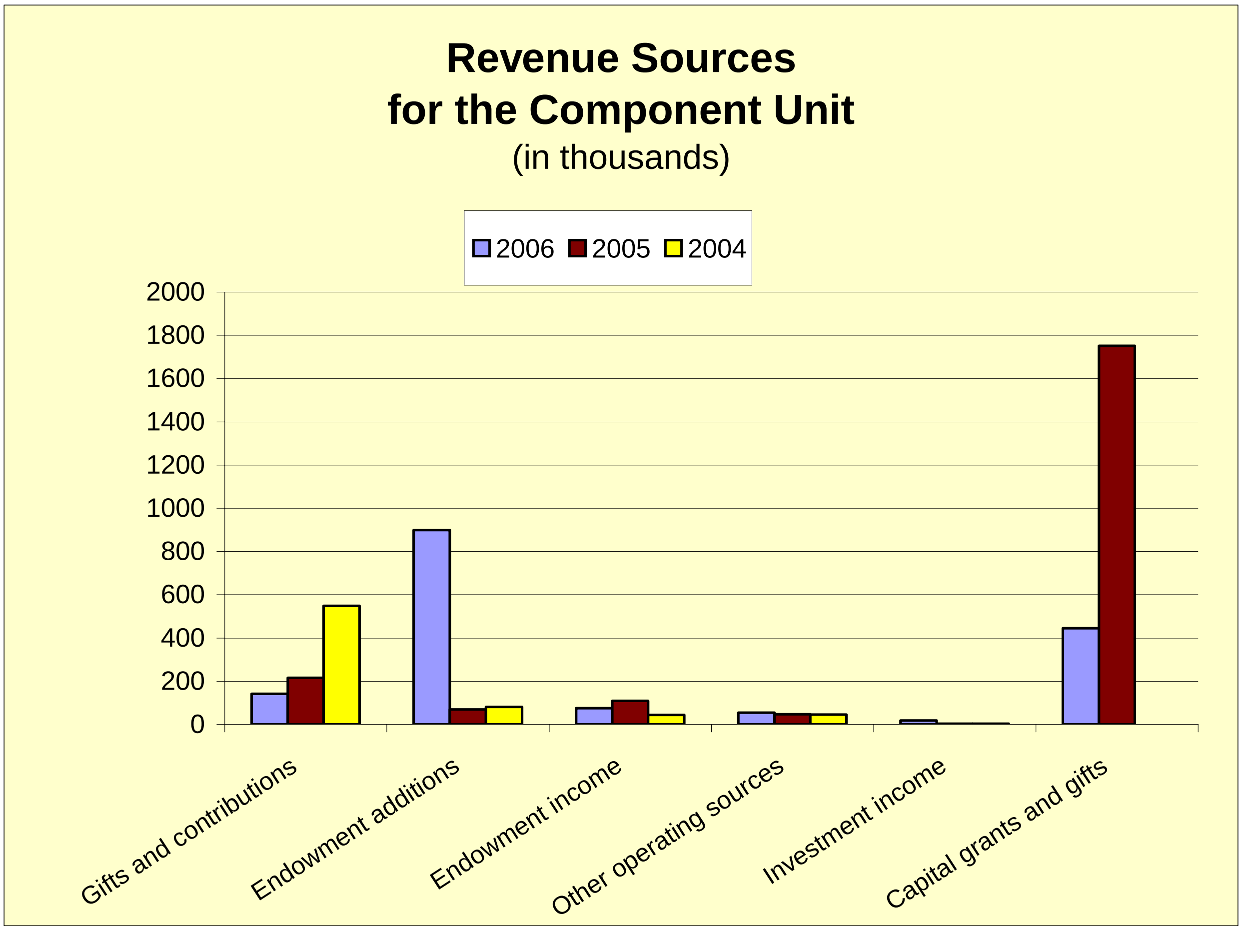
- In 2005, tuition and fees (net of scholarship allowances of $3,548,607) account for approximately 26 percent of the college's total operating and nonoperating revenues. Net tuition and fees increased because of a tuition rate increase for 2005.

- Governmental grants and contracts and other grants and contracts account for approximately 18 percent of the college's total operating and nonoperating revenues in 2006. A large percentage of the total grants and contracts revenue is restricted for student aid programs such as Pell Grant, SEOG, and the Tennessee lottery scholarship program.

- In 2005, governmental grants and contracts and other grants and contracts account for approximately 17 percent of the college's total operating and nonoperating revenues in 2005. Approximately 71 percent of the total grants and contracts revenue is restricted for student aid programs such as Pell Grant or SEOG. Governmental grants and contracts increased significantly due to revenues received for the new Tennessee lottery scholarship program.

- The college's bookstore operation is leased to Follett Higher Education Group and the college's food service operation is leased to Five Star Food Services. Thus, the auxiliary revenues primarily reflect the commissions paid by these two companies and represent 1 percent of total revenues in 2006, 2005, and 2004.

- The remaining revenues are from various miscellaneous sources such as gifts, investment income, etc.



- Gifts and contributions declined in 2006 while endowment additions increased significantly due to a large single bequest. Capital grants and gifts decreased significantly as donations for construction of the Livingston Center facility declined.

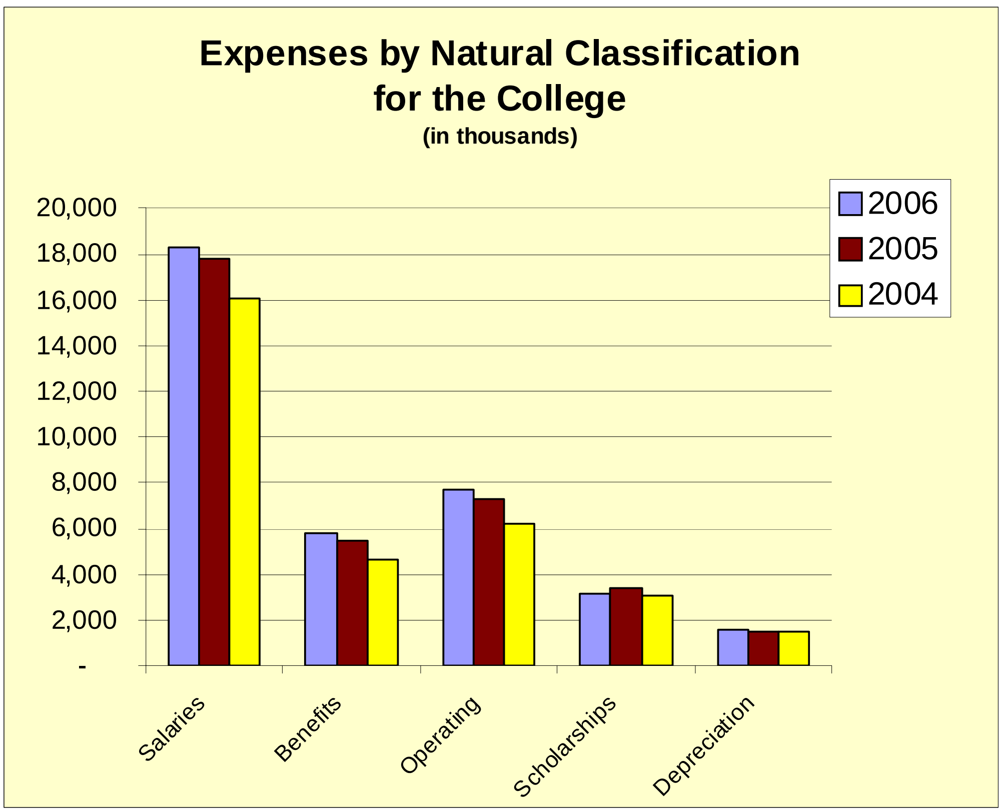
- Gifts and contributions declined in 2005 while capital grants and gifts increased approximately $1,752,000. Much of the fund raising focus in 2005 was directed toward a capital campaign to fund the construction of a new Livingston Center facility.

Expenses

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

Natural Classification (in thousands of dollars)

	College			Component Unit		
	2006	2005	2004	2006	2005	2004
Salaries	$ 18,307	$ 17,820	$ 16,076	$ -	$ -	$ -
Benefits	5,814	5,480	4,652	-	-	-
Operating	7,692	7,251	6,238	58	48	32
Scholarships	3,160	3,389	3,082	-	-	-
Depreciation	1,577	1,532	1,497	-	-	-
Payments to Volunteer State	-	-	-	505	2,004	406
Total	$ 36,550	$ 35,472	$ 31,545	$ 563	$ 2,052	$ 438



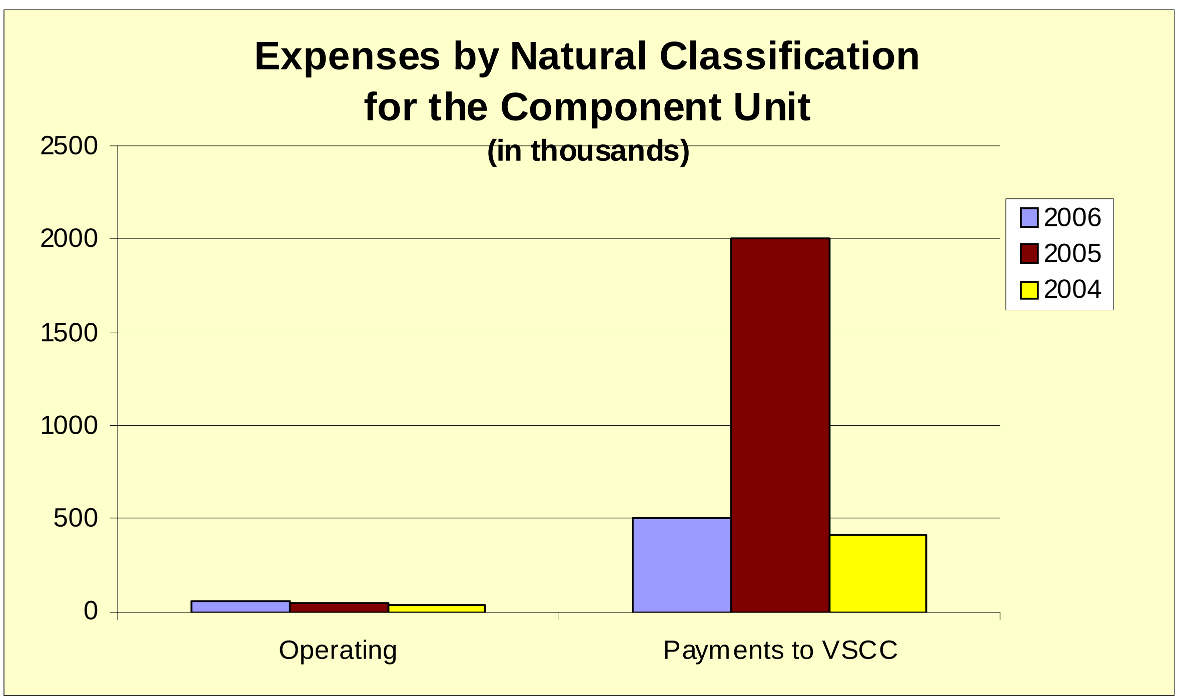
- In 2006, salary and related benefits together comprise approximately 66 percent of the college's operating expenses. Salary expenses increased primarily because of state mandated salary increases and additional salary increases and bonuses that were given at the institution's discretion. Benefits increased largely due to higher benefit costs in areas such as insurance and additional benefits paid as a result of the increased salary expenditures.

- In 2005, salary expenses increased because of state mandated salary increases and bonuses and additional salary increases and bonuses that were given at the institution's discretion. Additionally, some positions that were previously unfilled were filled during 2005. Benefits increased largely due to higher benefit costs in areas such as insurance and retirement.

- Operating expenses, which account for approximately 21 percent (20 percent in 2005) of the total expenses, consists of expenditures for such items as supplies, utilities, communications and shipping, maintenance and repairs, printing, travel, professional and administrative services, and rental and insurance.

- Scholarships expenses are primarily attributable to the federal Pell grant and SEOG programs, TSAA (Tennessee Student Assistance Awards), Tennessee Education Lottery scholarships, and private scholarships. In 2006, net scholarship expenditures decreased slightly. In 2005, net scholarship expenditures increased due to the new lottery scholarship program.

- Depreciation expense was recognized for buildings, equipment, software, other improvements, and library holdings.

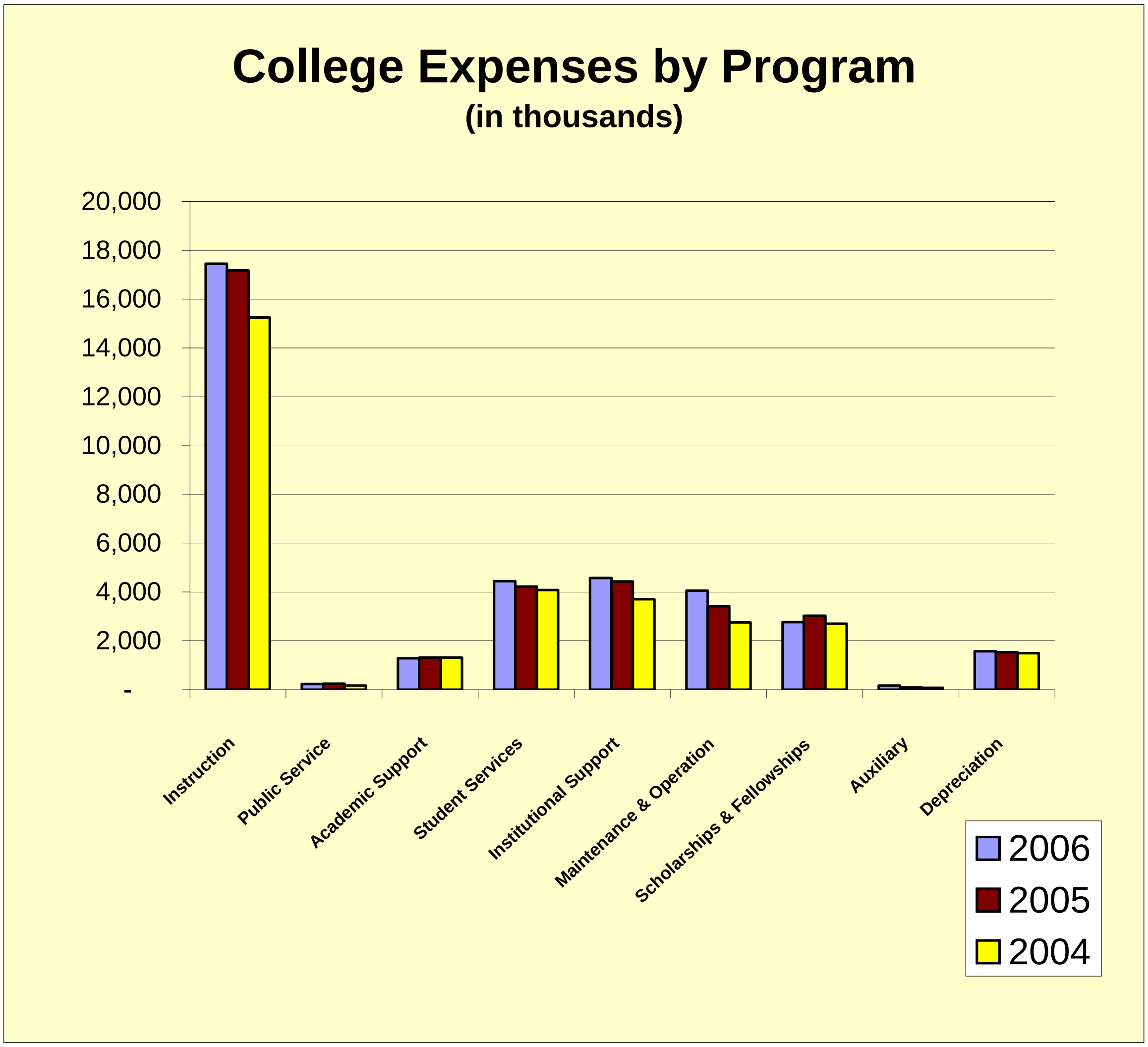


- Operating expenses of the foundation increased in 2006 due to expenditures for special events. In 2005, operating expenses of the foundation increased due to costs for special events and some costs incurred for the Livingston Center building project.

- Payments to the college from the foundation decrease significantly in 2006 due to reduced gifts received to fund the construction of the new Livingston Center building. The major portion of the fund raising efforts for the new Livingston Center building occurred in 2005. Payments to the college from the foundation increased significantly in 2005 due to gifts received to fund the construction of the new Livingston Center building.

Program Classification (in thousands of dollars)

	2006	2005	2004
Instruction	$ 17,451	$ 17,180	$ 15,241
Public service	234	248	175
Academic support	1,288	1,321	1,315
Student services	4,436	4,224	4,077
Institutional support	4,571	4,430	3,699
Maintenance and operations	4,049	3,419	2,761
Scholarships and fellowships	2,770	3,033	2,698
Auxiliary	174	85	82
Depreciation	1,577	1,532	1,497
Total	$ 36,550	$ 35,472	$ 31,545



- Expenses in direct support of the instructional programs account for approximately 48 percent of the total expenses. Instructional program expenditures increased in 2006 mostly due to increased expenditures in salary and benefits. In 2005, expenses in direct support of the instructional programs account for approximately 48 percent of the total expenses. Most of the increase in expenditures is in salary and benefits and is due largely to the state-mandated and institutionally adopted salary increases and benefit rate increases.

- Expenses for academic support are approximately 4 percent of total expenses in both 2006 and 2005. The major expenditures in this function are for library services.

- Student services expenses account for about 12 percent of total expenses in both 2006 and 2005. This primarily includes costs for the administration of the student financial aid programs, admissions and records, counseling/advising services, athletics, and other student services administration. Expenditures increased slightly because of salary and benefit increases in both 2006 and 2005.

- Institutional support expenses amounted to approximately 13 percent of total expenses in 2006 and 12 percent in 2005. This function includes expenses for such things as executive and fiscal management, public relations and development, safety and security, purchasing, personnel administration, etc. Expenditures increased slightly in 2006 because of salary and benefit increases. In 2005, expense decreases were caused in part by general savings and unfilled positions. Additionally, expenses had been incurred the previous year to develop a marketing plan for the college.

- Maintenance and operations costs consist primarily of expenses for the general upkeep of the buildings and grounds. Also, utilities cost are included in this function. In 2006, costs for maintenance and operation account for 11 percent of total expenses and about 10% in 2005. Maintenance costs increased primarily because of cleanup and restoration activities that occurred after the tornado. Also, during 2006 roofs and skylights were replaced or in the process of being replaced on two buildings.

- In 2005, maintenance costs increased because of construction and renovation activities occurring on campus. Many of the buildings are approaching thirty years of age and are in need of significant repairs and updating. During 2005, roofs were replaced or in the process of being replaced on three buildings. Additionally, costs were incurred in the renovation/addition to the Ramer Administration Building project.

- Approximately 8 percent of total expenses are for scholarships and grants. A large percentage of those expenditures for scholarships and grants are from restricted sources such as Pell Grants and the Tennessee Education Lottery Scholarship program. In 2005, approximately 9 percent of total expenses are for scholarships and grants.

- Expenses for auxiliary enterprises primarily consist of allocations of institutional support costs and operation and maintenance costs. Management of both the bookstore and the food service operations are contracted.

- Depreciation was previously discussed during the analysis of natural classifications.

The Statement of Cash Flows

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

Condensed Statements of Cash Flows (in thousands of dollars)

	College			Component Unit		
	2006	2005	2004	2006	2005	2004
Cash provided (used) by						
Operating activities	$ (23,074)	$ (23,108)	$ (19,374)	$ (295)	$ (1,653)	$ 85
Noncapital financing activities	23,112	23,108	19,069	874	210	75
Capital and related financing activities	(595)	1,567	560	411	1,247	-
Investing activities	467	(3,760)	150	(1,928)	388	233
Net increase (decrease) in cash	(90)	(2,193)	405	(938)	192	393
Cash beginning of year	13,295	15,487	15,082	2,211	2,019	1,626
Cash end of year	$ 13,205	$ 13,295	$ 15,487	$ 1,273	$ 2,211	$ 2,019

- In 2006, the major sources of cash flows for operating activities include tuition and fees of $10,396,603, grants and contracts of $687,080, and bookstore commissions of $262,901. Most of the cash flows from grants and contracts were restricted in nature. The major uses of cash flows for operating activities include payments for salaries and benefits of $23,895,418; payments to suppliers and vendors for operational items of $7,777,041; and payments for scholarships of $3,160,742. The increase of net cash flows used by operating activities was primarily the result of salary and benefit increases. Funding for a portion of these increases was received through state appropriations which is considered a noncapital financing activity rather than an operating activity.

- The primary sources of cash from noncapital financing activities were state appropriations of $16,725,300 and gifts and grants received for other than capital or endowment purposes of $6,300,297. Cash flows from noncapital financing activities were used to help finance the operating activities of the college. The increase in cash flows is primarily the result of the increased appropriations to help fund the salary and benefit increases. Additionally, deposits held for others increased $79,220.

- Cash flows from investing activities are from interest income. Income on investments increased significantly due to increased interest rates.

- Cash flows provided and used by capital and related financing activities include $756,800 received for capital-state appropriations, $1,864 received from capital debt financing, and $210,894 received in private gifts for the construction of the Livingston Center. The largest use of funds was $2,793,376 for the purchase of capital assets and construction. The major portion of these expenditures was for the construction of the Livingston Center building. Also, the General Assembly of the State of Tennessee, in addition to normal operating state appropriations, appropriates funds for capital acquisitions and capital maintenance. During the year, the college received and expended funds for such projects as roof and skylight replacements and building renovations. Capital appropriations declined during the 2005-06 fiscal year as state funded projects are being completed. However, capital purchases increased during the 2005-06 fiscal year because most of the expenditures were funded with private funds (Livingston Center).

- During 2004-05 the college invested $4,095,959 in certificates of deposit. Other than reinvestment of interest earned, no other significant investing activities occurred in 2005-06. Thus, the cash used by investing activities decreased significantly in 2005-06.

- For the year ended June 30, 2006, the liquidity of the college decreased slightly by $89,630.

- In 2005, the major sources of cash flows for operating activities include tuition and fees of $9,459,300; grants and contracts of $325,570; and bookstore commissions of $264,120. Most of the cash flows from grants and contracts were restricted in nature. The major uses of cash flows for operating activities include payments for salaries and benefits of $23,153,093; payments to suppliers and vendors for operational items of $6,970,588; and payments for scholarships of $3,390,048. The increase of net cash flows used by operating activities was primarily the result of the state mandated salary and benefit increases. Funding for these increases was received through state appropriations, which is considered a noncapital financing activity rather than an operating activity.

- The primary sources of cash from noncapital financing activities were state appropriations of $16,483,272 and gifts and grants received for other than endowment purposes of $5,901,582. Cash flows from noncapital financing activities were used to help finance the operating activities of the college. The increase in cash flows is primarily the result of the increased appropriations to fund the salary and benefit increases. Additionally, grants and contracts increased because of the new Tennessee Education Lottery program. Also, there was an increase in deposits held for others.

- Cash flows provided from investing activities are from interest income.

- Cash flows provided and used by capital and related financing activities include $1,573,097 received for capital-state appropriations, $552,800 received from commercial paper proceeds, and $1,738,000 received in private gifts for the construction of the Livingston Center. The largest use of funds was $2,272,243 for the purchase of capital assets and construction. The General Assembly of the State of Tennessee, in addition to normal operating state appropriations, appropriates funds for capital acquisitions and capital maintenance. During the year, the college received and expended funds for such projects as roof replacements and building renovations. Capital appropriations declined during the 2004-05 fiscal year as state funded projects are being completed. However, capital purchases increased during the 2004-05 fiscal year because some were funded with either borrowed funds (administrative software project) or from private funds (Livingston Center).

- During 2004-05 the college invested $4,095,959 in certificates of deposit. Thus, the cash used by investing activities increased in 2004-05.

- For the year ended June 30, 2005, the liquidity of the college decreased by $2,192,716. However, the decrease was primarily due to the net effect of the use of college cash to purchase investments in certificates of deposit and the receipt of approximately $1,738,000 in private gifts for the Livingston Center. The certificates of deposit were purchased with two year and three year maturities. However, there is no penalty for early withdrawal, thus making the investments very liquid, but still improving the rate of return.

Capital Asset and Debt Administration

Capital Assets

At June 30, 2006, Volunteer State Community College had $29,160,980 invested in capital assets, net of accumulated depreciation of $14,426,723. Details of these assets are shown below.

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

	2006	2005	2004
Land	$ 1,176	$ 1,141	$ 1,116
Land improvements and infrastructure	3,930	4,035	3,974
Buildings	19,278	20,409	20,305
Equipment	1,167	1,383	1,543
Software	890	-	-
Library holdings	536	542	555
Projects in progress	2,184	818	76
Total capital assets, net of depreciation	$ 29,161	$ 28,328	$ 27,569

During the year, the college completed or had in progress several capital projects. The college completed implementation of Banner Finance and Banner Human Resources' software. Thus, the project was moved from projects in progress to capitalized software. Construction on the new Livingston Center building continued and will be completed in the 2007 fiscal year. Also, as a result of the tornado, work began on restoration of the Ramer Administration Building. Work on the restoration will continue into 2007. Additionally, it is expected that restoration work for Caudill Hall will begin in the 2007 fiscal year.

At June 30, 2005, Volunteer State Community College had $28,328,162 invested in capital assets, net of accumulated depreciation of $13,537,845. During the year, the college completed or had in progress several capital projects. The college completed construction of a new student parking lot project, the renovation and expansion of the Ramer Administration Building, and the renovation of the Fox Maintenance Building. Additionally, projects in process at June 30, 2005, included the Livingston Center building, an upgrade of the fire alarm systems, and the administrative software project.

The foundation has no capital assets.

More detailed information about the college's capital assets is presented in Note 5 to the financial statements.

Debt

At June 30, 2006, the college had $559,183 in debt outstanding. The table below summarizes these amounts by type of debt instrument.

Debt Summary

Debt instrument	Beginning balance	Additions	Reductions	Ending balance
Commercial paper	$ 552,800	$ -	$ 552,800	$ -
Bonds	127,647	444,104	12,568	559,183
Total	$ 680,447	$ 444,104	$ 565,368	$ 559,183

The bonds were issued for the college's chiller replacement project. During 2006, the commercial paper that had been issued for the administrative software project was converted to bonds. More detailed information about the college's long-term liabilities is presented in Note 6 to the financial statements.

Economic Factors That Will Affect The Future

A 4.1 percent tuition increase was approved for the 2006-07 fiscal year. Additionally, there was a modest increase in state appropriation funding. However, the college will be required to fund a state mandated 2% salary increase.

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:

Ms. Elizabeth C. Cooksey, C.P.A.
Vice President of Business and Finance
Volunteer State Community College
1480 Nashville Pike
Gallatin, TN 37066-3188
(615) 230-3560

Exhibit A

TENNESSEE BOARD OF REGENTS
VOLUNTEER STATE COMMUNITY COLLEGE
STATEMENTS OF NET ASSETS
JUNE 30, 2006, AND JUNE 30, 2005

	Volunteer State		Component Unit - Foundation	
	2006	**2005**	**2006**	**2005**
ASSETS				
Current assets:				
Cash and cash equivalents (Notes 2 and 16)	$ 8,808,794.87	$ 6,711,272.23	$ 645,194.53	$ 466,243.21
Accounts, notes, and grants receivable (net) (Note 4)	1,930,409.58	1,072,670.07	910.00	3,160.40
Pledges receivable (net) (Note 16)	-	-	77,455.83	87,000.13
Inventories (at lower of cost or market)	3,042.23	1,373.91	-	-
Prepaid expenses and deferred charges	32,927.55	12,043.42	-	-
Accrued interest receivable	-	809.47	-	-
Total current assets	10,775,174.23	7,798,169.10	723,560.36	556,403.74
Noncurrent assets:				
Cash and cash equivalents (Notes 2 and 16)	4,396,277.52	6,583,429.89	627,786.32	1,744,714.58
Investments (Notes 3 and 16)	4,246,558.15	4,095,958.78	3,176,424.04	1,189,642.08
Pledges receivable (net) (Note 16)	-	-	124,433.99	99,445.33
Capital assets (net) (Note 5)	29,160,980.26	28,328,161.97	-	-
Other assets	8,641.38	8,769.23	18,263.52	17,727.29
Total noncurrent assets	37,812,457.31	39,016,319.87	3,946,907.87	3,051,529.28
Total assets	48,587,631.54	46,814,488.97	4,670,468.23	3,607,933.02
LIABILITIES				
Current liabilities:				
Accounts payable	1,857,454.77	492,830.41	1,158.77	17,294.01
Accrued liabilities	1,715,295.23	1,620,865.79	-	-
Deferred revenue	785,650.25	719,365.71	-	-
Compensated absences (Note 6)	301,351.27	270,836.07	-	-
Accrued interest payable	3,505.32	3,248.40	-	-
Long-term liabilities, current portion (Note 6)	119,354.26	123,128.33	-	-
Deposits held in custody for others	2,597,488.60	2,514,362.85	-	-
Other liabilities	14,591.74	7,700.29	-	-
Total current liabilities	7,394,691.44	5,752,337.85	1,158.77	17,294.01
Noncurrent liabilities:				
Compensated absences (Note 6)	1,014,742.39	917,052.47	-	-
Long-term liabilities (Note 6)	439,828.38	557,319.14	-	-
Due to grantors (Note 6)	1,497.86	1,122.14	-	-
Total noncurrent liabilities	1,456,068.63	1,475,493.75	-	-
Total liabilities	8,850,760.07	7,227,831.60	1,158.77	17,294.01
NET ASSETS				
Invested in capital assets, net of related debt	28,601,797.62	27,647,714.50	-	-
Restricted for:				
Nonexpendable:				
Scholarships and fellowships	109,165.31	106,175.32	3,386,183.97	2,493,451.68
Expendable:				
Scholarships and fellowships	36,106.34	18,024.13	583,249.47	602,009.86
Instructional department uses	36,597.49	21,737.87	2,371.00	31,605.26
Loans	284.56	242.81	-	-
Capital projects	-	-	122,217.04	10,499.10
Other	32,524.74	43,965.52	55,684.01	1,852.77
Unrestricted (Note 8)	10,920,395.41	11,748,797.22	519,603.97	451,220.34
Total net assets	$ 39,736,871.47	$ 39,586,657.37	$ 4,669,309.46	$ 3,590,639.01

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

Exhibit B

TENNESSEE BOARD OF REGENTS
VOLUNTEER STATE COMMUNITY COLLEGE
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2006, AND JUNE 30, 2005

	Volunteer State		Component Unit Foundation	
	2006	**2005**	**2006**	**2005**
REVENUES				
Operating revenues:				
Student tuition and fees (net of scholarship allowances of $3,820,478.00 for the year ended June 30, 2006, and $3,548,607.62 for the year ended June 30, 2005)	$ 10,447,376.37	$ 9,703,164.91	$ -	$ -
Gifts and contributions	-	-	142,111.57	216,410.36
Endowment income	-	-	74,940.89	109,630.38
Governmental grants and contracts	491,552.93	535,004.43	-	-
Sales and services of educational departments	27,879.00	23,516.00	-	-
Auxiliary enterprises:				
Bookstore	261,469.59	264,136.00	-	-
Food service	31,165.64	28,152.77	-	-
Other auxiliaries	-	124.45	-	-
Interest earned on loans to students	1,018.54	333.63	-	-
Other operating revenues	224,207.54	197,892.84	55,242.38	48,045.87
Total operating revenues	11,484,669.61	10,752,325.03	272,294.84	374,086.61
EXPENSES				
Operating expenses (Note 13):				
Salaries and wages	18,307,101.40	17,819,952.20	-	-
Benefits	5,814,727.77	5,479,844.36	-	-
Utilities, supplies, and other services	7,691,575.38	7,250,600.14	57,327.15	47,851.50
Scholarships and fellowships	3,159,599.21	3,389,179.37	-	-
Depreciation expense	1,577,263.11	1,532,485.92	-	-
Payments to or on behalf of Volunteer State Community College	-	-	505,410.74	2,003,779.96
Total operating expenses	36,550,266.87	35,472,061.99	562,737.89	2,051,631.46
Operating loss	(25,065,597.26)	(24,719,736.96)	(290,443.05)	(1,677,544.85)
NONOPERATING REVENUES (EXPENSES)				
State appropriations	16,722,700.00	16,475,800.00	-	-
Gifts (including $294,516.98 from the component unit for the fiscal year ended June 30, 2006, and $265,779.96 for the fiscal year ended June 30, 2005)	297,205.82	360,910.80	-	-
Grants and contracts	5,997,011.50	5,901,582.60	-	-
Investment income	616,369.98	336,055.49	23,190.82	5,761.59
Interest on capital asset-related debt	(18,390.62)	(12,845.73)	-	-
Bond issuance costs	(5,099.03)	-	-	-
Other nonoperating revenues/(expenses)	(375.72)	(730.95)	-	-
Net nonoperating revenues	23,609,421.93	23,060,772.21	23,190.82	5,761.59
Loss before other revenues, expenses, gains, or losses	(1,456,175.33)	(1,658,964.75)	(267,252.23)	(1,671,783.26)
Capital appropriations	756,799.56	1,573,096.88	-	-
Capital grants and gifts	210,893.76	1,762,180.00	445,899.31	1,751,971.67
Additions to permanent endowments	836.50	1,519.00	900,023.37	69,615.84
Other capital	637,859.61	(13,782.52)	-	-
Total other revenues, expenses, gains, or losses	1,606,389.43	3,323,013.36	1,345,922.68	1,821,587.51
Increase in net assets	150,214.10	1,664,048.61	1,078,670.45	149,804.25
NET ASSETS				
Net assets - beginning of year	39,586,657.37	37,922,608.76	3,590,639.01	3,440,834.76
Net assets - end of year	$ 39,736,871.47	$ 39,586,657.37	$ 4,669,309.46	$ 3,590,639.01

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

Exhibit C

TENNESSEE BOARD OF REGENTS
VOLUNTEER STATE COMMUNITY COLLEGE
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2006, AND JUNE 30, 2005

	Year Ended June 30, 2006	Year Ended June 30, 2005
CASH FLOWS FROM OPERATING ACTIVITIES		
Tuition and fees	$ 10,396,603.31	$ 9,459,299.84
Grants and contracts	687,080.19	325,570.40
Sales and services of educational activities	27,879.00	23,516.00
Payments to suppliers and vendors	(7,777,040.85)	(6,970,587.57)
Payments to employees	(18,251,092.55)	(17,818,277.60)
Payments for benefits	(5,644,325.30)	(5,334,815.32)
Payments for scholarships and fellowships	(3,160,741.82)	(3,390,048.23)
Interest earned on loans to students	1,018.54	333.63
Auxiliary enterprise charges:		
Bookstore	262,901.34	264,120.25
Food services	30,038.63	25,799.01
Other auxiliaries	-	124.45
Other receipts (payments)	354,121.80	307,047.14
Net cash provided (used) by operating activities	(23,073,557.71)	(23,107,918.00)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State appropriations	16,725,300.00	16,483,271.90
Gifts and grants received for other than capital or endowment purposes (including $265,779.96 from the component unit for the fiscal year ended June 30, 2006, and $406,426.51 for the fiscal year ended June 30, 2005)	6,300,296.53	6,249,990.04
Private gifts for endowment purposes	836.50	1,519.00
Federal student loan receipts	4,192,142.29	3,733,678.34
Federal student loan disbursements	(4,192,781.25)	(3,738,820.70)
Changes in deposits held for others	79,220.35	386,636.44
Other noncapital financing receipts (payments)	6,891.45	(8,241.59)
Net cash flows provided (used) by noncapital financing activities	23,111,905.87	23,108,033.43
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from capital debt	1,863.50	552,800.00
Capital - state appropriation	756,799.56	1,573,096.88
Capital grants and gifts received (including $210,893.76 from the component unit for the fiscal year ended June 30, 2006, and $1,738,000.00 for the fiscal year ended June 30, 2005)	210,893.76	1,738,000.00
Purchase of capital assets and construction	(2,793,375.79)	(2,272,242.71)
Principal paid on capital debt and lease	(123,128.33)	(11,828.96)
Interest paid on capital debt and lease	(18,133.70)	(10,622.86)
Bond issue cost paid on new debt	(5,099.03)	-
Other capital and related financing receipts (payments)	1,375,622.06	(1,818.79)
Net cash flows provided (used) by capital and related financing activities	(594,557.97)	1,567,383.56
CASH FLOWS FROM INVESTING ACTIVITIES		
Income on investments	617,179.45	335,743.64
Purchase of investments	(150,599.37)	(4,095,958.78)
Net cash provided (used) by investing activities	466,580.08	(3,760,215.14)
Net increase (decrease) in cash and cash equivalents	(89,629.73)	(2,192,716.15)
Cash - beginning of year	13,294,702.12	15,487,418.27
Cash - end of year (Note 3)	$ 13,205,072.39	$ 13,294,702.12

TENNESSEE BOARD OF REGENTS
VOLUNTEER STATE COMMUNITY COLLEGE
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2006, AND JUNE 30, 2005

	Year Ended June 30, 2006	Year Ended June 30, 2005
Reconciliation of operating loss to net cash used by operating activities:		
Operating income (loss)	$ (25,065,597.26)	$ (24,719,736.96)
Adjustments to reconcile operating loss to net cash used by operating activities:		
Depreciation expense	1,577,263.11	1,532,485.92
Change in assets and liabilities:		
Receivables, net	213,839.43	(295,719.35)
Inventories	(1,668.32)	(0.29)
Prepaid/deferred items	(21,377.23)	(3,052.93)
Other assets	127.85	(140.28)
Accounts payable	(65,064.39)	263,806.28
Accrued liabilities	94,429.44	32,888.32
Deferred revenues	66,284.54	(33,227.03)
Compensated absences	128,205.12	114,778.32
Net cash provided (used) by operating activities	$ (23,073,557.71)	$ (23,107,918.00)

Noncash transactions		
Gifts in-kind	$ 26,536.75	$ -
Gifts in-kind - capital	$ 124,000.00	$ 30,604.15
Loss on disposal of capital assets	$ 42,782.02	$ -
Bad debt expense	$ 221,369.56	$ -
Impairment loss	$ 398,307.69	$ -

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

Tennessee Board of Regents
Volunteer State Community College
Notes to the Financial Statements
June 30, 2006, and June 30, 2005

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The college is a part of the State University and Community College System of Tennessee (Tennessee Board of Regents). This system is a component unit of the State of Tennessee because the state appoints a majority of the system's governing body and provides financial support; the system is discretely presented in the *Tennessee Comprehensive Annual Financial Report*.

The financial statements present only that portion of the Tennessee Board of Regents' activities that is attributable to the transactions of Volunteer State Community College.

The Volunteer State 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 16 for more detailed information about the component unit and how to obtain the report.

Basis of Presentation

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

Basis of Accounting

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

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

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

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

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

Cash Equivalents

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

Inventories

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

Compensated Absences

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

Capital Assets

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

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

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

Net Assets

The college's net assets are classified as follows:

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

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

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

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

Scholarship Discounts and Allowances

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

NOTE 2. CASH

At June 30, 2006, cash consisted of $2,368,195.15 in bank accounts, $5,000.00 of petty cash on hand, $9,906,553.89 in the State of Tennessee Local Government Investment Pool (LGIP) administered by the State Treasurer, and $925,323.35 in LGIP deposits for capital projects. At June 30, 2005, cash consisted of $2,811,682.69 in bank accounts, $5,000.00 of petty cash on hand, $8,537,425.55 in the State of Tennessee Local Government Investment Pool administered by the State Treasurer, and $1,940,593.88 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

During the year ended June 30, 2005, the college implemented GASB Statement 40, *Deposit and Investment Risk Disclosures*. That statement modified the custodial credit risk disclosures of GASB Statement 3 to limit required disclosures to investment securities that are uninsured, are not registered in the name of the college, and are held by either (a) the counterparty or (b) the counterparty's trust department or agent but not in the college's name.

All investments permitted to be reported at fair value under GASB Statement 31 are reported at fair value, including those with a maturity date of one year or less at the time of purchase.

At June 30, 2006, the college 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	No Maturity Date
Certificates of deposit	$ 4,246,558.15	$ 2,116,862.52	$ 2,129,695.63	$ -	$ -	$ -

At June 30, 2005, the college 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	No Maturity Date
Certificates of deposit	$ 4,095,958.78	$ -	$ 4,095,958.78	$ -	$ -	$ -

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 college 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. The college is authorized by statute to invest funds in accordance with Tennessee Board of Regents policies. Under the current policy, funds other than endowments may be invested only in obligations of the United States or its agencies backed by the full faith and credit of the United States; repurchase agreements for United States securities; certificates of deposit in banks and savings and loan associations; bankers' acceptances; commercial paper; money market mutual funds; and the State of Tennessee Local Government Investment Pool (LGIP). The policy requires that investments of endowments in equity securities be limited to funds from private gifts or other sources external to the college and that endowment investments be prudently diversified. Securities are rated using Standard and Poor's, Moody's, and/or Fitch and are presented below using the Standard and Poor's rating scale. The college has no investment policy limiting its investment choices based on ratings issued by nationally recognized statistical rating organizations.

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

		Credit Quality Rating
Investment Type	Fair Value	Unrated
LGIP	$ 10,831,877.24	$ 10,831,877.24

At June 30, 2005, the college's investments were rated as follows:

		Credit Quality Rating
Investment Type	Fair Value	Unrated
LGIP	$ 10,478,019.43	$ 10,478,019.43

Concentration of credit risk - The college places no limit on the amount the college may invest in any one issuer. More than 5% of the college's investments were invested in the following single issuers:

Issuer	Percentage of Total Investments	
	June 30, 2006	June 30, 2005
Wilson Bank and Trust	50.15%	50.16%
Fifth Third Bank	49.85%	49.84%

NOTE 4. RECEIVABLES

Receivables included the following:

	June 30, 2006	June 30, 2005
Student accounts receivable	$ 815,659.66	$ 623,883.26
Grants receivable	254,062.92	467,201.45
State appropriation receivable	44,600.00	47,200.00
Other receivables	1,327,171.85	315,683.80
Subtotal	2,441,494.43	1,453,968.51
Less allowance for doubtful accounts	(511,084.85)	(381,298.44)
Total receivables	$ 1,930,409.58	$ 1,072,670.07

Federal Perkins Loan Program funds included the following:

	June 30, 2006	June 30, 2005
Perkins loans receivable	$ 24,638.69	$ 24,096.75
Less allowance for doubtful accounts	(24,638.69)	(24,096.75)
Total	$ -	$ -

NOTE 5. CAPITAL ASSETS

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

	Beginning Balance	Additions	Transfers	Reductions	Ending Balance
Land	$ 1,141,131.86	$ 34,445.33	$ -	$ -	$ 1,175,577.19
Land improvements and infrastructure	5,564,327.45	172,325.50	-	-	5,736,652.95
Buildings	29,120,766.06	-	-	854,120.16	28,266,645.90
Equipment	4,113,784.64	173,446.78	-	152,855.92	4,134,375.50
Library holdings	1,108,184.17	115,100.22	-	122,499.42	1,100,784.97
Software	-	347,257.79	641,991.49	-	989,249.28
Projects in progress	817,813.22	2,008,595.49	(641,991.49)	-	2,184,417.22
Total	41,866,007.40	2,851,171.11	-	1,129,475.50	43,587,703.01
Less accum. depreciation:					
Land improvements and infrastructure	1,529,432.66	277,093.62	-	-	1,806,526.28
Buildings	8,711,447.53	732,930.32	-	455,812.47	8,988,565.38
Equipment	2,731,112.21	345,985.87	-	110,073.90	2,967,024.18
Library holdings	565,853.03	122,328.37	-	122,499.42	565,681.98
Software	-	98,924.93	-	-	98,924.93
Total accum. depreciation	13,537,845.43	1,577,263.11	-	688,385.79	14,426,722.75
Capital assets, net	$ 28,328,161.97	$ 1,273,908.00	$ -	$ 441,089.71	$ 29,160,980.26

Capital asset activity for the year ended June 30, 2005, was as follows:

	Beginning Balance	Additions	Transfers	Reductions	Ending Balance
Land	$ 1,116,501.86	$ 24,630.00	$ -	$ -	$ 1,141,131.86
Land improvements and infrastructure	5,235,793.26	313,020.09	15,514.10	-	5,564,327.45
Buildings	28,250,985.73	809,388.25	60,392.08	-	29,120,766.06
Equipment	4,015,072.79	229,182.29	-	130,470.44	4,113,784.64
Library holdings	1,123,166.12	111,249.83	-	126,231.78	1,108,184.17
Projects in progress	75,906.18	817,813.22	(75,906.18)	-	817,813.22
Total	39,817,425.94	2,305,283.68	-	256,702.22	41,866,007.40

Less accum. depreciation:					
Land improvements and infrastructure	1,260,955.32	268,477.34	-	-	1,529,432.66
Buildings	7,946,473.13	764,974.40	-	-	8,711,447.53
Equipment	2,472,207.44	375,592.69	-	116,687.92	2,731,112.21
Library holdings	568,643.32	123,441.49	-	126,231.78	565,853.03
Total accum. depreciation	12,248,279.21	1,532,485.92	-	242,919.70	13,537,845.43
Capital assets, net	$ 27,569,146.73	$ 772,797.76	$ -	$ 13,782.52	$ 28,328,161.97

NOTE 6. LONG-TERM LIABILITIES

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

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Payables:					
TSSBA debt:					
Bonds	$ 127,647.47	$ 444,103.50	$ 12,568.33	$ 559,182.64	$ 119,354.26
Commercial paper	552,800.00	-	552,800.00	-	-
Subtotal	680,447.47	444,103.50	565,368.33	559,182.64	119,354.26
Other liabilities:					
Compensated absences	1,187,888.53	803,865.45	675,660.32	1,316,093.66	301,351.27
Due to grantors	1,122.14	375.72	-	1,497.86	-
Subtotal	1,189,010.67	804,241.17	675,660.32	1,317,591.52	301,351.27
Total long-term liabilities	$ 1,869,458.14	$1,248,344.67	$1,241,028.65	$ 1,876,774.16	$ 420,705.53

Long-term liabilities activity for the year ended June 30, 2005, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Payables:					
TSSBA debt:					
Bonds	$ 139,476.43	$ -	$ 11,828.96	$ 127,647.47	$ 12,568.33
Commercial paper	-	552,800.00	-	552,800.00	110,560.00
Subtotal	139,476.43	552,800.00	11,828.96	680,447.47	123,128.33
Other liabilities:					
Compensated absences	1,073,110.22	607,227.11	492,448.80	1,187,888.53	270,836.07
Due to grantors	391.19	730.95	-	1,122.14	-
Subtotal	1,073,501.41	607,958.06	492,448.80	1,189,010.67	270,836.07
Total long-term liabilities	$ 1,212,977.84	$ 1,160,758.06	$ 504,277.76	$ 1,869,458.14	$ 393,964.40

TSSBA Debt - Bonds

Bonds, with interest rates ranging from 2.25% to 4.5%, were issued by the Tennessee State School Bond Authority (TSSBA). The bonds are due serially to 2014 and are secured by pledges of the facilities' revenues to which they relate and certain other revenues and fees of the college, including state appropriations. The bonded indebtedness with the Tennessee State School Bond Authority included in long-term liabilities on the statement of net assets is shown net of assets held by the authority in the debt service reserve and unexpended debt proceeds. The reserve amount was zero at June 30, 2006, and June 30, 2005. Unexpended debt proceeds were zero at June 30, 2006, and June 30, 2005.

Debt service requirements to maturity for the college's portion of TSSBA bonds at June 30, 2006, are as follows:

Year Ending June 30	Principal	Interest	Total
2007	$ 119,354.26	$ 20,276.88	$ 139,631.14
2008	121,136.23	17,208.38	138,344.61
2009	125,993.43	12,593.80	138,587.23
2010	131,048.55	7,790.56	138,839.11
2011	14,427.58	2,548.62	16,976.20
2012-2014	47,222.59	4,085.28	51,307.87
	$ 559,182.64	$ 64,503.52	$ 623,686.16

TSSBA Debt - Commercial Paper

The Tennessee State School Bond Authority issues commercial paper to finance the costs of various capital projects during their construction phase. When projects are placed in service, long-term, fixed-rate debt is issued by TSSBA to finance the project over its useful payback period and the commercial paper is redeemed. The amount issued for projects at the college was $552,800 at June 30, 2005.

For the commercial paper program, the Tennessee State School Bond Authority maintains an interest rate reserve fund. The college contributes amounts to the reserve fund based on the amounts drawn. The principal of the reserve will be contributed to pay off notes or credited back to the college when the notes are converted to bonds. The interest earned on the reserve is used to pay interest due during the month.

More detailed information regarding the bonds and commercial paper can be found in the notes to the financial statements in the financial report for the Tennessee State School Bond Authority. That report may be obtained by writing to the Director of Bond Finance, Suite 1600, James K. Polk Building, Nashville, Tennessee 37243-0273, or by calling (615) 401-7872.

NOTE 7. ENDOWMENTS

If a donor has not provided specific instructions to the college, state law permits the college 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 college is required to consider the college's long-term and short-term needs, present and anticipated financial requirements, expected total return on its investments, price-level trends, and general economic conditions. Any net appreciation spent is required to be spent for the purposes for which the endowment was established.

The college 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 college, 100% of the current year earnings has been authorized for expenditure. The remaining amount, if any, is retained to be used in future years. At June 30, 2006, net appreciation of $3,944.15 is available to be spent, of which $3,944.15 is included in restricted net assets expendable for scholarships and fellowships. At June 30, 2005, net appreciation of $2,329.52 is available to be spent, of which $2,329.52 is included in restricted net assets expendable for scholarships and fellowships.

NOTE 8. UNRESTRICTED NET ASSETS

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

	June 30, 2006	June 30, 2005
Working capital	$ 459,160.38	$ 446,623.73
Encumbrances	189,016.74	338,990.57
Designated fees	5,801.37	65,051.99
Auxiliaries	645,208.96	435,073.29

Plant construction	1,772,044.04	2,661,287.50
Renewal and replacement of equipment	7,565,513.25	7,710,953.63
Debt retirement	391,371.09	216,006.04
Unreserved/undesignated	(107,720.42)	(125,189.53)
Total	$ 10,920,395.41	$ 11,748,797.22

NOTE 9. PENSION PLANS

A. Defined Benefit Plan

Tennessee Consolidated Retirement System

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

The TCRS issues a publicly available financial report that includes financial statements and required supplementary information for SETHEEPP. That report may be obtained by writing to the Tennessee Department of the Treasury, Consolidated Retirement System, 10th Floor Andrew Jackson Building, Nashville, Tennessee 37243-0230, or by calling (615) 741-8202.

Funding Policy - Plan members are noncontributory. The college is required to contribute an actuarially determined rate. The current rate is 10.31% 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, 2006, 2005, and 2004 were $900,707.53, $882,444.68, and $555,619.72. Contributions met the requirements for each year.

B. Defined Contribution Plans

Optional Retirement Plans (ORP)

Plan Description - The college contributes to three defined contribution plans: Teachers Insurance and Annuity Association–College Retirement Equities Fund (TIAA-CREF), Aetna Life Insurance and Annuity Company, and Variable Annuity Life Insurance Company (VALIC). These plans are administered by the Tennessee Department of the Treasury. Each plan provides retirement benefits to faculty and staff who are exempt from the overtime provisions of the Fair Labor Standards Act and who waive membership in the TCRS. Benefits depend solely on amounts contributed to the plan plus investment earnings. Plan provisions are established by state statute in Title 8, Chapter 35, Part 4, *Tennessee Code Annotated.* State statutes are amended by the Tennessee General Assembly.

Funding Policy - Plan members are noncontributory. The college contributes an amount equal to 10% of the employee's base salary up to the social security wage base and 11% above the social security wage base. Contribution requirements are established and amended by state statute. The contribution made by the college to the plans was $714,829.47 for the year ended June 30, 2006, and $687,096.57 for the year ended June 30, 2005. Contributions met the requirements for each year.

NOTE 10. OTHER POST-EMPLOYMENT BENEFITS

The State of Tennessee administers a group health insurance program which provides post-employment health insurance benefits to eligible college retirees. This benefit is provided and administered by the State of Tennessee. The college assumes no liability for retiree health care programs. Information related to this plan is available at the statewide level in the *Tennessee Comprehensive Annual Financial Report*. That report may be obtained by writing to the Tennessee Department of Finance and Administration, Division of Accounts, 14th Floor William R. Snodgrass Tennessee Tower, 312 Eighth Avenue North, Nashville, Tennessee 37243-0298, or by calling (615) 741-2140.

NOTE 11. 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 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 $7.5 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, 2006, and June 30, 2005, are presented in the *Tennessee Comprehensive Annual Financial Report*. That report may be obtained by writing to the Tennessee Department of Finance and Administration, Division of Accounts, 14th Floor William R. Snodgrass Tennessee Tower, 312 Eighth Avenue North, Nashville, Tennessee 37243-0298, or by calling (615) 741-2140. Since the college participates in the Risk Management Fund, it is subject to the liability limitations under the provisions of the Tennessee Claims Commission Act, *Tennessee Code Annotated*, Section 9-8-101 et seq. Liability for negligence of the college for bodily injury and property damage is limited to $300,000 per person and $1,000,000 per occurrence. The limits of liability under workers' compensation are set forth in *Tennessee Code Annotated*, Section 50-6-101 et seq. Claims are paid through the state's Risk Management Fund. At June 30, 2006, the Risk Management Fund held $133.2 million in cash and cash equivalents designated for payment of claims. At June 30, 2005, the Risk Management fund held $114.4 million in cash and cash equivalents designated for payment of claims.

At June 30, 2006, the scheduled coverage for the college was $42,731,300 for buildings and $19,857,100 for contents. At June 30, 2005, the scheduled coverage for the college was $40,637,420 for buildings and $19,857,100 for contents.

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

NOTE 12. COMMITMENTS AND CONTINGENCIES

Sick Leave - The college records the cost of sick leave when paid. Generally, since sick leave (earned one day per month with unlimited accumulation) is paid only when an employee dies or is absent because of illness, injury, or related family death, there is no liability for sick leave at June 30. The dollar amount of unused sick leave was $6,424,501.86 at June 30, 2006, and $6,101,009.54 at June 30, 2005.

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 personal property were $155,632.48 for the year ended June 30, 2006. The amount for the year ended June 30, 2005, was $128,070.60. All operating leases are cancelable at the lessee’s option.

Construction in Progress - At June 30, 2006, outstanding commitments under construction contracts totaled $1,547,279.53 for library renovation, skylight replacement in two buildings, construction of new Livingston building, construction of detention pond, and to repair tornado damage, of which $423,753.19 will be funded by future state capital outlay appropriations.

On April 7, 2006, several buildings were damaged by a tornado. Included in the total construction in progress amount is $856,717.00 to repair the storm damage. It is anticipated that a significant portion of these funds will be paid for by insurance, the Federal Emergency Management Agency, or the state.

Contract - In December 2004, the Tennessee Board of Regents system entered into a contract with SungardSCT for the purchase of a comprehensive enterprise resource planning system. The contract includes a multi-year phase-in of administrative software for financial, human resource, and student systems. The college's outstanding liability for this contract is estimated as $1,231,442.72 at June 30, 2006.

Litigation - The college is involved in one lawsuit, which is not expected to have a material effect on the accompanying financial statements.

NOTE 13. NATURAL CLASSIFICATIONS WITH FUNCTIONAL CLASSIFICATIONS

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

	Natural Classification					
Functional Classification	Salaries	Benefits	Other Operating	Scholarships	Depreciation	Total
Instruction	$ 10,809,150.67	$ 3,146,142.71	$ 3,392,282.86	$ 103,274.57	$ -	$ 17,450,850.81
Public service	53,954.29	23,512.80	156,143.18	750.00	-	234,360.27
Academic support	1,732,551.32	564,400.56	(1,042,372.93)	32,913.79	-	1,287,492.74
Student services	2,102,324.95	772,587.14	1,337,398.86	223,080.91	-	4,435,391.86
Institutional support	2,702,008.88	916,240.59	929,303.52	23,676.33	-	4,571,229.32
Operation & maintenance	907,111.29	391,843.97	2,743,696.72	6,213.38	-	4,048,865.36
Scholar. & fellow.	-	-	721.98	2,769,690.23	-	2,770,412.21
Auxiliary	-	-	174,401.19	-	-	174,401.19
Depreciation	-	-	-	-	1,577,263.11	1,577,263.11
Total	$ 18,307,101.40	$ 5,814,727.77	$ 7,691,575.38	$ 3,159,599.21	$ 1,577,263.11	$ 36,550,266.87

The college's operating expenses by functional classification for the year ended June 30, 2005, are as follows:

	Natural Classification					
Functional Classification	Salaries	Benefits	Other Operating	Scholarships	Depreciation	Total
Instruction	$ 10,800,302.92	$ 3,086,428.93	$ 3,231,750.47	$ 61,594.54	$ -	$ 17,180,076.86
Public service	89,027.39	22,491.25	136,052.77	750.00	-	248,321.41
Academic support	1,530,129.56	479,850.05	(724,805.64)	35,449.88	-	1,320,623.85
Student services	2,049,259.45	736,557.50	1,232,503.73	205,667.65	-	4,223,988.33
Institutional support	2,530,564.35	820,563.17	1,027,543.04	51,092.55	-	4,429,763.11
Operation & maintenance	820,668.53	333,953.46	2,262,206.99	1,500.00	-	3,418,328.98
Scholar. & fellow.	-	-	-	3,033,124.75	-	3,033,124.75
Auxiliary	-	-	85,348.78	-	-	85,348.78
Depreciation	-	-	-	-	1,532,485.92	1,532,485.92
Total	$ 17,819,952.20	$ 5,479,844.36	$ 7,250,600.14	$ 3,389,179.37	$ 1,532,485.92	$ 35,472,061.99

NOTE 14. PRIOR-YEAR RESTATEMENT

In prior years, the college included certain foundation assets in both the institution column and the component unit column. Due to steps taken to segregate the foundation's assets from the institution's assets, the following fiscal year 2005 account has been restated.

	Original Amount	(Decrease)	Restated Amount
Statement of cash flows:			
Cash – beginning of year	$ 17,239,325.31	$ (1,751,907.04)	$ 15,487,418.27

NOTE 15. IMPAIRMENT OF CAPITAL ASSETS

On April 7, 2006, a tornado struck the Gallatin campus of Volunteer State Community College. As a result, primarily two buildings received significant damage—the Nobel Caudill Hall and the Hal Reed Ramer Administration Building. The Caudill Hall damage impacted the entire building. Caudill Hall is expected to be idle for approximately one to two years while restoration occurs. However, it was primarily the west wing of the Ramer Administration building that received the most significant damage in that building. As a result, the impacted portion of the Ramer Administration building is expected to be idle for restoration less than one year.

As a result, an impairment loss amounting to $398,307.69 was calculated for fiscal year 2006. Additionally, the college has accrued a $1,075,713.79 receivable and recognized other capital revenue in the amount of $677,406.10 (net of the $398,307.69 impairment loss).

The carrying amount of the impaired capital assets that are idle at June 30, 2006, is $364,302.90.

NOTE 16. COMPONENT UNIT

The Volunteer State College Foundation is a legally separate, tax-exempt organization supporting Volunteer 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 62-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.

The foundation is a nonprofit organization that reports under Financial Accounting Standards Board (FASB) standards, including FASB Statement 117, *Financial Statements of Not-for-Profit Organizations*. As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features. With the exception of necessary presentation reformatting, no modifications have been made to the foundation's financial information in the college's financial statements for these differences.

During the year ended June 30, 2006, the foundation made distributions of $505,410.74 to or on behalf of the college for both restricted and unrestricted purposes. During the year ended June 30, 2005, the foundation made distributions of $2,003,779.96 to or on behalf of the college for both restricted and unrestricted purposes. Complete financial statements for the foundation can be obtained from Volunteer State College Foundation, 1480 Nashville Pike, Gallatin, TN 37066.

Cash and cash equivalents - Cash and cash equivalents consists of demand deposit accounts, certificates of deposit, money market funds, and the Local Government Investment Pool. The bank balances of deposits at June 30, 2006, were not entirely insured. The amount in one account exceeded the FDIC insured amount by $90,070.74 at June 30, 2006. The bank balances of deposits at June 30, 2005, were entirely insured.

Investments - Investments are recorded on the date of contribution and are stated at market value. Unrealized gains and losses are determined by the difference between market values at the beginning and end of the year.

Investments held at June 30, 2006, were as follows:

	Cost	Market Value
Certificates of deposit	$ 520,000.00	$ 520,000.00
Corporate stock	1,351,173.82	1,378,760.94
Federal Home Loan Mortgage	382,126.09	363,344.95

Federal National Mortgage Association	501,695.18	479,789.80
Government National Mortgage Association	421,425.92	378,896.95
Federal Home Loan Bank	58,659.90	55,631.40
Total investments	$ 3,235,080.91	$ 3,176,424.04

Investments held at June 30, 2005, were as follows:

	Cost	Market Value
Certificates of deposit	$ 140,000.00	$ 140,000.00
Corporate stock	598,479.22	619,986.48
Federal Home Loan Mortgage	47,002.73	44,318.75
Federal National Mortgage Association	60,545.77	58,807.05
Government National Mortgage Association	288,750.53	266,811.20
Federal Home Loan Bank	58,659.90	59,718.60
Total investments	$ 1,193,438.15	$ 1,189,642.08

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

	June 30, 2006	June 30, 2005
Current pledges	$ 81,768.24	$ 89,918.60
Pledges due in one to five years	132,385.12	101,937.10
Subtotal	214,153.36	191,855.70
Less discount to net present value	(12,263.54)	(5,410.24)
Total pledges receivable, net	$ 201,889.82	$ 186,445.46

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

The foundation chooses to spend only a portion of the investment income (including changes in the value of investments) each year. Under the spending plan established by the foundation, 80% of current year earnings (exclusive of unrealized gains) has been authorized for expenditure. The remaining amount, if any, is retained to be used in future years and to increase the endowment's corpus. At June 30, 2006, net appreciation of $160,198.68 is available to be spent, of which $160,198.68 is included in restricted net assets expendable for scholarships and fellowships. At June 30, 2005, net appreciation of $95,007.79 is available to be spent, of which $95,007.79 is included in restricted net assets expendable for scholarships and fellowships.

TENNESSEE BOARD OF REGENTS
VOLUNTEER STATE COMMUNITY COLLEGE
SUPPLEMENTARY SCHEDULE OF CASH FLOWS - COMPONENT UNIT
FOR THE YEARS ENDED JUNE 30, 2006, AND JUNE 30, 2005

	Year Ended June 30, 2006	Year Ended June 30, 2005
CASH FLOWS FROM OPERATING ACTIVITIES		
Gifts and contributions	$ 151,655.87	$ 227,333.33
Endowment income per spending plan	74,940.89	109,630.38
Payments to suppliers and vendors	(71,211.99)	(33,770.89)
Payments to Volunteer State Community College	(505,410.74)	(2,003,779.96)
Other receipts	55,242.38	48,045.87
Net cash used by operating activities	(294,783.59)	(1,652,541.27)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Private gifts for endowment purposes	875,034.71	210,281.39
Other noncapital financing payments	(536.23)	(359.85)
Net cash provided by noncapital financing activities	874,498.48	209,921.54
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital grants and gifts received (including $1,738,000.00 from the component unit for the year ended June 30, 2006, and zero for the year ended June 30, 2005)	410,793.31	1,246,851.67
Net cash provided by capital and related financing activities	410,793.31	1,246,851.67
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of investments	550,278.06	236,778.60
Income on investments	53,344.99	507,949.30
Purchase of investments	(2,532,108.19)	(356,959.96)
Net cash provided (used) by investing activities	(1,928,485.14)	387,767.94
Net increase (decrease) in cash and cash equivalents	(937,976.94)	191,999.88
Cash and cash equivalents - beginning of year	2,210,957.79	2,018,957.91
Cash and cash equivalents - end of year	$ 1,272,980.85	$ 2,210,957.79

Reconciliation of operating loss to net cash used by operating activities:		
Operating loss	$ (290,443.05)	$ (1,677,544.85)
Adjustments to reconcile operating loss to net cash used by operating activities:		
Change in assets and liabilities:		
Receivables, net	11,794.70	7,762.57
Accounts payable	(16,135.24)	17,241.01
Net cash used by operating activities	$ (294,783.59)	$ (1,652,541.27)
Noncash transactions		
Gifts in-kind - capital	$ 124,000.00	$ 505,120.00
Gifts in-kind - operating account	$ 13,362.56	$ -
Pledges	$ 126,160.00	$ 5,590.00
Unrealized gains/losses on investments	$ (61,158.11)	$ 13,924.60