AUDIT REPORT

Tennessee Board of Regents
Roane State Community College

For the Years Ended
June 30, 2007, and June 30, 2006

STATE OF TENNESSEE

COMPTROLLER OF THE TREASURY

Department of Audit

Division of State Audit

Tennessee Comptroller of the Treasury

Arthur A. Hayes, Jr., CPA, JD, CFE
Director

Kandi B. Thomas, CPA, CFE
Assistant Director

Donna L. Jewell, CPA, CFE
Audit Manager

Patricia L. Wakefield, CPA, CFE
In-Charge Auditor

Jeff Hughes, CFE
Seth J. Massa
Jeff Patterson, CFE
Sheilah Pride, CFE
Staff Auditors

Gerry Boaz, CPA
Technical Manager

Amy Brack
Editor

Comptroller of the Treasury, Division of State Audit
1500 James K. Polk Building, Nashville, TN 37243-1402
(615) 401-7897

Financial/compliance audits of colleges and universities are available on-line at www.comptroller.state.tn.us/sa/reports/index.html.
For more information about the Comptroller of the Treasury, please visit our website at www.comptroller.state.tn.us

STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
DEPARTMENT OF AUDIT
DIVISION OF STATE AUDIT
SUITE 1500
JAMES K. POLK STATE OFFICE BUILDING
NASHVILLE, TENNESSEE 37243-1402
PHONE (615) 401-7897
FAX (615) 532-2765

February 10, 2009

The Honorable Phil Bredesen, 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
Dr. Gary Goff, President
Roane State Community College
276 Patton Lane
Harriman, Tennessee 37748

Ladies and Gentlemen:

Transmitted herewith is the financial and compliance audit of the Tennessee Board of Regents, Roane State Community College, for the years ended June 30, 2007, and June 30, 2006. You will note from the independent auditor's report that unqualified opinions were given on the fairness of the presentation of the financial statements.

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

Sincerely,

Arthur A. Hayes, Jr., CPA
Director

AAH/ajm
08/046

State of Tennessee

Audit Highlights

Comptroller of the Treasury | Division of State Audit

Financial and Compliance Audit
Roane State Community College
For the Years Ended June 30, 2007, and June 30, 2006

AUDIT OBJECTIVES

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

INTERNAL CONTROL FINDING

The College Has Not Adequately Segregated Duties in Banner Finance and Banner Human Resources, Which Increases the Risk of Fraudulent Activity
Top management at Roane State Community College has not established adequate controls over computer users' access to the financial accounting system and the personnel and payroll system (page 9).

OPINIONS ON THE FINANCIAL STATEMENTS

The opinions on the financial statements are unqualified.

Audit Report
Tennessee Board of Regents
Roane State Community College
For the Years Ended June 30, 2007, and June 30, 2006

TABLE OF CONTENTS

TABLE OF CONTENTS (CONT.)

Tennessee Board of Regents
Roane State Community College
For the Years Ended June 30, 2007, and June 30, 2006

INTRODUCTION

POST-AUDIT AUTHORITY

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

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

BACKGROUND

The idea for Tennessee's community college system was conceived in 1957 when the state legislature ordered a study of community college programs, a study which resulted in the Pierce-Albright Report. Acting on the recommendation of the Governor and the Department of Education, the General Assembly authorized the Department of Education to establish several community colleges throughout Tennessee. Roane State Community College was established as a two-year college by the 1969 General Assembly. The first student was admitted in the fall of 1971. The General Assembly vested the governance of the college in the Tennessee Board of Regents on July 1, 1972.

ORGANIZATION

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

AUDIT SCOPE

The audit was limited to the period July 1, 2005, through June 30, 2007, and was conducted in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in generally accepted government auditing standards. Financial statements are presented for the years ended June 30, 2007, and June 30, 2006. Roane State Community College is an institution of the Tennessee Board of Regents, which is an integral part of state government. As such, the Tennessee Board of Regents has been included as a component unit in the *Tennessee Comprehensive Annual Financial Report.*

OBJECTIVES OF THE AUDIT

The objectives of the audit were

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

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

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

4. to recommend appropriate actions to correct any deficiencies.

PRIOR AUDIT FINDINGS

There were no findings in the prior audit report.

OBSERVATIONS AND COMMENTS

MANAGEMENT'S RESPONSIBILITY FOR RISK ASSESSMENT

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

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

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

FRAUD CONSIDERATIONS

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

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

TECHNOLOGY CENTERS

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

RESULTS OF THE AUDIT

AUDIT CONCLUSIONS

Internal Control

As part of the audit of the college's financial statements for the years ended June 30, 2007, and June 30, 2006, we considered internal control over financial reporting as a basis for designing auditing procedures for the purpose of expressing opinions on the financial statements, as required by auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in generally accepted government auditing standards. One significant deficiency, along with the recommendation and management's response, is detailed in the finding and recommendation section. 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 generally accepted government auditing standards.

Fairness of Financial Statement Presentation

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

STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
DEPARTMENT OF AUDIT
DIVISION OF STATE AUDIT
SUITE 1500
JAMES K. POLK STATE OFFICE BUILDING
NASHVILLE, TENNESSEE 37243-1402
PHONE (615) 401-7897
FAX (615) 532-2765

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*

November 14, 2008

The Honorable Phil Bredesen, 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
Dr. Gary Goff, President
Roane State Community College
276 Patton Lane
Harriman, Tennessee 37748

Ladies and Gentlemen:

We have audited the financial statements of Roane State Community College, an institution of the Tennessee Board of Regents, which is a component unit of the State of Tennessee, and its discretely presented component unit as of and for the years ended June 30, 2007, and June 30, 2006, and have issued our report thereon dated November 14, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in generally accepted government auditing standards.

Internal Control Over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified one deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the college's ability to initiate, authorize, record, process, or report financial data reliably in accordance with accounting principles generally accepted in the United States of America such that there is more than a remote likelihood that a misstatement of the college's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

The following significant deficiency was noted:

- The college has not adequately segregated duties in Banner Finance and Banner Human Resources, which increases the risk of fraudulent activity

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

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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

Compliance and Other Matters

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

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

Sincerely,

Arthur A. Hayes, Jr.

Arthur A. Hayes, Jr., CPA
Director

AAH/ajm

FINDING AND RECOMMENDATION

The college has not adequately segregated duties in Banner Finance and Banner Human Resources, which increases the risk of fraudulent activity

Finding

Top management at Roane State Community College has not established adequate controls over computer users' access to the financial accounting system and the personnel and payroll system. The Assistant Vice President for Fiscal and Auxiliary Services, acting as the business owner for Banner Finance (FI); and the Director of Human Resources, acting as the business owner for Banner Human Resources (HR), have not adequately segregated duties within the Banner Information System.

Background Information

Under a Tennessee Board of Regents (TBR) directive, all TBR institutions are phasing out the Financial Records System, Human Resources System, and Student Information System modules, which the college identified as the "Plus System." Roane State Community College is currently converting to a new information system identified as "Banner." The new information system also includes a financial module, a human resources module, and a student information module. The human resources module (Banner HR) was implemented on January 1, 2007, and the finance module (Banner FI), on July 1, 2007. To date, the college has not implemented the student module.

The Vice President over the applicable area assigned a business owner to each module. The business owner leads the implementation of each module and also has the responsibility of determining the necessary access level for users within that module. Each business owner develops class objects of related forms (screens) needed to perform specific operations and also assigns user classes of employees to the various class objects.

In developing the class objects, the business owner must ensure that no single class contains forms which would permit an employee to perform incompatible functions and must ensure that adequate segregation of duties is maintained. He/she must also ensure that no employee or group of employees is granted maintenance access to multiple classes which would override existing controls. The business owner must also ensure that, while each employee has the access needed to fulfill his or her job responsibilities, the employee's access is limited to only the forms (screens) needed.

To determine whether the business owner had appropriately assigned user access, we obtained the security reports for the Student Information System and Class User and Class Object reports for Banner FI and Banner HR and tested the access level for key college employees.

Banner Finance Application

The Assistant Vice President for Fiscal and Auxiliary Services serves as the business owner for Banner FI. She developed a "superclass" with "modify" access to all of the Banner FI forms to be used for testing during implementation of the application and for emergency access thereafter. The Assistant Vice President was the only member of the "superclass," which gave her the ability to perform virtually all financial operations. She also had her normal access authorization that she used to fulfill her daily job responsibilities.

Internal control best practices recommend adequate segregation of duties over financial operations. Allowing excessive and incompatible access functions of one individual increases the risk of errors or of fraudulent or abusive transactions.

When we discussed this problem with the Assistant Vice President, she agreed that the "superclass" created inadequate segregation of duties and stated that she had planned to modify her access in this "superclass" from "production" to "test" mode only when Banner FI went live on July 1, 2007, and reactivate the class for emergency access only. However, when we tested the access of key employees to Banner Finance in May 2008, we found that she still had maintenance access for the "superclass" in the production mode. She stated that she was unaware that the access was in "production" mode and modified it immediately after our inquiries on June 3, 2008. We verified that she appropriately modified her access, limiting her ability to perform incompatible functions.

Because we identified a heightened fraud risk in her ability to potentially initiate a payment to a fictitious student or vendor and then misappropriate the funds, we tested the Assistant Vice President's access to the system and found that she initiated three checks to either students or vendors. We examined the support for each transaction and found each to be appropriate. We did not find any improper use of her access in our limited review.

Banner Human Resources Application

Based on our testwork of key employee access, we found that the Director of Human Resources, who serves as the business owner of Banner HR, gave himself, the Human Resources Manager, and the Executive Secretary in the Department of Human Resources the ability to add a new employee in Banner HR and also enter payroll information for an employee. This access also allowed them the ability to change the pay rates of current employees. Internal control best practices recommend that no employees have both payroll and personnel responsibilities, and only the Payroll Department should have the ability to enter payroll data. When we discussed this access problem with the Vice President for Financial Services, the Director of Human Resources, and the Assistant Vice President for Payroll, Budgets, and Telecommunications, they agreed the Human Resources employees should not have the access to change payroll information. We subsequently verified that the Director of Human Resources eliminated the inappropriate access in May 2008.

Based on our testwork, we also noted that the four employees in the Payroll Department, including the Assistant Vice President for Payroll, Budgets, and Telecommunications, could enter payroll changes and run the payroll. This inadequate segregation of duties increases the risk of unauthorized changes to payroll as well as the risk that authorized changes may not be properly recorded and the errors not detected in a timely manner. When we discussed this issue with the Director of Human Resources and the Assistant Vice President for Payroll, Budgets, and Telecommunications, they stated that they were not aware that internal control best practices considered this to be inadequate segregation of payroll duties. On April 8, 2008, the Director of Human Resources removed the access which allowed the Assistant Vice President for Payroll, Budgets, and Telecommunications to change pay rates. We were able to verify this change. The Assistant Vice President also stated that he established a new procedure in April 2008 that now requires him to review the pay rate changes to ensure that they are properly approved and recorded. With this additional control in place and operating effectively, management should mitigate the risks identified above.

We reviewed the payroll changes for all employees in the Department of Human Resources and the Payroll Department and found no unauthorized payroll changes. We also reviewed the support for the amounts of any authorized changes. We did not find any inappropriate payroll changes in our limited review.

In May 2007, college management submitted an entity-wide risk assessment to the Tennessee Board of Regents (TBR). Management identified the level of risk for inadequate segregation of duties in Financial Management as "Medium Impact/Medium Probability." For risks identified at the "Medium Impact/Medium Probability" level, it is management's intention that supervisors reporting to Department Directors should perform the oversight function to ensure that supervisory and execution controls are working. The Assistant Vice President for Fiscal Services stated that management may have to reevaluate the initial assessment on individual risks based on the results of the ongoing monitoring of these controls. The college will not submit its risk assessment of Financial Management to TBR until May 2009.

Recommendation

The President, the Vice President for Financial Services, the Assistant Vice President for Fiscal and Auxiliary Services, and the Director of Human Resources should ensure controls over Banner FI access are adequately designed, implemented, and maintained. As for any other employee, the access of the Assistant Vice President for Fiscal and Auxiliary Services should be limited to those functions that are necessary for her job responsibilities. The Vice President for Financial Services and the Assistant Vice President should evaluate the appropriateness of using the "superclass" access in cases of emergency. Unless the college can develop a reliable means of monitoring activity in the "superclass," emergency access should be limited to the forms/classes needed.

The Vice President for Financial Services, the Director of Human Resources, and the Assistant Vice President for Budgets, Payroll, and Telecommunications should ensure that personnel and payroll duties are adequately segregated in Banner HR. Each employee's access should be limited to his or her job responsibilities. Employees in the Department of Human Resources should not have "modify" access to any payroll forms. The Payroll Department should continue to monitor changes between current and prior payrolls to ensure that all changes were recorded correctly and were properly approved.

The President, in conjunction with the Vice President for Financial Services, should also assign specific staff the responsibility for monitoring access to ensure the controls are effective to mitigate the risks of inappropriate modifications to the college's data.

Management should continue to evaluate risks and include them in documented risk assessment activities. Management should ensure staff who are responsible for the design and implementation of internal controls to adequately mitigate those risks and to prevent and detect exceptions timely are continually evaluating those controls. Management should ensure staff who are responsible for ongoing monitoring for compliance with all requirements are indeed monitoring and taking prompt action when exceptions occur. All controls and control activities, including monitoring, should be adequately documented.

Management's Comment

We concur with the finding and recommendations.

As noted in the finding, access to the Finance "superclass" was removed immediately upon discovery. Additionally, the "superclass" account has been completely removed from Banner. The College has no intentions of establishing or using superclasses again that contain full access to all forms. Should a situation arise where emergency access is needed for a particular form or class on a short-term basis, the appropriate supervisor will ensure that all activity will be closely monitored.

For Human Resources and Payroll, access to the Banner form in question was immediately removed as noted in the finding.

With regard to overall security and access, management has assigned specified responsibility for monitoring access to reduce the risks of inappropriate modifications to college data.

Additionally, the Payroll Department will monitor payroll changes to ensure that only authorized changes are made. A program has been developed to assist with identifying the changes. The changes will be monitored by the Assistant Vice President for Budgets, Payroll, and Telecommunications. The increased monitoring will begin with the December 2008 payroll cycle.

STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
DEPARTMENT OF AUDIT
DIVISION OF STATE AUDIT
SUITE 1500
JAMES K. POLK STATE OFFICE BUILDING
NASHVILLE, TENNESSEE 37243-1402
PHONE (615) 401-7897
FAX (615) 532-2765

Independent Auditor's Report

November 14, 2008

The Honorable Phil Bredesen, 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
Dr. Gary Goff, President
Roane State Community College
276 Patton Lane
Harriman, Tennessee 37748

Ladies and Gentlemen:

We have audited the accompanying basic financial statements of Roane State Community College, an institution of the Tennessee Board of Regents, which is a component unit of the State of Tennessee, and its discretely presented component unit as of and for the years ended June 30, 2007, and June 30, 2006, as listed in the table of contents. These financial statements are the responsibility of the college's management. Our responsibility is to express opinions on these financial statements, based on our audit.

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

As discussed in Note 1, the financial statements of Roane State Community College, an institution of the Tennessee Board of Regents, are intended to present the financial position, the changes in financial position, and the cash flows of only Roane State Community College. They do not purport to, and do not present fairly the financial position of the Tennessee Board of Regents as of June 30, 2007, and June 30, 2006, the changes in its financial position, and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Tennessee Board of Regents, Roane State Community College, and its discretely presented component unit as of June 30, 2007, and June 30, 2006, and the respective changes in financial position and cash flows thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis on pages 16 through 40 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the basic financial statements. The accompanying financial information on page 62 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with generally accepted government auditing standards, we have also issued our report dated November 14, 2008, on our consideration of the college's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with generally accepted government auditing standards and should be read in conjunction with this report in considering the results of our audit.

Sincerely,

Arthur A. Hayes, Jr.

Arthur A. Hayes, Jr., CPA
Director

AAH/ajm

Tennessee Board of Regents
Roane State Community College
Management's Discussion and Analysis
June 30, 2007, and June 30, 2006

This section of Roane State Community College's report presents a discussion and analysis of the financial performance of the college during the fiscal years ended June 30, 2007, and June 30, 2006, with comparative information for the year ended June 30, 2005. This discussion has been prepared by management along with the financial statements and related note disclosures and should be read in conjunction with the independent auditor's report, the audited financial statements, and the accompanying notes. The financial statements, notes, and this discussion are the responsibility of management.

Using This Annual Report

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

The Statement of Net Assets

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

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

College's Net Assets
(in thousands of dollars)

	2007	2006	2005
Assets:			
Current Assets	$ 6,845.8	$ 7,025.5	$ 6,526.0
Capital Assets, Net	37,057.7	37,565.9	36,303.2
Other Assets	4,143.9	3,381.7	5,390.5
Total Assets	$ 48,047.4	$ 47,973.1	$ 48,219.7
Liabilities:			
Current Liabilities	$ 3,915.6	$ 4,484.6	$ 4,054.3
Non-Current Liabilities	2,576.5	2,690.2	1,052.7
Total Liabilities	$ 6,492.1	$ 7,174.8	$ 5,107.0
Net Assets:			
Invested in Capital Assets, Net of Debt	$ 35,007.8	$ 35,349.3	$ 35,850.4
Restricted - Expendable	1,620.0	693.1	2,618.7
Restricted - Nonexpendable			18.5
Unrestricted	4,927.5	4,755.9	4,625.1
Total Net Assets	$ 41,555.3	$ 40,798.3	$ 43,112.7

Comparison of FY 2007 to FY 2006:

- Capital assets decreased due to the excess of current-year depreciation over capital additions.
- A significant increase in other assets was the result of an increase in non-current cash and cash equivalents due to a significant increase in funds on deposit with the State of Tennessee Local Government Investment Pool for the Morgan County Higher Education Center capital project.
- Current liabilities declined due to decreases in accounts payable, decreases in deposits held in custody for others due to reductions in funds on deposit for the four Tennessee Technology Centers for which the college provides accounting services, and decreases in accrued liabilities resulting from the college's change from a semi-monthly to monthly payroll system.
- Non-current liabilities declined due to the excess of principal payments on outstanding bonds for the Banner Enterprise Resource Planning System equipment and Energy Savings Performance Contracting project over increases in indebtedness.

- Restricted - expendable net assets increased due to significant unexpended balances on capital projects funded from private sources, primarily Morgan County Higher Education Center project.

Comparison of FY 2006 to FY 2005:

- Current assets increased due to a significant increase in cash and cash equivalents provided by auxiliary operations and from increases in general, student, and grants receivable.

- Capital assets increased significantly due to current-year capital additions for the Campbell County Higher Education Center project, Banner Enterprise Resource Planning System software and equipment, Oak Ridge Parking Expansion project, and replacement/upgrade of telecommunications equipment in excess of depreciation expense.

- Significant decreases in other assets were the result of use of non-current cash and cash equivalents for costs related to capital additions.

- Current liabilities increased due to increases in accounts payable for the Energy Savings Performance Contracting project and the Workforce Network program, accrued liabilities for deferred tuition and fees, and the current portion of long-term liabilities for the Energy Savings Performance Contracting project.

- Non-current liabilities increased significantly due to increased debt borrowings for the Banner Enterprise Resource Planning System equipment and the Energy Savings Performance Contracting project.

- Restricted – expendable net assets decreased due to a significant increase in expenditures of unexpended balances on capital projects funded from private sources, primarily Campbell County Higher Education Center and Oak Ridge Parking Expansion projects.

- Restricted – nonexpendable net assets decreased due to transfer of the Ressigue Endowment fund from the college to the Roane State Foundation per written request of donor.

Roane State Foundation's Net Assets
(in thousands of dollars)

	2007	2006	2005
Assets:			
Current Assets	$ 675.9	$ 2,335.7	$ 1,864.1
Capital Assets, Net	554.3	197.3	50.3
Other Assets	5,966.1	5,238.0	5,319.5
Total Assets	$ 7,196.3	$ 7,771.0	$ 7,233.9
Liabilities:			
Current Liabilities	$ 8.0	$ 13.2	$ 24.3
Non-Current Liabilities	6.6	6.9	7.6
Total Liabilities	$ 14.6	$ 20.1	$ 31.9
Net Assets:			
Invested in Capital Assets, Net of Debt	$ 554.3	$ 197.3	$ 50.3
Restricted - Expendable	2,902.3	3,949.1	3,626.8
Restricted - Nonexpendable	3,087.4	3,020.6	2,946.3
Unrestricted	637.7	583.9	578.6
Total Net Assets	$ 7,181.7	$ 7,750.9	$ 7,202.0

Comparison of FY 2007 to FY 2006:

- For the Roane State Foundation, current assets declined significantly due to decreases in cash and cash equivalents and short-term investments resulting from payments to the college for the Morgan County Higher Education Center capital project and a decrease in pledges receivable resulting from receipt of the final payment of an outstanding $1.2 million pledge for the Morgan County Higher Education Center project.

- Capital assets increased due to receipt of a real property donation to serve as the site for the Morgan County Higher Education Center valued at $357,000.

- Other assets increased due to increased earnings on investments.

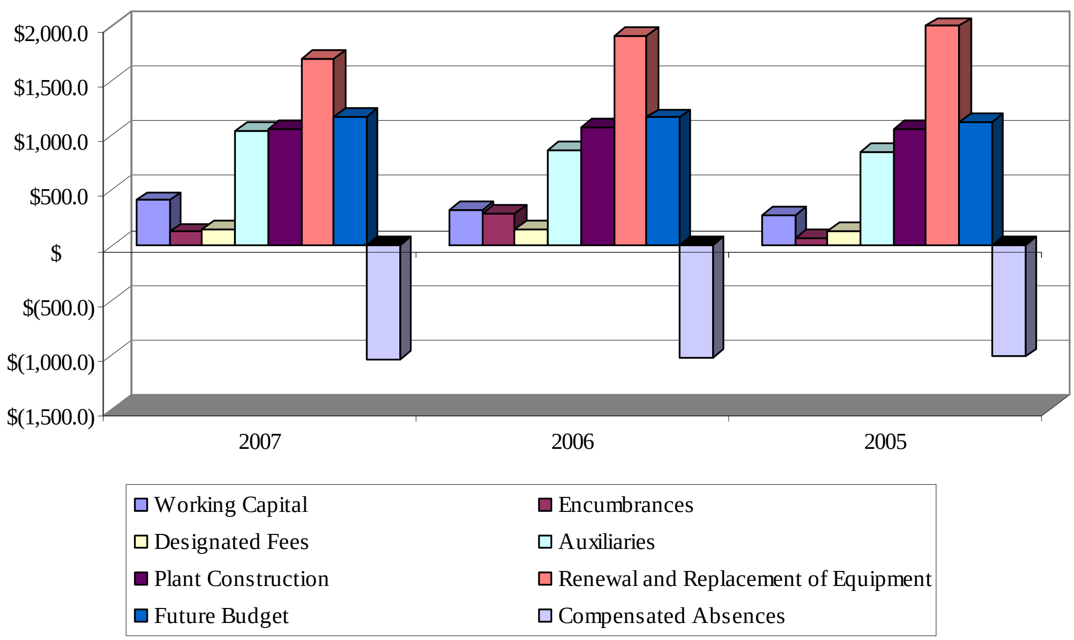
Comparison of FY 2006 to FY 2005:

- For the Roane State Foundation, current assets increased due to an increase in cash and cash equivalents resulting from receipt of a payment of one-half of a $1.2 million prior-year pledge for the Morgan County Higher Education Center construction project, an increase in short-term investments as a result of a $500,000 payment on a prior-year pledge and a $200,000 contribution for the Scott County Office/Classroom Addition project, and a decline in pledges receivable due to the receipt of payments of $1,100,000 on prior-year pledges and write-offs of $63,000.

- Capital assets increased due to receipt of a real property donation valued at $147,000.

Many of the college's unrestricted net assets have been designated or reserved for specific purposes such as repairs and replacement of equipment, future debt service, capital projects, auxiliaries, future budget needs, encumbrances, and future revenues to cover the liability for compensated absences. The following graph shows the allocations:

College
Unrestricted Net Assets
(in thousands)



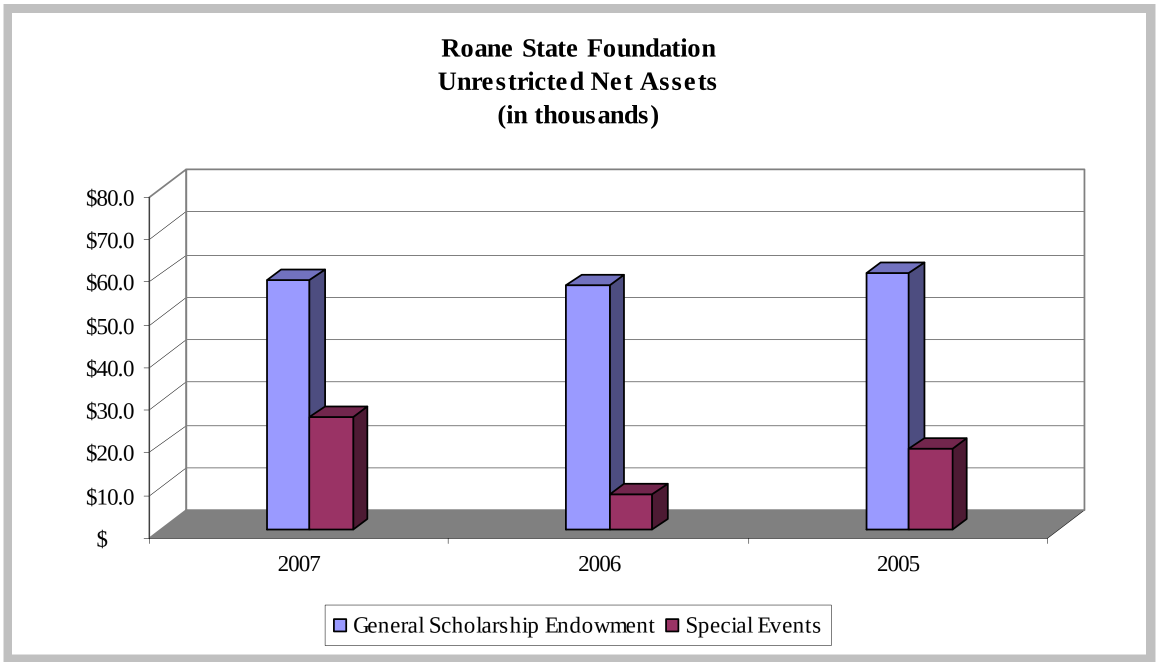
Comparison of FY 2007 to FY 2006:

- Total unrestricted net assets designated or reserved for specific purposes declined by approximately $109,000. Significant changes included

- an increase in working capital primarily due to increases in net general and student receivables and deferred benefits on faculty salaries,
- a significant decrease in funds allocated for outstanding purchase orders,
- an increase in funds allocated for auxiliary enterprises balances due to the excess of revenue over expenses, and
- a significant decrease in funds reserved for renewal and replacement of equipment due to the excess of funds expended and transferred over incoming transfers and equipment use charges.

Comparison of FY 2006 to FY 2005:

- Total unrestricted net assets designated or reserved for specific purposes increased by approximately $248,000. Significant changes included
  - an increase in working capital primarily due to increases in net general and student receivables and grants receivable;
  - a significant increase in funds allocated for outstanding purchase orders;
  - slight increases in funds allocated for unexpended special fees, auxiliary enterprises balances, and plant construction;
  - a significant decrease in funds reserved for renewal and replacement of equipment due to replacement of the telephone system at the Roane County campus and upgrading of the telephone system at the Oak Ridge campus;
  - an increase in funds allocated for the new year budget; and
  - a slight decrease in funds allocated for compensated absences.



Comparison of FY 2007 to FY 2006:

- The Roane State Foundation's total unrestricted net assets designated or reserved for specific purposes increased by approximately $19,500 due to a delay in transfer of funds from the Street Painting Festival special project account to the Oak Ridge Rotary Scholarship.

Comparison of FY 2006 to FY 2005:

- The Roane State Foundation's total unrestricted net assets designated or reserved for specific purposes declined by approximately $13,600 primarily due to a larger transfer from the Street Painting Festival special project account to the Oak Ridge Rotary Scholarship.

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

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

College's Changes in Net Assets
(in thousands of dollars)

	2007	2006	2005
Operating Revenues:			
Net Tuition and Fees	$ 7,890.5	$ 7,668.0	$ 6,957.8
Auxiliary Enterprises	224.4	211.7	220.4
Grants and Contracts	1,838.3	3,180.5	3,652.3
Other	664.1	557.5	470.5
Total Operating Revenues	$ 10,617.3	$ 11,617.7	$ 11,301.0
Operating Expenses	$ 38,809.8	$ 39,035.4	$ 36,681.0
Operating Loss	$ (28,192.5)	$ (27,417.7)	$ (25,380.0)
Nonoperating Revenues and Expenses:			
State Appropriations	$ 18,171.5	$ 16,933.2	$ 16,741.0
Gifts	606.5	341.9	698.3
Grants and Contracts	7,970.6	7,152.8	7,442.7
Investment Income	466.8	381.2	193.2
Other Revenues and Expenses	(81.3)	(110.1)	(15.5)
Total Nonoperating Revenues and Expenses	$ 27,134.1	$ 24,699.0	$ 25,059.7
Income (Loss) Before Other Revenues, Expenses, Gains, or Losses	$ (1,058.4)	$ (2,718.7)	$ (320.3)
Other Revenues, Expenses, Gains, or Losses:			
Capital Appropriations	$ 336.2	$ 402.0	$ 33.2
Capital Grants and Gifts	1,489.2	3.2	2,282.0
Other	(10.0)	(0.9)	(2.1)
Total Revenues, Expenses, Gains, or Losses	$ 1,815.4	$ 404.3	$ 2,313.1
Increase (Decrease) in Net Assets	$ 757.0	$ (2,314.4)	$ 1,992.8
Net Assets at Beginning of Period	$ 40,798.3	$ 43,112.7	$ 41,119.9
Net Assets at End of Year	$ 41,555.3	$ 40,798.3	$ 43,112.7

Tennessee Board of Regents
Roane State Community College
Management's Discussion and Analysis (Cont.)
June 30, 2007, and June 30, 2006

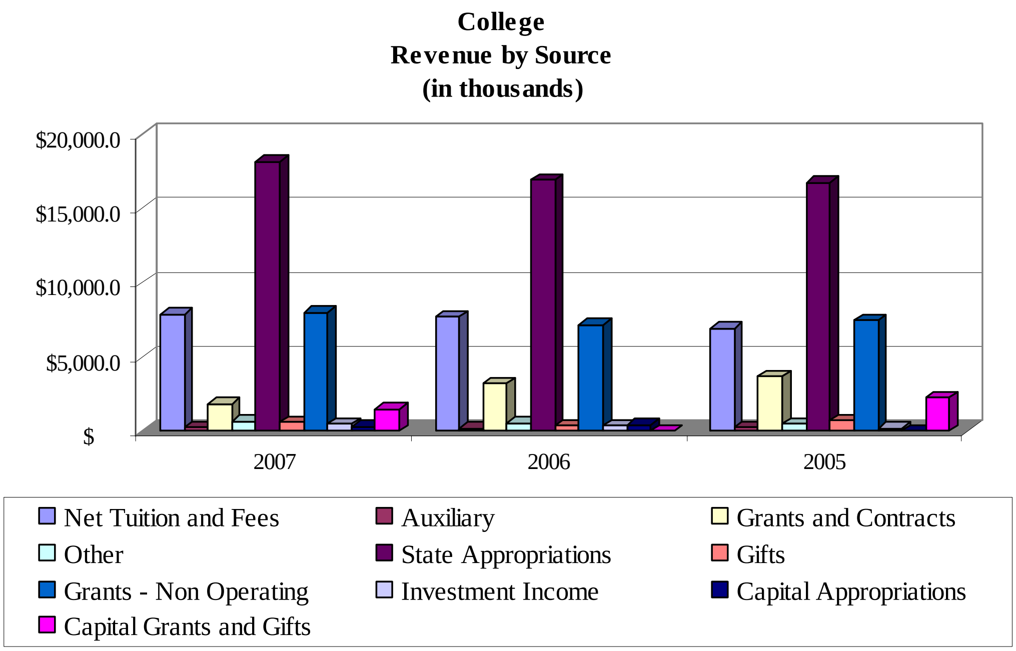
The Statement of Revenues, Expenses, and Changes in Net Assets for the Roane State Foundation presents the operating results of the Foundation, as well as the non-operating revenues and expenses.

Roane State Foundation's Changes in Net Assets
(in thousands of dollars)

	2007	2006	2005
Operating Revenues:			
Gifts and Contributions	$ 655.4	$ 570.4	$ 1,558.6
Total Operating Revenues	$ 655.4	$ 570.4	$ 1,558.6
Operating Expenses	$ 2,071.4	$ 421.6	$ 2,924.3
Operating Income (Loss)	$ (1,416.0)	$ 148.8	$ (1,365.7)
Nonoperating Revenues and Expenses:			
Gifts	$ 54.8	$ 62.4	$ 364.6
Investment Income	781.4	334.9	320.1
Other Revenues and Expenses	10.6	2.8	3.9
Total Nonoperating Revenues and Expenses	$ 846.8	$ 400.1	$ 688.6
Income (Loss) Before Other Revenues, Expenses, Gains, or Losses	$ (569.2)	$ 548.9	$ (677.1)
Other Revenues, Expenses, Gains, or Losses:			
Capital Grants and Gifts	$	$	$ 32.0
Total Revenues, Expenses, Gains, or Losses	$	$	$ 32.0
Increase (Decrease) in Net Assets	$ (569.2)	$ 548.9	$ (645.1)
Net Assets at Beginning of Period	$ 7,750.9	$ 7,202.0	$ 7,847.1
Net Assets at End of Year	$ 7,181.7	$ 7,750.9	$ 7,202.0

<u>Revenues</u>

The following is a graphic illustration of revenues by source (both operating and nonoperating), which were used to fund the college's operating activities for the years ended June 30, 2007; June 30, 2006; and June 30, 2005 (amounts are presented in thousands of dollars).



Comparison of FY 2007 to FY 2006:

- Tuition and fee revenue increased due to a 4.1% increase in tuition fee rates, a 3% increase in FTE enrollment for the academic year, and increases in non-credit and other fee revenue.

- Operating grant and contract revenue declined significantly due to the college's non-renewal of a contract with the Workforce Investment Act (WIA) for operation of the WIA program in seven counties.

- Other operating revenues increased due to significant increases in rental and related revenues at the Henry Stafford East Tennessee Agricultural Exposition Center.

- State appropriation revenue increased due to funding provided by the state for recurring and non-recurring salary bonuses, operating improvements, increases in group medical insurance benefit premium costs, increases in 401K matching, and increases in employer retirement contribution rates.

- Non-operating gifts increased significantly due to gifts received from the Roane State Foundation for scholarships, faculty professional development, support for a faculty position at the Scott County Higher Education Center, and for Roane County Library improvements.

- Non-operating grant and contract revenue increased significantly due to increases in Pell grants and other federal student aid programs and increases in state lottery and dual credit scholarships.

- Investment income increased due to higher interest rates and increases in funds invested.

- Capital grants and gifts increased significantly due to gifts received from the Roane State Foundation for the Morgan County Higher Education Center capital project and the Scott County Higher Education Addition capital project.

Comparison of FY 2006 to FY 2005:

- Tuition and fee revenue increased due to an 8.6% increase in mandatory fee rates and significant increases in non-credit revenues which were offset by reductions in tuition and fee revenue due to a 5% decline in FTE enrollment for the academic year.

- Operating grant and contract revenue declined due to a decrease in funding from the Workforce Investment Act (WIA) for operation of the program in seven counties.

- Other operating revenues increased due to an increase in sales of surplus property and increases in rental and related fees at the Henry Stafford East Tennessee Agricultural Exposition Center.

- State appropriation revenue increased due to funding provided by the state for a portion of a three percent across-the-board salary increase, increases in group medical insurance benefit premium costs, and increases in 401K matching.

- Non-operating gifts declined due to reductions in gifts received from the Roane State Foundation.

- Non-operating grant and contract revenue declined due to significant decreases in Pell grants which were partially offset by increases from a new dual credit lottery scholarship program and increases in state lottery scholarships.

- Investment income increased due to higher interest rates and increases in funds invested.

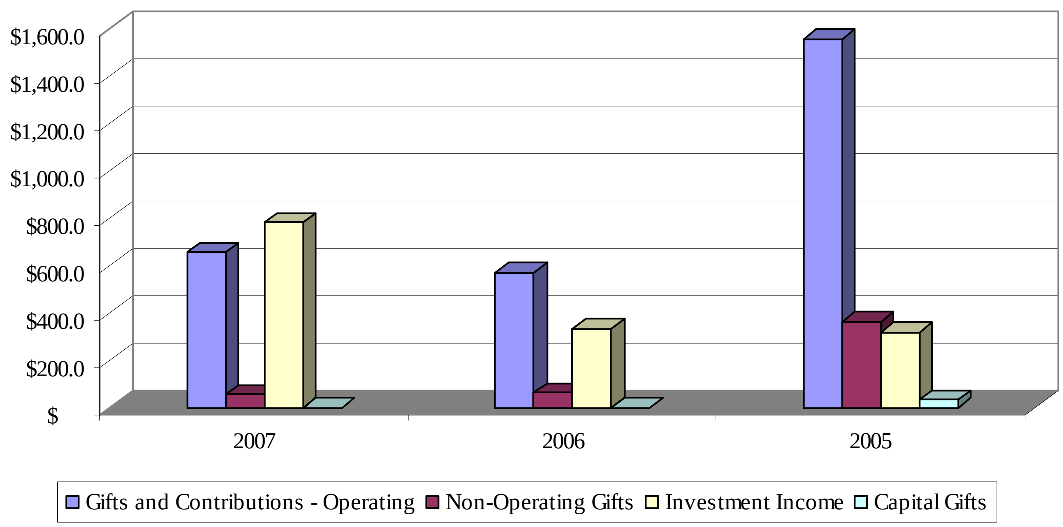
- Other non-operating revenue increased due to increases in interest on indebtedness, bond issuance costs associated with the 2006A and 2006B bonds issued, and transfer of Ressigue Endowment Fund to the Roane State Foundation.

- Capital appropriations increased due to an increase in funds available and expended for state supported capital projects.

- Capital grants and gifts declined significantly due to contributions in the prior fiscal year from the Roane State Foundation for the Campbell County Higher Education Center construction project.

- Other revenues, expenses, gains, or losses decreased due to an increase in plant assets disposed of or sold.

Roane State Foundation
Revenues by Source
(in thousands)



Comparison of FY 2007 to FY 2006:

- The Roane State Foundation's operating gifts and contribution revenue increased due to receipt of a land donation for the Morgan County Higher Education Center totaling $357,000 which was offset by a reduction in individual gifts exceeding $200,000.

- Investment income increased significantly due to increases in realized and unrealized gains on investments and increases in interest income due to favorable market conditions and investment management.

Comparison of FY 2006 to FY 2005:

- The Roane State Foundation's operating gifts and contribution revenue decreased significantly due to a decline in individual gifts received in excess of $500,000.
- Non-operating gifts and contributions declined due to establishment of fewer new endowments.
- Capital grants and gifts declined due to lack of in-kind contributions of capital assets.

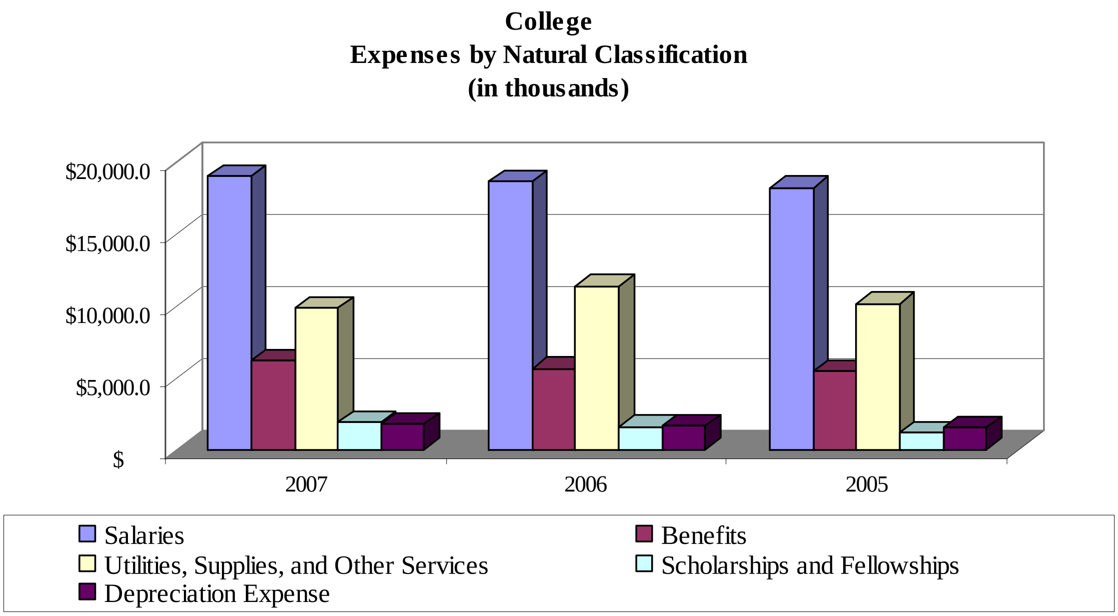
Expenses

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

Natural Classification

College
Operating Expenses by Natural Classification
(in thousands)

	2007	2006	2005
Salaries	$ 19,080.8	$ 18,728.8	$ 18,266.2
Benefits	6,203.4	5,645.5	5,492.9
Utilities, Supplies, and Other Services	9,867.6	11,399.7	10,177.7
Scholarships and Fellowships	1,875.5	1,591.8	1,185.9
Depreciation Expense	1,782.4	1,669.6	1,558.3
Total Operating Expenses	$ 38,809.7	$ 39,035.4	$ 36,681.0



Comparison of FY 2007 to FY 2006:

- Operating expenses declined from 2006 due to the ending of the Energy Savings Performance Project and the Workforce Network grant.

- Salaries increased due to a two percent across-the-board salary increase in July 2006, a one-time service bonus of $350 per employee, a one-half percent across-the-board salary increase, and selected compensation/equity plan adjustments in January 2007.

- Benefits increased due to the recurring and non-recurring salary increases, increases in the retirement contribution rate, increases in 401K matching, and increases in group medical insurance benefit premiums.

- Utilities, supplies, and other services declined due to a significant decrease in funds expended for non-capitalized equipment and projects.

- Scholarships and fellowships increased due to increases in Pell grants and other federal aid programs as well as significant increases in lottery and dual credit scholarships.

Comparison of FY 2006 to FY 2005:

- Operating expenses increased significantly from 2005 due to the Energy Savings Performance Project, gym and library roof repairs, the science lab project, and increases in lottery scholarships.

- Salaries increased due to a three percent across-the-board salary increase in July 2005 and a one-time bonus of one percent or $300, whichever was greater, paid in November 2005.

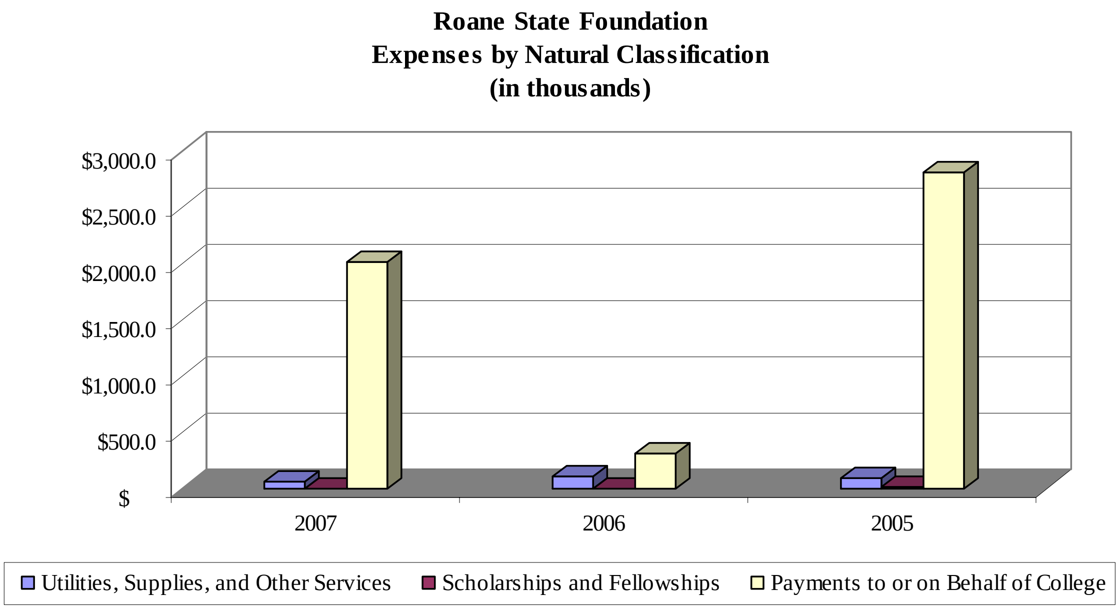
- Benefits increased due to the recurring and non-recurring salary increases and increases in group medical insurance benefit premiums.

- Utilities, supplies, and other services increased significantly due to increases in funds expended for non-capitalized equipment and projects.

- Scholarships and fellowships increased due to the new dual credit lottery scholarship program and increases in state lottery scholarships.

Roane State Foundation
Operating Expenses by Natural Classification
(in thousands)

	2007	2006	2005
Utilities, Supplies, and Other Services	$ 55.0	$ 112.3	$ 94.5
Scholarships and Fellowships	6.0	4.0	14.9
Payments to or on Behalf of College	2,010.4	305.3	2,814.9
Total Operating Expenses	$ 2,071.4	$ 421.6	$ 2,924.3



Comparison of FY 2007 to FY 2006:

- Payments to or on behalf of the college increased significantly due to transfers to the college for construction projects, scholarships, faculty professional development, support for a new faculty position at the Scott County Center, and payments made directly to vendors for construction or other campus projects.

Comparison of FY 2006 to FY 2005:

- Scholarships and fellowships decreased due to a larger percentage of total scholarships being paid by the college rather than directly by the foundation.

- Payments to or on behalf of the college declined significantly due to reductions in transfers of cash to the college for construction projects and payments made directly to vendors for construction projects.

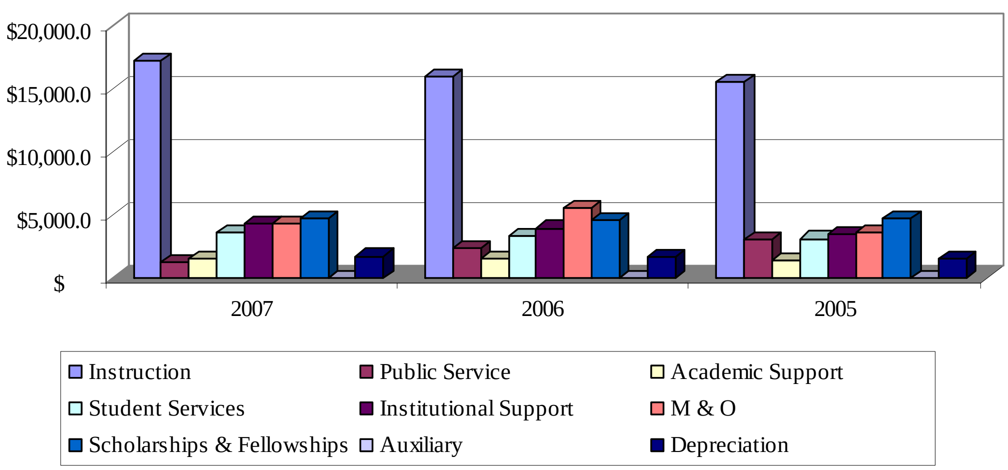
Tennessee Board of Regents
Roane State Community College
Management's Discussion and Analysis (Cont.)
June 30, 2007, and June 30, 2006

Program Classification

College
Operating Expenses by Functional Classification
(in thousands)

	2007	2006	2005
Instruction	$ 17,177.8	$ 15,949.2	$ 15,503.4
Public Service	1,237.3	2,360.9	3,059.3
Academic Support	1,522.6	1,550.3	1,443.5
Student Services	3,699.7	3,312.5	3,167.0
Institutional Support	4,275.7	3,990.6	3,546.6
Operation and Maintenance	4,290.4	5,534.4	3,639.8
Scholarships and Fellowships	4,779.8	4,632.3	4,727.9
Auxiliary	44.0	35.6	35.2
Depreciation	1,782.4	1,669.6	1,558.3
Total Operating Expenses	$ 38,809.7	$ 39,035.4	$ 36,681.0

College
Expenses by Functional Classification
(in thousands)



Comparison of FY 2007 to FY 2006:

- Instruction increased due to recurring and non-recurring salary increases, increases in the retirement contribution rate, increases in 401K matching costs, increases in group medical insurance benefit premium costs, new faculty positions, accreditation expenses for the Nursing program, and increased costs associated with the second year of the Roane State/Pellissippi State Nursing Collaborative.

- Public service declined significantly due to the college's non-renewal of a contract with the Workforce Investment Act (WIA) for operation of the WIA program in seven counties.

- Student services increased due to recurring and non-recurring salary increases, increases in the retirement contribution rate, increases in 401K matching costs, increases in group medical insurance benefit premium costs, and increased support for the athletic program, disability and testing services, and student development activities.

- Institutional support increased due to recurring and non-recurring salary increases, increases in the retirement contribution rate, increases in 401K matching costs, increases in group medical insurance benefit premium costs, and increased support for printing and other costs for Alumni Relations.

- Maintenance and operations of plant (M & O) decreased due to a significant decline in non-capitalized project costs which was partially offset by recurring and non-recurring salary increases, increases in the retirement contribution rate, increases in 401K matching costs, and increases in group medical insurance benefit premium costs.

- Scholarships and fellowships increased due to increases in Pell grants and other federal aid programs as well as significant increases in lottery and dual credit scholarships.

Comparison of FY 2006 to FY 2005:

- Instruction increased due to recurring salary increases, increases in group medical insurance benefit premium costs, and increases in 401K matching costs.

- Public service decreased primarily due to a decline in Workforce Investment Act funding for operation of the program in seven counties.

- Academic support increased due to recurring salary increases, increases in group medical insurance benefit premium costs, and increases in 401K matching costs.

- Student services increased due to recurring salary increases, increases in group medical insurance benefit premium costs, and increases in 401K matching costs.

- Institutional support increased due to recurring salary increases, increases in group medical insurance benefit premium costs, increases in 401K matching costs, increases in computer use allocations, and the purchase of surveillance equipment for the Oak Ridge Campus.

- Maintenance and operations of plant (M & O) increased due to recurring salary increases, increases in group medical insurance benefit premium costs, increases in 401K matching costs, increases in utilities, and significant increases in non-capitalized project costs.

- Scholarships and fellowships declined due to reductions in Pell grants which were partially offset by the new dual credit lottery scholarship program and increases in state lottery scholarships.

The Statement of Cash Flows

The Statement of Cash Flows provides information about cash receipts and cash payments during the year. This statement also assists users in assessing the college's ability to generate net cash flows, its ability to meet its obligations as they come due, and its need for external financing.

College's Cash Flows
(in thousands of dollars)

	2007	2006	2005
Cash provided (used) by:			
Operating activities	$ (26,303.8)	$ (25,623.4)	$ (23,207.4)
Non-capital financing activities	26,454.1	24,408.1	24,931.9
Investing activities	466.9	381.2	211.9
Capital and related financing activities	284.8	(795.8)	1,291.9
Net increase (decrease) in cash	$ 902.0	$ (1,629.9)	$ 3,228.3
Cash, beginning of year	8,924.1	10,554.0	7,325.7
Cash, end of year	$ 9,826.1	$ 8,924.1	$ 10,554.0

Comparison of FY 2007 to FY 2006:

- Major sources of operating cash for the college include
  - tuition and fees which increased due to increases in tuition fee rates and a three percent increase in enrollment for the academic year, and
  - grants and contracts which declined significantly due to the college's non-renewal of a contract with the Workforce Investment Act (WIA) for operation of the WIA program in seven counties.

- Major uses of operating cash include
  - payments to employees which increased due to a two percent across-the-board salary increase in July 2006, a one-time service bonus of $350 per employee, a one-half percent across-the-board salary increase and selected compensation/equity plan adjustments in January 2007;
  - payments for benefits which increased due to the recurring and non-recurring salary increases, increases in the retirement contribution rate, increases in 401K matching, and increases in group medical insurance benefit premiums;
  - payments to suppliers and vendors which declined significantly due to a decrease in funds expended for non-capitalized equipment and projects; and
  - payments for scholarships and fellowships which increased due to increases in federal student aid programs and increases in state lottery and dual credit scholarships.

- Cash provided by non-capital financing activities increased significantly due to increases in state appropriations provided for recurring and non-recurring salary increases, benefit rate changes, and other operating improvements and due to increases in gifts and grants received for scholarships and federal and state financial aid.

- Cash provided by capital financing activities increased due to a significant increase in capital grants and gifts for the Morgan County Higher Education Center project.

- Cash provided by investing activities increased due to an increase in investment income resulting from higher interest rates and increases in funds available for investment.

- Overall, the college's liquidity improved significantly for the year.

Comparison of FY 2006 to FY 2005:

- Major sources of operating cash for the college include
    - tuition and fees which increased due to increases in maintenance fee rates and non-credit revenues, and
    - grants and contracts which declined due to reductions in Pell grants.

- Major uses of operating cash include
    - payments to employees which increased due to recurring and non-recurring salary increases;
    - payments for benefits which increased due to recurring and non-recurring salary increases, an increase in group medical insurance benefit costs, and increases in 401K matching costs;
    - payments to suppliers and vendors which increased significantly due to increases in funds expended for non-capitalized equipment and projects; and
    - payments for scholarships and fellowships which increased significantly due to the new dual credit lottery scholarship program and increases in state lottery scholarships.

- Cash provided by non-capital financing activities declined due to reductions in Pell grants which were partially offset by increases in state appropriations provided for recurring salaries and benefit rate changes, increases from the new dual credit lottery scholarship program, and increases in state lottery scholarships.

- Cash used by capital financing activities increased significantly overall due to purchases of capital assets and construction which were partially offset by increases in cash provided from state appropriations for capital assets and construction and proceeds from increases in long-term debt for the Banner Enterprise Resource Planning and Energy Savings Performance Contracting projects.

- Cash provided by investing activities increased due to an increase in investment income resulting from higher interest rates and increases in funds available for investment.

- Overall, the college's liquidity declined significantly for the year.

Capital Assets and Debt Administration

Capital Assets

Roane State Community College had $37,057,702 in capital assets, net of accumulated depreciation of $22,028,847 at June 30, 2007; $37,565,941 invested in capital assets, net of accumulated depreciation of $20,548,918 at June 30, 2006; and $36,303,201 invested in capital assets, net of accumulated depreciation of $19,484,009 at June 30, 2005. Depreciation charges totaled $1,782,383, $1,669,579, and $1,417,398 for the years ended June 30, 2007; June 30, 2006; and June 30, 2005, respectively. Details of these assets are shown below.

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

	2007	2006	2005
Land	$ 3,393.8	$ 3,393.8	$ 3,397.0
Land improvements & infrastructure	658.6	704.2	414.2
Buildings	30,140.5	28,819.5	29,952.2
Equipment	1,070.0	1,234.1	1,034.2
Software	1,036.2		
Library holdings	567.5	544.4	562.3
Projects in Progress	191.1	2,869.9	943.3
Total Capital Assets, Net of Depreciation	$ 37,057.7	$ 37,565.9	$ 36,303.2

For FY 2007, net capital assets decreased by $508,239. Major changes for the year included projects in progress totaling $703,310 for the Campbell County Higher Education Center, Morgan County Higher Education Center project, and the Banner Enterprise Resource Planning (ERP) software project, a capitalized addition to the Scott County Center totaling $289,179, capitalized equipment purchases totaling $178,419, and additions to the college's library holdings totaling $107,954. Accumulated depreciation increased by $1,479,929.

For FY 2006, net capital assets increased by $1,262,740. Major changes for the year included projects in progress totaling $2,270,631 for the Campbell County Higher Education Center, Oak Ridge Parking Expansion project, and the Banner Enterprise Resource Planning (ERP) software project, capitalized equipment purchases totaling $560,806, and additions to the college's library holdings totaling $104,831. Accumulated depreciation increased by $1,064,909.

More detailed information about the college's capital assets is presented in Note 4 to the financial statements.

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

	2007	2006	2005
Land	$ 510.5	$ 153.5	$ 6.5
Other Capital Assets	43.8	43.8	43.8
Total Capital Assets, Net of Depreciation	$ 554.3	$ 197.3	$ 50.3

For FY 2007, the Roane State Foundation's net capital assets increased by $357,000 due to receipt of the donation of six acres of land as the site for the Morgan County Higher Education Center.

For FY 2006, the Roane State Foundation's net capital assets increased by $147,000 due to receipt of a donation of 28 acres of land in Roane County.

More detailed information about the foundation's capital assets is presented in Note 12 to the financial statements.

For FY 2008, three new major capital asset additions are projected for Roane State. The college plans to complete construction of a new off-campus facility in Morgan County. The cost of this project, excluding the land donation, is estimated at $1.55 million and will be funded from $200,000 in state appropriations with the balance from private contributions. The college also plans to complete construction of the unfinished second floor of the Campbell County Higher Education Center. This project, totaling $270,000, will be funded from private contributions. The college's Knox County Health Sciences Center is housed in a leased facility which the college plans to purchase for $1.5 million during FY 2008. Funding for this acquisition is from a special lease purchase fund maintained by the Tennessee Board of Regents.

A state capital maintenance appropriation totaling $200,000 was authorized during FY 2007 to repair pre-cast concrete panels and window systems on the Library Building on the Roane County Campus. Sealed construction bids are being solicited for this project and it is expected to be completed during FY 2008. A state capital maintenance appropriation totaling $280,000 has been authorized for FY 2008 to repair and replace sections of the roof on the Henry Stafford East

Tennessee Agricultural Exposition Center. Additionally, the college will receive $150,000 from a special appropriation totaling $900,000 for improvements to the state's six agricultural exposition centers. Finally, a $350,000 state appropriation has been authorized for FY 2008 to air condition the college's Gymnasium.

Debt

The college had $2,049,850, $2,216,621, and $452,800, in debt outstanding at June 30, 2007; June 30, 2006; and June 30, 2005, respectively. The table below summarizes these amounts by type of debt instrument.

College
Schedule of Outstanding Debt
(in thousands of dollars)

	2007	2006	2005
Bonds Payable	$ 2,049.8	$ 2,216.6	$
Commercial Paper			452.8
Total Outstanding Debt	$ 2,049.8	$ 2,216.6	$ 452.8

During FY 2007, outstanding bond indebtedness increased by $76,379 due to expenditure of prior-year unexpended bond proceeds for the Energy Savings Performance Contracting project. Indebtedness was reduced by $243,151 through annual debt service payments.

During FY 2006, the college borrowed $1,899,691 from the Tennessee State School Bond Authority (TSSBA) commercial paper program for the purchase of the Banner Enterprise Resource Planning (ERP) system equipment and the Energy Savings Performance Contracting project. In June, the TSSBA sold 2006 Series A and 2006 Series B Higher Educational Facilities Second Program bonds. All outstanding commercial paper was converted to bonds totaling $2,216,621. During the year, indebtedness was reduced by $155,012 through annual debt service payments. The TSSBA is currently rated as AA- by Standard and Poors.

More detailed information about the college's long-term liabilities is presented in Note 5 to the financial statements.

The Roane State Foundation has no outstanding debt.

Economic Factors That Will Affect The Future

The Tennessee Legislature approved an increase in the college's base operating appropriation for FY 2008 totaling $376,200 and appropriated $634,500 to cover a three percent across-the-board salary increase for college employees effective July 1, 2007. The college's governing board, the Tennessee Board of Regents, approved a six percent increase in maintenance and out-of-state tuition fees effective Fall Semester 2007 which is projected to generate $608,900 in new funds for operations.

The Roane State Foundation began the Invest in the Vision Campaign in October 2003 to raise $5-6 million for scholarships, faculty development, health sciences, and individual campus projects. To date, approximately $5 million has been given or pledged for this campaign.

Requests for Information

This financial report is designed to provide a general overview of the institution's finances for all those with an interest in the college's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be directed to the Assistant Vice President for Fiscal and Auxiliary Services, at Roane State Community College, 276 Patton Lane, Harriman, Tennessee 37748.

TENNESSEE BOARD OF REGENTS
ROANE STATE COMMUNITY COLLEGE
STATEMENTS OF NET ASSETS
JUNE 30, 2007, AND JUNE 30, 2006

	Roane State Community College		Component Unit Roane State Community College Foundation	
	June 30, 2007	June 30, 2006	June 30, 2007	June 30, 2006
ASSETS				
Current assets:				
Cash and cash equivalents (Notes 2 and 12)	$ 5,695,408.29	$ 5,542,376.19	$ 194,999.63	$ 990,254.81
Short-term investments (Note 12)	-	-	428,093.01	705,898.18
Accounts, notes, and grants receivable (net) (Note 3)	1,122,226.47	1,441,368.01	-	-
Pledges receivable (net) (Note 12)	-	-	52,802.73	639,573.59
Inventories (at lower of cost or market)	4,928.90	11,179.59	-	-
Prepaid expenses and deferred charges	22,776.77	30,055.87	-	-
Other	500.00	500.00	-	-
Total current assets	6,845,840.43	7,025,479.66	675,895.37	2,335,726.58
Noncurrent assets:				
Cash and cash equivalents (Notes 2 and 12)	4,130,679.75	3,381,681.93	-	-
Investments (Note 12)	-	-	5,821,529.96	5,085,019.97
Accounts, notes, and grants receivable (net) (Note 3)	13,192.78	-	81,604.13	70,048.46
Pledges receivable (net) (Note 12)	-	-	36,253.72	55,905.52
Assets held in charitable remainder trust	-	-	26,715.47	26,968.63
Capital assets (net) (Notes 4 and 12)	37,057,701.74	37,565,940.95	554,305.00	197,305.00
Total noncurrent assets	41,201,574.27	40,947,622.88	6,520,408.28	5,435,247.58
Total assets	48,047,414.70	47,973,102.54	7,196,303.65	7,770,974.16
LIABILITIES				
Current liabilities:				
Accounts payable	615,455.05	781,828.48	6,725.98	11,679.21
Accrued liabilities	800,328.15	1,018,615.47	-	-
Deferred revenue	465,739.93	422,605.33	-	-
Compensated absences (Note 5)	274,218.76	307,655.95	-	-
Accrued interest payable	14,573.41	14,858.31	-	-
Long-term liabilities, current portion (Notes 5 and 12)	237,348.00	243,150.50	1,264.66	1,497.59
Deposits held in custody for others	1,347,114.85	1,466,556.16	-	-
Other liabilities	160,801.83	229,329.73	-	-
Total current liabilities	3,915,579.98	4,484,599.93	7,990.64	13,176.80
Noncurrent liabilities:				
Compensated absences (Note 5)	761,340.41	714,188.77	-	-
Long-term liabilities (Notes 5 and 12)	1,812,501.50	1,973,470.14	6,586.83	6,911.26
Due to grantors (Note 5)	2,660.76	2,539.63	-	-
Total noncurrent liabilities	2,576,502.67	2,690,198.54	6,586.83	6,911.26
Total liabilities	6,492,082.65	7,174,798.47	14,577.47	20,088.06
NET ASSETS				
Invested in capital assets, net of related debt	35,007,852.24	35,349,320.31	554,305.00	197,305.00
Restricted for:				
Nonexpendable:				
Scholarships and fellowships	-	-	1,926,658.32	1,883,701.77
Instructional department uses	-	-	328,146.87	328,146.87
Other	-	-	832,602.37	808,735.14
Expendable:				
Scholarships and fellowships (Note 12)	3,755.73	18,393.23	731,107.61	491,459.26
Instructional department uses (Note 12)	80,318.03	69,642.40	47,605.30	21,742.75
Loans	37,330.69	39,715.72	-	-
Capital projects	1,162,056.83	224,907.68	462,899.27	1,211,541.99
Debt service	212,152.21	185,958.23	-	-
Other (Note 12)	124,351.73	154,503.13	1,660,654.31	2,224,389.40
Unrestricted (Note 6)	4,927,514.59	4,755,863.37	637,747.13	583,863.92
Total net assets	$ 41,555,332.05	$ 40,798,304.07	$ 7,181,726.18	$ 7,750,886.10

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

TENNESSEE BOARD OF REGENTS
ROANE STATE COMMUNITY COLLEGE
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2007, AND JUNE 30, 2006

	Roane State Community College		Component Unit	
	Year Ended June 30, 2007	Year Ended June 30, 2006	Year Ended June 30, 2007	Year Ended June 30, 2006
REVENUES				
Operating revenues:				
Student tuition and fees (net of scholarship allowances of $4,298,302.23 for the year ended June 30, 2007, and $3,766,648.26 for the year ended June 30, 2006)	$ 7,890,479.03	$ 7,668,052.49	$ -	$ -
Gifts and contributions	-	-	655,383.79	570,376.04
Governmental grants and contracts	1,793,770.42	3,140,402.59	-	-
Nongovernmental grants and contracts	44,535.00	40,113.90	-	-
Sales and services of educational departments	3,187.22	3,657.90	-	-
Auxiliary enterprises:				
Bookstore	217,437.00	203,551.67	-	-
Food service	6,772.80	8,054.65	-	-
Other auxiliaries	199.77	78.76	-	-
Other operating revenue	660,876.47	553,786.00	-	-
Total operating revenues	10,617,257.71	11,617,697.96	655,383.79	570,376.04
EXPENSES				
Operating expenses (Note 11):				
Salaries and wages	19,080,813.06	18,728,813.05	-	-
Benefits	6,203,385.09	5,645,481.30	-	-
Utilities, supplies, and other services	9,867,585.45	11,399,772.66	54,955.15	112,269.13
Scholarships and fellowships	1,875,552.56	1,591,788.07	5,997.12	4,018.23
Depreciation expense	1,782,382.61	1,669,578.84	-	-
Payments to or on behalf of Roane State Community College (Note 12)	-	-	2,010,428.14	305,292.28
Total operating expenses	38,809,718.77	39,035,433.92	2,071,380.41	421,579.64
Operating income (loss)	(28,192,461.06)	(27,417,735.96)	(1,415,996.62)	148,796.40
NONOPERATING REVENUES (EXPENSES)				
State appropriations	18,171,500.00	16,933,200.00	-	-
Gifts, including $521,248.76 from component unit for the year ended June 30, 2007, and $305,292.28 for the year ended June 30, 2006	606,489.76	341,954.17	54,813.51	62,353.12
Grants and contracts	7,970,626.66	7,152,861.28	-	-
Investment income (net of investment expense of $33,999.46 for the component unit for the year ended June 30, 2007, and $31,589.97 for the year ended June 30, 2006)	466,853.22	381,173.99	781,407.74	334,933.43
Interest on capital asset-related debt	(78,134.52)	(61,925.86)	-	-
Bond issuance expense	-	(19,142.01)	-	-
Other nonoperating revenues (expenses)	(3,226.87)	(29,090.55)	10,615.45	2,755.55
Net nonoperating revenues (expenses)	27,134,108.25	24,699,031.02	846,836.70	400,042.10
Income (loss) before other revenues, expenses, gains, or losses	(1,058,352.81)	(2,718,704.94)	(569,159.92)	548,838.50
Capital appropriations	336,227.72	401,967.54	-	-
Capital grants and gifts, including $1,489,179.38 from component unit for the year ended June 30, 2007, and $0 for the year ended June 30, 2006	1,489,179.38	3,150.94	-	-
Other	(10,026.31)	(838.98)	-	-
Total other revenues (expenses)	1,815,380.79	404,279.50	-	-
Increase (decrease) in net assets	757,027.98	(2,314,425.44)	(569,159.92)	548,838.50
NET ASSETS				
Net assets - beginning of year	40,798,304.07	43,112,729.51	7,750,886.10	7,202,047.60
Net assets - end of year	$ 41,555,332.05	$ 40,798,304.07	$ 7,181,726.18	$ 7,750,886.10

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

Exhibit C

TENNESSEE BOARD OF REGENTS
ROANE STATE COMMUNITY COLLEGE
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2007, AND JUNE 30, 2006

	Year Ended June 30, 2007	Year Ended June 30, 2006
CASH FLOWS FROM OPERATING ACTIVITIES		
Tuition and fees	$ 7,862,573.77	$ 7,661,904.89
Grants and contracts	2,277,239.27	3,104,283.64
Sales and services of educational activities	3,187.22	3,657.90
Payments to suppliers and vendors	(9,915,651.74)	(11,247,439.62)
Payments to employees	(19,273,234.11)	(18,656,985.74)
Payment for benefits	(6,255,884.10)	(5,661,410.31)
Payments for scholarships and fellowships	(1,881,270.38)	(1,588,695.23)
Loans issued to students and employees	87,357.42	(114,270.02)
Collection of loans from students and employees	(88,053.42)	113,571.52
Interest earned on loans to students	(338.24)	(338.24)
Auxiliary enterprise charges:		
Bookstore	217,437.00	203,551.67
Food services	6,047.29	8,411.37
Other auxiliaries	184.69	76.05
Other receipts (payments)	656,637.34	550,251.82
Net cash flows used by operating activities	(26,303,767.99)	(25,623,430.30)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State appropriations	18,173,600.00	16,934,400.00
Gifts and grants received for other than capital purposes, including $422,007.23 from Roane State Community College Foundation for the year ended June 30, 2007, and $305,292.28 for the year ended June 30, 2006	8,433,486.67	7,474,997.47
Changes in deposits held for others	(149,689.27)	27,765.99
Other noncapital financing receipts (payments)	(3,226.87)	(29,090.55)
Net cash flows provided by noncapital financing activities	26,454,170.53	24,408,072.91
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital appropriations	336,227.72	401,967.54
Capital grants and gifts received from Roane State Community College Foundation	1,200,000.00	-
Proceeds from capital debt	76,379.36	1,763,820.64
Purchase of capital assets and construction	(1,008,609.59)	(2,899,393.69)
Principal paid on capital debt	(243,150.50)	-
Interest paid on capital debt	(78,419.42)	(48,179.86)
Bond issue cost paid on new debt issue	-	(19,142.01)
Deposit with trustee	9,800.75	(7,781.26)
Other capital and related financing receipts (payments)	(7,454.16)	12,935.66
Net cash flows provided (used) by capital and related financing activities	284,774.16	(795,772.98)
CASH FLOWS FROM INVESTING ACTIVITIES		
Income on investments	466,853.22	381,173.99
Net cash provided by investing activities	466,853.22	381,173.99
Net increase (decrease) in cash and cash equivalents	902,029.92	(1,629,956.38)
Cash and cash equivalents - beginning of year	8,924,058.12	10,554,014.50
Cash and cash equivalents - end of year (Note 2)	$ 9,826,088.04	$ 8,924,058.12

TENNESSEE BOARD OF REGENTS
ROANE STATE COMMUNITY COLLEGE
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2007, AND JUNE 30, 2006

	2007	2006
Reconciliation of operating loss to net cash used by operating activities:		
Operating loss	$ (28,192,461.06)	$ (27,417,735.96)
Adjustments to reconcile operating loss to net cash used by operating activities:		
Depreciation expense	1,782,382.61	1,669,578.84
Gifts-in-kind	129,485.25	15,546.92
Change in assets and liabilities:		
Receivables, net	303,325.66	(104,465.74)
Inventories	6,250.69	(4,627.98)
Prepaid/deferred items	3,105.77	(912.13)
Accounts payable	(119,906.68)	153,027.19
Accrued liabilities	(218,287.32)	60,266.21
Deferred revenues	43,134.60	26,628.46
Compensated absences	13,714.45	7,848.10
Due to grantors	7,257.78	(14,405.71)
Loans to students and employees	(696.00)	(698.50)
Other	(61,073.74)	(13,480.00)
Net cash used by operating activities	$ (26,303,767.99)	$ (25,623,430.30)
NONCASH TRANSACTIONS		
Gifts in-kind - operating	$ 129,485.25	$ 15,546.92
Gifts in-kind - capital items	$ 298,665.10	$ 3,150.94

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

Tennessee Board of Regents
Roane State Community College
Notes to the Financial Statements
June 30, 2007, and June 30, 2006

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The college is a part of the State University and Community College System of Tennessee (Tennessee Board of Regents). This system is a component unit of the State of Tennessee because the state appoints a majority of the system's governing body and provides financial support; the system is discretely presented in the *Tennessee Comprehensive Annual Financial Report*. The financial statements present only that portion of the Tennessee Board of Regents' activities that is attributable to the transactions of Roane State Community College.

The Roane State Community College Foundation is considered a component unit of the college. Although the college does not control the timing or amount of receipts from the foundation, the majority of resources, or income thereon, that the foundation holds and invests are restricted to the activities of the college by the donors. Because these restricted resources held by the foundation can only be used by, or for the benefit of, the college, the foundation is considered a component unit of the college and is discretely presented in the college's financial statements. See Note 12 for more detailed information about the component unit and how to obtain the report.

Basis of Presentation

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

Basis of Accounting

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

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

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

All other activity is nonoperating in nature and includes (1) state appropriations for operations; (2) investment income; (3) bond issuance costs; (4) interest on capital asset-related debt; (5) certain grants and contracts; and (6) gifts and nonexchange transactions.

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

Cash Equivalents

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

Inventories

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

Compensated Absences

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

Capital Assets

Capital assets, which include property, plant, equipment, library holdings, and software, are reported in the statement of net assets at historical cost or at fair value at date of donation, less accumulated depreciation. 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 software is set at $100,000.

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

Net Assets

The college's net assets are classified as follows:

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

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

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

<u>Unrestricted net assets</u> - Unrestricted net assets represent resources derived from student tuition and fees, state appropriations, and sales and services of educational departments and auxiliary enterprises. These resources are used for transactions relating to the educational and general operations of the college, and may be used at the discretion of the college to meet current expenses for any purpose. The auxiliary

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

Scholarship Discounts and Allowances

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

NOTE 2. CASH

At June 30, 2007, cash consisted of $1,251,641.45 in bank accounts, $7,880.00 of petty cash on hand, $7,080,838.85 in the State of Tennessee Local Government Investment Pool (LGIP) administered by the State Treasurer, and $1,485,727.74 in LGIP deposits for capital projects. At June 30, 2006, cash consisted of $965,996.84 in bank accounts, $8,325.00 of petty cash on hand, $7,676,233.35 in the State of Tennessee Local Government Investment Pool administered by the State Treasurer, and $273,502.93 in LGIP deposits for capital projects.

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

NOTE 3. RECEIVABLES

Receivables included the following:

	June 30, 2007	June 30, 2006
Student accounts receivable	$ 887,810.21	$ 711,735.86
Grants receivable	475,594.19	925,331.81
Notes receivable	4,612.88	1,518.38
State appropriation receivable	31,400.00	33,500.00
Other receivables	358,682.52	286,618.59
Subtotal	1,758,099.80	1,958,704.64
Less allowance for doubtful accounts	(622,680.55)	(517,336.63)
Total receivables	$1,135,419.25	$1,441,368.01

Federal Perkins Loan Program funds included the following:

	June 30, 2007	June 30, 2006
Perkins loans receivable	$ 17,581.24	$ 17,243.00
Less allowance for doubtful accounts	(17,581.24)	(17,243.00)
Total	$ -	$ -

NOTE 4. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2007, was as follows:

	Beginning Balance	Additions	Transfers	Reductions	Ending Balance
Land	$ 3,393,845.04	$ -	$ -	$ -	$ 3,393,845.04
Land improvements and infrastructure	1,640,371.18	5,306.29	-	-	1,645,677.47
Buildings	43,659,487.29	289,179.38	2,230,807.07	-	46,179,473.74
Equipment	5,332,752.22	178,419.26	-	160,572.34	5,350,599.14

Library holdings	1,218,520.54	107,954.43	-	151,907.62	1,174,567.35
Software	-	-	1,151,296.03	-	1,151,296.03
Projects in progress	2,869,882.88	703,310.35	(3,382,103.10)	-	191,090.13
Total	58,114,859.15	1,284,169.71	-	312,479.96	59,086,548.90
Less accum. depreciation:					
Land improvements and infrastructure	936,138.32	50,960.60	-	-	987,098.92
Buildings	14,840,032.00	1,198,891.76	-	-	16,038,923.76
Equipment	4,098,678.56	339,377.42	-	157,426.17	4,280,629.81
Library holdings	674,069.32	78,023.23	-	145,027.48	607,065.07
Software	-	115,129.60	-	-	115,129.60
Total accum. depreciation	20,548,918.20	1,782,382.61	-	302,453.65	22,028,847.16
Capital assets, net	$37,565,940.95	$(498,212.90)	$ -	$ 10,026.31	$37,057,701.74

Capital asset activity for the year ended June 30, 2006, was as follows:

	Beginning Balance	Additions	Transfers	Reductions	Ending Balance
Land	$ 3,396,956.04	$ 4,324.00	$ -	$ 7,435.00	$ 3,393,845.04
Land improvements and infrastructure	1,296,315.33	-	344,055.85	-	1,640,371.18
Buildings	43,659,487.29	-	-	-	43,659,487.29
Equipment	5,260,202.89	560,806.48	-	488,257.15	5,332,752.22
Library holdings	1,230,940.70	104,831.34	-	117,251.50	1,218,520.54
Projects in progress	943,307.90	2,270,630.83	(344,055.85)	-	2,869,882.88
Total	55,787,210.15	2,940,592.65	-	612,943.65	58,114,859.15
Less accum. depreciation:					
Land improvements and infrastructure	882,109.65	54,028.67	-	-	936,138.32
Buildings	13,707,238.25	1,132,793.75	-	-	14,840,032.00
Equipment	4,225,975.70	360,628.94	-	487,926.08	4,098,678.56
Library holdings	668,685.43	122,127.48	-	116,743.59	674,069.32
Total accum. depreciation	19,484,009.03	1,669,578.84	-	604,669.67	20,548,918.20
Capital assets, net	$36,303,201.12	$1,271,013.81	$ -	$ 8,273.98	$37,565,940.95

NOTE 5. LONG-TERM LIABILITIES

Long-term liabilities activity for the year ended June 30, 2007, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Payables:					
TSSBA debt:					
Bonds	$ 2,216,620.64	$ 76,379.36	$ 243,150.50	$ 2,049,849.50	$237,348.00
Other liabilities:					
Compensated absences	1,021,844.72	532,616.95	518,902.50	1,035,559.17	274,218.76
Due to grantors	2,539.63	472.84	351.71	2,660.76	-
Subtotal	1,024,384.35	533,089.79	519,254.21	1,038,219.93	274,218.76
Total long-term liabilities	$ 3,241,004.99	$ 609,469.15	$ 762,404.71	$ 3,088,069.43	$511,566.76

Long-term liabilities activity for the year ended June 30, 2006, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Payables:					
TSSBA debt:					
Bonds	$ -	$ 2,216,620.64	$ -	$ 2,216,620.64	$243,150.50
Commercial paper	452,800.00	1,899,690.63	2,352,490.63	-	-
Subtotal	452,800.00	4,116,311.27	2,352,490.63	2,216,620.64	243,150.50
Other liabilities:					
Compensated absences	1,013,996.62	569,476.45	561,628.35	1,021,844.72	307,655.95
Due to grantors	2,449.76	438.09	348.22	2,539.63	-
Subtotal	1,016,446.38	569,914.54	561,976.57	1,024,384.35	307,655.95
Total long-term liabilities	$ 1,469,246.38	$ 4,686,225.81	$2,914,467.20	$ 3,241,004.99	$550,806.45

TSSBA Debt - Bonds

Bonds, with interest rates ranging from 4.0% to 4.6%, were issued by the Tennessee State School Bond Authority (TSSBA). The bonds are due serially to 2021 and are secured by pledges of the facilities' revenues to which they relate and certain other revenues and fees of the college, including state appropriations. The bonded indebtedness with the Tennessee State School Bond Authority included in long-term liabilities on the statement of net assets is shown net of assets held by the authority in the debt service reserve and unexpended debt proceeds. Unexpended debt proceeds were $21,190.00 at June 30, 2007, and $97,569.36 at June 30, 2006.

Debt service requirements to maturity for the college's portion of TSSBA bonds at June 30, 2007, are as follows:

Year Ending June 30	Principal	Interest	Total
2008	$ 237,348.00	$ 84,768.05	$ 322,116.05
2009	247,316.50	75,557.02	322,873.52
2010	257,703.50	65,664.36	323,367.86
2011	97,300.00	55,356.22	152,656.22
2012	101,387.00	51,464.22	152,851.22
2013-2017	574,498.50	192,973.30	767,471.80
2018-2021	534,296.00	62,929.68	597,225.68
	$ 2,049,849.50	$ 588,712.85	$ 2,638,562.35

TSSBA Debt - Commercial Paper

The Tennessee State School Bond Authority issues commercial paper to finance the costs of various capital projects during their construction phase. When projects are placed in service, long-term, fixed-rate debt is issued by TSSBA to finance the project over its useful payback period and the commercial paper is redeemed.

For the commercial paper program, the Tennessee State School Bond Authority maintains an interest rate reserve fund. The college contributes amounts to the reserve fund based on the amounts drawn. The principal of the reserve will be contributed to pay off notes or credited back to the college when the notes are converted to bonds. The interest earned on the reserve is used to pay interest due during the month.

More detailed information regarding the bonds and commercial paper can be found in the notes to the financial statements in the financial report for the Tennessee State School Bond Authority. That report may be obtained by writing to the Director of Bond Finance, Suite 1600, James K. Polk Building, Nashville, Tennessee 37243-1402, or by calling (615) 401-7872.

NOTE 6. UNRESTRICTED NET ASSETS

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

	June 30, 2007	June 30, 2006
Working capital	$ 409,068.84	$ 316,653.46
Encumbrances	121,435.56	286,063.52
Designated fees	144,244.78	139,620.17
Auxiliaries	1,048,383.90	863,059.58
Plant construction	1,062,581.05	1,074,975.22
Renewal and replacement of equipment	1,692,509.03	1,898,487.39
Undesignated	449,291.43	177,004.03
Total	$ 4,927,514.59	$ 4,755,863.37

NOTE 7. PENSION PLANS

A. Defined Benefit Plan

Tennessee Consolidated Retirement System

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

The TCRS issues a publicly available financial report that includes financial statements and required supplementary information for SETHEEPP. That report may be obtained by writing to the Tennessee Department of the Treasury, Consolidated Retirement System, 10th Floor Andrew Jackson Building, Nashville, Tennessee 37243-0230, or by calling (615) 741-8202.

Funding Policy - Plan members are noncontributory. The college is required to contribute an actuarially determined rate. The current rate is 13.66% of annual covered payroll. Contribution requirements for the college are established and may be amended by the TCRS' Board of Trustees. The college's contributions to TCRS for the years ended June 30, 2007, 2006, and 2005 were $1,377,078.10, $1,021,406.55, and $988,149.34. Contributions met the requirements for each year.

B. Defined Contribution Plans

Optional Retirement Plans (ORP)

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

Funding Policy - Plan members are noncontributory. The college contributes an amount equal to 10% of the employee's base salary up to the social security wage base and 11% above the social security wage base. Contribution requirements are established and amended by state statute. The contribution made by the college to the plans was $608,287.87 for the year ended June 30, 2007, and $596,105.04 for the year ended June 30, 2006. Contributions met the requirements for each year.

NOTE 8. OTHER POST-EMPLOYMENT BENEFITS

The State of Tennessee administers a group health insurance program which provides post-employment health insurance benefits to eligible college retirees. This benefit is provided and administered by the State of Tennessee. The college assumes no liability for retiree health care programs. Information related to this plan is available at the statewide level in the *Tennessee Comprehensive Annual Financial Report*. That report may be obtained by writing to the Tennessee Department of Finance and Administration, Division of Accounts, 14th Floor William R. Snodgrass Tennessee Tower, 312 Rosa L. Parks Avenue, Nashville, Tennessee 37243-0298, or by calling (615) 741-2140.

NOTE 9. INSURANCE-RELATED ACTIVITIES

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

The college participates in the Risk Management Fund. The fund allocates the cost of providing claims servicing and claims payment by charging a premium to the college based on a percentage of the college's expected loss costs, which include both experience and exposures. This charge considers recent trends in actual claims experience of the state as a whole. An actuarial valuation is performed as of fiscal year-end to determine the fund liability and premium allocation. Information regarding the determination of the claims liabilities and the changes in the balances of the claims liabilities for the years ended June 30, 2007, and June 30, 2006, are presented in the *Tennessee Comprehensive Annual Financial Report*. That report may be obtained by writing to the Tennessee Department of Finance and Administration, Division of Accounts, 14th Floor William R. Snodgrass Tennessee Tower, 312 Eighth Avenue North, Nashville, Tennessee 37243-0298, or by calling (615) 741-2140. Since the college participates in the Risk Management Fund, it is subject to the liability limitations under the provisions of the Tennessee Claims Commission Act, *Tennessee Code Annotated*, Section 9-8-101 et seq. Liability for negligence of the college for bodily injury and property damage is limited to $300,000 per person and $1,000,000 per occurrence. The limits of liability under workers' compensation are set forth in *Tennessee Code Annotated,* Section 50-6-101 et seq. Claims are paid through the state's Risk Management Fund. At June 30, 2007, the Risk Management Fund held $116.7 million in cash and cash equivalents designated for payment of claims. At June 30, 2006, the Risk Management fund held $133.2 million in cash and cash equivalents designated for payment of claims.

At June 30, 2007, the scheduled coverage for the college was $108,950,100 for buildings and $20,545,100 for contents. At June 30, 2006, the scheduled coverage for the college was $57,337,100 for buildings and $20,009,800 for contents.

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

NOTE 10. COMMITMENTS AND CONTINGENCIES

Sick Leave - The college records the cost of sick leave when paid. Generally, since sick leave (earned one day per month with unlimited accumulation) is paid only when an employee dies or is absent because of illness, injury, or related family death, there is no liability for sick leave at June 30. The dollar amount of unused sick leave was $5,645,571.77 at June 30, 2007, and $5,788,057.85 at June 30, 2006.

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 $290,905.74 and for personal property were $110,400.64 for the year ended June 30, 2007. Comparative amounts for the year ended June 30, 2006, were $294,703.16 and $145,358.41. The following is a schedule by years of future minimum rental payments required under noncancelable operating leases that have initial or remaining lease terms of one year or more at June 30, 2007:

Year Ending June 30	
2008	$ 170,000.00
Total minimum payments required	$ 170,000.00

Construction in Progress - At June 30, 2007, outstanding commitments under construction contracts totaled $1,285,933.44 for the Morgan County Higher Education Center project, Library Windows and Panel project, and the ADA Improvements project, of which $214,094.10 will be funded by future state capital outlay appropriations.

Contract - In December 2004, the Tennessee Board of Regents system entered into a contract with SungardSCT for the purchase of a comprehensive enterprise resource planning system. The contract includes a multi-year phase-in of administrative software for financial, human resource, and student systems. The college's outstanding liability for this contract is $647,487.16 at June 30, 2007, and $864,925.32 at June 30, 2006.

NOTE 11. NATURAL CLASSIFICATIONS WITH FUNCTIONAL CLASSIFICATIONS

The college's operating expenses by functional classification for the year ended June 30, 2007, are as follows:

	Natural Classification					
Functional Classification	Salaries	Benefits	Other Operating	Scholarships	Depreciation	Total
Instruction	$11,330,154.52	$3,335,398.64	$ 2,359,325.21	$ 152,879.72	$ -	$ 17,177,758.09
Public service	685,974.36	125,694.87	423,447.41	2,194.02	-	1,237,310.66
Academic support	1,579,556.05	642,070.25	(713,912.50)	14,906.67	-	1,522,620.47
Student services	1,709,105.31	616,758.63	1,244,282.02	129,602.73	-	3,699,748.69
Institutional support	2,476,531.86	866,196.29	926,259.85	6,663.91	-	4,275,651.91
Operation & maintenance	1,144,444.56	616,995.76	2,528,615.15	396.03	-	4,290,451.50
Scholar. & fellow.	155,046.40	270.65	3,055,535.07	1,568,909.48	-	4,779,761.60
Auxiliary	-	-	44,033.24	-	-	44,033.24
Depreciation	-	-	-	-	1,782,382.61	1,782,382.61
Total	$19,080,813.06	$6,203,385.09	$ 9,867,585.45	$ 1,875,552.56	$ 1,782,382.61	$ 38,809,718.77

The college's operating expenses by functional classification for the year ended June 30, 2006, are as follows:

			Natural Classification			
Functional Classification	Salaries	Benefits	Other Operating	Scholarships	Depreciation	Total
Instruction	$10,693,233.30	$2,867,022.03	$ 2,263,804.82	$ 125,092.92	$ -	$ 15,949,153.07
Public service	1,286,203.41	394,054.82	678,372.38	2,295.11	-	2,360,925.72
Academic support	1,561,560.26	561,433.40	(577,077.35)	4,353.48	-	1,550,269.79
Student services	1,642,971.23	577,705.03	941,370.47	150,502.29	-	3,312,549.02
Institutional support	2,246,711.67	738,956.13	994,665.08	10,306.00	-	3,990,638.88
Operation & maintenance	1,074,993.98	504,869.87	3,953,640.86	853.62	-	5,534,358.33
Scholar. & fellow.	223,139.20	1,440.02	3,109,348.91	1,298,384.65	-	4,632,312.78
Auxiliary	-	-	35,647.49		-	35,647.49
Depreciation	-	-	-	-	1,669,578.84	1,669,578.84
Total	$18,728,813.05	$5,645,481.30	$ 11,399,772.66	$ 1,591,788.07	$ 1,669,578.84	$ 39,035,433.92

NOTE 12. COMPONENT UNIT

The Roane State Community College Foundation is a legally separate, tax-exempt organization supporting Roane 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 28-member board of the foundation is self-perpetuating and consists of graduates and friends of the college. Although the college does not control the timing or amount of receipts from the foundation, the majority of resources, or income thereon, that the foundation holds and invests are restricted to the activities of the college by the donors. Because these restricted resources held by the foundation can only be used by, or for the benefit of, the college, the foundation is considered a component unit of the college and is discretely presented in the college's financial statements.

The foundation is a nonprofit organization that reports under Financial Accounting Standards Board (FASB) standards, including FASB Statement 117, *Financial Statements of Not-for-Profit Organizations*. As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features. With the exception of necessary presentation reformatting, 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, 2007, the foundation made distributions of $2,010,428.14 to or on behalf of the college for both restricted and unrestricted purposes. During the year ended June 30, 2006, the foundation made distributions of $305,292.28 to or on behalf of the college for both restricted and unrestricted purposes. Complete financial statements for the foundation can be obtained from Roane State Community College Foundation, Inc., 276 Patton Lane, Harriman, TN 37748.

Cash and cash equivalents - Cash and cash equivalents consists of demand deposit accounts, certificates of deposit, and money market funds. Of the bank balances at June 30, 2007, $200,000 was insured and $65,700.92 was uninsured. Of the bank balances at June 30, 2006, $169,000 was insured and $1,165,422.89 was uninsured.

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

Investments held at June 30, 2007, were as follows:

	Cost	Market Value
Equities	$ 3,153,552.04	$ 3,918,347.11
Corporate bonds	363,113.24	352,019.60
U.S. government securities	1,476,368.98	1,454,851.75
International stocks	285,877.44	437,350.07
Tennessee Valley Authority	18,209.21	18,068.62
Certificate of deposit	68,985.82	68,985.82
Total investments	$ 5,366,106.73	$ 6,249,622.97

Investments held at June 30, 2006, were as follows:

	Cost	Market Value
Equities	$ 2,562,120.47	$ 3,072,046.34
Corporate bonds	611,884.51	582,542.55
U.S. government securities	1,391,928.91	1,345,246.23
International stocks	191,403.65	381,782.10

Tennessee Valley Authority	18,209.21	18,061.48
Domestic individual bond	54,836.14	49,040.00
Certificates of deposit	342,199.45	342,199.45
Total investments	$ 5,172,582.34	$ 5,790,918.15

Pledges Receivable - Pledges receivable are summarized below net of the allowance for doubtful accounts.

	June 30, 2007	June 30, 2006
Current pledges	$ 52,802.73	$ 639,573.59
Pledges due in one to five years	38,715.85	61,461.20
Pledges due after five years	2,500.00	3,000.00
Subtotal	94,018.58	704,034.79
Less discount to net present value	(4,962.13)	(8,555.68)
Total pledges receivable, net	$ 89,056.45	$ 695,479.11

Capital assets - Capital assets at June 30, 2007, and June 30, 2006, were as follows:

	June 30, 2007	June 30, 2006
Land	$ 510,500.00	$ 153,500.00
Manly Art Collection	43,805.00	43,805.00
Total	$ 554,305.00	$ 197,305.00

Long-term liabilities - Long-term liabilities at June 30, 2007, consisted of the following:

	Ending Balance	Current Portion
Other liabilities:		
Liability under split interest agreements	$ 7,851.49	$ 1,264.66

Long-term liabilities at June 30, 2006, consisted of the following:

	Ending Balance	Current Portion
Other liabilities:		
Liability under split interest agreements	$ 8,408.85	$ 1,497.59

Endowments - If a donor has not provided specific instructions to the foundation, the foundation's policies and procedures permit it 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 foundation is required to c0onsider the foundation's 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 foundation 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 foundation, five percent (5%) of the total account balance of endowed funds has 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, 2007, net appreciation of $565,124.16 is available to be spent, of which $378,919.62 is included in restricted net assets expendable for scholarships and fellowships, $47,605.30 is included in restricted net assets expendable for instructional departmental uses, and $138,599.24 is included in restricted net assets expendable for other. At June 30, 2006, net appreciation of $160,120.24 is available to be spent, of which $101,413.06 is included in restricted net assets expendable for scholarships and fellowships, $17,329.56 is included in restricted net assets expendable for instructional departmental uses, and $41,377.62 is included in restricted net assets expendable for other.

Change in Account Classification - On the Statement of Cash Flows for the year ended June 30, 2006, cash at July 1, 2006, was restated to include $91,896.87. This amount represents funds held in a money market account and should be considered cash and cash equivalents.

TENNESSEE BOARD OF REGENTS
ROANE STATE COMMUNITY COLLEGE
SUPPLEMENTARY SCHEDULES OF CASH FLOWS - COMPONENT UNIT
FOR THE YEARS ENDED JUNE 30, 2007, AND JUNE 30, 2006

	Year Ended June 30, 2007	Year Ended June 30, 2006
CASH FLOWS FROM OPERATING ACTIVITIES		
Gifts and contributions	$ 848,755.75	$ 1,570,055.55
Payments to suppliers and vendors	(55,270.44)	(107,800.70)
Payments for scholarships and fellowships	(5,997.12)	(4,018.23)
Payments to Roane State Community College	(1,965,100.58)	(305,292.28)
Net cash provided (used) by operating activities	(1,177,612.39)	1,152,944.34
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Private gifts for endowment purposes	60,898.71	68,734.01
Other noncapital financing receipts (payments)	(1,497.58)	(1,553.30)
Net cash provided by noncapital financing activities	59,401.13	67,180.71
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of investments	2,695,802.89	1,174,920.01
Income on investments	515,303.73	189,566.77
Purchase of investments	(2,728,719.24)	(1,852,343.76)
Other investing receipts (payments)	(159,431.30)	11,927.00
Net cash provided (used) by investing activities	322,956.08	(475,929.98)
Net increase (decrease) in cash and cash equivalents	(795,255.18)	744,195.07
Cash and cash equivalents - beginning of year	990,254.81	154,162.87
Change in account classification	-	91,896.87
Cash and cash equivalents at beginning of year, restated	990,254.81	246,059.74
Cash and cash equivalents - end of year	$ 194,999.63	$ 990,254.81

Reconciliation of operating income (loss) to net cash provided (used) by operating activities:		
Operating income (loss)	$ (1,415,996.62)	$ 148,796.40
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities		
Gifts in-kind	(357,000.00)	(147,000.00)
Change in assets and liabilities:		
Receivables, net	600,337.46	1,162,226.43
Accounts payable	(4,953.23)	(11,078.49)
Net cash provided (used) by operating activities	$ (1,177,612.39)	$ 1,152,944.34
Noncash transactions		
In-kind gifts - operating	$ 49,965.50	$ 15,546.92
In-kind gifts - capital items	$ 357,000.00	$ 147,000.00
Pledges	$ 696,955.53	$ 1,859,856.54
Unrealized gain (loss) on investments	$ 266,104.01	$ 145,366.66
Changes in value of split interest agreements	$ 11,555.67	$ 3,582.51