TENNESSEE COMPTROLLER OF THE TREASURY

FINANCIAL AND COMPLIANCE AUDIT REPORT

Volunteer State Community College

For the Years Ended June 30, 2018, and June 30, 2017

Justin P. Wilson
Comptroller of the Treasury

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Tennessee Comptroller of the Treasury

Justin P. Wilson
Comptroller

Jason E. Mumpower
Deputy Comptroller

July 17, 2019

The Honorable Bill Lee, Governor
Members of the General Assembly
The Honorable Flora W. Tydings, Chancellor
Dr. Jerry Faulkner, President

Ladies and Gentlemen:

Transmitted herewith is the financial and compliance audit of the Tennessee Board of Regents, Volunteer State Community College, for the years ended June 30, 2018, and June 30, 2017. You will note from the independent auditor's report that unmodified opinions were given on the fairness of the presentation of the financial statements.

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

Sincerely,

Deborah V. Loveless

Deborah V. Loveless, CPA, Director
Division of State Audit

19/038

Cordell Hull Building | 425 Fifth Avenue North | Nashville, Tennessee 37243

Audit Report
Tennessee Board of Regents
Volunteer State Community College
For the Years Ended June 30, 2018, and June 30, 2017

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Opinions on the Financial Statements

The opinions on the financial statements are unmodified.

Audit Finding

As noted in the two prior audits, Volunteer State Community College did not provide adequate internal controls in one area *

We found internal control deficiencies related to one of the college's systems. Although management has taken steps to correct these conditions, we are reporting internal control deficiencies for the third consecutive year because the corrective action was not sufficient. (page 74).

* This finding is repeated from prior audits.

Independent Auditor's Report

The Honorable Bill Lee, Governor
Members of the General Assembly
The Honorable Flora W. Tydings, Chancellor
Dr. Jerry Faulkner, President

Report on the Financial Statements

We have audited the accompanying financial statements of Volunteer State Community College, an institution of the State University and Community College System of Tennessee, 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, 2018, and June 30, 2017, and the related notes to the financial statements, which collectively comprise the basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements, based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the college's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of Volunteer State Community College, and its discretely presented component unit as of June 30, 2018, and June 30, 2017; and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

As discussed in Note 1, the financial statements of Volunteer State Community College, an institution of the State University and Community College System of Tennessee, 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 State University and Community College System of Tennessee as of June 30, 2018, and June 30, 2017, and the changes in financial position and cash flows thereof for the years then ended, in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

As discussed in Note 16, the college implemented Governmental Accounting Standards Board Statement 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, during the year ended June 30, 2018. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 through 18; the schedule of Volunteer State Community College's proportionate share of the net pension liability – Closed State and Higher Education Employee Pension Plan within TCRS on page 64; the schedule of Volunteer State Community College's proportionate share of the net pension asset – State and Higher Education Employee Retirement Plan within TCRS on page 65; the schedule of Volunteer State Community College's contributions – Closed State and Higher Education Employee Pension Plan within TCRS on page 66; the schedule of Volunteer State Community College's contributions – State and Higher Education Employee Retirement Plan within TCRS on page 67; the schedule of Volunteer State Community College's proportionate share of the collective total OPEB liability – Closed State Employee Group OPEB Plan on page 68; the schedule of Volunteer State Community College's proportionate share of the collective total OPEB liability – Closed Tennessee OPEB Plan on page

69; and the other postemployment benefits schedule of funding progress on page 70 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during the audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the college's basic financial statements. The supplementary schedules of cash flows – component unit on page 71 are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 21, 2019, on our consideration of the college's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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 *Government Auditing Standards* in considering the college's internal control over financial reporting and compliance.

Deborah V. Loveless

Deborah V. Loveless, CPA, Director
Division of State Audit
June 21, 2019

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

This section of Volunteer State Community College's annual financial report presents a discussion and analysis of the financial performance of the college during the fiscal years ended June 30, 2018, and June 30, 2017, with comparative information presented for the fiscal years ended June 30, 2017, and June 30, 2016. 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, financial statements, and notes. The financial statements, notes, and this discussion are the responsibility of management.

The college has one discretely presented component unit, the Volunteer State Foundation. More detailed information about the foundation is presented in Note 17 to the financial statements. This discussion and analysis focuses on the college and does not include the foundation.

Overview of the Financial Statements

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

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

The Statement of Net Position

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

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

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

The following table summarizes the college's assets, liabilities, deferred outflows/inflows of resources, and net position at June 30, 2018; June 30, 2017; and June 30, 2016.

Condensed Statements of Net Position
(in thousands of dollars)

	2018	2017	2016
Assets:			
Current assets	$25,032	$25,676	$23,887
Capital assets, net	81,164	76,375	72,917
Other assets	16,097	11,404	11,129
Total Assets	**122,293**	**113,455**	**107,933**
Deferred Outflows of Resources:			
Deferred outflows related to OPEB	352	-	-
Deferred outflows related to pension	4,304	4,451	2,333
Total Deferred Outflows of Resources	**4,656**	**4,451**	**2,333**
Liabilities:			
Current liabilities	12,607	12,834	12,017
Noncurrent liabilities	14,048	11,784	9,044
Total Liabilities	**26,655**	**24,618**	**21,061**
Deferred Inflows of Resources:			
Deferred inflows related to OPEB	204	-	-
Deferred inflows related to pensions	320	457	1,220
Total Deferred Inflows of Resources	**524**	**457**	**1,220**

Net Position:			
Net investment in capital assets	81,164	76,375	72,917
Restricted – nonexpendable	126	126	126
Restricted – expendable	1,253	1,138	362
Unrestricted	17,227	15,192	14,580
Total Net Position	**$99,770**	**$92,831**	**$87,985**

Comparison of FY 2018 to FY 2017

- Noncurrent assets increased by $9,482,704 in FY 2018. Capital assets, the largest category in noncurrent assets, consist of land, buildings, projects-in-progress, equipment, other improvements, and library holdings. During 2018, capital assets increased by $4,788,053 after consideration of depreciation expense of $3,037,912. The major addition in FY 2018 was the addition of the Cookeville Higher Education Campus land and building in a transfer from Tennessee Technological University to the college on July 1, 2017. Noncurrent cash and cash equivalents increased by $4,631,437 because of the transfer of funds set aside for plant funds and renewal and replacement funds.
- Deferred outflows of resources increased by $204,821 as a result of the implementation of GASB 75 for OPEB.
- Noncurrent liabilities increased by $2,263,622 during FY 2018. This was caused by an increase in the total OPEB liability of $2,494,069 required by GASB 75. The net pension liability decreased by $279,138.
- Deferred inflows of resources increased by $67,751 during FY 2018. This was caused by a decrease in deferred inflows of resources related to pensions of $136,508 and an increase related to OPEB of $204,079.
- The portion of net position categorized as net investment in capital assets includes land, buildings, projects in progress, equipment, other improvements, and library holdings. During 2018, the amount considered invested in capital assets increased by $4,788,053. The major addition in FY 2018 was the transfer of the Cookeville Higher Education Campus land and building from Tennessee Technological University to the college on July 1, 2017.
- Restricted expendable net position increased by $115,224 due to an increase of $63,214 in the net pension asset and the transfer of $11,597 for construction projects from unrestricted to restricted expendable net position.
- Unrestricted net position increased by $2,034,923 in FY 2018. The increase was caused by an excess of revenues over expenses of $9,581,691, offset by the net increase in capital assets of $4,788,053 and the cumulative effect of change in accounting principle of $2,643,077.

Comparison of FY 2017 to FY 2016

- In FY 2017, current assets increased $1,788,941. This was due to revenues exceeding expenses by $4,846,221, offset by the $3,458,514 increase in net capital assets.
- Capital assets consist of land, buildings, projects in progress, equipment, other improvements, intangible assets, and library holdings. During 2017, net capital assets increased $3,458,514 after consideration of depreciation expense of $2,768,419. The major addition in FY 2017 was the completion of the SRB Humanities Building in August 2016. The Humanities Building was funded by a combination of state capital appropriations, donor gifts, and campus funds.
- Other noncurrent assets increased by $274,699 during FY 2017. The net pension asset increased by $33,162. Noncurrent cash and cash equivalents, primarily set aside for plant funds and renewal and replacement funds, increased by $241,537.
- Deferred outflows of resources related to pension increased $2,118,692 during FY 2017. This was caused by actual investment earnings being less than projected earnings.
- In 2017, current liabilities increased $817,120. Unearned revenue increased by $455,129 due to an increase in grant funds received in fiscal year 2017 for fiscal year 2018 expenses for the LEAP 2.0 Grant and the TN Reconnect grant. Accounts payable decreased by $1,487,962 primarily due to the completion of the SRB Humanities Building in August 2016. Accrued liabilities increased by $80,029 due to an increase in the salary deferral expense and associated benefit expense on faculty deferred salary. Deposits held in custody of others increased by $1,494,189 because of an increase in TCAT Hartsville and TCAT Livingston cash.
- Noncurrent liabilities increased $2,740,981 during FY 2017. This was caused by an increase of $2,724,565 in net pension liability.
- Deferred inflows of resources related to pension decreased $763,476 during FY 2017. This was caused by amortization of deferred inflows of resources relating to actual investment income exceeding the planned investment income.
- The portion of net position categorized as net investment in capital assets includes land, buildings, projects in progress, equipment, other improvements, intangible assets, and library holdings. During 2017, the amount considered invested in capital assets increased by $3,458,514. The major addition of $3,391,136 was in the construction of the SRB Humanities Building which opened in August 2016.
- Restricted expendable net position increased by $776,298 due to an increase of $33,162 in the net pension asset and recording the $749,764 in LGIP for construction projects from unrestricted to restricted expendable net position.
- Unrestricted Net Position increased by $610,939 in FY 2017. This was due to revenues exceeding expenses by $4,846,221, offset by the $3,458,514 increase in net position invested in capital assets and the $749,764 restricted net position.

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

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

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

A summary of the college's revenues, expenses, and changes in net position for the years ended June 30, 2018; June 30, 2017; and June 30, 2016, follows.

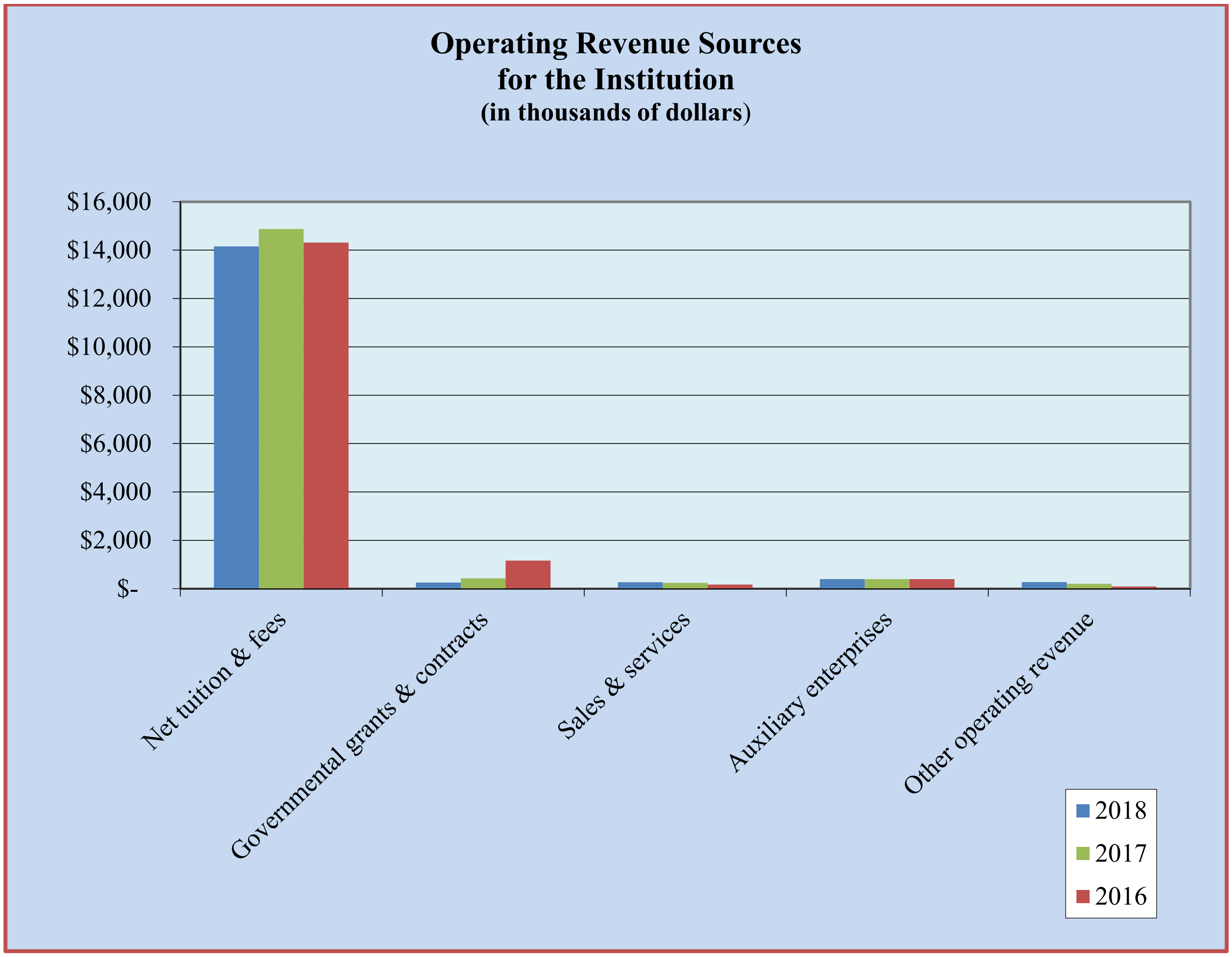
Condensed Statements of Revenues, Expenses, and Changes in Net Position
(in thousands of dollars)

	2018	**2017**	**2016**
Operating revenues	$15,335	$16,120	$16,111
Operating expenses	61,269	61,171	54,429
Operating loss	(45,934)	(45,051)	(38,318)
Nonoperating revenues and expenses	47,649	43,032	38,467
Income (loss) before other revenues, expenses, gains, or losses	1,715	(2,019)	149
Other revenues, expenses, gains, or losses	7,867	6,865	18,844
Increase in net position	9,582	4,846	18,993
Net position at beginning of year	92,831	87,985	68,992
Cumulative effect of change in accounting principle	(2,643)	-	-
Net position at end of year	$99,770	$92,831	$87,985

Operating Revenues

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

Operating Revenue Sources (in thousands of dollars)			
	2018	**2017**	**2016**
Net tuition & fees	$14,152	$14,872	$14,307
Governmental grants & contracts	252	422	1,158
Sales & services	266	238	168
Auxiliary enterprises	393	392	391
Other operating revenue	272	196	87
Total	**$15,335**	**$16,120**	**$16,111**



<u>Comparison of FY 2018 to FY 2017</u>

- Tuition and fees, net of scholarship allowances, account for approximately 92.3% of the college's operating revenues. Net tuition and fees decreased by $720,398. Although gross tuition and fees increased by $612,549, the scholarship allowance increased by $1,332,947 in FY 2018. The increase in the scholarship allowance was caused by an increase in Pell, SEOG, TSAA, Hope, and Dual scholarship awards.

Maintenance fees, the largest tuition and fee category, increased $728,429 because of a 2.6% increase in in-state tuition. Fees for continuing education increased $63,679 because of increased industry training.

- Governmental grants and contracts account for approximately 1.6% of the college's total operating revenues in 2018 and decreased by $170,531. The majority of the decrease was attributable to the Perkins grant and the completion of the Rx TN Consortia grant.

Comparison of FY 2017 to FY 2016

- Tuition and fees, net of scholarship allowances, account for approximately 92% of the college's operating revenues. Rates for tuition and fees are recommended by the Tennessee Higher Education Commission and approved by the Tennessee Board of Regents. Revenues from tuition and fees fluctuate depending upon enrollments. Net tuition and fees, which is tuition and fee revenue less the scholarship allowance, increased by $565,150.

  Gross tuition and fees increased $2,938,442. Maintenance fees increased $2,320,550 from a 2.6% increase in in-state tuition and an enrollment increase primarily at the Cookeville Higher Education Campus. Fees for Continuing Education increased $245,452 because of increased industry training. Because of the increase in Pell, SEOG, TSAA, Hope and Dual awards, along with additional scholarships to Tennessee Promise students, the scholarship allowance increased by $2,375,362.

- Governmental grants and contracts account for approximately 2% of the college's total operating revenues in 2017 and decreased by $735,634. The majority of the decrease was attributable to the loss of the Adult Education and EL Civics grants, along with the close-out of the RX-Tennessee grant.

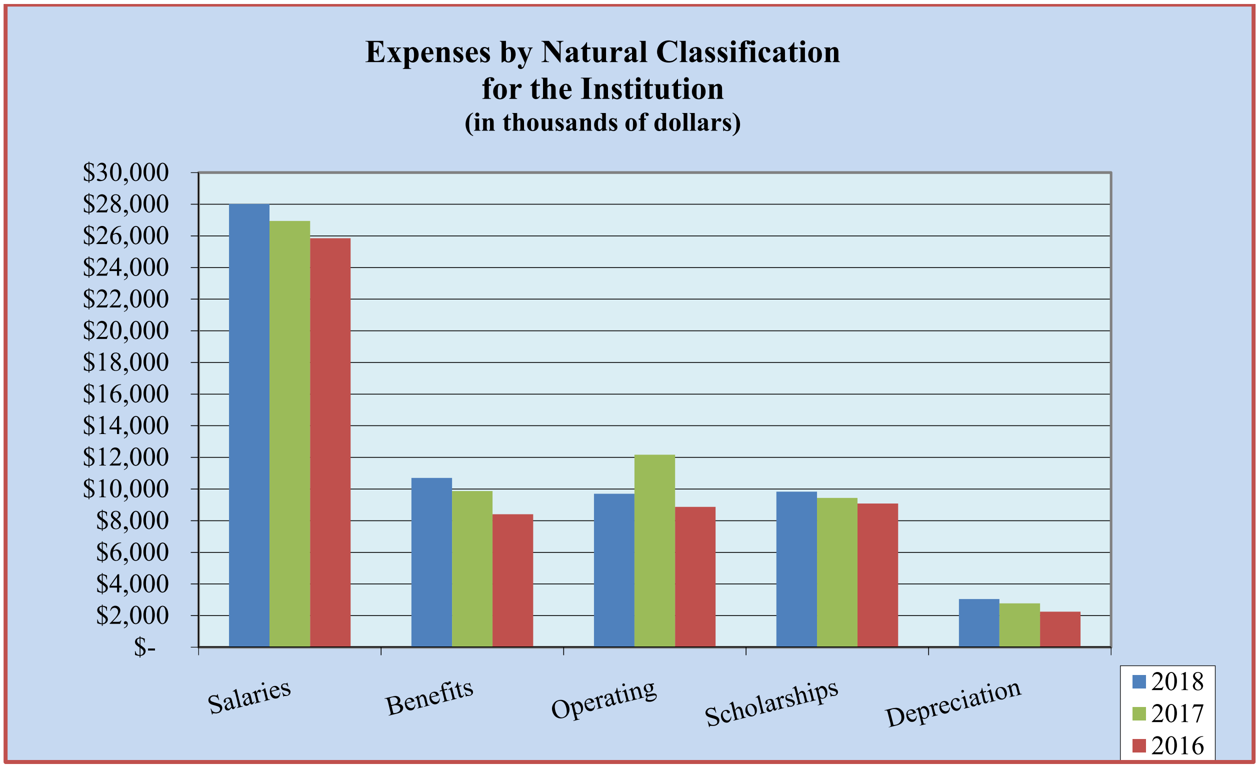
- Sales and services other revenue increased $64,021 primarily because of increased rental of college facilities from outside public and private universities for space for academic programs and from Workforce Essentials for space for operation of the Adult Education grant program.

- Other operating revenue increased by $109,204. This category includes $154,032 for the college's proportionate share of maintenance and operations appropriations for the Cookeville Higher Education Campus.

Operating Expenses

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

Natural Classification for the College (in thousands of dollars)			
	2018	**2017**	**2016**
Salaries	$28,008	$26,935	$25,845
Benefits	10,694	9,867	8,400
Operating	9,699	12,163	8,867
Scholarships	9,830	9,438	9,077
Depreciation	3,038	2,768	2,240
Total	**$61,269**	**$61,171**	**$54,429**



Comparison of FY 2018 to FY 2017

- Salary expense is 45.7% of the total operating expenses and increased by $1,073,298 in FY 2018 due to a one-time service payment (bonus) to employees, a 1.7% pay increase, a second payment toward the college's salary plan recommendations, increase in number of adjunct staff, and personnel additions from the college becoming the managing partner at the Cookeville Higher Education Campus.
- Benefit expense accounts for approximately 17.5% of the total operating budget and increased $827,018 in FY 2018. The increase is due to an increased cost of benefits for health insurance and retirement plans. Also, additional personnel were added when the college became the managing partner at the Cookeville Higher Education Campus.

- For 2018, utilities, supplies, and other services (operating) expenses account for approximately 15.8% of the total operating expenses, decreasing by $2,463,688. This line item consists of expenditures for items such as supplies, utilities, maintenance and repairs, travel, professional and administrative services, and insurance. In FY 2017, the college's proportionate share of operating cost of $711,823, including personnel, at the Cookeville Higher Education Campus (CHEC) was expensed to operating accounts. In FY 2018, the college became the managing partner at CHEC and the staff were added to the college's payroll. The CHEC staff salary and benefit costs of $330,797 are in salary and benefit expense rather than operating expense in FY 2018. In FY 2017, non-capitalized costs of $2,250,041 associated with the SRB Humanities Building project, upgrades to the Veterinary Technology instructional space, and the Financial Aid office were expensed.
- Scholarship expenses comprise about 16% of operating expense. Scholarship expense is attributable to the Federal Pell Grant and Supplemental Educational Opportunity Grant (SEOG) programs, Tennessee Promise, Tennessee Student Assistance Awards (TSAA), Tennessee Education Lottery Scholarship Program, and private scholarships. In 2018, net scholarship expenditures increased by $391,922 because of the 2.6% increase in maintenance fees and an increase in enrollment at the Cookeville Higher Education Campus.
- Depreciation expense is approximately 5% of the total operating cost and increased $269,492 in FY 2018. This is due to the addition of the Cookeville Higher Education Campus building to the College on July 1, 2017, which added a full year of depreciation expense.

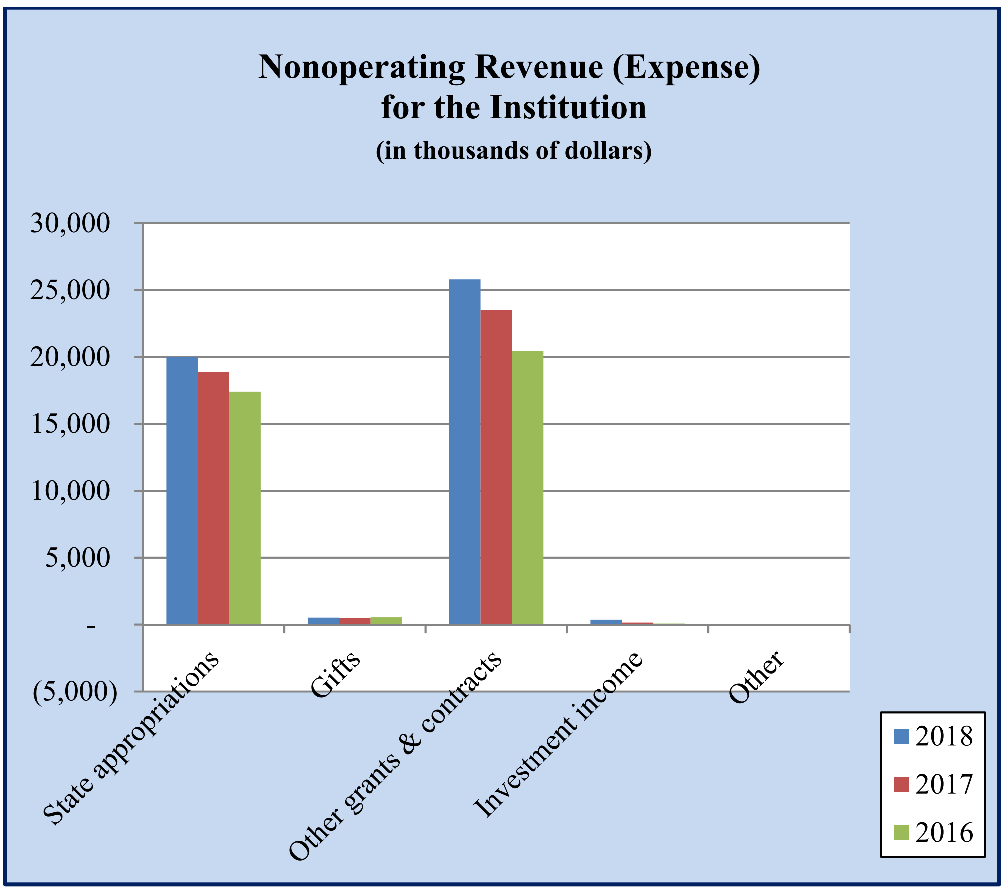
<u>Comparison of FY 2017 to FY 2016</u>

- Salary expense is 44% of the total operating budget and increased by $1,089,602 in FY 2017 due to a one-time service payment (bonus) to employees, a 1% pay increase, first payment toward new salary plan recommendations, increase in number of adjunct staff, and personnel additions for the Cookeville Higher Education Campus.
- Benefit expense accounts for approximately 16% of the total operating budget and increased $1,466,969 in FY 2017. The increase is due to an increased cost of benefits and personnel additions for the Cookeville Higher Education Campus.
- For 2017, utilities, supplies, and other services (operating) expenses account for over 19% of the total operating expenses, increasing by $3,295,762. Non-capitalized costs of $2,250,041 associated with the SRB Humanities Building project was expensed as the building opened in August 2016 and depreciation started in FY 17. Other items attributable to the increased expense include utilities increasing $128,661 with the opening of the SRB Humanities Building and an increase attributable to the college's share of the operating costs for the Cookeville Higher Education Center. This line item consists of expenditures for items such as supplies, utilities, communications, shipping, maintenance and repairs, printing, travel, professional and administrative services, rental and insurance.

- Scholarship expenses comprise about 15% of operating expense. Scholarship expense is attributable to the Federal Pell Grant and Supplemental Educational Opportunity Grant (SEOG) programs, Tennessee Promise, Tennessee Student Assistance Awards (TSAA), Tennessee Education Lottery Scholarship Program, and private scholarships. In 2017, net scholarship expenditures increased by $361,098 because of the 2.6% increase in maintenance fees and an increase in enrollment at the Cookeville Higher Education Campus.
- Depreciation expense increased $528,999 in FY 2017. This is due to the initial amortization in FY 2017 of the SRB Humanities Building, Mattox HVAC, Digital Signage and the Rekeying Security Projects.

Nonoperating Revenues and Expenses

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



Comparison of FY 2018 to FY 2017

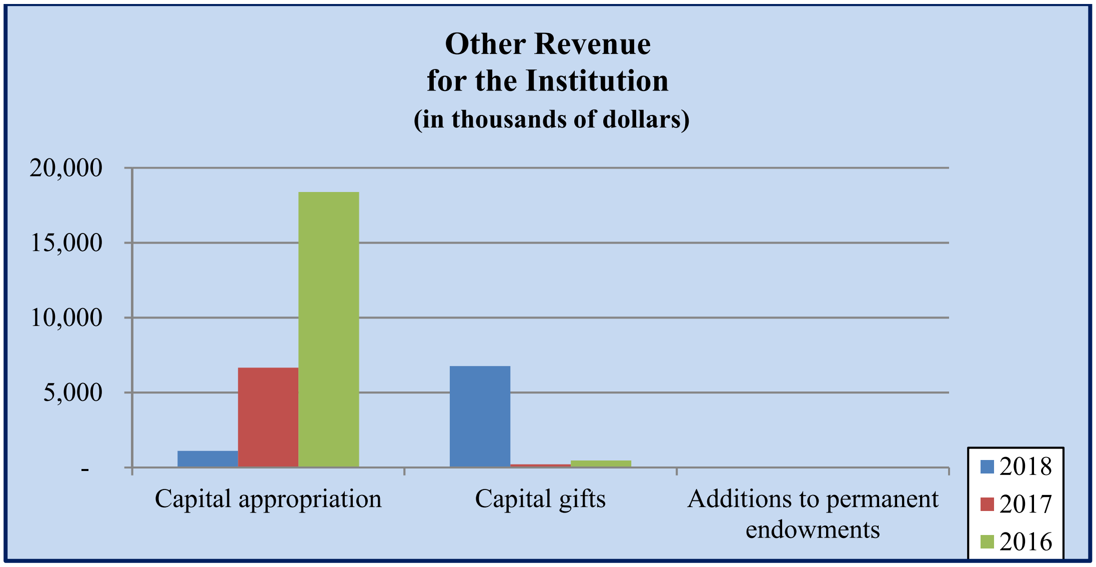
- State appropriations are requested by the Tennessee Higher Education Commission based on funding formula calculations. The State of Tennessee General Assembly determines the final state appropriations. State appropriations account for approximately 44% of the college's total nonoperating revenues during 2018. State appropriations increased $2,101,315 in 2018.
- Grants and contracts, including governmental grants and contracts, account for approximately 54.1% of total nonoperating revenues in 2018. A large percentage of the total grants and contracts revenue is restricted for student aid programs such as Pell Grants, SEOG, the Tennessee Education Lottery Scholarship Program, and the Tennessee Promise Program. Grants and contracts increased $2,273,085. The increase is the result of a 2.6% increase in maintenance fees, an increase in enrollment, and a greater percentage of students eligible for financial aid, particularly the Tennessee Promise Program.

Comparison of FY 2017 to FY 2016

- State appropriations are requested by the Tennessee Higher Education Commission based on funding formula calculations. The State of Tennessee General Assembly determines the final state appropriations. State appropriations account for approximately 44% of the college's total nonoperating revenues during 2017. State appropriations increased $1,469,137 in 2017.
- Grants and contracts, including governmental grants and contracts, account for approximately 55% of total nonoperating revenues in 2017. A large percentage of the total grants and contracts revenue is restricted for student aid programs such as Pell Grants, SEOG, the Tennessee Education Lottery Scholarship Program, and the Tennessee Promise Program. Grants and contracts increased $3,078,147. The increase is the result of an increase in enrollment and a greater percentage of students eligible for financial aid, particularly the Tennessee Promise Program.

Other Revenues

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



Comparison of FY 2018 to FY 2017

- Capital appropriations to the college decreased by $5,553,585 in FY 2018. Large capital appropriations were received in FY 2017 related to the completion of the SRB Humanities Building. No projects of that scale were underway in FY 2018.
- Capital gifts to the college increased by $6,554,797 in FY 2018. The increase was attributable to a $6,236,903 transfer of the land and building at the Cookeville Higher Education Campus from Tennessee Technological University to the college.

Comparison of FY 2017 to FY 2016

- Capital appropriations to the college decreased by $11,722,208 in FY 2017. The decrease was primarily due to the completion of construction of the SRB Humanities Building. The SRB Humanities Building went into operation August 2016 and was funded by a combination of state capital appropriations, donor gifts, and campus funds.
- Capital gifts to the college decreased by $256,067 in FY 2017. The decrease was caused by a $386,607 decrease in the capital gift from the foundation for the SRB Humanities Building as the capital campaign ended. The decrease was offset by a $130,540 increase in capital grants from Perkins funds and the LEAP 2.0 grant.

Capital Assets and Debt Administration

Capital Assets

Volunteer State Community College had $81,163,548 invested in capital assets, net of accumulated depreciation of $35,426,590 at June 30, 2018; $76,375,495 invested in capital assets, net of accumulated depreciation of $32,794,892 at June 30, 2017; and $72,916,981 invested in capital assets, net of accumulated depreciation of $30,286,285 at June 30, 2016. Depreciation charges totaled $3,037,912; $2,768,419; and $2,239,421 for the years ended June 30, 2018; June 30, 2017; and June 30, 2016, respectively.

Schedule of Capital Assets, Net of Depreciation (in thousands of dollars)			
	2018	**2017**	**2016**
Land	$ 4,435	$ 3,495	$ 3,495
Land improvements & infrastructure	7,919	7,500	7,016
Buildings	64,335	59,843	33,969
Equipment	3,981	4,637	3,734
Intangible Assets	81	95	110
Library holdings	158	187	218
Projects in progress	255	618	24,375
Total	**$81,164**	**$76,375**	**$72,917**

FY 2018 Significant Additions or Retirements

Significant additions to capital assets occurred in fiscal year 2018. These additions were from the transfer of the Cookeville Higher Education Campus land and building from Tennessee Technological University.

At June 30, 2018, outstanding commitments under construction contracts totaled $9,892,938 for various renovations and repairs of buildings and infrastructure. A majority of the funds are dedicated primarily for the Warf Building Renovation, including a new Mechatronics Lab addition. Future state capital outlay appropriations will fund $7,960,027 of these costs.

FY 2017 Significant Additions or Retirements

Significant additions to capital assets occurred in fiscal year 2017. These additions were the completion of the SRB Humanities Building, Mattox HVAC project, Rekeying Security Project, and Site Lighting Updates.

At June 30, 2017, outstanding commitments under construction contracts totaled $4,283,332 for various renovations and repairs of buildings and infrastructure. Future state capital outlay appropriations will fund $3,140,577 of these costs. See Note 5 for additional detail about the college's capital assets.

Debt

The college had no debt outstanding at June 30, 2018; June 30, 2017; and June 30, 2016, respectively.

Economic Factors That Will Affect the Future

Volunteer State Community College has experienced continued enrollment growth bolstered by the Tennessee Promise and Tennessee Reconnect statewide scholarship programs. This was the inaugural year of Tennessee Reconnect. The demand exhibited by non-traditional students to return to college has been strong in the first year of the program. The college is focused on providing the services needed to ensure the success of these working adults who are balancing work, life, and college simultaneously. The continuation of these students and the likelihood that additional students will join those who started in the inaugural year should mean continued growth in the student population at the college.

Volunteer State Community College has focused, along with all peer institutions, on achieving the objectives outlined in the State of Tennessee's funding formula. Results that affect appropriations for FY 2020 are available, and the college performed exceedingly well. This means that Volunteer State Community College will receive substantial increased funds based on outcomes for FY 2020. This bodes well for the financial health of the institution.

In fall 2017, the college launched a mechatronics program at the Gallatin campus. The State of Tennessee and donors have provided the financial resources to provide a dedicated space for this program. Over $6 million is being expended on an addition to the college's Warf Building. This effort will provide a modern mechatronics facility. It is slated to open in the fall of 2019.

Tennessee Board of Regents
VOLUNTEER STATE COMMUNITY COLLEGE
Statements of Net Position
June 30, 2018, and June 30, 2017

	Volunteer State Community College		Component Unit - Volunteer State Community College Foundation	
	June 30, 2018	June 30, 2017	June 30, 2018	June 30, 2017
Assets				
Current assets:				
Cash and cash equivalents (Notes 2 and 17)	$ 18,583,091.64	$ 19,476,338.15	$ 511,661.86	$ 665,063.23
Investments (Notes 3 and 17)	4,000,000.00	4,000,000.00	-	-
Accounts, notes, and grants receivable (net) (Note 4)	1,537,686.96	1,565,379.52	-	-
Due from State of Tennessee	294,599.93	67,325.52	-	-
Due from VSCC Foundation	5,927.29	9,308.83	-	-
Pledges receivable (net) (Note 17)	-	-	202,262.67	267,222.00
Inventories	1,224.96	612.99	-	-
Prepaid expenses	600,311.33	554,889.02	1,008.33	1,350.00
Accrued interest	8,760.01	2,426.22	-	-
Total current assets	25,031,602.12	25,676,280.25	714,932.86	933,635.23
Noncurrent assets:				
Cash and cash equivalents (Notes 2 and 17)	15,988,853.03	11,357,415.63	-	-
Investments (Notes 3 and 17)	-	-	5,851,273.77	5,357,137.34
Pledges receivable (net) (Note 17)	-	-	12,548.72	29,661.87
Capital assets (net) (Note 5)	81,163,548.22	76,375,495.66	-	-
Net pension asset (Note 9)	108,910.37	45,696.37	-	-
Other assets	-	-	14,968.77	14,547.02
Total noncurrent assets	97,261,311.62	87,778,607.66	5,878,791.26	5,401,346.23
Total assets	122,292,913.74	113,454,887.91	6,593,724.12	6,334,981.46
Deferred outflows of resources				
Deferred outflows related to OPEB (Note 10)	351,924.39	-	-	-
Deferred outflows related to pensions (Note 9)	4,304,392.85	4,451,495.58	-	-
Total deferred outflows of resources	4,656,317.24	4,451,495.58	-	-
Liabilities				
Current liabilities:				
Accounts payable (Note 6)	982,903.77	873,991.58	3,239.06	1,348.00
Accrued liabilities	987,405.13	925,712.14	3,400.00	-
Due to grantor	437.50	1,421.71	-	-
Due to State of Tennessee	799,106.61	919,241.20	-	-
Due to VSCC	-	-	5,927.29	9,308.83
Unearned revenue	1,671,199.96	1,927,409.64	6,800.00	2,500.00
Total OPEB obligation (Note 10)	351,924.39	-	-	-
Compensated absences (Note 7)	515,239.01	524,720.54	-	-
Deposits held in custody for others	7,299,162.08	7,661,840.82	-	-
Total current liabilities	12,607,378.45	12,834,337.63	19,366.35	13,156.83
Noncurrent liabilities:				
Total OPEB obligation (Note 10)	4,959,003.61	2,464,934.30	-	-
Net pension liability (Note 9)	8,047,284.97	8,326,422.97	-	-
Compensated absences (Note 7)	1,041,830.97	993,139.93	-	-
Total noncurrent liabilities	14,048,119.55	11,784,497.20	-	-
Total liabilities	26,655,498.00	24,618,834.83	19,366.35	13,156.83
Deferred inflows of resources				
Deferred inflows related to OPEB (Note 10)	204,079.00	-	-	-
Deferred inflows related to pensions (Note 9)	320,094.00	456,602.00	-	-
Total deferred inflows of resources	524,173.00	456,602.00	-	-
Net position				
Net investment in capital assets	81,163,548.22	76,375,495.66	-	-
Restricted for:				
Nonexpendable:				
Scholarships and fellowships	126,401.15	125,987.34	2,239,974.12	2,198,449.77
Expendable:				
Scholarships and fellowships	73,090.40	46,881.13	2,299,620.30	2,309,602.34
Instructional department uses	27,751.64	27,034.64	31,605.26	31,605.26
Capital projects	761,360.95	749,764.05	144,129.35	48,892.22
Pension	108,910.37	45,696.37	-	-
Other	282,070.09	268,583.19	20,751.91	20,751.91
Unrestricted	17,226,427.16	15,191,504.28	1,838,276.83	1,712,523.13
Total net position	$ 99,769,559.98	$ 92,830,946.66	$ 6,574,357.77	$ 6,321,824.63

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

Tennessee Board of Regents
VOLUNTEER STATE COMMUNITY COLLEGE
Statements of Revenues, Expenses, and Changes in Net Position
For the Years Ended June 30, 2018, and June 30, 2017

	Volunteer State Community College		Component Unit - Volunteer State Community College Foundation	
	Year Ended June 30, 2018	Year Ended June 30, 2017	Year Ended June 30, 2018	Year Ended June 30, 2017
Revenues				
Operating revenues:				
Student tuition and fees (Note 11)	$ 14,151,963.18	$ 14,872,361.18	$ -	$ -
Gifts and contributions	-	-	386,107.14	249,475.35
Endowment income (per spending plan)	-	-	47,114.22	103,264.16
Governmental grants and contracts	251,965.96	422,496.84	-	-
Sales and services of educational activities	26,343.00	33,945.95	-	-
Sales and services of other activities	240,002.65	203,639.19	-	-
Auxiliary enterprises:				
Bookstore	324,999.96	325,000.00	-	-
Food service	67,759.97	66,603.23	-	-
Other operating revenues	272,416.31	196,166.52	171,823.10	188,336.92
Total operating revenues	15,335,451.03	16,120,212.91	605,044.46	541,076.43
Expenses				
Operating expenses (Note 14):				
Salaries and wages	28,008,165.67	26,934,867.81	288,238.15	280,219.15
Benefits	10,693,633.45	9,866,615.45	137,614.87	113,546.93
Utilities, supplies, and other services	9,699,285.12	12,162,972.82	75,843.45	90,619.07
Scholarships and fellowships	9,830,113.19	9,438,191.60	-	-
Depreciation expense	3,037,911.95	2,768,419.75	-	-
Payments to or on behalf of Volunteer State Community College (Note 17)	-	-	817,869.78	514,339.44
Total operating expenses	61,269,109.38	61,171,067.43	1,319,566.25	998,724.59
Operating loss	(45,933,658.35)	(45,050,854.52)	(714,521.79)	(457,648.16)
Nonoperating revenues (expenses)				
State appropriations	20,974,889.78	18,873,575.00	-	-
Gifts (including $513,769.78 from component unit for the year ended June 30, 2018, and $470,947.12 for the year ended June 30, 2017)	519,143.43	481,085.92	-	-
Grants and contracts	25,797,934.48	23,524,849.15	-	-
Investment income (net of investment expense of $37,836.19 for the component unit for the year ended June 30, 2018, and $32,693.74 for the year ended June 30, 2017)	356,850.44	152,196.45	399,387.68	378,711.91
College support	-	-	478,224.03	451,687.53
Other nonoperating expenses	-	(118.13)	-	-
Total nonoperating revenues	47,648,818.13	43,031,588.39	877,611.71	830,399.44
Income (loss) before other revenues, expenses, gains, or losses	1,715,159.78	(2,019,266.13)	163,089.92	372,751.28
Capital appropriations	1,105,321.75	6,658,907.01	-	-
Capital grants and gifts (including $304,100 from the component unit for the year ended June 30, 2018, and $43,392.92 for the year ended June 30, 2017)	6,760,980.99	206,184.47	57,297.91	324,255.21
Additions to permanent endowments	228.50	396.00	32,145.31	11,575.00
Total other revenues	7,866,531.24	6,865,487.48	89,443.22	335,830.21
Increase in net position	9,581,691.02	4,846,221.35	252,533.14	708,581.49
Net position - beginning of year, as originally reported	92,830,946.66	87,984,725.31	6,321,824.63	5,613,243.14
Cumulative effect of change in accounting principle (Note 16)	(2,643,077.70)	-	-	-
Net position - beginning of year restated	90,187,868.96	87,984,725.31	6,321,824.63	5,613,243.14
Net position - end of year	$ 99,769,559.98	$ 92,830,946.66	$ 6,574,357.77	$ 6,321,824.63

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, 2018, and June 30, 2017

	Year Ended June 30, 2018	Year Ended June 30, 2017
Cash flows from operating activities		
Tuition and fees	$ 14,238,199.46	$ 14,846,058.65
Grants and contracts	71,688.71	649,970.31
Sales and services of educational activities	186,338.70	31,137.95
Sales and services of other activities	240,002.65	203,639.19
Payments to suppliers and vendors	(9,366,724.05)	(12,035,134.27)
Payments to employees	(27,991,386.66)	(26,854,099.39)
Payments for benefits	(10,955,144.05)	(10,012,591.56)
Payments for scholarships and fellowships	(9,830,113.19)	(9,438,191.60)
Funds received for deposits held for others	24,180,511.61	20,845,362.80
Funds disbursed for deposits held for others	(24,295,454.35)	(19,524,708.71)
Auxiliary enterprise charges:		
Bookstore	306,429.26	340,444.52
Food services	58,734.97	74,896.93
Other receipts	133,422.22	225,389.00
Net cash used for operating activities	(43,023,494.72)	(40,647,826.18)
Cash flows from noncapital financing activities		
State appropriations	20,905,400.00	18,806,200.00
Gifts and grants received for other than capital or endowment purposes, including $468,265.28 from Volunteer State Community College Foundation for the year ended June 30, 2018, and $447,725.93 for the year ended June 30, 2017	26,030,150.14	24,318,008.85
Private gifts for endowment purposes	228.50	396.00
Federal student loan receipts	5,313,672.00	6,150,033.00
Federal student loan disbursements	(5,313,672.00)	(6,150,033.00)
Other noncapital financing payments	(984.21)	(8,286.62)
Net cash provided by noncapital financing activities	46,934,794.43	43,116,318.23
Cash flows from capital and related financing activities		
Capital grants and gifts received, including $304,100 from Volunteer State Community College Foundation for the year ended June 30, 2018, and $43,392.92 for the year ended June 30, 2017	524,078.03	206,184.47
Purchase of capital assets and construction	(831,662.02)	(437,982.13)
Other capital and related financing receipts (payments)	(216,041.48)	1,121,179.91
Net cash provided by (used for) capital and related financing activities	(523,625.47)	889,382.25
Cash flows from investing activities		
Income on investments	350,516.65	151,567.67
Net cash provided by investing activities	350,516.65	151,567.67
Net increase in cash and cash equivalents	3,738,190.89	3,509,441.97
Cash and cash equivalents - beginning of year	30,833,753.78	27,324,311.81
Cash and cash equivalents - end of year	$ 34,571,944.67	$ 30,833,753.78

Tennessee Board of Regents
VOLUNTEER STATE COMMUNITY COLLEGE
Statements of Cash Flows (Continued)
For the Years Ended June 30, 2018, and June 30, 2017

	Year Ended June 30, 2018	Year Ended June 30, 2017
Reconciliation of operating loss to net cash used for operating activities:		
Operating loss	$ (45,933,658.35)	$ (45,050,854.52)
Adjustments to reconcile operating loss to net cash used for operating activities:		
Noncash operating expenses	3,075,901.73	2,802,094.75
Gifts in-kind	187,662.57	128,012.40
Change in assets and liabilities:		
Receivables, net	(213,130.93)	234,782.30
Inventories	(611.97)	264.86
Prepaid items	(45,422.31)	317,927.61
Net pension asset	(63,214.00)	(33,162.00)
Deferred outflows of resources	(204,821.66)	(84,346.87)
Net pension liability	(279,138.00)	2,724,565.00
Total OPEB liability	202,916.00	6,006.23
Deferred inflows of resources	67,571.00	(2,797,822.00)
Accounts payable	412,788.93	(550,931.59)
Accrued liabilities	61,692.99	80,029.91
Unearned revenue	(96,162.90)	(39,359.71)
Deposits	(372,810.17)	1,320,654.09
Compensated absences	39,209.51	8,779.46
Due to State of Tennessee	(120,134.59)	286,533.90
Other	257,867.43	(1,000.00)
Net cash used for operating activities	$ (43,023,494.72)	$ (40,647,826.18)
Noncash investing, capital, or financing transactions		
Transfer of land and building from Tennessee Technological University	$ 6,236,902.96	$ -
Purchases of capital assets and construction with capital appropriations	$ 1,105,321.75	$ 6,658,907.01

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. 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 system's 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 its donors. Because these restricted resources held by the foundation can only be used by, or for the benefit of, the college, the foundation is considered a component unit of the college and is discretely presented in the college's financial statements. See Note 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 accordance with accounting principles generally accepted in the United States of America applicable to governmental colleges and universities engaged in business-type activities as prescribed by the Governmental Accounting Standards Board (GASB).

Basis of Accounting

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

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

Nonoperating revenues and expenses include activities that have the characteristics of nonexchange transactions, such as gifts, contributions, and other activities that are defined as nonoperating by GASB Statement 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*, and GASB Statement 34, *Basic Financial Statements–and Management's Discussion and Analysis–for State and Local Governments,* such as state appropriations and investment income.

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

Cash Equivalents

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

Inventories

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

Compensated Absences

The college's employees accrue annual and sick leave at varying rates, depending on length of service or classification. Some employees also earn compensatory time.

The amount of the liabilities for annual leave and compensatory time and their related benefits are reported in the statement of net position. There is no liability for unpaid accumulated sick leave since the college's policy is to pay this only if the employee is sick or upon death.

Capital Assets

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

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

These assets, with the exception of works of art and historical treasures/collections deemed inexhaustible and land, are depreciated/amortized using the straight-line method over their estimated useful lives, which range from 5 to 60 years.

Pensions

For purposes of measuring the net pension liability (asset), deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Closed State and Higher Education Employee Pension Plan and the State and Higher Education Employee Retirement Plan in the Tennessee Consolidated Retirement System (TCRS) and additions to/deductions from the plans' fiduciary net positions have been determined on the same basis as they are reported by the TCRS. For this purpose, benefits (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms of the Closed State and Higher Education Employee Pension Plan and the State and Higher Education Employee Retirement Plan. Investments are reported at fair value.

Net Position

The college's net position is classified as follows:

Net investment in capital assets – This represents the college's total investment in capital assets, net of accumulated depreciation and net of outstanding debt obligations and deferred outflows/inflows of resources related to those capital assets. To the extent debt has been incurred but not yet expended for capital assets, such amounts are not included as a component of net investment in capital assets.

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

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

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

Scholarship Discounts and Allowances

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

Note 2. Cash

This classification includes demand deposits and petty cash on hand. At June 30, 2018, cash consisted of $2,372,483.13 in bank accounts; $5,000.00 of petty cash on hand; $31,433,100.59 in the Local Government Investment Pool (LGIP) administered by the State Treasurer; and $761,360.95 in LGIP deposits for capital projects. At June 30, 2017, cash consisted of $1,065,724.20 in bank accounts; $5,000.00 of petty cash on hand; $29,013,265.53 in the LGIP; and $749,764.05 in LGIP deposits for capital projects.

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

LGIP deposits for capital projects – Payments related to the college's capital projects are made by the State of Tennessee's Department of Finance and Administration. The college's estimated local share of the cost of each project is held in a separate LGIP account. As expenses are incurred, funds are withdrawn from the LGIP account by the system 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 system releases any remaining funds.

Note 3. Investments

In accordance with GASB Statement 31, *Accounting and Financial Reporting for Certain Investments and External Investment Pools*, as amended, and GASB 72, *Fair Value Measurement and Application*, as amended, investments are reported at fair value, including those with a maturity date of one year or less at the time of purchase, unless otherwise noted.

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.

At June 30, 2018, the college had the following debt investments and maturities:

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

At June 30, 2017, the college had the following debt investments and maturities:

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

Credit Risk

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

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

The policy requires that prime commercial paper 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, 2018, the college's investments were rated as follows:

Investment Type	Fair Value	Credit Quality Rating Unrated
LGIP (amortized cost)	$32,194,461.54	$32,194,461.54
Total	$32,194,461.54	$32,194,461.54

At June 30, 2017, the college's investments were rated as follows:

Investment Type	Fair Value	Credit Quality Rating Unrated
LGIP (amortized cost)	$29,763,029.58	$29,763,029.58
Total	$29,763,029.58	$29,763,029.58

Concentration of Credit Risk

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

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

	Percentage of Total Investments	
Issuer	June 30, 2018	June 30, 2017
Farmers Bank	50%	100%
First Tennessee Bank	50%	-

Note 4. Receivables

Receivables included the following:

	June 30, 2018	June 30, 2017
Student accounts receivable	$1,595,973.48	$1,942,957.23
Grants receivable	325,871.38	350,668.29
Other receivables	688,015.73	329,985.14
Subtotal	2,609,860.59	2,623,610.66
Less allowance for doubtful accounts	(1,072,173.63)	(1,058,231.14)
Total receivables	$1,537,686.96	$1,565,379.52

Note 5. Capital Assets

Capital asset activity for the year ended June 30, 2018, was as follows:

	Beginning Balance	Additions	Transfers	Reductions	Ending Balance
Land	$ 3,494,654.89	$ 939,900.00	$ -	$ -	$ 4,434,554.89
Land improvements and infrastructure	14,110,977.03	665,918.41	478,071.72	-	15,254,967.16
Buildings	78,557,642.77	5,637,616.88	139,451.55	-	84,334,711.20
Equipment	10,806,547.69	311,200.84	-	(333,321.74)	10,784,426.79
Library holdings	444,932.93	16,315.71	-	(72,892.18)	388,356.46
Intangible assets	1,138,109.28	-	-	-	1,138,109.28
Projects in progress	617,523.27	255,012.67	(617,523.27)	-	255,012.67
Total	109,170,387.86	7,825,964.51	-	(406,213.92)	$116,590,138.45
Less accumulated depreciation/amortization:					
Land improvements and infrastructure	6,611,256.04	724,666.44	-	-	7,335,922.48
Buildings	18,714,725.35	1,284,993.56	-	-	19,999,718.91
Equipment	6,169,401.86	967,241.10	-	(333,321.74)	6,803,321.22
Library holdings	256,918.16	46,124.85	-	(72,892.18)	230,150.83
Intangible assets	1,042,590.79	14,886.00	-	-	1,057,476.79
Total	32,794,892.20	3,037,911.95	-	(406,213.92)	35,426,590.23
Capital assets, net	$ 76,375,495.66	$4,788,052.56	$ -	$ -	$ 81,163,548.22

Capital asset activity for the year ended June 30, 2017, was as follows:

	Beginning Balance	Additions	Transfers	Reductions	Ending Balance
Land	$ 3,494,607.89	$ 47.00	$ -	$ -	$ 3,494,654.89
Land improvements and infrastructure	12,945,708.56	392,390.21	772,878.26	-	14,110,977.03
Buildings	51,563,873.61	3,391,136.73	23,602,632.43	-	78,557,642.77
Equipment	9,168,816.48	1,801,303.32	-	(163,572.11)	10,806,547.69
Library holdings	516,640.12	24,533.56	-	(96,240.75)	444,932.93
Intangible assets	1,138,109.28	-	-	-	1,138,109.28
Projects in progress	24,375,510.69	617,523.27	(24,375,510.69)	-	617,523.27
Total	103,203,266.63	6,226,934.09	-	(259,812.86)	109,170,387.86
Less accumulated depreciation/amortization:					
Land improvements and infrastructure	5,930,145.01	681,111.03	-	-	6,611,256.04
Buildings	17,594,744.76	1,119,980.59	-	-	18,714,725.35
Equipment	5,434,649.18	898,324.79	-	(163,572.11)	6,169,401.86
Library holdings	299,041.57	54,117.34	-	(96,240.75)	256,918.16
Intangible assets	1,027,704.79	14,886.00	-	-	1,042,590.79
Total	30,286,285.31	2,768,419.75	-	(259,812.86)	32,794,892.20
Capital assets, net	$ 72,916,981.32	$ 3,458,514.34	$ -	$ -	$ 76,375,495.66

Note 6. Accounts Payable

Accounts payable included the following:

	June 30, 2018	June 30, 2017
Vendors payable	$943,162.12	$856,979.84
Unapplied student payments	39,741.65	17,011.74
Total accounts payable	$982,903.77	$873,991.58

Note 7. Long-term Liabilities

Long-term liabilities activity for the year ended June 30, 2018, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Other liabilities:					
Compensated absences	$1,517,860.47	$1,234,802.65	$1,195,593.14	$1,557,069.98	$ 515,239.01
Total long-term liabilities	$1,517,860.47	$1,234,802.65	$1,195,593.14	$1,557,069.98	$ 515,239.01

Long-term liabilities activity for the year ended June 30, 2017, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Other liabilities:					
Compensated absences	$1,509,081.01	$ 994,163.12	$ 985,383.66	$1,517,860.47	$ 524,720.54
Total long-term liabilities	$1,509,081.01	$ 994,163.12	$ 985,383.66	$1,517,860.47	$ 524,720.54

Note 8. Endowments

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

The college chooses to spend only a portion of the investment income (including changes in the value of investments) each year. Under the spending plan established by the college, 100% of current year earnings have been authorized for expenditure. The remaining amount, if any, is retained to be used in future years when the amount computed using the spending plan exceeds the investment income. At June 30, 2018, net appreciation of $7,629.20 is available to be spent, of which $7,629.20 is included in restricted net position expendable for scholarships and fellowships. At June 30, 2017, net appreciation of $6,919.13 is available to be spent, of which $6,919.13 is included in restricted net position expendable for scholarships and fellowships.

Note 9. Pension Plans

Defined Benefit Plans

Closed State and Higher Education Employee Pension Plan

General Information About the Pension Plan

Plan description – State employees and higher education employees with membership in the Tennessee Consolidated Retirement System (TCRS) before July 1, 2014, are provided with pensions through the Closed State and Higher Education Employee Pension Plan. This plan is a component of the Public Employee Retirement Plan, an agent, multiple-employer defined benefit pension plan. The Closed State and Higher Education Employee Pension Plan stopped accepting new membership on June 30, 2014, but will continue providing benefits to existing members and retirees. Beginning July 1, 2014, a new agent defined benefit retirement plan, the State and Higher Education Employee Retirement Plan, became effective for state employees and higher education employees hired on or after July 1, 2014.

The TCRS was created by state statute under Title 8, Chapters 34-37, *Tennessee Code Annotated*. The TCRS Board of Trustees is responsible for the proper operation and administration of all employer pension plans in the TCRS. The Tennessee Treasury Department, an agency in the legislative branch of state government, administers the plans of the TCRS. The TCRS issues a publicly available financial report that can be obtained at www.treasury.tn.gov.

Benefits provided – Title 8, Chapters 34-37, *Tennessee Code Annotated*, establishes the benefit terms and can be amended only by the Tennessee General Assembly. Members of the Closed State and Higher Education Employee Pension Plan are eligible to retire with an unreduced benefit at age 60 with 5 years of service credit or after 30 years of service credit regardless of age. Benefits are determined using the following formula:

Average of member's highest compensation for 5 consecutive years (up to Social Security integration level)	x	1.50%	x	Years of Service Credit	x	105%
Plus:						
Average of member's highest compensation for 5 consecutive years (over the Social Security integration level)	x	1.75%	x	Years of Service Credit	x	105%

A reduced early retirement benefit is available at age 55 and vested. Members are vested with five years of service credit. Service-related disability benefits are provided regardless of length of service. Five years of service is required for non-service-related disability eligibility. The service-related and non-service-related disability benefits are determined in the same manner as a service retirement benefit but are reduced 10% and include projected service credits. A variety of death benefits are available under various eligibility criteria. Member and beneficiary annuitants are entitled to automatic cost-of-living adjustments (COLAs) after retirement. A COLA is granted each July for annuitants retired prior to July 2 of the previous year. The COLA is based on the change in the consumer price index (CPI) during the prior calendar year, capped at 3%, and applied to the current benefit. No COLA is granted if the change in the CPI is less than 0.5%. A 1% COLA is granted if the CPI change is between 0.5% and 1%. A member who leaves employment may withdraw employee contributions, plus any accumulated interest.

Contributions – Contributions for state employees and higher education employees are established in the statutes governing the TCRS and may only be changed by the Tennessee General Assembly. The college's employees are non-contributory, as are most members in the Closed State and Higher Education Employee Pension Plan. State and higher education agencies make employer contributions at the rate set by the Board of Trustees as determined by an actuarial valuation. By law, employer contributions for the Closed State and Higher Education Employee Pension Plan are required to be paid. Employer contributions by the college for the years ended June 30, 2018, and June 30, 2017, to the Closed State and Higher Education Employee Pension Plan were $1,942,562.34 and $1,620,320.57, respectively, which is 18.87% and 15.02% of covered payroll, respectively. The employer rate, when combined with member contributions, is expected to finance the costs of benefits earned by members during the year and the cost of administration, as well as an amortized portion of any unfunded liability.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

Pension liability – At June 30, 2018, the college reported a liability of $8,047,284.97 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The college's proportion of the net pension liability was based on a projection of the college's contributions during the year ended June 30, 2017, to the pension plan relative to the contributions of all participating state and higher education agencies. At the June 30, 2017, measurement date, the college's proportion was 0.44967%.

At June 30, 2017, the college reported a liability of $8,326,422.97 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The college's proportion of the net pension liability was based on a projection of the college's contributions during the year ended June 30, 2016, to the pension plan relative to the contributions of all participating state and higher education agencies. At the June 30, 2016, measurement date, the college's proportion was 0.45635%.

Pension expense – For the years ended June 30, 2018, and June 30, 2017, the college recognized pension expense of $1,722,234 and $1,511,554, respectively.

Deferred outflows of resources and deferred inflows of resources – For the years ended June 30, 2018, and June 30, 2017, the college reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

Fiscal Year 2018	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 636,916.00	$ 234,861.00
Net difference between projected and actual earnings on pension plan investments	29,413.00	-
Changes in assumptions	1,370,350.00	-
Changes in proportion of net pension liability	156,305.72	74,175.00
VSCC's contributions subsequent to the measurement date of June 30, 2017	1,942,562.34	-
Total	$ 4,135,547.06	$ 309,036.00

Fiscal Year 2017	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 466,939.00	$ 442,431.00
Net difference between projected and actual earnings on pension plan investments	2,013,720.00	-
Changes in proportion of net pension liability	234,477.15	7,705.00
VSCC's contributions subsequent to the measurement date of June 30, 2016	1,620,320.57	-
Total	$ 4,335,456.72	$ 450,136.00

Deferred outflows of resources, resulting from the college's employer contributions of $1,942,562.34 subsequent to the measurement date, will be recognized as a decrease in net pension liability in the year ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending June 30	
2019	$ 273,655
2020	1,391,203
2021	669,665
2022	(450,574)
2023	-
Thereafter	-

In the table above, positive amounts will increase pension expense, while negative amounts will decrease pension expense.

Actuarial assumptions used for the measurement date of June 30, 2017 – The total pension liability was determined by actuarial valuations using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.5%
Salary increases	Graded salary ranges from 8.72% to 3.46% based on age, including inflation, averaging 4%
Investment rate of return	7.25%, net of pension plan investment expenses, including inflation
Cost-of-living adjustment	2.25%

Mortality rates were developed by the actuary using the results of the actuarial experience study performed for the period July 1, 2012, through June 30, 2016, and were adjusted for expected future improvements in life expectancy. Mortality assumptions utilize the RP-2014 industry standard base table adjusted for TCRS experience, with mortality improvement projected 6 years beyond each actuarial valuation date.

The actuarial assumptions used in the June 30, 2017, actuarial valuation were based on the results of an actuarial experience study performed for the period July 1, 2012, through June 30, 2016. The demographic assumptions were adjusted to more closely reflect actual and expected future experience.

Changes in assumptions – In 2017, the following assumptions were changed: decreased inflation rate from 3% to 2.5%; decreased the investment rate of return from 7.5% to 7.25%; decreased the cost-of-living adjustment from 2.5% to 2.25%; decreased salary growth graded ranges from an average of 4.25% to an average of 4%; and modified mortality assumptions to reflect current experience and anticipated mortality improvements.

The long-term expected rate of return on pension plan investments was established by the TCRS Board of Trustees in conjunction with the June 30, 2016, actuarial experience study. This return was selected from a range of values developed using historical market returns and future capital market projections. The future capital market projections were produced using a building-block method in which a best estimate of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) is developed for each major asset class. These best estimates are combined to produce the future capital market projection by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation of 2.5%. The best estimates of geometric real rates of return and the TCRS investment policy target asset allocation for each major asset class are summarized in the following table:

Asset Class	Long-term Expected Real Rate of Return	Target Allocation
U.S. equity	5.69%	31%
Developed market international equity	5.29%	14%
Emerging market international equity	6.36%	4%
Private equity and strategic lending	5.79%	20%
U.S. fixed income	2.01%	20%
Real estate	4.32%	10%
Short-term securities	0.00%	1%
		100%

The long-term expected rate of return on pension plan investments was established by the TCRS Board of Trustees as 7.25% based on a comparison of historical market returns and future capital market projections.

Discount rate – The discount rate used to measure the total pension liability was 7.25%. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current rate and that contributions from all state and higher education agencies will be made at the actuarially determined contribution rate in accordance with the funding policy of the TCRS Board of Trustees and as required to be paid by state statute. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make projected future benefit payments of current active and inactive members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the proportionate share of net pension liability to changes in the discount rate – The following presents the college's proportionate share of the net pension liability calculated using the discount rate of 7.25%, as well as what the university's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (6.25%) or 1 percentage point higher (8.25%) than the current rate:

	1% Decrease (6.25%)	Current Discount Rate (7.25%)	1% Increase (8.25%)
College's proportionate share of the net pension liability	$16,579,158.00	$8,047,284.97	$873,978.00

Actuarial assumptions used for the measurement date of June 30, 2016 – The total pension liability was determined by actuarial valuations using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.0%
Salary increases	Graded salary ranges from 8.97% to 3.71% based on age, including inflation, averaging 4.25%
Investment rate of return	7.5%, net of pension plan investment expenses, including inflation
Cost-of-living adjustment	2.5%

Mortality rates were based on actual experience from the June 30, 2012, actuarial experience study adjusted for some of the expected future improvement in life expectancy.

The actuarial assumptions used in the actuarial valuations were based on the results of an actuarial experience study performed for the period July 1, 2008, through June 30, 2012. The demographic assumptions were adjusted to more closely reflect actual and expected future experience.

The long-term expected rate of return on pension plan investments was established by the TCRS Board of Trustees in conjunction with the June 30, 2012, actuarial experience study by considering the following three techniques: 1) the 25-year historical return of the TCRS at June 30, 2012; 2) the historical market returns of asset classes from 1926 to 2012 using the TCRS investment policy asset allocation; and 3) capital market projections that were utilized as a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. Four sources of capital market projections were blended and utilized in the third technique. The blended capital market projection established the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding inflation of 3%. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Long-term Expected Real Rate of Return	Target Allocation
U.S. equity	6.46%	33%
Developed market international equity	6.26%	17%
Emerging market international equity	6.40%	5%
Private equity and strategic lending	4.61%	8%
U.S. fixed income	0.98%	29%
Real estate	4.73%	7%
Short-term securities	0.00%	1%
		100%

The long-term expected rate of return on pension plan investments was established by the TCRS Board of Trustees as 7.5% based on a blending of the three factors described above.

Discount rate – The discount rate used to measure the total pension liability was 7.5%. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current rate and that contributions from all state and higher education agencies will be made at the actuarially determined contribution rate in accordance with the funding policy of the TCRS Board of Trustees and as required to be paid by state statute. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make projected future benefit payments of current active and inactive members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the proportionate share of net pension liability to changes in the discount rate – The following presents the college's proportionate share of the net pension liability calculated using the discount rate of 7.5%, as well as what the college's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (6.5%) or 1 percentage point higher (8.5%) than the current rate:

	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
College's proportionate share of net pension liability	$16,363,063.00	$8,326,422.97	$1,549,653.00

Pension plan fiduciary net position – Detailed information about the pension plan's fiduciary net position is available in a separately issued TCRS financial report at www.treasury.tn.gov.

Payable to the Pension Plan

At June 30, 2018, and June 30, 2017, the college reported a payable of $0 and $137,030.04, respectively, for the outstanding amount of legally required contributions to the pension plan required for the years then ended.

State and Higher Education Employee Retirement Plan

General Information About the Pension Plan

Plan description – State employees and higher education employees with membership in the Tennessee Consolidated Retirement System (TCRS) before July 1, 2014, are provided with pensions through the Closed State and Higher Education Employee Pension Plan, an agent plan within the Public Employee Retirement Plan administered by the TCRS. TCRS is a multiple-employer pension plan. The Closed State and Higher Education Pension Plan was closed effective June 30, 2014, and covers employees hired before July 1, 2014. Employees hired after June 30, 2014, are provided with pensions through a legally separate plan referred to as the State and Higher Education Employee Retirement Plan, an agent plan within the Public Employee Retirement Plan administered by the TCRS. The TCRS was created by state statute under Title 8, Chapters 34-37, *Tennessee Code Annotated*.

Benefits provided – Title 8, Chapters 34-37, *Tennessee Code Annotated,* establishes the benefit terms and can be amended only by the Tennessee General Assembly. Members of the State and Higher Education Employee Retirement Plan are eligible to retire at age 65 with 5 years of service credit or pursuant to the rule of 90 in which the member's age and years of service credit total 90. Members are entitled to receive unreduced service retirement benefits, which are determined by a formula multiplying the member's highest 5 consecutive year average compensation by 1% multiplied by the member's years of service credit. A reduced early retirement benefit is available at age 60 with 5 years of service credit or pursuant to the rule of 80 in which a member's age and years of service credit total 80. Service-related disability benefits are provided regardless of length of service. Five years of service is required for non-service-related disability eligibility. The service-related and non-service-related disability benefits are determined in the same manner as a service retirement benefit but are reduced 10% and include projected service credit. A variety of death benefits are available under various eligibility criteria.

Member and beneficiary annuitants are entitled to automatic cost-of-living adjustments (COLAs) after retirement. A COLA is granted each July for annuitants retired prior to July 2 of the previous year. The COLA is based on the change in the consumer price index (CPI) during the prior calendar year, capped at 3%, and applied to the current benefit. No COLA is granted if the change in the CPI is less than 0.5%. A 1% COLA is granted if the CPI change is between 0.5% and 1%. A member who leaves employment may withdraw employee contributions, plus any accumulated interest.

Contributions – Contributions for state and higher education employees are established in the statutes governing the TCRS and may only be changed by the Tennessee General Assembly. Employees contribute 5% of their salary to the State and Higher Education Employee Retirement Plan. The higher education institutions make employer contributions at the rate set by the Board of Trustees as determined by an actuarial valuation. Per the statutory provisions governing the TCRS, the employer contribution rate cannot be less than 4% in aggregate for all employee groups, except in years when the maximum funded level, approved by the TCRS Board of Trustees, is reached. By law, employer contributions for the State and Higher Education Employee Retirement Plan are required to be paid. Employer contributions by the college for the years ended June 30, 2018, and June 30, 2017, to the State and Higher Education Employee Retirement Plan were $155,588.93 and $107,387.30, respectively, which is 3.94% and 3.93% of covered payroll, respectively. The employer rate, when combined with member contributions, is expected to finance the costs of benefits earned by members during the year and the cost of administration, as well as an amortized portion of any unfunded liability.

Pension Assets, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

Pension asset – At June 30, 2018, the college reported an asset of $108,910.37 for its proportionate share of the net pension asset. The net pension asset was measured as of June 30, 2017, and the total pension liability used to calculate the net pension asset was determined by an actuarial valuation as of that date. The college's proportion of the net pension asset was based on a projection of the college's contributions during the year ended June 30, 2017, to the pension plan relative to the contributions of all participating state and higher education agencies. At the June 30, 2017, measurement date, the college's proportion was 0.525152%.

At June 30, 2017, the college reported an asset of $45,696.37 for its proportionate share of the net pension asset. The net pension asset was measured as of June 30, 2016, and the total pension asset used to calculate the net pension asset was determined by an actuarial valuation as of that date. The college's proportion of the net pension asset was based on a projection of the college's contributions during the year ended June 30, 2016, to the pension plan relative to the contributions of all participating state and higher education agencies. At the June 30, 2016, measurement date, the college's proportion was 0.542392%.

Pension expense – For the years ended June 30, 2018, and June 30, 2017, the college recognized a pension expense of $44,160 and $25,388, respectively.

Deferred outflows of resources and deferred inflows of resources – For the years ended June 30, 2018, and June 30, 2017, the college reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

Fiscal Year 2018	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 4,104.00	$ 4,075.00
Net difference between projected and actual earnings on pension plan investments	-	5,623.00
Changes in assumptions	7,741.00	-
Changes in proportion of net pension asset	1,411.86	1,360.00
VSCC's contributions subsequent to the measurement date of June 30, 2017	155,588.93	-
Total	$ 168,845.79	$11,058.00

Fiscal Year 2017	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 3,324.00	$ 4,910.00
Net difference between projected and actual earnings on pension plan investments	5,327.56	-
Changes in proportion of net pension asset	-	1,556.00
VSCC's contributions subsequent to the measurement date of June 30, 2016	107,387.30	-
Total	$ 116,038.86	$ 6,466.00

Deferred outflows of resources, resulting from the college's employer contributions of $155,588.93 subsequent to the measurement date, will be recognized as a decrease in net pension liability in the year ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending June 30	
2019	$ (328)
2020	(328)
2021	(540)
2022	(1,670)
2023	689
Thereafter	4,376

In the table above, positive amounts will increase pension expense, while negative amounts will decrease pension expense.

Actuarial assumptions used for the measurement date of June 30, 2017 – The total pension asset was determined by actuarial valuations using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.5%
Salary increases	Graded salary ranges from 8.72% to 3.46% based on age, including inflation, averaging 4%
Investment rate of return	7.25%, net of pension plan investment expenses, including inflation
Cost-of-living adjustment	2.25%

Mortality rates were developed by the actuary using the results of the actuarial experience study performed for the period July 1, 2012, through June 30, 2016, and were adjusted for expected future improvements in life expectancy. Mortality assumptions utilize the RP-2014 industry standard base table adjusted for TCRS experience, with generational mortality improvement.

The actuarial assumptions used in the June 30, 2017, actuarial valuation were based on the results of an actuarial experience study performed for the period July 1, 2012, through June 30, 2016. The demographic assumptions were adjusted to more closely reflect actual and expected future experience.

Changes in assumptions – In 2017, the following assumptions were changed: decreased the inflation rate from 3% to 2.5%; decreased the investment rate of return from 7.5% to 7.25%; decreased the cost-of-living adjustment from 2.5% to 2.25%; decreased salary growth graded ranges from an average of 4.25% to an average of 4%; and modified mortality assumptions to reflect current experience and anticipated mortality improvements.

The long-term expected rate of return on pension plan investments was established by the TCRS Board of Trustees in conjunction with the June 30, 2016, actuarial experience study. This return was selected from a range of values developed using historical market returns and future capital market projections. The future capital market projections were produced using a building-block method in which a best estimate of expected real rates of return (expected returns, net of pension plan investment expense and inflation) is developed for each major asset class. These best estimates are combined to produce the future capital market projection by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation of 2.5%. The best estimates of geometric real rates of return and the TCRS investment policy target asset allocation for each major asset class are summarized in the following table:

Asset Class	Long-term Expected Real Rate of Return	Target Allocation
U.S. equity	5.69%	31%
Developed market international equity	5.29%	14%
Emerging market international equity	6.36%	4%
Private equity and strategic lending	5.79%	20%
U.S. fixed income	2.01%	20%
Real estate	4.32%	10%
Short-term securities	0.00%	1%
		100%

The long-term expected rate of return on pension plan investments was established by the TCRS Board of Trustees as 7.25% based on a comparison of historical market returns and future capital market projections.

Discount rate – The discount rate used to measure the total pension liability was 7.25%. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current rate and that contributions from all state and higher education agencies will be made at the actuarially determined contribution rate in accordance with the funding policy of the TCRS Board of Trustees and as required to be paid by state statute. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make projected future benefit payments of current active and inactive members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the proportionate share of net pension asset to changes in the discount rate – The following presents the university's proportionate share of the net pension asset calculated using the discount rate of 7.25%, as well as what the university's proportionate share of the net pension asset would be if it were calculated using a discount rate that is 1 percentage point lower (6.25%) or 1 percentage point higher (8.25%) than the current rate:

	1% Decrease (6.25%)	Current Discount Rate (7.25%)	1% Increase (8.25%)
College's proportionate share of the net pension asset	$13,620.00	$108,910.37	$179,979.00

Actuarial assumptions used for the measurement date of June 30, 2016 – The total pension asset was determined by actuarial valuations using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.0%
Salary increases	Graded salary ranges from 8.97% to 3.71% based on age, including inflation, averaging 4.25%
Investment rate of return	7.5%, net of pension plan investment expenses, including inflation
Cost-of-living adjustment	2.5%

Mortality rates were based on actual experience from the June 30, 2012, actuarial experience study adjusted for some of the expected future improvement in life expectancy.

The actuarial assumptions used in the actuarial valuations were based on the results of an actuarial experience study performed for the period July 1, 2008, through June 30, 2012. The demographic assumptions were adjusted to more closely reflect actual and expected future experience.

The long-term expected rate of return on pension plan investments was established by the TCRS Board of Trustees in conjunction with the June 30, 2012, actuarial experience study by considering the following three techniques: 1) the 25-year historical return of the TCRS at June 30, 2012; 2) the historical market returns of asset classes from 1926 to 2012 using the TCRS investment policy asset allocation; and 3) capital market projections that were utilized as a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. Four sources of capital market projections were blended and utilized in the third technique. The blended capital market projection established the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding inflation of 3%. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Long-term Expected Real Rate of Return	Target Allocation
U.S. equity	6.46%	33%
Developed market international equity	6.26%	17%
Emerging market international equity	6.40%	5%

Private equity and strategic lending	4.61%	8%
U.S. fixed income	0.98%	29%
Real estate	4.73%	7%
Short-term securities	0.00%	1%
		100%

The long-term expected rate of return on pension plan investments was established by the TCRS Board of Trustees as 7.5% based on a blending of the three factors described above.

Discount rate – The discount rate used to measure the total pension liability was 7.5%. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current rate and that contributions from all state and higher education agencies will be made at the actuarially determined contribution rate in accordance with the funding policy of the TCRS Board of Trustees and as required to be paid by state statute. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make projected future benefit payments of current active and inactive members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the proportionate share of net pension asset to changes in the discount rate – The following presents the college's proportionate share of the net pension asset calculated using the discount rate of 7.5%, as well as what the college's proportionate share of the net pension asset would be if it were calculated using a discount rate that is 1 percentage point lower (6.5%) or 1 percentage point higher (8.5%) than the current rate:

	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
College's proportionate share of net pension asset	$5,464.00	$45,696.37	$75,832.00

Pension plan fiduciary net position – Detailed information about the pension plan's fiduciary net position is available in a separately issued TCRS financial report at www.treasury.tn.gov.

Payable to the Pension Plan

At June 30, 2018, and at June 30, 2017, the college reported a payable of $10,571.24 and $10,119.71, respectively, for the outstanding amount of legally required contributions to the pension plan required for the years then ended.

Total Defined Benefit Pension Expense

The total pension expense for the year ended June 30, 2018, for all state and local government defined benefit pension plans was $1,766,394. The total pension expense for the year ended June 30, 2017, for all state and local government defined benefit pension plans was $1,536,942.

Defined Contribution Plans

Optional Retirement Plans

Plan description – The college contributes to the Optional Retirement Plan (ORP). The ORP, administered by the Tennessee Treasury Department, is a defined contribution plan. The ORP was established by state statute in Title 8, Chapter 25, Part 2, *Tennessee Code Annotated*. This statute also sets out the plan provisions. The plan provisions are amended by the Tennessee General Assembly. The ORP was designed to provide benefits at retirement to faculty and staff who are exempt from the overtime provision of the Fair Labor Standards Act and who waive membership in the TCRS. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings.

Funding policy – For employees employed prior to July 1, 2014, 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. For employees hired after June 30, 2014, plan members will contribute 5% to the ORP and the college will contribute 9% of the employee's base salary. Pension expense equaled the required contributions made to the ORP and was $1,009,466.97 for the year ended June 30, 2018; $997,319.17 for the year ended June 30, 2017; and $954,892.38 for the year ended June 30, 2016. Contributions met the requirements for each year.

Members are immediately 100% vested in the employer contributions made pursuant to the ORP. The Treasury Department has selected three investment vendors who offer a variety of investment products, and members are responsible for selecting how the contributions are invested. Each member makes the decision when to reallocate future contributions or when to transfer funds from one investment product to another. Funds are held by the investment vendor in the name of the member, not in the name of the State of Tennessee. The State of Tennessee has no discretion over these funds other than to make the initial contributions. Accordingly, the State of Tennessee is not acting in a trustee capacity, nor does it have a fiduciary responsibility for the funds held by the investment vendors.

Deferred Compensation Plans

Employees are offered three deferred compensation plans. The college, through the State of Tennessee, provides two plans, one established pursuant to the Internal Revenue Code (IRC), Section 457, and the other pursuant to IRC, Section 401(k). The third plan is administered by the college and was established in accordance with IRC, Section 403(b). The plans are outsourced to third-party vendors, and the administrative costs assessed by the vendors of these plans are the responsibility of plan participants. Section 401(k), Section 403(b), and Section 457 plan assets remain the property of the contributing employees; therefore, they are not presented in the accompanying financial statements. Sections 401(k), 403(b), and 457 establish participation, contribution, and withdrawal provisions for the plans. Participation in the 403(b) and the 457 plans is voluntary for employees. The college provides up to a $50 monthly employer match for employees who participate in the state's 401(k) plan. Employees hired before July 1, 2014, voluntarily participate in the state's 401(k) plan. Pursuant to Public Chapter No. 259 of Public

Acts of 2013*,* employees hired after June 30, 2014, are automatically enrolled in the state's 401(k) plan if they elect to be in the TCRS pension plan and contribute 2% of their salary, with the employer contributing an additional non-matching 5%. Employees may opt out of the 2% auto enrollment. Such contribution rates may only be amended by the Tennessee General Assembly. There are certain automatic cost controls and unfunded liability controls in the defined benefit plan where the employees participate that may impact the non-matching 5% employer contribution to the 401(k) plan.

Employees are immediately vested in both the employee and employer contributions in all plans. The IRC establishes maximum limits that an employee can contribute to these plans. The employee may increase, decrease, or stop contributions at any time for all three plans.

During the year ended June 30, 2018, contributions totaling $768,028.44 were made by employees participating in the 401(k) plan, and the college recognized pension expense of $185,052.70 for employer contributions. During the year ended June 30, 2017, contributions totaling $661,770.58 were made by employees participating in the 401(k) plan, with contributions of $179,432.97 made by the college. During the year ended June 30, 2016, contributions totaling $564,186.23 were made by employees participating in the 401(k) plan, with contributions of $176,573.52 made by the college.

At June 30, 2018, and June 30, 2017, the college reported a payable of $0.00 and $60.00, respectively, for the outstanding amount of legally required contributions to the plan required for the year then ended.

Note 10. Other Postemployment Benefits

Closed State Employee Group OPEB Plan

General Information About the OPEB Plan

Plan description – Employees of the college who were hired prior to July 1, 2015, and choose coverage, are provided with pre-65 retiree health insurance benefits through the Closed State Employee Group OPEB Plan (EGOP) administered by the Tennessee Department of Finance and Administration. This plan is considered to be a single-employer defined benefit plan that is used to provide postemployment benefits other than pensions (OPEB). This plan is closed to the employees of all participating employers that were hired on or after July 1, 2015. The employers participating in this plan include the State of Tennessee (primary government), the Tennessee Student Assistance Corporation, the Tennessee Housing Development Agency, the University of Tennessee, and the institutions that make up the State University and Community College System.

Benefits provided – The EGOP is offered to provide health insurance coverage to eligible retired and disabled participants and is the only postemployment benefit provided to eligible pre-65 participants. Benefits are established and amended by an insurance committee created by Title 8, Chapter 27, Section 201, *Tennessee Code Annotated*. All retirees and disabled employees of the primary government and certain component units, who are eligible and choose coverage, and who have not yet reached the age of 65, are enrolled in this plan. All members have the option of choosing between the partnership promise, no partnership promise, standard preferred provider organization (PPO) plan, or the wellness health savings consumer-driven health plan (CDHP) for healthcare benefits. Retired plan members receive the same plan benefits as active employees, at a blended premium rate that considers the cost of active employees. This creates an implicit subsidy for the retirees. The retirees' cost is then directly subsidized, by the employers, based on years of service. Therefore, retirees with 30 years of service are subsidized 80%; 20 but less than 30 years, 70%; and less than 20 years, 60%. No subsidy is provided to retirees in the health savings CDHP plan. This plan is funded on a pay-as-you-go basis, and there are no assets accumulating in a trust that meets the criteria of paragraph 4 of GASB Statement 75.

Annually, an insurance committee, created in accordance with Title 8, Chapter 27, Section 201, *Tennessee Code Annotated*, establishes the required payments to the plan by member employers and employees. Active members of the Employee Group Insurance Plan and pre-age 65 retired members of the EGOP pay the same rate. Claims liabilities of the plans are periodically computed using actuarial and statistical techniques to establish premium rates.

Total OPEB Liability

Proportionate share – The college's proportionate share of the collective total OPEB liability related to the EGOP was $5,310,928. At the June 30, 2017, measurement date, the college's proportion of the collective total OPEB liability was 0.395588%, representing the first-time presentation of the proportion. The college's proportion of the collective total OPEB liability was based on a projection of the long-term share of contributions to the OPEB plan relative to the projected share of contributions of all participating employers, actuarially determined. The collective total OPEB liability was determined by an actuarial valuation with a valuation date of June 30, 2017, and a measurement date of June 30, 2017.

Actuarial assumptions – The collective total OPEB liability in the June 30, 2017, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.25%
Salary increases	Graded salary ranges from 3.44% to 8.72% based on age, including inflation, averaging 4%
Healthcare cost trend rates	7.5% for 2018, decreasing annually to an ultimate rate of 3.83% for 2050 and later years

Retiree's share of benefit-related costs	Members are required to make monthly contributions in order to maintain their coverage. For the purpose of this valuation, a weighted average has been used with weights derived from the current distribution of members among plans offered.

Unless noted otherwise, the actuarial demographic assumptions used in the June 30, 2017, valuations were the same as those employed in the July 1, 2017, pension actuarial valuation of the Tennessee Consolidated Retirement System (TCRS). These assumptions were developed by TCRS based on the results of an actuarial experience study for the period July 1, 2012, through June 30, 2016. The demographic assumptions were adjusted to more closely reflect actual and expected future experience. Mortality tables are used to measure the probabilities of participants dying before and after retirement. The mortality rates employed in this valuation are taken from the RP-2014 Healthy Participant Mortality Table for Annuitants for non-disabled post-retirement mortality, with mortality improvement projected to all future years using Scale MP-2016. Post-retirement tables are Blue Collar and adjusted with a 2% load for males and a -3% load for females. Mortality rates for impaired lives are the same as those used by TCRS and are taken from a gender-distinct table published in the IRS Ruling 96-7 for disabled lives with a 10% load.

Discount rate – The discount rate used to measure the total OPEB liability was 3.56%. This rate reflects the interest rate derived from yields on 20-year, tax-exempt general obligation municipal bonds, prevailing on the measurement date, with an average rating of AA/Aa as shown on the Fidelity 20-Year Municipal GO AA index.

Changes in assumptions – The discount rate was changed from 2.92% as of the beginning of the measurement period to 3.56% as of June 30, 2017. This change in assumption decreased the total OPEB liability.

Sensitivity of the proportionate share of the collective total OPEB liability to changes in the discount rate – The following presents the college's proportionate share of the collective total OPEB liability of the EGOP, as well as what the proportionate share of the collective total OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower (2.56%) or 1 percentage point higher (4.56%) than the current rate (expressed in thousands):

	1% Decrease (2.56%)	Current Discount Rate (3.56%)	1% Increase (4.56%)
College's proportionate share of the collective total OPEB liability	$5,679,482	$5,310,928	$4,956,506

Sensitivity of the proportionate share of the collective total OPEB liability to changes in the healthcare cost trend rate – The following presents the college's proportionate share of the collective total OPEB liability of the EGOP, as well as what the proportionate share of the collective total OPEB liability would be if it were calculated using a healthcare cost trend rate that is 1 percentage point lower (6.5% decreasing to 2.83%) or 1 percentage point higher (8.5% decreasing to 4.83%) than the current rate (expressed in thousands):

	1% Decrease (6.5% decreasing to 2.83%)	Healthcare Cost Trend Rates (7.5% decreasing to 3.83%)	1% Increase (8.5% decreasing to 4.83%)
College's proportionate share of the collective total OPEB liability	$4,781,060	$5,310,928	$5,932,332

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

OPEB expense – For the year ended June 30, 2018, the college recognized OPEB expense of $406,996.

Deferred outflows of resources and deferred inflows of resources – For the year ended June 30, 2018, the college reported deferred outflows of resources and deferred inflows of resources related to OPEB paid by the EGOP from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes in assumptions	$ -	$ 204,079.00
Payments subsequent to the measurement date	351,924.39	-
Total	$ 351,924.39	$ 204,079.00

Deferred outflows of resources, resulting from the college's employer payments of $351,924.39 subsequent to the measurement date, will be recognized as a decrease in total OPEB liability in the year ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year Ending June 30	
2019	$ (29,154)
2020	(29,154)
2021	(29,154)
2022	(29,154)
2023	(29,154)
Thereafter	(58,309)

In the table above, positive amounts will increase OPEB expense, while negative amounts will decrease OPEB expense.

Annual OPEB cost – For the year ended June 30, 2017, the annual OPEB cost and obligation were as follows:

Annual required contribution (ARC)	$ 593,000.00
Interest on the net OPEB obligation	92,209.80
Adjustment to the ARC	(92,580.12)
Annual OPEB cost	592,629.68
Amount of contribution	(586,623.45)
Increase in net OPEB obligation	6,006.23
Net OPEB obligation – beginning of year	2,458,928.07
Net OPEB obligation – end of year	$2,464,934.30

Year-end	Plan	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation at Year-end
June 30, 2017	Closed State Employee Group OPEB Plan	$592,629.68	99.0%	$2,464,934.30
June 30, 2016	Closed State Employee Group OPEB Plan	$572,638.62	89.6%	$2,458,928.07
June 30, 2015	Closed State Employee Group OPEB Plan	$558,419.91	90.9%	$2,399,576.69

Funded Status and Funding Progress – The funded status of the college's portion of the Closed State Employee Group OPEB Plan was as follows:

Actuarial valuation date	July 1, 2015
Actuarial accrued liability (AAL)	$ 4,709,000.00
Actuarial value of plan assets	-
Unfunded actuarial accrued liability (UAAL)	$ 4,709,000.00
Actuarial value of assets as a percentage of the AAL	0.00%
Covered payroll (active plan members)	$ 22,148,975.56
UAAL as percentage of covered payroll	21.30%

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

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

In the July 1, 2015, actuarial valuation, the Projected Unit Credit actuarial cost method was used. The actuarial assumptions included a 3.75% investment rate of return (net of administrative expenses) and an annual healthcare cost trend rate of 6.5% initially. The rate decreased to 6% in fiscal year 2016 and then reduces by decrements to an ultimate rate of 4.7% in fiscal year 2050. All rates include a 2.5% inflation assumption. Premium subsidies in the Medicare Supplement Plan are projected to remain unchanged, and, consequently, trend rates are not applicable. The unfunded actuarial accrued liability is being amortized as a level percentage of payroll on a closed basis over a 30-year period beginning with July 1, 2007. Payroll is assumed to grow at a rate of 3%.

Closed Tennessee OPEB Plan

General Information About the OPEB Plan

Plan description – Employees of the college who were hired prior to July 1, 2015, and choose coverage, are provided with post-65 retiree health insurance benefits through the Closed Tennessee OPEB Plan (TNP) administered by the Tennessee Department of Finance and Administration. This plan is considered to be a multiple-employer defined benefit plan that is used to provide postemployment benefits other than pensions (OPEB). However, for accounting purposes, this plan will be treated as a single-employer plan. This plan is closed to the employees of all participating employers that were hired on or after July 1, 2015. The State of Tennessee (primary government), as well as the Tennessee Student Assistance Corporation, the Tennessee Housing Development Agency, the University of Tennessee, and the other institutions that make up the State University and Community College System, also participate in this plan. This plan also serves eligible post-65 retirees of employers who participate in the state-administered Teacher Group Insurance and Local Government Group Insurance Plans.

Benefits provided – The TNP is offered to help fill most of the coverage gaps created by Medicare and is the only postemployment benefit provided to eligible post-65 retired and disabled employees of participating employers. This plan does not include pharmacy. In accordance with Title 8, Chapter 27, Section 209, *Tennessee Code Annotated*, benefits are established and amended by cooperation of insurance committees created by Sections 8-27-201, 301, and 701, *Tennessee Code*

Annotated. Retirees and disabled employees of the state, component units, local education agencies, and certain local governments, who have reached the age of 65, are Medicare-eligible, and also receive a benefit from the Tennessee Consolidated Retirement System may participate in this plan. All plan members receive the same plan benefits at the same premium rates. Many retirees receive direct subsidies toward their premium cost; however, participating employers determine their own policy in this regard. The primary government contributes to the premiums of component unit retirees based on years of service. Therefore, retirees with 30 years of service receive $50 per month; 20 but less than 30 years, $37.50; and 15 but less than 20 years, $25. The college does not provide any subsidies for retirees in the TNP. The primary government paid $37,989.78 for OPEB as the benefits came due during the fiscal year ended June 30, 2018. This plan is funded on a pay-as-you-go basis, and there are no assets accumulating in a trust that meets the criteria of paragraph 4 of GASB Statement 75.

In accordance with Title 8, Chapter 27, Part 209, *Tennessee Code Annotated*, the state insurance committees established by Sections 8-27-201, 301, and 701, *Tennessee Code Annotated,* determine the required payments to the plan by member employers and employees. Claims liabilities of the plan are periodically computed using actuarial and statistical techniques to establish premium rates. Administrative costs are allocated to plan participants.

Total OPEB Liability and OPEB Expense

Proportionate share – The primary government is entirely responsible for the TNP OPEB liability associated with the college's employees. The primary government's proportionate share of the total OPEB liability associated with the college was $877,131.00. At the June 30, 2017, measurement date, the proportion of the collective total OPEB liability associated with the college was 0.494825%, representing the first-time presentation of this proportion. The proportion of the collective total OPEB liability associated with the college was based on a projection of the long-term share of contributions to the OPEB plan relative to the projected share of contributions of all participating employers, actuarially determined. The collective total OPEB liability was determined by an actuarial valuation with a valuation date of June 30, 2017, and a measurement date of June 30, 2017.

Actuarial assumptions – The total OPEB liability in the June 30, 2017, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.25%
Salary increases	Graded salary ranges from 3.44% to 8.72% based on age, including inflation, averaging 4%
Healthcare cost trend rates	The premium subsidies provided to retirees in the Tennessee Plan are assumed to remain unchanged for the entire projection; therefore, trend rates are not applicable.

Unless noted otherwise, the actuarial demographic assumptions used in the June 30, 2017, valuations were the same as those employed in the July 1, 2017, pension actuarial valuation of the Tennessee Consolidated Retirement System (TCRS). These assumptions were developed by TCRS based on the results of an actuarial experience study for the period July 1, 2012, through June 30, 2016. The demographic assumptions were adjusted to more closely reflect actual and expected future experience. Mortality tables are used to measure the probabilities of participants dying before and after retirement. The mortality rates employed in this valuation are taken from the RP-2014 Healthy Participant Mortality Table for Annuitants for non-disabled post-retirement mortality, with mortality improvement projected to all future years using Scale MP-2016. Post-retirement tables are Blue Collar and adjusted with a 2% load for males and a -3% load for females. Mortality rates for impaired lives are the same as those used by TCRS and are taken from a gender-distinct table published in IRS Ruling 96-7 for disabled lives with a 10% load.

Discount rate – The discount rate used to measure the total OPEB liability was 3.56%. This rate reflects the interest rate derived from yields on 20-year, tax-exempt general obligation municipal bonds, prevailing on the measurement date, with an average rating of AA/Aa as shown on the Fidelity 20-Year Municipal GO AA index.

Changes in assumptions – The discount rate was changed from 2.92% as of the beginning of the measurement period to 3.56% as of June 30, 2017. This change in assumption decreased the total OPEB liability.

Sensitivity of the proportionate share of the collective total OPEB liability to changes in the discount rate – The following presents the primary government's proportionate share of the college's related collective total OPEB liability, as well as what the proportionate share of the collective total OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower (2.56%) or 1 percentage point higher (4.56%) than the current rate. The college does not report a proportionate share of the OPEB liability for employees in the TNP.

	1% Decrease (2.56%)	Current Discount Rate (3.56%)	1% Increase (4.56%)
Primary government's proportionate share of the collective total OPEB liability	$993,082	$877,131	$778,585

OPEB expense – For the year ended June 30, 2018, the primary government recognized OPEB expense of $37,620 for employees of the university participating in the TNP.

Total OPEB Expense

The total OPEB expense for the year ended June 30, 2018, was $444,616, which consisted of OPEB expense of $406,996 for the EGOP and $37,620 paid by the primary government for the TNP.

Note 11. Revenues

A summary of adjustments and allowances by revenue classification is presented as follows:

Fiscal Year 2018 Revenue Source	Gross Revenue	Less Scholarship Allowances	Less Uncollectible Debts	Net Revenue
Operating revenues:				
Tuition and fees	$31,441,877.74	$(16,923,277.96)	$ (366,636.60)	$ 14,151,963.18
Sales and services of other activities	217,679.65	-	22,323.00	240,002.65
Total	$31,659,557.39	$(16,923,277.96)	$ (344,313.60)	$ 14,391,965.83

Fiscal Year 2017 Revenue Source	Gross Revenue	Less Scholarship Allowances	Less Uncollectible Debts	Net Revenue
Operating revenues:				
Tuition and fees	$30,849,234.09	$(15,590,330.90)	$ (386,542.01)	$ 14,872,361.18
Sales and services of other activities	204,451.19	-	(812.00)	203,639.19
Total	$31,053,685.28	$(15,590,330.90)	$ (387,354.01)	$ 15,076,000.37

Note 12. Insurance-related Activities

It is the policy of the state not to purchase commercial insurance for the risks associated with casualty losses for general liability, automobile liability, medical malpractice liability, and workers' compensation. By statute, the maximum liability for general liability, automobile liability, and medical malpractice liability is $300,000 per person and $1,000,000 per occurrence. 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 (RMF). The state purchases commercial insurance for real property; crime and fidelity coverage on the state's officials and employees; and cyber liability coverage. For property coverage, the deductible for an individual state agency is the first $25,000 of losses. The RMF is responsible for property losses for the annual aggregate deductible of $7.5 million for perils other than earthquake and flood. Purchased insurance coverage is responsible for losses exceeding the $7.5 million annual aggregate deductible. For earthquake and flood, there is a deductible of $10 million per occurrence. The maximum insurance coverage is $750 million per year for perils other than earthquake and flood. The maximum flood insurance coverage is $50 million per occurrence, except there is only $25 million of coverage in flood zones A and V. The maximum earthquake insurance coverage is $50 million per occurrence. The amounts of settlements have not exceeded insurance coverage for each of the three past fiscal years.

The college participates in the RMF. 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. Information regarding the determination of the claims liabilities and the changes in the balances of the claims liabilities for the year ended June 30, 2018, is presented in the *Tennessee Comprehensive Annual Financial Report* (CAFR). The CAFR is available on the state's website at https://www.tn.gov/finance/rd-doa/fa-accfin-cafr.html. At June 30, 2018, the Risk Management Fund held $189 million in cash designated for payment of claims. At June 30, 2017, the Risk Management Fund held $167 million in cash designated for payment of claims.

At June 30, 2018, the scheduled coverage for the college was $162,107,280 for buildings and $34,582,200 for contents. At June 30, 2017, the scheduled coverage for the college was $125,706,280 for buildings and $30,562,200 for contents.

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

Note 13. Commitments and Contingencies

Sick Leave

The college records the cost of sick leave when paid. The dollar amount of unused sick leave was $8,192,509.34 at June 30, 2018, and $8,203,508.70 at June 30, 2017.

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 expenses for personal property were $ 211,452.44 for the year ended June 30, 2018. The amounts for the year ended June 30, 2017, were $0.00 and $189,491.81. All operating leases are cancelable at the lessee's option.

Construction in Progress

At June 30, 2018, outstanding commitments under construction contracts totaled $9,892,937.81 for the SRB Humanities Building, Mattox Building HVAC Updates, Site Lighting Updates, Wood Building Restroom Renovations, Ramer Building HVAC Updates, Roof Replacements, Warf Building Renovations and Addition, Ramer Renovations, Underground Utility Upgrades, and Parking and Road Upgrades, of which $7,960,027.11 will be funded by future state capital outlay appropriations.

Litigation

The college is involved in several lawsuits, none of which are expected to have a material effect on the accompanying financial statements.

Note 14. Natural Classification With Functional Classifications

The college's operating expenses for the year ended June 30, 2018, are as follows:

	Natural Classification					
Functional Classification	Salaries	Benefits	Other Operating	Scholarships	Depreciation	Total
Instruction	$17,134,330.86	$ 5,944,581.79	$ 4,393,145.70	$ 134,119.06	$ -	$ 27,606,177.41
Public service	110,069.74	38,018.38	415,169.48	-	-	563,257.60
Academic support	2,710,931.83	1,045,378.66	(557,632.04)	1,397.00	-	3,200,075.45
Student services	2,613,538.17	1,180,707.18	1,297,307.91	70,765.55	-	5,162,318.81
Institutional support	3,246,682.93	1,544,238.88	1,388,291.96	17,938.65	-	6,197,152.42
Maintenance and operation	2,192,612.14	932,236.56	2,656,286.83	3,981.50	-	5,785,117.03
Scholarships and fellowships	-	8,472.00	-	9,601,911.43	-	9,610,383.43
Auxiliary	-	-	106,715.28	-	-	106,715.28
Depreciation	-	-	-	-	3,037,911.95	3,037,911.95
Total	$28,008,165.67	$10,693,633.45	$ 9,699,285.12	$ 9,830,113.19	$ 3,037,911.95	$ 61,269,109.38

The college's operating expenses for the year ended June 30, 2017, are as follows:

	Natural Classification					
Functional Classification	Salaries	Benefits	Other Operating	Scholarships	Depreciation	Total
Instruction	$16,398,321.44	$ 5,543,677.39	$ 5,649,830.55	$ 65,089.50	$ -	$27,656,918.88
Public service	118,804.96	37,957.18	348,137.83	-	-	504,899.97
Academic support	2,592,092.82	931,578.91	(995,714.79)	13,614.50	-	2,541,571.44
Student services	2,583,606.39	1,108,678.19	1,325,675.73	186,828.10	-	5,204,788.41
Institutional support	3,225,039.75	1,367,427.34	1,127,527.21	24,827.89	-	5,744,822.19
Maintenance and operation	2,017,002.45	869,485.19	4,609,945.55	6,056.92	-	7,502,490.11
Scholarships and fellowships	-	7,811.25	-	9,141,774.69	-	9,149,585.94
Auxiliary	-	-	97,570.74	-	-	97,570.74
Depreciation	-	-	-	-	2,768,419.75	2,768,419.75
Total	$26,934,867.81	$ 9,866,615.45	$12,162,972.82	$ 9,438,191.60	$ 2,768,419.75	$61,171,067.43

Expenses initially incurred by the academic support function as a result of providing internal services to the other functional classifications were allocated to the other functional areas by reducing the academic support function's operating expenses by the total amount of salaries, benefits, and operating expenses incurred in the provision of these services, and allocating this amount to the other functional areas' operating expenses on the basis of usage. As a result of this process, expenses totaling $2,457,919.96 for the year ended June 30, 2018, and $2,408,436.12 for the year ended June 30, 2017, were reallocated from academic support to the other functional areas and caused academic support operating expenses to appear as a negative amount in the schedule above.

Note 15. On-behalf Payments

During the years ended June 30, 2018, and June 30, 2017, the State of Tennessee made payments of $37,989.78 and $33,675.00, respectively, on behalf of the college for retirees participating in the Closed Tennessee OPEB Plan. The Closed Tennessee OPEB Plan is a postemployment benefit healthcare plan and is discussed further in Note 10.

Note 16. Cumulative Effect of a Change in Accounting Principle

During fiscal year 2018, the college implemented GASB Statement 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions.* This statement establishes standards for the measurement, recognition, and display of the OPEB liability and related expenses, deferred inflows of resources, deferred outflows of resources, note disclosures, and required supplementary information. The implementation of GASB Statement 75 resulted in a cumulative adjustment to beginning net position of $2,643,077.70.

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 41-member board of the foundation is self-perpetuating and consists of graduates and friends of the college. Although the college does not control the timing or amount of receipts from the foundation, the majority of resources, or income thereon, that the foundation holds and invests are restricted to the activities of the college by the donors. Because these restricted resources held by the foundation can only be used by, or for the benefit of, the college, the foundation is considered a component unit of the college and is discretely presented in the college's financial statements.

The foundation is a nonprofit organization that reports under Financial Accounting Standards Board standards. As such, certain revenue recognition criteria and presentation features are different from Governmental Accounting Standards Board 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, 2018, the foundation made distributions of $817,869.78 to or on behalf of the college for both restricted and unrestricted purposes. During the year ended June 30, 2017, the foundation made distributions of $514,339.44 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 Community College Foundation, 1480 Nashville Pike, Gallatin, TN 37066.

Fair Value Measurements

The foundation reports certain assets at fair value. Fair value has been determined using quoted prices in active markets for identical assets 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 (Level 2), or significant unobservable inputs (Level 3). The following table categorizes the recurring fair-value measurements for assets at June 30, 2018, and at June 30, 2017.

	June 30, 2018	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Investments	$ 5,851,273.77	$ 3,787,053.49	$ 2,064,220.28	$ -
Pledges receivable	214,811.39	-	-	214,811.39
Total assets	$ 6,066,085.16	$ 3,787,053.49	$ 2,064,220.28	$ 214,811.39

	June 30, 2017	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Investments	$ 5,357,137.34	$ 3,391,651.24	$ 1,965,486.10	$ -
Pledges receivable	296,883.87	-	-	296,883.87
Total assets	$ 5,654,021.21	$ 3,391,651.24	$ 1,965,486.10	$ 296,883.87

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

At June 30, 2018	Beginning Balance	Total Gains/ (Losses), Realized and Unrealized	Purchases	Settlements	Ending Balance
Assets:					
Pledges receivable	$ 296,883.87	$ 162.91	$ 77,775.00	$ (160,010.39)	$ 214,811.39
Total assets	$ 296,883.87	$ 162.91	$ 77,775.00	$ (160,010.39)	$ 214,811.39

At June 30, 2017	Beginning Balance	Total Gains/ (Losses), Realized and Unrealized	Purchases	Settlements	Ending Balance
Assets:					
Pledges receivable	$ 75,502.53	$(441.66)	$329,790.00	$ (107,967.00)	$ 296,883.87
Total assets	$ 75,502.53	$(441.66)	$329,790.00	$ (107,967.00)	$ 296,883.87

All gains and losses, both realized and unrealized, have been reported on the statement of revenues, expenses, and changes in net position as capital grants and gifts income. Of this total, $0.00 is attributable to the change in unrealized gains or losses relating to those assets and liabilities still held at June 30, 2018, and $0.00 is attributable to the change in unrealized gains or losses relating to those assets and liabilities still held at June 30, 2017.

Cash and Cash Equivalents

Cash and cash equivalents consist of demand deposit accounts, certificates of deposit, money market funds, and the Local Government Investment Pool.

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, 2018, were as follows:

	Cost	Fair Value
US Treasury	$ 124,054.50	$ 141,275.63
US agencies	604,223.29	599,726.58
Certificates of deposit	774,713.29	771,658.22
Corporate stock	2,963,589.48	3,787,053.49
Corporate bonds	549,630.53	551,559.85
Total investments	$5,016,211.09	$5,851,273.77

Investments held at June 30, 2017, were as follows:

	Cost	Fair Value
US Treasury	$ 121,058.37	$ 140,757.16
US agencies	662,628.95	670,052.04
Certificates of deposit	633,000.00	633,028.55
Corporate stock	2,664,652.94	3,391,651.24
Corporate bonds	506,224.49	521,648.35
Total investments	$4,587,564.75	$5,357,137.34

Investment return – The following schedule summarizes the total investment return and its classification on the foundation's statement of revenues, expenses, and changes in net position.

	2018	2017
Dividends and interest, net of expenses of $37,836.19 for the year ended June 30, 2018, and $32,693.74 for the year ended June 30, 2017	$ 93,149.20	$ 98,672.60
Net realized and unrealized gains	353,352.70	383,303.47
Total return on investments	446,501.90	481,976.07
Endowment income per spending plan	47,114.22	103,264.16
Investment return in excess of amounts designated for current operations	$ 399,387.68	$ 378,711.91

Operating return – The board of trustees designates only a portion of the foundation's cumulative investment return for support of current operations; the remainder is retained to support operations of future years and to offset potential market declines. The amount computed under the endowment spending policy of the investment pool is used to support current operations.

Pledges Receivable

Pledges receivable are summarized below:

	June 30, 2018	June 30, 2017
Current pledges	$202,262.67	$267,222.00
Pledges due in one to five years	13,014.94	30,291.00
Pledges due after five years	-	-
Subtotal	215,277.61	297,513.00
Less discount to net present value	(466.22)	(629.13)
Total pledges receivable, net	$214,811.39	$296,883.87

Endowments

The Volunteer State Community College Foundation's endowments consist of approximately 55 individual funds established for a variety of purposes. Its endowment includes both donor-restricted endowment funds and funds designated by the Board of Trustees to function as endowments. As required by accounting principles generally accepted in the United States of America, net position associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, is classified and reported based on the existence or absence of donor-imposed restrictions.

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

Composition of Endowment by Net Position Class
As of June 30, 2018

	Permanently Restricted	Temporarily Restricted	Unrestricted	Total
Donor-restricted endowment funds	$2,239,974.12	$1,284,052.28	$ -	$3,524,026.60
Board-designated endowment funds	-	-	1,974,165.14	1,974,165.14
Total funds	$2,239,974.12	$1,284,052.28	$ 1,974,165.14	$5,498,191.54

Composition of Endowment by Net Position Class
As of June 30, 2017

	Permanently Restricted	Temporarily Restricted	Unrestricted	Total
Donor-restricted endowment funds	$2,198,449.77	$1,082,824.52	$ -	$3,281,274.29
Board-designated endowment funds	-	-	1,849,593.11	1,849,593.11
Total funds	$2,198,449.77	$1,082,824.52	$ 1,849,593.11	$5,130,867.40

Changes in Endowment Net Position
For the Fiscal Year Ended June 30, 2018

	Permanently Restricted	Temporarily Restricted	Unrestricted	Total
Endowment net position, beginning of year	$2,198,449.77	$ 1,082,824.52	$ 1,849,593.11	$5,130,867.40
Investment return:				

Investment income	12,481.54	47,114.22	33,527.51	93,123.27
Net appreciation (realized and unrealized)	-	224,328.18	129,024.52	353,352.70
Total investment return	12,481.54	271,442.40	162,552.03	446,475.97
Contributions	32,145.31	-	720.00	32,865.31
Appropriations of endowment assets for expenditure	-	(64,200.00)	(32,700.00)	(96,900.00)
Transfers	(3,102.50)	(6,014.64)	(6,000.00)	(15,117.14)
Endowment net position, end of year	$2,239,974.12	$ 1,284,052.28	$ 1,974,165.14	$5,498,191.54

Changes in Endowment Net Position
For the Fiscal Year Ended June 30, 2017

	Permanently Restricted	Temporarily Restricted	Unrestricted	Total
Endowment net position, beginning of year	$2,164,849.26	$ 830,889.02	$ 1,708,183.99	$4,703,922.27
Investment return:				
Investment income	(2,517.58)	65,345.96	35,836.86	98,665.24
Net appreciation (realized and unrealized)	-	244,016.17	139,287.30	383,303.47
Total investment return	(2,517.58)	309,362.13	175,124.16	481,968.71
Contributions	11,575.00	1,000.00	2,730.00	15,305.00
Appropriations of endowment assets for expenditure	-	(55,550.00)	(25,445.04)	(80,995.04)
Transfers	24,543.09	(2,876.63)	(11,000.00)	10,666.46
Endowment net position, end of year	$2,198,449.77	$ 1,082,824.52	$ 1,849,593.11	$5,130,867.40

Return objectives and risk parameters – The foundation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the organization must hold in perpetuity or for a donor-specified period(s) as well as board-designated funds. Under this policy, as approved by the Board of Trustees, the endowment assets are invested in a manner that is intended to produce results that preserve and protect its assets by earning a total return for each category of assets (a "fund"), which is appropriate for each fund's time horizon, distribution requirements, and risk tolerance. The foundation expects its endowment funds, over time, to provide an average rate of return of approximately 7% annually. Actual returns in any given year may vary from this amount.

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

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

Support From Volunteer State Community College

The college paid certain payroll costs for college personnel who also performed services supporting the foundation amounting to $425,853.02 in fiscal year 2018 and $393,766.08 in fiscal year 2017. In addition, operating expense in fiscal year 2018 and fiscal year 2017 of $52,371.01 and $57,921.45, including office space of $21,582.00 and $22,337.37 were included in the cost of support services for both years, respectively. These supporting costs paid by the college are reflected in the statement of revenues, expenses, and changes in net position as college support, with a like amount included in expenses. The college provides office space and the use of certain common facilities and services to the foundation at no cost. These costs have not been recorded as college support because they are not considered to be significant to the operations of the foundation.

Tennessee Board of Regents

Volunteer State Community College

Required Supplementary Information

Schedule of Volunteer State Community College's

Proportionate Share of the Net Pension Liability

Closed State and Higher Education Employee Pension Plan Within TCRS

	Proportion of the Net Pension Liability	Proportionate Share of the Net Pension Liability	Covered Payroll	Proportionate Share of the Net Pension Liability as a Percentage of Its Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2018	0.449669%	$8,047,284.97	$10,787,754.84	74.60%	88.88%
2017	0.456352%	8,326,422.97	11,141,960.68	74.73%	87.96%
2016	0.434494%	5,601,857.97	11,345,600.00	49.37%	91.26%
2015	0.435255%	3,003,037.00	11,890,812.33	25.26%	95.11%

1) To correspond with the measurement date, the amounts presented were determined as of June 30 of the prior fiscal year.

2) This is a 10-year schedule; however, the information in this schedule is not required to be presented retroactively. Years will be added to this schedule in future years until 10 years of information is available.

Tennessee Board of Regents

Volunteer State Community College

Required Supplementary Information
Schedule of Volunteer State Community College's
Proportionate Share of the Net Pension Asset
State and Higher Education Employee Retirement Plan Within TCRS

	Proportion of the Net Pension Asset	Proportionate Share of the Net Pension Asset	Covered Payroll	Proportionate Share of the Net Pension Asset as a Percentage of Its Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2018	0.525152%	$108,910.37	$2,729,789.67	3.99%	131.51%
2017	0.542392%	45,696.37	1,676,308.32	2.73%	130.56%
2016	0.450712%	12,534.37	490,806.51	2.55%	142.55%

1) To correspond with the measurement date, the amounts presented were determined as of June 30 of the prior fiscal year.

2) This is a 10-year schedule; however, the information in this schedule is not required to be presented retroactively. Years will be added to this schedule in future years until 10 years of information is available.

Tennessee Board of Regents

Volunteer State Community College

Required Supplementary Information

Schedule of Volunteer State Community College's Contributions

Closed State and Higher Education Employee Pension Plan Within TCRS

	Contractually Determined Contributions	Contributions in Relation to Contractually Determined Contributions	Contribution Deficiency (Excess)	Covered Payroll	Contributions as a Percentage of Covered Payroll
2018	$1,942,562.34	$1,942,562.34	$ -	$10,296,558.60	18.87%
2017	1,620,320.57	1,620,320.57	-	10,787,754.84	15.02%
2016	1,674,636.15	1,674,636.15	-	11,141,960.68	15.03%
2015	1,705,245.03	1,705,245.03	-	11,345,600.00	15.03%
2014	1,787,190.51	1,787,190.51	-	11,890,812.33	15.03%
2013	1,636,407.02	1,636,407.02	-	10,887,604.92	15.03%
2012	1,587,464.11	1,587,464.11	-	10,646,975.92	14.91%
2011	1,462,125.85	1,462,125.85	-	9,806,343.73	14.91%
2010	1,236,950.59	1,236,950.59	-	9,500,388.56	13.02%
2009	1,240,386.49	1,240,386.49	-	9,526,777.96	13.02%

To correspond with the reporting date, the amounts presented were determined as of June 30 of the stated fiscal year.

Tennessee Board of Regents

Volunteer State Community College

Required Supplementary Information

Schedule of Volunteer State Community College's Contributions

State and Higher Education Employee Retirement Plan Within TCRS

	Contractually Determined Contributions	Contributions in Relation to Contractually Determined Contributions	Contribution Deficiency (Excess)	Covered Payroll	Contributions as a Percentage of Covered Payroll
2018	$155,588.93	$155,588.93	$ -	$3,946,109.21	3.94%
2017	107,387.30	107,387.30	-	2,729,789.67	3.93%
2016	64,671.56	64,671.56	-	1,676,308.32	3.86%
2015	18,994.37	18,994.37	-	490,806.51	3.87%

1) This is a 10-year schedule; however, contributions to this plan began in 2015. Years will be added to this schedule in future years until 10 years of information is available.

2) To correspond with the reporting date, the amounts presented were determined as of June 30 of the stated year.

Tennessee Board of Regents

Volunteer State Community College

Required Supplementary Information
Schedule of Volunteer State Community College's
Proportionate Share of the Collective Total OPEB Liability
Closed State Employee Group OPEB Plan

	2018
College's proportion of the collective total OPEB liability	0.395588%
College's proportionate share of the collective total OPEB liability	$ 5,310,928.00
College's covered-employee payroll	$ 20,194,372.07
College's proportionate share of the collective total OPEB liability as a percentage of its covered-employee payroll	30.82%

1) There are no assets accumulating in a trust that meets the criteria in paragraph 4 of GASB Statement 75 related to this OPEB plan.

2) This is a 10-year schedule; however, the information in this schedule is not required to be presented retroactively. Years will be added to this schedule in future fiscal years until 10 years of information is available.

3) The amounts reported for each fiscal year were determined as of the prior fiscal year-end.

Tennessee Board of Regents
Volunteer State Community College
Required Supplementary Information
Schedule of Volunteer State Community College's Proportionate Share of the Collective Total OPEB Liability
Closed Tennessee OPEB Plan

	2018
College's proportion of the collective total OPEB liability	0.494825%
College's proportionate share of the collective total OPEB liability	$ 0.00
Primary government's proportionate share of the collective total OPEB liability	877,131.00
Total OPEB liability associated with the college	$ 877,131.00
College's covered-employee payroll	$ 20,194,372.07
College's proportionate share of the collective total OPEB liability as a percentage of its covered-employee payroll	0.00%

1) There are no assets accumulating in a trust that meets the criteria in paragraph 4 of GASB Statement 75 related to this OPEB plan.

2) This is a 10-year schedule; however, the information in this schedule is not required to be presented retroactively. Years will be added to this schedule in future fiscal years until 10 years of information is available.

3) The amounts reported for each fiscal year were determined as of the prior fiscal year-end.

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

Actuarial Valuation Date	Plan	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b-a)/c)]
July 1, 2015	State Employee Group Plan	$ -	$4,709,000.00	$4,709,000.00	0%	$22,148,975.56	21.26%
July 1, 2013	State Employee Group Plan	$ -	$4,405,000.00	$4,405,000.00	0%	$20,298,375.74	21.70%
July 1, 2011	State Employee Group Plan	$ -	$5,506,000.00	$5,506,000.00	0%	$18,477,102.00	29.80%

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

Supplementary Information
VOLUNTEER STATE COMMUNITY COLLEGE FOUNDATION
Schedules of Cash Flows - Component Unit
For the Years Ended June 30, 2018, and June 30, 2017

	Year Ended June 30, 2018	Year Ended June 30, 2017
Cash flows from operating activities		
Gifts and contributions	$ 355,256.45	$ 248,927.22
Payments to suppliers and vendors	(16,809.71)	(36,291.12)
Payments to Volunteer State Community College	(772,365.28)	(491,118.25)
Other receipts	159,441.00	139,384.76
Net cash used for operating activities	(274,477.54)	(139,097.39)
Cash flows from noncapital financing activities		
Private gifts for endowment purposes	32,145.31	11,575.00
Net cash provided by noncapital financing activities	32,145.31	11,575.00
Cash flows from capital and related financing activities		
Capital grants and gifts received	136,565.39	109,302.00
Net cash provided by capital and related financing activities	136,565.39	109,302.00
Cash flows from investing activities		
Proceeds from sales and maturities of investments	1,719,318.54	2,498,712.48
Income on investments	93,149.20	98,672.60
Purchases of investments	(1,860,102.27)	(2,877,828.90)
Net cash used for investing activities	(47,634.53)	(280,443.82)
Net decrease in cash and cash equivalents	(153,401.37)	(298,664.21)
Cash and cash equivalents - beginning of year	665,063.23	963,727.44
Cash and cash equivalents - end of year	$ 511,661.86	$ 665,063.23
Reconciliation of operating loss to net cash used for operating activities:		
Operating loss	$ (714,521.79)	$ (457,648.16)
Adjustments to reconcile operating loss to net cash used for operating activities:		
Noncash operating expenses	478,224.03	451,687.53
Endowment income per spending plan	(47,114.22)	(103,264.16)
Change in assets and liabilities:		
Receivables	2,805.00	(6,428.13)
Prepaid items	341.67	(1,350.00)
Accounts payable	1,891.06	(3,743.50)
Other	3,896.71	(18,350.97)
Net cash used for operating activities	$ (274,477.54)	$ (139,097.39)
Noncash investing, capital, and financing activities		
Unrealized gains on investments	$ 295,199.34	$ 123,257.91

Justin P. Wilson
Comptroller

Jason E. Mumpower
Deputy Comptroller

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

The Honorable Bill Lee, Governor
Members of the General Assembly
The Honorable Flora W. Tydings, Chancellor
Dr. Jerry L. Faulkner, President

We have audited the financial statements of Volunteer State Community College, an institution of the State University and Community College System of Tennessee, 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, 2018, and June 30, 2017, and the related notes to the financial statements, which collectively comprise the college's basic financial statements, and have issued our report thereon dated June 21, 2019. We conducted our audit in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

- As noted in the two prior audits, Volunteer State Community College did not provide adequate internal controls in one area

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

Compliance and Other Matters

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

We did, however, note certain immaterial instances of noncompliance that we have included in the Finding and Recommendation section of this report.

Volunteer State Community College's Response to Finding

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

Purpose of This Report

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

Deborah V. Loveless

Deborah V. Loveless, CPA, Director
Division of State Audit
June 21, 2019

Finding and Recommendation

As noted in the two prior audits, Volunteer State Community College did not provide adequate internal controls in one area

Volunteer State Community College did not design and monitor effective internal controls in one area. For this area, we found internal control deficiencies related to one of the college's systems. Although management has taken steps to correct these conditions, we are reporting internal control deficiencies for the third consecutive year because the corrective action was not sufficient. According to management, the college began implementing corrective actions during the current audit period due to the timing of the prior-year audit report's release.

Ineffective implementation of internal controls increases the likelihood of errors, data loss, and unauthorized access to college information. The details of this finding are confidential pursuant to Section 10-7-504(i), *Tennessee Code Annotated.* We provided the college with detailed information regarding the specific conditions we identified, as well as the related criteria, causes, and our specific recommendations for improvement.

Recommendation

Management should ensure that these conditions are corrected by promptly developing and consistently implementing internal controls in this area.

Management's Comment

Volunteer State Community College concurs with the finding. The College will automate the process of implementing desired controls so that the timeliness objective is met.

Observation and Comment

Colleges of Applied Technology

During the fiscal years ending June 30, 2018, and June 30, 2017, Volunteer State Community College served as the lead institution under agreements with the Tennessee College of Applied Technology at Hartsville and the Tennessee College of Applied Technology at Livingston. Under these agreements, Volunteer State Community College performed the accounting and reporting functions for the colleges. The chief administrative officer of each college is the president, who is assisted and advised by members of the faculty and administrative staff. Each president is responsible to the chancellor of the Tennessee Board of Regents. However, as of July 1, 2018, the Tennessee Board of Regents Central Office Shared Services Center performs the accounting and reporting functions, payroll function, and purchasing and procurement functions for these colleges. During the fiscal year ending June 30, 2019, the student data management function will transfer from the Tennessee Colleges of Applied Technology to the Shared Services Center.