AUDIT REPORT

Tennessee Board of Regents
Volunteer State Community College

For the Years Ended
June 30, 2012, and June 30, 2011

STATE OF TENNESSEE

COMPTROLLER OF THE TREASURY

Department of Audit

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July 18, 2013

The Honorable Bill Haslam, Governor
and
Members of the General Assembly
State Capitol
Nashville, Tennessee 37243
and
The Honorable John G. Morgan, Chancellor
Tennessee Board of Regents
1415 Murfreesboro Road, Suite 340
Nashville, Tennessee 37217
and
Dr. Jerry Faulkner, President
Volunteer State Community College
1480 Nashville Pike
Gallatin, Tennessee 37066

Ladies and Gentlemen:

Transmitted herewith is the financial and compliance audit of the Tennessee Board of Regents, Volunteer State Community College, for the years ended June 30, 2012, and June 30, 2011. You will note from the independent auditor's report that unqualified opinions were given on the fairness of the presentation of the financial statements.

Consideration of internal control over financial reporting and tests of compliance disclosed a deficiency, which is detailed in the Results of the Audit section of this report. The college's administration has responded to the audit finding; the response is included following the finding. The Division of State Audit will follow up the audit to examine the application of the procedures instituted because of the audit finding.

Sincerely,

Deborah V. Loveless

Deborah V. Loveless, CPA
Director

DVL/cd
13/037

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, 2012, and June 30, 2011

AUDIT OBJECTIVES

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

INTERNAL CONTROL FINDING

The college did not ensure the foundation properly classified endowment net assets
The college did not ensure proper reporting of gifts and income to the foundation in the appropriate category of net assets. As a result, the financial statements and notes of Volunteer State Community College including its foundation, which is a discretely presented component unit of the college, contained reporting errors related to endowments (page 9).*

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

* This finding is repeated from the prior audit.

OPINIONS ON THE FINANCIAL STATEMENTS

The opinions on the financial statements are unqualified.

Audit Report
Tennessee Board of Regents
Volunteer State Community College
For the Years Ended June 30, 2012, and June 30, 2011

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Tennessee Board of Regents
Volunteer State Community College
For the Years Ended June 30, 2012, and June 30, 2011

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, 2010, through June 30, 2012, 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, 2012, and June 30, 2011. 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 discretely presented 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 filed its report with the Department of Audit on December 9, 2011. A follow-up of the prior audit findings was conducted as part of the current audit.

RESOLVED AUDIT FINDING

The current audit disclosed that the college has corrected a previous audit finding concerning internal control related to donations received for the Volunteer State Community College Foundation.

REPEATED AUDIT FINDING

The prior audit report also contained a finding concerning reporting errors in the foundation's financial statements and notes to the financial statements.

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 controls 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, 2012, and June 30, 2011, we considered internal control over financial reporting as a basis for designing auditing procedures for the purpose of expressing opinions on the financial statements, as required by auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in generally accepted government auditing standards. A material weakness, along with the recommendation and management's response, is detailed in the Finding and Recommendation section.

Compliance and Other Matters

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

Fairness of Financial Statement Presentation

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

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

June 21, 2013

The Honorable Bill Haslam, Governor
and
Members of the General Assembly
State Capitol
Nashville, Tennessee 37243
and
The Honorable John G. Morgan, Chancellor
Tennessee Board of Regents
1415 Murfreesboro Road, Suite 340
Nashville, Tennessee 37217
and
Dr. Jerry Faulkner, President
Volunteer State Community College
1480 Nashville Pike
Gallatin, Tennessee 37066

Ladies and Gentlemen:

We have audited the financial statements of Volunteer State Community College, an institution of the Tennessee Board of Regents, which is a component unit of the State of Tennessee, and its discretely presented component unit as of and for the years ended June 30, 2012, and June 30, 2011, and have issued our report thereon dated June 21, 2013. 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

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses, and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider to be a material weakness.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the financial statements will not be prevented, or detected and corrected on a timely basis. We consider the following deficiency to be a material weakness:

- The college did not ensure that amounts were properly reported in the foundation's financial statements and accompanying notes to the financial statements

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

Compliance and Other Matters

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

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

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

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

Sincerely,

Deborah V. Loveless

Deborah V. Loveless, CPA
Director

DVL/cd

FINDING AND RECOMMENDATION

<u>The college did not ensure the foundation properly classified endowment net assets</u>

Finding

The college did not ensure proper reporting of gifts and income to the foundation in the appropriate category of net assets. As a result, the financial statements and notes of Volunteer State Community College including its foundation, which is a discretely presented component unit of the college, contained reporting errors related to endowments. Reporting errors related to endowments were also reported in the previous audit.

Volunteer State Community College reports under the standards of the Governmental Accounting Standards Board (GASB). Those standards require that as a part of the college's basic financial statements, the college include its component unit's financial statements. The foundation uses Financial Accounting Standards Board (FASB) reporting standards. Except for necessary presentation reclassification, no changes are made to the foundation's net financial information in the college's financial statements.

FASB reporting standards require that endowment net assets be classified as permanently restricted, temporarily restricted, or unrestricted. To properly classify the endowments, the college must consider if the endowments are donor-restricted or board-designated. FASB Accounting Standards Codification (ASC) 958-205-45-13 states:

> A donor's stipulation that requires a gift to be invested in perpetuity or for a specified term creates a donor-restricted endowment fund. . . . [The foundation's] governing board may earmark a portion of its unrestricted net assets as a board-designated endowment . . . to be invested to provide income for a long but unspecified period.

FASB ASC 958-205-45-14 further states:

> When classifying an endowment fund, each source—original gift, gains and losses, and interest and dividends—must be evaluated separately. Each source is unrestricted unless its use is temporarily or permanently restricted by explicit donor stipulations or by law. Thus, an endowment fund that is created by a governing board from unrestricted net assets is classified as unrestricted because all three sources are free of donor restrictions. . . .

The foundation improperly classified net assets of $2,421,758.18 at July 1, 2010; $1,418,164.90 at June 30, 2011; and $1,422,735.66 at June 30, 2012, as either permanently restricted or temporarily restricted rather than as unrestricted. In addition, we also noted the college reported a transfer from foundation funds to a capital building project totaling $1.25 million in fiscal year 2012 although the transfer was approved in fiscal year 2011. The audited statements were adjusted to reflect the proper net asset classifications as well as to report the transfer in fiscal year 2011.

Misclassification of net assets can mislead decision makers about the true amounts of funds currently available to fund foundation activities such as scholarships versus amounts that must not be spent but invested to provide earnings to fund future foundation activities.

Recommendation

The accounting management staff at Volunteer State Community College should ensure all sources of the foundation's endowment funds including gifts, realized gains and losses, unrealized gains and losses, interest, and dividends are analyzed to ensure proper classification consistent with the FASB ASC.

Management's Comment

We concur that the foundation's net assets were not properly classified according to Financial Accounting Standards Board's Accounting Standards Codification (FASB ASC). Going forward, the college will receive a copy of new foundation endowment agreements and supporting documentation for each new endowment. This documentation will be the basis for classification for each new endowment fund created using FASB reporting standards. The net assets detail presented in the component unit's financial statements and notes will be reviewed and verified against these documents to ensure compliance with FASB ASC.

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Independent Auditor's Report

June 21, 2013

The Honorable Bill Haslam, Governor
and
Members of the General Assembly
State Capitol
Nashville, Tennessee 37243
and
The Honorable John G. Morgan, Chancellor
Tennessee Board of Regents
1415 Murfreesboro Road, Suite 340
Nashville, Tennessee 37217
and
Dr. Jerry Faulkner, President
Volunteer State Community College
1480 Nashville Pike
Gallatin, Tennessee 37066

Ladies and Gentlemen:

We have audited the accompanying basic financial statements of Volunteer State Community College, an institution of the Tennessee Board of Regents, which is a component unit of the State of Tennessee, and its discretely presented component unit as of and for the years ended June 30, 2012, and June 30, 2011, 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, 2012, and June 30, 2011, 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 Volunteer State Community College and its discretely presented component unit as of June 30, 2012, and June 30, 2011, 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.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 14 through 36 and the schedule of funding progress on page 68 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during the audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the basic financial statements as a whole. The accompanying financial information on page 69 is presented for purposes of additional analysis and is not a required part of the basic financial statements. This information is the responsibility of the university's management and was derived from, and relates directly to, the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves and other additional procedures, in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information 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 June 21, 2013, on our consideration of the college's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with generally accepted government auditing standards and should be considered in assessing the results of our audit.

Sincerely,

Deborah V. Loveless

Deborah V. Loveless, CPA
Director

DVL/cd

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

This section of Volunteer State Community College's report presents a discussion and analysis of the financial performance of the college during the fiscal year ended June 30, 2012, with comparative information presented for the fiscal years ended June 30, 2011, and June 30, 2010. 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 financial statements, and the accompanying notes. The financial statements, notes, and this discussion are the responsibility of management.

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.

Net assets are divided into three major categories. The first category, invested in capital assets, net of related debt, provides the college's equity in property, plant, and equipment owned by the college. The next asset category is restricted net assets, which is divided into two categories, nonexpendable and expendable. The corpus of nonexpendable restricted resources is only available for investment purposes. Expendable restricted net assets are available for expenditure by the college but must be spent for purposes as determined by donors and/or external entities that have placed time or purpose restrictions on the use of the assets. The final category is unrestricted net assets. Unrestricted net assets are available to the college for any lawful purpose of the college.

College
Condensed Statement of Net Assets
(in thousands of dollars)

	2012	2011	2010
Assets:			
Current assets	$ 14,070	$ 12,409	$ 12,736
Capital assets, net	36,985	36,870	35,094
Other assets	18,800	21,267	15,911
Total Assets	69,855	70,546	63,741
Liabilities:			
Current liabilities	9,192	9,196	8,628
Noncurrent liabilities	3,185	2,966	2,681
Total Liabilities	12,377	12,162	11,309
Net Assets:			
Invested in capital assets, net of related debt	36,952	36,823	35,033
Restricted–nonexpendable	122	121	120
Restricted–expendable	306	284	324
Unrestricted	20,098	21,156	16,955
Total Net Assets	$ 57,478	$ 58,384	$ 52,432

Comparison of FY 2012 to FY 2011

- In 2012, current assets increased by $1,661,249. This increase was primarily due to the increase in short-term investments of $2,000,000 as a result of another certificate of deposit maturing within the next 12 months. The largest asset in the current assets category is cash and cash equivalents in the amount of $8,205,322, of which $4,676,657 is held by Volunteer State Community College as custodian for the Tennessee Technology Centers at Livingston and Hartsville. Current cash and cash equivalents decreased $654,547 from last year. Included in current cash and cash equivalents is $419,931 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 2012, the fire alarm, parking and sidewalk, and the Livingston campus parking lot projects were completed. During the year, work began on the following capital projects but had not been completed as of June 30, 2012: replacing the roof on the Wood Campus Center building, Energy

Management System upgrade, site improvements, Fine Arts Building roof repair, replacement of the HVAC system in the Warf Building, and the initial planning for the new Allied Health building. These projects are utilizing campus funds set aside in plant funds. The increase in assets of $1,505,652 was offset by the increase in accumulated depreciation of $1,391,066.

- During 2012, noncurrent assets decreased by $2,352,305. This decrease is primarily the result of the $2,000,000 certificate of deposit reflected as noncurrent in FY 2011.

- In 2012, noncurrent liabilities increased $219,138. The accruals for the postemployment benefits and compensated absences were the main reason for the increase.

Comparison of FY 2011 to FY 2010

- In 2011, current assets decreased by $326,189. This decrease was primarily due to the combined effect of the decrease of $2,000,000 in short-term investments resulting from the certificate of deposit maturing and conversion of the funds provided by the American Recovery and Reinvestment Act (ARRA) into general appropriations received monthly instead of requesting reimbursement after expending. The largest asset in the current assets category is cash and cash equivalents in the amount of $8,859,869, of which $4,596,435 is held by Volunteer State Community College as custodian for the Tennessee Technology Centers at Livingston and Hartsville. Current cash and cash equivalents increased $1,626,257 from last year as a result of the ARRA funds, primarily. Included in current cash and cash equivalents is $612,893 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 2011, construction of a rear entrance to the main campus was completed, a gravel parking lot was paved, a public address system was installed, and technology enhancements were made to conference and class rooms utilizing campus funds set aside in plant funds. The increase in assets of $3,509,362 was offset by the increase in accumulated depreciation of $1,733,567.

- During 2011, noncurrent assets increased by $7,131,895. The increase is mostly the result of providing for future renewal and replacement and unexpended plant fund projects.

- In 2011, noncurrent liabilities increased $285,296. The accrual for the postemployment benefits of $296,079 was the main reason for the increase.

Component Unit
Condensed Statement of Net Assets
(in thousands of dollars)

	2012	**2011**	**2010**
Assets:			
Current assets	$ 2,171	$ 1,067	$ 988
Other assets	3,517	4,518	4,036
Total Assets	5,688	5,585	5,024
Liabilities:			
Current liabilities	24	10	7
Total Liabilities	24	10	7
Net Assets:			
Restricted – nonexpendable	1,639	1,631	1,486
Restricted – expendable	2,352	2,275	872
Unrestricted	1,673	1,669	2,659
Total Net Assets	$ 5,664	$ 5,575	$ 5,017

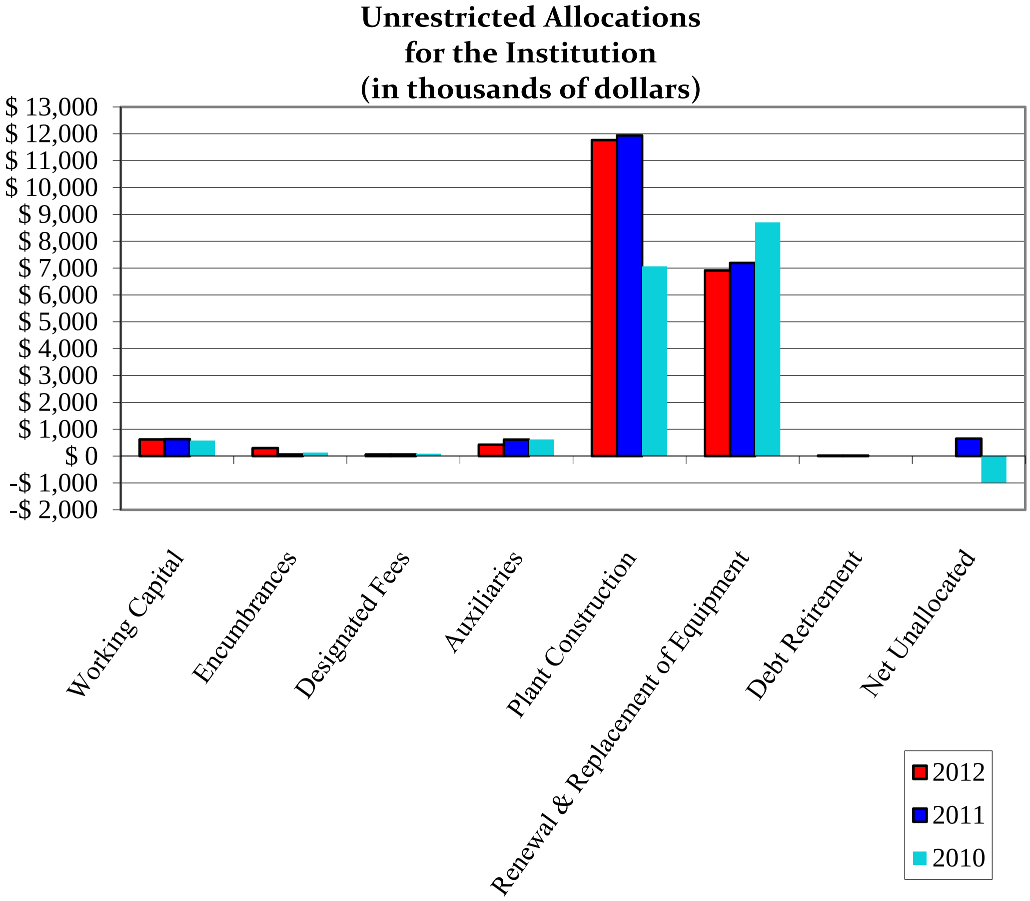
Comparison of FY 2012 to FY 2011

- Current assets of the component unit increased $1,104,220 during FY 2012. The increase in cash balances as funds are reallocated from Endowment Funds is the primary reason.
- Noncurrent assets of the component unit decreased $1,000,926 in FY 2012 mainly due to amounts reallocated from Endowment Funds.
- Current liabilities increased $14,310 during FY 2012 due to increases in accounts payable and deferred revenue.

Comparison of FY 2011 to FY 2010

- The net assets of the component unit increased $557,839 during FY 2011. Investments earned more than in FY 2010, as a result of the investment valuation improvements.

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



Comparison of FY 2012 to FY 2011

- The allocation for encumbrances increased $241,511 resulting from an increase in outstanding purchase orders at year-end.
- Funds available for plant construction decreased $171,724 during 2012 as projects were initiated during the year.

- Renewal and replacement balances decreased $277,346 in 2012 as funds were used for replacing computers in computer labs and instructional equipment.

Comparison of FY 2011 to FY 2010

- Working capital increased $57,801 from 2010. The increase was due to the combined increase in the net receivables and a decrease in prepaid expenses.

- The allocation for encumbrances decreased $75,316 resulting from a decrease in outstanding purchase orders at year-end.

- The allocation for designated fees decreased $32,657 due to the student activity fees increase offset by the international education fees decrease.

- Funds available for plant construction increased $4,874,277 during 2011 as transfers were made to provide funds for building improvement projects.

- Renewal and replacement balances decreased $1,514,857 in 2011 as funds were used for replacing computers in computer labs and instructional equipment.

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

	2012	2011	2010
Operating revenues:			
Net tuition and fees	$ 15,069	$ 14,267	$ 13,878
Grants and contracts	472	631	576
Auxiliary	367	364	357
Other	579	306	312
Total operating revenues	16,487	15,568	15,123
Operating expenses	52,327	51,892	48,261
Operating loss	(35,840)	(36,324)	(33,138)
Nonoperating revenues and expenses:			
State appropriations	15,670	19,480	17,112
Gifts	443	503	495
Grants and contracts	18,018	21,042	18,548
Investment income	87	123	183
Other revenues and expenses	(45)	(15)	(99)
Total nonoperating revenues and expenses	34,173	41,133	36,239
Income (loss) before other revenues, expenses, gains, or losses	(1,667)	4,809	3,101
Other revenues, expenses, gains, or losses:			
Capital appropriations	760	215	1,072
Additions to permanent endowments	1	1	1
Other capital revenues	-	927	561
Total other revenues, expenses, gains, or losses	761	1,143	1,634
Increase (decrease) in net assets	(906)	5,952	4,735
Net assets at beginning of year as restated	58,384	52,432	47,697
Net assets at end of year as restated	$ 57,478	$ 58,384	$ 52,432

Tennessee Board of Regents
Volunteer State Community College
Management's Discussion and Analysis (Cont.)

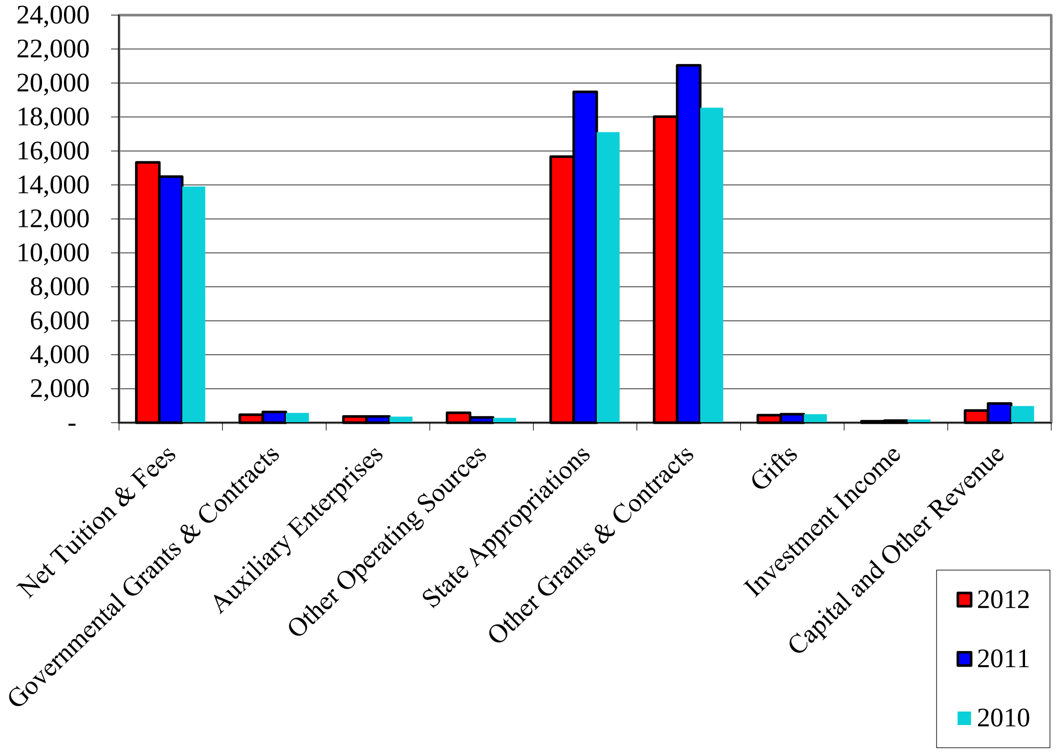
Component Unit
Condensed Statement of Revenues, Expenses, and Changes in Net Assets
(in thousands of dollars)

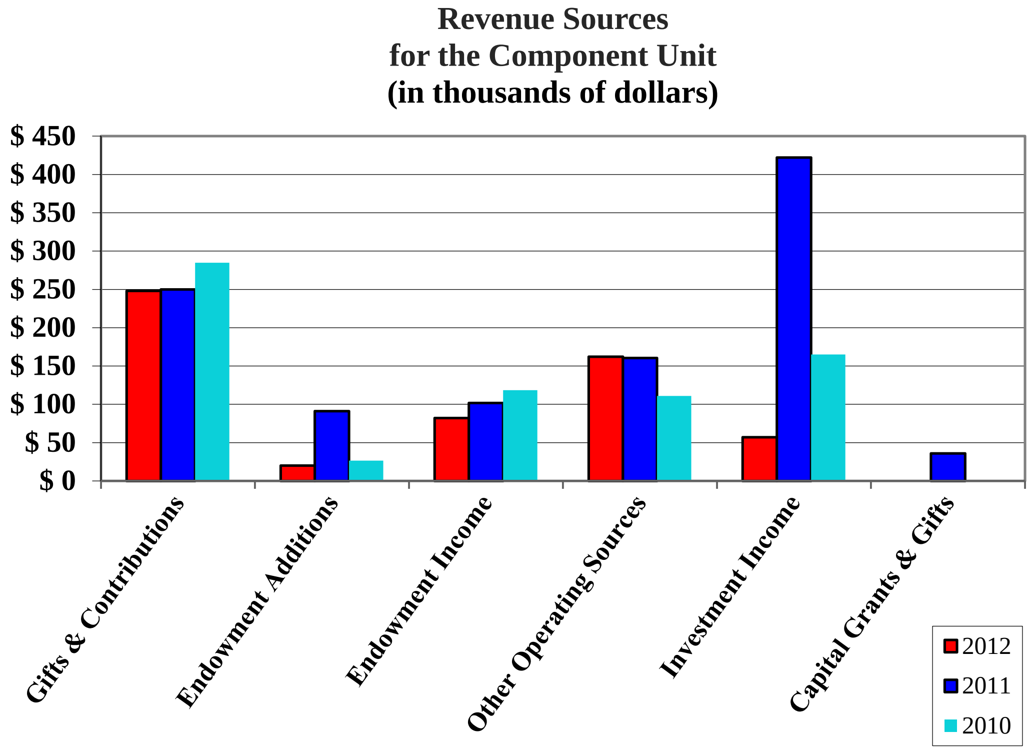
	2012	2011	2010
Operating revenues:			
Gifts	$ 252	$ 260	$ 285
Grants and contracts	15	10	5
Other	229	252	224
Total operating revenues	496	522	514
Operating expenses	479	503	652
Operating gain/(loss)	17	19	(138)
Nonoperating revenues and expenses:			
Investment income(loss)	57	422	165
Total nonoperating revenues and expenses	57	422	165
Income (loss) before other revenues, expenses, gains, or losses	74	441	27
Other revenues, expenses, gains, or losses:			
Capital grants and gifts	-	36	-
Additions to permanent endowments	15	81	26
Total other revenues, expenses, gains, or losses	15	117	26
Increase (decrease) in net assets	89	558	53
Net assets at beginning of year	5,575	5,017	4,964
Net assets at end of year	$ 5,664	$ 5,575	$ 5,017

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, 2012; June 30, 2011; and June 30, 2010 (amounts are presented in thousands of dollars).

Revenue Sources
for the Institution
(in thousands of dollars)





Comparison of FY 2012 to FY 2011

- State appropriations are requested by the Tennessee Higher Education Commission (THEC) based on funding formula calculations. The State of Tennessee General Assembly determines the final state appropriations. State appropriations account for about 31% of the college's total operating and nonoperating revenues during 2012. State appropriations decreased $3,809,941 in 2012, primarily due to the $2,367,851 of ARRA funding classified as appropriations in FY 2011 and $1,484,175 resulting from THEC's new funding formula.

- Tuition and fees (net of scholarship allowances of $9,710,425) account for approximately 30% of the college's total operating and nonoperating revenues. Rates for tuition and fees are recommended by THEC and approved by the Tennessee Board of Regents. Revenues from tuition and fees fluctuate depending upon enrollments. Net tuition and fees increased because of increase in the tuition rate of 9.3% for in-state students in FY 2012.

- Grants and contracts including governmental grants and contracts account for approximately 36% of the college's total operating and non-operating revenues in 2012. A large percentage of the total grants and contracts revenue is restricted for student aid programs such as Pell Grant, SEOG (Supplemental Educational Opportunity Grant), and the Tennessee Education Lottery Scholarship Program. Grants and contracts decreased $3,183,141. The decrease is primarily a result of the elimination of Pell awards for summer semester and ARRA funding.

- The college's bookstore operation was leased to Follett Higher Education Group, and the college's food service operation was leased to First Choice Foods during 2012. The auxiliary revenues reflect the commissions earned and represent less than 1% of total revenues in 2012.

- Other operating revenues increased by approximately $273,000 due mostly to an agreement with Northcrest Hospital to fund up to $250,000 in annual operational expenses for the Highland Crest Campus during the first two years of operation.

- Nonoperating gifts and other capital gifts decreased in 2012 by $986,912. In 2011, the college received a donation of land valued at $927,000; this combined with a decrease in gifts from the college's foundation is the reason for the decline.

- Capital appropriations increased $544,800 in 2012 due to an increase in capital funding related to improvements to the Allied Health Building and the Wood Campus Center.

- The component unit's revenue decreased in 2012 by $492,323. Investment income decreased $365,116 as the market value dropped during the year. Endowment and capital gifts were less in 2012 by $101,409.

Comparison of FY 2011 to FY 2010

- State appropriations are requested by THEC based on funding formula calculations. The State of Tennessee General Assembly determines the final state appropriations. State appropriations account for approximately 34% of the college's total operating and non-operating revenues for 2011. State appropriations increased $2,367,851 in 2011, primarily due to the ARRA funding classified as appropriations.

- Tuition and fees (net of scholarship allowances of $9,696,404, an increase of 16%) account for approximately 25% of the college's total operating and nonoperating revenues. Rates for tuition and fees are recommended by THEC and approved by the

Tennessee Board of Regents. Revenues from tuition and fees fluctuate depending upon enrollments. Net tuition and fees increased because of increases in the tuition rate of approximately 6% and enrollment growth of approximately 7% for FY 2011.

- Grants and contracts including governmental grants and contracts account for approximately 37% of the college's total operating and nonoperating revenues in 2011. A large percentage of the total grants and contracts revenue is restricted for student aid programs such as Pell Grant, SEOG (Supplemental Educational Opportunity Grant), and the Tennessee Education Lottery Scholarship Program. Grants and contracts increased $2,549,505. The increase is due to the increase in enrollment and increase in Pell Grant awards.

- The college's bookstore operation was leased to Follett Higher Education Group, and the college's food service operation was leased to First Choice Foods during 2011. The auxiliary revenues reflect the commissions earned and represent less than 1% of total revenues in 2011.

- Other capital revenues increased in 2011 by approximately $366,000 due to two factors. First, the college received donated property totaling $920,645 in 2011. This increase was partially offset due to the college receiving the last insurance recoveries in 2010 due to heavy damage sustained from a tornado occurring in 2006.

- Capital appropriations decreased $856,993 in 2011 due to a decrease in projects funded by the state, specifically the Livingston campus building; $933,000 was appropriated in FY 2010 compared with $166,000 in FY 2011.

- The component unit's revenue increased in 2011 by $355,817 primarily due to an increase in gifts and donations and investment income.

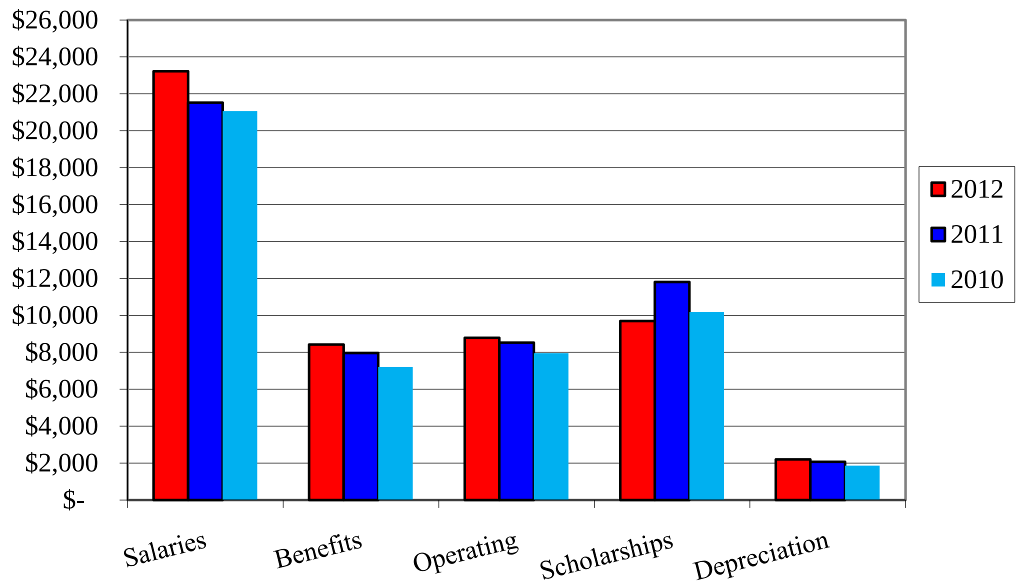
<u>Expenses</u>

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

Natural Classification for the College
(in thousands of dollars)

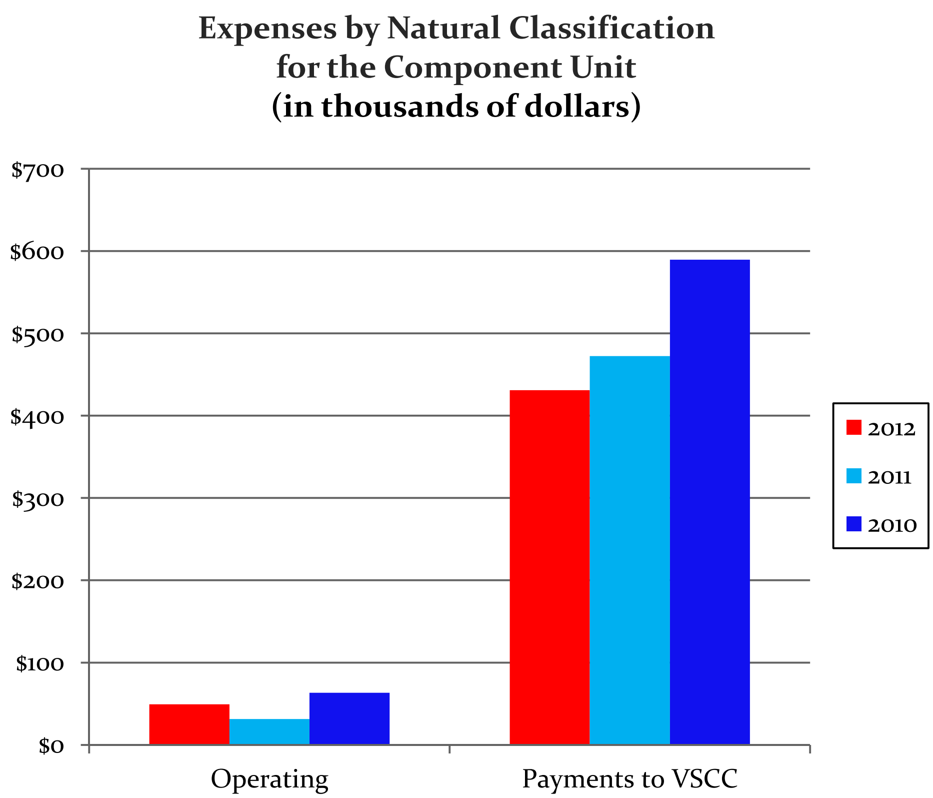
	2012	2011	2010
Salaries	$23,223	$21,525	$21,067
Benefits	8,424	7,962	7,207
Operating	8,787	8,526	7,953
Scholarships	9,695	11,812	10,176
Depreciation	2,198	2,066	1,858
Total	**$52,327**	**$51,891**	**$48,261**

Expenses by Natural Classification
for the College
(in thousands of dollars)



Natural Classification for the Component Unit
(in thousands of dollars)

	2012	2011	2010
Operating	$ 49	$ 31	$ 63
Payments to VSCC	431	473	590
Total	$ 480	$ 504	$ 653



Comparison of FY 2012 to FY 2011

- Salary and related benefits comprise approximately 60% and 57% of the college's operating expenses in 2012 and 2011, respectively. The dollar amount increased

$2,160,122 for these two line items. In 2012, regular employees, meeting the criteria, received a 3% cost-of-living adjustment (COLA) increase and received a $1,000 bonus. In addition, salary adjustments to fund 55% of the salary plan were made.

- For 2012, utilities, supplies, and other services (operating) expenses account for almost 17% of the total operating expenses, increasing from 2011 by $260,428 as a result inflationary and contractual increases. This line item consists of expenditures for items such as supplies; utilities; communications and shipping; maintenance and repairs; printing; travel; professional and administrative services; and rental and insurance.

- Scholarship expenses are primarily attributable to the Federal Pell Grant and SEOG programs, TSAA (Tennessee Student Assistance Awards), Tennessee Education Lottery Scholarship Program, and private scholarships. In 2012, net scholarship expenditures decreased by $2,116,683. In 2012, the Federal Pell Grant is no longer available for award for summer semester, and ARRA funding was not available for scholarship awards.

- Payments to the college from the foundation decreased $41,495 in 2012. This is primarily a result of the decline in the generation of investment revenue.

Comparison of FY 2011 to FY 2010

- Salary and related benefits comprise approximately 57% and 59% of the college's operating expenses in 2011 and 2010, respectively. The dollar amount increased $1,213,504 for these two line items. The majority of the increase is attributable to benefits. Retirement contributions increased as a result of higher salaries and health insurance premiums increased for FY 2011. In FY 2010, an "insurance holiday" for two months was granted by the State of Tennessee, which lowered the expenditure for health insurance for the year.

- For 2011, utilities, supplies, and other services (operating) expenses account for approximately 16% of the total operating expenses, increasing from 2010 by $573,252 as a result inflationary and contractual increases. This line item 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.

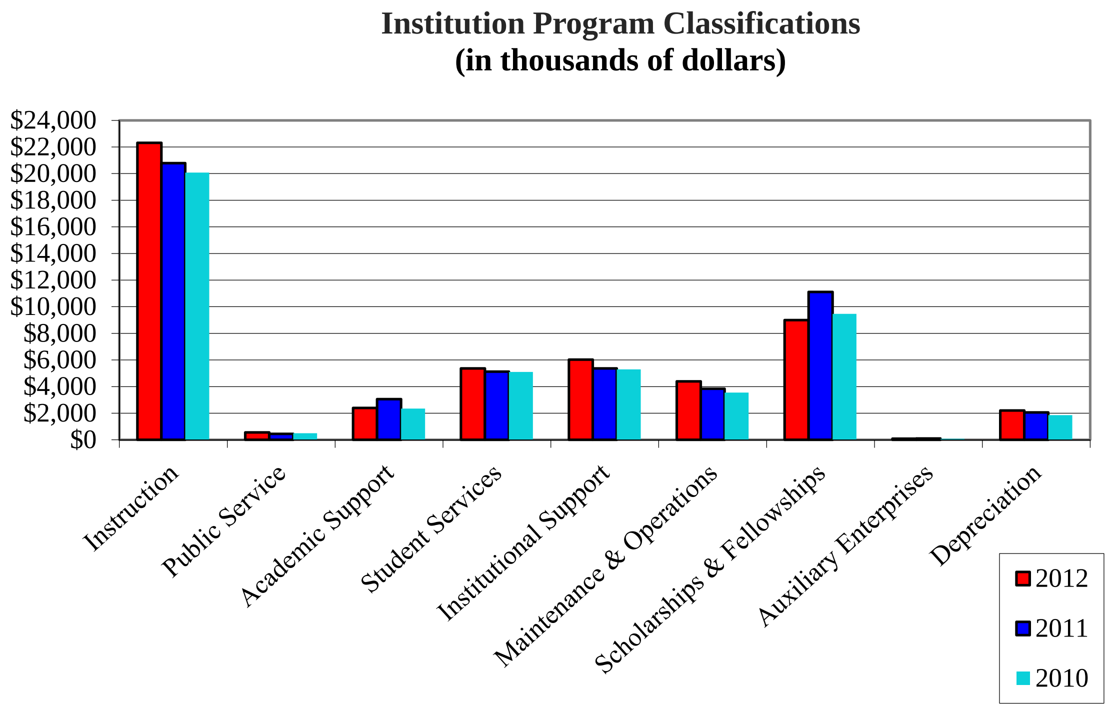
- Scholarship expenses are primarily attributable to the Federal Pell Grant and SEOG programs, TSAA (Tennessee Student Assistance Awards), Tennessee Education

Lottery Scholarship Program, and private scholarships. In 2011, net scholarship expenditures increased over 2010 by $1,635,789 as more awards were made due to increase in enrollment.

- Payments to the college from the foundation decreased $116,937 in 2011. The majority of this decrease relates to the capital gift of $119,376 for the building on the Livingston campus received during 2010. The remainder of the payments to VSCC represents scholarship and supply expenditures.

College
Program Classifications
(in thousands of dollars)

	2012	2011	2010
Instruction	$22,308	$20,790	$20,079
Public Service	553	443	498
Academic Support	2,400	3,056	2,349
Student Services	5,366	5,130	5,098
Institutional Support	6,024	5,363	5,287
Maintenance & Operations	4,390	3,834	3,546
Scholarships & Fellowships	8,995	11,110	9,467
Auxiliary Enterprises	93	100	79
Depreciation	2,198	2,065	1,858
Total	$52,327	$51,891	$48,261



<u>Comparison of FY 2012 to FY 2011</u>

- 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 almost 43% of the total operational expenses in FY 2012. In 2011, expenses in direct support of the instructional programs accounted for approximately 40% of the total operational expenses. Instructional program expenditures increased $1,517,765 from 2011 to 2012. The majority of the increase occurred in salary and benefits as salary increased from the COLA and salary plan adjustment, along with a one-time bonus.

- Public Service expense accounts for approximately 1% of total operating expense in both 2012 and 2011. The expense allocated to Public Service increased by $110,186 in 2012. Thirty percent of the increase was attributable to the adjustments to salary and related benefits, but the remaining increase occurred in the operating expense for media advertising.

- Expenses for Academic Support are approximately 5% and 6% of total operating expenses in 2012 and 2011, respectively. The majority of the expenses in this category are generated by library services and information systems offices. Expenses decreased in 2012 by $656,360. The decrease resulted from the elimination of ARRA funding and reduced spending for repair and replacement expenditures in 2012, which were offset by the increase in salary and benefits resulting from the salary adjustments.

- Student Services primarily includes the cost for the administration of the student financial aid programs, admissions, records, counseling/advising services, athletics, and other student services programs. The expenses for these programs are approximately 10% of total operational expense for 2012 and 2011. The expense increased $236,433 over 2011's level. The majority of the increase related to the COLA, salary plan adjustment, and one-time bonus made in 2012.

- Institutional Support expenses amounted to approximately 11.5% and 10 percent of total operating expenses in 2012 and 2011, respectively. This function includes expenses for such things as executive and fiscal management; public relations and development; safety and security; purchasing; human resources administration; etc. The overall expenditures for Institutional Support increased by $661,281 in 2012. Salary and benefits increased $422,751 as compensation increased due to the salary adjustments and one-time bonus paid in 2012. The remaining increase occurred in the operating expenses.

- Maintenance and Operations costs consist primarily of expenses for the general upkeep of the buildings and grounds. In addition, utilities are included in this function. In 2012 and 2011, costs for Maintenance and Operation accounted for slightly more than 8% and 7% of total operating expenses, respectively each year. The total expense increased in 2012 by $556,868. Only about 25% of the increase can be attributed to salary and benefit increases; the remaining increase occurred in the operating expense category due to an increase of maintenance costs for equipment, buildings, and grounds.

- A large percentage of the expenditures for scholarships and fellowships are from restricted sources such as the Pell Grant and the Tennessee Education Lottery Scholarship Program. This function accounted for slightly more than 17% of total operating expense in 2012 and over 21% of total operating costs in 2011. In 2012, there was a decrease of $2,115,648. This decrease resulted from a change in the Federal Pell Grant making it no longer available for awarding to students attending summer semester.

- 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 out to third-party vendors.

<u>Comparison of FY 2011 to FY 2010</u>

- 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 40% of the total operational expenses in FY 2011. In 2010, expenses in direct support of the instructional programs accounted for approximately 42% of the total operational expenses. Instructional program expenditures increased $711,504 from 2010 to 2011. The increase was a result of more faculty due to higher enrollment and the health insurance premium holiday occurring in 2010, which reduced the benefit expense for that year.

- Public Service expenses account for approximately 1% of total operating expense in both 2011 and 2010. The expense allocated to Public Service decreased $54,953 in 2011 from 2010. ARRA expenditures of $124,243 were made in 2010, and $79,995 were made in 2011.

- Expenses for Academic Support are approximately 6% and 5% of total operating expenses in 2011 and 2010, respectively. The majority of the expenses in this category is generated by library services and information systems offices. Expenses increased in 2011 by $706,740. The increase was a result of upgrading the technology in the computer labs, classrooms, and conference rooms, as well as contractual and inflationary increases.

- Student Services primarily includes the cost for the administration of the student financial aid programs, admissions, records, counseling/advising services, athletics, and other student services programs. The expenses for these programs are approximately 10% and 11% of total operational expense for 2011 and 2010, respectively. The expense increased slightly over 2010's level.

- Institutional Support expenses amounted to approximately 10% and 11% of total operating expenses in 2011 and 2010, respectively. This function includes expenses for such things as executive and fiscal management; public relations and development; safety and security; purchasing; human resources administration; etc.

The overall expenditures for institutional support increased due to the reinstatement of the full 12-month insurance premium cost in 2011 and higher salary expense.

- Maintenance and Operations costs consist primarily of expenses for the general upkeep of the buildings and grounds. In addition, utilities are included in this function. In 2011 and 2010, costs for maintenance and operation accounted for slightly more than 7% of total operating expenses for each year. The total expense increased in 2011 by $287,827 as a result of inflationary and contractual increases.

- A large percentage of the expenditures for scholarships and fellowships are from restricted sources such as the Pell Grant and the Tennessee Education Lottery Scholarship Program. This function accounts for over 21% of total operating costs in 2011 and almost 20% of total operating expense in 2010. In 2011, there was an increase of $1,643,318. This increase resulted from an increase in enrollment and an increase in awards to students.

- 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.

Capital Assets and Debt Administration

Capital Assets

Volunteer State Community College had $36,984,670 invested in capital assets, net of accumulated depreciation of $22,111,391 at June 30, 2012; $36,870,083 invested in capital assets, net of accumulated depreciation of $20,720,326 at June 30, 2011; and $35,094,288 invested in capital assets, net of accumulated depreciation of $18,986,758 at June 30, 2010. Depreciation charges totaled $2,197,747; $2,065,434; and $1,857,525 for the years ended June 30, 2012; June 30, 2011; and June 30, 2010, respectively. Details of these assets are shown below.

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

	2012	2011	2010
Land	$ 2,515	$ 2,515	$ 1,630
Land improvements & infrastructure	6,157	5,142	3,764
Buildings	23,787	24,693	24,240
Equipment	2,624	2,262	1,854
Intangible assets	297	396	494
Library holdings	324	473	501
Projects in progress	1,281	1,389	2,611
Total	$ 36,985	$ 36,870	$ 35,094

During 2012, improvements to the fire alarm system and parking lots at the Gallatin and the Livingston campuses were completed. A change in the recognition of periodicals purchased by the library resulted in an adjustment to Library Holdings of $271,939 to remove un-depreciated amounts. During the year, work began on the following capital projects but had not been completed as of June 30, 2012: replacing the roof on the Wood Campus Center building, Energy Management System upgrade, site improvements, Fine Arts Building roof repair, replacement of the HVAC system in the Warf Building and the initial planning for the new Allied Health building.

The college anticipates the construction of a new Allied Health building beginning in September 2012 and concluding in the fall of 2013. The building will be approximately 26,000 square feet. It will contain specialized labs and classrooms to support healthcare programs. Full funding for the project, totaling more than $10 million, has been identified.

The college will begin a capital campaign in fiscal year 2012-2013 to raise approximately $3 million for the construction of a Humanities Building. The State of Tennessee now requires community colleges raise a 10% match for state-funded buildings. Construction for this project is slated to cost $30 million. The facility will comprise more than 75,000 square feet for the Humanities offerings comprised of classrooms, labs, faculty offices, and a performance venue.

During 2011, construction of a rear entrance to the main campus was completed, a gravel parking lot was paved, a public address system was installed, and technology enhancements were made to conference and class rooms utilizing campus funds set aside in plant funds.

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

Debt

The college had $32,189; $47,223; and $61,650 in debt outstanding at June 30, 2012; June 30, 2011; and June 30, 2010, respectively. The table below summarizes these amounts by type of debt instrument.

College
Debt Summary
(in thousands of dollars)

	Beginning Balance	Reductions	Ending Balance
2012			
TSSBA Bonds	$ 47	$ 15	$ 32
2011			
TSSBA Bonds	$ 62	$ 15	$ 47
2010			
TSSBA Bonds	$ 193	$ 131	$ 62

No new debt was incurred during fiscal years 2012 or 2011. Principal payments of $15,034 and $14,428 were made on the chiller replacement project debt during fiscal years 2012 and 2011 respectively.

The component unit had no debt during the last two years.

The ratings on debt issued by the Tennessee State School Bond Authority at June 30, 2012, were as follows:

Fitch	AA+
Moody's Investor Service	Aa1
Standard & Poor's	AA

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

Economic Factors That Will Affect the Future

In the June 2012 meeting, the Tennessee Board of Regents voted to increase the college's tuition rates by 4.7% for in-state students and 5.1% for out-of-state students. In addition, TBR also approved increasing the hourly rate charged for hours in excess of 12 per semester from $26 per credit hour to $27 per credit hour for in-state students.

The State of Tennessee has modified the calculation for the appropriation funding formula for higher education to reflect a result-oriented basis. Each institution was able to establish the criteria to be used for its calculation.

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, CPA
Vice President of Business and Finance
Volunteer State Community College
1480 Nashville Pike
Gallatin, TN 37066-3188
(615) 230-3560

TENNESSEE BOARD OF REGENTS
VOLUNTEER STATE COMMUNITY COLLEGE
STATEMENTS OF NET ASSETS
JUNE 30, 2012, AND JUNE 30, 2011

	Volunteer State Community College		Component Unit Volunteer State Community College Foundation	
	June 30, 2012	June 30, 2011	June 30, 2012	June 30, 2011
ASSETS				
Current assets:				
Cash and cash equivalents (Notes 2 and 18)	$ 8,205,321.74	$ 8,859,868.54	$ 2,150,356.75	$ 1,018,156.99
Short-term investments (Note 3)	4,000,000.00	2,000,000.00	-	-
Accounts, notes, and grants receivable (net) (Note 4)	1,400,911.07	1,156,928.21	7,442.00	2,370.92
Due from primary government	54,050.08	239,723.08	-	-
Pledges receivable (net) (Note 18)	-	-	9,385.00	46,260.00
Inventories	2,230.23	1,779.74	-	-
Prepaid expenses and deferred charges	399,160.06	141,982.22	3,825.00	-
Accrued interest receivable	8,495.93	8,638.36	-	-
Total current assets	14,070,169.11	12,408,920.15	2,171,008.75	1,066,787.91
Noncurrent assets:				
Cash and cash equivalents (Notes 2 and 18)	18,800,493.17	19,267,384.86	-	998,024.74
Investments (Notes 3 and 18)	-	2,000,000.00	3,499,352.15	3,506,028.33
Pledges receivable (net) (Note 18)	-	-	4,481.33	996.51
Capital assets (net) (Note 5)	36,984,669.89	36,870,083.39	-	-
Other assets	-	-	13,403.02	13,113.52
Total noncurrent assets	55,785,163.06	58,137,468.25	3,517,236.50	4,518,163.10
Total assets	69,855,332.17	70,546,388.40	5,688,245.25	5,584,951.01
LIABILITIES				
Current liabilities:				
Accounts payable (Note 6)	852,073.60	908,237.14	17,957.79	6,688.73
Accrued liabilities	1,692,396.92	1,615,314.19	-	-
Deferred revenue	1,421,751.09	1,539,550.97	6,465.58	3,425.00
Compensated absences (Note 7)	406,663.29	395,824.40	-	-
Accrued interest payable	235.85	344.49	-	-
Long-term liabilities, current portion (Note 7)	15,664.94	15,033.54	-	-
Deposits held in custody for others	4,802,714.16	4,720,319.93	-	-
Other liabilities	360.50	1,138.00	-	-
Total current liabilities	9,191,860.35	9,195,762.66	24,423.37	10,113.73
Noncurrent liabilities:				
Net OPEB obligation (Note 12)	2,090,326.19	1,935,114.94	-	-
Compensated absences (Note 7)	1,074,700.26	995,109.04	-	-
Long-term liabilities (Note 7)	16,524.11	32,189.05	-	-
Due to grantors (Note 7)	4,061.73	4,061.58	-	-
Total noncurrent liabilities	3,185,612.29	2,966,474.61	-	-
Total liabilities	12,377,472.64	12,162,237.27	24,423.37	10,113.73
NET ASSETS				
Invested in capital assets, net of related debt	36,952,480.84	36,822,860.80	-	-
Restricted for:				
Nonexpendable:				
Scholarships and fellowships	122,153.43	121,218.89	1,638,758.88	1,631,065.68
Expendable:				
Scholarships and fellowships	36,929.29	41,906.53	975,797.55	910,301.30
Instructional department uses	25,944.94	26,788.94	31,605.26	31,605.26
Loans	118.13	118.13	-	-
Capital projects	-	-	1,323,789.73	1,312,362.32
Other	242,535.52	215,294.11	20,751.91	20,751.91
Unrestricted (Note 9)	20,097,697.38	21,155,963.73	1,673,118.55	1,668,750.81
Total net assets	$ 57,477,859.53	$ 58,384,151.13	$ 5,663,821.88	$ 5,574,837.28

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

TENNESSEE BOARD OF REGENTS
VOLUNTEER STATE COMMUNITY COLLEGE
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2012, AND JUNE 30, 2011

	Volunteer State Community College		Component Unit Volunteer State Community College Foundation	
	Year Ended June 30, 2012	Year Ended June 30, 2011	Year Ended June 30, 2012	Year Ended June 30, 2011
REVENUES				
Operating revenues:				
Student tuition and fees (net of scholarship allowances of $9,710,424.96 for the year ended June 30, 2012, and $9,696,403.62 for the year ended June 30, 2011)	$ 15,068,616.73	$ 14,266,658.15	$ -	$ -
Gifts and contributions	-	-	252,471.02	260,414.06
Endowment income (per spending plan)	-	-	82,158.21	101,705.07
Governmental grants and contracts	472,127.97	631,232.21	15,219.17	9,833.35
Sales and services of educational activities	26,235.00	24,247.00	-	-
Sales and services of other activities	237,689.59	203,939.48	-	-
Auxiliary enterprises:				
Bookstore	325,000.00	325,000.00	-	-
Food service	41,818.40	39,376.20	-	-
Interest earned on loans to students	600.80	599.80	-	-
Other operating revenues	314,540.37	76,637.78	146,911.29	150,605.67
Total operating revenues	16,486,628.86	15,567,690.62	496,759.69	522,558.15
EXPENSES				
Operating expenses (Note 15):				
Salaries and wages	23,222,844.85	21,524,985.31	-	-
Benefits	8,424,374.79	7,962,112.64	-	-
Utilities, supplies, and other services	8,786,697.35	8,526,269.48	49,396.29	31,370.60
Scholarships and fellowships	9,695,574.47	11,812,257.26	-	-
Depreciation expense	2,197,746.74	2,065,433.59	-	-
Payments to or on behalf of Volunteer State Community College (Note 18)	-	-	431,032.40	472,527.09
Total operating expenses	52,327,238.20	51,891,058.28	480,428.69	503,897.69
Operating income (loss)	(35,840,609.34)	(36,323,367.66)	16,331.00	18,660.46
NONOPERATING REVENUES (EXPENSES)				
State appropriations	15,670,227.54	19,480,169.00	-	-
Gifts, including $431,032.40 from component unit for the year ended June 30, 2012, and $472,527.09 for the year ended June 30, 2011	442,625.68	502,537.43	-	-
Grants and contracts	18,017,958.90	21,041,995.49	-	-
Investment income (loss) (net of investment expense of $0.00 for the college and $22,936.16 for the component unit for the year ended June 30, 2012, and $0.00 for the college and $19,103.09 for the component unit for the year ended June 30, 2011)	87,304.83	122,552.36	57,156.75	422,272.87
Interest on capital asset-related debt	(1,862.88)	(2,445.10)	-	-
Other nonoperating revenues (expenses)	(42,954.88)	(12,232.73)	-	-
Net nonoperating revenues (expenses)	34,173,299.19	41,132,576.45	57,156.75	422,272.87
Income (loss) before other revenues, expenses, gains, or losses	(1,667,310.15)	4,809,208.79	73,487.75	440,933.33
Capital appropriations	760,100.55	215,300.96	-	-
Capital gifts and grants, including $0.00 from component unit for the year ended June 30, 2012, and $16,000 for the year ended June 30, 2011	-	927,000.00	3.49	35,786.51
Additions to permanent endowments	918.00	1,084.00	15,493.36	81,119.19
Total other revenues	761,018.55	1,143,384.96	15,496.85	116,905.70
Increase (decrease) in net assets	(906,291.60)	5,952,593.75	88,984.60	557,839.03
NET ASSETS				
Net assets - beginning of year	58,384,151.13	51,701,239.84	5,574,837.28	5,016,998.25
Prior period adjustment (Note 16)	-	730,317.54	-	-
Net assets - end of year	$ 57,477,859.53	$ 58,384,151.13	$ 5,663,821.88	$ 5,574,837.28

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

TENNESSEE BOARD OF REGENTS
VOLUNTEER STATE COMMUNITY COLLEGE
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2012, AND JUNE 30, 2011

	Year Ended June 30, 2012	Year Ended June 30, 2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Tuition and fees	$ 14,754,450.26	$ 14,256,982.47
Grants and contracts	680,181.59	597,778.07
Sales and services of educational activities	26,235.00	24,247.00
Sales and services of other activities	237,689.59	203,939.48
Payments to suppliers and vendors	(8,736,281.53)	(8,462,877.46)
Payments to employees	(23,188,240.16)	(21,492,359.03)
Payments for benefits	(8,119,457.33)	(7,570,764.62)
Payments for scholarships and fellowships	(9,701,339.42)	(11,811,550.81)
Interest earned on loans to students	600.80	599.80
Auxiliary enterprise charges:		
Bookstore	363,779.34	298,337.45
Food services	44,539.62	39,484.33
Other receipts	202,629.40	53,522.19
Net cash used by operating activities	(33,435,212.84)	(33,862,661.13)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State appropriations	15,643,425.00	19,464,900.00
Gifts and grants received for other than capital or endowment purposes, including $378,147.07 from Volunteer State Community College Foundation for the year ended June 30, 2012, and $359,591.84 for the year ended June 30, 2011	18,305,996.77	21,450,611.37
Private gifts for endowment purposes	918.00	1,084.00
Federal student loan receipts	6,254,437.74	7,112,550.40
Federal student loan disbursements	(6,254,437.74)	(7,112,550.40)
Changes in deposits held for others	88,696.04	276,293.75
Other noncapital financing payments	(1,378.30)	(382.42)
Net cash provided by noncapital financing activities	34,037,657.51	41,192,506.70
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital appropriations	760,100.55	215,300.96
Purchases of capital assets and construction	(2,554,425.91)	(2,667,473.88)
Principal paid on capital debt	(15,033.54)	(14,427.58)
Interest paid on capital debt	(1,971.52)	(2,548.63)
Net cash provided (used) by capital and related financing activities	(1,811,330.42)	(2,469,149.13)
CASH FLOWS FROM INVESTING ACTIVITIES		
Income on investments	87,447.26	121,660.85
Net cash provided by investing activities	87,447.26	121,660.85
Net increase (decrease) in cash	(1,121,438.49)	4,982,357.29
Cash - beginning of year	28,127,253.40	23,144,896.11
Cash - end of year (Note 2)	$ 27,005,814.91	$ 28,127,253.40

TENNESSEE BOARD OF REGENTS
VOLUNTEER STATE COMMUNITY COLLEGE
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2012, AND JUNE 30, 2011

	Year Ended June 30, 2012	Year Ended June 30, 2011
Reconciliation of operating loss to net cash used by operating activities:		
Operating loss	$ (35,840,609.34)	$ (36,323,367.66)
Adjustments to reconcile operating loss to net cash used by operating activities:		
Depreciation expense	2,197,746.74	2,065,433.59
Gifts-in-kind	135,015.29	174,779.61
Other adjustments	22,302.54	20,069.00
Change in assets and liabilities:		
Receivables, net	(38,343.93)	(208,966.69)
Inventories	(450.49)	(1,013.92)
Prepaid/deferred items	(257,177.84)	88,890.56
Accounts payable	120,706.99	(43,041.27)
Accrued liabilities	77,082.73	85,591.90
Deferred revenue	(97,126.89)	(39,365.17)
Compensated absences	90,430.11	22,250.12
Other liabilities	155,211.25	296,078.80
Net cash used by operating activities	$ (33,435,212.84)	$ (33,862,661.13)
Non-cash transactions		
Gifts in-kind - capital	927,000.00	-
Gain (loss) on disposal of capital assets	42,353.93	(11,632.65)

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

Tennessee Board of Regents
Volunteer State Community College
Notes to the Financial Statements
June 30, 2012, and June 30, 2011

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

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

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

The Volunteer State Community College Foundation is considered a component unit of the college. Although the college does not control the timing or amount of receipts from the foundation, the majority of resources, or income thereon, that the foundation holds and invests are restricted to the activities of the college by the donors. Because these restricted resources held by the foundation can only be used by, or for the benefit of, the college, the foundation is considered a component unit of the college and is discretely presented in the college's financial statements. See Note 18 for more detailed information about the component unit and how to obtain the report.

Basis of Presentation

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

Basis of Accounting

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

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

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

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

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

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 other items are maintained on an average cost or first-in, first-out basis.

Compensated Absences

The college's employees accrue annual and sick leave at varying rates, depending on length of service or classification. Some employees also earn compensatory time. The amount of the liabilities for annual leave and compensatory time and their related benefits are reported in the statement of net assets. There is no liability for unpaid accumulated sick leave since the college's policy is to pay this only if the employee dies or is absent because of illness, injury, or related family death.

Capital Assets

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

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

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

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; sales and services of educational departments and other activities; and auxiliary enterprises. These resources are used for transactions relating to the educational and general operations of the college, and may be used at the discretion of the college to meet current expenses for any purpose.

The auxiliary enterprises are substantially self-supporting activities that provide services for students, faculty, and staff.

Scholarship Discounts and Allowances

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

NOTE 2. CASH

This classification includes demand deposits and petty cash on hand. At June 30, 2012, cash consisted of $1,189,041.07 in bank accounts, $5,000.00 of petty cash on hand, $22,517,505.19 in the State of Tennessee Local Government Investment Pool (LGIP) administered by the State Treasurer, and $3,294,268.65 in LGIP deposits for capital projects. At June 30, 2011, cash consisted of $510,905.12 in bank accounts, $5,000.00 of petty cash on hand, $25,182,314.23 in LGIP, and $2,429,034.05 in LGIP deposits for capital projects.

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

NOTE 3. INVESTMENTS

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

At June 30, 2012, 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	$4,000,000.00	$4,000,000.00	$0.00

At June 30, 2011, 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	$4,000,000.00	$2,000,000.00	$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. 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. Prime banker's acceptances are required to be eligible for purchase by the Federal Reserve System. To be eligible, the original maturity must not be more than 270 days, and it must 1) arise out of the current shipment of goods between countries or with the United States, or 2) arise out of storage within the United States of goods under contract of sale or expected to move into the channel of trade within a reasonable time and that are secured throughout their life by a warehouse receipt or similar document conveying title to the underlying goods.

The policy requires that prime commercial paper shall be limited to that of corporations that meet the following criteria: 1) Senior long-term debt, if any, should have a minimum rating of A1 or equivalent, and short-term debt should have a minimum rating of A1 or equivalent, as provided by a majority of the rating services that rate the issuer. If there is no long-term debt rating, the short-term debt rating must be A1 by all rating services (minimum of two). 2) The rating should be based on the merits of the issuer or guarantee by a nonbank. 3) A financial review should be made to ascertain the issuer's financial strength to cover the debt. 4) Commercial paper of a banking institution should not be purchased. Prime commercial paper shall not have a maturity that exceeds 270 days.

At June 30, 2012, the college's investments were rated as follows:

		Credit Quality Rating
Investment Type	Fair Value	Unrated
LGIP	$25,811,773.84	$25,811,773.84

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

		Credit Quality Rating
Investment Type	Fair Value	Unrated
LGIP	$27,611,348.28	$27,611,348.28

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of the college's investment in a single issuer. 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. The amount invested in any one bank shall not exceed 5% of total investments on 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, 2012	June 30, 2011
Farmers Bank	50%	50%
Community Bank and Trust	50%	50%

NOTE 4. RECEIVABLES

Receivables included the following:

	June 30, 2012	June 30, 2011
Student accounts receivable	$1,106,173.52	$ 859,791.78
Grants receivable	390,250.94	317,404.04
State appropriation receivable	-	41,100.00
Other receivables	494,460.66	365,394.72
Subtotal	1,990,885.12	1,583,690.54
Less allowance for doubtful accounts	(589,974.05)	(426,762.33)
Total receivables	$1,400,911.07	$1,156,928.21

Federal Perkins Loan Program funds included the following:

	June 30, 2012	June 30, 2011
Perkins loans receivable	$26,034.02	$25,433.22
Less allowance for doubtful accounts	(26,034.02)	(25,433.22)
Total	$ 0.00	$ 0.00

NOTE 5. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2012, was as follows:

	Beginning Balance	Additions	Transfers	Reductions	Ending Balance
Land	$ 2,514,493.14	$ -	$ -	$ -	$ 2,514,493.14
Land improvements and infrastructure	8,221,830.71	-	1,473,957.80	-	9,695,788.51
Buildings	38,168,069.48	-	-	-	38,168,069.48
Equipment	5,314,741.82	950,811.10	-	(522,673.77)	5,742,879.15
Library holdings	993,022.01	49,399.43	-	(338,361.22)	704,060.22
Intangible assets	989,249.28				989,249.28
Projects in progress	1,389,002.52	1,366,476.64	(1,473,957.80)	-	1,281,521.36

Total	57,590,408.96	2,366,687.17	-	(861,034.99)	59,096,061.14
Less accumulated depreciation/ amortization:					
Land improvements and infrastructure	3,079,615.40	459,267.63	-	-	3,538,883.03
Buildings	13,474,744.44	906,585.45	-	-	14,381,329.89
Equipment	3,052,421.16	534,222.92	-	(468,319.84)	3,118,324.24
Library holdings	519,994.99	198,745.81	-	(338,361.22)	380,379.58
Intangible assets	593,549.58	98,924.93	-	-	692,474.51
Total	20,720,325.57	2,197,746.74	-	(806,681.06)	22,111,391.25
Capital assets, net	$ 36,870,083.39	$ 168,940.43	$ -	$ (54,353.93)	$ 36,984,669.89

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

	Beginning Balance	Additions	Transfers	Reductions	Ending Balance
Land	$ 1,629,993.14	$ 884,500.00	$ -	$ -	$ 2,514,493.14
Land improvements and infrastructure	6,442,609.10	-	1,779,221.61	-	8,221,830.71
Buildings	36,729,860.62	-	1,438,208.86	-	38,168,069.48
Equipment	4,641,007.52	888,472.34	-	(214,738.04)	5,314,741.82
Library holdings	1,037,100.02	84,682.87	-	(128,760.88)	993,022.01
Intangible assets	989,249.28	-	-		989,249.28
Projects in progress	2,611,226.92	1,995,206.07	(3,217,430.47)	-	1,389,002.52
Total	54,081,046.60	3,852,861.28	-	(343,498.92)	57,590,408.96
Less accumulated depreciation/ amortization:					
Land improvements and infrastructure	2,678,262.84	401,352.56	-	-	3,079,615.40
Buildings	12,490,310.31	984,434.13	-	-	13,474,744.44
Equipment	2,786,982.88	468,543.67	-	(203,105.39)	3,052,421.16
Library holdings	536,577.57	112,178.30	-	(128,760.88)	519,994.99
Intangible assets	494,624.65	98,924.93	-	-	593,549.58
Total	18,986,758.25	2,065,433.59	-	(331,866.27)	20,720,325.57

Capital assets, net	$ 35,094,288.35	$ 1,787,427.69	$ -	$ (11,632.65)	$ 36,870,083.39

The decrease in library holdings is due to a change in accounting estimate. During fiscal year 2012, it was determined that periodicals are more appropriately expensed. The estimated useful life of periodicals was decreased from ten years to zero years, resulting in a current-year adjustment of $271,938.71.

NOTE 6. ACCOUNTS PAYABLE

Accounts payable included the following:

	June 30, 2012	June 30, 2011
Vendors payable	$815,052.33	$808,256.30
Unapplied student payments	37,021.27	98,398.36
Other payables	-	1,582.48
Total accounts payable	$852,073.60	$908,237.14

NOTE 7. LONG-TERM LIABILITIES

Long-term liabilities activity for the year ended June 30, 2012, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Payables:					
TSSBA debt:					
Bonds	$ 47,222.59	$ -	$ 15,033.54	$ 32,189.05	$ 15,664.94
Other liabilities:					
Compensated absences	1,390,933.44	1,048,815.25	958,385.14	1,481,363.55	406,663.29
Due to grantors	4,061.58	.15	-	4,061.73	-
Subtotal	1,394,995.02	1,048,815.40	958,385.14	1,485,425.28	406,663.29
Total long-term liabilities	$ 1,442,217.61	$ 1,048,815.40	$ 973,418.68	$ 1,517,614.33	$ 422,328.23

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

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Payables:					
TSSBA debt:					
Bonds	$ 61,650.17	$ -	$ 14,427.58	$ 47,222.59	$ 15,033.54
Other liabilities:					
Compensated absences	1,368,683.32	917,988.50	895,738.38	1,390,933.44	395,824.40
Due to grantors	4,061.30	.28	-	4,061.58	-
Subtotal	1,372,744.62	917,988.78	895,738.38	1,394,995.02	395,824.40
Total long-term liabilities	$ 1,434,394.79	$ 917,988.78	$ 910,165.96	$ 1,442,217.61	$ 410,857.94

TSSBA Debt - Bonds

Bonds, with interest rates ranging from 4.00% to 4.50%, were issued by the Tennessee State School Bond Authority (TSSBA). The bonds are due serially to 2014 and are secured by pledges of the facilities' revenues to which they relate (See Note 10 for further detail) 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, 2012, are as follows:

Year Ending June 30	Principal	Interest	Total
2013	$ 15,664.94	$ 1,370.18	$ 17,035.12
2014	16,524.11	743.59	17,267.70
Total	$ 32,189.05	$ 2,113.77	$ 34,302.82

More detailed information regarding the bonds can be found in the notes to the financial statements in the financial report for the Tennessee State School Bond Authority. That report is available on the state's website at www.comptroller.tn.gov/tssba/cafr.asp.

NOTE 8. ENDOWMENTS

If a donor has not provided specific instructions to the college, state law permits the college to authorize for expenditure the earnings of the investments of endowment funds. When administering its power to spend the earnings, the college is required to consider the college's long-term and short-term needs, present and anticipated financial requirements, expected return on its investments, price-level trends, and general economic conditions. Any earnings spent are required to be spent for the purposes for which the endowment was established.

The college can choose to spend only a portion of the investment income each year. Under the spending plan established by the college, 100% of current-year earnings has been authorized for expenditure. Authorizing earnings for expenditure makes the funds available but does not guarantee all of the funds will be spent. The remaining amount, if any, is retained to be used in future years. At June 30, 2012, investment income of $6,338.71 is available to be spent, all of which is included in restricted net assets expendable for scholarships and fellowships. At June 30, 2011, investment income of $6,271.23 is available to be spent, all of which is included in restricted net assets expendable for scholarships and fellowships.

NOTE 9. 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, 2012	June 30, 2011
Working capital	$ 619,594.73	$ 633,965.23
Encumbrances	298,520.34	57,009.02
Designated fees	60,629.56	56,534.01
Auxiliaries	419,930.97	612,892.97
Plant construction	11,768,809.25	11,940,533.14
Renewal and replacement of equipment	6,913,214.90	7,190,561.07
Debt retirement	16,997.63	16,889.05
Undesignated	-	647,579.24
Total	$20,097,697.38	$21,155,963.73

NOTE 10. PLEDGED REVENUES

The college has pledged certain revenues and fees, including state appropriations, to repay $32,189.05 in revenue bonds issued from March 2004 to June 2006. Proceeds from the bonds provided financing for a chiller project. The bonds are payable through 2014. Annual principal and interest payments on the bonds are expected to require .08% of available revenues. The total principal and interest remaining to be paid on the bonds at June 30, 2012, is $34,302.82. Principal and interest paid for fiscal year 2012 and total available revenues in that year were $17,005.06 and $42,388,946.73, respectively. Principal and interest paid for fiscal year 2011 and total available revenues in that year were $16,976.21 and $43,706,111.79, respectively. See Note 7 for further detail.

NOTE 11. PENSION PLANS

A. Defined Benefit Plan

Tennessee Consolidated Retirement System

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

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

Funding Policy - Plan members are noncontributory. The college is required to contribute an actuarially determined rate. The current rate is 14.91% of annual covered payroll. Contribution requirements for the college are established and may be amended by the TCRS' Board of Trustees. The college's contributions to TCRS for the years ended June 30, 2012; 2011; and 2010 were $1,587,464.11; $1,462,125.85; and $1,236,950.59. Contributions met the requirements for each year.

B. Defined Contribution Plans

Optional Retirement Plans

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

Funding Policy - Plan members are noncontributory. The college contributes an amount equal to 10% of the employee's base salary up to the social security wage base and 11% above the social security wage base. Contribution requirements are established and amended by state statute. The contributions made by the college to the plans were $927,408.99 for the year ended June 30, 2012, and $867,823.97 for the year ended June 30, 2011. Contributions met the requirements for each year.

NOTE 12. OTHER POSTEMPLOYMENT BENEFITS

Healthcare is the only "other postemployment benefit" (OPEB) provided to employees. The State of Tennessee administers a group health insurance program which provides postemployment health insurance benefits to eligible college retirees. This program includes two plans available to higher education employees—the State Employee Group Plan and the Medicare Supplement Plan. For accounting purposes, the plans are agent multiple-employer defined benefit OPEB plans. Benefits are established and amended by an insurance committee created by Section 8-27-101, *Tennessee Code Annotated.* Prior to reaching age 65, all members have the option of choosing between the standard or partnership preferred provider organization (PPO) 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 17. The plans are reported in the State of Tennessee's *Comprehensive Annual Financial*

Report (CAFR). The CAFR is available on the state's website at www.tn.gov/finance/act/cafr.shtml.

Special Funding Situation

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

Funding Policy

The premium requirements of members of the State Employee Group Plan are established and may be amended by the insurance committee. The plan is self-insured and financed on a pay-as-you-go basis with the risk shared equally among the participants. Claims liabilities of the plan are periodically computed using actuarial and statistical techniques to establish premium rates. Administrative costs of the plan are allocated to plan participants. In accordance with Section 8-27-205(b), *Tennessee Code Annotated*, retirees in the State Employee Group Plan pay the same base premium as active employees in the plan adjusted for years of service. Retirees with 30 years of service are subsidized 80%; retirees with 20 years of service but less than 30 years of service, 70%; and retirees with less than 20 years of service, 60%. Retirees in the Medicare Supplement Plan have flat-rate premium subsidies based on years of service. Retirees with 30 years of service receive $50 per month; retirees with 20 years of service but less than 30 years of service, $37.50; and retirees with 15 years of service but less than 20 years of service, $25.

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

	2012	2011
Annual required contribution (ARC)	$ 635,000.00	$699,000.00
Interest on the net OPEB obligation	77,404.60	73,756.63
Adjustment to the ARC	(82,163.51)	(69,862.16)
Annual OPEB cost	630,241.09	702,894.47
Amount of contribution	(475,029.84)	(406,815.67)
Increase in net OPEB obligation	155,211.25	296,078.80
Net OPEB obligation – beginning of year	1,935,114.94	1,639,036.14

Net OPEB obligation – end of year	$2,090,326.19	$1,935,114.94

Year-end	Plan	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation at Year-end
June 30, 2012	State Employee Group Plan	$630,241.09	75.4%	$2,090,326.19
June 30, 2011	State Employee Group Plan	$702,894.47	57.9%	$1,935,114.94
June 30, 2010	State Employee Group Plan	$772,849.07	43.0%	$1,639,036.14

Funded Status and Funding Progress

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

State Employee Group Plan

Actuarial valuation date	July 1, 2011	July 1, 2010
Actuarial accrued liability (AAL)	$5,506.000.00	$6,783,000.00
Actuarial value of plan assets	-	-
Unfunded actuarial accrued liability (UAAL)	$5,506,000.00	$6,783,000.00
Actuarial value of assets as a percentage of the AAL	0%	0%
Covered payroll (active plan members)	$18,477,102.23	$18,073,029.09
UAAL as percentage of covered payroll	29.8%	37.5%

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, 2011, actuarial valuation, the Projected Unit Credit actuarial cost method was used. The actuarial assumptions included a 4% investment rate of return (net of administrative expenses) and an annual healthcare cost trend rate of 9.25% in fiscal year 2012. The rate decreases to 8.75% in fiscal year 2013, and then reduces by decrements to an ultimate rate of 5% in fiscal year 2021. All rates include a 2.5% 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 13. INSURANCE-RELATED ACTIVITIES

It is the policy of the state not to purchase commercial insurance for the risks associated with casualty losses for general liability, automobile liability, professional medical 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, builder's risk (for construction projects starting prior to July 1, 2012), and crime and fidelity coverage on the state's officials and employees. The contractor is responsible for acquiring builder's risk insurance for all construction projects after June 30, 2012; thus, builder's risk is no longer covered by the Risk Management Fund. For property coverage, the deductible for an individual state agency is the first $25,000 of losses. The Risk Management Fund is responsible for property losses for the annual aggregate deductible of $10 million for perils other than earthquakes and flood. Purchased insurance coverage is responsible for losses exceeding the $10 million annual aggregate deductible. For earthquake and flood, there is a deductible of $10 million per occurrence. The maximum insurance coverage is $750 million per year for perils other than earthquake and flood. The maximum flood insurance coverage is $50 million per occurrence, except there is only $25 million of coverage in flood zones A and V. The maximum earthquake insurance coverage is $50 million per occurrence. The amounts of settlements have not exceeded insurance coverage for each of the three past fiscal years.

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, 2012, and June 30, 2011, are presented in the *Tennessee Comprehensive Annual Financial Report*. The CAFR is available on the state's website at www.tn.gov/finance/act/cafr.shtml. 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, 2012, the Risk Management Fund held $97.2 million in cash and cash equivalents designated for payment of claims. At June 30, 2011, the Risk Management Fund held $107.6 million in cash and cash equivalents designated for payment of claims.

At June 30, 2012, the scheduled coverage for the college was $95,856,600 for buildings and $29,435,000 for contents. At June 30, 2011, the scheduled coverage for the college was $90,550,700 for buildings and $29,435,000 for contents.

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

NOTE 14. COMMITMENTS AND CONTINGENCIES

Sick Leave

The college records the cost of sick leave when paid. The dollar amount of unused sick leave was $7,392,776.46 at June 30, 2012, and $6,962,916.69 at June 30, 2011.

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 $0.00 and for personal property were $178,622.30 for the year ended June 30, 2012. The amounts for the year ended June 30, 2011, were $0.00 and $190,182.87. All operating leases are cancelable at the lessee's option.

Construction in Progress

At June 30, 2012, outstanding commitments under construction contracts totaled $2,567,041.96 for the Allied Health Building, an Energy Management System upgrade, site improvements, the Warf Building HVAC, and the Wood Building roof replacement, of which $887,194.25 will be funded by future state capital outlay appropriations.

NOTE 15. NATURAL CLASSIFICATIONS WITH FUNCTIONAL CLASSIFICATIONS

The college's operating expenses for the year ended June 30, 2012, are as follows:

	Natural Classification					
Functional Classification	Salaries	Benefits	Other Operating	Scholarships	Depreciation	Total
Instruction	$ 13,734,944.66	$ 4,516,428.68	$ 3,882,983.66	$ 173,615.13	$ -	$ 22,307,972.13
Public service	131,658.36	37,500.36	381,981.59	2,000.00	-	553,140.31
Academic support	2,086,098.88	754,243.78	(468,182.30)	27,601.00	-	2,399,761.36
Student services	2,620,483.92	1,060,285.12	1,211,827.52	473,698.62	-	5,366,295.18
Institutional support	3,445,269.46	1,465,672.77	1,084,912.22	28,033.53	-	6,023,887.98
Maintenance & operation	1,204,377.82	580,037.08	2,600,022.81	6,170.08	-	4,390,607.79
Scholarships & fellowships	11.75	10,207.00	-	8,984,456.11	-	8,994,674.86
Auxiliary	-	-	93,151.85	-		93,151.85
Depreciation	-	-	-	-	2,197,746.74	2,197,746.74
Total	$ 23,222,844.85	$ 8,424,374.79	$ 8,786,697.35	$ 9,695,574.47	$ 2,197,746.74	$ 52,327,238.20

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

	Natural Classification					
Functional Classification	Salaries	Benefits	Other Operating	Scholarships	Depreciation	Total
Instruction	$ 12,701,006.60	$ 4,212,119.93	$ 3,648,577.46	$ 228,503.59	$ -	$ 20,790,207.58
Public service	111,495.36	24,284.21	304,174.85	3,000.00	-	442,954.42
Academic support	1,988,424.76	775,301.69	288,270.38	4,125.00	-	3,056,121.83
Student services	2,493,024.95	1,037,963.90	1,159,357.95	439,515.07	-	5,129,861.87
Institutional support	3,133,294.75	1,354,896.03	851,093.90	23,322.10	-	5,362,606.78
Operation & maintenance	1,097,738.89	547,173.88	2,177,649.69	11,177.78	-	3,833,740.24
Scholarships & fellowships	-	10,373.00	(2,663.55)	11,102,613.72	-	11,110,323.17
Auxiliary	-	-	99,808.80	-	-	99,808.80
Depreciation	-	-	-	-	2,065,433.59	2,065,433.59
Total	$ 21,524,985.31	$ 7,962,112.64	$ 8,526,269.48	$ 11,812,257.26	$ 2,065,433.59	$ 51,891,058.28

Expenses initially incurred by the academic support function as a result of providing internal services to the other functional classifications were allocated to the other functional areas by reducing the academic support function's operating expenses by the total amount of salaries, benefits, and operating expenses incurred in the provision of these services, and allocating this amount to the other functional areas' operating expenses on the basis of usage. As a result of this process, expenses totaling $1,909,840.57 for the year ended June 30, 2012, and $1,820,071.83 for the year ended June 30, 2011, were reallocated from academic support to the other functional areas, causing academic support operating expenses to appear as a negative amount in the 2012 schedule above.

NOTE 16. PRIOR-YEAR ADJUSTMENT

Net assets at July 1, 2010, were increased $730,317.54 to correct an error in recording deferred revenue in prior years.

NOTE 17. ON-BEHALF PAYMENTS

During the year ended June 30, 2012, the State of Tennessee made payments of $22,302.54 on behalf of the college for retirees participating in the Medicare

Supplement Plan. The amount for the year ended June 30, 2011, was $20,069.00. The Medicare Supplement Plan is a postemployment benefit healthcare plan and is discussed further in Note 12. The plan is reported in the *Tennessee Comprehensive Annual Financial Report*. That report is available on the state's website at www.tn.gov/finance/act/cafr.shtml.

NOTE 18. COMPONENT UNIT

The Volunteer State Community 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 41-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. 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 adjustments, 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, 2012, the foundation made distributions of $431,032.40 to or on behalf of the college for both restricted and unrestricted purposes. During the year ended June 30, 2011, the foundation made distributions of $472,527.09 to or on behalf of the college for both restricted and unrestricted purposes. Complete financial statements for the foundation can be obtained from the Volunteer State College Foundation, 1480 Nashville Pike, Gallatin, Tennessee 37066.

Fair Value Measurements

The foundation reports certain assets and liabilities at fair value. Fair value has been determined using quoted prices in active markets for identical assets and liabilities that are accessible at the measurement date (Level 1), inputs other than quoted market prices included in Level 1 that are directly or indirectly observable for the asset or liability (Level 2), or significant unobservable inputs (Level 3). The following tables categorize the recurring fair value measurements for assets and liabilities at June 30, 2012, and at June 30, 2011.

	Total Fair Value at June 30, 2012	Quoted Prices Level 1	Significant Other Inputs Level 2	Significant Unobservable Inputs Level 3
Assets:				
Investments	$ 3,499,352.15	$ 3,499,352.15	$ -	$ -
Pledges receivable	13,866.33	-	-	13,866.33
Total assets	$ 3,513,218.48	$ 3,499,352.15	$ -	$ 13,866.33

	Total Fair Value at June 30, 2011	Quoted Prices Level 1	Significant Other Inputs Level 2	Significant Unobservable Inputs Level 3
Assets:				
Investments	$ 3,506,028.33	$ 3,506,028.33	$ -	$ -
Pledges receivable	47,256.51	-	-	47,256.51
Total assets	$ 3,553,284.84	$ 3,506,028.33	$ -	$ 47,256.51

The following table reconciles beginning and ending balances of all assets and liabilities valued using Level 3 inputs.

At June 30, 2012	Beginning Balance	Purchases, Issuances, and Settlements	Ending Balance
Assets:			
Pledges receivable	$47,256.51	$(33,390.18)	$13,866.33

At June 30, 2011	Beginning Balance	Purchases, Issuances, and Settlements	Ending Balance
Assets:			
Pledges receivable	$20,346.39	$26,910.12	$47,256.51

Cash and Cash Equivalents

Cash and cash equivalents consist of demand deposit accounts, money market funds, and the Local Government Investment Pool. The bank balances of deposits at June 30, 2012, and June 30, 2011, were entirely insured.

Investments

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

Investments held at June 30, 2012, were as follows:

	Cost	Market Value
US Treasury	$ 101,360.58	$ 153,068.25
US Agencies	1,193,712.48	1,232,331.01
Corporate stock	1,887,501.47	2,113,952.89
Total investments	$ 3,182,574.53	$ 3,499,352.15

Investments held at June 30, 2011, were as follows:

	Cost	Market Value
US Treasury	$ 101,360.58	$ 127,145.70
US Agencies	1,263,959.45	1,265,659.75
Corporate stock	1,849,521.87	2,113,222.88
Total investments	$ 3,214,841.90	$ 3,506,028.33

Pledges Receivable

Pledges receivable are summarized below.

	June 30, 2012	June 30, 2011
Current pledges	$ 9,385.00	$46,260.00
Pledges due in one to five years	4,500.00	1,000.00
Subtotal	13,885.00	47,260.00
Less discount to net present value	(18.67)	(3.49)
Total pledges receivable, net	$13,866.33	$47,256.51

Endowments

The Volunteer State Community College Foundation's endowment consists of 52 individual funds established for a variety of purposes. Its endowment includes both donor-restricted endowment funds and funds designated by the Board of Trustees to function as endowments. As required by GAAP, net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of relevant law - The Board of Trustees of the Volunteer State Community College Foundation has interpreted the Uniform Prudent Management of Institutional Funds Act (the Act) as adopted by Tennessee requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Volunteer State Community College Foundation classifies as permanently restricted net assets 1) the original value of gifts donated to the permanent endowment; 2) the original value of subsequent gifts to the permanent endowment; 3) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the foundation in a manner consistent with the standard of prudence prescribed by the Act. In accordance with the Act, the foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: 1) the duration and preservation of the fund; 2) the purposes of the foundation and the endowment fund; 3) general economic conditions; 4) the possible effect of inflation or deflation; 5) the expected total return from income and the appreciation of investments; 6) other resources of the foundation; and 7) the investment policies of the foundation.

Composition of Endowment by Net Asset Class
As of June 30, 2012

	Permanently Restricted	Temporarily Restricted	Unrestricted	Total
Donor-restricted endowment funds	$ 1,638,758.88	$ 319,257.25	$ (7,235.23)	$ 1,950,780.90
Board-designated endowment funds	-	-	1,674,535.07	1,674,535.07
Total funds	$ 1,638,758.88	$ 319,257.25	$ 1,667,299.84	$ 3,625,315.97

Composition of Endowment by Net Asset Class
As of June 30, 2011

	Permanently Restricted	Temporarily Restricted	Unrestricted	Total
Donor-restricted endowment funds	$ 1,631,065.68	$ 259,085.51	$ (9,422.30)	$ 1,880,728.89
Board-designated endowment funds	-	-	1,673,839.12	1,673,839.12
Total funds	$ 1,631,065.68	$ 259,085.51	$ 1,664,416.82	$ 3,554,568.01

Changes in Endowment Net Assets
for the Fiscal Year Ended June 30, 2012

	Permanently Restricted	Temporarily Restricted	Unrestricted	Total
Endowment net assets, beginning of year	$ 1,631,065.68	$ 259,085.51	$ 1,664,416.82	$ 3,554,568.01
Investment return:				
Investment income	3,883.76	36,181.09	46,417.26	86,482.11
Net appreciation/depreciation (realized and unrealized)	-	36,770.18	16,054.65	52,824.83
Total investment return	3,883.76	72,951.27	62,471.91	139,306.94
Contributions	15,493.36	7,855.00	4,715.00	28,063.36
Appropriations of endowment assets for expenditure	-	(20,286.50)	(48,096.50)	(68,383.00)

Transfers	(11,683.92)	(348.03)	(16,207.39)	(28,239.34)
Endowment net assets, end of year	$ 1,638,758.88	$ 319,257.25	$ 1,667,299.84	$ 3,625,315.97

Changes in Endowment Net Assets
for the Fiscal Year Ended June 30, 2011

	Permanently Restricted	Temporarily Restricted	Unrestricted	Total
Endowment net assets, beginning of year	$ 3,898,597.77	$ 115,034.29	$ 240,178.94	$ 4,253,811.00
Prior period adjustment to correct net asset classification	(2,412,646.67)	(3,510.38)	2,416,157.05	-
Investment return:				
Investment income	5,396.39	32,393.54	74,297.17	112,087.10
Net appreciation/depreciation (realized and unrealized)	-	135,858.54	276,000.41	411,858.95
Total investment return	5,396.39	168,252.08	350,297.58	523,946.05
Contributions	81,119.19	4,017.00	10,047.00	95,183.19
Appropriations of endowment assets for expenditure	-	(24,107.00)	(78,458.50)	(102,565.50)
Transfers	58,599.00	(600.48)	(1,273,805.25)	(1,215,806.73)
Endowment net assets, end of year	$ 1,631,065.68	$ 259,085.51	$ 1,664,416.82	$ 3,554,568.01

Funds with deficiencies - From time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the level that the foundation is required to retain in a fund of perpetual duration. In accordance with accounting principles generally accepted in the United States of America, deficiencies of this nature are reported in unrestricted net assets. These deficiencies resulted from unfavorable market fluctuations that occurred after the investment of permanently restricted contributions and/or continued appropriation for fees and previously approved budgeted expenditures. At June 30, 2012, and at June 30, 2011, deficiencies of this nature totaled $7,235.23 and $9,422.30, respectively.

Return objectives and risk parameters - The foundation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the organization must hold in perpetuity or for a donor-specified period(s) as well as board-designated funds. Under this policy, as approved by the Board of Trustees, the endowment assets are invested in a manner that is intended to produce results that preserve and protect its assets by earning a total return for each category of Assets (a "Fund"), which is appropriate for each Fund's time horizon, distribution requirements, and risk tolerance. The foundation expects its endowment funds, over time, to provide an average rate of return of approximately 3% annually. Actual returns in any given year may vary from this amount.

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

Spending policy and how the investment objectives relate - The foundation's policy of appropriating for distribution each year is to spend only a portion of the investment income each year. Under the spending plan established by the foundation, 80% of current-year earnings have been authorized for expenditure. The remaining amount, if any, is retained to be used in future years to increase the endowments' corpus. In establishing this policy, the foundation considered the long-term expected return on its endowment. Accordingly, over the long-term, the foundation expects the current spending policy to allow its endowment to grow at an average of 1% annually. This is consistent with the foundation's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.

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)]
July 1, 2011	State Employee Group Plan	$ -	$ 5,506,000	$ 5,506,000	0.0%	$ 18,477,102	29.8%
July 1, 2010	State Employee Group Plan	$ -	$ 6,783,000	$ 6,783,000	0.0%	$ 18,073,029	37.5%
July 1, 2009	State Employee Group Plan	$ -	$ 7,543,000	$ 7,543,000	0.0%	$ 17,770,441	42.5%

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

TENNESSEE BOARD OF REGENTS
VOLUNTEER STATE COMMUNITY COLLEGE
SUPPLEMENTARY INFORMATION
SCHEDULES OF CASH FLOWS - COMPONENT UNIT
FOR THE YEARS ENDED JUNE 30, 2012, AND JUNE 30, 2011

	Year Ended June 30, 2012	Year Ended June 30, 2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Gifts and contributions	$ 226,739.95	$ 165,726.82
Grants and contracts	10,136.19	10,592.27
Payments to suppliers and vendors	(24,302.23)	(28,322.11)
Payments to Volunteer State Community College	(378,147.07)	(359,591.84)
Other receipts (payments)	111,063.68	136,587.96
Net cash provided by operating activities	(54,509.48)	(75,006.90)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Private gifts for endowment purposes	15,493.36	81,319.19
Net cash provided by noncapital financing activities	15,493.36	81,319.19
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital grants and gifts received	27,200.00	7,390.00
Net cash provided by capital and related financing activities	27,200.00	7,390.00
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of investments	592,092.29	2,257,611.03
Income on investments	86,490.13	112,118.99
Purchases of investments	(532,591.28)	(1,329,911.44)
Net cash provided (used) by investing activities	145,991.14	1,039,818.58
Net increase in cash and cash equivalents	134,175.02	1,053,520.87
Cash and cash equivalents - beginning of year	2,016,181.73	962,660.86
Cash and cash equivalents - end of year	$ 2,150,356.75	$ 2,016,181.73
Reconciliation of operating income (loss) to net cash provided by operating activities:		
Operating income (loss)	$ 16,331.00	$ 18,660.46
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
Endowment income per spending plan	(82,158.21)	(101,705.07)
Change in assets and liabilities:		
Receivables, net	872.59	4,717.22
Prepaid/deferred items	(3,825.00)	823.28
Other assets	(289.50)	(303.00)
Accounts payable	11,519.06	1,225.21
Deferred revenues	3,040.58	1,575.00
Net cash provided (used) by operating activities	$ (54,509.48)	$ (75,006.90)
Noncash investing, capital, and financing activities:		
Unrealized gain (loss) on investments	$ 27,152.16	$ 426,436.68