AUDIT REPORT

Tennessee Board of Regents
Volunteer State Community College

For the Years Ended
June 30, 2008, and June 30, 2007

STATE OF TENNESSEE

COMPTROLLER OF THE TREASURY

Department of Audit

Division of State Audit

Tennessee Comptroller of the Treasury

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April 16, 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 37066-3188

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, 2008, and June 30, 2007. 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 certain deficiencies, which are detailed in the Results of the Audit section of this report. The college's administration has responded to the audit findings; the responses are included following each finding. The Division of State Audit will follow up the audit to examine the application of the procedures instituted because of the audit findings.

Sincerely,

Arthur A. Hayes, Jr., CPA
Director

AAH/ddb
08/090

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, 2008, and June 30, 2007

AUDIT OBJECTIVES

The objectives of the audit were to consider the college's internal control over financial reporting; to determine compliance with certain provisions of laws, regulations, contracts, and grant agreements; to determine the fairness of the presentation of the financial statements; and to recommend appropriate actions to correct any deficiencies.

INTERNAL CONTROL FINDINGS

Certain Members of Management Prepared, Approved, and Posted Journal Vouchers to the Accounting System Throughout the Audit Period Without Additional Reviews or Appropriate Segregation of Duties, Increasing the Risks that Reporting Errors or Fraud Could Occur and Not Be Detected in a Timely Manner
The Assistant Vice President of Business and Finance, the Director of Accounting, and the Assistant Director of Accounting each prepared, approved, and posted journal vouchers to the accounting system throughout the audit period without additional reviews or appropriate segregation of duties, increasing the risks that reporting errors or fraud could occur and not be detected in a timely manner (page 9).

As Noted in the Prior Audit, the Vice President of 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 *
We again found that management made calculation errors, classification errors, and omission errors during the preparation of financial statements and notes. Although these reporting errors did not result in a

material misstatement of the financial statements, management's failure to review accounting entries and financial statement preparation increases the risk that material errors could occur and that critical financial decisions for the college and the affiliated foundation may not be based on accurate information (page 11).*

* This finding is repeated from the prior audit.

COMPLIANCE FINDING

The Vice President of Resource Development Entered Into a Contract With a Private CPA Firm to Audit the Financial Statements of the Volunteer State College Foundation Without the Approval of the Tennessee Board of Regents or the Comptroller of the Treasury, Which is a Violation of the Tennessee Board of Regents' Policy Governing Foundations

This agreement was in violation of Tennessee Board of Regents Policy 04:01:07:02, which states that "records and accounts maintained by the foundation shall be audited on the same cycle as the institutional audit performed by the Comptroller of the Treasury of the State of Tennessee or with the prior approval of the Comptroller of the Treasury, an independent public accountant . . . the audit contract between the independent public accountant and the foundation shall be approved in advance by the Board and the Comptroller and shall be on contract forms prescribed by the Comptroller." Without prior approval, the college may enter into contracts with firms without appropriate consideration of the firms' professional reputation (page 17).

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, 2008, and June 30, 2007

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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 Executive Director of the Tennessee Higher Education Commission serve *ex officio* on this board. The chief administrative officer of the college is the president, who is assisted and advised by members of the faculty and administrative staff.

AUDIT SCOPE

The audit was limited to the period July 1, 2006, through June 30, 2008, 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, 2008, and June 30, 2007. 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

Section 8-4-109, *Tennessee Code Annotated*, requires that each state department, agency, or institution report to the Comptroller of the Treasury the action taken to implement the recommendations in the prior audit report. The college is scheduled to file its report with the Department of Audit on July 1, 2009. A follow-up of the prior audit finding was conducted as part of the current audit.

REPEATED AUDIT FINDING

The prior audit report contained a finding concerning the Vice President for Business and Finance not ensuring that the college's and the affiliated foundation's financial statements and notes to the financial statements were accurately prepared. This finding has not been resolved and is repeated in this report.

OBSERVATIONS AND COMMENTS

MANAGEMENT'S RESPONSIBILITY FOR RISK ASSESSMENT

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

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

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

FRAUD CONSIDERATIONS

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

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

TECHNOLOGY 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, 2008, and June 30, 2007, we considered internal control over financial reporting as a basis for designing auditing procedures for the purpose of expressing opinions on the financial statements, as required by auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in generally accepted government auditing standards. Significant deficiencies, along with recommendations and management's responses, are detailed in the Findings and Recommendations section. Consideration of internal control over financial reporting disclosed no material weakness.

Compliance

The results of our tests disclosed no instances of noncompliance that are required to be reported under generally accepted government auditing standards. Immaterial instances of noncompliance, along with recommendations and management's responses, are included in the Findings and Recommendations section.

Fairness of Financial Statement Presentation

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

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

March 5, 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 37066-3188

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, 2008, and June 30, 2007, and have issued our report thereon dated March 5, 2009. During the year ended June 30, 2008, the college implemented GASB Statement 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions.*

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in generally accepted government auditing standards.

Internal Control Over Financial Reporting

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

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

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

The following significant deficiencies were noted:

- Certain members of management prepared, approved, and posted journal vouchers to the accounting system throughout the audit period without additional reviews or appropriate segregation of duties, increasing the risks that reporting errors or fraud could occur and not be detected in a timely manner

- As noted in the prior audit, the Vice President of 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

These deficiencies are described in the Findings and Recommendations section of this report.

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

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe none of the significant deficiencies described above is a material weakness.

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

Compliance and Other Matters

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

We did, however, note a certain immaterial instance of noncompliance that we have included in the Findings and Recommendations section of this report. We also noted certain other less significant instances of noncompliance, which we have reported to the college's management in a separate letter.

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

FINDINGS AND RECOMMENDATIONS

1. Certain members of management prepared, approved, and posted journal vouchers to the accounting system throughout the audit period without additional reviews or appropriate segregation of duties, increasing the risks that reporting errors or fraud could occur and not be detected in a timely manner

Finding

The Assistant Vice President of Business and Finance, the Director of Accounting, and the Assistant Director of Accounting each prepared, approved, and posted journal vouchers to the accounting system throughout the audit period without additional reviews or appropriate segregation of duties, increasing the risks that reporting errors or fraud could occur and not be detected in a timely manner.

Management and staff prepare journal vouchers to properly record financial transactions in the financial ledgers of the college, the foundation, and the Technology Centers (Hartsville and Livingston). Staff prepare the majority of significant journal vouchers in June and July, as part of the year-end closing procedures and to adjust any account for assets, liabilities, revenues, expenses, or fund balance.

We examined all journal vouchers exceeding $100,000 that were prepared in support of the year-end closing procedures for the fiscal years ended June 30, 2008, and June 30, 2007. We noted that either the Assistant Vice President of Business and Finance or the Assistant Director of Accounting prepared, approved, and posted their own journal vouchers in 21 of the 56 journal vouchers we examined for June 2007 (38%). We informed the Assistant Vice President of Business and Finance and the Director of Accounting in early June 2008 of our concern regarding the lack of segregation of duties for the journal voucher process, before management prepared the journal vouchers relating to the fiscal year ended June 30, 2008, closing procedures. The Assistant Vice President of Business and Finance assured us that they would work to resolve this issue. However, when we examined the June 2008 journal vouchers, we noted that the Director of Accounting prepared, approved, and posted his own journal vouchers in 4 of the 75 journal vouchers we examined (5%).

We discussed with both the Assistant Vice President of Business and Finance and the Assistant Director of Accounting the lack of segregation of duties when preparing, approving, and posting journal vouchers. They stated that duties were not always segregated because the Director of Accounting position was vacant for part of the audit period, the former Director of Accounting did not have the proper training to adequately prepare and/or approve certain journal vouchers, and management was required to submit the college’s financial report to the Tennessee Board of Regents’ Central Office within 39 days of June 30, 2008, and 41 days of June 30, 2007.

In May 2006, college management submitted the overall risk footprint for the school, including the activity of Financial Management, to the Tennessee Board of Regents. Management responsible for these processes identified the risk of miscalculation and assessed the risk as “Moderate Impact, Moderate Probability,” which requires management to perform additional reviews to ensure that the controls over the miscalculation of financial information are working. Thus, management was aware that additional reviews should have been performed on the journal vouchers prepared, approved, and posted by the same person.

When journal vouchers were prepared without proper approval or additional reviews, monitoring and supervision became ineffective, resulting in an increased risk for miscalculation of financial information or fraud.

Recommendation

The President and Vice President of Business and Finance should ensure that all employees are adequately trained and capable of performing all aspects of their position, even those new to their positions.

The Vice President of Business and Finance should ensure that segregation of duties is always maintained, even during personnel changeovers. A supervisor should approve any journal voucher before it is posted to the accounting system. In no instance should one person be allowed to prepare, approve, and post journal vouchers to the accounting records.

Management should continue to evaluate risks and include them in documented risk assessment activities. Management should also examine controls currently in place for approval of journal vouchers to help mitigate the risk of miscalculation and of fraud.

Management’s Comment

We concur that management did not always separate the duties of preparing journal entries from approving entries. Internal controls are now followed to prevent a journal entry being prepared and approved by the same person. Management feels it is important to note that none of the entries that were identified by the auditors as lacking separate approval were found to be in error.

One mitigating factor that should be noted is that the Assistant Vice President for Business and Finance conducted a comprehensive review of posted transactions at least twice a year in each of the fiscal periods audited. This review consisted of identifying transactions posted to the incorrect account codes thereby reducing the risk of reporting errors.

2. **<u>As noted in the prior audit, the Vice President of 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

As noted in the prior audit report, 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, 2008, and June 30, 2007, financial statements and notes to the financial statements included in the *Annual Financial Reports* were accurately prepared. Although a significant lapse occurred between the previous audit period and the release of the prior audit report, we discussed the exceptions with management during the course of the prior audit and again on March 31, 2008, well in advance of management preparing its financial report for the fiscal year ended June 30, 2008.

Management concurred with the prior finding and stated:

> 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 [2009].

Our current audit showed fewer errors in the preparation of the financial report for the fiscal year ended June 30, 2007, and an increase in errors in the preparation of the financial report for the fiscal year ended June 30, 2008. We again found that management made calculation errors, classification errors, and omission errors during the preparation of financial statements and notes. The Vice President of Business and Finance stated that business office employees encountered several disruptions during the current audit period, which contributed to the errors noted in this finding: business office employees were displaced because of damage to the business office during the April 7, 2006, tornado and were working in temporary locations for part of the audit; the Director of Accounting resigned and was replaced during the fiscal year ended June 30, 2008; the Assistant Vice President of Business and Finance was a new hire with a corporate background and was unfamiliar with the TBR system; and the accounting system, Banner, was new to all of the employees. Based on our current audit testwork, we found the following items:

CALCULATION ERRORS

- The Assistant Vice President of Business and Finance incorrectly calculated the net accumulated appreciation of the foundation's endowments, resulting in an understatement of $475,616.16 in the June 30, 2008, notes to the financial statements and an overstatement of $120.00 in the June 30, 2007, notes to the financial statements.

- The Director of Accounting incorrectly calculated some of the amounts included in the unrestricted net assets note to the financial statements: the amount for auxiliaries was overstated by $8,854.63, the amount for designated fees was understated by $116,479.84, and the unreserved/undesignated balance was understated by $107,625.21.

- The Assistant Vice President of Business and Finance incorrectly disclosed the uninsured bank balances of foundation cash and cash equivalents at June 30, 2008, and June 30, 2007, in the foundation's notes to the financial statements. The notes stated that the uninsured bank balance was $281,291.45 as of June 30, 2008, and $0.00 as of June 30, 2007. However, the money market funds held by Edward Jones totaled $502,466.71 as of June 30, 2008, and $210,836.03 as of June 30, 2007. Both of these amounts exceeded the standard coverage of $100,000 provided by Securities Investor Protection Corporation (SIPC). Although SIPC does not insure against losses, it provides funds to customers of failed brokerage firms. Therefore, the uninsured bank balances should have been disclosed as $402,466.71 at June 30, 2008, and $110,836.03 at June 30, 2007.

- The Payroll Manager incorrectly calculated the additions to and reductions from compensated absences amounts reported in the long-term liabilities activity schedule in the notes to the financial statements included in the June 30, 2007, *Annual Financial Report*. Both amounts were understated by $189,566.32. The Payroll Manager could not locate the original calculations to support the amounts reported as additions to or reductions from compensated absences.

CLASSIFICATION ERRORS

- The Director of Accounting incorrectly classified certain items on the college's fiscal year ended June 30, 2008, Statement of Cash Flows. The following errors were noted:

  - The changes in value of several receivable accounts between June 30, 2008, and June 30, 2007, totaling $2,812,625.18 were subtracted from the tuition and fees line item even though the accounts did not involve tuition and fees. The changes in value should have been reported as an increase of $2,519,273.47 in other capital and related financing payments, an increase of $359,101.23 in payments to suppliers and vendors, and a decrease of $65,749.52 in gifts and contracts.

  - The balance of capitalized assets, including depreciation adjustments of $3,191,159.35, was reported as payments to vendors and suppliers when the balance should have been reported as the purchase of capital assets and construction.

  - A $22,849.33 addition related to the change in value of salaries included in deferred revenue between June 30, 2008, and June 30, 2007, was reported in the line for payments for benefits when it should have been included in the line for payments to employees.

  - Other capital was overstated by $68,330.29; change in deposits held in custody for others was overstated by $72,089.46; purchase of capital assets and construction was overstated by $148,992.82; principal paid on capital debt and lease was overstated by $4,857.20; and the amount for vendors and suppliers was understated by $294,269.77.

- The Assistant Vice President for Business and Finance did not correctly classify certain items on the foundation's Statements of Cash Flows. The following errors were noted:

  - From fiscal year 2007 to fiscal year 2008, accounts receivable increased by $5,337.50, other assets increased by $135.62, and accrued liabilities decreased by $1,626.00; however, none of these changes have been reflected in the Statement of Cash Flows for the fiscal year ended June 30, 2008. The net effect of these amounts was an understatement of $3,847.12 in cash and cash equivalents.

Furthermore, the Assistant Vice President for Business and Finance could not substantiate several entries recorded on the Statement of Cash Flows. These entries included a $4,531.00 decrease in payments to suppliers and vendors; an $88,325.08 decrease in proceeds from sales and maturities of investments; a $24,998.04 decrease in gifts and contributions; and a $114,007.00 increase in private gifts for endowment purposes. The net effect of these amounts was an overstatement of $3,847.12 in cash and cash equivalents. The overstatement and understatement offset each other, which results in no change to the net increase (decrease) in cash and cash equivalents amount reported on the Statement of Cash Flows.

- ➢ The non-cash transactions lines for the fiscal year ended June 30, 2008, were not always reported correctly. The amount of $93,948.83 reported as pledges is actually the amount of investment losses, which have nothing to do with pledges. Non-cash transactions for pledges should have been reported as ($20,388.04), which is the net of new pledges in fiscal year 2008 of $4,610.00 and the write-offs of $24,998.04 in fiscal year 2008. The Assistant Vice President for Business and Finance could not substantiate the gifts-in-kind amount of $58,526.80. The amount should have been $52,965.15. The unrealized gains/(losses) on investments amount of $29,798.00 could not be substantiated by the Assistant Vice President for Business and Finance. The amount should have been ($144,458.22).

- ➢ The Assistant Vice President for Business and Finance incorrectly reduced the payments to vendors and suppliers line on the foundation's Statement of Cash Flows worksheet for the fiscal year ended June 30, 2007, for changes in accounts payable of $47,587.57 and in accounts receivable of $898.00. Since the changes should have been added, this resulted in a difference of $96,971.14 between the ending cash balance reported on the Statement of Cash Flows and the ending cash balance reported on the Statement of Net Assets. To make the ending cash balance amounts reported on the Statement of Cash Flows and the Statement of Net Assets agree, the Assistant Vice President for Business and Finance added the $96,971.14 difference to the line for gifts and contributions.

- ➢ The non-cash transaction line for pledges for the fiscal year ended June 30, 2007, was overstated by $119,391.02. The correct amount should have been $47,396.00, which is the amount of new pledges less write-offs of uncollectable pledges during the fiscal year.

- The Director of Accounting incorrectly posted $175,273.29 of technology center capital expenses as Volunteer State Community College capital expenses for the fiscal year ended June 30, 2008. Total reported capital appropriations were $270,979.00 for State of Tennessee Accounting and Reporting System (STARS) projects. However, only $95,795.71 was the college's appropriations.

- The Director of Accounting did not properly report the transfer of a completed project in the capital asset activity schedule in the notes to the financial statements for the fiscal year ended June 30, 2007. Total costs of $112,000.00 associated with the Livingston Center addition and renovation project were transferred to buildings. However, the cost of the project should have been transferred to infrastructure since the expenditures were for parking lot improvements. This also affected the capital asset activity schedule in the notes to the financial statements for the fiscal year ended June 30, 2008. Because these costs were depreciated as buildings (over 40 years) instead of improvements and infrastructure (over 20 years), depreciation expense and capital assets, net of accumulated depreciation, were understated by immaterial amounts for the fiscal years ended June 30, 2007, and June 30, 2008.

<u>OMISSION ERRORS</u>

- The Assistant Vice President of Business and Finance failed to properly disclose cash and cash equivalents for the Tennessee Technology Center at Hartsville and Tennessee Technology Center at Livingston in the June 30, 2008, cash and cash equivalents note in the notes to the financial statements. The amount for the technology centers' bank accounts of $177,413.77 and Local Government Investment Pool amounts of $4,237,576.08 should have been included in the note. The amount for cash and cash equivalents was correctly reported in the Statement of Net Assets.

- Management transferred $600,000 from the unrestricted account "Educational and General" to the renewals and replacements account "Maintenance Equipment." However, management did not reflect the transfer in the unrestricted net assets note to the financial statements for June 30, 2007.

- The Accountant III did not disclose a capital expenditure totaling $15,567.20 for the purchase of two computer processors as an addition to equipment amount or in the ending balance of equipment in the fiscal year ended June 30, 2008, capital asset activity schedule in the notes to the financial statements, and understated the capital assets (net) and invested in capital assets, net of related debt, on the Statement of Net Assets by the same amount.

- Based on a review of management's reconciliation of the State of Tennessee Accounting and Reporting System (STARS) expenditures to the general ledger, the Vice President of Business and Finance and/or the Director of Accounting did not ensure that STARS expenditures totaling $111,280.96 for the fiscal year ended June 30, 2008, and $129,821.28 for the fiscal year ended June 30, 2007, were properly recorded in the general ledger and on the financial statements. These expenditures were originally recorded in Banner as various operating expenses, but then reversed and not recorded in any other accounts. Total operating expenses and either capital grants and contracts or noncapital grants and contracts were understated on the Statement of Revenues, Expenses, and Changes in Net Assets as a result. Capital asset accounts on the Statement of Net Assets were understated by any expenditure that should have been capitalized.

- The Assistant Vice President of Business and Finance did not correctly include all revenues and assets in the foundation's financial statements. We found that the Assistant Vice President for Business and Finance:

  - understated gifts and contributions by $11,513.89 and understated endowment income by $102,817.47 on the Statement of Revenues, Expenses, and Changes in Net Assets; and

  - understated cash and cash equivalents by $114,007.10 and understated prepaid expenses by $324.26 on the Statement of Net Assets.

  We brought these understatements to management's attention in June 2008, and management recorded an adjustment of $114,007.00 to correct the foundation's investment income during the fiscal year ended June 30, 2008.

Management could have detected and corrected several of the noted errors if appropriate reviews and comparisons had been made between the financial statements and notes to the financial statements. We made audit adjustments to correct the financial statements and notes to the financial statements for the audit report.

Although these reporting errors did not result in a material misstatement of the financial statements, management's failure to review accounting entries and financial statement preparation increases the risk that material errors could occur and critical financial decisions for the college and the affiliated foundation may not be based on accurate information.

Recommendation

The President and Vice President of Business and Finance should ensure that the financial report is accurately prepared. The Vice President of 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 of 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 of 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 has scheduled the detailed Financial Management Risk Assessment for completion in May 2009.

Management's Comment

We concur with the recommendations identified in the auditor's report. Management has already bolstered its review of financial information and has created a new quarterly report that will be reviewed in detail each quarter by the Vice President of Business and Finance and then by the President's Cabinet. Reports have been written to generate GASB financial statements and reviews will be conducted prior to submission of the financial statements and notes to verify each amount disclosed. Processes have been put into place that each amount calculated will be substantiated prior to inclusion in the financial statements.

The period represented by this audit was one of significant challenges for the personnel at Volunteer State Community College. An F3 tornado struck the campus on April 7, 2006. The Business Office staff members were displaced for most of the audit period. Make-shift offices were constructed in other areas of campus to accommodate these staff while their original office space was gutted and repaired.

Additionally during this same time period, the college employed three different Accounting Directors and two Assistant Vice Presidents of Business and Finance. In the end, management believes that we have secured staff members that are competent and experienced, but admittedly the learning curve with positions as comprehensive as these is steep. We are confident that the current staff has the processes and procedures in place that will address and correct the issues noted in this finding.

The President and Vice President of Business and Finance at Volunteer State Community College take each of the findings and recommendations outlined in this auditor's report very seriously. As we conduct the detailed Financial Management Risk Assessment we will look for additional opportunities to mitigate reporting risks.

3. The Vice President of Resource Development entered into a contract with a private CPA firm to audit the financial statements of the Volunteer State College Foundation without the approval of the Tennessee Board of Regents or the Comptroller of the Treasury, which is a violation of the Tennessee Board of Regents' policy governing foundations

Finding

The Vice President of Resource Development entered into a contract on October 8, 2007, with a private CPA firm to audit the statements of financial position of the Volunteer State College Foundation as of June 30, 2007, and June 30, 2006, and the related statements of activities, functional expenses, and cash flows for the years then ended; however, she did not obtain the prior approval of the Tennessee Board of Regents (TBR) or the Comptroller of the Treasury as required by Policy 04:01:07:02, section 5, part 9, which states that "records and accounts maintained by the foundation shall be audited on the same cycle as the institutional audit performed by the Comptroller of the Treasury of the State of Tennessee or with the prior approval of the Comptroller of the Treasury, an independent public accountant." The policy further states that "the audit contract between the independent public accountant and the foundation shall be approved in advance by the Board and the Comptroller and shall be on contract forms prescribed by the Comptroller."

According to the Vice President of Resource Development, she did not obtain prior approval of the Comptroller of the Treasury before entering into the contract because she was not aware that the foundation needed to obtain advance approval from TBR and the Comptroller of the Treasury. In fact, she and several other members of upper management said they were unaware that TBR had a policy related to foundations. In addition to not being approved, the audit was not performed on the same cycle as the Volunteer State Community College audit as required by TBR policy, nor was the contract prepared on contract forms prescribed by the Comptroller. The current Volunteer State Community College audit cycle is every two years starting with an odd year and ending with an even year, i.e., starting with the fiscal year ending June 30, 2007, and ending with the fiscal year ending June 30, 2008.

We reviewed the minutes of the July 24, 2007, foundation board meeting which documented that the President of Volunteer State Community College informed the foundation board that the foundation was not included in the college audit. At the time of the President's comment, we were completing fieldwork on the college's two-year audit ending June 30, 2006, which included the Volunteer State College Foundation as a component unit of the college. During that same board meeting, the board voted to request an audit/review of the foundation. On September 25, 2007, the foundation board awarded the audit to a private CPA firm based on the firm's low bid of $5,500 and proposal. On May 17, 2008, the private CPA firm issued its opinion report on the statement of financial position of Volunteer State College Foundation as of June 30, 2007, and June 30, 2006, and the related statements of activities and cash flows for the years then ended.

Without prior approval by the Tennessee Board of Regents and the Comptroller of the Treasury, the college may enter into contracts with firms without appropriate consideration of the firms' professional reputation.

Recommendation

The Vice President of Resource Development should not enter into any audit contracts with private CPA firms to audit the Volunteer State College Foundation without the prior approval of the Tennessee Board of Regents and the Comptroller of the Treasury. Contracts for approved audits should be prepared on contract forms prescribed by the Comptroller of the Treasury. Any approved audits provided by private CPA firms should also be on the same cycle as the audit of Volunteer State Community College.

Management's Comment

Management concurs with this finding. Members of management responsible for contracting for the foundation audit were relatively new to the Tennessee Board of Regents system and were not familiar with the requirement to obtain board approval before contracting for it. Because the college had recently hired a new Vice President for Resource Development and Executive Director of the Foundation, the Foundation Board of Directors felt that an audit would be a prudent step. Management was aware that State Audit did not provide a separate audit opinion on the foundation, and the Foundation Board of Directors wanted to receive a separate opinion on the foundation.

The foundation is a separate 501(c)(3) organization. The audit was paid for using the foundation's resources.

Now that management is aware of this requirement, we will adhere to it if an audit of the foundation is desired in the future.

STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
DEPARTMENT OF AUDIT
DIVISION OF STATE AUDIT
SUITE 1500
JAMES K. POLK STATE OFFICE BUILDING
NASHVILLE, TENNESSEE 37243-1402
PHONE (615) 401-7897
FAX (615) 532-2765

Independent Auditor's Report

March 5, 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 37066-3188

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, 2008, and June 30, 2007, 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, 2008, and June 30, 2007, and the changes in its financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Tennessee Board of Regents, Volunteer State Community College, and its discretely presented component unit as of June 30, 2008, and June 30, 2007, and the respective changes in financial position and cash flows thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

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

The management's discussion and analysis on pages 23 through 49 and the schedule of funding progress on page 76 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

March 5, 2009
Page Three

Our audit was conducted for the purpose of forming opinions on the basic financial statements. The accompanying financial information on page 77 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 March 5, 2009, on our consideration of the college's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with generally accepted government auditing standards and should be read in conjunction with this report in considering the results of our audit.

Sincerely,

Arthur A. Hayes, Jr.

Arthur A. Hayes, Jr., CPA
Director

AAH/ddb

Tennessee Board of Regents
Volunteer State Community College
Management's Discussion and Analysis
June 30, 2008, and June 30, 2007

This section of the 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, 2008, with comparative information presented for the fiscal years ended June 30, 2007, and June 30, 2006. 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 acts primarily as a fund-raising organization to supplement the resources that are available to the college in support of its programs. 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 is 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. More detailed information about the Volunteer State College Foundation is presented in note 17 to the financial statements.

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

Using This Annual Report

This report consists of three basic financial statements. The Statement of Net Assets; the Statement of Revenues, Expenses, and Changes in Net Assets; and the Statement of Cash Flows provide information on 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.

College
Net Assets (in thousands of dollars)

	2008	2007	2006
Assets:			
Current assets	$ 22,998	$ 18,297	$ 10,775
Capital assets, net	33,220	31,603	29,161
Other assets	7,761	6,598	8,652
Total assets	$ 63,979	$ 56,498	$ 48,588
Liabilities:			
Current liabilities	$ 16,066	$ 12,177	$ 7,395
Noncurrent liabilities	1,803	1,301	1,456
Total liabilities	$ 17,869	$ 13,478	$ 8,851
Net assets:			
Invested in capital assets, net of related debt	$ 32,901	$ 31,163	$ 28,602
Restricted-nonexpendable	117	113	109
Restricted-expendable	144	123	106
Unrestricted	12,948	11,621	10,920
Total net assets	$ 46,110	$ 43,020	$ 39,737

Comparison of FY 2008 to FY 2007

- In 2008, current assets increased by $4,701,350. The largest asset in the current assets category is cash and cash equivalents in the amount of $11,712,776 of which $4,414,990 is held by Volunteer State Community College as custodian for the Tennessee Technology Centers at Livingston and Hartsville. Current cash and cash equivalents increased $1,984,195 from last year. Included in current cash and cash equivalents is $1,282,934 that has been generated by auxiliary enterprises and presently allocated for auxiliary enterprises.

- Capital assets consist of land, buildings, projects in progress, equipment, other improvements, and library holdings. During 2008, projects in progress increased by $2,844,333 as Ramer Administration and Caudill Hall buildings are restored from the tornado that hit campus in 2006. The increase in assets is offset by the increase in accumulated depreciation of $1,458,806.

- During 2008, other noncurrent assets consist of cash and cash equivalents and investments. The increase of $1,162,165 in noncurrent cash and cash equivalents is mostly a result of increasing renewal and replacement funds and other capital projects.

- In 2008, the increase in current liabilities of $3,888,207 is mainly a result of the amount due for reimbursement of tornado related payables and deposits held in custody for others.

- In 2008, per GASB 45, $620,208 was recorded to reflect Post retirement benefits for the first time. This along with the payment for bond debt of $121,136 is the main reason for the increase in noncurrent liabilities of $502,579.

Comparison of FY 2007 to FY 2006

- In 2007, the largest asset in the current assets category is cash and cash equivalents in the amount of $9,728,581. Included in current cash and cash equivalents is $3,139,701 that Volunteer State is holding as custodian for the Tennessee Technology Centers at Livingston and Hartsville and an additional $867,657 that has been generated by auxiliary enterprises and presently allocated for auxiliary enterprises. Additionally, $20,687 of the cash and cash equivalents have been designated to pay current liabilities related to the acquisition of plant assets excluding plant fund liabilities related to tornado recovery. Overall, current assets increased in 2007 by $5,404,921. The majority of the increase ($4,328,763) is in receivables; of this receivable amount, $3,200,483 is due for the reimbursement for tornado related expenditures.

- Capital assets consist of land, buildings, projects in progress, equipment, other improvements, and library holdings. For 2007, the land has a book value of $1,629,993, which increased from 2006. The main campus in Gallatin consists of 14 primary buildings. The VSCC Center at Livingston consists of two buildings. The Oakley Administrative Building on the Livingston Campus was completed during 2007, with a value of $2,403,613. The college's buildings have a total net book value of $20,879,650. This is up by $1,601,570 from 2006, resulting from the new Livingston building plus the depreciation expense of $797,531. During the year, $250,728 of new equipment was placed into service. The equipment has a net book value of $1,104,910. Additionally, software and library holdings have net book values of $791,399 and $542,910, respectively. Projects in progress have a book value of $2,926,971. All but $7,352 (Fire Alarm System) relate to the restoration of the damage from the tornado. Projects in progress consist of \$1,272,316 for the Ramer Building restoration, \$1,373,668 for the Caudill Hall restoration, \$205,141 for the exterior lights restoration, and \$68,494 for the Fox Maintenance Building restoration. Other improvements have a net book value of \$3,727,133.

- During 2007, other noncurrent assets consist of cash and cash equivalents and investments. Approximately \$8,414,723 of the cash and cash equivalents and investments have been designated for the future renewal and replacement of equipment and for various capital projects. This is an increase from 2006 of \$849,209. Additionally, \$112,868 of the cash and cash equivalents is for restricted and nonexpendable endowments.

- In 2007, current liabilities consist of vendor accounts payables of \$628,659 (an increase of \$143,098 from 2006), accrued liabilities of \$1,739,134, deferred revenue of \$785,647, current compensated absences of \$319,431, current portion of long-term liabilities of \$121,136, deposits held in custody for others of \$3,219,028, miscellaneous other current liabilities of \$10,863 (all approximately the same as in 2006 except deposits held in custody for others, which had an increase from 2006 of \$621,539) and non-vendor accounts payables of \$5,353,644, which had an increase of \$3,981,751 from 2006 which was related to tornado recovery. 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 30th. 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 30th and thus recorded as an accrued liability at June 30th. Also, summer semester classes normally begin in May and end in August. Revenues that are collected before June 30th, but that are earned after June 30th, 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 30th estimated to be used during the next fiscal year (and related benefits) is accrued as a current liability. Accounts payables are generated through normal operating activities and are for goods or services received by June 30th, but not paid as of June 30th.

- The remaining portion of the accumulated vacation time is accrued as a noncurrent liability, which amounted to approximately \$980,202, down from 2006 by \$34,540. Long-term liabilities decreased by \$121,136 because of principal payments made on outstanding debt for chiller replacements and the banner software project. The remaining long-term portion of the bonds outstanding was \$318,692. Also, for 2007, there was \$2,026 due to grantors.

Component Unit

Net Assets (in thousands of dollars)

	2008	2007	2006
Assets:			
Current assets	$ 1,205	$ 1,080	$ 723
Other assets	4,075	4,227	3,947
Total assets	$ 5,280	$ 5,307	$ 4,670
Liabilities:			
Current liabilities	$ 30	$ 49	$ 1
Total liabilities	$ 30	$ 49	$ 1
Net assets:			
Invested in capital assets, net of related debt			
Restricted-nonexpendable	$ 3,642	$ 3,560	$ 3,386
Restricted-expendable	1,045	1,047	763
Unrestricted	563	651	520
Total net assets	$ 5,250	$ 5,258	$ 4,669

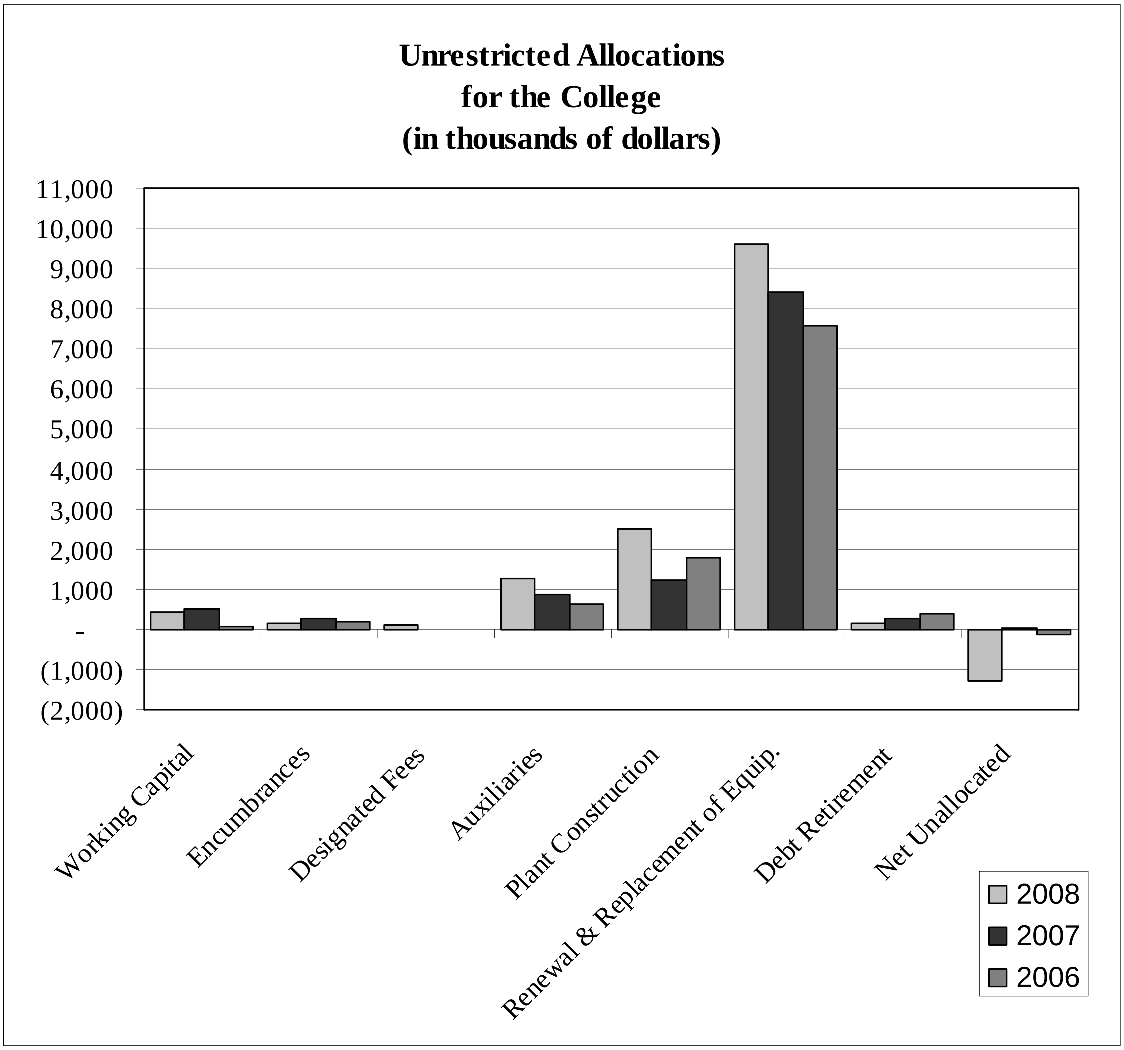
Comparison of FY 2008 to FY 2007

- For the component unit in 2008, overall the net assets decreased by $7,909 primarily because of decrease in investment income.

Comparison of FY 2007 to FY 2006

- For the component unit in 2007, overall the net assets increased by $588,682 because of increases in permanent endowments and excess revenues over transfers to the college. Of the total net asset increase, $587,009 was attributable to an increase in noncurrent investments.

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



Comparison of FY 2008 to FY 2007

- Working capital decreased $75,551 from 2007. This decrease in 2008 was mainly the result of net accounts receivables decreasing.

- The allocation for encumbrances decreased $121,001 in 2008 as a result of a reduction in outstanding purchase orders at year end.

- The allocation for designated fees increased slightly with the addition of the new international education fees.

- Allocations from auxiliary operations, primarily the bookstore, continue to provide a steady stream of income. The sign-on bonus of $150,000 and increase in commission rate from the bookstore attributed to the increase of $415,277 from last year.

- Funds available for plant construction increased $1,274,474 during 2008 as significant funds were transferred from unrestricted funds to be expended on Extraordinary Maintenance, upgrading Campus Lighting, and the Softball Field.

- Renewal and replacement balances increased $1,174,799 in 2008 because funds were set aside for parking lot and infrastructure wiring repair and replacing furniture and communication equipment.

- Retirement of indebtedness decreased as funds were disbursed to pay the current portion of the bond payable.

- Unreserved/undesignated balances decreased as funds were set aside for major projects to maintain and enhance the campus.

Comparison of FY 2007 to FY 2006

- Working capital remained relatively stable. A slight increase in 2007 was mainly the result of net accounts receivables increasing.

- The allocation for encumbrances increased in 2007. Purchase orders were processed late in the year and goods had not been received by year end.

- The allocation for designated fees remained relatively stable.

- Allocations from auxiliary operations continued to provide a steady stream of income.

- Funds available for plant construction decreased again in 2007 as significant funds were expended on the tornado restoration.

- Renewal and replacement balances increased in 2007 because the College set aside $400,000 for parking lot repairs and $600,000 for maintenance equipment.

- Retirement of indebtedness decreased as funds were disbursed to pay the current portion of the bond payable.

- Unreserved/undesignated balances increased due to healthy financial operations.

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

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

College
Changes in Net Assets (in thousands of dollars)

	2008	2007	2006
Operating revenues:			
Net tuition and fees	$ 11,231	$ 10,460	$ 10,447
Grants and contracts	886	963	492
Auxiliary	478	308	293
Other	314	263	253
Total operating revenues	**12,909**	**11,994**	**11,485**
Operating expenses	41,868	39,532	36,550
Operating loss	**(28,959)**	**(27,538)**	**(25,065)**
Nonoperating revenues and expenses:			
State appropriations	19,352	18,175	16,723
Gifts	477	345	297
Grants and contracts	8,006	6,583	5,997
Investment income	637	588	616
Other revenues and expenses	(17)	(16)	(24)
Total nonoperating revenues and expenses	**28,455**	**25,675**	**23,609**
Income (loss) before other revenues, expenses, gains, or losses	**(504)**	**(1,863)**	**(1,456)**
Other revenues, expenses, gains, or losses:			
Capital appropriations	296	913	757
Capital grants and gifts	-	-	211

Additions to permanent endowments	2	1	1
Other capital	3,296	4,232	637
Total revenues, expenses, gains, or losses	**3,594**	**5,146**	**1,606**
Increase (decrease) in net assets	**3,090**	**3,283**	**150**
Net assets at beginning of year	43,020	39,737	39,587
Net assets at end of year	**$ 46,110**	**$ 43,020**	**$ 39,737**

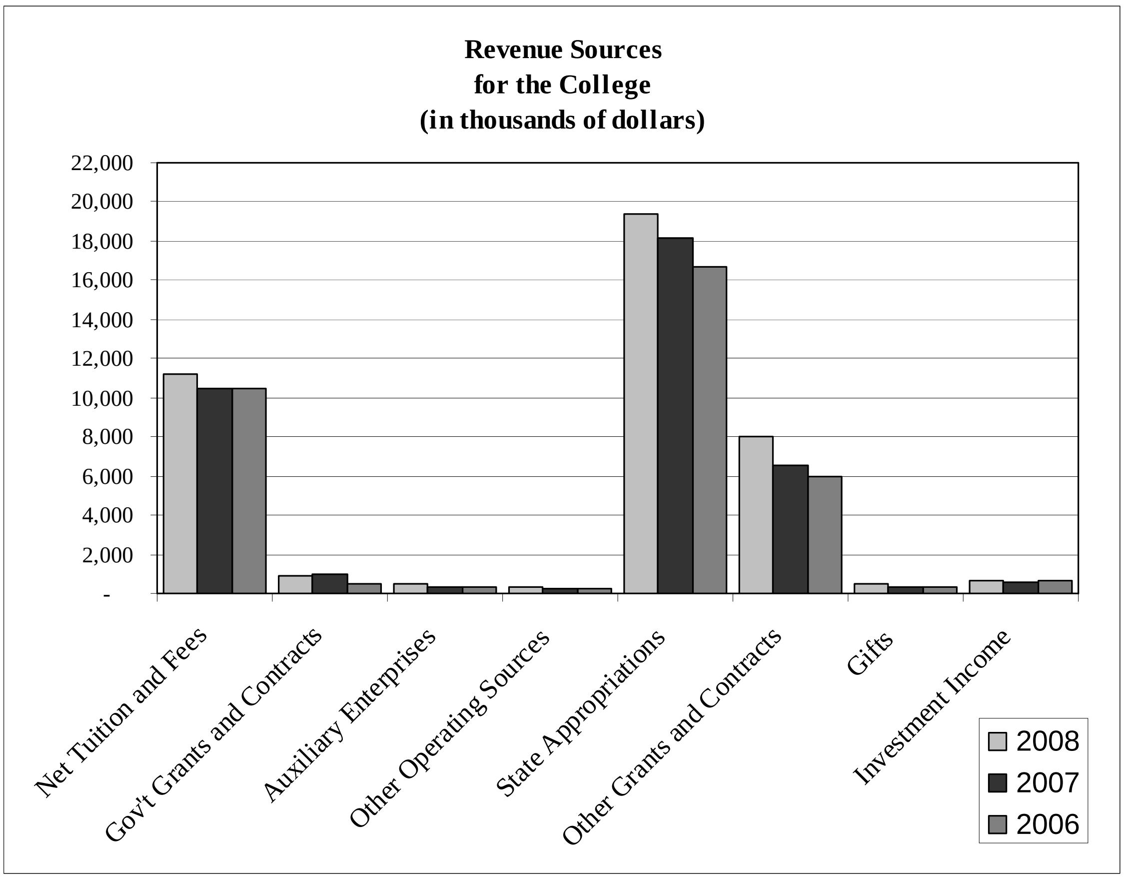
Component Unit

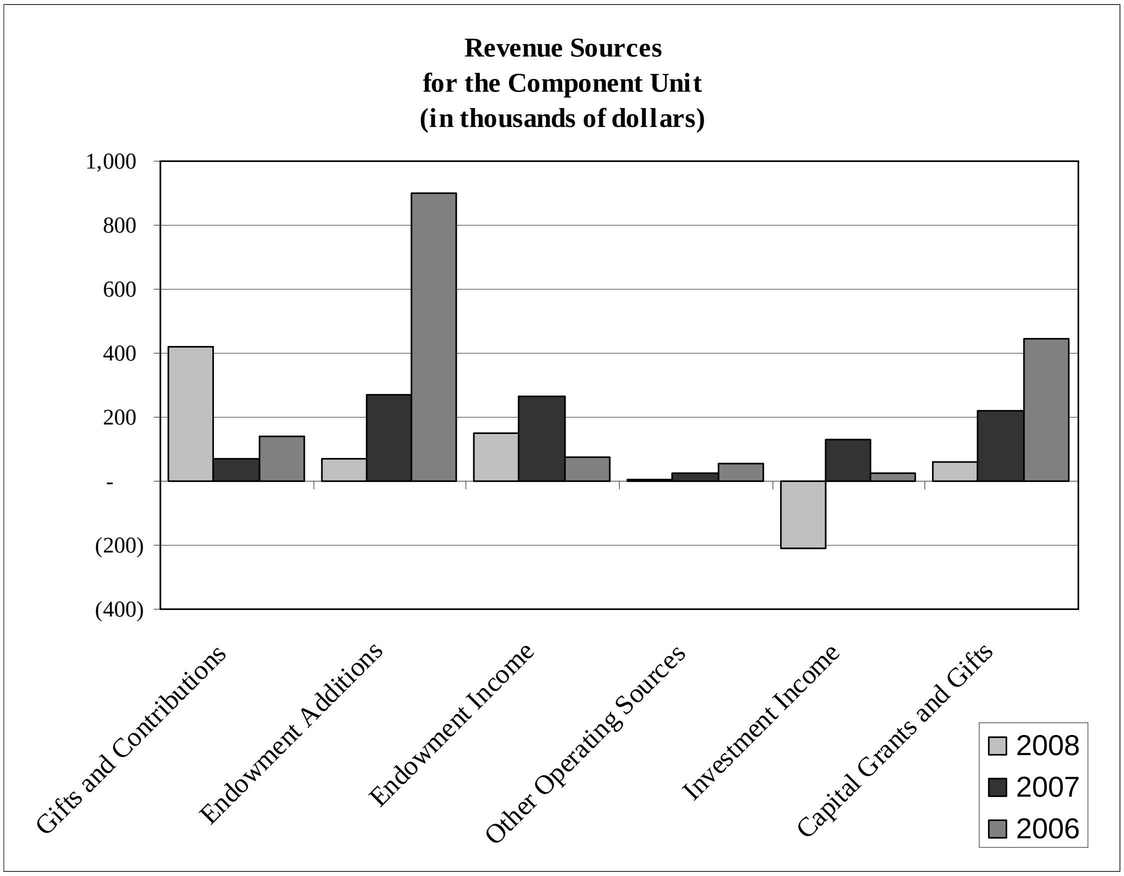
Revenues, Expenses, and Changes in Net Assets (in thousands of dollars)

	2008	2007	2006
Operating revenues:			
Gifts	$ 420	$ 69	$ 142
Endowment income per spending plan	150	266	75
Other	5	23	55
Total operating revenues	**575**	**358**	**272**
Operating expenses	507	390	563
Operating income (loss)	**68**	**(32)**	**(291)**
Nonoperating revenues and expenses:			
Investment income (loss)	(208)	129	23
Total nonoperating revenues and expenses	**(208)**	**129**	**23**
Income (loss) before other revenues, expenses, gains, or losses	**(140)**	**97**	**(268)**
Other revenues, expenses, gains, or losses:			
Capital grants and gifts	61	221	446
Additions to permanent endowments	71	271	900
Total revenues, expenses, gains, or losses	**132**	**492**	**1,346**
Increase (decrease) in net assets	**(8)**	**589**	**1,078**
Net assets at beginning of year	5,258	4,669	3,591
Net assets at end of year	**$ 5,250**	**$ 5,258**	**$ 4,669**

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, 2008; June 30, 2007; and June 30, 2006 (amounts are presented in thousands of dollars).





Comparison of FY 2008 to FY 2007

- 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 47 percent of the college's total operating and nonoperating revenues for 2008. State appropriations increased $1,176,858 in 2008. Most of the increase was designated to fund state mandated salary increases and benefit increases. Capital appropriations decreased in 2008 by $617,922 as several capital projects were completed in 2007.

- The next largest source of revenue is from student tuition and fees. Tuition and fees (net of scholarship allowances of $4,280,772) account for approximately 27 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 6 percent tuition rate increase for 2008.

- Governmental grants and contracts and other grants and contracts account for approximately 21 percent of the college's total operating and nonoperating revenues in 2008. 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. Grants and contracts increased $1,344,701. The majority of this increase is due to the lottery and Pell Grants.

- 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 approximately one percent of total revenues in 2008. The bookstore's contract was renewed and a sign-on bonus of $150,000 was paid at that time and commission rate was increased.

- Nonoperating gifts increased in 2008 by $131,706. Other capital decreased $936,021 over 2007 as a result of the restoration of process relating to the tornado was completed during 2007 except for the Caudill Hall building.

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

Comparison of FY 2007 to FY 2006

- 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 48 percent of the college's total operating and nonoperating revenues for both years 2007 and 2006. State appropriations increased slightly in 2007. In both years most of the increase was designated to fund state mandated salary increases and benefit increases. Capital appropriations increased in 2007 by $156,710.

- The next largest source of revenue is from student tuition and fees. Tuition and fees (net of scholarship allowances of $4,557,749) account for approximately 28 percent of the college's total operating and nonoperating revenues versus 29 percent in 2006. 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 4.1% tuition rate increase for 2007.

- Governmental grants and contracts and other grants and contracts account for approximately 18 percent of the college's total operating and nonoperating revenues in 2007 and 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. Governmental grants and contracts approximately doubled in 2007 and increased by $471,949. The majority of this increase is due to the lottery and Pell Grants. Grants and contracts also increased by $586,297. This increase is attributable to two history grants, the TRIO grants and a new TSBDC grant.

- 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 approximately 1 percent of total revenues in 2007 and 2006.

- Gifts and contributions increased in 2007 by $48,251. Permanent endowment additions declined by $92. During 2007 no revenue was collected for capital grants and gifts. Other capital increased over 2006 as a result of the restoration process relating to the tornado.

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

Expenses

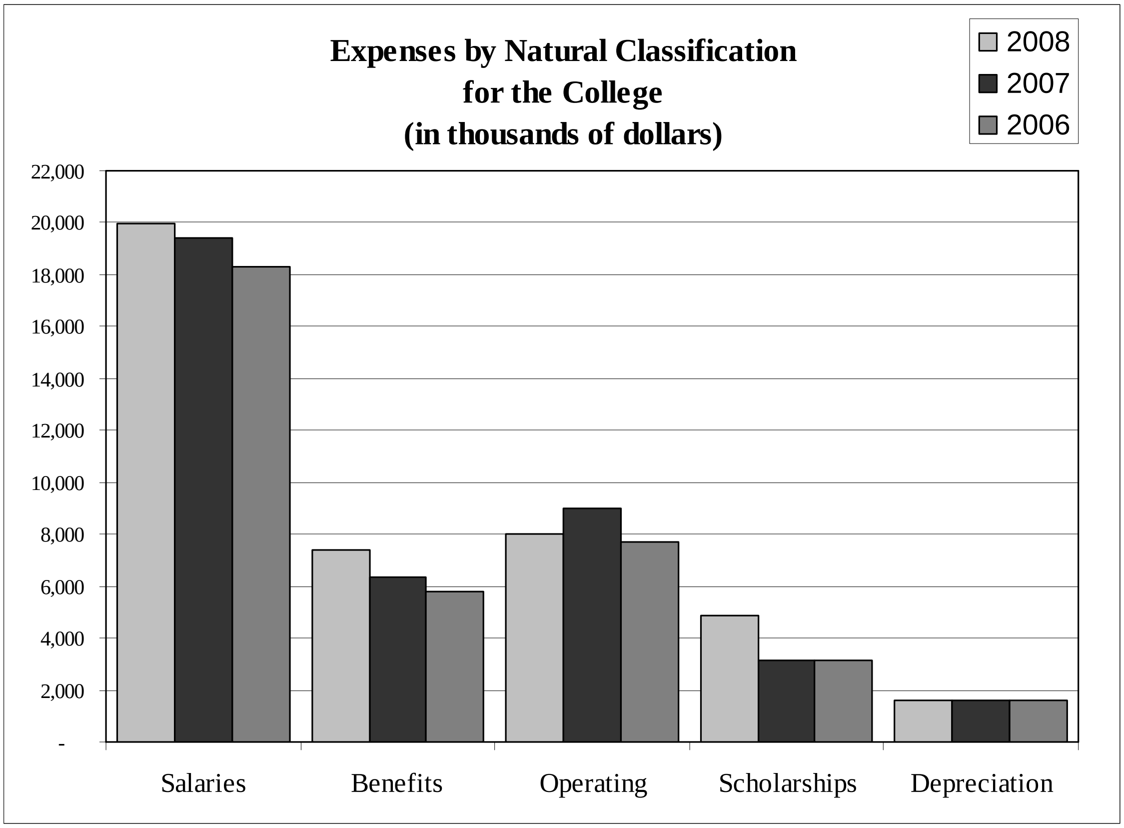
Operating expenses can be displayed in two formats, natural classification and program classification. Both formats are displayed below.

College
Natural Classification
(in thousands of dollars)

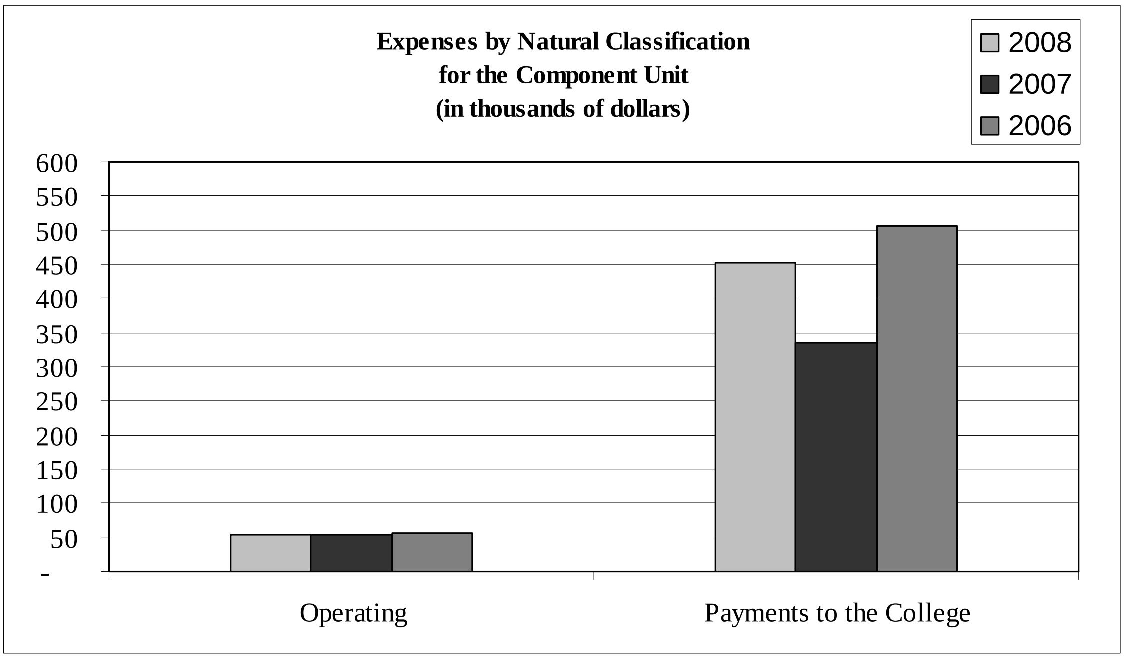
	2008	2007	2006
Salaries	$ 19,978	$ 19,415	$ 18,307
Benefits	7,388	6,368	5,814
Operating	8,036	9,004	7,692
Scholarships	4,892	3,134	3,160
Depreciation	1,574	1,611	1,577
Total	$ 41,868	$ 39,532	$ 36,550

Component Unit
Natural Classification
(in thousands of dollars)

	2008	2007	2006
Operating	$ 55	$ 55	$ 58
Payments to Volunteer State Community College	452	335	505
Total	$ 507	$ 390	$ 563



Expenses by Natural Classification
for the College
(in thousands of dollars)
2008
2007
2006
22,000
20,000
18,000
16,000
14,000
12,000
10,000
8,000
6,000
4,000
2,000
-
Salaries
Benefits
Operating
Scholarships
Depreciation



Comparison of FY 2008 to FY 2007

- In 2008 and 2007, salary and related benefits together comprise approximately 65 percent of the college's operating expenses. The dollar amount increased $1,582,297. 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 addition, this year two new benefit expenses were recorded. These were the expenses for the postemployment benefits (OPEB) of $620,208 paid by the college and the State of Tennessee payments for Medicare supplement on-behalf payment of the college of $15,621.

- For 2008, utilities, supplies and other services (operating) expenses account for almost 19 percent of the total operating expenses, decreasing from 2007 by $968,367, and consist of expenditures for such items as supplies, utilities, communications and shipping, maintenance and repairs, printing, travel, professional and administrative services, and rental and insurance. All of these expense categories increased over 2007, except for building maintenance, which was significantly less in 2008. This reduction was the result of the majority of the tornado related cleanup accomplished in 2007. The cost of supplies increased not only as a result of an increase in usage but also as a result of increase in cost. Utilities and fuel costs increased due to higher prices.

- Scholarship 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 2008, net scholarship expenditures increased over 2007 by $1,757,851 as more awards were made.

- Utilities, supplies and other services (operating) expenses of the foundation remained at the same level in 2008.

- Payments to the college from the foundation increased significantly in 2008 by $117,131. The majority of the payments to VSCC represented scholarship expenditures and agency fund transfers for scholarships or supplies.

Comparison of FY 2007 to FY 2006

- In 2007, salary and related benefits together comprise approximately 65 percent of the college's operating expenses. In 2006, these expenses were 66 percent of total operating expense. The dollar amount increased $1,645,836 but not proportionately to total expense. 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.

- For 2007, utilities, supplies and other services (operating) expenses, account for almost 23 percent or $9,004,209 (21 percent in 2006) of the total operating expenses, which 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. Almost all of these expense categories increased over 2006, but over 93 percent of the increase in total utilities, supplies, and other services was in two areas, other professionals and administrative services ($788,066) and supplies ($435,755). During the year, budgeted positions had to be filled with temporary resources until permanent resources could be found. The cost of supplies increased not only as a result of an increase in usage but also as a result of increase in cost.

- Scholarship 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 2007, net scholarship expenditures decreased slightly over 2006.

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

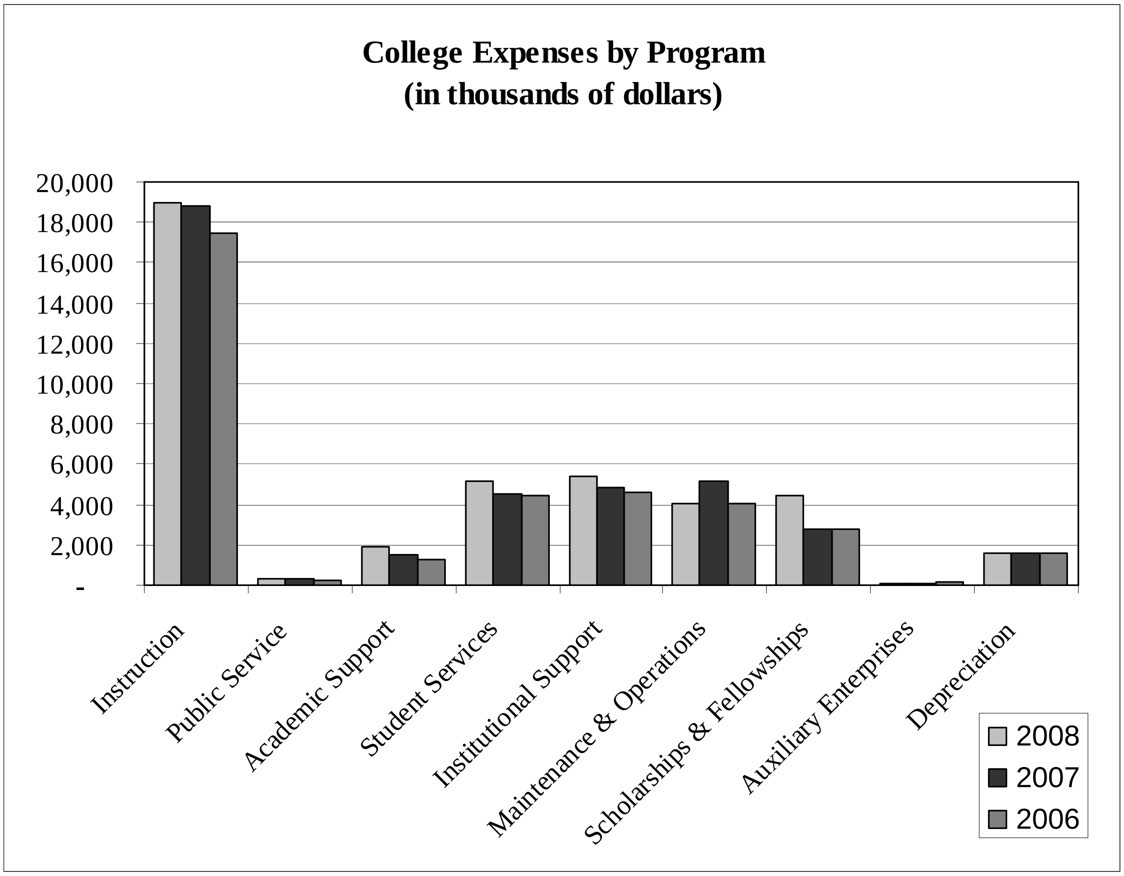
- Operating expenses of the foundation decreased in 2007 by approximately $3 thousand, representing a 5% decrease. In 2006, operating expenses of the foundation were higher as compared with 2007 due to costs for special events.

- Payments to the college from the foundation decreased significantly in 2007. Nearly 91% of the payments to VSCC represented scholarship expenditures and agency fund transfers for scholarships or supplies. The reduction was primarily due to the completion of the Livingston Center project.

Program Classification

(in thousands of dollars)

	2008	2007	2006
Instruction	$ 18,949	$ 18,785	$ 17,451
Public Service	310	279	234
Academic Support	1,878	1,546	1,288
Student Services	5,158	4,514	4,436
Institutional Support	5,427	4,804	4,571
Maintenance and Operations	4,061	5,123	4,049
Scholarships and Fellowships	4,427	2,785	2,770
Auxiliary	84	85	174
Depreciation	1,574	1,611	1,577
Total	$ 41,868	$ 39,532	$ 36,550



Comparison of FY 2008 to FY 2007

- The college follows the policies set forth by NACUBO (National Association of College and University Business Officers) for determining functional classifications of expenditures.

- Expenses in direct support of the instructional programs account for approximately 45 percent of the total expenses. Instructional program expenditures decreased slightly in 2008. In 2007, expenses in direct support of the instructional programs accounted for approximately 48 percent of the total expenses. Postemployment benefits contributed $316,301 of the increase in benefits. The remainder of the increase in salary and benefits is due largely to the state-mandated and institutionally adopted salary increases and benefit rate increases. Operating expense for instructional programs declined $361,280 from 2007.

Other professional and administrative services and supplies expense dropped, which makes up the majority of the decline.

- Expenses for academic support are approximately four percent of total expenses in both 2008 and 2007. The majority of the expenses are generated by library services.

- Student services expenses account for about 12 percent of total expenses for 2008 and 11 percent in 2007. 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 for student services increased $643,827 over 2007 primarily due to salary and benefit increases, including OPEB of $96,303, and increases in supply costs.

- Institutional support functions expenses amounted to approximately 13 percent of total expenses in 2008 and 12 percent of total expenses in 2007. This function includes expenses for such things as executive and fiscal management, public relations and development, safety and security, purchasing, human resources administration, etc. Expenditures for institutional support increased $623,199 primarily due to salary and benefit increases, including OPEB of $92,857, and increases in supply costs.

- Maintenance and operations costs consist primarily of expenses for the general upkeep of the buildings and grounds. Also, utilities costs are included in this function. In 2008, costs for maintenance and operation accounted for 10 percent of total expenses and about 13 percent in 2007. In 2007, the expense was higher due to the cleanup and maintenance required after the tornado.

- Approximately 11 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 2007, approximately 7 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.

Comparison of FY 2007 to FY 2006

- The college follows the policies set forth by NACUBO (National Association of College and University Business Officers) for determining functional classifications of expenditures.

- Expenses in direct support of the instructional programs account for approximately 48 percent of the total expenses. Instructional program expenditures increased in 2007; more than 68 percent ($905,273) of the increase is in personal service expenses. In 2006, expenses in direct support of the instructional programs also accounted for approximately 48 percent of the total expenses. And 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 2007 and 2006. Almost half of the expenses are generated by library services.

- Student services expenses account for about 11 percent of total expenses for 2007 and 12 percent in 2006. 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 for student services increased slightly ($78,573) over 2006's level.

- Institutional support functions expenses amounted to approximately 12 percent of total expenses in 2007 and 11 percent of total expenses in 2006. This function includes expenses for such things as executive and fiscal management, public relations and development, safety and security, purchasing, human resources administration, etc. Expenditures for institutional support increased $232,978 primarily due to salary and benefit increases.

- Maintenance and operations costs consist primarily of expenses for the general upkeep of the buildings and grounds. Also, utilities costs are included in this function. In 2007, costs for maintenance and operation accounted for 13 percent of total expenses and about 11 percent in 2006. Almost the entire expenditure increase relates to personal service expenses in 2007. In 2006, the expense was higher due to the cleanup and maintenance required after the tornado. During both years, roofs and skylights were replaced or in the process of being replaced on two buildings.

- Approximately 7 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 2006, approximately 8 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.

College
Cash Flows
(in thousands of dollars)

	2008	2007	2006
Cash provided (used) by:			
Operating activities	$ (24,230)	$ (21,893)	$ (23,074)
Noncapital financing activities	29,107	25,718	23,112
Capital and related financing activities	(2,471)	(3,277)	(595)
Investing activities	740	566	467
Net increase (decrease) in cash	**3,146**	**1,114**	**(90)**
Cash, beginning of year	**14,319**	**13,205**	**13,295**
Cash, end of year	**$ 17,465**	**$ 14,319**	**$ 13,205**

Comparison of FY 2008 to FY 2007

- The major sources of cash flows for operating activities include tuition and fees of $11,343,517 in 2008 and $10,538,555 in 2007. Tuition fees increased due to a rate increase of 6 percent but were offset by a drop in enrollment. Grants and contracts were $951,609 in 2008 and $801,879 in 2007. Most of the cash flows from grants and contracts were restricted in nature. Bookstore commissions were $457,850 in 2008 and $277,138 in 2007.

Bookstore commissions increased as a result of the sign-on bonus of $150,000 received at the time a new contract was signed and an increase in commission rate.

- The major uses of cash flows for operating activities include payments for salaries and benefits of $27,049,465 in 2008 and $25,779,544 in 2007, payments to suppliers and vendors for operational items of $2,119,926 in 2008 and $4,988,455 in 2007 and payments for scholarships of $4,892,157 in 2008 and $3,130,473 in 2007. 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 $19,351,300 in 2008 and $18,168,200 in 2007 and gifts and grants received for other than capital or endowment purposes of $8,482,815 in 2008 and $6,928,764 in 2007. 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.

- Cash flows provided by capital and related financing activities consist primarily of $295,588 in 2008 and $913,510 in 2007 received for capital-state appropriations. The largest use of funds was $2,519,273 in 2008 for other capital and related finances and $4,121,141 in 2007 for the purchase of capital assets and construction. In 2008, most of the expenditures were for tornado remediation efforts, especially those related to the Caudill Hall building. In 2007, most of the expenditures were for tornado remediation efforts, especially those related to the Ramer Administration Building and Caudill Hall. The General Assembly of the State of Tennessee, in addition to normal operating state appropriations, appropriates funds for capital acquisitions and capital maintenance.

- Cash flows from investing activities increased from $566,550 in fiscal year 2006-07 to $740,405 in fiscal year 2007-08. This resulted from an overall stronger cash position and continued improvement in interest rate yields.

- The net result is that for the year ended June 30, 2008, the liquidity of the college increased $3,146,360.

Comparison of FY 2007 to FY 2006

- From a comparative standpoint the major sources of cash flows for operating activities include tuition and fees of $10,538,555 in 2007 and $10,396,603 in 2006, grants and contracts of $801,879 in 2007 and $687,080 in 2006, and bookstore commissions of $277,138 in 2007 and $262,901 in 2006. Tuition, fees, and bookstore commissions increased as a result of growth in number of students as well as an increase in tuition. 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 $25,779,544 in 2007 and $23,895,418 in 2006, payments to suppliers and vendors for operational items of $4,988,455 in 2007 and $7,777,041 in 2006, and payments for scholarships of $3,130,473 in 2007 and $3,160,742 in 2006. 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 non-capital financing activity rather than an operating activity.

- The primary sources of cash from noncapital financing activities were state appropriations of $18,168,200 in 2007 and $16,725,300 in 2006 and gifts and grants received for other than capital or endowment purposes of $6,928,764 in 2007 and $6,300,297 in 2006. 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 provided $628,216 in 2007 primarily due to increases in the accounts held for the Tennessee Technology Centers.

- Cash flows provided by capital and related financing activities consist primarily of $913,510 in 2007 and $756,800 in 2006 received for capital-state appropriations. The largest use of funds was $4,121,141 in 2007 and $2,793,376 in 2006 for the purchase of capital assets and construction. In 2007 most of the expenditures were for tornado remediation efforts, especially those related to the Ramer Administration Building and Caudill Hall. In 2006 the major portion of these expenditures was for the construction of the Livingston Center building. The General Assembly of the State of Tennessee, in addition to normal operating state appropriations, appropriates funds for capital acquisitions and capital maintenance.

- Cash flows from investing activities increased from $466,580 in fiscal year 2005-06 to $566,550 in fiscal year 2006-07. This resulted from an overall stronger cash position and continued improvement in interest rate yields.

- The net result is that for the year ended June 30, 2007, the liquidity of the college increased by $1,114,041.

Capital Assets and Debt Administration

Capital Assets

Volunteer State Community College had $33,219,891 invested in capital assets, net of accumulated depreciation of $17,340,323 at June 30, 2008; $31,602,966 invested in capital assets, net of accumulated depreciation of $15,881,516 at June 30, 2007; and $29,160,980 invested in capital assets, net of accumulated depreciation of $14,426,723 at June 30, 2006. Depreciation charges totaled $1,574,235, $1,610,631, and $1,577,263 for the years ended June 30, 2008; June 30, 2007; and June 30, 2006, respectively. Details of these assets are shown below.

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

	2008	2007	2006
Land	$ 1,630	$ 1,630	$ 1,176
Land improvements & infrastructure	3,446	3,727	3,930
Buildings	20,082	20,880	19,278
Equipment	1,050	1,105	1,167
Software	693	791	890
Library holdings	548	543	536
Projects in progress	5,771	2,927	2,184
Total	$ 33,220	$ 31,603	$ 29,161

During the 2008 fiscal year, the college completed tornado remediation construction on the Ramer Administration Building to repair damage caused by the 2006 tornado. Much of the damage to Caudill Hall was also repaired, placing the classrooms and offices in use again during the fiscal year. The only area that remains to be repaired in Caudill Hall is the auditorium. The proceeds for these efforts are expected to be provided by insurance funds, as well as proceeds from the State and FEMA.

During the 2007 fiscal year, the college completed or had in progress several capital projects. The college proceeded in the implementation of Banner Student software. Completion of this project is expected in the 2008 fiscal year. Restoration of the Ramer Administration Building was near completion and restoration work began on Caudill Hall and is expected to be completed in early 2008. Additionally significant tornado remediation work was done on the campus exterior lighting and the Fox Maintenance Building. Work was completed on both the retention and detention ponds. In addition, construction work on the Livingston Oakley Administration Building was completed.

In fiscal year 2009, the college will add exterior lighting and a new press box to the softball field. The college anticipates completion of the Caudill Hall auditorium project in the 2009 fiscal year. The college will also complete a significant paving project and create a new entrance and road allowing access to the rear of campus. Funds for these projects have been set aside in the Unexpended Plant Fund and in the Renewal and Replacement Fund. More detailed information about the college's capital assets is presented in Note 5 to the financial statements.

The component unit had no capital assets for the last three years.

Debt

The college had \$318,692, \$439,828, and \$559,183 in debt outstanding at June 30, 2008; June 30, 2007; and June 30, 2006, respectively. The table below summarizes these amounts by type of debt instrument.

College
Debt Summary
(in thousands of dollars)

	Beginning Balance	Additions	Reductions	Ending Balance
2008				
TSSBA bonds	$ 440	$ -	$ 121	$ 319
2007				
TSSBA bonds	$ 559	$ -	$ 119	$ 440

2006				
TSSBA bonds	$ 128	$ 444	$ 13	$ 559
TSSBA commercial paper	553	-	553	-
	$ 681	$ 444	$ 566	$ 559

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.

The component unit has had no debt for the last three years.

Economic Factors That Will Affect the Future

A 6 percent tuition increase was approved for the 2008-09 fiscal year. State appropriation funding will be reduced by 4.1 percent for the upcoming fiscal year.

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, Tennessee 37066-3188
(615) 230-3560

Exhibit A

TENNESSEE BOARD OF REGENTS
VOLUNTEER STATE COMMUNITY COLLEGE
STATEMENTS OF NET ASSETS
JUNE 30, 2008, AND JUNE 30, 2007

	Volunteer State		Component Unit - Foundation	
	2008	**2007**	**2008**	**2007**
ASSETS				
Current assets:				
Cash and cash equivalents (Notes 2 and 17)	$ 11,712,776.22	$ 9,728,581.18	$ 1,143,558.70	$ 1,035,744.23
Investments (Note 3)	2,104,000.00	2,207,642.40	-	-
Accounts, notes, and grants receivable (net) (Note 4)	9,070,373.66	6,259,171.53	5,349.50	12.00
Pledges receivable (net) (Note 17)	-	-	56,000.98	44,240.37
Inventories (at lower of cost or market)	1,572.84	1,448.40	-	-
Prepaid expenses and deferred charges	37,495.99	27,704.12	-	324.26
Accrued interest receivable	72,089.49	60,666.67	-	-
Other assets	-	11,743.51	-	-
Total current assets	22,998,308.20	18,296,957.81	1,204,909.18	1,080,320.86
Noncurrent assets:				
Cash and cash equivalents (Notes 2 and 17)	5,752,696.92	4,590,532.17	88,249.93	337,640.36
Investments (Notes 3 and 17)	2,000,000.00	2,000,000.00	3,956,906.65	3,755,548.59
Pledges receivable (net) (Note 17)	-	-	10,696.93	114,195.91
Capital assets (net) (Note 5)	33,219,891.36	31,602,966.03	-	-
Other assets	7,866.50	7,797.56	19,168.13	19,032.51
Total noncurrent assets	40,980,454.78	38,201,295.76	4,075,021.64	4,226,417.37
Total assets	63,978,762.98	56,498,253.57	5,279,930.82	5,306,738.23
LIABILITIES				
Current liabilities:				
Accounts payable	8,785,603.45	5,982,302.86	27,222.41	48,746.34
Accrued liabilities	1,423,858.37	1,739,134.31	1,626.00	-
Deferred revenue	896,379.75	785,647.28	1,000.00	-
Compensated absences (Note 6)	323,576.10	319,430.76	-	-
Accrued interest payable	-	2,964.92	-	-
Long-term liabilities, current portion (Note 6)	125,993.43	121,136.23	-	-
Deposits held in custody for others	4,508,564.01	3,219,027.74	-	-
Other liabilities	1,773.41	7,897.89	-	-
Total current liabilities	16,065,748.52	12,177,541.99	29,848.41	48,746.34
Noncurrent liabilities:				
Compensated absences (Note 6)	987,165.41	980,202.48	-	-
Long-term liabilities (Note 6)	192,698.72	318,692.15	-	-
Due to grantors (Note 6)	3,427.19	2,026.02	-	-
Net OPEB obligation (Notes 6 and 10)	620,208.42	-	-	-
Total noncurrent liabilities	1,803,499.74	1,300,920.65	-	-
Total liabilities	17,869,248.26	13,478,462.64	29,848.41	48,746.34
NET ASSETS				
Invested in capital assets, net of related debt	32,901,199.21	31,163,137.65	-	-
Restricted for:				
Nonexpendable:				
Scholarships and fellowships	116,931.15	112,867.84	3,641,518.71	3,560,336.96
Expendable:				
Scholarships and fellowships	46,601.64	23,341.41	972,786.66	682,903.41
Instructional department uses	38,479.67	64,307.35	31,605.26	20,949.09
Loans	118.13	118.13	-	-
Capital projects	-	-	18,620.51	266,429.13
Other	58,395.79	34,708.33	22,406.14	76,447.99
Unrestricted (Note 8)	12,947,789.13	11,621,310.22	563,145.13	650,925.31
Total net assets	$ 46,109,514.72	$ 43,019,790.93	$ 5,250,082.41	$ 5,257,991.89

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, 2008, AND JUNE 30, 2007

	Volunteer State		Component Unit - Foundation	
	2008	**2007**	**2008**	**2007**
REVENUES				
Operating revenues:				
Student tuition and fees (net of scholarship allowances of $4,280,772.16 for the year ended June 30, 2008, and $4,557,749.27 for the year ended June 30, 2007)	$ 11,230,903.01	$ 10,459,637.46	$ -	$ -
Gifts and contributions	-	-	420,339.94	69,732.95
Endowment income	-	-	149,690.26	265,844.56
Governmental grants and contracts	885,859.13	963,502.14	4,909.50	-
Sales and services of educational departments	25,115.00	26,045.00	-	-
Auxiliary enterprises:				
Bookstore	457,849.58	280,080.22	-	-
Food service	20,478.98	27,665.03	-	-
Other auxiliaries	-	88.85	-	-
Interest earned on loans to students	643.43	718.23	-	-
Other operating revenues	288,250.81	236,384.17	135.86	22,949.49
Total operating revenues	12,909,099.94	11,994,121.10	575,075.56	358,527.00
EXPENSES				
Operating expenses (Note 13):				
Salaries and wages	19,977,913.05	19,414,702.86	-	-
Benefits	7,387,592.21	6,368,505.11	-	-
Utilities, supplies, and other services	8,035,842.53	9,004,209.36	55,052.00	54,826.16
Scholarships and fellowships	4,892,157.50	3,134,306.41	-	-
Depreciation expense	1,574,234.81	1,610,630.93	-	-
Payments to or on behalf of Volunteer State Community College	-	-	452,211.07	335,079.60
Total operating expenses	41,867,740.10	39,532,354.67	507,263.07	389,905.76
Operating gain/(loss)	(28,958,640.16)	(27,538,233.57)	67,812.49	(31,378.76)
NONOPERATING REVENUES (EXPENSES)				
State appropriations	19,351,758.00	18,174,900.00	-	-
Gifts (including $452,211.07 from the component unit for the fiscal year ended June 30, 2008, and $335,079.60 for the fiscal year ended June 30, 2007)	477,163.24	345,456.59	-	-
Grants and contracts	8,005,651.72	6,583,307.62	-	-
Investment income/(loss) (net of investment expense of $0.00 for the college and $15,741.45 for the component unit for the fiscal year ended June 30, 2008, and $0.00 for the college and $13,983.44 for the component unit for the fiscal year ended June 30, 2007)	636,762.94	588,300.97	(208,280.19)	128,769.35
Interest on capital asset-related debt	(16,104.49)	(16,360.41)	-	-
Other nonoperating revenues/(expenses)	(643.87)	(527.73)	-	-
Net nonoperating revenues	28,454,587.54	25,675,077.04	(208,280.19)	128,769.35
Loss before other revenues, expenses, gains, or losses	(504,052.62)	(1,863,156.53)	(140,467.70)	97,390.59
Capital appropriations	295,587.98	913,510.43	-	-
Capital grants and gifts	-	-	61,133.34	220,751.26
Additions to permanent endowments	2,388.00	744.00	71,424.88	270,540.58
Other capital	3,295,800.43	4,231,821.56	-	-
Total other revenues, expenses, gains, or losses	3,593,776.41	5,146,075.99	132,558.22	491,291.84
Increase in net assets	3,089,723.79	3,282,919.46	(7,909.48)	588,682.43
NET ASSETS				
Net assets - beginning of year	43,019,790.93	39,736,871.47	5,257,991.89	4,669,309.46
Net assets - end of year	$ 46,109,514.72	$ 43,019,790.93	$ 5,250,082.41	$ 5,257,991.89

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, 2008, AND JUNE 30, 2007

	Year Ended June 30, 2008	Year Ended June 30, 2007
CASH FLOWS FROM OPERATING ACTIVITIES		
Tuition and fees	$ 11,343,516.53	$ 10,538,555.36
Grants and contracts	951,608.65	801,879.01
Sales and services of educational activities	25,115.00	26,045.00
Payments to suppliers and vendors	(5,375,917.20)	(4,988,445.52)
Payments to employees	(19,955,063.72)	(19,363,179.46)
Payments for benefits	(7,094,400.79)	(6,416,364.13)
Payments for scholarships and fellowships	(4,892,157.50)	(3,130,473.23)
Interest earned on loans to students	643.43	718.23
Auxiliary enterprise charges:		
Bookstore	457,849.58	277,138.22
Food services	20,478.98	30,221.80
Other auxiliaries	-	88.85
Other receipts (payments)	288,502.56	330,591.34
Net cash provided (used) by operating activities	(24,229,824.48)	(21,893,224.53)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State appropriations	19,351,300.00	18,168,200.00
Gifts and grants received for other than capital or endowment purposes (including $452,211.07 from the component unit for the fiscal year ended June 30, 2008, and $335,079.60 for the fiscal year ended June 30, 2007)	8,482,814.96	6,928,764.21
Private gifts for endowment purposes	2,388.00	744.00
Federal student loan receipts	5,531,036.54	4,426,729.01
Federal student loan disbursements	(5,529,858.06)	(4,427,825.38)
Changes in deposits held for others	1,275,288.75	628,215.81
Other noncapital financing receipts (payments)	(6,124.48)	(6,693.42)
Net cash flows provided (used) by noncapital financing activities	29,106,845.71	25,718,134.23
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital - state appropriation	295,587.98	913,510.43
Purchase of capital assets and construction	(104,639.50)	(4,121,140.60)
Principal paid on capital debt and lease	(125,993.43)	(119,354.26)
Interest paid on capital debt and lease	(16,748.36)	(16,900.81)
Other capital and related financing receipts (payments)	(2,519,273.47)	66,466.45
Net cash flows provided (used) by capital and related financing activities	(2,471,066.78)	(3,277,418.79)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of investments	-	2,246,558.15
Income on investments	740,405.34	527,634.30
Purchase of investments	-	(2,207,642.40)
Net cash provided (used) by investing activities	740,405.34	566,550.05
Net increase (decrease) in cash and cash equivalents	3,146,359.79	1,114,040.96
Cash - beginning of year	14,319,113.35	13,205,072.39
Cash - end of year (Note 3)	$ 17,465,473.14	$ 14,319,113.35

Exhibit C (Cont.)

TENNESSEE BOARD OF REGENTS
VOLUNTEER STATE COMMUNITY COLLEGE
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2008, AND JUNE 30, 2007

	Year Ended June 30, 2008	Year Ended June 30, 2007
Reconciliation of operating loss to net cash used by operating activities:		
Operating income (loss)	$ (28,958,640.16)	$ (27,538,233.57)
Adjustments to reconcile operating loss to net cash used by operating activities:		
Depreciation expense	1,574,234.81	1,610,630.93
Change in assets and liabilities:		
Receivables, net	(62,997.35)	(154,610.30)
Inventories	(124.44)	1,593.83
Prepaid/deferred items	(9,791.87)	5,223.43
Other assets	251.75	(10,899.69)
Accounts payable	2,800,469.56	4,185,695.15
Accrued liabilities	304,932.48	23,839.08
Deferred revenues	110,732.47	(2.97)
Compensated absences	11,108.27	(16,460.42)
Net cash used by operating activities	$ (24,229,824.48)	$ (21,893,224.53)
Noncash transactions		
Gifts in-kind	$ 108,045.15	$ 53,384.23
Loss on disposal of capital assets	$ -	$ 7,676.84
Bad debt expense	$ 223,885.65	$ 160,574.50

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The college is a part of the State University and Community College System of Tennessee (Tennessee Board of Regents). This system is a component unit of the State of Tennessee because the state appoints a majority of the system's governing body and provides financial support; the system is discretely presented in the *Tennessee Comprehensive Annual Financial Report*. 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 17 for more detailed information about the component unit and how to obtain the report.

Basis of Presentation

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

Basis of Accounting

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

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

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

All other activity is nonoperating in nature and includes (1) state appropriations for operations; (2) investment income; (3) 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 AND CASH EQUIVALENTS

At June 30, 2008, cash and cash equivalents consisted of $1,082,248.22 in bank accounts, $5,000.00 of petty cash on hand, $15,541,437.09 in the State of Tennessee Local Government Investment Pool (LGIP) administered by the State Treasurer, and $836,787.83 in LGIP deposits for capital projects. At June 30, 2007, cash and cash equivalents consisted of $2,184,032.89 in bank accounts, $5,000.00 of petty cash on hand, $11,695,926.13 in the State of Tennessee Local Government Investment Pool administered by the State Treasurer, and $434,154.33 in LGIP deposits for capital projects.

LGIP deposits for capital projects - Payments related to the college's capital projects are made by the State of Tennessee's Department of Finance and Administration. The college's estimated local share of the cost of each project is held in a separate Local Government Investment Pool account. As expenses are incurred, funds are withdrawn from the LGIP account by the Tennessee Board of Regents and transferred to the Department of Finance and Administration. The funds in the account are not available to the college for any other purpose until the project is completed and the Tennessee Board of Regents releases any remaining funds.

NOTE 3. INVESTMENTS

All investments permitted to be reported at fair value under GASB Statement 31, *Accounting and Financial Reporting for Certain Investments and External Investment Pools,* are reported at fair value, including those with a maturity date of one year or less at the time of purchase.

At June 30, 2008, the college had the following investments and maturities.

		Investment Maturities (in Years)	
Investment Type	Fair Value	Less than 1	1 to 5
Certificates of deposit	$ 4,104,000.00	$ 2,104,000.00	$ 2,000,000.00

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

		Investment Maturities (in Years)	
Investment Type	Fair Value	Less than 1	1 to 5
Certificates of deposit	$ 4,207,642.40	$ 2,207,642.40	$ 2,000,000.00

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, banker's 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. Tennessee Board of Regents policy restricts investments in banker's acceptances and commercial paper. The policy requires that prime banker's acceptances must be issued by domestic banks with a minimum AA rating or foreign banks with a AAA long-term debt rating by a majority of the ratings services that have rated the issuer. The policy further requires that commercial paper must be issued by corporations with a minimum rating of A1 or equivalent as provided by a majority of the rating services that rate the issuer. If there is no long-term debt rating, the short-term debt must be rated A1 by all rating services (minimum of two). Commercial paper of a banking institution must not be purchased.

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

Investment Type	Fair Value	Credit Quality Rating Unrated
LGIP	$ 12,140,648.84	$ 12,140,648.84

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

Investment Type	Fair Value	Credit Quality Rating Unrated
LGIP	$ 12,130,080.46	$ 12,130,080.46

Concentration of credit risk - Tennessee Board of Regents policy restricts investments in banker's acceptances, commercial paper, and money market mutual funds. The policy limits banker's acceptances to not exceed 20% of the total investments on the date of acquisition and limits the combined amount of banker's acceptances and commercial paper to not exceed 35% of the total investments at the date of acquisition. Additionally, no more than 5% of total investments at the date of acquisition may be invested in the commercial paper of a single issuer. The policy further limits the total holdings of an issuer's commercial paper to not more than 2% of the issuing corporation's total outstanding commercial paper. Tennessee Board of Regents policy limits investments in money market mutual funds to not exceed 10% of total investments on the date of acquisition.

More than 5% of the college's investments were invested in the following single issuers:

Issuer	Percentage of Total Investments	
	June 30, 2008	June 30, 2007
Green Bank	51.27%	47.53%
Farmers Bank	48.73%	-
Wilson Bank & Trust	-	52.47%

NOTE 4. RECEIVABLES

Receivables included the following:

	June 30, 2008	June 30, 2007
Student accounts receivable	$ 1,053,758.59	$ 878,053.38
Grants receivable	754,539.07	395,437.84
State appropriation receivable	51,758.00	51,300.00
Other receivables	7,994,122.83	5,539,783.51
Subtotal	9,854,178.49	6,864,574.73
Less allowance for doubtful accounts	(783,804.83)	(605,403.20)
Total receivables	$ 9,070,373.66	$ 6,259,171.53

Federal Perkins Loan Program funds included the following:

	June 30, 2008	June 30, 2007
Perkins loans receivable	$ 24,238.32	$ 24,995.62
Less allowance for doubtful accounts	(24,238.32)	(24,995.62)
Total	$ -	$ -

NOTE 5. CAPITAL ASSETS

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

	Beginning Balance	Additions	Transfers	Reductions	Ending Balance
Land	$ 1,629,993.14	$ -	$ -	$ -	$ 1,629,993.14
Land improvements and infrastructure	5,814,652.95	-	-	-	5,814,652.95
Buildings	30,670,258.48	-	-	-	30,670,258.48
Equipment	4,354,169.17	233,868.19	-	-	4,588,037.36
Library holdings	1,099,188.72	128,136.17	-	130,605.67	1,096,719.22
Software	989,249.28	-	-	-	989,249.28
Projects in progress	2,926,970.79	2,844,332.94	-	-	5,771,303.73
Total	47,484,482.53	3,206,337.30	-	130,605.67	50,560,214.16
Less accumulated depreciation/amortization:					
Land improvements and infrastructure	2,087,519.99	280,993.71	-	-	2,368,513.70
Buildings	9,790,608.17	797,530.56	-	-	10,588,138.73
Equipment	3,249,259.62	289,230.28	-	-	3,538,489.90
Library holdings	556,278.86	122,732.49	-	130,605.67	548,405.68
Software	197,849.86	98,924.93	-	-	296,774.79
Total	15,881,516.50	1,589,411.97	-	130,605.67	17,340,322.80
Capital assets, net	$ 31,602,966.03	$ 1,616,925.33	$ -	$ -	$ 33,219,891.36

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

	Beginning Balance	Additions	Transfers	Reductions	Ending Balance
Land	$ 1,175,577.19	$ 454,415.95	$ -	$ -	$ 1,629,993.14
Land improvements and infrastructure	5,736,652.95	78,000.00	-	-	5,814,652.95
Buildings	28,266,645.90	-	2,403,612.58	-	30,670,258.48
Equipment	4,134,375.50	250,727.67	-	30,934.00	4,354,169.17
Library holdings	1,100,784.97	130,983.77	-	132,580.02	1,099,188.72
Software	989,249.28	-	-	-	989,249.28
Projects in progress	2,184,417.22	3,146,166.15	(2,403,612.58)	-	2,926,970.79
Total	43,587,703.01	4,060,293.54	-	163,514.02	47,484,482.53
Less accumulated depreciation/amortization:					
Land improvements and infrastructure	1,806,526.28	280,993.71	-	-	2,087,519.99

Buildings	8,988,565.38	802,042.79	-	-	9,790,608.17
Equipment	2,967,024.18	305,492.60	-	23,257.16	3,249,259.62
Library holdings	565,681.98	123,176.90	-	132,580.02	556,278.86
Software	98,924.93	98,924.93	-	-	197,849.86
Total accum. depreciation	14,426,722.75	1,610,630.93	-	155,837.18	15,881,516.50
Capital assets, net	$ 29,160,980.26	$ 2,449,662.61	$ -	$ 7,676.84	$ 31,602,966.03

NOTE 6. LONG-TERM LIABILITIES

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

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Payables:					
TSSBA debt:					
Bonds	$ 439,828.38	$ -	$ 121,136.23	$ 318,692.15	$ 125,993.43
Other liabilities:					
Compensated absences	1,299,633.24	1,013,521.05	1,002,412.78	1,310,741.51	323,576.10
Due to grantors	2,026.02	1,401.17	-	3,427.19	-
Net OPEB obligation	-	934,000.00	313,791.58	620,208.42	-
Subtotal	1,301,659.26	1,948,922.22	1,316,204.36	1,934,377.12	323,576.10
Total long-term liabilities	$ 1,741,487.64	$ 1,948,922.22	$ 1,437,340.59	$ 2,253,069.27	$ 449,569.53

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

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Payables:					
TSSBA debt:					
Bonds	$ 559,182.64	$ -	$ 119,354.26	$ 439,828.38	$ 121,136.23
Other liabilities:					
Compensated absences	1,316,093.66	778,509.10	794,969.52	1,299,633.24	319,430.76
Due to grantors	1,497.86	528.16	-	2,026.02	-
Subtotal	1,317,591.52	779,037.26	794,969.52	1,301,659.26	319,430.76
Total long-term liabilities	$ 1,876,774.16	$ 779,037.26	$ 914,323.78	$ 1,741,487.64	$ 440,566.99

TSSBA Debt - Bonds

Bonds, with interest rates ranging from 2.25% to 4.50%, 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.

Debt service requirements to maturity for the college's portion of TSSBA bonds at June 30, 2008, are as follows:

Year Ending June 30	Principal	Interest	Total
2009	$ 125,993.43	$ 12,593.80	$ 138,587.23
2010	131,048.55	7,790.57	138,839.12
2011	14,427.58	2,548.63	16,976.21
2012	15,033.54	1,971.52	17,005.06
2013	15,664.94	1,370.18	17,035.12
2014	16,524.11	743.58	17,267.69
	$ 318,692.15	$ 27,018.28	$ 345,710.43

More detailed information regarding the bonds can be found in the notes to the financial statements in the financial report for the Tennessee State School Bond Authority. That report may be obtained by writing to the Director of Bond Finance, Suite 1600, James K. Polk Building, Nashville, Tennessee 37243-1402, 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 current year earnings has been authorized for expenditure. The remaining amount, if any, is retained to be used in future years. At June 30, 2008, net appreciation of $2,980.73 is available to be spent, of which $2,980.73 is included in restricted net assets expendable for scholarships and fellowships. At June 30, 2007, net appreciation of $2,868.82 is available to be spent, of which $2,868.82 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 for specific purposes. The unrestricted net assets are composed of the following:

	June 30, 2008	June 30, 2007
Working capital	$ 443,762.05	$ 519,313.05
Encumbrances	164,951.32	285,951.90
Designated fees	117,578.95	2,489.14
Auxiliaries	1,282,934.07	867,657.20
Plant construction	2,490,546.39	1,216,072.45
Renewal and replacement of equipment	9,589,522.46	8,414,722.70
Debt retirement	152,215.70	272,556.42
Undesignated	(1,293,721.81)	42,547.36
Total	$ 12,947,789.13	$ 11,621,310.22

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 13.62% 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, 2008, 2007, and 2006 were $1,255,307.41, $1,242,903.18, and $900,707.53. 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 $820,945.97 for the year ended June 30, 2008, and

$770,388.91 for the year ended June 30, 2007. Contributions met the requirements for each year.

NOTE 10. OTHER POST-EMPLOYMENT BENEFITS

Healthcare is the only "other postemployment benefit" (OPEB) provided to employees. The State of Tennessee administers a group health insurance program which provides post-employment health insurance benefits to eligible college retirees. This program includes two plans available to higher education employees – the State Employee Group Plan and the Medicare Supplement Plan. Both plans are agent multiple-employer defined benefit OPEB plans. Benefits are established and amended by an insurance committee created by Title 8, Chapter 27, Part 201, *Tennessee Code Annotated*. Prior to reaching age 65, all members have the option of choosing a preferred provider organization (PPO), point of service (POS), or health maintenance organization (HMO) plan for healthcare benefits. Subsequent to age 65, members who are also in the state's retirement system may participate in a state-administered Medicare supplement that does not include pharmacy. The state makes on-behalf payments to the Medicare supplement plan for the college's eligible retirees; see Note 16. The plans are reported in the *Tennessee Comprehensive Annual Financial Report*. That report is available on the state's website at http://tennessee.gov/finance/act/cafr.html.

Funding Policy. The premium requirements of plan members are established and may be amended by the insurance committee. The plans are self-insured and financed on a pay-as-you-go basis with the risk shared equally among the participants. Claims liabilities of the plan are periodically computed using actuarial and statistical techniques to establish premium rates. In accordance with TCA 8-27-205 (b), retirees not eligible for Medicare pay a percentage of the total state premium under the State Employee Group Plan based on years of service, leaving a portion of retiree premiums effectively subsidized by contributions to the State Employee Group Plan for active employees. Retirees with 30 years of service pay 20% of the total premium under the State Employee Group Plan. Retirees with 20 but less than 30 years of service pay 30% of the total premium under the State Employee Group Plan. Retirees 55 and older with less than 20 but more than 10 years of service pay 40% of the total premium under the State Employee Group Plan. Contributions for the State Employee Group Plan for the year ended June 30, 2008, were $3,583,833.70, which consisted of $2,881,465.47 from the college and $702,368.23 from the employees.

Annual OPEB Cost and Net OPEB Obligation

	State Employee Group Plan
Annual Required Contribution (ARC)	$ 934,000.00
Interest on the Net OPEB Obligation	-
Adjustment to the ARC	-
Annual OPEB Cost	934,000.00
Amount of contribution	(313,791.58)
Increase (decrease) in Net OPEB Obligation	620,208.42
Net OPEB Obligation – beginning of year	-
Net OPEB Obligation – end of year	$ 620,208.42

Year-end	Plan	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation at Year-end
June 30, 2008	State Employee Group Plan	$ 934,000.00	33.6%	$ 620,208.42

Funded Status and Funding Progress. The funded status of the plan as of June 30, 2008, was as follows:

	State Employee Group Plan
Actuarial valuation date	July 1, 2007
Actuarial accrued liability (AAL)	$ 8,308,000.00
Actuarial value of plan assets	-
Unfunded actuarial accrued liability (UAAL)	$ 8,308,000.00
Actuarial value of assets as a percentage of the AAL	0.00%
Covered payroll (active plan members)	$ 17,148,397.60
UAAL as percentage of covered payroll	48.4%

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

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

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

NOTE 11. INSURANCE-RELATED ACTIVITIES

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

The college participates in the Risk Management Fund. The fund allocates the cost of providing claims servicing and claims payment by charging a premium to the college based on a percentage of the college's expected loss costs, which include both experience and exposures. This charge considers recent trends in actual claims experience of the state as a whole. An actuarial valuation is performed as of fiscal year-end to determine the fund liability and premium allocation. Information regarding the determination of the claims liabilities and the changes in the balances of the claims liabilities for the years ended June 30, 2008, and June 30, 2007, 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 Rosa L. Parks Avenue, Nashville, Tennessee 37243-1102, 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, 2008, the Risk Management Fund held $123.9 million in cash and cash equivalents designated for payment of claims. At June 30, 2007, the Risk Management fund held $116.7 million in cash and cash equivalents designated for payment of claims.

At June 30, 2008, the scheduled coverage for the college was $79,921,100 for buildings and $22,302,100 for contents. At June 30, 2007, the scheduled coverage for the college was $80,222,400 for buildings and $21,907,100 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 $6,762,626.21 at June 30, 2008, and $6,517,326.32 at June 30, 2007.

Operating Leases - The college has entered into various operating leases for buildings and equipment. Such leases will probably continue to be required. Expenses under operating leases for real property were $9,000.00 and for personal property were $280,841.62 for the year ended June 30, 2008. The amounts for the year ended June 30, 2007, were $0.00 and $299,844.96. All operating leases are cancelable at the lessee's option.

Construction in Progress - At June 30, 2008, outstanding commitments under construction contracts totaled $356,418.79 for fire alarm, tornado damage, and sidewalk repair, of which $343,040.29 will be funded by future state capital outlay appropriations.

Litigation - The college is not involved in any lawsuits as of June 30, 2008.

NOTE 13. NATURAL CLASSIFICATIONS WITH FUNCTIONAL CLASSIFICATIONS

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

	Natural Classification					
Functional Classification	Salaries	Benefits	Other Operating	Scholarships	Depreciation	Total
Instruction	$ 11,497,783.09	$ 3,871,818.13	$ 3,495,662.87	$ 83,308.00	$ -	$ 18,948,572.09
Public service	111,895.79	47,793.60	146,095.30	4,000.00	-	309,784.69
Academic support	1,812,918.16	707,063.57	(677,029.54)	35,071.80	-	1,878,023.99
Student services	2,403,207.91	1,018,297.47	1,400,394.77	335,892.33	-	5,157,792.48
Institutional support	3,022,894.77	1,196,005.38	1,189,817.14	18,690.00	-	5,427,407.29
Operation & maintenance	1,129,213.33	534,297.56	2,397,255.47	-	-	4,060,766.36
Scholar. & fellow.	-	12,316.50	-	4,415,195.37	-	4,427,511.87
Auxiliary	-	-	83,646.52	-	-	83,646.52
Depreciation	-	-	-	-	1,574,234.81	1,574,234.81
Total	$ 19,977,913.05	$ 7,387,592.21	$ 8,035,842.53	$ 4,892,157.50	$ 1,574,234.81	$ 41,867,740.10

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

Functional Classification	Natural Classification					
	Salaries	Benefits	Other Operating	Scholarships	Depreciation	Total
Instruction	$ 11,365,792.82	$ 3,494,773.79	$ 3,856,942.93	$ 68,065.00	$ -	$ 18,785,574.54
Public service	73,041.33	29,977.01	174,347.01	1,500.00	-	278,865.35
Academic support	1,764,618.80	587,874.24	(831,935.54)	25,257.08	-	1,545,814.58
Student services	2,289,279.66	853,685.36	1,128,428.67	242,571.13	-	4,513,964.82
Institutional support	2,870,237.98	926,897.34	995,096.82	11,975.55	-	4,804,207.69
Operation & maintenance	1,051,732.27	475,297.37	3,596,328.84	-	-	5,123,358.48
Scholar. & fellow.	-	-	-	2,784,937.65	-	2,784,937.65
Auxiliary	-	-	85,000.63	-	-	85,000.63
Depreciation	-	-	-	-	1,610,630.93	1,610,630.93
Total	$ 19,414,702.86	$ 6,368,505.11	$ 9,004,209.36	$ 3,134,306.41	$ 1,610,630.93	$ 39,532,354.67

NOTE 14. CHANGE IN ACCOUNTING PRINCIPLE

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

NOTE 15. 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 has been under reconstruction efforts that should be completed during fiscal year 2009. The west wing of the Ramer Administration building received the most significant damage in that building. Most of the occupants of the damaged area in Ramer were returned to their completed space by the end of fiscal year 2007.

The carrying amount of the impaired capital assets was $121,471.43 at June 30, 2008, and $141,716.66 at June 30, 2007.

The receivable for tornado associated construction costs was $7,768,019.21 at June 30, 2008, and $5,248,745.74 at June 30, 2007. The cost related to the restoration expenditures will be reimbursed by insurance, FEMA, and the state.

NOTE 16. ON-BEHALF PAYMENTS

During the year ended June 30, 2008, the State of Tennessee made payments of $15,620.95 on behalf of the college for retirees participating in the Medicare Supplement Plan. The Medicare Supplement Plan is a postemployment benefit healthcare plan and is discussed further in Note 10. The plan is reported in the *Tennessee Comprehensive Annual Financial Report*. That report is available on the state's website at http://tennessee.gov/finance/act/cafr.html.

NOTE 17. 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 50-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, 2008, the foundation made distributions of $452,211.07 to or on behalf of the college for both restricted and unrestricted purposes. During the year ended June 30, 2007, the foundation made distributions of $335,079.60 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, Tennessee 37066.

Cash and cash equivalents - Cash and cash equivalents consists of demand deposit accounts, certificates of deposit, money market funds, and Local Government Investment Pool. Uninsured bank balances at June 30, 2008, totaled $402,466.71. Uninsured bank balances at June 30, 2007, totaled $110,836.03.

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, 2008, were as follows:

	Cost	Market Value
Certificates of deposit	$ 72,000.00	$ 72,106.56
Corporate stock	1,591,791.46	1,641,118.93
Federal Home Loan Mortgage	863,019.33	849,388.41
Federal National Mortgage Association (FNMA)	608,568.70	602,288.20
Government National Mortgage Association (GNMA)	597,305.76	560,894.04
Federal Home Loan Bank	118,364.85	119,175.00
U.S. Treasury bonds	101,360.58	111,935.51
Total investments	$ 3,952,410.68	$ 3,956,906.65

Investments held at June 30, 2007, were as follows:

	Cost	Market Value
Certificates of deposit	$ 295,000.00	$ 292,256.28
Corporate stock	1,484,757.01	1,731,760.86
Federal Home Loan Mortgage	682,611.13	648,138.93

Federal National Mortgage Association (FNMA)	602,560.23	582,692.89
Government National Mortgage Association (GNMA)	386,567.98	345,488.31
Federal Home Loan Bank	58,659.90	56,831.40
U.S. Treasury bonds	101,360.58	98,379.92
Total investments	$ 3,611,516.83	$ 3,755,548.59

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

	June 30, 2008	June 30, 2007
Current pledges	$ 50,576.64	$ 47,131.70
Pledges due in one to five years	17,150.00	119,655.32
Subtotal	67,726.64	166,787.02
Less discount to net present value	(1,028.73)	(8,350.74)
Total pledges receivable, net	$ 66,697.91	$ 158,436.28

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 has been authorized for expenditure. The remaining amount, if any, is retained to be used in future years to increase the endowments' corpus. At June 30, 2008, net accumulated appreciation of $331,157.94 is available to be spent, of which $331,157.94 is included in restricted net assets expendable for scholarships and fellowships. At June 30, 2007, net accumulated appreciation of $281,594.75 is available to be spent, of which $281,594.75 is included in restricted net assets expendable for scholarships and fellowships.

NOTE 18. SUBSEQUENT EVENT

Continued disruption in the credit markets and overall declines in economic conditions in markets in the United States of America and internationally have resulted in significant declines in the fair market value of the Volunteer State College Foundation's investments subsequent to June 30, 2008. As of December 31, 2008, the value of the foundation's investments has declined approximately $360,000 since June 30, 2008.

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

Actuarial Valuation Date	Plan	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b-a)/c)]
7/1/2007	State Employee Group Plan	$ -	$ 8,308,000.00	$ 8,308,000.00	0.0%	$ 17,148,397.60	48.4%

TENNESSEE BOARD OF REGENTS
VOLUNTEER STATE COMMUNITY COLLEGE
SUPPLEMENTARY SCHEDULE OF CASH FLOWS - COMPONENT UNIT
FOR THE YEARS ENDED JUNE 30, 2008, AND JUNE 30, 2007

	Year Ended June 30, 2008	Year Ended June 30, 2007
CASH FLOWS FROM OPERATING ACTIVITIES		
Gifts and contributions	$ 509,231.19	$ 205,765.88
Endowment income per spending plan	149,690.26	163,027.09
Grants and contracts	4,909.50	-
Payments to suppliers and vendors	(76,575.93)	(6,664.85)
Payments to Volunteer State Community College	(452,211.07)	(335,079.60)
Other receipts	135.86	22,949.49
Net cash used by operating activities	135,179.81	49,998.01
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Private gifts for endowment purposes	71,424.88	280,778.66
Other noncapital financing payments	-	(768.99)
Net cash provided by noncapital financing activities	71,424.88	280,009.67
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital grants and gifts received	61,133.34	220,751.26
Net cash provided by capital and related financing activities	61,133.34	220,751.26
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of investments	690,547.10	925,491.09
Income on investments	(56,404.44)	(210,346.41)
Purchase of investments	(1,036,363.38)	(1,165,499.88)
Other investing payments	(7,093.27)	-
Net cash provided (used) by investing activities	(409,313.99)	(450,355.20)
Net increase (decrease) in cash and cash equivalents	(141,575.96)	100,403.74
Cash and cash equivalents - beginning of year	1,373,384.59	1,272,980.85
Cash and cash equivalents - end of year	$ 1,231,808.63	$ 1,373,384.59

Reconciliation of operating loss to net cash used by operating activities:		
Operating income (loss)	$ 67,812.49	$ (31,378.76)
Adjustments to reconcile operating loss to net cash used by operating activities:		
Change in assets and liabilities:		
Receivables, net	86,400.87	34,113.46
Prepaid expenses and deferred charges	-	(324.26)
Other assets	(135.62)	-
Accounts payable	(21,523.93)	47,587.57
Accrued liabilities	1,626.00	-
Deferred revenues	1,000.00	-
Net cash used by operating activities	$ 135,179.81	$ 49,998.01

Noncash transactions		
Gifts in-kind - capital	$ 52,965.12	$ 22,316.00
Gifts in-kind - operating account	$ -	$ 15,242.26
Pledges	$ (20,388.04)	$ 47,396.00
Unrealized gains/losses on investments	$ (144,458.22)	$ 149,374.23