

Roane State Community College Foundation

**For the Years Ended
June 30, 2001, and June 30, 2000**

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STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
State Capitol
Nashville, Tennessee 37243-0260
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John G. Morgan
Comptroller

December 19, 2002

The Honorable Don Sundquist, Governor
and
Members of the General Assembly
State Capitol
Nashville, Tennessee 37243
and

The Honorable Charles W. Manning, Chancellor
Tennessee Board of Regents
1415 Murfreesboro Road, Suite 350
Nashville, Tennessee 37217
and

Ms. Melinda Hillman, Director
Roane State Community College Foundation
276 Patton Lane
Harriman, Tennessee 37748

Ladies and Gentlemen:

Transmitted herewith is the financial and compliance audit of the Roane State Community College Foundation for the years ended June 30, 2001, and June 30, 2000. You will note from the independent auditor's report that an unqualified opinion was given on the fairness of the presentation of the financial statements.

Consideration of internal control over financial reporting and tests of compliance resulted in no audit findings.

Sincerely,

John G. Morgan
Comptroller of the Treasury

JGM/sah
02/083

State of Tennessee

Audit Highlights

Comptroller of the Treasury

Division of State Audit

Financial and Compliance Audit
Roane State Community College Foundation
For the Years Ended June 30, 2001, and June 30, 2000

AUDIT OBJECTIVES

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

AUDIT FINDINGS

The audit report contains no findings.

OPINION ON THE FINANCIAL STATEMENTS

The opinion on the financial statements is unqualified.

"Audit Highlights" is a summary of the audit report. To obtain the complete audit report, which contains all findings, recommendations, and management comments, please contact

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Audit Report
Roane State Community College Foundation
For the Years Ended June 30, 2001, and June 30, 2000

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Roane State Community College Foundation For the Years Ended June 30, 2001, and June 30, 2000

INTRODUCTION

POST-AUDIT AUTHORITY

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

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

BACKGROUND

The Roane State Community College Foundation is a nonprofit, private foundation incorporated on May 1, 1979, under the laws of the State of Tennessee. The foundation’s purpose is to promote and support scholarship and other school-related functions at Roane State Community College.

ORGANIZATION

The Roane State Community College Foundation is governed by a board of directors, including the president of the college and the director of the foundation, who serve *ex officio*. The other directors, elected by the majority of the board members, include outstanding citizens and business and/or professional men and women. The board’s normal transactions are executed by a seven-member executive committee.

AUDIT SCOPE

The audit was limited to the period July 1, 1999, through June 30, 2001, and was conducted in accordance with government auditing standards generally accepted in the United

States of America. Financial statements are presented for the years ended June 30, 2001, and June 30, 2000.

OBJECTIVES OF THE AUDIT

The objectives of the audit were

1. to consider the foundation's internal control over financial reporting to determine auditing procedures for the purpose of expressing an opinion on the financial statements;
2. to determine compliance with certain provisions of laws, regulations, contracts, and grants;
3. to determine the fairness of the presentation of the financial statements; and
4. to recommend appropriate actions to correct any deficiencies.

PRIOR AUDIT FINDINGS

There were no findings in the prior audit report.

RESULTS OF THE AUDIT

AUDIT CONCLUSIONS

Internal Control

As part of the audit of the foundation's financial statements for the years ended June 30, 2001, and June 30, 2000, we considered internal control over financial reporting to determine auditing procedures for the purpose of expressing an opinion on the financial statements, as required by government auditing standards generally accepted in the United States of America. Consideration of internal control over financial reporting disclosed no material weaknesses.

Compliance

The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Fairness of Financial Statement Presentation

The Division of State Audit has rendered an unqualified opinion on the foundation's financial statements.



**STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
DEPARTMENT OF AUDIT
DIVISION OF STATE AUDIT**

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

August 21, 2002

The Honorable John G. Morgan
Comptroller of the Treasury
State Capitol
Nashville, Tennessee 37243

Dear Mr. Morgan:

We have audited the financial statements of the Roane State Community College Foundation as of and for the years ended June 30, 2001, and June 30, 2000, and have issued our report thereon dated August 21, 2002. We conducted our audit in accordance with government auditing standards generally accepted in the United States of America.

Compliance

As part of obtaining reasonable assurance about whether the foundation's financial statements are free of material misstatement, we performed tests of the foundation's compliance with certain provisions of laws, regulations, contracts, and grants, 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 that are required to be reported under *Government Auditing Standards*.

The Honorable John G. Morgan
August 21, 2002
Page Two

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the foundation's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting that we consider to be material weaknesses.

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

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

Sincerely,

A handwritten signature in black ink that reads "Arthur A. Hayes, Jr." The signature is written in a cursive style with a large, prominent "A" and "H".

Arthur A. Hayes, Jr., CPA,
Director

AAH/sah



**STATE OF TENNESSEE
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Independent Auditor's Report

August 21, 2002

The Honorable John G. Morgan
Comptroller of the Treasury
State Capitol
Nashville, Tennessee 37243

Dear Mr. Morgan:

We have audited the accompanying statements of position of the Roane State Community College Foundation as of June 30, 2001, and June 30, 2000, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the foundation's management. Our responsibility is to express an opinion on these financial statements, based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Roane State Community College Foundation as of June 30, 2001, and June 30, 2000, and the changes in net assets and the cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The Honorable John G. Morgan
August 21, 2002
Page Two

In accordance with *Government Auditing Standards*, we have also issued our report dated August 21, 2002, on our consideration of the foundation's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Sincerely,

A handwritten signature in black ink that reads "Arthur A. Hayes, Jr." The signature is written in a cursive style with a large initial "A" and a distinct "H".

Arthur A. Hayes, Jr., CPA,
Director

AAH/sah

ROANE STATE COMMUNITY COLLEGE FOUNDATION
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2001, AND JUNE 30, 2000

| | June 30, 2001 | | | | June 30, 2000 | | | |
|--|----------------------|---------------------------|---------------------------|------------------------|----------------------|---------------------------|---------------------------|------------------------|
| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
| Assets: | | | | | | | | |
| Current assets: | | | | | | | | |
| Cash and cash equivalents (Note 2) | \$ - | \$ 104,651.89 | \$ - | \$ 104,651.89 | \$ - | \$ 106,524.33 | \$ - | \$ 106,524.33 |
| Accounts receivable | - | 30,611.00 | 16,964.90 | 47,575.90 | 3,200.00 | 30,250.00 | - | 33,450.00 |
| Promises to give (Note 3) | 12,763.50 | 424,317.87 | 9,361.97 | 446,443.34 | 7,114.50 | 704,473.17 | 12,071.04 | 723,658.71 |
| Due from unrestricted | - | 314,780.11 | - | 314,780.11 | - | 151,213.34 | - | 151,213.34 |
| Due from permanently restricted | - | 203,377.51 | - | 203,377.51 | - | 214,793.63 | - | 214,793.63 |
| Investments (Note 4) | 388,129.42 | 331,064.65 | 27,135.00 | 746,329.07 | 254,630.24 | 414,654.52 | 27,135.00 | 696,419.76 |
| Note receivable (Note 5) | - | 1,392.96 | - | 1,392.96 | - | 1,260.93 | - | 1,260.93 |
| Total current assets | 400,892.92 | 1,410,195.99 | 53,461.87 | 1,864,550.78 | 264,944.74 | 1,623,169.92 | 39,206.04 | 1,927,320.70 |
| Investments (Note 4) | - | 2,830,109.56 | 3,023,075.33 | 5,853,184.89 | - | 2,858,313.99 | 3,009,402.30 | 5,867,716.29 |
| Manly art collection | - | 43,805.00 | - | 43,805.00 | - | 43,805.00 | - | 43,805.00 |
| Real estate | - | 6,500.00 | - | 6,500.00 | - | 6,500.00 | - | 6,500.00 |
| Note receivable (Note 5) | - | 13,848.80 | - | 13,848.80 | - | 15,241.76 | - | 15,241.76 |
| Receivable from split interest agreements (Note 6) | - | - | 112,083.07 | 112,083.07 | - | - | 112,083.07 | 112,083.07 |
| Assets held in charitable remainder trust (Note 6) | - | - | 25,107.45 | 25,107.45 | - | - | 46,856.24 | 46,856.24 |
| Total assets | \$ 400,892.92 | \$ 4,304,459.35 | \$ 3,213,727.72 | \$ 7,919,079.99 | \$ 264,944.74 | \$ 4,547,030.67 | \$ 3,207,547.65 | \$ 8,019,523.06 |
| Liabilities and net assets: | | | | | | | | |
| Liabilities: | | | | | | | | |
| Current liabilities: | | | | | | | | |
| Accounts payable | \$ 1,977.40 | \$ 928.41 | \$ - | \$ 2,905.81 | \$ 18,082.83 | \$ 5,618.30 | \$ - | \$ 23,701.13 |
| Due to temporarily restricted | 314,780.11 | - | 203,377.51 | 518,157.62 | 151,213.34 | - | 214,793.63 | 366,006.97 |
| Liability - split interest agreements (Note 6) | - | - | 1,435.19 | 1,435.19 | - | - | 2,870.38 | 2,870.38 |
| Total current liabilities | 316,757.51 | 928.41 | 204,812.70 | 522,498.62 | 169,296.17 | 5,618.30 | 217,664.01 | 392,578.48 |
| Long-term liabilities: | | | | | | | | |
| Liability - split interest agreements (Note 6) | - | - | 5,976.63 | 5,976.63 | - | - | 11,115.50 | 11,115.50 |
| Total liabilities | 316,757.51 | 928.41 | 210,789.33 | 528,475.25 | 169,296.17 | 5,618.30 | 228,779.51 | 403,693.98 |
| Net assets: | | | | | | | | |
| Unrestricted | 84,135.41 | - | - | 84,135.41 | 95,648.57 | - | - | 95,648.57 |
| Temporarily restricted (Note 7) | - | 4,303,530.94 | - | 4,303,530.94 | - | 4,541,412.37 | - | 4,541,412.37 |
| Permanently restricted (Note 7) | - | - | 3,002,938.39 | 3,002,938.39 | - | - | 2,978,768.14 | 2,978,768.14 |
| Total net assets | 84,135.41 | 4,303,530.94 | 3,002,938.39 | 7,390,604.74 | 95,648.57 | 4,541,412.37 | 2,978,768.14 | 7,615,829.08 |
| Total liabilities and net assets | \$ 400,892.92 | \$ 4,304,459.35 | \$ 3,213,727.72 | \$ 7,919,079.99 | \$ 264,944.74 | \$ 4,547,030.67 | \$ 3,207,547.65 | \$ 8,019,523.06 |

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

ROANE STATE COMMUNITY COLLEGE FOUNDATION
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2001

| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> | <u>Total</u> |
|--|---------------------|-----------------------------------|-----------------------------------|------------------------|
| Revenues and other additions: | | | | |
| Support: | | | | |
| Contributions | \$ 10,433.00 | \$ 275,238.28 | \$ 208,912.07 | \$ 494,583.35 |
| Donated materials and equipment | 131,305.75 | - | - | 131,305.75 |
| Special events - annual auction | 107,726.00 | - | - | 107,726.00 |
| Special events - street painting | 18,022.90 | - | - | 18,022.90 |
| Special events - TBR | 2,000.00 | - | - | 2,000.00 |
| Special events - golf tournament | 14,474.00 | - | - | 14,474.00 |
| Total support | <u>283,961.65</u> | <u>275,238.28</u> | <u>208,912.07</u> | <u>768,112.00</u> |
| Revenues: | | | | |
| Net realized/unrealized losses | (19,044.58) | (47,984.82) | (305,362.81) | (372,392.21) |
| Interest and investment income | 14,610.05 | 184,314.63 | 229,700.72 | 428,625.40 |
| Change in value of split interest agreements | - | - | 6,220.47 | 6,220.47 |
| Total revenues | <u>(4,434.53)</u> | <u>136,329.81</u> | <u>(69,441.62)</u> | <u>62,453.66</u> |
| Net assets released from restrictions | <u>769,939.51</u> | <u>(672,037.37)</u> | <u>(97,902.14)</u> | <u>-</u> |
| Total revenues and other additions | <u>1,049,466.63</u> | <u>(260,469.28)</u> | <u>41,568.31</u> | <u>830,565.66</u> |
| Expenses: | | | | |
| Program expenses: | | | | |
| Scholarships | 243,337.32 | - | - | 243,337.32 |
| Campus projects | 585,208.06 | - | - | 585,208.06 |
| Administration expenses | 20,558.93 | 1,739.60 | - | 22,298.53 |
| Special events - annual auction | 57,687.95 | - | - | 57,687.95 |
| Special events - street painting | 3,148.88 | - | - | 3,148.88 |
| Special events - TBR | (3,218.00) | - | - | (3,218.00) |
| Special events - golf tournament | 9,023.77 | - | - | 9,023.77 |
| Special events - President's Club | 4,139.42 | - | - | 4,139.42 |
| Donated materials and equipment | 131,305.75 | - | - | 131,305.75 |
| Distributions to trust beneficiaries | - | - | 2,858.32 | 2,858.32 |
| Total expenses | <u>1,051,192.08</u> | <u>1,739.60</u> | <u>2,858.32</u> | <u>1,055,790.00</u> |
| Transfers: | | | | |
| Temporarily restricted | <u>(9,787.71)</u> | <u>24,327.45</u> | <u>(14,539.74)</u> | <u>-</u> |
| Changes in net assets | (11,513.16) | (237,881.43) | 24,170.25 | (225,224.34) |
| Net assets at beginning of year | <u>95,648.57</u> | <u>4,541,412.37</u> | <u>2,978,768.14</u> | <u>7,615,829.08</u> |
| Net assets at end of year | <u>\$ 84,135.41</u> | <u>\$ 4,303,530.94</u> | <u>\$ 3,002,938.39</u> | <u>\$ 7,390,604.74</u> |

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

ROANE STATE COMMUNITY COLLEGE FOUNDATION
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2000

| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> | <u>Total</u> |
|---|---------------------|-----------------------------------|-----------------------------------|------------------------|
| Revenues and other additions: | | | | |
| Support: | | | | |
| Contributions | \$ 25,035.22 | \$ 808,264.69 | \$ 528,357.47 | \$ 1,361,657.38 |
| Donated services | 4,076.43 | - | - | 4,076.43 |
| Donated materials and equipment | 64,850.26 | 10,159.73 | - | 75,009.99 |
| Special events - annual auction | 31,867.00 | - | - | 31,867.00 |
| Special events - street painting | 14,900.00 | - | - | 14,900.00 |
| Special events - TBR | 11,000.00 | - | - | 11,000.00 |
| Special events - golf tournament | 16,230.00 | - | - | 16,230.00 |
| Total support | <u>167,958.91</u> | <u>818,424.42</u> | <u>528,357.47</u> | <u>1,514,740.80</u> |
| Revenues: | | | | |
| Net realized/unrealized losses | (4,223.82) | (381,850.61) | (12,142.09) | (398,216.52) |
| Interest and investment income | 11,276.77 | 170,781.12 | 215,775.13 | 397,833.02 |
| Change in value of split interest agreements | - | - | 1,612.80 | 1,612.80 |
| Total revenues | <u>7,052.95</u> | <u>(211,069.49)</u> | <u>205,245.84</u> | <u>1,229.30</u> |
| Net assets released from restrictions | <u>589,655.01</u> | <u>(449,221.23)</u> | <u>(140,433.78)</u> | <u>-</u> |
| Total revenues and other additions | <u>764,666.87</u> | <u>158,133.70</u> | <u>593,169.53</u> | <u>1,515,970.10</u> |
| Expenses: | | | | |
| Program expenses: | | | | |
| Scholarships | 389,117.65 | - | - | 389,117.65 |
| Campus projects | 246,741.99 | - | - | 246,741.99 |
| Administration expenses | 32,942.57 | - | - | 32,942.57 |
| Special events - annual auction | 15,209.76 | - | - | 15,209.76 |
| Special events - street painting | 27.98 | - | - | 27.98 |
| Special events - TBR | 20,933.60 | - | - | 20,933.60 |
| Special events - golf tournament | 9,236.12 | - | - | 9,236.12 |
| Special events - President's Club | 6,172.17 | - | - | 6,172.17 |
| Special events - campus campaign | 398.45 | - | - | 398.45 |
| Donated services - advertising, legal, and accounting | 4,076.43 | - | - | 4,076.43 |
| Donated materials and equipment | 64,850.26 | 10,159.73 | - | 75,009.99 |
| Distributions to trust beneficiaries | - | - | 2,640.72 | 2,640.72 |
| Total expenses | <u>789,706.98</u> | <u>10,159.73</u> | <u>2,640.72</u> | <u>802,507.43</u> |
| Transfers: | | | | |
| Temporarily restricted | <u>(19,646.95)</u> | <u>42,210.54</u> | <u>(22,563.59)</u> | <u>-</u> |
| Changes in net assets | (44,687.06) | 190,184.51 | 567,965.22 | 713,462.67 |
| Net assets at beginning of year | <u>140,335.63</u> | <u>4,351,227.86</u> | <u>2,410,802.92</u> | <u>6,902,366.41</u> |
| Net assets at end of year | <u>\$ 95,648.57</u> | <u>\$ 4,541,412.37</u> | <u>\$ 2,978,768.14</u> | <u>\$ 7,615,829.08</u> |

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

ROANE STATE COMMUNITY COLLEGE FOUNDATION
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2001, AND JUNE 30, 2000

| | Year Ended <u>June 30, 2001</u> | Year Ended <u>June 30, 2000</u> |
|--|------------------------------------|------------------------------------|
| Cash flows from operating activities: | | |
| Increase (decrease) in net assets | \$ (225,224.34) | \$ 713,462.67 |
| Adjustments to reconcile change in net assets to net cash provided by (used for) operating activities: | | |
| Provision for uncollectible pledges | 26,824.99 | 5,909.40 |
| Discount on pledges receivable | (6,793.57) | (18,721.07) |
| Loss on sale of real estate | - | 5,960.00 |
| Net unrealized losses | 372,184.55 | 390,345.72 |
| Realized losses | 207.66 | 1,910.80 |
| Noncash contributions | (69,898.97) | (112,189.50) |
| Amortization of liability - split interest agreements | - | 897.42 |
| Increase in unrestricted unconditional promises to give | (8,819.00) | (948.25) |
| (Increase) decrease in accounts receivable | 2,839.00 | (4,846.00) |
| Increase (decrease) in accounts payable | (20,795.32) | 7,555.52 |
| Increase in liability for split interest agreements | - | 130.50 |
| Close trust | (3,678.27) | - |
| Contributions restricted for long-term purposes: | | |
| Unconditional promises to give | <u>266,002.95</u> | <u>7,064.84</u> |
| Net cash provided by operating activities | <u>332,849.68</u> | <u>996,532.05</u> |
| Cash flows from investing activities: | | |
| Purchases of investments | (828,938.01) | (979,443.65) |
| Proceeds from sale of investments | 494,860.20 | 46,654.74 |
| Principal payments on note receivable | 2,251.48 | 1,141.41 |
| Proceeds from sale of real estate | - | 10,940.00 |
| Net cash used for investing activities | <u>(331,826.33)</u> | <u>(920,707.50)</u> |
| Cash flows from financing activities: | | |
| Annuity payments from split interest agreements | <u>(2,895.79)</u> | <u>(2,640.72)</u> |
| Net cash used for financing activities | <u>(2,895.79)</u> | <u>(2,640.72)</u> |
| Net increase (decrease) in cash and cash equivalents | (1,872.44) | 73,183.83 |
| Cash and cash equivalents at beginning of year | <u>106,524.33</u> | <u>33,340.50</u> |
| Cash and cash equivalents at end of year | <u>\$ 104,651.89</u> | <u>\$ 106,524.33</u> |

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

Roane State Community College Foundation
Notes to the Financial Statements
June 30, 2001, and June 30, 2000

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities

The Roane State Community College Foundation is a not-for-profit organization exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. The foundation was formed to support Roane State Community College and its eight-county service area. The foundation receives support from individual, corporate, and other donors and uses its resources for scholarships, facilities, and other purposes to further the college's goals.

Basis of Presentation

The accompanying financial statements have been prepared on the accrual basis of accounting and, accordingly, reflect all significant receivables, payables, and other liabilities.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the foundation considers all unrestricted highly liquid investments with an initial maturity of three months or less to be cash equivalents.

Promises to Give

Unconditional promises to give, less an allowance for uncollectible amounts, are recognized as revenue in the period received and as assets, decreases of liabilities, or expenses depending on the form of the benefits received. Conditional promises to give are recognized when the conditions on which they depend are substantially met. Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using

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risk-free interest rates applicable to the years in which the promises are received. Amortization of the discounts is included in contribution revenue.

Investments

Investments in marketable securities are stated at the quoted market value at June 30. Unrealized gains and losses are included in the change in net assets in the accompanying statement of activities. Real estate is considered to be an other asset and is stated at the appraisal value as of the date received.

Allocation of Investment Income and Net Appreciation

As provided in Title 35, Chapter 10, *Tennessee Code Annotated*, Uniform Management of Institutional Funds Act, Section 35-10-103, the governing board has the authority to appropriate for expenditure for the uses and purposes for which an endowment fund is established so much of the net appreciation, realized and unrealized, in the fair value of the assets of an endowment fund over the historic dollar value of the fund as is deemed prudent, or as specified in the terms of the gift instrument or the charter of the institution.

Therefore, the interest and dividends earned on the combined investment accounts are allocated to the expendable portion of the endowments each month. The allocation is based on each fund's (project's) average balance during the month in relation to the total average balance on all funds (projects).

The unrealized gains and losses, for each semi-annual period, on the investments are allocated to the principal portion (corpus) of the endowments based on the balance on the first day of the period or the day of contribution if contributed during the period. The amount allocated to each fund (project) is made based on the individual fund (project) corpus in relation to the total of all funds (projects).

Interest and dividends are allocated monthly to the temporarily restricted monies for campus projects based on the ratio of each fund's (project's) average balance during the month in relation to the total for all funds (projects).

Contributions

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions. Support that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which

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the support is recognized. All other donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or a purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Donated Services

A significant portion of the foundation's functions is conducted by unpaid volunteers. The value of this contributed time is not reflected in the accompanying financial statements since the volunteers' time does not meet the criteria for recognition under Statement of Financial Accounting Standards No. 116. However, specialized services (legal, accounting, and advertising) which would otherwise need to be purchased are recognized as income and an expense at their fair value.

Donated Assets

Donated real estate is recorded at the fair value as stated in an appraisal obtained by the donor as of the gift date. Marketable securities are recorded at their fair value as listed on the respective stock exchange as of the gift date. Other noncash donations are recorded at their fair value as estimated by the donor as of the gift date unless an appraisal is required for tax purposes, in which case the fair value as stated in the appraisal is used to value the gift. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose.

NOTE 2. CASH AND CASH EQUIVALENTS

Financial instruments that potentially subject the foundation to concentrations of credit risk consist principally of cash and cash equivalent accounts in financial institutions. The bank balances of deposits as of June 30, 2001, and June 30, 2000, were entirely insured.

NOTE 3. PROMISES TO GIVE

Concentrations of credit risk exist with respect to promises to give due to the fact that the foundation's contributor base is generally confined to Roane State Community College's service area. Also, a significant portion of the foundation's receivables were promised by persons or organizations associated with particular

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local industries. However, promises to give are reflected net of any doubtful accounts. At June 30, 2001, and June 30, 2000, the foundation considered all recorded promises to give to be collectible. Unconditional promises to give are as follows:

June 30, 2001

| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> |
|--|---------------------|-----------------------------------|-----------------------------------|
| Receivable in less than one year | \$12,763.50 | \$312,323.11 | \$ 3,448.00 |
| Receivable in one to five years | <u>-</u> | <u>138,676.33</u> | <u>8,000.00</u> |
| Total unconditional promises to give | 12,763.50 | 450,999.44 | 11,448.00 |
| Less discounts to net present value (unamortized) | <u>-</u> | <u>26,681.57</u> | <u>2,086.03</u> |
| Net unconditional promises to give | <u>\$12,763.50</u> | <u>\$424,317.87</u> | <u>\$ 9,361.97</u> |

June 30, 2000

| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> |
|--|---------------------|-----------------------------------|-----------------------------------|
| Receivable in less than one year | \$7,114.50 | \$660,237.45 | \$ 6,175.25 |
| Receivable in one to five years | <u>-</u> | <u>77,692.68</u> | <u>8,000.00</u> |
| Total unconditional promises to give | 7,114.50 | 737,930.13 | 14,175.25 |
| Less discounts to net present value (unamortized) | <u>-</u> | <u>33,456.96</u> | <u>2,104.21</u> |
| Net unconditional promises to give | <u>\$7,114.50</u> | <u>\$704,473.17</u> | <u>\$12,071.04</u> |

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NOTE 4. INVESTMENTS

AmSouth Investment Services, Inc., investments (mutual funds) are presented in the financial statements at fair value and are summarized as follows:

June 30, 2001

| | <u>Cost</u> | <u>Market</u> |
|-----------------------------------|-----------------------|-----------------------|
| Unrestricted net assets | \$ 256,532.23 | \$ 248,129.42 |
| Temporarily restricted net assets | 753,083.09 | 728,415.56 |
| Permanently restricted net assets | <u>3,125,450.70</u> | <u>3,023,075.33</u> |
| Total | <u>\$4,135,066.02</u> | <u>\$3,999,620.31</u> |

June 30, 2000

| | <u>Cost</u> | <u>Market</u> |
|-----------------------------------|-----------------------|-----------------------|
| Unrestricted net assets | \$ 231,225.87 | \$ 254,630.24 |
| Temporarily restricted net assets | 782,691.07 | 861,913.99 |
| Permanently restricted net assets | <u>2,732,792.75</u> | <u>3,009,402.30</u> |
| Total | <u>\$3,746,709.69</u> | <u>\$4,125,946.53</u> |

For classification purposes on the statement of financial position, the mutual fund investments in temporarily restricted net assets and permanently restricted net assets are recorded as other assets because management generally considers such investments to be long-term. Also, under permanently restricted net assets, a portion of the mutual fund investments is classified as assets held in charitable remainder trust, \$25,107.45 at June 30, 2001, and \$46,856.24 at June 30, 2000.

The following table shows the relationship between the carrying amounts and market values of the investments.

| | <u>Cost</u> | <u>Market</u> | <u>Excess of Market Over Cost</u> |
|-------------------------------------|----------------|----------------|---|
| Balance at June 30, 2000 | \$3,746,709.69 | \$4,125,946.53 | \$ 379,236.84 |
| Balance at June 30, 2001 | \$4,135,066.02 | \$3,999,620.31 | <u>(135,445.71)</u> |
| Decrease in unrealized appreciation | | | <u>\$ 514,682.55</u> |

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| | | | |
|--------------------------|----------------|----------------|-------------------|
| Balance at June 30, 1999 | \$2,964,580.85 | \$3,366,882.72 | \$402,301.87 |
| Balance at June 30, 2000 | \$3,746,709.69 | \$4,125,946.53 | <u>379,236.84</u> |

Decrease in unrealized appreciation \$ 23,065.03

For the year ended June 30, 2001, the average annual yield exclusive of net gains (losses) was 8.85%, and the annual total return based on market value was -2.44%. For the year ended June 30, 2000, the average annual yield exclusive of net gains (losses) was 9.79%, and the annual total return based on market value was 19.56%.

The foundation owned 39,284 shares of Verizon common stock at June 30, 2001, and 32,200 shares of GTE common stock at June 30, 2000. The cost basis of the stock was \$1,429,036. The market value was \$2,101,694 at June 30, 2001, and \$1,996,400 at June 30, 2000. The unrealized market gain (loss) was \$105,294.00 for the year ended June 30, 2001, and (\$367,281.25) for the year ended June 30, 2000. Annual dividends of \$1.75/share or \$68,654.94 were paid for the year ended June 30, 2001. Annual dividends of \$1.88/share or \$60,536.00 were paid for the year ended June 30, 2000. This represents a return on equity of approximately 4.80% and a return on market value of 3.27% for the year ended June 30, 2001, and a return on equity of approximately 4.24% and a return on market value of 3.03% for the year ended June 30, 2000.

The foundation also had short-term investments as follows:

| | <u>June 30, 2001</u> | <u>June 30, 2000</u> |
|------------------------------|----------------------|----------------------|
| Certificates of deposit | \$167,135.00 | \$ 27,135.00 |
| Mutual funds | <u>331,064.65</u> | <u>414,654.52</u> |
| Total short-term investments | <u>\$498,199.65</u> | <u>\$441,789.52</u> |

Cost approximates fair value for these short-term investments. The average annual yield was 5.17% for the year ended June 30, 2001, and 4.91% for the year ended June 30, 2000.

Concentrations of credit risk exist with respect to investments due to the fact that the foundation's investments are uninsured and are subject to market fluctuations. However, most of the investments are invested with a long-term strategy, and overall gains are anticipated over the long-term.

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NOTE 5. NOTE RECEIVABLE

The note receivable at June 30, 2001, and June 30, 2000, is due from the sale of real estate and is secured by the real estate. The note is payable over ten years at an annual interest rate of 10% in monthly installments of \$237.87.

NOTE 6. SPLIT INTEREST AGREEMENTS

The foundation administers various charitable remainder trusts. A charitable remainder trust provides for the payment of distributions to the grantor or other designated beneficiaries over the trust's term (usually the designated beneficiary's lifetime). At the end of the trust's term, the remaining assets are available for the foundation's use. The portion of the trust attributable to the future interest of the foundation is recorded in the statement of activities as permanently restricted contributions in the period the trust is established. Assets held in the charitable remainder trusts are recorded at fair value in the statement of financial position. On an annual basis, the foundation revalues the liability and makes distributions to the designated beneficiaries based on actuarial assumptions and trust agreements. The present value of the estimated future payments is calculated using Internal Revenue Service prescribed rates and applicable mortality tables.

NOTE 7. RESTRICTIONS ON NET ASSETS

Temporarily restricted net assets are available for scholarship assistance, the college's building program, and other programs to further the vision of the college and the foundation's supporters.

| | <u>June 30, 2001</u> | <u>June 30, 2000</u> |
|---|-----------------------|-----------------------|
| Purchase of property and equipment for the college | \$4,094,677.05 | \$4,376,911.79 |
| Scholarship assistance | <u>208,853.89</u> | <u>164,500.58</u> |
| | <u>\$4,303,530.94</u> | <u>\$4,541,412.37</u> |

Permanently restricted net assets are to provide permanent endowments for the foundation, with investment income restricted primarily for scholarships or other academic purposes.

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NOTE 8. RELATED PARTY TRANSACTIONS

Effective August 15, 1991, the foundation and Roane State Community College entered into a support agreement that provides for the college to compensate the foundation staff and supply other items necessary for the operation of the foundation office such as clerical support, telephone service, supplies, and travel funds. The expenses incurred by the college in accordance with this agreement totaled \$188,886.02 for the year ended June 30, 2001, and \$167,065.82 for the year ended June 30, 2000.