TENNESSEE COMPTROLLER OF THE TREASURY

STATE OF TENNESSEE

COMPTROLLER OF THE TREASURY

TENNESSEE BOARD OF REGENTS

VOLUNTEER STATE COMMUNITY COLLEGE

Financial and Compliance Audit Report

For the Years Ended June 30, 2014, and June 30, 2013

Justin P. Wilson, Comptroller

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STATE OF TENNESSEE
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July 23, 2015

The Honorable Bill Haslam, Governor
Members of the General Assembly
The Honorable John G. Morgan, Chancellor
Dr. Jerry Faulkner, President

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, 2014, and June 30, 2013. You will note from the independent auditor's report that unmodified opinions were given on the fairness of the presentation of the financial statements.

Consideration of the internal control over financial reporting and tests of compliance disclosed a deficiency, which is detailed in the Findings and Recommendations section of this report. The college's management 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

15/044

Audit Report
Tennessee Board of Regents

Volunteer State Community College

For the Years Ended June 30, 2014, and June 30, 2013

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For the Years Ended June 30, 2014, and June 30, 2013

Opinions on the Financial Statements

The opinions on the financial statements are unmodified.

Audit Finding

Volunteer State Community College did not provide adequate internal controls in two specific areas

Management did not design and monitor adequate internal control over two specific areas (page 49).

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

The Honorable Bill Haslam, Governor
Members of the General Assembly
The Honorable John G. Morgan, Chancellor
Dr. Jerry Faulkner, President

Report on the Financial Statements

We have audited the accompanying 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, 2014, and June 30, 2013, and the related notes to the financial statements, which collectively comprise the basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

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, 2014, and June 30, 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

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, 2014, and June 30, 2013, and the changes in financial position and cash flows thereof for the years then ended, in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

As discussed in Note 1, the college implemented GASB Statement 65, *Items Previously Reported as Assets and Liabilities*, during the year ended June 30, 2013. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 through 17 and the schedule of funding progress on page 45 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.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the college's basic financial statements. The schedules of cash flows – component unit on page 46 are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The schedules of cash flows – component unit are the responsibility of the college's management and were derived from, and relate directly to, the underlying accounting and other records used to prepare the basic 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 basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedules of cash flows – component unit are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 19, 2015, on our consideration of the college's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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 *Government Auditing Standards* in considering the college's internal control over financial reporting and compliance.

Deborah V. Loveless

Deborah V. Loveless, CPA
Director
June 19, 2015

Tennessee Board of Regents
VOLUNTEER STATE COMMUNITY COLLEGE
Management's Discussion and Analysis

This section of Volunteer State Community College's annual financial report presents a discussion and analysis of the financial performance of the college during the fiscal year ended June 30, 2014, with comparative information presented for the fiscal years ended June 30, 2013, and June 30, 2012. This discussion has been prepared by management along with the financial statements and related note disclosures and should be read in conjunction with the financial statements and notes. The financial statements, notes, and this discussion are the responsibility of management.

The college has one discretely presented component unit, the Volunteer State College Foundation. More detailed information about the foundation is presented in Note 15 to the financial statements. This discussion and analysis focuses on the college and does not include the foundation.

Overview of the Financial Statements

The financial statements have been prepared in accordance with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB), which establishes standards for external financial reporting for public colleges and universities. The financial statements are presented on a consolidated basis to focus on the college as a whole. The full scope of the college's activities is considered to be a single business-type activity, and accordingly, is reported within a single column in the basic financial statements.

The college's financial report includes the statement of net position; the statement of revenues, expenses, and changes in net position; and the statement of cash flows. Notes to the financial statements are also presented to provide additional information that is essential to a full understanding of the financial statements.

The Statement of Net Position

The statement of net position is a point-in-time financial statement. The statement of net position presents the financial position of the college at the end of the fiscal year. To aid the reader in determining the college's ability to meet immediate and future obligations, the statement includes all assets, liabilities, deferred outflows/inflows of resources, and net position of the college and segregates the assets and liabilities into current and noncurrent components. Current assets are those that are available to satisfy current liabilities, inclusive of assets that will be converted to cash within one year. Current liabilities are those that will be paid within one year. The statement of net position is prepared under the accrual basis of accounting; assets and liabilities are recognized when goods or services are provided or received despite when cash is actually exchanged.

From the data presented, readers of the statement are able to determine the assets available to continue the operations of the college. They are also able to determine how much the college owes vendors, lenders, and others. Net position represents the difference between the college's assets and liabilities, along with the difference between deferred outflows and deferred inflows of resources, and is one indicator of the college's current financial condition.

The statement of net position also indicates the availability of net position for expenditure by the college. Net position is divided into three major categories. The first category, net investment in capital assets, represents the college's total investment in property, plant, and equipment, net of outstanding debt obligations related to these capital assets. To the extent debt or deferred inflows of resources have been incurred but not yet expended for capital assets, such amounts are not included. The next category is restricted net position, which is sub-divided into two categories, nonexpendable and expendable. Nonexpendable restricted net position includes endowment and similar resources whose use is limited by donors or other outside sources and as a condition of the gift, the principal is to be maintained in perpetuity. Expendable restricted net position is 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 resources. The final category is unrestricted net position. Unrestricted net position is available to the college for any lawful purpose of the college.

The following table summarizes the college's assets, liabilities, deferred outflows/inflows of resources, and net position at June 30, 2014; June 30, 2013; and June 30, 2012.

Statements of Net Position Summary
(in thousands of dollars)

	2014	2013	2012
Assets:			
Current assets	$18,731	$16,547	$14,070
Capital assets, net	45,268	43,364	36,985
Other assets	16,532	16,250	18,800
Total Assets	80,531	76,161	69,855
Liabilities:			
Current liabilities	11,190	10,180	9,192
Noncurrent liabilities	3,419	3,362	3,185
Total Liabilities	14,609	13,542	12,377
Net Position:			
Net investment in capital assets	45,268	43,348	36,952
Restricted – nonexpendable	124	123	122
Restricted – expendable	272	273	306
Unrestricted	20,258	18,875	20,098
Total Net Position	$65,922	$62,619	$57,478

Comparison of FY 2014 to FY 2013:

- In FY 2014, current assets increased $2,184,616. Cash and cash equivalents at June 30, 2014, were higher by $1,841,746 partially because accounts payable were higher and prepaid expenses were lower than that date the previous year. Accounts receivable increased $473,138, primarily a result of an increase in grant receivables, loan receivable in agency funds, and appropriation receivable for the Mattox Building HVAC project. Prepaid expense decreased $162,061, as fewer maintenance and licensing agreements were prepaid in FY 2014. The largest asset within the category is cash and cash equivalents in the amount of $11,793,110, of which $5,465,656 is held by Volunteer State Community College as the custodian for the Tennessee Colleges of Applied Technology (TCAT) in Hartsville and Livingston.

- Capital assets consist of land, buildings, projects in progress, equipment, other improvements, intangible assets, and library holdings. During 2014, net capital assets increased $1,903,965 including depreciation expense of $2,324,619. The major additions during FY 2014 were completion of the Wallace Health Sciences Building-South, replacement of the HVAC system in the Mattox Building, upgrade of the campus' energy management system, and initial planning for the new Humanities Building. Most of these projects, other than the Wallace Health Sciences Building-South, were funded by campus funds set aside in plant funds for purposes such as these. The Wallace Health Sciences Building-South was funded by state funds. Funding for planning of the Humanities Building was paid from campus funds. When construction begins, those costs will be paid primarily by the state.

- Other noncurrent assets, made up of cash and cash equivalents, were relatively stable, increasing $281,505 during FY 2014.

- In 2014, current liabilities increased $1,010,069. Accounts payable increased by $742,271 due to an increase of $520,224 in regular vendor payables and an increase of $204,207 in payables for construction projects. Accrued liabilities increased by $269,133 due to the TCRS payment for June not being paid until July and an increase in health insurance costs. Unearned revenue decreased by $223,477 due to lower enrollment for summer semester 2014 compared to the previous year. The deposits held for others increased $215,492 because of a higher cash position at the TCATs.

- Noncurrent liabilities increased $57,002 during FY 2014. The postemployment benefit accrual increased $71,480 and compensated absences decreased $10,823.

Comparison of FY 2013 to FY 2012

- In FY 2013, current assets increased $2,476,455. Cash and cash equivalents increased $1,746,042 resulting from a shift in the allocation to current from noncurrent as expenditures were made using plant funds. Accounts receivable increased $665,682, primarily a result of a third party responsible for a large student population attending in the summer 2013 semester remaining unpaid as of the end of FY 2013. Prepaid expense increased $113,875 as more maintenance and licensing agreements were paid in FY 2013 which do not take effect until FY 2014. The largest asset within the category is cash and cash equivalents in the amount of $9,951,363, of which $5,250,164 is held by Volunteer State Community College as the custodian for the Tennessee Colleges of Applied Technology (TCAT) in Hartsville and Livingston.

- Capital assets consist of land, buildings, projects in progress, equipment, other improvements, intangible assets, and library holdings. During 2013, net capital assets increased $6,379,176, including depreciation expense of $2,254,470. The major additions during FY 2013 were the construction began for the Wallace Health Sciences Building-South; the HVAC system in the Warf Building was replaced; the campus' energy management system was upgraded; an additional parking lot was added during the year; additional equipment was purchased; the site improvements project on the main campus was completed; property adjacent to the Livingston campus was purchased; roofs were replaced on the Wood Campus Center and the Fine Arts buildings; and the initial planning for a new Humanities building began. Most of these projects, other than the Wallace Health Sciences Building-South, were funded by campus funds set aside in plant funds for purposed such as these. The Wallace Health Sciences Building-South cost was funded by state funds.

- Other noncurrent assets, made up of cash and cash equivalents, decreased $2,550,160 as plant funds were used as the source for many of the capital projects during FY 2013.

- In 2013, current liabilities increased $988,180. Unearned revenue increased due to a higher enrollment for summer semester 2013 compared to the previous year. The deposits held for others increased, resulting in more cash held for the TCATs. These increases were offset by decreases in both accounts payable and accrued liabilities.

- Noncurrent liabilities increased $176,226 during FY 2013. The postemployment benefit accrual increased $186,812 and compensated absences increased $5,937. Those were offset by a long-term liability decrease of $16,524 resulting from payment made toward the outstanding debt.

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

The Statement of Revenues, Expenses, and Changes in Net Position presents the results of operations for the fiscal year. Revenues and expenses are recognized when earned or incurred, regardless of when cash is received. The statement indicates whether the college's financial condition has improved or deteriorated during the fiscal year. The statement presents the revenues received by the college, both operating and non-operating, and the expenses paid by the college, operating and non-operating, and any other revenues, expenses, gains, or losses received or spent by the college.

Generally speaking, operating revenues are received for providing goods and services to the various customers and constituencies of the college. Operating expenses are those expenses paid to acquire or produce the goods and services provided in return for the operating revenues, and to carry out the mission of the college. Non-operating revenues are revenues received for which goods and services are not provided directly to the payor. Although Volunteer State Community College is dependent upon state appropriations and gifts to fund educational and general operations, under GASB standards these funding sources are reported as non-operating revenues, as is investment income. As a result, the college has historically reported an excess of operating expenses over operating revenues, resulting in an operating loss. Therefore, the "increase in net position" is more indicative of overall financial results for the year.

A summary of the college's revenues, expenses, and changes in net position for the years ended June 30, 2014; June 30, 2013; and June 30, 2012, follows.

Statements of Revenues, Expenses, and Changes in Net Position Summary
(in thousands of dollars)

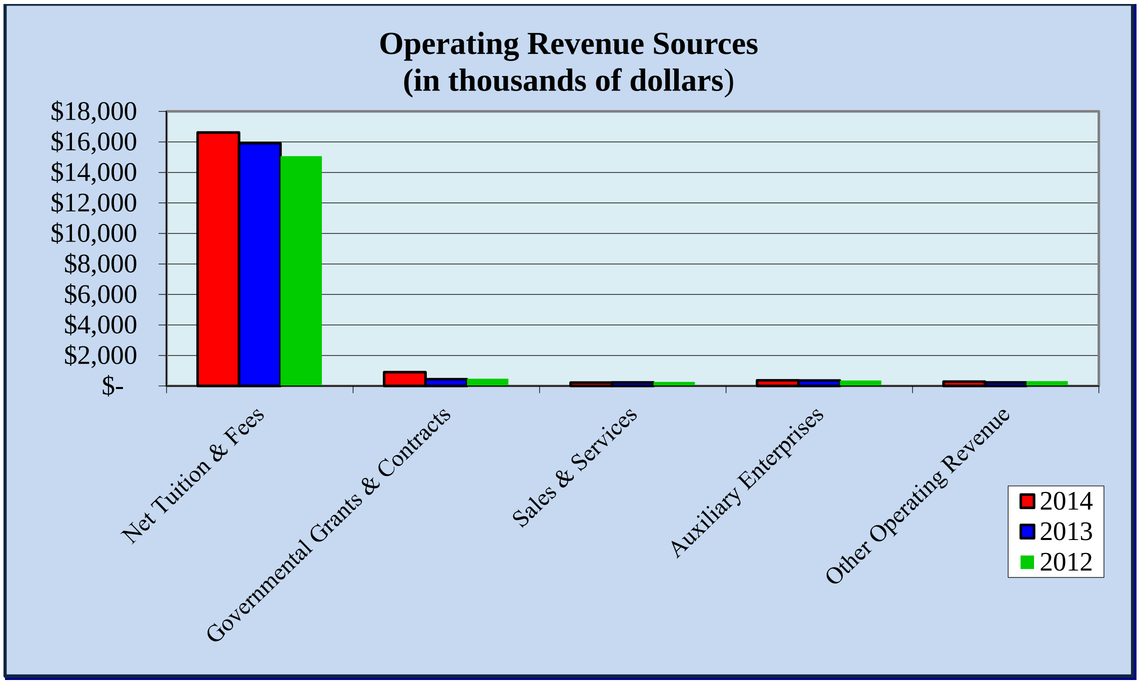
	2014	**2013**	**2012**
Operating revenues	$18,410	$17,200	$16,487
Operating expenses	52,203	52,752	52,327
Operating loss	(33,793)	(35,552)	(35,840)
Non-operating revenues and expenses	32,884	33,039	34,173
Income (loss) before other revenues, expenses, gains, or losses	(909)	(2,513)	(1,667)
Other revenues, expenses, gains, or losses	4,212	7,654	761
Increase (decrease) in net position	3,303	5,141	(906)
Net position at beginning of year	62,619	57,478	58,384
Net position at end of year	$65,922	$62,619	$57,478

Operating Revenues

The following summarizes the operating revenues by source that were used to fund operating activities for the last three fiscal years:

Operating Revenue Sources
(in thousands of dollars)

	2014	**2013**	**2012**
Net Tuition & Fees	$16,623	$15,918	$15,069
Governmental Grants & Contracts	906	447	472
Sales & Services	223	236	264
Auxiliary Enterprises	373	366	367
Other Operating Revenue	285	233	315
Total	$18,410	$17,200	$16,487



Comparison of FY 2014 to FY 2013

- Tuition and fees (net of scholarship allowances of $9,545,123) account for approximately 90% of the college's operating revenues. Rates for tuition and fees are recommended by the Tennessee Higher Education Commission and approved by the Tennessee Board of Regents. Revenues from tuition and fees fluctuate depending upon enrollments. Net tuition and fees increased $704,802 due to an increase in the tuition rate of 3% for in-state students in FY 2014.

- Governmental grants and contracts account for approximately 5% of the college's total operating revenues in 2014 and increased by $459,202. The majority of the increase was in the Rx TN Consortia Grant and the Adult Education grant.

- 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 2014. The commission earned increased by $6,256 and is approximately 2% of operating revenues in 2014.

Comparison of FY 2013 to FY 2012

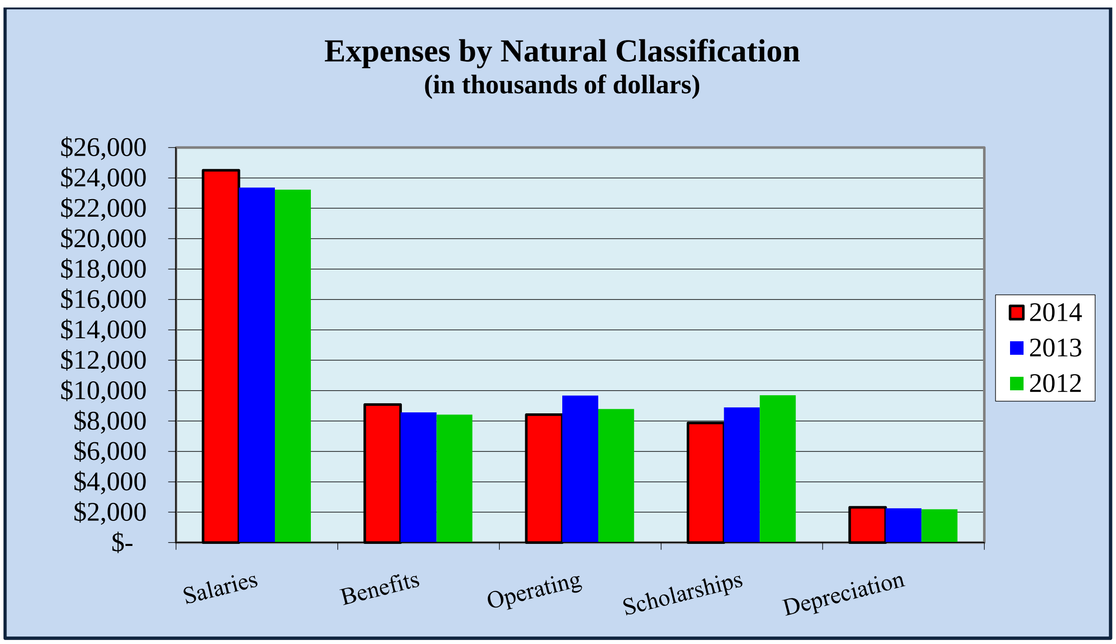
- Tuition and fees (net of scholarship allowances of $9,244,558) account for approximately 93% of the college's operating revenues. Rates for tuition and fees are recommended by the Tennessee Higher Education Commission and approved by the Tennessee Board of Regents. Revenues from tuition and fees fluctuate depending upon enrollments. Net tuition and fees increased $849,723 due to an increase in the tuition rate of 4.7% for in-state students in FY 2013.

- Governmental grants and contracts account for approximately 3% of the college's total operating revenues in 2013 and decreased by $25,213. The majority of the decline was in the College Work Study grant.

- 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 2013. The commission earned remained at approximately the same level as last year and is slightly more than 2% of operating revenues in 2013.

Operating Expenses

Operating expenses may be reported by nature or function. The college has chosen to report the expenses in their natural classification on the statement of revenues, expenses, and changes in net position and has displayed the functional classification in the notes to the financial statements. The following summarizes the operating expenses by natural classifications for the last three fiscal years:



Comparison of FY 2014 to FY 2013

- Salary expenses increased by $1,140,027, or 4.9%, from 2013 to 2014. This increase resulted from an increase in payments to grant employees of $353,932, a one-time bonus of $357,367 and a permanent increase of $428,738 for continuing, regular employees. Related benefits increased $516,521, or 6.0%. Together these two items comprise 64% of expenses in 2014 and 61% of expenses in 2013.

- For 2014, utilities, supplies, and other services (operating) expenses account for over 16% of the total operating expenses, decreasing from 2013 by $1,249,889. The decrease occurred primarily because there was a large remodeling project in 2013 with associated expenses of $1,445,709. This line item consists of expenditures for items such as supplies, utilities, communications, shipping, maintenance and repairs, printing, travel, professional and administrative services, rental, and insurance.

- Scholarship expenses comprise about 15% of operating expense. They are primarily attributable to the Federal Pell Grant and Supplemental Educational Opportunity Grant (SEOG) programs, Tennessee Student Assistance Awards (TSAA), Tennessee Education Lottery Scholarship Program, and private scholarships. In 2014, net scholarship expenditures decreased by $1,025,311, primarily because of lower enrollment.

Comparison of FY 2013 to FY 2012

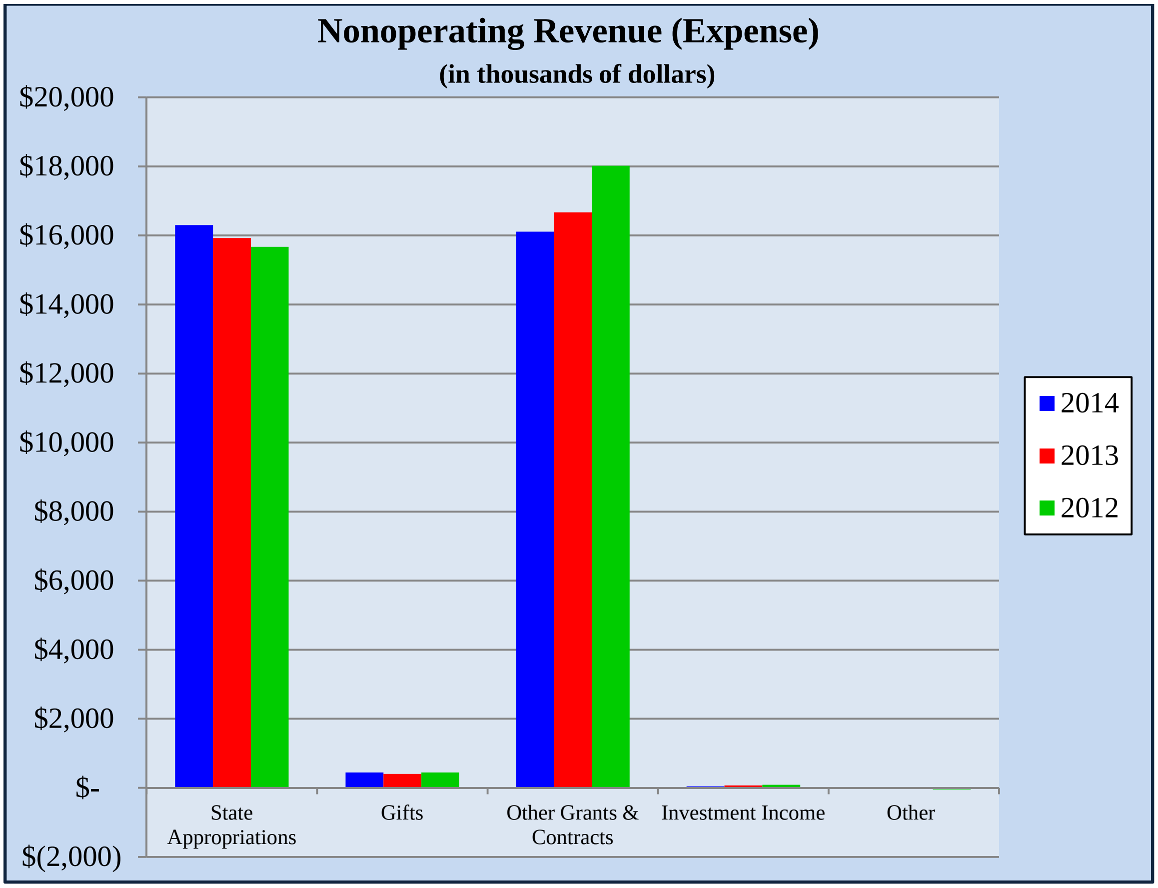
- Salary and related benefits comprise approximately 60% of the college's operating expenses in both 2013 and 2012. The dollar amount increased $281,286 for these two line items. In 2013, regular employees, meeting the stated criteria, received a 2.5% cost of living adjustment (COLA) increase.

- For 2013, utilities, supplies, and other services (operating) expenses account for over 18 percent of the total operating expenses, increasing from 2012 by $884,186 as a result of renovations, inflationary, and contractual increases. This line item consists of expenditures for items such as supplies, utilities, communications, shipping, maintenance and repairs, printing, travel, professional and administrative services, rental, and insurance.

- Scholarship expenses, making up almost 17% of operating expense, are primarily attributable to the Federal Pell Grant and Supplemental Educational Opportunity Grant (SEOG) programs, Tennessee Student Assistance Awards (TSAA), Tennessee Education Lottery Scholarship Program, and private scholarships. In 2013, net scholarship expenditures decreased by $797,829, primarily resulting from lower enrollment.

Non-operating Revenues and Expenses

Certain revenue sources that the college relies on to provide funding for operations, including state noncapital appropriations, certain gifts and grants, and investment income, are defined by the GASB as non-operating. Non-operating expenses include capital financing costs and other costs related to capital assets. The following summarizes the college's non-operating revenues and expenses for the last three fiscal years:



Comparison of FY 2014 to FY 2013

- State appropriations are requested by the Tennessee Higher Education Commission based on funding formula calculations. The State of Tennessee General Assembly determines the final state appropriations. State appropriations account for almost 50% of the college's total non-operating revenues during 2014. State appropriations increased $372,747 in 2014.

- Grants and contracts, including governmental grants and contracts, account for approximately 49% of total non-operating revenues in 2014. A large percentage of the total grants and contracts revenue is restricted for student aid programs such as Pell Grant, SEOG, and the Tennessee Education Lottery Scholarship Program. Grants and contracts decreased $557,791. The decrease is primarily a result of the decrease in enrollment.

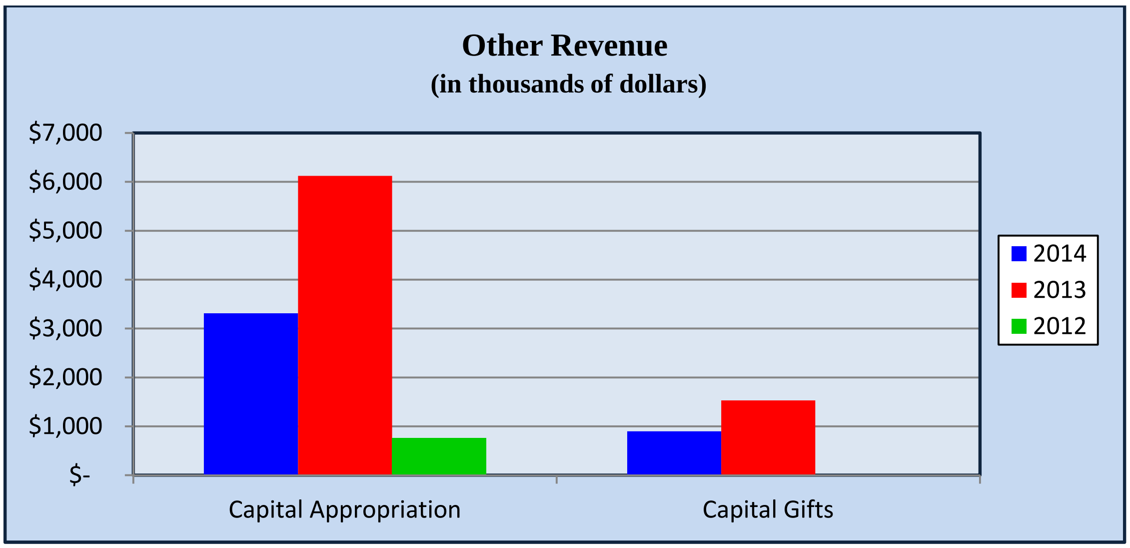
Comparison of FY 2013 to FY 2012

- State appropriations are requested by the Tennessee Higher Education Commission based on funding formula calculations. The State of Tennessee General Assembly determines the final state appropriations. State appropriations account for more than 48% of the college's total non-operating revenues during 2013. State appropriations increased $252,881 in 2013.

- Grants and contracts including governmental grants and contracts account for approximately 50 percent of total non-operating revenues in 2013. A large percentage of the total grants and contracts revenue is restricted for student aid programs such as Pell Grant, SEOG, and the Tennessee Education Lottery Scholarship Program. Grants and contracts decreased $1,351,291. The decrease is primarily a result of the decrease in enrollment and a change in eligibility requirements.

<u>Other Revenues</u>

This category is composed of state appropriations for capital purposes, capital grants and gifts, and additions to permanent endowments. These amounts were as follows for the last three fiscal years:



<u>Comparison of FY 2014 to FY 2013</u>

- Capital appropriation decreased $2,811,752 during FY 2014. Capital appropriations for the Wallace Health Sciences Building-South were greater in FY 2013 than in FY 2014.

- In FY 2014, capital grants and gifts decreased $630,809. In 2013 the foundation provided a gift of $1,530,000 to the college for the Wallace Health Sciences Building-South. In 2013, the foundation started a capital campaign for the Humanities Building. In 2014, the college received a gift of $815,000 for that project.

<u>Comparison of FY 2013 to FY 2012</u>

- Capital appropriation increased $5,363,076 during FY 2013. This increase is largely due to the costs for the Wallace Health Sciences Building-South funded by the state.

- In FY 2013, capital gifts increased $1,530,000 due to the foundation's gift for the Wallace Health Sciences Building-South.

Capital Assets and Debt Administration

Capital Assets

Volunteer State Community College had $45,267,811 invested in capital assets, net of accumulated depreciation of $26,259,185 at June 30, 2014; $43,363,846 invested in capital assets, net of accumulated depreciation of $24,102,039 at June 30, 2013; and $36,984,670 invested in capital assets, net of accumulated depreciation of $22,111,391 at June 30, 2012. Depreciation charges totaled $2,324,619, $2,254,470, and $2,197,747 for the years ended June 30, 2014; June 30, 2013; and June 30, 2012, respectively.

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

	2014	2013	2012
Land	$ 2,565	$ 2,561	$ 2,515
Land improvements & infrastructure	7,241	6,256	6,157
Buildings	22,685	23,667	23,787
Equipment	3,123	2,678	2,624
Intangible Assets	239	198	297
Library holdings	272	298	324
Projects in progress	9,142	7,706	1,281
Total	$45,267	$43,364	$36,985

FY 2014 Significant Additions or Retirements

Significant additions to capital assets occurred in fiscal year 2014. These additions were the Campus Wireless Upgrade, Mattox HVAC, and Wallace South Health Science Complex Building. At June 30, 2014, outstanding commitments under construction contracts totaled $1,239,279 for various renovations and repairs of buildings and infrastructure. Future state capital outlay appropriations will fund $341,469 of these costs.

FY 2013 Significant Additions or Retirements

Significant additions to capital assets occurred in fiscal year 2013. These additions were from the purchase of land adjacent to the Livingston campus, completion of site improvements, campus' energy management system upgrade, HVAC and roof replacements projects, and the construction begun on the Wallace Health Sciences Building-South. At June 30, 2013, outstanding commitments under construction contracts totaled $3,818,116 for various renovations and repairs of buildings and infrastructure. Future state capital outlay appropriations will fund $2,943,226 of these costs.

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

Debt

The college had $0, $16,614 and $32,189 in debt outstanding at June 30, 2014; June 30, 2013; June 30, 2012, respectively. The table below summarizes these amounts by type of debt instrument.

Debt Summary (in thousands of dollars)			
	Beginning Balance	Reductions	Ending Balance
2014 TSSBA Bonds	$17	$17	$ -
2013 TSSBA Bonds	$32	$15	$17
2012 TSSBA Bonds	$47	$15	$32

The TSSBA issued bonds with an interest rate of .35% due May 1, 2014, on behalf of Volunteer State Community College. The college is responsible for the debt service of these bonds.

The ratings on debt issued by the Tennessee State School Bond Authority at June 30, 2013, 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 2013 meeting, the Tennessee Board of Regents voted to increase the college's tuition rates by 3% for in-state students and 3.1% for out-of-state students. In addition, TBR also approved increasing the hourly rate charged for hours in excess of 12 per semester from $27 per credit hour to $28 per credit hour for in-state students. TBR also approved a cost-of-living adjustment of 1.5% for employees effective July 1, 2013.

In the June 2014 meeting, the Tennessee Board of Regents voted to increase the college's tuition rates by 5.8% for in-state students and 5.9% for out-of-state students. In addition, TBR also approved increasing the hourly rate charged for hours in excess of 12 per semester from $28 per credit hour to $29 per credit hour for in-state students.

In the fall of 2014, the college launched a Middle College at the Gallatin location. The Sumner County Middle College is a collaboration between Sumner County and the college to offer high school students a more independent learning environment with unique features separate from a traditional high school. The pilot class was limited to 50 students, but growth is expected in future years.

For fall 2015, the Governor of the State of Tennessee has authorized the launch of Tennessee Promise. This program allows any student graduating from a Tennessee high school in the spring of 2015 to attend college free of tuition and fees. This program will likely expand the population of students who elect to attend the college.

Finally, the college will begin construction of a Humanities Building on the Gallatin campus in the spring of 2015. This building will be the largest on campus and will provide expanded classroom capacity and a centralized office space for Humanities faculty members. It is expected to open for the fall 2016 semester.

Requests for Information

This financial report is designed to provide a general overview 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 & Finance
Volunteer State Community College
1480 Nashville Pike
Gallatin, TN 37066
(615) 230-3560

Tennessee Board of Regents
VOLUNTEER STATE COMMUNITY COLLEGE
Statements of Net Position
June 30, 2014, and June 30, 2013

	Volunteer State Community College		Component Unit - Volunteer State College Foundation	
	June 30, 2014	June 30, 2013	June 30, 2014	June 30, 2013
Assets				
Current assets:				
Cash and cash equivalents (Notes 2 and 15)	$ 11,793,109.69	$ 9,951,363.25	$ 835,815.67	$ 931,293.27
Investments (Notes 3 and 15)	4,000,000.00	4,000,000.00	-	-
Accounts, notes, and grants receivable (net) (Note 4)	2,539,731.47	2,066,593.11	-	-
Due from primary government	35,300.00	-	-	1,497.46
Due from component unit	8,699.21	3,784.17	-	-
Pledges receivable (net) (Note 15)	-	-	416,254.10	373,571.20
Inventories	2,330.46	1,820.40	-	-
Prepaid expenses	350,973.62	513,034.85	-	-
Accrued interest	1,095.90	10,028.04	-	-
Total current assets	18,731,240.35	16,546,623.82	1,252,069.77	1,306,361.93
Noncurrent assets:				
Cash and cash equivalents (Notes 2 and 15)	16,531,837.64	16,250,333.04	-	6,192.03
Investments (Notes 3 and 15)	-	-	4,477,244.04	3,794,055.30
Pledges receivable (net) (Note 15)	-	-	455,470.43	723,781.43
Capital assets (net) (Note 5)	45,267,810.53	43,363,845.59	-	-
Other assets	-	-	13,931.02	13,676.52
Total noncurrent assets	61,799,648.17	59,614,178.63	4,946,645.49	4,537,705.28
Total assets	80,530,888.52	76,160,802.45	6,198,715.26	5,844,067.21
Deferred outflows of resources				
Deferred amount on debt refunding	-	380.93	-	-
Total deferred outflows of resources	-	380.93	-	-
Liabilities				
Current liabilities:				
Accounts payable (Note 6)	1,461,153.46	718,882.07	2,504.50	285.00
Accrued liabilities	1,839,652.15	1,570,519.29	40.00	-
Due to primary government	-	-	8,699.21	3,784.17
Due to component unit	-	1,497.46	-	-
Unearned revenue	1,831,987.90	2,055,464.95	16,021.55	1,400.00
Compensated absences (Note 7)	451,574.19	435,463.12	-	-
Accrued interest payable	-	9.69	-	-
Long-term liabilities, current portion (Note 7)	-	16,614.00	-	-
Deposits held in custody for others	5,604,336.64	5,380,468.44	-	-
Other liabilities	1,405.58	1,121.70	-	-
Total current liabilities	11,190,109.92	10,180,040.72	27,265.26	5,469.17
Noncurrent liabilities:				
Net OPEB obligation (Note 10)	2,348,618.05	2,277,138.35	-	-
Compensated absences (Note 7)	1,069,814.97	1,080,637.68	-	-
Due to grantors (Note 7)	406.99	4,061.86	-	-
Total noncurrent liabilities	3,418,840.01	3,361,837.89	-	-
Total liabilities	14,608,949.93	13,541,878.61	27,265.26	5,469.17
Net position				
Net investment in capital assets	45,267,810.53	43,347,612.52	-	-
Restricted for:				
Nonexpendable:				
Scholarships and fellowships	123,986.05	123,262.65	2,103,114.96	1,981,064.75
Expendable:				
Scholarships and fellowships	45,878.23	42,546.42	1,653,713.39	1,282,487.06
Instructional department uses	27,300.40	31,674.64	31,605.26	31,605.26
Loans	118.13	118.13	-	-
Capital projects	-	-	692,328.97	960,094.55
Other	198,488.69	199,173.94	20,751.91	20,751.91
Unrestricted	20,258,356.56	18,874,916.47	1,669,935.51	1,562,594.51
Total net position	$ 65,921,938.59	$ 62,619,304.77	$ 6,171,450.00	$ 5,838,598.04

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 Position
For the Years Ended June 30, 2014, and June 30, 2013

	Volunteer State Community College		Component Unit - Volunteer State College Foundation	
	Year Ended June 30, 2014	Year Ended June 30, 2013	Year Ended June 30, 2014	Year Ended June 30, 2013
Revenues				
Operating revenues:				
Student tuition and fees (net of scholarship allowances of $9,545,122.90 for the year ended June 30, 2014, and $9,244,558.49 for the year ended June 30, 2013)	$ 16,623,142.17	$ 15,918,339.91	$ -	$ -
Gifts and contributions	-	-	302,141.98	210,673.08
Endowment income (per spending plan)	-	-	93,509.86	82,374.83
Governmental grants and contracts	906,117.29	446,915.24	-	-
Nongovernmental grants and contracts	-	-	48,278.45	-
Sales and services of educational activities	58,921.25	110,851.00	-	-
Sales and services of other activities	164,457.78	124,809.44	-	-
Auxiliary enterprises:				
Bookstore	325,000.00	325,000.00	-	-
Food service	47,496.14	41,240.18	-	-
Interest earned on loans to students	-	30.60	-	-
Other operating revenues	285,001.85	232,570.89	186,304.82	191,098.64
Total operating revenues	18,410,136.48	17,199,757.26	630,235.11	484,146.55
Expenses				
Operating expenses (Note 13):				
Salaries and wages	24,500,573.05	23,360,546.19	259,426.10	261,111.50
Benefits	9,084,480.45	8,567,959.34	116,607.85	120,622.52
Utilities, supplies, and other services	8,420,994.92	9,670,883.55	123,920.23	124,815.72
Scholarships and fellowships	7,872,434.23	8,897,745.56	-	-
Depreciation expense	2,324,619.42	2,254,469.67	-	-
Payments to or on behalf of Volunteer State Community College (Note 15)	-	-	1,283,584.09	1,924,472.30
Total operating expenses	52,203,102.07	52,751,604.31	1,783,538.27	2,431,022.04
Operating loss	(33,792,965.59)	(35,551,847.05)	(1,153,303.16)	(1,946,875.49)
Nonoperating revenues (expenses)				
State appropriations	16,295,856.00	15,923,109.00	-	-
Gifts (including $427,400.70 from component unit for the year ended June 30, 2014, and $394,472.30 for the year ended June 30, 2013)	447,185.28	402,187.14	-	-
Grants and contracts	16,108,877.47	16,666,668.31	-	-
Investment income (net of investment expense of $25,498.77 for the component unit for the year ended June 30, 2014, and $25,084.48 for the year ended June 30, 2013)	43,706.31	68,009.19	434,389.13	307,652.75
Interest on capital asset-related debt	(414.85)	(246.01)	-	-
College support	-	-	455,431.57	477,271.57
Other nonoperating expenses	(10,937.30)	(20,702.98)	-	-
Net nonoperating revenues	32,884,272.91	33,039,024.65	889,820.70	784,924.32
Loss before other revenues, expenses, gains, or losses	(908,692.68)	(2,512,822.40)	(263,482.46)	(1,161,951.17)
Capital appropriations	3,311,424.69	6,123,176.64	-	-
Capital grants and gifts (including $856,183.39 from component unit for the year ended June 30, 2014, and $1,530,000.00 for the year ended June 30, 2013)	899,190.81	1,530,000.00	560,139.42	1,161,304.82
Additions to permanent endowments	711.00	1,091.00	36,195.00	175,422.51
Total other revenues	4,211,326.50	7,654,267.64	596,334.42	1,336,727.33
Increase in net position	3,302,633.82	5,141,445.24	332,851.96	174,776.16
Net position - beginning of year	62,619,304.77	57,477,859.53	5,838,598.04	5,663,821.88
Net position - end of year	$ 65,921,938.59	$ 62,619,304.77	$6,171,450.00	$5,838,598.04

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, 2014, and June 30, 2013

	Year Ended June 30, 2014	Year Ended June 30, 2013
Cash flows from operating activities		
Tuition and fees	$ 16,449,567.48	$ 15,747,296.50
Grants and contracts	747,966.90	419,909.13
Sales and services of educational activities	59,126.25	110,866.00
Sales and services of other activities	164,457.78	124,809.44
Payments to suppliers and vendors	(7,598,616.15)	(9,780,630.47)
Payments to employees	(24,459,009.61)	(23,430,675.81)
Payments for benefits	(8,755,148.14)	(8,355,329.07)
Payments for scholarships and fellowships	(7,870,986.54)	(8,890,851.59)
Interest earned on loans to students	-	30.60
Auxiliary enterprise charges:		
Bookstore	340,325.20	252,766.94
Food services	55,523.97	38,614.69
Other receipts	238,502.88	293,120.79
Net cash used by operating activities	(30,628,289.98)	(33,470,072.85)
Cash flows from noncapital financing activities		
State appropriations	16,235,700.00	15,955,650.08
Gifts and grants received for other than capital or endowment purposes, including $386,558.18 from Volunteer State Community College Foundation for the year ended June 30, 2014, and $375,843.84 for the year ended June 30, 2013	16,424,283.42	17,018,753.58
Private gifts for endowment purposes	711.00	1,091.00
Federal student loan receipts	7,584,563.00	5,861,567.00
Federal student loan disbursements	(7,584,563.00)	(5,861,567.00)
Changes in deposits held for others	158,812.07	575,600.66
Other noncapital financing receipts (payments)	(4,868.58)	2,228.06
Net cash provided by noncapital financing activities	32,814,637.91	33,553,323.38
Cash flows from capital and related financing activities		
Capital appropriations	3,311,424.69	6,123,176.64
Capital grants and gifts received, including $856,183.39 from Volunteer State Community College Foundation for the year ended June 30, 2014, and $1,530,000.00 for the year ended June 30, 2013	899,190.81	1,530,000.00
Purchase of capital assets and construction	(4,035,314.48)	(8,590,594.72)
Principal paid on capital debt	(16,614.00)	(16,375.00)
Interest paid on capital debt	-	(53.15)
Bond issuance costs paid on new debt issue	(43.61)	-
Other capital and related financing payments	(274,378.75)	-
Net cash used by capital and related financing activities	(115,735.34)	(953,846.23)
Cash flows from investing activities		
Income on investments	52,638.45	66,477.08
Net cash provided by investing activities	52,638.45	66,477.08
Net increase (decrease) in cash and cash equivalents	2,123,251.04	(804,118.62)
Cash and cash equivalents - beginning of year	26,201,696.29	27,005,814.91
Cash and cash equivalents - end of year	$ 28,324,947.33	$ 26,201,696.29

Tennessee Board of Regents
VOLUNTEER STATE COMMUNITY COLLEGE
Statements of Cash Flows (Continued)
For the Years Ended June 30, 2014, and June 30, 2013

	Year Ended June 30, 2014	Year Ended June 30, 2013
Reconciliation of operating loss to net cash used by operating activities:		
Operating loss	$ (33,792,965.59)	$ (35,551,847.05)
Adjustments to reconcile operating loss to net cash used by operating activities:		
Depreciation expense	2,324,619.42	2,254,469.67
Gifts in-kind	136,615.70	125,034.74
Other adjustments	24,856.00	21,509.00
Change in assets and liabilities:		
Receivables, net	(130,001.39)	(727,830.47)
Inventories	(510.06)	409.83
Prepaid expenses	162,061.23	(113,874.79)
Accounts payable	570,167.56	(206,679.37)
Accrued liabilities	269,132.86	(121,877.63)
Unearned revenue	(269,033.77)	629,063.81
Compensated absences	5,288.36	34,737.25
Other	71,479.70	186,812.16
Net cash used by operating activities	$ (30,628,289.98)	$ (33,470,072.85)
Noncash investing, capital, or financing transactions		
Gain on disposal of capital assets	$ 10,937.17	$ 20,672.25

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

Note 1. Summary of Significant Accounting Policies

Reporting Entity

The college is a part of the State University and Community College System of Tennessee (Tennessee Board of Regents). This system is a component unit of the State of Tennessee because the state appoints a majority of the system's governing body and provides 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 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 its 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 15 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 accordance with accounting principles generally accepted in the United States of America 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 of the provider's eligibility requirements have been met. All significant interfund transactions have been eliminated.

The college has classified its revenues and expenses as either operating or nonoperating according to the following criteria: Operating revenues and expenses are those that have the characteristics of exchange transactions. Operating revenues include (1) tuition and fees, net of scholarship discounts and allowances; (2) certain federal, state, local, and private grants and contracts; (3) sales and services of auxiliary enterprises; and (4) interest on institutional loans. Operating expenses include (1) salaries and wages; (2) employee benefits; (3) utilities, supplies, and other services; (4) scholarships and fellowships; and (5) depreciation.

Nonoperating revenues and expenses include activities that have the characteristics of nonexchange transactions, such as gifts and contributions, and other activities that are defined as nonoperating by GASB Statement 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities that Use Proprietary Fund Accounting*, and GASB Statement 34, such as state appropriations and investment income.

When both restricted and unrestricted resources are available for use, it is the college's policy to determine which to use first, depending upon existing facts and circumstances.

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 position. 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, works of art, historical treasures/collections, and intangible assets, are reported in the statement of net position 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. The capitalization threshold for art, historical treasures/collections, and similar assets is set at $5,000.

These assets, with the exception of works of art and historical treasures/collections deemed inexhaustible and land, are depreciated/amortized using the straight-line method over the estimated useful lives, which range from 5 to 40 years.

Net Position

The college's net position is classified as follows:

Net investment in capital assets – This represents the college's total investment in capital assets, net of accumulated depreciation and 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 net investment in capital assets.

Nonexpendable restricted net position – Nonexpendable restricted net position consists 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 position – Expendable restricted net position includes resources that the college is legally or contractually obligated to spend in accordance with restrictions imposed by external third parties.

Unrestricted net position – Unrestricted net position represents 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 college's discretion 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, as well as certain other revenues from students, are reported net of scholarship discounts and allowances in the statement of revenues, expenses, and changes in net position. 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.

Accounting Change

The college implemented GASB Statement 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, during the year ended June 30, 2013. The effect on the college was the renaming of the residual of all other elements in the statement of financial position as net position, rather than net assets.

Early Implementation of Accounting Pronouncement

In March 2012, GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities; it also recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. The provisions of this statement are effective for financial statements for periods beginning after December 15, 2012. However, the college has elected to implement the provisions of this statement for fiscal year 2013.

Note 2. Cash

This classification includes demand deposits and petty cash on hand. At June 30, 2014, cash consisted of $1,459,740.02 in bank accounts, $5,000.00 of petty cash on hand, $22,593,465.84 in the Local Government Investment Pool (LGIP) administered by the State Treasurer, and $4,266,741.47 in LGIP deposits for capital projects. At June 30, 2013, cash consisted of $2,219,433.28 in bank accounts, $5,000.00 of petty cash on hand, $20,810,466.92 in the LGIP, and $3,166,796.09 in LGIP deposits for capital projects.

The LGIP is part of the State Pooled Investment Fund. The fund's required risk disclosures are presented in the *State of Tennessee Treasurer's Report*. That report is available on the state's website at www.treasury.tn.gov.

LGIP deposits for capital projects – Payments related to the college's capital projects are made by the State of Tennessee's Department of Finance and Administration. The college's estimated local share of the cost of each project is held in a separate LGIP account. As expenses are incurred, the Tennessee Board of Regents withdraws funds from the LGIP account and transfers them 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, 2014, and June 30, 2013, the college had the following investments and maturities:

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

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; bankers' 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 by Standard and Poor's, Moody's Investors Service, and/or Fitch Ratings and are presented below using the Standard and Poor's rating scale.

Tennessee Board of Regents policy restricts investments in bankers' acceptances and commercial paper. The policy requires that prime bankers' 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 bankers' 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 that are under contract of sale or are 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, 2014, the college's investments were rated as follows:

Investment Type	Fair Value	Credit Quality Rating Unrated
LGIP	$26,860,207.31	$26,860,207.31

At June 30, 2013, the college's investments were rated as follows:

Investment Type	Fair Value	Credit Quality Rating Unrated
LGIP	$23,977,263.01	$23,977,263.01

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 bankers' acceptances, commercial paper, and money market mutual funds. The policy limits bankers' acceptances to not exceed 20% of the total investments on the date of acquisition and limits the combined amount of bankers' 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, 2014	Percentage of Total Investments June 30, 2013
Wilson Bank and Trust	-	50%
Volunteer State Bank	-	50%
Farmers Bank	50%	-
First Tennessee Bank	50%	-

Note 4. Receivables

Receivables included the following:

	June 30, 2014	June 30, 2013
Student accounts receivable	$2,200,818.28	$2,149,611.32
Grants receivable	533,901.49	332,947.30
Other receivables	526,716.64	226,143.41
Subtotal	3,261,436.41	2,708,702.03
Less allowance for doubtful accounts	(721,704.94)	(642,108.92)
Total receivables	$2,539,731.47	$2,066,593.11

Federal Perkins Loan Program funds included the following:

	June 30, 2014	June 30, 2013
Perkins loans receivable	$-	$ 1,636.72
Less allowance for doubtful accounts		(1,636.72)
Total	$-	$ -

Note 5. Capital Assets

Capital asset activity for the year ended June 30, 2014, was as follows:

	Beginning Balance	Additions	Transfers	Reductions	Ending Balance
Land	$ 2,560,751.14	$ 4,419.50	$ -	$ -	$ 2,565,170.64
Land improvements and infrastructure	10,299,744.25	255,280.64	1,296,792.94	-	11,851,817.83
Buildings	39,030,502.24	-	-	-	39,030,502.24
Equipment	6,209,603.38	1,053,236.75	-	(91,881.98)	7,170,958.15
Library holdings	670,314.66	44,908.73	-	(86,528.39)	628,695.00
Intangible assets	989,249.28	148,860.00	-	-	1,138,109.28
Projects in progress	7,705,719.62	2,732,815.91	(1,296,792.94)	-	9,141,742.59
Total	67,465,884.57	4,239,521.53	-	(178,410.37)	71,526,995.73
Less accumulated depreciation/amortization:					
Land improvements and infrastructure	4,044,131.27	566,375.82	-	-	4,610,507.09
Buildings	15,363,178.65	981,848.77	-	-	16,345,027.42
Equipment	3,531,224.05	597,264.06	-	(80,944.81)	4,047,543.30
Library holdings	372,105.57	71,522.34	-	(86,528.39)	357,099.52
Intangible assets	791,399.44	107,608.43	-	-	899,007.87
Total	24,102,038.98	2,324,619.42	-	(167,473.20)	26,259,185.20
Capital assets, net	$ 43,363,845.59	$1,914,902.11	$ -	$ (10,937.17)	$ 45,267,810.53

Capital asset activity for the year ended June 30, 2013, was as follows:

	Beginning Balance	Additions	Transfers	Reductions	Ending Balance
Land	$ 2,514,493.14	$ 46,258.00	$ -	$ -	$ 2,560,751.14
Land improvements and infrastructure	9,695,788.51	449,238.02	154,717.72	-	10,299,744.25
Buildings	38,168,069.48	464,882.87	397,549.89	-	39,030,502.24
Equipment	5,742,879.15	667,545.67	-	(200,821.44)	6,209,603.38
Library holdings	704,060.22	49,927.19	-	(83,672.75)	670,314.66
Intangible assets	989,249.28	-	-	-	989,249.28
Projects in progress	1,281,521.36	6,976,465.87	(552,267.61)	-	7,705,719.62
Total	59,096,061.14	8,654,317.62	-	(284,494.19)	67,465,884.57
Less accumulated depreciation/amortization:					
Land improvements and infrastructure	3,538,883.03	505,248.24	-	-	4,044,131.27

Buildings	14,381,329.89	981,848.76	-	-	15,363,178.65
Equipment	3,118,324.24	593,049.00	-	(180,149.19)	3,531,224.05
Library holdings	380,379.58	75,398.74	-	(83,672.75)	372,105.57
Intangible assets	692,474.51	98,924.93	-	-	791,399.44
Total	22,111,391.25	2,254,469.67		(263,821.94)	24,102,038.98
Capital assets, net	$ 36,984,669.89	$6,399,847.95	$ -	$ (20,672.25)	$ 43,363,845.59

Note 6. Accounts Payable

Accounts payable included the following:

	June 30, 2014	June 30, 2013
Vendors payable	$1,436,140.49	$685,672.53
Unapplied student payments	25,012.97	33,209.54
Total accounts payable	$1,461,153.46	$718,882.07

Note 7. Long-term Liabilities

Long-term liabilities activity for the year ended June 30, 2014, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Payables:					
TSSBA debt:					
Bonds	$ 16,614.00	$ -	$ 16,614.00	$ -	$ -
Subtotal	16,614.00	-	16,614.00	-	-
Other liabilities:					
Compensated absences	1,516,100.80	1,112,202.18	1,106,913.82	1,521,389.16	451,574.19
Due to grantors	4,061.86	.13	3,655.00	406.99	-
Subtotal	1,520,162.66	1,112,202.31	1,110,568.82	1,521,796.15	451,574.19
Total long-term liabilities	$1,536,776.66	$1,112,202.31	$1,127,182.82	$1,521,796.15	$451,574.19

Long-term liabilities activity for the year ended June 30, 2013, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Payables:					
TSSBA debt:					
Bonds	$ 32,189.05	$ 799.95	$ 16,375.00	$ 16,614.00	$ 16,614.00
Subtotal	32,189.05	799.95	16,375.00	16,614.00	16,614.00
Other liabilities:					
Compensated absences	1,481,363.55	1,071,570.58	1,036,833.33	1,516,100.80	435,463.12
Due to grantors	4,061.73	.13	-	4,061.86	-
Subtotal	1,485,425.28	1,071,570.71	1,036,833.33	1,520,162.66	435,463.12
Total long-term liabilities	$1,517,614.33	$1,072,370.66	$1,053,208.33	$1,536,776.66	$452,077.12

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 have been authorized for expenditure. The remaining amount, if any, is retained to be used in future years. At June 30, 2014, investment income of $6,461.43 is available to be spent, which is included in restricted net position expendable for scholarships and fellowships. At June 30, 2013, investment income of $6,412.15 is available to be spent, which is included in restricted net position expendable for scholarships and fellowships.

Note 9. Pension Plans

Defined Benefit Plans

Tennessee Consolidated Retirement System

Plan description – The State of Tennessee provides a pension plan that covers state and higher education employees. That plan is a part of the Public Employee Retirement Plan, an agent 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.

TCRS issues a publicly available financial report that includes financial statements and required supplementary information for the Public Employee Retirement Plan. 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 15.03% of annual covered payroll. Contribution requirements for the college are established and may be amended by TCRS' Board of Trustees.

Annual pension cost – For the years ended June 30, 2014, and June 30, 2013, the college's contributions equaled the annual pension cost of $1,808,856.59 and $1,636,407.02, respectively.

Trend Information

Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
June 30, 2014	$1,808,856.59	100%	$0
June 30, 2013	$1,636,407.02	100%	$0
June 30, 2012	$1,587,464.11	100%	$0

Additional information - Information about the funded status of the plan as of the most recent valuation date, information about the actuarial methods and assumptions used in the valuations, and required supplementary information are available in the *Tennessee Comprehensive Annual Financial Report*. A copy of that report is available on the state's website at www.tn.gov/finance/act/cafr.shtml.

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, ING Life Insurance and Annuity Company, and Variable Annuity Life Insurance Company. 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 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 $981,389.69 for the year ended June 30, 2014, and $937,484.89 for the year ended June 30, 2013. Contributions met the requirements for each year.

Note 10. Other Postemployment Benefits

Healthcare is the only "other postemployment benefit" (OPEB) provided to employees. The State of Tennessee administers a group health insurance program that 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*, for the State Employee Group Plan and Section 8-27-701, *Tennessee Code Annotated*, for the Medicare Supplement Plan. Prior to reaching age 65, all members have the option of choosing between the standard or partnership preferred provider organization plan for health care 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 14. The plans are reported in the *Tennessee 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, which covers the retirees of other governmental entities, including Volunteer State Community College. The state is the sole contributor for the college retirees who 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. The plan's claims liabilities are periodically computed using actuarial and statistical techniques to establish premium rates. The plan's administrative costs are allocated to plan participants. Retirees in the State Employee Group Plan pay the same base premium, adjusted for years of service, as active employees. 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

	2014	2013
Annual required contribution (ARC)	$ 536,000.00	$ 642,000.00
Interest on the net OPEB obligation	91,085.53	83,613.05
Adjustment to the ARC	(88,739.26)	(88,753.66)
Annual OPEB cost	538,346.27	636,859.39
Amount of contribution	(466,866.57)	(450,047.23)
Increase in net OPEB obligation	71,479.70	186,812.16
Net OPEB obligation – beginning of year	2,277,138.35	2,090,326.19
Net OPEB obligation – end of year	$2,348,618.05	$2,277,138.35

Year-end	Plan	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation at Year-end
June 30, 2014	State Employee Group Plan	$538,346.27	86.7%	$2,348,618.05
June 30, 2013	State Employee Group Plan	$636,859.39	70.7%	$2,277,138.35
June 30, 2012	State Employee Group Plan	$630,241.09	75.4%	$2,090,329.19

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, 2013
Actuarial accrued liability (AAL)	$4,405,000.00
Actuarial value of plan assets	-
Unfunded actuarial accrued liability (UAAL)	$4,405,000.00
Actuarial value of assets as a percentage of the AAL	0.00%
Covered payroll (active plan members)	$20,298,375.74

UAAL as percentage of covered payroll	21.70%

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 Required Supplementary Information 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, 2013, 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 7.5% initially. The rate decreased to 7.0% in fiscal year 2015 and then reduces by decrements to an ultimate rate of 4.19% in fiscal year 2044. 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. Payroll is assumed to grow at a rate of 3.0%.

Note 11. 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 year ended June 30, 2014, is presented in the *Tennessee Comprehensive Annual Financial Report* (CAFR). 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, Section 9-8-101 et seq., *Tennessee Code Annotated*. 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 Section 50-6-101 et seq., *Tennessee Code Annotated*. Claims are paid through the state's Risk Management Fund. At June 30, 2014, the Risk Management Fund held $116.3 million in cash designated for payment of claims. At June 30, 2013, the Risk Management Fund held $108.5 million in cash designated for payment of claims.

At June 30, 2014, the scheduled coverage for the college was $101,550,000 for buildings and $30,562,200 for contents. At June 30, 2013, the scheduled coverage for the college was $94,831,100 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 12. Commitments and Contingencies

Sick Leave

The college records the cost of sick leave when paid. The dollar amount of unused sick leave was $7,353,746.75 at June 30, 2014, and $7,718,915.02 at June 30, 2013.

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 $4,999.99 and expenses for personal property were $232,514.27 for the year ended June 30, 2014. The amounts for the year ended June 30, 2013, were $9,583.34 and $241,551.45. All operating leases are cancelable at the lessee's option.

Construction in Progress

At June 30, 2014, outstanding commitments under construction contracts totaled $1,239,279.25 for the Wallace South Health Science Building, the Humanities Building, the Mattox Building HVAC, the Library Emporium, and ADA adaptations of which $341,469.72 will be funded by future state capital outlay appropriations.

Litigation

The college is not involved in any lawsuits which are expected to have a material effect on the accompanying financial statements.

Note 13. Natural Classification With Functional Classifications

The college's operating expenses for the year ended June 30, 2014, are as follows:

	Natural Classification					
Functional Classification	Salaries	Benefits	Other Operating	Scholarships	Depreciation	Total
Instruction	$14,604,013.41	$4,943,055.76	$4,252,158.08	$ 164,859.00	$ -	$ 23,964,086.25
Public service	115,051.69	37,358.35	250,292.32	-	-	402,702.36
Academic support	2,328,109.86	868,859.71	(1,125,589.49)	37,530.89	-	2,108,910.97
Student services	2,517,695.30	1,045,855.91	1,112,401.17	459,610.75	-	5,135,563.13
Institutional support	3,680,219.41	1,571,034.36	1,289,573.94	36,485.15	-	6,577,312.86
Maintenance & operation	1,255,483.13	610,282.37	2,526,953.68	10,474.90	-	4,403,194.08
Scholarships & fellowships	.25	8,033.99	-	7,163,473.54	-	7,171,507.78
Auxiliary	-	-	115,205.22	-	-	115,205.22
Depreciation	-	-	-	-	2,324,619.42	2,324,619.42
Total	$24,500,573.05	$9,084,480.45	$8,420,994.92	$7,872,434.23	$2,324,619.42	$52,203,102.07

The college's operating expenses for the year ended June 30, 2013, are as follows:

	Natural Classification					
Functional Classification	Salaries	Benefits	Other Operating	Scholarships	Depreciation	Total
Instruction	$13,797,756.15	$4,593,267.79	$3,940,361.63	$ 174,935.00	-	$ 22,506,320.57
Public service	121,715.55	37,373.86	239,132.20	-	-	398,221.61
Academic support	2,158,608.78	782,434.06	(825,907.61)	16,568.50	-	2,131,703.73
Student services	2,513,392.94	1,067,437.23	1,180,991.50	493,572.09	-	5,255,393.76
Institutional support	3,524,172.47	1,516,988.91	1,143,736.52	50,632.05	-	6,235,529.95
Maintenance & operation	1,244,900.30	566,091.49	3,906,993.27	11,761.39	-	5,729,746.45
Scholarships & fellowships	-	4,366.00	-	8,150,276.53	-	8,154,642.53
Auxiliary	-	-	85,576.04	-	-	85,576.04
Depreciation	-	-	-	-	2,254,469.67	2,254,469.67
Total	$23,360,546.19	$8,567,959.34	$9,670,883.55	$8,897,745.56	$2,254,469.67	$52,751,604.31

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 $2,317,162.64 for the year ended June 30, 2014, and $1,906,078.79 for the year ended June 30, 2013, were reallocated from academic support to the other functional areas and caused academic support operating expenses to appear as a negative amount in the schedule above.

Note 14. On-behalf Payments

During the year ended June 30, 2014, the State of Tennessee made payments of $24,856.00 on behalf of the college for retirees participating in the Medicare Supplement Plan. The amount for the year ended June 30, 2013, was $21,509.00. The Medicare Supplement Plan is a postemployment benefit healthcare plan and is discussed further in Note 10. The plan is reported in the *Tennessee Comprehensive Annual Financial Report*. That report is available on the state's website at www.tn.gov/finance/act/cafr.shtml.

Note 15. Component Unit

The Volunteer State College Foundation is a legally separate, tax-exempt organization supporting Volunteer State Community College. The foundation acts primarily as a fund-raising organization to supplement the resources that are available to the college in support of its programs. The 42-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, 2014, the foundation made distributions of $1,283,584.09 to or on behalf of the college for both restricted and unrestricted purposes. During the year ended June 30, 2013, the foundation made distributions of $1,924,472.30 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, TN 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 table categorizes the recurring fair-value measurements for assets and liabilities at June 30, 2014, and at June 30, 2013.

	Total Fair Value at June 30, 2014	Quoted Prices Level 1	Significant Other Inputs Level 2	Significant Unobservable Inputs Level 3
Assets:				
Investments	$4,477,244.04	$4,207,382.36	$269,861.68	-
Pledges receivable	871,724.53	-	-	$871,724.53
Total assets	$5,348,968.57	$4,207,382.36	$269,861.68	$871,724.53

	Total Fair Value at June 30, 2013	Quoted Prices Level 1	Significant Other Inputs Level 2	Significant Unobservable Inputs Level 3
Assets:				
Investments	$3,794,055.30	$3,614,754.88	$179,300.42	-
Pledges receivable	1,097,352.63	-	-	$1,097,352.63
Total assets	$4,891,407.93	$3,614,754.88	$179,300.42	$1,097,352.63

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

At June 30, 2014	Beginning Balance	Purchases	Issuances	Settlements	Ending Balance
Assets:					
Pledges receivable	$1,097,352.63	$284,573.13	$-	$(510,201.23)	$871,724.53
Total assets	$1,097,352.63	$284,573.13	$-	$(510,201.23)	$871,724.53

At June 30, 2013	Beginning Balance	Purchases	Issuances	Settlements	Ending Balance
Assets:					
Pledges receivable	$ 13,866.33	$1,104,810.72	$-	$(21,324.42)	$1,097,352.63
Total assets	$ 13,866.33	$1,104,810.72	$-	$(21,324.42)	$1,097,352.63

Cash and Cash Equivalents

Cash and cash equivalents consist of demand deposit accounts, certificates of deposit, money market funds, and the Local Government Investment Pool. The bank balances of deposits at June 30, 2014, were entirely insured. Uninsured bank balances at June 30, 2013, totaled $49,391.06.

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, 2014, were as follows*:*

	Cost	Fair Value
U.S. Treasury	$ 101,360.58	$ 144,064.70
Corporate bonds	509,801.17	512,778.15
U.S. agencies	907,033.02	923,221.91

Certificates of deposit	270,000.00	269,861.68
Corporate stock	2,057,951.68	2,627,317.60
Total investments	$3,846,146.45	$4,477,244.04

Investments held at June 30, 2013, were as follows:

	Cost	Fair Value
U.S. Treasury	$ 101,360.58	$ 138,174.03
U.S. agencies	979,146.94	1,011,783.93
Certificates of deposit	180,000.00	179,300.42
Corporate stock	1,968,906.44	2,464,796.92
Total investments	$3,229,413.96	$3,794,055.30

Pledges Receivable

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

	June 30, 2014	June 30, 2013
Current pledges	$416,254.10	$ 373,571.20
Pledges due in one to five years	459,007.25	725,601.38
Subtotal	875,261.35	1,099,172.58
Less discount to net present value	(3,536.82)	(1,819.95)
Total pledges receivable, net	$871,724.53	$1,097,352.63

Endowments

The Volunteer State College Foundation's endowments consist of approximately 53 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 accounting principles generally accepted in the United States of America, net position associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, is 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 College Foundation has interpreted the Uniform Prudent Management of Institutional Funds Act (the Act) as adopted by Tennessee as 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 stipulation to the contrary. As a result of this interpretation, the Volunteer State College Foundation classifies as permanently restricted net position (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 position is classified as temporarily restricted net position until the foundation appropriates those amounts for expenditure 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 Position Class
As of June 30, 2014

	Permanently Restricted	Temporarily Restricted	Unrestricted	Total
Donor-restricted endowment funds	$2,103,114.96	$798,476.33	-	$2,901,591.29
Board-designated endowment funds	-	-	$1,692,933.95	1,692,933.95
Total funds	$2,103,114.96	$798,476.33	$1,692,933.95	$4,594,525.24

Composition of Endowment by Net Position Class
As of June 30, 2013

	Permanently Restricted	Temporarily Restricted	Unrestricted	Total
Donor-restricted endowment funds	$1,981,064.75	$543,843.67	-	$2,524,908.42
Board-designated endowment funds	-	-	$1,502,424.19	1,502,424.19
Total funds	$1,981,064.75	$543,843.67	$1,502,424.19	$4,027,332.61

Changes in Endowment Net Position for the Fiscal Year Ended June 30, 2014

	Permanently Restricted	Temporarily Restricted	Unrestricted	Total
Endowment net position, beginning of year	$1,981,064.75	$543,843.67	$1,502,424.19	$4,027,332.61
Investment return:				
Investment income	3,407.25	55,418.41	37,988.34	96,814.00
Net appreciation (realized and unrealized)	-	261,959.81	169,116.42	431,076.23
Total investment return	3,407.25	317,378.22	207,104.76	527,890.23
Contributions	33,115.00	2,033.50	3,080.00	38,228.50
Appropriations of endowment assets for expenditure	-	(66,203.53)	(8,000.00)	(74,203.53)
Transfers	85,527.96	1,424.47	(11,675.00)	75,277.43
Endowment net position, end of year	$2,103,114.96	$798,476.33	$1,692,933.95	$4,594,525.24

Changes in Endowment Net Position for the Fiscal Year Ended June 30, 2013

	Permanently Restricted	Temporarily Restricted	Unrestricted	Total
Endowment net position, beginning of year	$1,638,758.88	$319,257.25	$1,667,299.84	$3,625,315.97
Investment return:				
Investment income	464.26	46,574.37	34,692.68	81,731.31
Net appreciation (realized and unrealized)	-	148,521.06	150,624.10	299,145.16
Total investment return	464.26	195,095.43	185,316.78	380,876.47
Contributions	172,247.51	3,485.00	3,175.00	178,907.51
Appropriations of endowment assets for expenditure	-	(56,903.69)	(15,720.74)	(72,624.43)
Transfers	169,594.10	82,909.68	(337,646.69)	(85,142.91)
Endowment net position, end of year	$1,981,064.75	$543,843.67	$1,502,424.19	$4,027,332.61

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 7% annually. Actual returns in any given year may vary from this amount.

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

Spending policy and how the investment objectives relate – The foundation has a policy of appropriating for distribution each year 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.

Support From Volunteer State Community College

During fiscal years 2014 and 2013, the college paid certain payroll costs amounting to $376,033.95 in fiscal year 2014, and $381,734.02 in fiscal year 2013, for college personnel who also performed services supporting the foundation. In addition, operating expenses, including office space, of $79,397.62 during fiscal year 2014, and $95,537.55 during fiscal year 2013, were included in the cost of support services. These supporting costs paid by the college are reflected in the statement of revenues, expenses, and changes in net position as college support, with a like amount included in expenses. These costs of $455,431.57 in fiscal year 2014, and $477,271.57 in fiscal year 2013, have been recorded as college support because they are considered to be significant to the operations of the foundation.

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

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, 2013	State Employee Group Plan	$ -	$4,405,000.00	$4,405,000.00	0%	$20,298,375.74	21.7%
July 1, 2011	State Employee Group Plan	$ -	$5,506,000.00	$5,506,000.00	0%	$18,477,102.00	29.8%
July 1, 2010	State Employee Group Plan	$ -	$6,783,000.00	$6,783,000.00	0%	$18,073,029.00	37.5%

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

Supplementary Information
VOLUNTEER STATE COLLEGE FOUNDATION
Supplementary Schedules of Cash Flows - Component Unit
For the Years Ended June 30, 2014, and June 30, 2013

	June 30, 2014	June 30, 2013
Cash flows from operating activities		
Gifts and contributions	$ 295,090.01	$ 206,844.01
Grants and contracts	48,278.45	7,442.00
Payments to suppliers and vendors	(27,991.91)	(28,419.20)
Payments to Volunteer State Community College	(1,242,741.57)	(1,914,932.46)
Other receipts	170,554.54	170,528.05
Net cash used by operating activities	(756,810.48)	(1,558,537.60)
Cash flows from noncapital financing activities		
Private gifts for endowment purposes	36,195.00	175,422.51
Net cash provided by noncapital financing activities	36,195.00	175,422.51
Cash flows from capital and related financing activities		
Capital grants and gifts received	774,235.60	74,919.21
Net cash provided by capital and related financing activities	774,235.60	74,919.21
Cash flows from investing activities		
Proceeds from sales and maturities of investments	1,494,557.43	608,059.97
Income on investments	96,822.76	83,659.64
Purchases of investments	(1,746,669.94)	(596,395.18)
Net cash provided (used) by investing activities	(155,289.75)	95,324.43
Net decrease in cash and cash equivalents	(101,669.63)	(1,212,871.45)
Cash and cash equivalents - beginning of year	937,485.30	2,150,356.75
Cash and cash equivalents - end of year	$ 835,815.67	$ 937,485.30
Reconciliation of operating loss to net cash used by operating activities:		
Operating loss	$ (1,153,303.16)	$ (1,946,875.49)
Adjustments to reconcile operating loss to net cash used by operating activities:		
Endowment income	(93,509.86)	(82,374.83)
Gifts in-kind	455,431.57	477,271.57
Change in assets and liabilities:		
Receivables	11,531.92	10,341.31
Prepaid items	-	3,825.00
Other assets	(254.50)	(273.50)
Accounts payable	2,219.50	(4,800.00)
Accrued liabilities	40.00	-
Unearned revenues	14,621.55	(5,065.58)
Other	6,412.50	(10,586.08)
Net cash used by operating activities	$ (756,810.48)	$ (1,558,537.60)
Noncash investing, capital, and financing activities		
Unrealized gains on investments	$ 44,928.58	$ 245,794.76

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DEPARTMENT OF AUDIT
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Independent Auditor's 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*

The Honorable Bill Haslam, Governor
Members of the General Assembly
The Honorable John G. Morgan, Chancellor
Dr. Jerry Faulkner, President

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, 2014, and June 30, 2013, and the related notes to the financial statements, which collectively comprise the college's basic financial statements, and have issued our report thereon dated June 19, 2015. We conducted our audit in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the college's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of the college's internal control.

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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies that we consider to be material weaknesses. We did identify a deficiency in internal control, as described below, that we consider to be a significant deficiency:

- Volunteer State Community College did not provide adequate internal controls in two specific areas

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 from 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 *Government Auditing Standards*.

Volunteer State Community College's Response to the Finding

The college's response to the finding identified in our audit is included in the Finding and Recommendation section of this report. The college's response was not subjected to the auditing procedures applied in the audit of the financial statements, and, accordingly, we express no opinion on it.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Deborah V. Loveless

Deborah V. Loveless, CPA
Director
June 19, 2015

Finding and Recommendation

Volunteer State Community College did not provide adequate internal controls in two specific areas

Finding

The college did not design and monitor internal controls in specific areas. We observed two conditions in violation of college policies and/or industry-accepted best practices. Inconsistent implementation of internal controls increases the risk of fraud or error.

The details of these findings are confidential pursuant to Section 10-7-504(i), *Tennessee Code Annotated*. We provided the college with detailed information regarding the specific conditions we identified, as well as our recommendations for improvement.

Recommendation

Management should ensure that these conditions are remedied by the prompt development and consistent implementation of internal controls. Management should implement effective controls to ensure compliance with applicable requirements; assign staff to be responsible for ongoing monitoring of the risks and mitigating controls; and take action if deficiencies occur.

Management's Comment

We concur with the findings and recommendations. Management is taking corrective action to ensure internal controls are strengthened in the two specific areas. We anticipate these controls will be fully implemented by October 31, 2015.

Observation and Comment

Colleges of Applied Technology

Volunteer State Community College serves as the lead institution under agreements with the Tennessee College of Applied Technology at Hartsville, and the Tennessee College of Applied Technology at Livingston. Under these agreements, Volunteer State Community College performs the accounting and reporting functions for the colleges. The chief administrative officer of each college 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. Prior to July 1, 2013, these workforce training schools were named Tennessee Technology Centers.