AUDIT REPORT

Tennessee Board of Regents
Volunteer State Community College

For the Years Ended
June 30, 2010, and June 30, 2009

STATE OF TENNESSEE

COMPTROLLER OF THE TREASURY

Department of Audit

Division of State Audit

Tennessee Comptroller of the Treasury

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July 26, 2011

The Honorable Bill Haslam, Governor
and
Members of the General Assembly
State Capitol
Nashville, Tennessee 37243
and
The Honorable John G. Morgan, Chancellor
Tennessee Board of Regents
1415 Murfreesboro Road, Suite 340
Nashville, Tennessee 37217
and
Dr. Warren R. Nichols, President
Volunteer State Community College
1480 Nashville Pike
Gallatin, Tennessee 37066-3188

Ladies and Gentlemen:

Transmitted herewith is the financial and compliance audit of the Tennessee Board of Regents, Volunteer State Community College, for the years ended June 30, 2010, and June 30, 2009. You will note from the independent auditor's report that unqualified opinions were given on the fairness of the presentation of the financial statements.

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

Sincerely,

Arthur A. Hayes, Jr., CPA
Director

AAH/vdn
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State of Tennessee

Audit Highlights

Comptroller of the Treasury — Division of State Audit

Financial and Compliance Audit
Volunteer State Community College
For the Years Ended June 30, 2010, and June 30, 2009

AUDIT OBJECTIVES

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

INTERNAL CONTROL FINDINGS

Volunteer State Community College Lacks Adequate Internal Control Related to Donations Received for the Foundation, Increasing the Risk That Errors or Fraud Could Occur and Not Be Detected in a Timely Manner
The college lacks adequate internal control regarding the receipt of donor checks to the Volunteer State Community College Foundation, increasing the risk that errors or fraud could occur and not be detected in a timely manner (page 8).

The College Did Not Ensure That Amounts Were Properly Reported in the Foundation's Financial Statements and Accompanying Notes to the Financial Statements
Our audit of the financial statements of Volunteer State Community College—including its foundation, which is a discretely presented component unit of the college—discovered reporting errors in the foundation's financial statements and the notes to the financial statements of the foundation (page 9).

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

OPINIONS ON THE FINANCIAL STATEMENTS

The opinions on the financial statements are unqualified.

Audit Report
Tennessee Board of Regents
Volunteer State Community College
For the Years Ended June 30, 2010, and June 30, 2009

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Tennessee Board of Regents
Volunteer State Community College
For the Years Ended June 30, 2010, and June 30, 2009

INTRODUCTION

POST-AUDIT AUTHORITY

This is a report on the financial and compliance audit of the Tennessee Board of Regents, Volunteer State Community College. The audit was conducted pursuant to Section 4-3-304, *Tennessee Code Annotated*, which authorizes the Department of Audit to "perform currently a post-audit of all accounts and other financial records of the state government, and of any department, institution, office, or agency thereof in accordance with generally accepted auditing standards and in accordance with such procedures as may be established by the comptroller."

Section 8-4-109, *Tennessee Code Annotated*, authorizes the Comptroller of the Treasury to audit any books and records of any governmental entity that handles public funds when the Comptroller considers an audit to be necessary or appropriate.

BACKGROUND

The idea for Tennessee's community college system was conceived in 1957 when the state legislature ordered a study of community college programs, a study which resulted in the Pierce-Albright Report. Acting on the recommendation of the Governor and the Department of Education, the General Assembly authorized the Department of Education to establish several community colleges throughout Tennessee.

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

ORGANIZATION

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

AUDIT SCOPE

The audit was limited to the period July 1, 2008, through June 30, 2010, and was conducted in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in generally accepted government auditing standards. Financial statements are presented for the years ended June 30, 2010, and June 30, 2009. Volunteer State Community College is an institution of the Tennessee Board of Regents, which is an integral part of state government. As such, the Tennessee Board of Regents has been included as a component unit in the *Tennessee Comprehensive Annual Financial Report.*

OBJECTIVES OF THE AUDIT

The objectives of the audit were

1. to consider the college's internal control over financial reporting to determine auditing procedures for the purpose of expressing opinions on the financial statements;

2. to determine compliance with certain provisions of laws, regulations, contracts, and grant agreements;

3. to determine the fairness of the presentation of the financial statements; and

4. to recommend appropriate actions to correct any deficiencies.

PRIOR AUDIT FINDINGS

Section 8-4-109, *Tennessee Code Annotated*, requires that each state department, agency, or institution report to the Comptroller of the Treasury the action taken to implement the recommendations in the prior audit report. The college filed its report with the Department of Audit on August 5, 2009. A follow-up of the prior audit findings was conducted as part of the current audit. The current audit disclosed that the college has corrected previous audit findings concerning the approval of journal vouchers, financial reporting errors, and the lack of approval in hiring a CPA firm to audit the Volunteer State Community College Foundation.

OBSERVATIONS AND COMMENTS

MANAGEMENT'S RESPONSIBILITY FOR RISK ASSESSMENT

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

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

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

FRAUD CONSIDERATIONS

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

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

TECHNOLOGY CENTERS

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

RESULTS OF THE AUDIT

AUDIT CONCLUSIONS

Internal Control

As part of the audit of the college's financial statements for the years ended June 30, 2010, and June 30, 2009, we considered internal control over financial reporting as a basis for designing auditing procedures for the purpose of expressing opinions on the financial statements, as required by auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in generally accepted government auditing standards. Material weaknesses, along with recommendations and management's responses, are detailed in the Findings and Recommendations section.

Compliance and Other Matters

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

Fairness of Financial Statement Presentation

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

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

June 15, 2011

The Honorable Bill Haslam, Governor
and
Members of the General Assembly
State Capitol
Nashville, Tennessee 37243
and
The Honorable John G. Morgan, Chancellor
Tennessee Board of Regents
1415 Murfreesboro Road, Suite 340
Nashville, Tennessee 37217
and
Dr. Warren R. Nichols, President
Volunteer State Community College
1480 Nashville Pike
Gallatin, Tennessee 37066-3188

Ladies and Gentlemen:

We have audited the financial statements of Volunteer State Community College, an institution of the Tennessee Board of Regents, which is a component unit of the State of Tennessee, and its discretely presented component unit as of and for the years ended June 30, 2010, and June 30, 2009, and have issued our report thereon dated June 15, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in generally accepted government auditing standards.

Internal Control Over Financial Reporting

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

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

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

- Volunteer State Community College lacks adequate internal control related to donations received for the foundation, increasing the risk that errors or fraud could occur and not be detected in a timely manner
- The college did not ensure that amounts were properly reported in the foundation's financial statements and accompanying notes to the financial statements

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

Compliance and Other Matters

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

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

Sincerely,

Arthur A. Hayes, Jr.

Arthur A. Hayes, Jr., CPA
Director

AAH/vdn

FINDINGS AND RECOMMENDATIONS

1. <u>Volunteer State Community College lacks adequate internal control related to donations received for the foundation, increasing the risk that errors or fraud could occur and not be detected in a timely manner</u>

Finding

The Volunteer State Community College Foundation is a legally separate, tax-exempt organization supporting Volunteer State Community College. The foundation acts primarily as a fund-raising organization to supplement the resources that are available to the college in support of its programs. One way the foundation receives these supplemental resources is by constituents mailing donation checks to the college.

The college lacks adequate internal control regarding the receipt of donor checks to the Volunteer State Community College Foundation, increasing the risk that errors or fraud could occur and not be detected in a timely manner. Specifically, we noted the following deficiencies:

- A daily check log of donations received was not prepared as foundation mail was opened.
- Checks were not restrictively endorsed immediately upon receipt.
- An independent reconciliation was not performed comparing donations received to the amount of the daily deposit.

During our intital documentation and review of foundation cash receipting controls, we noted that one employee opened the mail and made copies of any checks received. The checks and the copies of the checks were then provided to a second person, who posted donations to the donor records, restrictively endorsed the checks, prepared the deposit, and took the deposit to the cashier's office. This person also filed the copies of the checks in the donor files. Because of the specific deficiencies noted above in the process, the risk of fraud or errors occurring and not being detected was increased.

We discussed the issues with the Vice President of Business and Finance concerning the lack of adequate controls related to donor checks. The Vice President of Business and Finance stated that the control weaknesses were due to a personnel changeover within the foundation office. The risk of fraud or error associated with donations was documented in the college's risk assessments; however, sufficient mitigating controls such as the issues noted above were not included.

Recommendation

The President and Vice President of Business and Finance should ensure that adequate internal control is always maintained, even during personnel changeovers. A log of donations received should be prepared as the mail is opened, and checks should be restrictively endorsed immediately upon receipt, prior to handing the funds over to be posted and deposited. Also, a subsequent reconciliation should be performed by someone not involved in the posting and deposit preparation duties to ensure that all funds received were actually deposited.

Management should also periodically examine controls in place for receiving, recording, and depositing donor checks to help mitigate the risk of errors and fraud, and include those specific mitigating controls in its risk assesssment.

Management's Comment

We concur that the lack of separation of duties regarding the receipt of donor checks by the Volunteer State Community College Foundation did not provide adequate internal controls to mitigate the risk of errors and fraud occurring and being detected in a timely manner. Management modified the cash receipt procedures of the foundation's staff when this concern was addressed by the auditor. The current process separates the responsibility of opening of the mail, restrictively endorsing of all checks, and the logging of the receipt for each check from the responsibility of posting the checks into the donor records and the preparation of the deposit slip. A staff person in the Business Office compares the numbered and dated deposit receipt to the check log that is prepared when the mail is opened and to the donor record report verifying that all checks received are posted to donor records and deposited in the bank account. Annually or when personnel changes occur, management will review the current process and revise as appropriate to mitigate risk of errors and fraud.

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

Finding

Our audit of the financial statements of Volunteer State Community College—including its foundation, which is a discretely presented component unit of the college—discovered reporting errors in the foundation's financial statements and the notes to the financial statements of the foundation.

The college reports under standards of the Governmental Accounting Standards Board (GASB), while the Volunteer State Community College Foundation reports under standards of the Financial Accounting Standards Board (FASB). Certain revenue recognition criteria and presentation formats are different in FASB and GASB reporting. The scope of our audit includes only the foundation's GASB financial statements and notes included in the college's financial report.

The errors we found in the foundation reporting were as follows:

- In the college's 2009 unaudited financial report, the disclosure of changes in endowment net assets for the Volunteer State Community College Foundation contained several significant errors. Specifically, permanently restricted net assets were understated by $556,760.45, temporarily restricted net assets were overstated by $332,049.29, and unrestricted net assets were understated by $230,241.07. This and other errors were corrected in the audited note.

- In the college's 2010 unaudited financial report, the disclosure of changes in endowment net assets also contained several errors that resulted in permanently restricted net assets being understated by $258,614.74, temporarily restricted net assets being understated by $115,034.29, and unrestricted net assets being overstated by $60,138.07. This and other errors were corrected in the audited note.

The disclosure of changes in endowment net assets was a new requirement as of June 30, 2009, under FASB standards [FASB ASC 958-205-50 1B (d)], and the staff had difficulties in determining what was required in the new disclosure.

These errors also caused similar errors on the Statement of Net Assets for nonexpendable net assets restricted for scholarships and fellowships, expendable net assets restricted for scholarships and fellowships, and unrestricted net assets. Corrections were made to the audited statements.

These reporting errors resulted in significant misclassifications in the foundation's statement of net assets and the college's unaudited component unit note. Management is responsible for the fair presentation of the financial statements. Not following all FASB reporting requirements could adversely affect users of the financial statements.

Recommendation

The accounting management staff at Volunteer State Community College should follow all FASB reporting requirements that pertain to foundation endowments. Under FASB standards, endowment income and net assets should be classified, based upon the existence and/or nature of donor-imposed restrictions, as permanently restricted, temporarily restricted, or unrestricted. Additional training and interaction with peer institutions would aid the staff's understanding in this area. Foundation statements should be reviewed by knowledgeable supervisory personnel upon completion.

Management's Comment

We concur that management did not ensure that the foundation's financial statements and accompanying notes were properly reported. The accounting staff has received additional training on how to report and reflect endowment income and net assets as required by FASB. This training has provided the necessary understanding by the staff to correctly report endowment transactions and net assets. The foundation's financial reports will be reviewed prior to submission by knowledgeable staff to ensure compliance with the FASB requirements.

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

June 15, 2011

The Honorable Bill Haslam, Governor
and
Members of the General Assembly
State Capitol
Nashville, Tennessee 37243
and
The Honorable John G. Morgan, Chancellor
Tennessee Board of Regents
1415 Murfreesboro Road, Suite 340
Nashville, Tennessee 37217
and
Dr. Warren R. Nichols, President
Volunteer State Community College
1480 Nashville Pike
Gallatin, Tennessee 37066-3188

Ladies and Gentlemen:

We have audited the accompanying basic financial statements of Volunteer State Community College, an institution of the Tennessee Board of Regents, which is a component unit of the State of Tennessee, and its discretely presented component unit as of and for the years ended June 30, 2010, and June 30, 2009, as listed in the table of contents. These financial statements are the responsibility of the college's management. Our responsibility is to express opinions on these financial statements, based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As discussed in Note 1, the financial statements of Volunteer State Community College, an institution of the Tennessee Board of Regents, are intended to present the financial position, the changes in financial position, and the cash flows of only Volunteer State Community College. They do not purport to, and do not, present fairly the financial position of the Tennessee Board of Regents, as of June 30, 2010, and June 30, 2009, and the changes in its financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of Volunteer State Community College, and its discretely presented component unit as of June 30, 2010, and June 30, 2009, and the respective changes in financial position and cash flows thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis on pages 15 through 38 and the schedule of funding progress on page 71 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the basic financial statements. The accompanying financial information on page 72 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with generally accepted government auditing standards, we have also issued our report dated June 15, 2011, on our consideration of the college's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with generally accepted government auditing standards and should be considered in assessing the results of our audit.

Sincerely,

Arthur A. Hayes, Jr.

Arthur A. Hayes, Jr., CPA
Director

AAH/vdn

Tennessee Board of Regents
Volunteer State Community College
Management's Discussion and Analysis
June 30, 2010, and June 30, 2009

This section of the Volunteer State Community College's annual financial report presents a discussion and analysis of the financial performance of the college during the fiscal year ended June 30, 2010, with comparative information presented for the fiscal years ended June 30, 2009, and June 30, 2008. This discussion has been prepared by management along with the financial statements and related note disclosures and should be read in conjunction with the Independent Auditor's Report, the audited financial statements, and the accompanying notes. The financial statements, notes, and this discussion are the responsibility of management.

Using This Annual Report

This report consists of three basic financial statements. The Statement of Net Assets; the Statement of Revenues, Expenses, and Changes in Net Assets; and the Statement of Cash Flows provide information on Volunteer State Community College as a whole and present a long-term view of the college's finances.

The Statement of Net Assets

The Statement of Net Assets presents the financial position of the college at the end of the fiscal year and includes all assets and liabilities of the college. The difference between total assets and total liabilities—net assets—is an indicator of the current financial condition of the college. Assets and liabilities are generally measured using current values. One notable exception is capital assets, which are stated at historical cost less an allowance for depreciation.

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

College
Net Assets (in thousands of dollars)

	2010	2009	2008
Assets:			
Current assets	$ 12,736	$ 23,559	$ 22,998
Capital assets, net	35,094	34,144	33,220
Other assets	15,911	11,152	7,761
Total assets	$ 63,741	$ 68,855	$ 63,979
Liabilities:			
Current liabilities	$ 9,359	$ 18,905	$ 16,066
Noncurrent liabilities	2,681	2,253	1,803
Total liabilities	$ 12,040	$ 21,158	$ 17,869
Net assets:			
Invested in capital assets, net of related debt	$ 35,033	$ 33,952	$ 32,901
Restricted - nonexpendable	120	119	117
Restricted - expendable	324	148	144
Unrestricted	16,224	13,478	12,948
Total net assets	$ 51,701	$ 47,697	$ 46,110

Comparison of FY 2010 to FY 2009

- In 2010, current assets decreased by $10,822,586. This decrease was primarily due to the elimination of the receivable established for the revenue from FEMA for the tornado restoration. The largest asset in the current assets category is cash and cash equivalents in the amount of $7,233,611, of which $4,333,885 is held by Volunteer State Community College as custodian for the Tennessee Technology Centers at Livingston and Hartsville. Current cash and cash equivalents decreased $4,332,886 from last year as a result of the elimination of the tornado related receivable and payable. Included in current cash and cash equivalents is $617,324 that has been generated by auxiliary enterprises and presently allocated for auxiliary enterprises.

- Capital assets consist of land, buildings, projects in progress, equipment, other improvements, and library holdings. During 2010, funds provided by the American Recovery and Reinvestment Act (ARRA) were used to replace fleet vehicles and instructional equipment. Projects in progress increased by $1,234,337 as several new projects (Softball Field Press Box, Fire Alarm System, Parking Lot Repairs and Paving, and the completion of the Livingston Building addition) occurred in 2010. The increase in assets of $2,023,786 was offset by the increase in accumulated depreciation of $1,073,932.

- During 2010, noncurrent cash and cash equivalents increased by $6,767,357. The increase is mostly the result of the unexpended plant funds tornado restoration payable elimination.

- In 2010, the decrease in current liabilities of $9,545,354 is comprised primarily of the decrease in the amount due for reimbursement of tornado related payables.

- In 2010, noncurrent liabilities increased $427,831. The accrual for the post employment benefits of $440,326 was the primary reason for the increase.

Comparison of FY 2009 to FY 2008

- In 2009, current assets increased by $560,076. The largest asset in the current assets category is cash and cash equivalents in the amount of $11,566,497, of which $3,948,961 is held by Volunteer State Community College as custodian for the Tennessee Technology Centers at Livingston and Hartsville. Current cash and cash equivalents decreased $146,279 from last year. Included in current cash and cash equivalents is $351,247 that has been generated by auxiliary enterprises and is presently allocated for auxiliary enterprises.

- Capital assets consist of land, buildings, projects in progress, equipment, other improvements, and library holdings. During 2009, projects in progress decreased by $4,394,414, primarily as the restoration from the tornado that hit campus in 2006 was completed. The increase in assets is offset by the increase in accumulated depreciation of $572,503.

- During 2009, other noncurrent assets consist of cash and cash equivalents and investments. The increase of $3,391,231 in noncurrent cash and cash equivalents is mostly a result of increasing renewal and replacement funds.

- In 2009, the increase in current liabilities of $2,838,559 is comprised primarily of the increase in the amount due for reimbursement of tornado related payables, increase in deferred revenue, the decrease in the deposits held in custody for others due to the reduction in cash held for the technology centers, and the increase in due to primary government.

Based upon guidance provided by the Tennessee Recovery Act Management Office, the total allotment of FY 2008-09 State Fiscal Stabilization Funds (SFSF) ($1,034,100) was drawn down and receipted as of June 30, 2009. It was subsequently determined that institutions would not lose the availability of funds not drawn down at June 30, 2009, and SFSF of $1,029,036 were returned on July 13, 2009, and are included on the Statement of Net Assets as Due to Primary Government. Funds not returned on July 13, 2009, represent SFSF disbursements made prior to June 30, 2009, for which the college requested reimbursement.

- In 2009, noncurrent liabilities increased $449,848. The accrual for the post employment benefits of $578,502 was offset by the payment for bond debt of $131,049 as the primary reason for the increase.

Component Unit
Net Assets (in thousands of dollars)

	2010	2009	2008
Assets:			
Current assets	$ 988	$ 1,176	$ 1,205
Other assets	4,036	3,791	4,075
Total assets	$ 5,024	$ 4,967	$ 5,280
Liabilities:			
Current liabilities	$ 7	$ 3	$ 30
Total liabilities	$ 7	$ 3	$ 30
Net assets:			
Restricted - nonexpendable	$ 3,899	$ 3,860	$ 3,642
Restricted - expendable	876	804	1,045
Unrestricted	242	300	563
Total net assets	$ 5,017	$ 4,964	$ 5,250

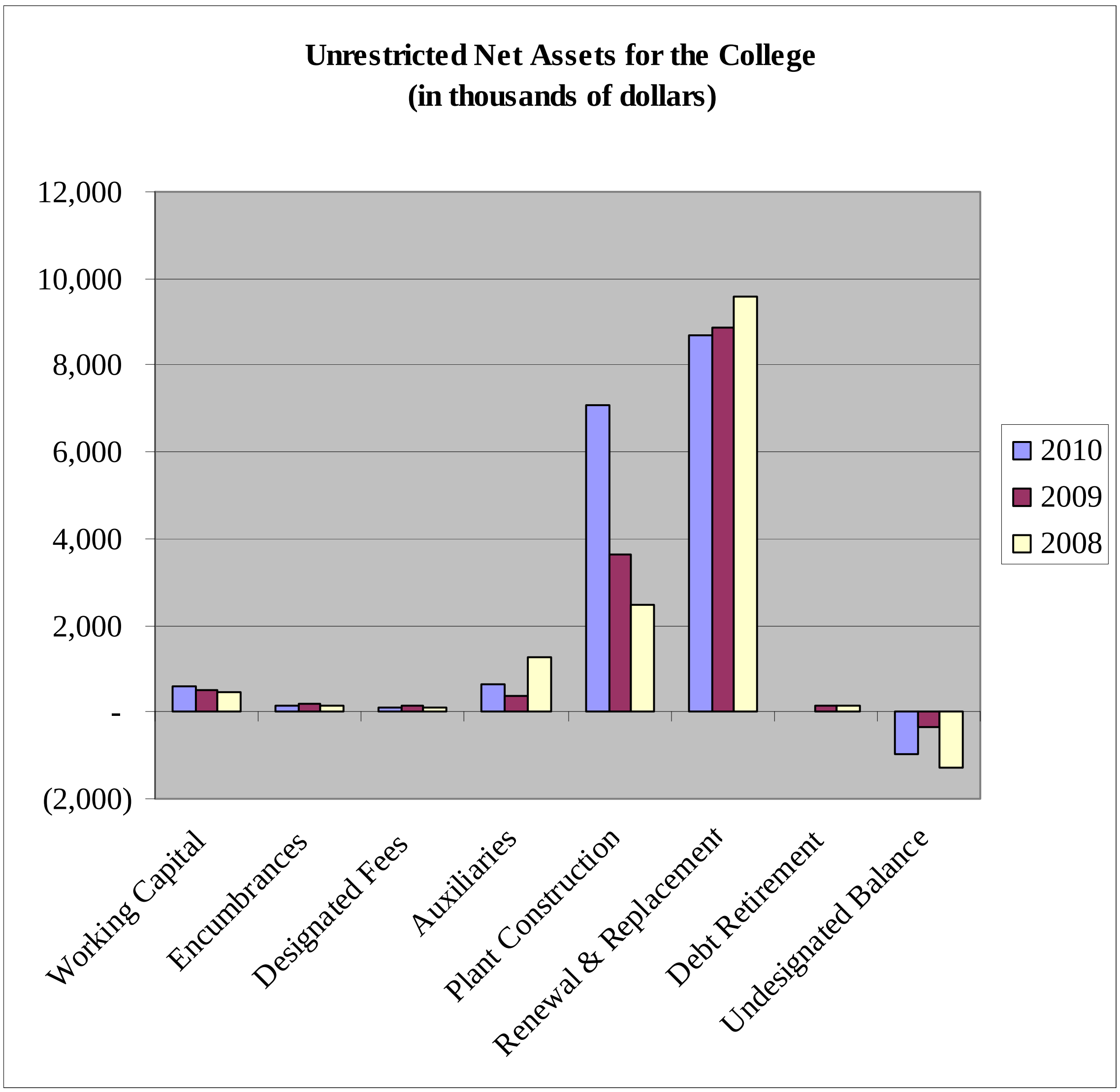
Comparison of FY 2010 to FY 2009

- The net assets of the component unit increased $53,093 during FY 2010. Investments earned more than in FY 2009, as a result of the investment valuation improvements.

<u>*Comparison of FY 2009 to FY 2008*</u>

- The net assets of the component unit decreased $286,178 in 2009. The majority of the decrease was due to the drop in investment value.

Many of the college's unrestricted net assets have been designated for specific purposes such as repairs and replacement of equipment, debt retirement, and plant construction. The following graph shows the allocations:



Comparison of FY 2010 to FY 2009

- Working capital increased $71,057 from 2009. The increase in 2010 was due to the increase in the net receivables, primarily.
- The allocation for encumbrances decreased resulting from a decrease in outstanding purchase orders at year-end.
- The allocation for designated fees decreased $52,187 due to the international education fees.
- Allocations from auxiliary operations, primarily the bookstore, are a source of income and thereby generated an increase of $266,077 over 2009.
- Funds available for plant construction increased $3,435,877 during 2010 as transfers were made to provide funds for building improvement projects.
- Renewal and replacement balances decreased $179,050 in 2010 as funds were used for replacing furniture, equipment, and the phone system.
- Retirement of indebtedness decreased as funds were disbursed to pay the current portion of the bond payable.
- Unreserved/undesignated balances decreased as funds were moved into plant funds to fund future construction projects.

Comparison of FY 2009 to FY 2008

- Working capital increased $61,344 from 2008. This increase in 2009 was the net effect of a decrease in the net receivables along with an increase in deferred benefits, prepaid expenses, inventory, and deferred revenue.
- The allocation for encumbrances increased as a result of an increase in outstanding purchase orders at year-end.
- The allocation for designated fees increased $23,799 due to the international education fees.
- Allocations from auxiliary operations, primarily the bookstore, are a source of income. The decrease from 2008 was due to the sign-on bonus received upon the renewal of the contract in May 2008.

- Funds available for plant construction increased $1,139,833 during 2009 as the tornado restoration and the Livingston building were completed and transfers were made to provide funds for Library Chiller, Public Address System, and Environmental Remediation projects.

- Renewal and replacement balances decreased $705,055 in 2009 as funds were used for replacing furniture, equipment, and the phone system.

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

- Unreserved/undesignated balances increased as funds were moved from auxiliary funds into unrestricted.

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

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

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

	2010	2009	2008
Operating revenues:			
Net tuition and fees	$ 13,147	$ 12,333	$ 11,231
Grants and contracts	576	814	886
Auxiliary	357	316	478
Other	312	285	314
Total operating revenues	14,392	13,748	12,909
Operating expenses	48,261	42,621	41,868
Operating loss	(33,869)	(28,873)	(28,959)
Nonoperating revenues and expenses:			
State appropriations	17,112	18,463	19,352
Gifts	495	449	477

Grants and contracts	18,548	9,731	8,006
Investment income	183	397	637
Other revenues and expenses	(99)	(45)	(17)
Total nonoperating revenues and expenses	36,239	28,995	28,455
Income (loss) before other revenues, expenses, gains, or losses	2,370	122	(504)
Other revenues, expenses, gains, or losses:			
Capital appropriations	1,072	1,015	296
Additions to permanent endowments	1	2	2
Other capital	561	448	3,296
Total other revenues, expenses, gains, or losses	1,634	1,465	3,594
Increase in net assets	4,004	1,587	3,090
Net assets at beginning of year	47,697	46,110	43,020
Net assets at end of year	$ 51,701	$ 47,697	$ 46,110

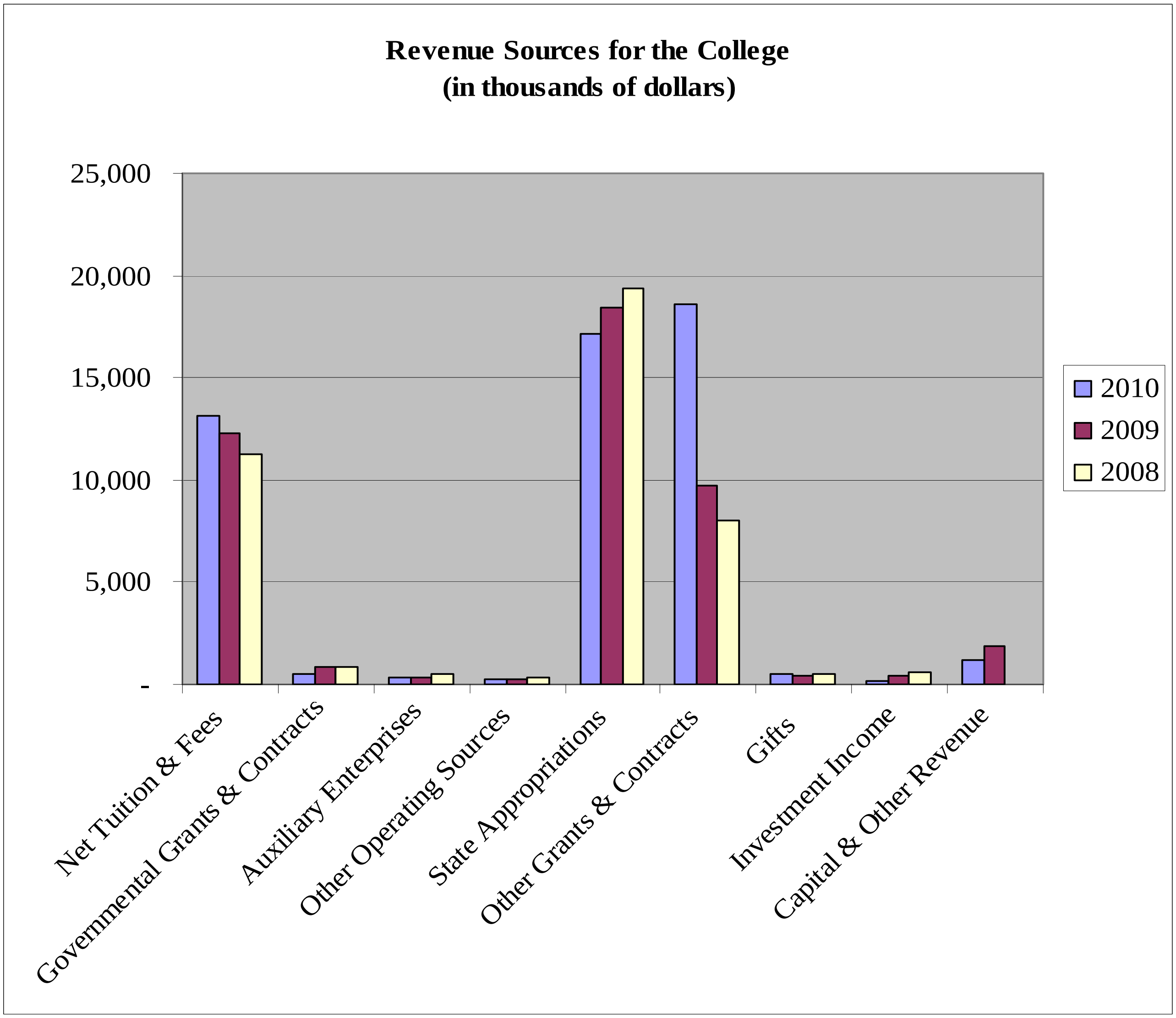
Component Unit
Revenues, Expenses, and Changes in Net Assets (in thousands of dollars)

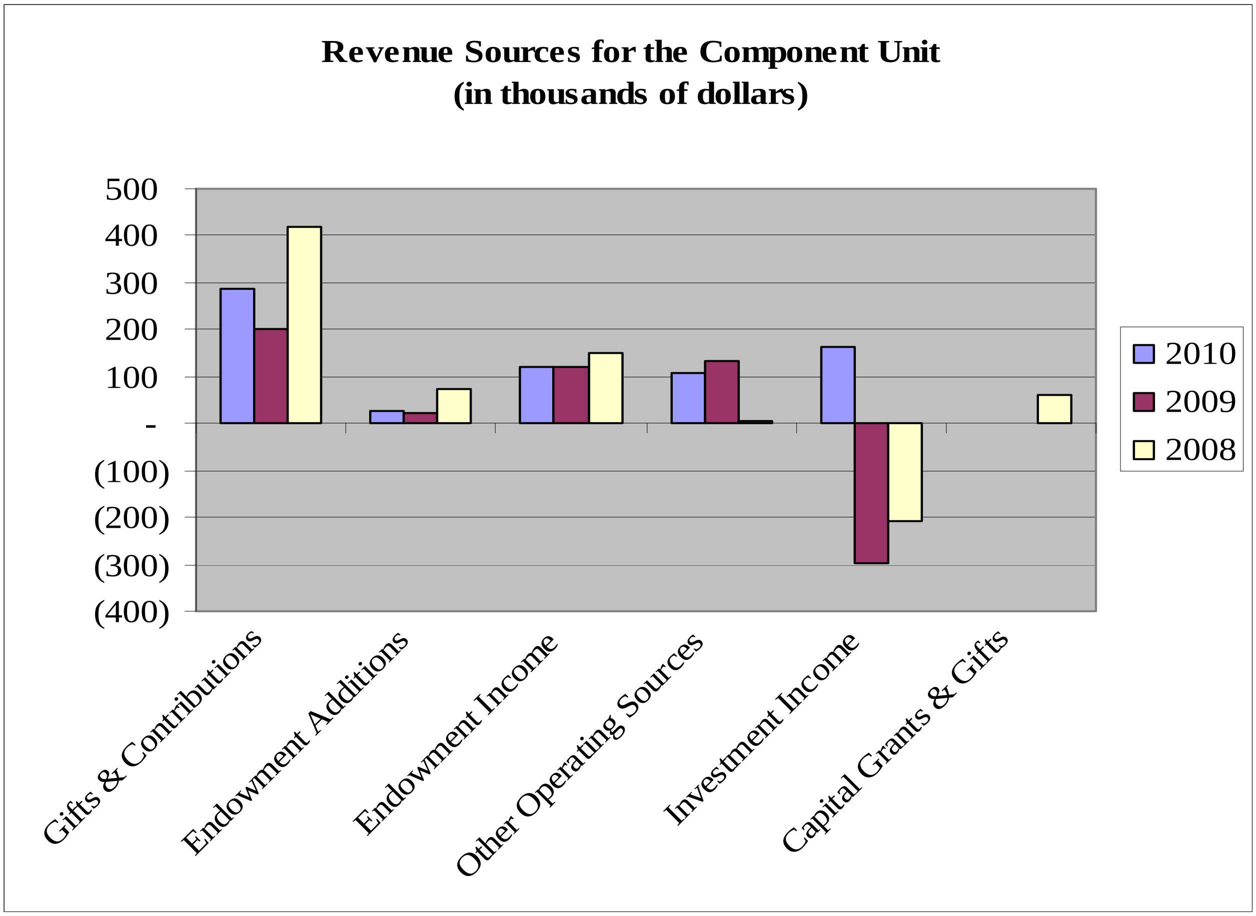
	2010	2009	2008
Operating revenues:			
Gifts	$ 285	$ 199	$ 420
Grants and contracts	5	5	150
Other	225	250	5
Total operating revenues	515	454	575
Operating expenses	653	467	507
Operating gain/(loss)	(138)	(13)	68

Nonoperating revenues and expenses:			
Investment income (loss)	165	(296)	(208)
Total nonoperating revenues and expenses	165	(296)	(208)
Income (loss) before other revenues, expenses, gains, or losses	27	(309)	(140)
Other revenues, expenses, gains, or losses:			
Capital grants and gifts	-	1	61
Additions to permanent endowments	26	22	71
Total other revenues, expenses, gains, or losses	26	23	132
Increase (decrease) in net assets	53	(286)	(8)
Net assets at beginning of year	4,964	5,250	5,258
Net assets at end of year	$ 5,017	$ 4,964	$ 5,250

Revenues

The following is a graphic illustration of revenues by source (both operating and nonoperating), which are used to fund the college's operating activities for the years ended June 30, 2010; June 30, 2009; and June 30, 2008 (amounts are presented in thousands of dollars).


Revenue Sources for the College
(in thousands of dollars)
25,000
20,000
15,000
10,000
5,000
-
Net Tuition & Fees
Governmental Grants & Contracts
Auxiliary Enterprises
Other Operating Sources
State Appropriations
Other Grants & Contracts
Gifts
Investment Income
Capital & Other Revenue
2010
2009
2008



Comparison of FY 2010 to FY 2009

- State appropriations are requested by the Tennessee Higher Education Commission based on funding formula calculations. The State of Tennessee General Assembly determines the final state appropriations. The primary source of revenue for the State of Tennessee is sales tax collections. State appropriations account for about 33 percent of the college's total operating and nonoperating revenues for 2010. State appropriations decreased $1,351,200 in 2010 because of declining state sales tax receipts and economic conditions.

- Tuition and fees (net of scholarship allowances of $8,331,725) account for approximately 26 percent of the college's total operating and nonoperating revenues. Rates for tuition and fees are recommended by the Tennessee Higher Education Commission and approved by the Tennessee Board of Regents. Revenues from tuition and fees fluctuate depending upon enrollments. Net tuition and fees increased because of increases in the tuition rate of approximately 6 percent and enrollment growth of approximately 16 percent for FY 2010.

- Grants and contracts including governmental grants and contracts account for approximately 38 percent of the college's total operating and nonoperating revenues in 2010. A large percentage of the total grants and contracts revenue is restricted for student aid programs such as Pell Grant, SEOG (Supplemental Educational Opportunity Grant), and the Tennessee Education Lottery Scholarship Program. Grants and contracts increased $8,578,147. The majority of this increase is due to the Pell Grant. The maximum individual award for the Pell Grant increased by more than 13 percent in FY 2010. Additionally, the number of students served by this grant increased by approximately 56 percent. The Tennessee Lottery grant increased proportionately with the student body enrollment growth.

- The college's bookstore operation is leased to Follett Higher Education Group. The college's food service operation was leased to First Choice Foods during 2010. The auxiliary revenues reflect the commissions earned and represent less than one percent of total revenues in 2010.

- Nonoperating gifts and capital gifts primarily provided by the college's foundation increased in 2010 by $165,181. The majority of this difference is attributed to a $119,376 gift to complete the addition to the Livingston building.

- The Component Unit's revenue increased in 2010, primarily due to an increase in gifts and donations and investment income.

Comparison of FY 2009 to FY 2008

- State appropriations are the largest single source of revenue received by the college. State appropriations are requested by the Tennessee Higher Education Commission based on funding formula calculations. The State of Tennessee General Assembly determines the final state appropriations. The primary source of revenue for the State of Tennessee is sales tax collections. State appropriations account for about 43 percent of the college's total operating and nonoperating revenues for 2009. State appropriations decreased $888,240 in 2009. The decrease in state appropriations was a result of the shortfall in expected state revenue as a result of the economic downturn. Capital appropriations increased in 2009 by $719,824.

- The next largest source of revenue is from student tuition and fees. Tuition and fees (net of scholarship allowances of $4,647,121) account for approximately 29 percent of the college's total operating and nonoperating revenues. Rates for tuition and fees are recommended by the Tennessee Higher Education Commission and approved by the Tennessee Board of Regents. Revenues from tuition and fees may fluctuate depending upon enrollments. Net tuition and fees increased because of increases in both the tuition rate (6 percent) and enrollment for 2009.

- Governmental grants and contracts and other grants and contracts account for approximately 25 percent of the college's total operating and nonoperating revenues in 2009. 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 increased $1,654,065. The majority of this increase is due to the Tennessee Lottery and the Pell Grant.

- The college's bookstore operation is leased to Follett Higher Education Group, and the college's food service operation was leased to Five Star Food Services during the majority of 2009. Thus, the auxiliary revenues primarily reflect the commissions paid and represent approximately one percent of total revenues in 2009. The contract with Five Star Food Services was amended in May 2008 to remove the commission provision, and the contract was terminated in May 2009. A new vendor, First Choice Foods, was awarded the food services contract in May 2009. The new contract provides a 10 percent commission to the college on food services sales. A sign-on bonus of $150,000 was received in 2008 when the contract for the bookstore operation was renewed.

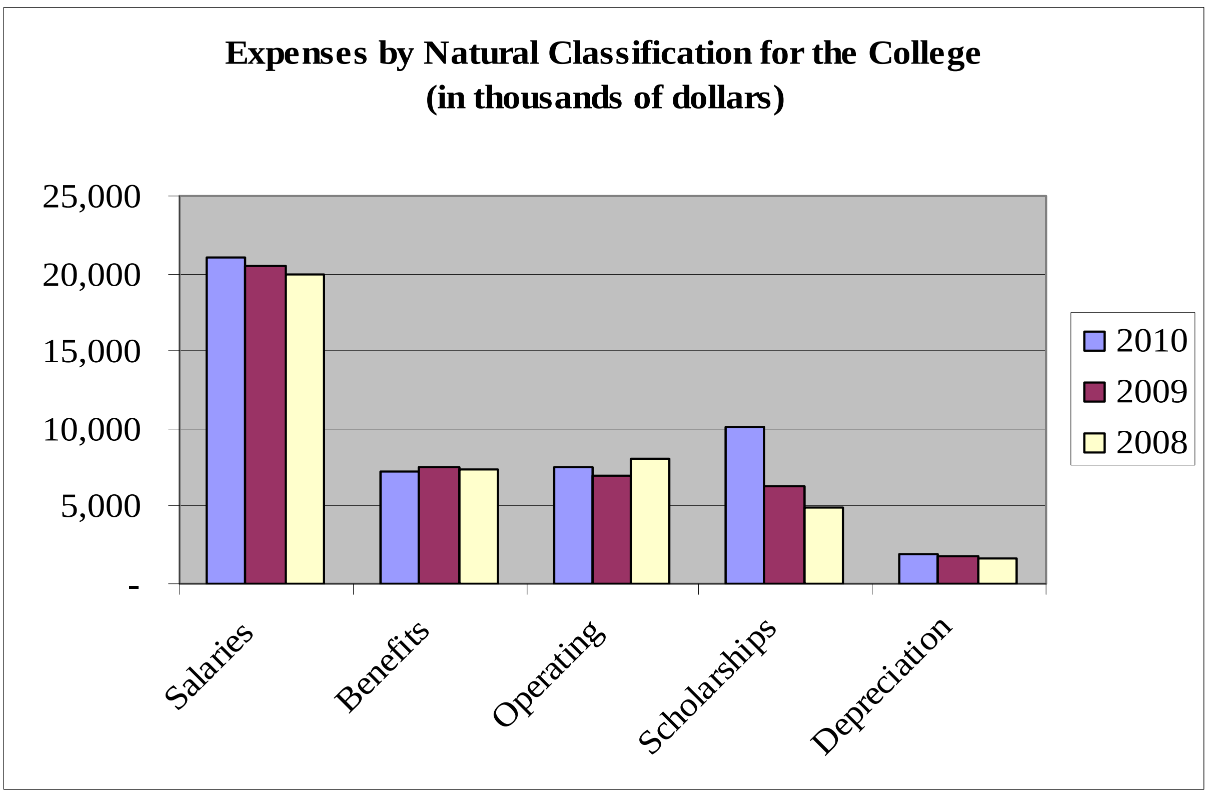
- Nonoperating gifts decreased in 2009 by $28,033. Other capital decreased $2,847,467 from 2008 due to a decrease in the amount of restoration work completed and reimbursed in 2008 versus 2009.

Expenses

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

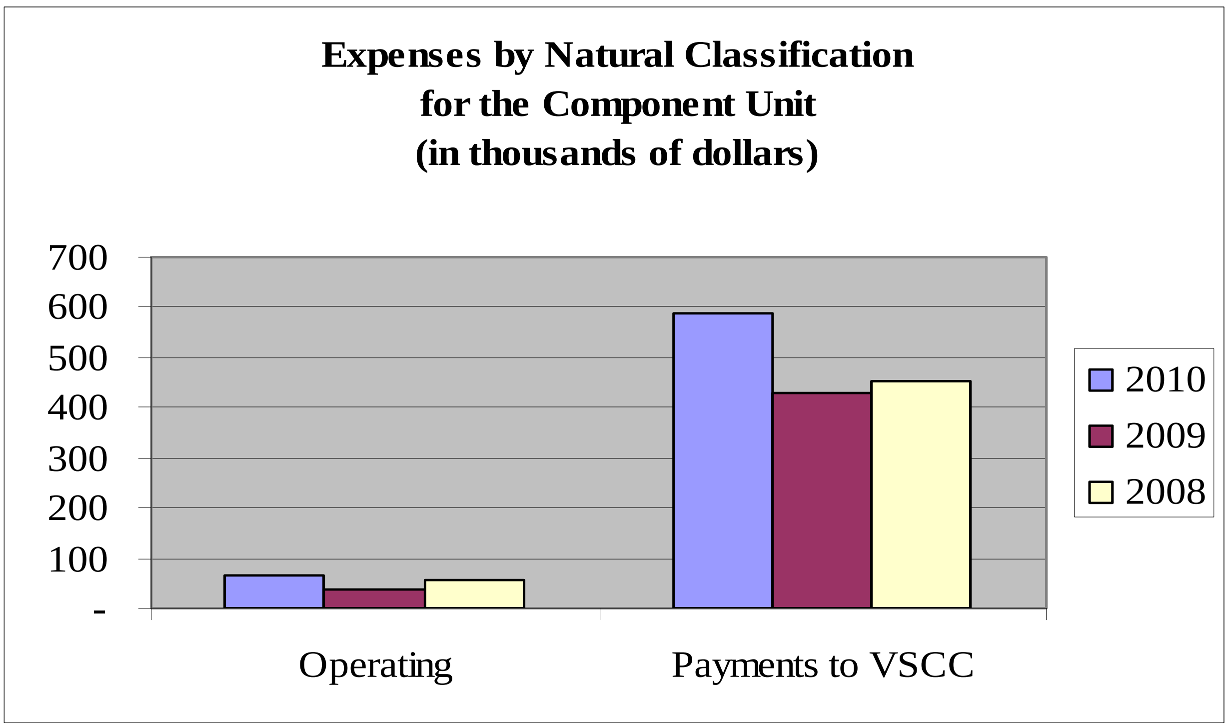
College
Natural Classification (in thousands of dollars)

	2010	2009	2008
Salaries	$ 21,067	$ 20,475	$ 19,978
Benefits	7,207	7,563	7,388
Operating	7,953	6,511	8,036
Scholarships	10,176	6,313	4,892
Deprecation	1,858	1,759	1,574
Total	$ 48,261	$ 42,621	$ 41,868



Component Unit
Natural Classification (in thousands of dollars)

	2010	2009	2008
Operating	$ 63	$ 39	$ 55
Payments to VSCC	590	428	452
Total	$ 653	$ 467	$ 507



Comparison of FY 2010 to FY 2009

- Salary and related benefits comprise approximately 59 percent and 66 percent of the college's operating expenses in 2010 and 2009, respectively. The dollar amount increased $235,563 for these two line items. Benefits decreased for FY 2010 largely due to "insurance holiday" for two months granted by the State of Tennessee. The expenses for the postemployment benefits (OPEB) decreased $138,176 in 2010. The State of Tennessee payments for Medicare supplement on-behalf payment for the college were $17,518, which remained the same as in FY 2009.

- For 2010, utilities, supplies, and other services (operating) expenses account for approximately 16 percent of the total operating expenses, increasing from 2009 by $1,442,173 as a result of funding provided by ARRA. This line item consists of expenditures for such items as supplies, utilities, communications and shipping, maintenance and repairs, printing, travel, professional and administrative services, and rental and insurance.

- Scholarship expenses are primarily attributable to the Federal Pell Grant and SEOG programs, TSAA (Tennessee Student Assistance Awards), Tennessee Education Lottery Scholarship Program, and private scholarships. In 2010, net scholarship expenditures increased over 2009 by $3,863,606 as more awards were made and the allowable amount increased for the Pell grants.

- Payments to the college from the foundation increased $161,171 in 2010. The majority of this increase relates to the capital gift of $119,376 for the building on the Livingston campus. The remainder of the payments to VSCC represents scholarship and supply expenditures.

Comparison of FY 2009 to FY 2008

- In 2009, salary and related benefits together comprise approximately 66 percent of the college's operating expenses. The dollar amount increased over 2008 by $672,526. Salary expenses increased slightly more than 2 percent over 2008 due to fewer vacant positions in 2009. Benefits increased largely due to higher benefit costs in areas such as insurance and additional benefits paid as a result of the increased salary expenditures. The expenses for the postemployment benefits (OPEB) of $578,502 incurred by the college, and the State of Tennessee payments for Medicare supplement on-behalf payment for the college were $17,518.

- For 2009, utilities, supplies, and other services (operating) expenses account for approximately 15 percent of the total operating expenses, decreasing from 2008 by $1,524,999 as a result of budget reductions due to the appropriation decrease. This line item consists of expenditures for such items as supplies, utilities, communications and shipping, maintenance and repairs, printing, travel, professional and administrative services, and rental and insurance.

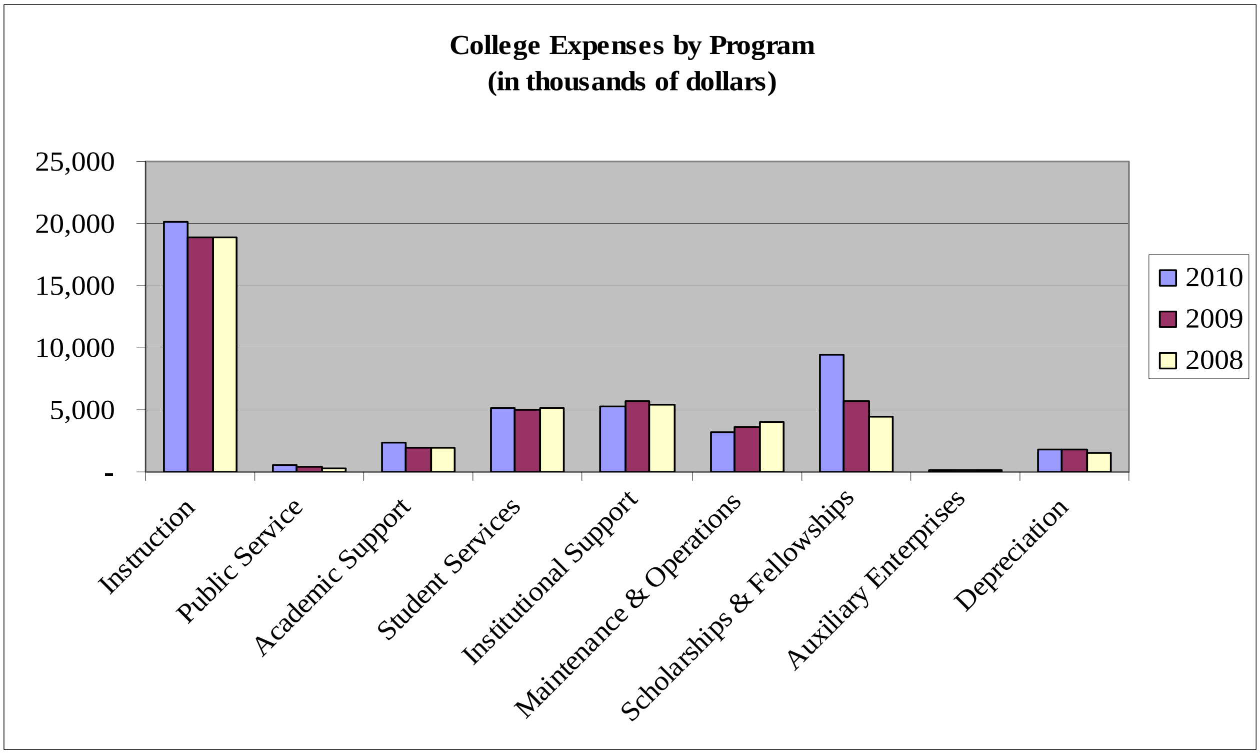
- Scholarship expenses are primarily attributable to the Federal Pell Grant and SEOG programs, TSAA (Tennessee Student Assistance Awards), the Tennessee Education Lottery

Scholarship Program, and private scholarships. In 2009, net scholarship expenditures increased over 2008 by $1,420,705 as more awards were made.

- Payments to the college from the foundation decreased $23,917 in 2009. The majority of the payments to VSCC represented scholarship expenditures and agency fund transfers for scholarships or supplies.

College
Program Classification (in thousands of dollars)

	2010	2009	2008
Instruction	$ 20,079	$ 18,922	$ 18,949
Public Service	498	376	310
Academic Support	2,349	1,886	1,878
Student Services	5,098	5,013	5,158
Institutional Support	5,287	5,680	5,427
Maintenance and Operations	3,546	3,145	4,061
Scholarships and Fellowships	9,467	5,761	4,427
Auxiliary	79	79	84
Depreciation	1,858	1,759	1,574
Total	$ 48,261	$ 42,621	$ 41,868



Comparison of FY 2010 to FY 2009

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

- Expenses in direct support of the instructional programs account for approximately 42 percent of the total operational expenses. Instructional program expenditures increased $1,156,396 from 2009 to 2010. In 2009, expenses in direct support of the instructional programs accounted for approximately 44 percent of the total operational expenses. The increase in enrollment and ARRA purchases of $394,775 were the cause for the higher expenses in 2010.

- Public Service expense accounts for approximately one percent of total operating expense in both 2010 and 2009. ARRA expenditures of $124,243 were made in 2010.

- Expenses for academic support are approximately 5 percent and 4 percent of total operating expenses in 2010 and 2009, respectively. The majority of the expenses are generated by library services and information systems. Of the increase in 2010, $432,666 was funded with ARRA.

- Institutional support expenses amounted to approximately 11 percent and 13 percent of total operating expenses in 2010 and 2009, respectively. This function includes expenses for such things as executive and fiscal management, public relations and development, safety and security, purchasing, human resources administration, etc. Expenditures for institutional support decreased $392,489 as a result of reductions made due to reduced state funding. ARRA expenditures were $136,060 in 2010.

- Maintenance and operations costs consist primarily of expenses for the general upkeep of the buildings and grounds. In addition, utilities are included in this function. In 2010 and 2009, costs for maintenance and operation accounted for slightly more than 7 percent of total operating expenses. The total expense increased in 2010 by $401,276. Almost 60 percent ($236,865) of the increase was related to expenditures funded by ARRA. The remaining variance is due to the completion of the restoration from the April 2006 tornado.

- A large percentage of the expenditures for scholarships and fellowships are from restricted sources such as the Pell Grant and the Tennessee Education Lottery Scholarship Program. Almost 20 percent of total operating expense was in scholarships and fellowships in 2010. In 2009, approximately 14 percent of total operating expenses were for scholarships and fellowships. In 2010, there was an increase of $3,706,071. This increase resulted from an increase in enrollment, an increase of approximately 13 percent in the maximum individual Pell Grant award, and $434,927 in scholarships funded by ARRA.

- Expenses for auxiliary enterprises primarily consist of allocations of institutional support costs and operation and maintenance costs. The bookstore and food service operations are managed through contracts with third parties.

Comparison of FY 2009 to FY 2008

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

- Expenses in direct support of the instructional programs account for approximately 44 percent of the total expenses. Instructional program expenditures decreased $26,265 in 2009. In 2008, expenses in direct support of the instructional programs accounted for approximately 45 percent of the total expenses. The increase in salary and benefits is due largely to additional faculty and benefit rate increases. Other operating expense for instructional programs declined $391,754 from 2008.

- Expenses for academic support are approximately 4 percent of total expenses in both 2009 and 2008. The majority of the expenses are generated by library services.

- Student services expenses account for almost 12 percent of total expenses for 2009 and 2008. This primarily includes costs for the administration of the student financial aid programs, admissions and records, counseling/advising services, athletics, and other student services administration. Expenditures for student services decreased $145,258 over 2008, primarily due to decreases in salary and benefits and in supply costs.

- Institutional support expenses amounted to approximately 13 percent of total expenses in 2009 and 2008. This function includes expenses for such things as executive and fiscal management, public relations and development, safety and security, purchasing, human resources administration, etc. Expenditures for institutional support increased $252,325, primarily due to the filling of vacancies, benefit costs increases, and increases in supply and professional and administrative services.

- Maintenance and operations costs consist primarily of expenses for the general upkeep of the buildings and grounds. In addition, utilities costs are included in this function. In 2009, costs for maintenance and operation accounted for 7 percent of total expenses and about 10 percent in 2008. In 2008, the increase in expense was due to increased routine maintenance and supply costs.

- Approximately 14 percent of total operating expenses are for scholarships and fellowships. A large percentage of the expenditures for scholarships and fellowships are from restricted sources such as the Pell Grant and the Tennessee Education Lottery Scholarship Program. In 2009, the increase was $1,333,442 as more awards were made. In 2008, approximately 11 percent of total expenses were for scholarships and fellowships.

- Expenses for auxiliary enterprises primarily consist of allocations of institutional support costs and operation and maintenance costs. The bookstore and food service operations are managed through contracts with third parties.

Capital Assets and Debt Administration

Capital Assets

Volunteer State Community College had $35,094,288 invested in capital assets, net of accumulated depreciation of $18,986,758 at June 30, 2010; $34,144,435 invested in capital assets, net of accumulated depreciation of $17,912,826 at June 30, 2009; and $33,219,891 invested in capital assets, net of accumulated depreciation of $17,340,323 at June 30, 2008. Depreciation charges totaled $1,857,525, $1,759,458, and $1,574,235 for the years ended June 30, 2010; June 30, 2009; and June 30, 2008, respectively. Details of these assets are shown below.

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

	2010	2009	2008
Land	$ 1,630	$ 1,630	$ 1,630
Land improvements & infrastructure	3,764	3,637	3,446
Buildings	24,240	25,194	20,082
Equipment	1,854	1,181	1,050
Software	494	593	693
Library holdings	501	532	548
Projects in progress	2,611	1,377	5,771
Total	$ 35,094	$ 34,144	$ 33,220

During 2010, ARRA funds were used to purchase seven hybrid vehicles, a digital mixing console for the radio station, seven up-right pianos, and a baby grand piano. In addition, a VoIP (Voice over Internet Protocol) telephone system was installed using plant funds. The softball field press box, fire alarm upgrades, parking lot and paving projects, and the completion of another Livingston building phase were capital projects occurring during the year.

During the 2009 fiscal year, the college completed the tornado restoration. All the appropriate expenditures of the building restoration were capitalized, and the cost basis was increased. FEMA reimbursed the majority of the tornado restoration costs in 2010. The Projects in Progress decreased as costs were reallocated to the appropriate capital asset.

The college was named in a 1981 will as the beneficiary of the Estate of Tony R. Spurlock, who died in July 2006. The college has been involved in the settlement of that estate in the intervening years, including a contested will. On April 7, 2010, the court approved a tentative settlement, in which the college would receive two tracts of farm land totaling approximately 110 acres. Appraisals will be completed in the fall of 2010 to determine the value of the land. It is anticipated that the settlement will receive final approval in the fall of 2010. The college anticipates receipt of the land in fiscal year 2011. The college is exploring using the property for delivering instruction in animal care and other science programs.

In 2007, leaders from Robertson County and Springfield, Tennessee, contacted Volunteer State Community College about bringing a permanent college campus to their community. In 2008, Volunteer State Community College conducted a feasibility study to determine whether adequate community interest existed. It was determined that adequate financial support and interest existed. A plan was formulated to bring both the college and Austin Peay State University to a common location in Springfield. Robertson County and the City of Springfield both dedicated $3 million from bond proceeds to the construction and furnishing of a new facility. Construction on the facility is underway, and the college anticipates classes will be offered at the new site beginning in the fall of 2011. The college has entered into a lease for the use of the property that commences August 1, 2011, at a nominal amount.

In fiscal year 2011, the college will be undertaking several repair and renovation projects. Among them are the following: a campus-wide energy management system upgrade, a roof replacement at the Wood Campus Center, and an HVAC replacement at Betty Gibson Hall. The funds for these projects are available through the State Capital Outlay Appropriation or have been set aside in institutional Unexpended Plant funds or Renewal and Replacement Funds.

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

Debt

Volunteer State Community College had $61,650 and $192,699 in debt outstanding at June 30, 2010, and June 30, 2009, respectively. The table below summarizes these amounts by type of debt instrument.

College
Debt Summary (in thousands of dollars)

	Beginning Balance	Additions	Reductions	Ending Balance
2010				
TSSBA bonds	$ 193	$ -	$ 131	$ 62
2009				
TSSBA bonds	$ 319	$ -	$ 126	$ 193
2008				
TSSBA bonds	$ 440	$ -	$ 121	$ 319

No new debt was incurred during FY 2010. Principal payments of $13,846 and $13,515 for the chiller replacement project and $117,202 and $112,478 for the Banner software project were made in 2010 and 2009, respectively. The Banner software debt was paid in full during 2010.

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

The ratings on debt issued by the Tennessee State School Bond Authority at June 30, 2010, were as follows:

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

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

Economic Factors That Will Affect the Future

In the June 2010 meeting, the Tennessee Board of Regents voted to increase the college's tuition rates by approximately 6 percent. In addition, TBR also approved increasing the hourly rate charged for hours in excess of 12 per semester from $6 per credit hour to $18 per credit hour.

The college's recurring state appropriations continue to be reduced due to declining economic conditions and decreasing sales tax collections. The college has developed a three-year financial plan that delineates how the college will manage with decreased ongoing appropriations and the conclusion of the federal stimulus funding.

Requests for Information

This financial report is designed to provide a general overview of the institution's finances for all those with an interest in the college's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be directed to:

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

TENNESSEE BOARD OF REGENTS
VOLUNTEER STATE COMMUNITY COLLEGE
STATEMENTS OF NET ASSETS
JUNE 30, 2010, AND JUNE 30, 2009

	Volunteer State Community College		Component Unit Volunteer State Community College Foundation	
	June 30, 2010	June 30, 2009	June 30, 2010	June 30, 2009
ASSETS				
Current assets:				
Cash and cash equivalents (Notes 2 and 17)	$ 7,233,611.12	$ 11,566,496.87	$ 962,660.86	$ 1,134,138.59
Short-term investments (Note 3)	4,000,000.00	2,000,000.00	-	-
Accounts, notes, and grants receivable (net) (Note 4)	947,141.88	9,845,093.45	5,801.75	-
Due from primary government	310,040.71	-	-	-
Due from foundation	4,930.02	2,911.88	-	-
Pledges receivable (net) (Note 17)	-	-	19,020.00	42,076.64
Inventories	765.82	1,919.01	-	-
Prepaid expenses and deferred charges	230,872.78	128,303.11	823.28	-
Accrued interest receivable	7,746.85	13,660.27	-	-
Total current assets	12,735,109.18	23,558,384.59	988,305.89	1,176,215.23
Noncurrent assets:				
Cash and cash equivalents (Notes 2 and 17)	15,911,284.99	9,143,928.14	-	56,022.51
Investments (Notes 3 and 17)	-	2,000,000.00	4,021,868.97	3,705,448.33
Pledges receivable (net) (Note 17)	-	-	1,326.39	8,365.55
Capital assets (net) (Note 5)	35,094,288.35	34,144,434.55	-	-
Other assets	-	8,141.35	12,810.52	20,765.07
Total noncurrent assets	51,005,573.34	45,296,504.04	4,036,005.88	3,790,601.46
Total assets	63,740,682.52	68,854,888.63	5,024,311.77	4,966,816.69
LIABILITIES				
Current liabilities:				
Accounts payable (Note 6)	704,726.54	10,397,408.27	533.50	-
Accrued liabilities	1,529,722.29	1,439,542.42	-	-
Due to primary government	-	1,029,035.66	-	-
Deferred revenue	2,287,295.52	1,514,752.94	1,850.00	-
Due to college	-	-	4,930.02	2,911.88
Compensated absences (Note 7)	377,824.41	345,404.03	-	-
Accrued interest payable	448.02	1,328.13	-	-
Long-term liabilities, current portion (Note 7)	14,427.58	131,048.55	-	-
Deposits held in custody for others	4,442,898.76	4,044,669.46	-	-
Other liabilities	920.62	1,117.58	-	-
Total current liabilities	9,358,263.74	18,904,307.04	7,313.52	2,911.88
Noncurrent liabilities:				
Net OPEB obligation (Notes 7 and 11)	1,639,036.14	1,198,710.28	-	-
Compensated absences (Note 7)	990,858.91	989,560.14	-	-
Long-term liabilities (Note 7)	47,222.59	61,650.17	-	-
Due to grantors (Note 7)	4,061.30	3,427.62	-	-
Total noncurrent liabilities	2,681,178.94	2,253,348.21	-	-
Total liabilities	12,039,442.68	21,157,655.25	7,313.52	2,911.88
NET ASSETS				
Invested in capital assets, net of related debt	35,032,638.18	33,951,735.83	-	-
Restricted for:				
Nonexpendable:				
Scholarships and fellowships	120,107.75	118,713.01	3,898,597.77	3,859,432.23
Expendable:				
Scholarships and fellowships	46,004.30	37,924.24	813,377.41	737,882.63
Instructional department uses	106,812.13	3,503.26	31,605.26	31,605.26
Loans	118.13	118.13	-	-
Capital projects	-	-	10,499.10	12,049.07
Other	171,243.04	106,517.42	20,751.91	22,830.29
Unrestricted (Note 9)	16,224,316.31	13,478,721.49	242,166.80	300,105.33
Total net assets	$ 51,701,239.84	$ 47,697,233.38	$ 5,016,998.25	$ 4,963,904.81

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

TENNESSEE BOARD OF REGENTS
VOLUNTEER STATE COMMUNITY COLLEGE
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2010, AND JUNE 30, 2009

	Volunteer State Community College		Component Unit Volunteer State Community College Foundation	
	Year Ended June 30, 2010	Year Ended June 30, 2009	Year Ended June 30, 2010	Year Ended June 30, 2009
REVENUES				
Operating revenues:				
Student tuition and fees (net of scholarship allowances of $8,331,725.19 for the year ended June 30, 2010, and $4,647,121.06 for the year ended June 30, 2009)	$ 13,146,881.27	$ 12,333,397.03	$ -	$ -
Gifts and contributions	-	-	284,880.19	199,342.87
Endowment income	-	-	118,363.39	118,630.00
Governmental grants and contracts	576,189.22	814,429.09	4,947.48	5,090.50
Sales and services of educational departments	25,570.00	28,575.00	-	-
Auxiliary enterprises:				
Bookstore	325,000.00	315,000.00	-	-
Food service	32,058.70	695.44	-	-
Interest earned on loans to students	663.40	564.94	-	-
Other operating revenues	285,270.96	255,704.10	106,138.08	131,198.37
Total operating revenues	14,391,633.55	13,748,365.60	514,329.14	454,261.74
EXPENSES				
Operating expenses (Note 15):				
Salaries and wages	21,066,806.66	20,474,704.88	-	-
Benefits	7,206,787.56	7,563,325.98	-	-
Utilities, supplies, and other services	7,953,017.42	6,510,843.98	63,361.72	38,877.93
Scholarships and fellowships	10,176,468.04	6,312,862.41	-	-
Depreciation expense	1,857,524.93	1,759,458.39	-	-
Payments to or on behalf of Volunteer State Community College (Note 17)	-	-	589,464.54	428,293.76
Total operating expenses	48,260,604.61	42,621,195.64	652,826.26	467,171.69
Operating income (loss)	(33,868,971.06)	(28,872,830.04)	(138,497.12)	(12,909.95)
NONOPERATING REVENUES (EXPENSES)				
State appropriations	17,112,318.00	18,463,518.00	-	-
Gifts, including $470,088.54 from component unit for the year ended June 30, 2010, and $428,293.76 for the year ended June 30, 2009	494,934.88	449,130.07	-	-
Grants and contracts	18,547,533.79	9,731,146.86	-	-
Investment income (loss) (net of investment expense of $0.00 for the college and $15,565.23 for the component unit for the year ended June 30, 2010, and $0.00 for the college and $14,559.89 for the component unit for the year ended June 30, 2009)	182,552.81	396,914.95	164,992.21	(296,384.60)
Interest on capital asset-related debt	(6,910.45)	(13,730.38)	-	-
Other nonoperating revenues (expenses)	(91,874.71)	(31,755.05)	-	-
Net nonoperating revenues (expenses)	36,238,554.32	28,995,224.45	164,992.21	(296,384.60)
Income (loss) before other revenues, expenses, gains, or losses	2,369,583.26	122,394.41	26,495.09	(309,294.55)
Capital appropriations	1,072,293.90	1,015,411.51	-	-
Capital gifts and grants, including $119,376.00 from component unit for the year ended June 30, 2010, and $0.00 for the year ended June 30, 2009	119,376.00	-	150.00	1,150.00
Additions to permanent endowments	1,349.00	1,579.00	26,448.35	21,966.95
Other capital	441,404.30	448,333.74	-	-
Total other revenues	1,634,423.20	1,465,324.25	26,598.35	23,116.95
Increase (decrease) in net assets	4,004,006.46	1,587,718.66	53,093.44	(286,177.60)
NET ASSETS				
Net assets - beginning of year	47,697,233.38	46,109,514.72	4,963,904.81	5,250,082.41
Net assets - end of year	$ 51,701,239.84	$ 47,697,233.38	$ 5,016,998.25	$ 4,963,904.81

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, 2010, AND JUNE 30, 2009

	Year Ended June 30, 2010	Year Ended June 30, 2009
CASH FLOWS FROM OPERATING ACTIVITIES		
Tuition and fees	$ 13,827,543.91	$ 12,992,671.72
Grants and contracts	749,094.94	1,043,269.10
Sales and services of educational activities	25,570.00	28,575.00
Payments to suppliers and vendors	(7,921,129.14)	(5,394,346.29)
Payments to employees	(21,003,070.25)	(20,459,384.67)
Payments for benefits	(6,599,283.17)	(6,959,821.52)
Payments for scholarships and fellowships	(10,176,468.04)	(6,312,862.41)
Interest earned on loans to students	663.40	564.94
Auxiliary enterprise charges:		
Bookstore	337,247.67	269,473.41
Food services	30,399.37	3,125.63
Other receipts	293,412.31	255,429.25
Net cash used by operating activities	(30,436,019.00)	(24,533,305.84)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State appropriations	17,089,700.00	18,477,683.00
Gifts and grants received for other than capital or endowment purposes, including $470,088.54 from Volunteer State Community College Foundation for the year ended June 30, 2010, and $428,293.76 for the year ended June 30, 2009	17,545,290.92	11,060,068.45
Private gifts for endowment purposes	1,349.00	1,579.00
Federal student loan receipts	7,539,336.18	6,107,822.84
Federal student loan disbursements	(7,537,594.94)	(6,107,822.84)
Changes in deposits held for others	396,488.06	(466,028.48)
Other non-capital financing payments	(886.58)	(655.83)
Net cash provided by noncapital financing activities	35,033,682.64	29,072,646.14
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital appropriations	1,072,293.90	1,015,411.51
Capital grants and gifts received, including $119,376.00 from the component unit for the year ended June 30, 2010	119,376.00	-
Purchases of capital assets and construction	(2,965,959.36)	(1,627,079.66)
Principal paid on capital debt	(14,427.58)	(131,048.55)
Interest paid on capital debt	(6,910.45)	(14,295.75)
Other capital and related financing payments	(555,151.17)	(1,098,048.28)
Net cash provided (used) by capital and related financing activities	(2,350,778.66)	(1,855,060.73)
CASH FLOWS FROM INVESTING ACTIVITIES		
Income on investments	187,586.12	560,672.30
Net cash provided by investing activities	187,586.12	560,672.30
Net increase in cash	2,434,471.10	3,244,951.87
Cash - beginning of year	20,710,425.01	17,465,473.14
Cash - end of year (Note 2)	$ 23,144,896.11	$ 20,710,425.01

TENNESSEE BOARD OF REGENTS
VOLUNTEER STATE COMMUNITY COLLEGE
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2010, AND JUNE 30, 2009

	Year Ended June 30, 2010	Year Ended June 30, 2009
Reconciliation of operating loss to net cash used by operating activities:		
Operating loss	$ (33,868,971.06)	$ (28,872,830.04)
Adjustments to reconcile operating loss to net cash used by operating activities:		
Depreciation expense	1,857,524.93	1,759,458.39
Gifts-in-kind	158,101.38	149,244.14
Other adjustments	17,518.00	17,518.00
Change in assets and liabilities:		
Receivables, net	9,381,857.74	263,891.32
Inventories	1,153.19	(346.17)
Prepaid/deferred items	(102,569.67)	(90,807.12)
Other assets	8,141.35	(274.85)
Accounts payable	(9,686,105.53)	1,594,942.65
Other payable	468,272.09	(569,303.35)
Accrued liabilities	90,179.87	15,684.05
Deferred revenue	772,542.58	618,373.19
Compensated absences	33,719.15	24,222.66
Other liabilities	432,616.98	556,921.29
Net cash used by operating activities	$ (30,436,019.00)	$ (24,533,305.84)
Non-cash transactions		
Gain (loss) on disposal of capital assets	91,210.87	(31,189.68)

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 Community College Foundation is considered a component unit of the college. Although the college does not control the timing or amount of receipts from the foundation, the majority of resources, or income thereon, that the foundation holds and invests are restricted to the activities of the college by the donors. Because these restricted resources held by the foundation can only be used by, or for the benefit of, the college, the foundation is considered a component unit of the college and is discretely presented in the college's financial statements. See Note 17 for more detailed information about the component unit and how to obtain the report.

Basis of Presentation

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

Basis of Accounting

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

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

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

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

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

Cash Equivalents

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

Inventories

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

Compensated Absences

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

Capital Assets

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

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

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

Net Assets

The college's net assets are classified as follows:

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

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

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

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

Scholarship Discounts and Allowances

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

NOTE 2. CASH

This classification includes demand deposits and petty cash on hand. At June 30, 2010, cash consisted of $3,214,943.23 in bank accounts, $5,000.00 of petty cash on hand, $18,037,112.77 in the State of Tennessee Local Government Investment Pool (LGIP) administered by the State Treasurer, and $1,887,840.11 in LGIP deposits for capital projects. At June 30, 2009, cash consisted of $246,331.12 in bank accounts, $5,000.00 of petty cash on hand, $19,413,990.43 in LGIP, and $1,045,103.46 in LGIP deposits for capital projects.

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

NOTE 3. INVESTMENTS

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

At June 30, 2010, the college had the following investments and maturities.

		Investment Maturities (in Years)	
Investment Type	Fair Value	Less than 1	1 to 5
Certificates of deposit	$4,000,000.00	$4,000,000.00	$0.00

At June 30, 2009, the college had the following investments and maturities.

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

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of a debt investment. The college does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The college is authorized by statute to invest funds in accordance with Tennessee Board of Regents policies. Under the current policy, funds other than endowments may be invested only in obligations of the United States or its agencies backed by the full faith and credit of the United States; repurchase agreements for United States securities; certificates of deposit in banks and savings and loan associations; banker's acceptances; commercial paper; money market mutual funds; and the State of Tennessee Local Government Investment Pool (LGIP). The policy requires that investments of endowments in equity securities be limited to funds from private gifts or other sources external to the college and that endowment investments be prudently diversified. Securities are rated using Standard and Poor's, Moody's, and/or Fitch and are presented below using the Standard and Poor's rating scale.

Tennessee Board of Regents policy restricts investments in banker's acceptances and commercial paper. The policy requires that prime banker's acceptances must be issued by domestic banks with a minimum AA rating or foreign banks with a AAA long-term debt rating by a majority of the ratings services that have rated the issuer. Prime banker's acceptances are required to be eligible for purchase by the Federal Reserve System. To be eligible, the original maturity must not be more than 270 days, and it must 1) arise out of the current shipment of goods between countries or with the United States, or 2) arise out of storage within the United States of goods under contract of sale or expected to move into the channel or trade within a reasonable time and that are secured throughout their life by a warehouse receipt or similar document conveying title to the underlying goods.

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, 2010, the college's investments were rated as follows:

		Credit Quality Rating
Investment Type	Fair Value	Unrated
LGIP	$19,924,952.88	$19,924,952.88

At June 30, 2009, the college's investments were rated as follows:

		Credit Quality Rating
Investment Type	Fair Value	Unrated
LGIP	$20,459,093.89	$20,459,093.89

Concentration of Credit Risk

Tennessee Board of Regents policy restricts investments in banker's acceptances, commercial paper, and money market mutual funds. The policy limits banker's acceptances to not exceed 20% of the total investments on the date of acquisition and limits the combined amount of banker's acceptances and commercial paper to not exceed 35% of the total investments at the date of acquisition. 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 issuer:

Issuer	Percentage of Total Investments	
	June 30, 2010	June 30, 2009
Farmers Bank	100%	100%

NOTE 4. RECEIVABLES

Receivables included the following:

	June 30, 2010	June 30, 2009
Student accounts receivable	$ 761,444.81	$ 793,722.46
Grants receivable	283,740.94	467,131.07
State appropriation receivable	45,900.00	40,800.00
Other receivables	274,261.37	9,113,891.97
Subtotal	1,365,347.12	10,415,545.55
Less allowance for doubtful accounts	(418,205.24)	(570,452.05)
Total receivables	$ 947,141.88	$ 9,845,093.45

Federal Perkins Loan Program funds included the following:

	June 30, 2010	June 30, 2009
Perkins loans receivable	$24,833.42	$ 24,803.26
Less allowance for doubtful accounts	(24,833.42)	(24,803.26)
Total	$ 0.00	$ 0.00

NOTE 5. CAPITAL ASSETS

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

	Beginning Balance	Additions	Transfers	Reductions	Ending Balance
Land	$ 1,629,993.14	$ -	$ -	$ -	$ 1,629,993.14
Land improvements and Infrastructure	6,300,750.01	81,304.07	512,903.83	452,348.81	6,442,609.10
Buildings	36,729,860.62	-	-	-	36,729,860.62
Equipment	3,953,865.05	1,052,044.59	-	364,902.12	4,641,007.52
Library holdings	1,076,652.57	85,000.85	-	124,553.40	1,037,100.02
Intangible assets	989,249.28	-	-	-	989,249.28
Projects in progress	1,376,889.66	1,747,241.09	(512,903.83)	-	2,611,226.92
Total	52,057,260.33	2,965,590.60	-	941,804.33	54,081,046.60

Less accumulated depreciation/ amortization:					
Land improvements and Infrastructure	2,663,681.26	312,391.48	-	297,809.90	2,678,262.84
Buildings	11,536,131.66	954,178.65	-	-	12,490,310.31
Equipment	2,772,347.54	375,864.50	-	361,229.16	2,786,982.88
Library holdings	544,965.60	116,165.37	-	124,553.40	536,577.57
Intangible assets	395,699.72	98,924.93	-	-	494,624.65
Total	17,912,825.78	1,857,524.93	-	783,592.46	18,986,758.25
Capital assets, net	$ 34,144,434.55	$ 1,108,065.67	$ -	$ 158,211.87	$ 35,094,288.35

Capital asset activity for the year ended June 30, 2009, was as follows:

	Beginning Balance	Additions	Transfers	Reductions	Ending Balance
Land	$ 1,629,993.14	$ -	$ -	$ -	$ 1,629,993.14
Land improvements and Infrastructure	5,814,652.95	280,956.07	205,140.99	-	6,300,750.01
Buildings	30,670,258.48	633,199.84	5,426,402.30	-	36,729,860.62
Equipment	4,588,037.36	483,436.27	-	1,117,608.58	3,953,865.05
Library holdings	1,096,719.22	103,383.77	-	123,450.42	1,076,652.57
Intangible assets	989,249.28	-	-	-	989,249.28
Projects in progress	5,771,303.73	1,237,129.22	(5,631,543.29)	-	1,376,889.66
Total	50,560,214.16	2,738,105.17	-	1,241,059.00	52,057,260.33
Less accumulated depreciation/ amortization:					
Land improvements and Infrastructure	2,368,513.70	295,167.56	-	-	2,663,681.26
Buildings	10,588,138.73	947,992.93	-	-	11,536,131.66
Equipment	3,538,489.90	297,362.63	-	1,063,504.99	2,772,347.54
Library holdings	548,405.68	120,010.34	-	123,450.42	544,965.60
Intangible assets	296,774.79	98,924.93	-	-	395,699.72
Total	17,340,322.80	1,759,458.39	-	1,186,955.41	17,912,825.78
Capital assets, net	$ 33,219,891.36	$ 978,646.78	$ -	$ 54,103.59	$ 34,144,434.55

NOTE 6. ACCOUNTS PAYABLE

Accounts payable included the following:

	June 30, 2010	June 30, 2009
Vendors payable	$ 702,373.54	$ 1,079,398.00
Other payables	2,353.00	9,318,010.27
Total accounts payable	$ 704,726.54	$ 10,397,408.27

NOTE 7. LONG-TERM LIABILITIES

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

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Payables:					
TSSBA debt:					
Bonds	$ 192,698.72	$ -	$ 131,048.55	$ 61,650.17	$ 14,427.58
Other liabilities:					
Compensated absences	1,334,964.17	1,077,318.94	1,043,599.79	1,368,683.32	377,824.41
Due to grantors	3,427.62	633.68	-	4,061.30	-
Net OPEB obligation	1,198,710.28	772,849.07	332,523.21	1,639,036.14	-
Subtotal	2,537,102.07	1,850,801.69	1,376,123.00	3,011,780.76	377,824.41
Total long-term liabilities	$ 2,729,800.79	$ 1,850,801.69	$ 1,507,171.55	$ 3,073,430.93	$ 392,251.99

Long-term liabilities activity for the year ended June 30, 2009, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Payables:					
TSSBA debt:					
Bonds	$ 318,692.15	$ -	$ 125,993.43	$ 192,698.72	$ 131,048.55
Other liabilities:					
Compensated absences	1,310,741.51	1,034,946.33	1,010,723.67	1,334,964.17	345,404.03
Due to grantors	3,427.19	0.43	-	3,427.62	-
Net OPEB obligation	620,208.42	945,745.60	367,243.74	1,198,710.28	-
Subtotal	1,934,377.12	1,980,692.36	1,377,967.41	2,537,102.07	345,404.03
Total long-term liabilities	$ 2,253,069.27	$ 1,980,692.36	$ 1,503,960.84	$ 2,729,800.79	$ 476,452.58

TSSBA Debt - Bonds

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

Debt service requirements to maturity for the college's portion of TSSBA bonds at June 30, 2010, are as follows:

Year Ending June 30	Principal	Interest	Total
2011	$ 14,427.58	$ 2,548.63	$ 16,976.21
2012	15,033.54	1,971.52	17,005.06
2013	15,664.94	1,370.18	17,035.12
2014	16,524.11	743.58	17,267.69
Total	$ 61,650.17	$ 6,633.91	$ 68,284.08

More detailed information regarding the bonds can be found in the notes to the financial statements in the financial report for the Tennessee State School Bond Authority. That report is available on the state's website at http://www.comptroller1.state.tn.us/TSSBA/cafr.asp.

NOTE 8. ENDOWMENTS

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

The college can choose to spend only a portion of the investment income each year. Under the current spending plan established by the college, 100% of current year earnings has been authorized for expenditure. Authorizing earnings for expenditure makes the funds available but does not guarantee all of the funds will be spent. The remaining amount, if any, is retained to be used in future years. At June 30, 2010, investment income of $6,158.62 is available to be spent, of which $6,158.62 is included in restricted net assets expendable for scholorships and fellowships. At June 30, 2009, investment income of $5,965.23 is available to be spent, of which $5,965.23 is included in restricted net assets expendable for scholorships and fellowships.

NOTE 9. UNRESTRICTED NET ASSETS

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

	June 30, 2010	June 30, 2009
Working capital	$ 576,164.14	$ 505,106.69
Encumbrances	132,324.79	174,542.77
Designated fees	89,190.71	141,378.21
Auxiliaries	617,323.61	351,246.81
Plant construction	7,066,256.55	3,630,379.68
Renewal and replacement of equipment	8,705,417.71	8,884,467.27
Debt retirement	19,502.98	140,747.86
Undesignated	(981,864.18)	(349,147.80)
Total	$16,224,316.31	$13,478,721.49

NOTE 10. PLEDGED REVENUES

The college has pledged certain revenues and fees, including state appropriations, to repay $61,650.17 in revenue bonds issued from March 2004, to June 2006. Proceeds from the bonds provided financing for Chiller and Banner projects. The bonds are payable through 2014. Annual principal and interest payments on the bonds are expected to require .18% of available revenues. Principal and interest paid for 2010 and total available revenues in that year were $138,839.11 and $38,893,369.33, respectively. The total principal and interest remaining to be paid on the bonds is $68,284.08. See Note 7 for further detail.

NOTE 11. PENSION PLANS

A. Defined Benefit Plan

Tennessee Consolidated Retirement System

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

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

Funding Policy - Plan members are noncontributory. The college is required to contribute an actuarially determined rate. The current rate is 13.02% of annual covered payroll. Contribution requirements for the college are established and may be amended by the TCRS' Board of Trustees. The college's contributions to TCRS for the years ended June 30, 2010, 2009, and 2008 were $1,236,950.59, $1,240,386.49, and $1,255,307.41. Contributions met the requirements for each year.

B. Defined Contribution Plans
Optional Retirement Plans (ORP)

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

Funding Policy - Plan members are noncontributory. The college contributes an amount equal to 10% of the employee's base salary up to the social security wage base and 11% above the social security wage base. Contribution requirements are established and amended by state statute. The contribution made by the college to the plans was $824,117.85 for the year ended June 30, 2010, and $828,874.61 for the year ended June 30, 2009. Contributions met the requirements for each year.

NOTE 12. OTHER POST-EMPLOYMENT BENEFITS

Healthcare is the only "other postemployment benefit" (OPEB) provided to employees. The State of Tennessee administers a group health insurance program which provides postemployment health insurance benefits to eligible college retirees. This program includes two plans available to higher education employees—the State Employee Group Plan and the Medicare Supplement Plan. For accounting purposes, the plans are agent multiple-employer defined benefit OPEB plans. Benefits are established and amended by an insurance committee created by Section 8-27-101, *Tennessee Code Annotated.* Prior to reaching age 65, retirees may participate in the State Employee Group Plan. Members of this plan have the option of choosing a preferred provider organization (PPO), point of service (POS), or health maintenance organization (HMO) plan for healthcare benefits. The POS and HMO options will no longer be available to members after January 1, 2011. Subsequent to age 65, retirees who are also in the state's retirement system may participate in a state-administered

Medicare supplement that does not include pharmacy. The state makes on-behalf payments to the Medicare supplement plan for the college's eligible retirees; see Note 16. The plans are reported in the state of Tennessee's *Comprehensive Annual Financial Report* (CAFR). The CAFR is available on the state's website at http://tennessee.gov/finance/act/cafr.html.

Special Funding Situation

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

Funding Policy

The premium requirements of members of the State Employee Group Plan are established and may be amended by the insurance committee. The plan is self-insured and financed on a pay-as-you-go basis with the risk shared equally among the participants. Claims liabilities of the plan are periodically computed using actuarial and statistical techniques to establish premium rates. Administrative costs of the plan are allocated to plan participants. In accordance with Section 8-27-205(b), *Tennessee Code Annotated*, retirees in the State Employee Group Plan pay the same base premium as active employees in the plan adjusted for years of service. Retirees with 30 years of service pay 20% of the total premium. Retirees with 20 years but less than 30 years of service pay 30% of the total premium. Retirees with less than 20 years of service pay 40% of the total premium.

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

	2010	2009
Annual required contribution (ARC)	$ 770,000.00	$ 945,000.00
Interest on the net OPEB obligation	53,941.96	27,909.38

Adjustment to the ARC	(51,092.89)	(27,163.78)
Annual OPEB cost	772,849.07	945,745.60
Amount of contribution	(332,523.21)	(367,243.74)
Increase (decrease) in net OPEB obligation	440,325.86	578,501.86
Net OPEB obligation – beginning of year	1,198,710.28	620,208.42
Net OPEB obligation – end of year	$ 1,639,036.14	$ 1,198,710.28

Year-end	Plan	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation at Year-end
June 30, 2010	State Employee Group Plan	$ 772,849.07	43.0%	$ 1,639,036.14
June 30, 2009	State Employee Group Plan	$ 945,745.60	38.8%	$ 1,198,710.28
June 30, 2008	State Employee Group Plan	$ 934,000.00	33.6%	$ 620,208.42

Funded Status and Funding Progress

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

State Employee Group Plan

Actuarial valuation date	July 1, 2009	July 1, 2007
Actuarial accrued liability (AAL)	$ 7,543,000.00	$ 8,308,000.00
Actuarial value of plan assets	-	-
Unfunded actuarial accrued liability (UAAL)	$ 7,543,000.00	$ 8,308,000.00
Actuarial value of assets as a percentage of the AAL	0.00%	0.00%
Covered payroll (active plan members)	$ 17,770,441.16	$ 17,148,397.60
UAAL as percentage of covered payroll	42.5%	48.4%

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

Actuarial Methods and Assumptions

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

In the July 1, 2009, actuarial valuation, the Projected Unit Credit actuarial cost method was used. The actuarial assumptions included a 4.5 percent investment rate of return (net of administrative expenses) and an annual healthcare cost trend rate of 6 percent initially, increased to 10 percent in the second year and then reduced by decrements to an ultimate rate of 5 percent in fiscal year 2021. All rates include a 3 percent inflation assumption. The unfunded actuarial accrued liability is being amortized as a level percentage of payroll on a closed basis over a 30-year period beginning with July 1, 2007.

NOTE 13. INSURANCE-RELATED ACTIVITIES

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

The college participates in the Risk Management Fund. The fund allocates the cost of providing claims servicing and claims payment by charging a premium to the college based on a percentage of the college's expected loss costs, which include both experience and exposures. This charge considers recent trends in actual claims experience of the state as a whole. An actuarial valuation is performed as of fiscal year-end to determine the fund liability and premium allocation. Information regarding the determination of the claims liabilities and the changes in the balances of the claims liabilities for the years ended June 30, 2010, and June 30, 2009, are presented in the *Tennessee Comprehensive Annual Financial Report*. The CAFR is available on the state's website at http://tennessee.gov/finance/act/cafr.html. Since the college participates in the Risk Management Fund, it is subject to the liability limitations under the provisions of the Tennessee Claims Commission Act, *Tennessee Code Annotated*, Section 9-8-101 et seq. Liability for negligence of the college for bodily injury and property damage is limited to $300,000 per person and $1,000,000 per occurrence. The limits of liability under workers' compensation are set forth in *Tennessee Code Annotated*, Section 50-6-101 et seq. Claims are paid through the state's Risk Management Fund. At June 30, 2010, the Risk Management Fund held $114.5 million in cash and cash equivalents designated for payment of claims. At June 30, 2009, the Risk Management Fund held $127.0 million in cash and cash equivalents designated for payment of claims.

At June 30, 2010, the scheduled coverage for the college was $81,385,500.00 for buildings and $22,640,100.00 for contents. At June 30, 2009, the scheduled coverage for the college was $80,881,100.00 for buildings and $22,677,100.00 for contents.

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

NOTE 14. COMMITMENTS AND CONTINGENCIES

Sick Leave

The college records the cost of sick leave when paid. Generally, since sick leave (earned one day per month with unlimited accumulation) is paid only when an employee dies or is absent because of illness, injury, or related family death, there is no liability for sick leave at June 30. The dollar amount of unused sick leave was $6,843,393.47 at June 30, 2010, and $6,878,525.00 at June 30, 2009.

Operating Leases

The college has entered into various operating leases for buildings and equipment. Such leases will probably continue to be required. Expenses under operating leases for real property were $0.00 and for personal property were $182,303.20 for the year ended June 30, 2010. The amounts for the year ended June 30, 2009, were $23,500.00 and $280,631.86. All operating leases are cancelable at the lessee's option.

Construction in Progress

At June 30, 2010, outstanding commitments under construction contracts totaled $1,475,063.50 for fire alarms, parking and sidewalk repair, HVAC in Betty Gibson Hall, and the Livingston building, of which $164,764.09 will be funded by future state capital outlay appropriations.

Litigation

The college is not involved in any lawsuits as of June 30, 2010.

NOTE 15. NATURAL CLASSIFICATIONS WITH FUNCTIONAL CLASSIFICATIONS

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

	Natural Classification					
Functional Classification	Salaries	Benefits	Other Operating	Scholarships	Depreciation	Total
Instruction	$ 12,369,410.21	$ 3,824,709.09	$ 3,698,978.48	$ 185,605.60	$ -	$ 20,078,703.38
Public service	110,077.74	23,683.61	359,106.04	5,040.03	-	497,907.42
Academic support	1,900,884.21	656,810.28	(223,534.91)	15,222.30	-	2,349,381.88
Student services	2,395,929.09	912,558.60	1,300,328.70	489,096.05	-	5,097,912.44
Institutional support	3,104,459.84	1,220,084.27	927,336.55	35,362.85	-	5,287,243.51
Operation & maintenance	1,186,045.57	550,413.11	1,807,396.12	2,058.49	-	3,545,913.29
Scholarships & fellowships	-	18,528.60	4,394.13	9,444,082.72	-	9,467,005.45
Auxiliary	-	-	79,012.31	-	-	79,012.31
Depreciation	-	-	-	-	1,857,524.93	1,857,524.93
Total	$ 21,066,806.66	$ 7,206,787.56	$ 7,953,017.42	$ 10,176,468.04	$ 1,857,524.93	$ 48,260,604.61

The college's operating expenses by functional classification for the year ended June 30, 2009, are as follows:

	Natural Classification					
Functional Classification	Salaries	Benefits	Other Operating	Scholarships	Depreciation	Total
Instruction	$ 11,777,864.47	$ 3,901,739.34	$ 3,103,908.61	$ 138,794.55	$ -	$ 18,922,306.97
Public service	125,970.39	48,026.78	199,264.76	3,000.00	-	376,261.93
Academic support	1,882,937.75	736,336.51	(756,926.16)	23,753.00	-	1,886,101.10
Student services	2,357,773.99	1,007,972.62	1,274,092.14	372,695.58	-	5,012,534.33
Institutional support	3,166,260.66	1,276,767.66	1,212,790.75	23,913.58	-	5,679,732.65
Operation & maintenance	1,163,897.62	583,818.57	1,395,833.42	1,087.45	-	3,144,637.06
Scholarships & fellowships	-	8,664.50	2,651.34	5,749,618.25	-	5,760,934.09
Auxiliary	-	-	79,229.12	-	-	79,229.12
Depreciation	-	-	-	-	1,759,458.39	1,759,458.39
Total	$ 20,474,704.88	$ 7,563,325.98	$ 6,510,843.98	$ 6,312,862.41	$ 1,759,458.39	$ 42,621,195.64

NOTE 16. ON-BEHALF PAYMENTS

During the year ended June 30, 2010, the State of Tennessee made payments of $17,518.00 on behalf of the college for retirees participating in the Medicare Supplement Plan. The amount for the year ended June 30, 2009, was $17,518.00. The Medicare Supplement Plan is a postemployment benefit healthcare plan and is discussed further in Note 12. The plan is reported in the *Tennessee Comprehensive*

Annual Financial Report. That report is available on the state's website at http://tennessee.gov/finance/act/cafr.html.

NOTE 17. COMPONENT UNIT

The Volunteer State Community College Foundation is a legally separate, tax-exempt organization supporting Volunteer State Community College. The foundation acts primarily as a fund-raising organization to supplement the resources that are available to the college in support of its programs. The 45-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, 2010, the foundation made distributions of $589,464.54 to or on behalf of the college for both restricted and unrestricted purposes. During the year ended June 30, 2009, the foundation made distributions of $428,293.76 to or on behalf of the college for both restricted and unrestricted purposes. Complete financial statements for the foundation can be obtained from Volunteer State College Foundation, 1480 Nashville Pike, Gallatin, Tennessee 37066.

Fair Value Measurements

The foundation reports certain assets and liabilities at fair value. Fair value has been determined using quoted prices in active markets for identical assets and liabilities that are accessible at the measurement date (Level 1), inputs other than quoted market prices included in Level 1 that are directly or indirectly observable for the asset or liability (Level 2), or significant unobservable inputs (Level 3). The following tables categorize the recurring fair value measurements for assets and liabilities at June 30, 2010, and at June 30, 2009.

	Total Fair Value at June 30, 2010	Quoted Prices Level 1	Directly or Indirectly Observable Level 2	Significant Unobservable Inputs Level 3
Assets:				
U.S. Treasury	$ 119,236.81	$ 119,236.81	$ -	$ -
U.S. Agencies	2,589,827.01	2,589,827.01	-	-
Corporate Stocks	1,312,805.15	1,312,805.15	-	-
Pledges Receivable	20,346.39	-	-	20,346.39
Total assets	$ 4,042,215.36	$ 4,021,868.97	$ -	$ 20,346.39

	Total Fair Value at June 30, 2009	Quoted Prices Level 1	Directly or Indirectly Observable Level 2	Significant Unobservable Inputs Level 3
Assets:				
U.S. Treasury	$ 107,744.39	$ 107,744.39	$ -	$ -
U.S. Agencies	2,340,146.69	2,340,146.69	-	-
Corporate Stocks	1,185,248.41	1,185,248.41	-	-
Certificates of Deposit	72,308.84	-	72,308.84	-
Pledges Receivable	50,442.19	-	-	50,442.19
Total assets	$ 3,755,890.52	$ 3,633,139.49	$ 72,308.84	$ 50,442.19

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

At June 30, 2010	Beginning Balance	Purchases, Issuances, and Settlements	Ending Balance
Assets:			
Pledges Receivable	$ 50,442.19	$ (30,095.80)	$ 20,346.39

At June 30, 2009	Beginning Balance	Purchases, Issuances, and Settlements	Ending Balance
Assets:			
Pledges Receivable	$ 66,697.91	$ (16,255.72)	$ 50,442.19

All gains and losses, both realized and unrealized, have been reported on the statement of revenues, expenses, and changes in net assets as investment income. Of this total, $181,400.89 is attributable to the change in unrealized gains or losses relating to those assets and liabilities still held at June 30, 2010, and ($307,634.39) is attributable to the change in unrealized gains or losses relating to those assets and liabilities still held at June 30, 2009.

Cash and Cash Equivalents

Cash and cash equivalents consists of demand deposit accounts, money market funds, and the Local Government Investment Pool. Uninsured bank balances at June 30, 2010, totaled $267,096.68. Uninsured bank balances at June 30, 2009, totaled $400,233.67.

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, 2010, were as follows:

	Cost	Fair Value
U.S. Treasury Bonds	$ 101,360.58	$ 119,236.81
Federal Home Loan Bank	58,659.90	63,412.80
Corporate Stock	1,508,074.51	1,312,805.15
Federal National Mortgage Association (FNMA)	575,075.07	590,148.69
Government National Mortgage Association (GNMA)	565,932.87	576,181.14
Federal Home Loan Mortgage	1,330,309.14	1,360,084.38
Total investments	$ 4,139,412.07	$ 4,021,868.97

Investments held at June 30, 2009, were as follows:

	Cost	Market Value
U.S. Treasury Bonds	$ 101,360.58	$ 107,744.39
Federal Home Loan Bank	58,659.90	63,543.60
Certificates of Deposit	72,000.00	72,308.84
Corporate Stock	1,511,134.58	1,185,248.41
Federal National Mortgage Association (FNMA)	433,186.85	440,401.93
Government National Mortgage Association (GNMA)	628,482.14	628,398.18
Federal Home Loan Mortgage	1,202,318.47	1,207,802.98
Total investments	$ 4,007,142.52	$ 3,705,448.33

Pledges Receivable

Pledges receivable are summarized below.

	June 30, 2010	June 30, 2009
Current pledges	$ 19,020.00	$ 42,076.64
Pledges due in one to five years	1,350.00	8,433.33
Subtotal	20,370.00	50,509.97
Less discount to net present value	(23.61)	(67.78)
Total pledges receivable, net	$ 20,346.39	$ 50,442.19

Endowments

The Volunteer State Community College Foundation's endowment consists of approximately 50 individual funds established for a variety of purposes. Its endowment includes both donor-restricted endowment funds and funds designated by the Board of Trustees to function as endowments. As required by GAAP, net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of relevant law - The Board of Trustees of the Volunteer State Community College Foundation has interpreted the Uniform Prudent Management of Institutional Funds Act (the Act) as adopted by Tennessee as a more robust set of guidelines about what constitutes prudent spending, explicitly requiring consideration of the duration and preservation of the fund. Implicit in this act is to maintain historic value of the endowments while providing a steady stream of funds for scholarships without the erosion of earning power. As a result of this interpretation, the Volunteer State Community College Foundation classifies as permanently restricted net assets (1) the original value of gifts donated to the permanent endowment; (2) the original value of subsequent gifts to the permanent endowment; (3) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the foundation in a manner consistent with the standard of prudence prescribed by the Act. In accordance with the Act, the foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the fund; (2) the purposes of the foundation and the endowment fund; (3) general economic conditions; (4) the possible effect of inflation or deflation; (5) the expected total return from income and the appreciation of investments; (6) other resources of the foundation; and (7) the investment policies of the foundation.

Composition of Endowment by Net Asset Class
As of June 30, 2010

	Permanently Restricted	Temporarily Restricted	Unrestricted	Total
Donor-restricted endowment funds	$ 3,898,597.77	$ 115,034.29	$ -	$ 4,013,632.06
Board-designated endowment funds	-	-	240,178.94	240,178.94
Total funds	$ 3,898,597.77	$ 115,034.29	$ 240,178.94	$ 4,253,811.00

Composition of Endowment by Net Asset Class
As of June 30, 2009

	Permanently Restricted	Temporarily Restricted	Unrestricted	Total
Donor-restricted endowment funds	$ 3,859,432.23	$ -	$ -	$ 3,859,432.23
Board-designated endowment funds	-	-	241,717.35	241,717.35
Total funds	$ 3,859,432.23	$ -	$ 241,717.35	$ 4,101,149.58

Changes in Endowment Net Assets
for the Fiscal Year Ended June 30, 2010

	Permanently Restricted	Temporarily Restricted	Unrestricted	Total
Endowment net assets, beginning of year	$ 3,859,432.23	$ -	$ 241,717.35	$ 4,101,149.58
Investment return:				
Investment income	17,729.76	110,881.66	647.30	129,258.72
Net appreciation/depreciation (realized and unrealized)	-	141,174.99	4,565.29	145,740.28
Total investment return	17,729.76	252,056.65	5,212.59	274,999.00
Contributions	33,673.35	4,909.22	1,249.00	39,831.57
Appropriations of endowment assets for expenditure	-	(138,395.12)	-	(138,395.12)
Other changes				
Transfers	(12,237.57)	(3,536.46)	(8,000.00)	(23,774.03)
Endowment net assets, end of year	$ 3,898,597.77	$ 115,034.29	$ 240,178.94	$ 4,253,811.00

Changes in Endowment Net Assets
for the Fiscal Year Ended June 30, 2009

	Permanently Restricted	Temporarily Restricted	Unrestricted	Total
Endowment net assets, beginning of year	$ 3,805,231.76	$ 308,484.24	$ 261,624.98	$ 4,375,340.98
Investment return:				
Investment income	30,665.10	110,428.63	4,862.87	145,956.60
Net appreciation/depreciation (realized and unrealized)	-	(310,195.75)	(24,564.85)	(334,760.60)
Total investment return	30,665.10	(199,767.12)	(19,701.98)	(188,804.00)
Contributions	26,806.00	7,315.00	1,579.00	35,700.00
Appropriations of endowment assets for expenditure	-	(112,854.25)	-	(112,854.25)
Other changes				
Transfers	(3,270.63)	(3,177.87)	(1,784.65)	(8,233.15)
Endowment net assets, end of year	$ 3,859,432.23	$ -	$ 241,717.35	$ 4,101,149.58

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 5 percent 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 government-backed bonds to achieve its long-term return objectives within prudent risk restraints.

<u>Spending policy and how the investment objectives relate</u> - The foundation's policy of appropriating for distribution each year is to spend only a portion of the investment income (including changes in the value of investments) each year. Under the spending plan established by the foundation, 80% of current year earnings 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 5 percent annually. This is consistent with the foundation's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.

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

Actuarial Valuation Date	Plan	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b-a)/c)]
July 1, 2009	State Employee Group Plan	$ -	$ 7,543,000.00	$ 7,543,000.00	0.0%	$ 17,770,441.16	42.5%
July 1, 2007	State Employee Group Plan	$ -	$ 8,308,000.00	$ 8,308,000.00	0.0%	$ 17,148,397.60	48.4%

TENNESSEE BOARD OF REGENTS
VOLUNTEER STATE COMMUNITY COLLEGE
SUPPLEMENTARY INFORMATION
SCHEDULES OF CASH FLOWS - COMPONENT UNIT
FOR THE YEARS ENDED JUNE 30, 2010, AND JUNE 30, 2009

	Year Ended June 30, 2010	Year Ended June 30, 2009
CASH FLOWS FROM OPERATING ACTIVITIES		
Gifts and contributions	$ 233,693.93	$ 199,282.87
Endowment income per spending plan	118,363.39	118,630.00
Grants and contracts	1,829.54	9,440.00
Payments to suppliers and vendors	(39,643.74)	(53,814.46)
Payments to Volunteer State Community College	(529,854.32)	(405,296.33)
Other receipts (payments)	104,166.07	106,364.00
Net cash provided by operating activities	(111,445.13)	(25,393.92)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Private gifts for endowment purposes	33,673.35	26,806.00
Net cash provided by noncapital financing activities	33,673.35	26,806.00
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital grants and gifts received	1,699.97	1,866.67
Net cash provided by capital and related financing activities	1,699.97	1,866.67
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of investments	730,244.79	886,365.73
Income on investments	19,248.96	38,376.00
Purchases of investments	(900,922.18)	(969,668.01)
Net cash provided (used) by investing activities	(151,428.43)	(44,926.28)
Net increase in cash and cash equivalents	(227,500.24)	(41,647.53)
Cash and cash equivalents - beginning of year	1,190,161.10	1,231,808.63
Cash and cash equivalents - end of year	$ 962,660.86	$ 1,190,161.10
Reconciliation of operating income (loss) to net cash provided by operating activities:		
Operating income (loss)	$ (138,497.12)	$ (12,909.95)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
Change in assets and liabilities:		
Receivables, net	14,829.46	16,049.50
Prepaid/deferred items	(823.28)	-
Other assets	7,954.55	(1,596.94)
Accounts payable	3,241.26	(24,310.53)
Accrued liabilities	-	(1,626.00)
Deferred revenues	1,850.00	(1,000.00)
Net cash provided (used) by operating activities	$ (111,445.13)	$ (25,393.92)
Noncash investing, capital, and financing activities:		
Unrealized gain (loss) on investments	$ 181,400.89	$ (307,634.39)