

# AUDIT REPORT

Tennessee Board of Regents  
Roane State Community College

For the Years Ended  
June 30, 2011, and June 30, 2010



STATE OF TENNESSEE  
COMPTROLLER OF THE TREASURY

Department of Audit  
Division of State Audit



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

*Edward Burr, CPA*  
Assistant Director

*Aaron Jewell, CPA, CFE*  
Audit Manager

*Keith L. Isbell*  
In-Charge Auditor

*Angela Courtney*  
*Jerry D. Crittendon, CPA*  
*Taryn D. Hodge*  
*Ben Johnson, CPA, 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 online at  
[www.comptroller.tn.gov/sa/AuditReportCategories.asp](http://www.comptroller.tn.gov/sa/AuditReportCategories.asp).  
For more information about the Comptroller of the Treasury, please visit our website at  
[www.comptroller.tn.gov](http://www.comptroller.tn.gov).



**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**

August 7, 2012

The Honorable Bill Haslam, Governor  
and

Members of the General Assembly  
State Capitol  
Nashville, Tennessee 37243

and

The Honorable John G. Morgan, Chancellor  
Tennessee Board of Regents  
1415 Murfreesboro Road, Suite 340  
Nashville, Tennessee 37217

and

Dr. 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, 2011, and June 30, 2010. 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 a 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/aj  
12/054

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, 2011, and June 30, 2010

---

## 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 did not ensure the foundation properly classified net assets and included all required disclosures**

The financial statements and notes prepared by the foundation contained material departures from Financial Accounting Standards Board standards (page 9).

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

## OPINIONS ON THE FINANCIAL STATEMENTS

The opinions on the financial statements are unqualified.

**Audit Report**  
**Tennessee Board of Regents**  
**Roane State Community College**  
**For the Years Ended June 30, 2011, and June 30, 2010**

---

**TABLE OF CONTENTS**

---

	<u>Exhibit</u>	<u>Page</u>
<b>INTRODUCTION</b>		1
Post-Audit Authority		1
Background		1
Organization		1
<b>AUDIT SCOPE</b>		2
<b>OBJECTIVES OF THE AUDIT</b>		2
<b>PRIOR AUDIT FINDING</b>		2
<b>OBSERVATIONS AND COMMENTS</b>		3
Management's Responsibility for Risk Assessment		3
Fraud Considerations		3
Technology Centers		4
<b>RESULTS OF THE AUDIT</b>		5
Audit Conclusions		5
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i>		6
Finding and Recommendation		9
Finding - The college did not ensure the foundation properly classified net assets and included all required disclosures		9
<b>FINANCIAL SECTION</b>		12
Independent Auditor's Report		12

---

## TABLE OF CONTENTS (CONT.)

---

	<u>Exhibit</u>	<u>Page</u>
Management's Discussion and Analysis		15
Basic Financial Statements		37
Statements of Net Assets	A	37
Statements of Revenues, Expenses, and Changes in Net Assets	B	38
Statements of Cash Flows	C	39
Notes to the Financial Statements		41
Required Supplementary Information		69
OPEB Schedule of Funding Progress		69
Supplementary Information		70
Schedules of Cash Flows - Component Unit		70

**Tennessee Board of Regents  
Roane State Community College  
For the Years Ended June 30, 2011, and June 30, 2010**

---

**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, 2009, through June 30, 2011, 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, 2011, and June 30, 2010. 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 FINDING

---

Section 8-4-109, *Tennessee Code Annotated*, requires that each state department, agency, or institution report to the Comptroller of the Treasury the action taken to implement the recommendations in the prior audit report. The college filed its report with the Department of Audit on October 4, 2011. A follow-up of the prior audit finding was conducted as part of the current audit. The current audit disclosed that the college has corrected the previous audit finding concerning review of account code configurations to prevent errors in the preparation of the college's financial statements.

---

## 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, 2011, and June 30, 2010, 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. A material weaknesses, along with the recommendation and management's response, is detailed in the Finding and Recommendation section.

#### Compliance and Other Matters

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

#### Fairness of Financial Statement Presentation

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



STATE OF TENNESSEE  
**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***

June 21, 2012

The Honorable Bill Haslam, Governor  
and

Members of the General Assembly  
State Capitol  
Nashville, Tennessee 37243

and

The Honorable John G. Morgan, Chancellor  
Tennessee Board of Regents  
1415 Murfreesboro Road, Suite 340  
Nashville, Tennessee 37217

and

Dr. 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, 2011, and June 30, 2010, and have issued our report thereon dated June 21, 2012. 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**

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

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

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

- The college did not ensure the foundation properly classified net assets and included all required disclosures

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

## **Compliance and Other Matters**

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

We noted certain matters that we reported to management of Roane State Community College in a separate letter.

June 21, 2012  
Page Three

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,

A handwritten signature in black ink that reads "Arthur A. Hayes, Jr." in a cursive style.

Arthur A. Hayes, Jr., CPA  
Director

AAH/aj

## **FINDING AND RECOMMENDATION**

### **The college did not ensure the foundation properly classified net assets and included all required disclosures**

#### **Finding**

Roane State Community College reports under the standards of the Governmental Accounting Standards Board (GASB). Those standards require that as a part of the college's basic financial statements, the college include its component unit's financial statements. The college's business office prepares the college's statements, and the Roane State Community College's foundation coordinator, who is also an employee of the college, prepares the foundation's statements that are to be included in the college's financial statements. As described in note 17, the foundation uses Financial Accounting Standards Board (FASB) reporting standards. Except for necessary presentation reformatting, no changes are made to the foundation's financial information in the college's financial statements.

The Roane State Community College Foundation's financial statements contained material departures from FASB reporting standards. Because there were material departures, the same departures were contained in the college's presentation of the foundation's financial statements. The absence of an adequate knowledge of endowment accounting and financial reporting allowed this misstatement to occur.

#### **Departures Discovered in the Foundation's Statements**

Most of the foundation's net assets are associated with donor-restricted endowment funds. These funds are either true endowments, which must be invested in perpetuity for the purpose of generating income; or term endowments, which must be invested for a specified term and then may be spent.

Per the FASB accounting standards codification (FASB ASC), the foundation must allocate its net assets between unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. Our audit found the following specific problems with this allocation:

- a term endowment was improperly classified,
- underwater endowments were improperly netted with other endowments to arrive at temporarily restricted net assets and unrestricted net assets,
- there was improper netting of other non-endowment project balances, and
- the foundation omitted a disclosure describing underwater endowments.

### Term Endowment Improperly Classified

The foundation had one term endowment totaling \$148,074.44 that was classified as permanently restricted net assets but should have been classified as temporarily restricted net assets.

### Improper Netting of Underwater Endowments With Other Endowments

The foundation accounts for each endowment's spending and allocates realized and unrealized gains and losses to each of the endowments. Because investments may decrease in value, the overall value of individual endowments may fall below the original principal of the endowment, resulting in an "underwater" endowment.

At June 30, 2011, there were 7 individual underwater endowments, ranging from \$610.98 to \$2,242.22 and totaling \$6,829.39; at June 30, 2010, there were over 40 underwater endowments ranging from \$20.78 to \$37,933.37 and totaling \$149,500.35; and at June 30, 2009, there were over 50 underwater endowments ranging from \$21.37 to \$18,467.34 and totaling \$242,980.68. These underwater endowments were improperly netted against other endowments to arrive at temporarily restricted net assets and unrestricted net assets.

FASB ASC, paragraph 958-205-45-22, states:

. . . losses on the investments of a donor-restricted endowment fund shall reduce temporarily restricted net assets to the extent that donor-imposed temporary restrictions on net appreciation of the fund have not been met before the loss occurs. Any remaining loss shall reduce unrestricted net assets.

Such guidance is illustrated in FASB ASC, paragraph 958-205-55, example 3.

When we asked management about the netting, they explained that they were not aware of the requirement to determine temporarily restricted net assets on an individual endowment basis.

### Improper Netting of Non-Endowment Project Balances

The foundation also receives donations where the donor specifies that the donation should be used for a specific purpose, but unlike endowments, the foundation can spend the entire amount of the contribution on the donor's specified purpose. The unspent contributions should be classified as temporarily restricted net assets.

In the foundation's accounting system, projects are used to track activity for donor-restricted contributions. Each project in the system is tied to a specific purpose. When the cumulative outflows of a project exceed the cumulative inflows, a negative project balance results that should be deducted from unrestricted net assets. However, the foundation netted the negative balances against temporarily restricted net assets instead of unrestricted net assets. At

June 30, 2011, 2010, and 2009, these negative project balances totaled \$20,077.75, \$26,715.56, and \$65,593.63, respectively.

#### Disclosure Omitted

Because the underwater endowments were netted with other endowments, resulting in total endowments not being underwater, the foundation did not include a required disclosure. FASB ASC, paragraph 958-205-50-2, states:

For each period for which a statement of financial position is presented, an NFP [not for profit] shall disclose the aggregate amount of the deficiencies for all donor-restricted endowment funds for which the fair value of the assets at the reporting date is less than the level required by donor stipulations or law.

#### **Recommendation**

The President should ensure that the foundation coordinator as well as other fiscal staff responsible for review of the foundation's financial statements attend, as a part of continuing professional education, training that specifically addresses endowment accounting and financial reporting.

#### **Management's Comment**

We concur. The College will ensure that the Foundation reviews each individual endowment fund and project account balance as of June 30 of each year to determine which funds, if any, are underwater or if any individual project account balance is negative. If so, the net assets will be reported in the proper net asset category and properly disclosed. In addition, a spreadsheet with the requirements of each endowment will be maintained by the Foundation and reviewed to ensure that all endowments are properly classified.

The Foundation accounting staff and key members of the College accounting staff attended the accounting and financial reporting training sponsored by the TBR in May 2012. We will require our Foundation accounting staff and key members of the College accounting staff to attend this training annually, assuming the training continues to be offered. Should this training not be available in the future, other training opportunities will be considered.

These corrective actions will be in place for the fiscal year ended June 30, 2012, financial statement preparation.



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**

June 21, 2012

The Honorable Bill Haslam, Governor  
and

Members of the General Assembly  
State Capitol  
Nashville, Tennessee 37243

and

The Honorable John G. Morgan, Chancellor  
Tennessee Board of Regents  
1415 Murfreesboro Road, Suite 340  
Nashville, Tennessee 37217

and

Dr. 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, 2011, and June 30, 2010, 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, 2011, and June 30, 2010, and the changes in its financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of Roane State Community College, and its discretely presented component unit as of June 30, 2011, and June 30, 2010, and the respective changes in financial position and cash flows thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis on pages 15 through 36 and the schedule of funding progress on page 69 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the basic financial statements. The accompanying financial information on page 70 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.

June 21, 2012  
Page Three

In accordance with generally accepted government auditing standards, we have also issued our report dated June 21, 2012, on our consideration of the college's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with generally accepted government auditing standards and should be considered in assessing the results of our audit.

Sincerely,

A handwritten signature in black ink that reads "Arthur A. Hayes, Jr." in a cursive style.

Arthur A. Hayes, Jr., CPA  
Director

AAH/aj

**Tennessee Board of Regents  
Roane State Community College  
Management's Discussion and Analysis  
June 30, 2011, and June 30, 2010**

---

This section of Roane State Community College's report presents a discussion and analysis of the financial performance of the college during the fiscal year ended June 30, 2011, and June 30, 2010, with comparative information for the year ended June 30, 2009. 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.

**Tennessee Board of Regents  
Roane State Community College  
Management's Discussion and Analysis (Cont.)  
June 30, 2011, and June 30, 2010**

	<b>College Net Assets (in thousands)</b>		
	<u><b>2011</b></u>	<u><b>2010</b></u>	<u><b>2009</b></u>
<b>Assets:</b>			
Current Assets	\$ 12,156.9	\$ 9,237.1	\$ 10,967.4
Capital Assets, Net	38,431.2	37,677.3	37,666.9
Other Assets	13,076.5	9,460.8	3,197.7
<b>Total Assets</b>	<u><b>\$ 63,664.6</b></u>	<u><b>\$ 56,375.2</b></u>	<u><b>\$ 51,832.0</b></u>
<b>Liabilities:</b>			
Current Liabilities	\$ 8,383.6	\$ 5,939.3	\$ 6,275.8
Non-Current Liabilities	4,060.3	3,826.4	3,518.5
<b>Total Liabilities</b>	<u><b>\$ 12,443.9</b></u>	<u><b>\$ 9,765.7</b></u>	<u><b>\$ 9,794.3</b></u>
<b>Net Assets:</b>			
Invested in Capital Assets, Net of Related Debt	\$ 38,431.2	\$ 37,677.3	\$ 37,502.6
Restricted - Expendable	944.0	1,188.3	812.6
Unrestricted	11,845.5	7,743.9	3,722.5
<b>Total Net Assets</b>	<u><b>\$ 51,220.7</b></u>	<u><b>\$ 46,609.5</b></u>	<u><b>\$ 42,037.7</b></u>

***Comparison of FY 2011 to FY 2010***

- Current assets increased due to increases in cash and cash equivalents on deposit with the state Local Government Investment Pool (LGIP) in part as a result of conservative fiscal management, increases in accounts, notes, and grants receivable due to increases in the grant receivable due from the Tennessee Student Assistance Corporation for Tennessee Student Assistance Award grants, and a significant increase in funds on deposit for the four Tennessee Technology Centers for which the college provides accounting services.
- Other assets increased significantly due to transfers of cash from unrestricted funds to renewal and replacement funds for future equipment replacement needs as well as an increase in accounts, notes, and grants receivable for the U.S. Economic Development Administration grant for construction of the Cumberland Business Incubator.
- Current liabilities increased due to an increase in accounts payable resulting from funds due to the State of Tennessee/Tennessee Board of Regents for expenses associated with the Cumberland Business Incubator project, increases in accrued liabilities due to increases in payroll related liabilities for employee deductions and benefits, increases in deferred revenues resulting from increased tuition fee rates and implementation of a new fee for

**Tennessee Board of Regents  
Roane State Community College  
Management's Discussion and Analysis (Cont.)  
June 30, 2011, and June 30, 2010**

---

on-line courses, and a significant increase in deposits held in custody for others due to an increase in funds on deposit for the four Tennessee Technology Centers for which the college provides accounting services.

- Restricted expendable net assets decreased due to use of restricted plant fund balances for the Cumberland Business Incubator capital project.
- Unrestricted net assets increased significantly primarily from increases in net tuition and fees and state appropriations and also from the college's conservative budget and spending plans in light of national and state economic uncertainties as well as the unpredictability of sustaining enrollment growth that occurred during the recent recession.

***Comparison of FY 2010 to FY 2009***

- Current assets decreased significantly due to transfers of cash from unrestricted funds to unexpended plant funds and renewals and replacements funds in anticipation of future construction and equipment replacement needs. The decrease in current assets was partially offset by a receivable from the State of Tennessee for June 2010 State Fiscal Stabilization Funds billed but unpaid at June 30, and an increase in funds on deposit for the four Tennessee Technology Centers for which the college provides accounting services.
- Other assets increased significantly due to the above mentioned transfers of cash from unrestricted funds to unexpended plant funds and renewals and replacements funds in anticipation of future construction and equipment replacement needs.
- Current liabilities decreased due to return of FY 2008-09 State Fiscal Stabilization Funds of \$1,027,500 which were drawn down and receipted as of June 30, 2009, but subsequently returned on July 13, 2009, when it was determined that institutions would not lose the availability of funds not drawn down at June 30, 2009. The decrease in current liabilities was partially offset by increases in deferred revenues resulting from increased tuition fee rates and increases in students enrolled in summer session classes and by an increase in deposits held in custody for others due to an increase in funds on deposit for the four Tennessee Technology Centers for which the college provides accounting services.
- Restricted expendable net assets increased due to local grants received from Cumberland County and the City of Crossville in support of the Cumberland Business Incubator capital project.

**Tennessee Board of Regents  
Roane State Community College  
Management's Discussion and Analysis (Cont.)  
June 30, 2011, and June 30, 2010**

---

- Unrestricted net assets increased significantly primarily from increases in net tuition and fees in addition to the college's conservative budget and spending plans and organizational changes implemented to address permanent reductions in recurring state funding and from increases in tuition and fee revenue resulting from increases in fee rates and student enrollment.

**Roane State Foundation  
Net Assets  
(in thousands)**

	<u>2011</u>	<u>2010</u>	<u>2009</u>
<b>Assets:</b>			
Current Assets	\$ 3,098.6	\$ 1,303.6	\$ 3,328.7
Capital Assets, Net	197.3	197.3	197.3
Other Assets	7,718.9	8,196.0	5,552.6
<b>Total Assets</b>	<u>\$ 11,014.8</u>	<u>\$ 9,696.9</u>	<u>\$ 9,078.6</u>
<b>Liabilities:</b>			
Current Liabilities	\$ 18.0	\$ 2.2	\$ 15.5
Non-Current Liabilities	5.7	5.2	6.1
<b>Total Liabilities</b>	<u>\$ 23.7</u>	<u>\$ 7.4</u>	<u>\$ 21.6</u>
<b>Net Assets:</b>			
Invested in Capital Assets	\$ 197.3	\$ 197.3	\$ 197.3
Restricted - Nonexpendable	5,080.1	5,031.5	4,966.1
Restricted - Expendable	5,746.4	4,671.6	4,205.0
Unrestricted	(32.7)	(210.9)	(311.4)
<b>Total Net Assets</b>	<u>\$ 10,991.1</u>	<u>\$ 9,689.5</u>	<u>\$ 9,057.0</u>

***Comparison of FY 2011 to FY 2010***

- For the Roane State Foundation, current assets increased significantly due to conversion of long-term investments to cash and cash equivalents as the foundation prepares to provide up to \$2.5 million in matching funds for the college's Oak Ridge Campus Expansion project.
- Restricted – expendable net assets increased due to the excess of contributions, investment income, and net realized and unrealized gains on investments over net assets released from restrictions with the majority of the excess attributable to net realized and unrealized gains on investments.

**Tennessee Board of Regents  
Roane State Community College  
Management's Discussion and Analysis (Cont.)  
June 30, 2011, and June 30, 2010**

---

*Comparison of FY 2010 to FY 2009*

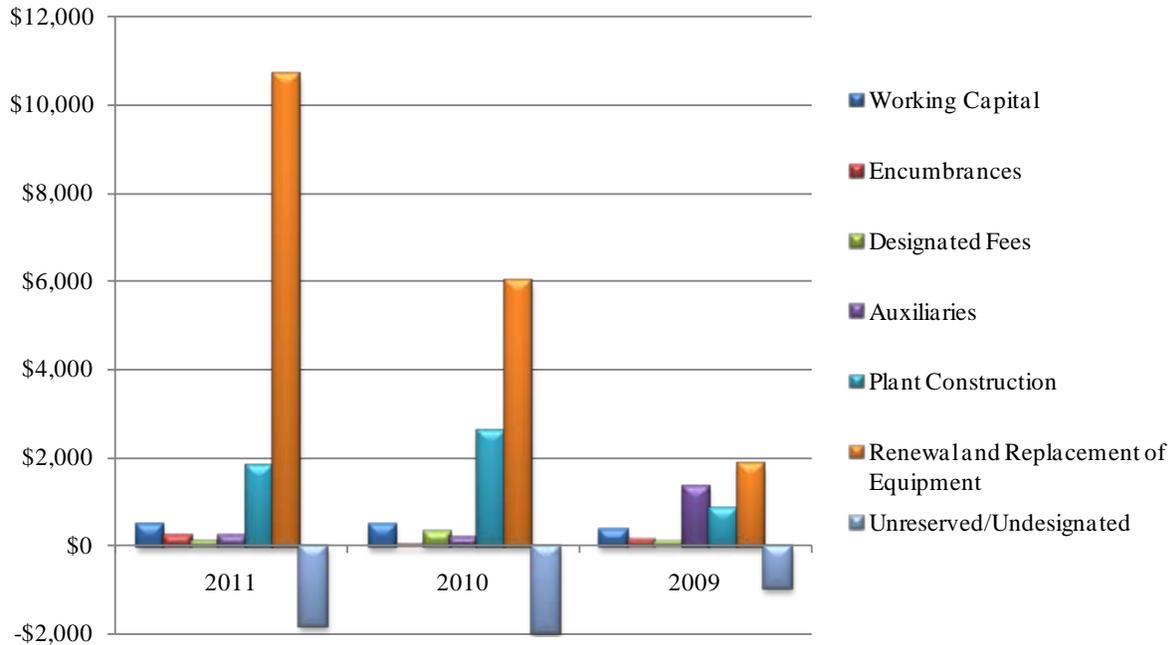
- For the Roane State Foundation, current assets decreased significantly due to decreases in short-term investments resulting from conversion of approximately \$2.4 million in short-term certificates of deposit to the long-term investment portfolio which was partially offset by an increase in pledges receivable associated with the Oak Ridge capital campaign.
- Other assets increased dramatically due to the conversion of the short-term certificates of deposit to long-term investments mentioned above and due to significant unrealized gains on non-current investments.
- Restricted – expendable net assets increased due to the excess of contributions, investment income, and net realized/unrealized gains on investments over net assets released from restrictions with the majority of contributions related to the Oak Ridge capital campaign and Cumberland Business Incubator building project.

Many of the college's unrestricted net assets have been designated for specific purposes such as working capital, encumbrances, special designated fees, auxiliaries, plant construction, and repairs and replacement of equipment. Additionally, undesignated balances include unallocated funds, allocations for future budget needs, and negative allocations of future revenues to cover the liability for compensated absences, other post-employment healthcare benefits, and long-term debt related to an energy saving performance contracting project. The following graph shows the allocations:

**Tennessee Board of Regents  
Roane State Community College  
Management's Discussion and Analysis (Cont.)  
June 30, 2011, and June 30, 2010**

---

**College  
Unrestricted Net Assets  
(in thousands)**



***Comparison of FY 2011 to FY 2010***

- Unrestricted net assets designated for specific purposes increased significantly. Changes included:
  - An increase in funds allocated for encumbrances due to an increase in outstanding purchase orders issued but unfilled at the end of the fiscal year
  - A decrease in funds allocated for designated fees due to a significant transfer of accumulated unexpended Technology Access Fees (TAF) to a fund for renewal and replacement of TAF equipment and a significant increase in current year expenses for other Technology Access Fee purchases
  - A decrease in funds allocated for plant construction due to completion of the Science Lab Renovations project

**Tennessee Board of Regents  
Roane State Community College  
Management's Discussion and Analysis (Cont.)  
June 30, 2011, and June 30, 2010**

---

- A significant increase in funds for renewal and replacement of equipment due to transfers from unrestricted funds in anticipation of future equipment replacement needs

***Comparison of FY 2010 to FY 2009***

- Unrestricted net assets designated for specific purposes increased significantly. Changes included:
  - An increase in working capital primarily due to an increase in student receivables (net of allowance for doubtful accounts) resulting from tuition rate and enrollment increases
  - A decrease in funds allocated for encumbrances due to a decrease in outstanding purchase orders
  - An increase in designated fees due to increases in unexpended technology access and student activity fees
  - A significant decrease in funds allocated for auxiliary enterprises balances due to transfer of \$1,000,000 to renewals and replacements for instructional equipment
  - Significant increases in funds allocated for plant construction and renewal and replacement of equipment due to transfers from unrestricted funds in anticipation of future construction and equipment replacement needs

**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.

**Tennessee Board of Regents  
Roane State Community College  
Management's Discussion and Analysis (Cont.)  
June 30, 2011, and June 30, 2010**

<b>College</b>			
<b>Revenues, Expenses, and Changes in Net Assets</b>			
<b>(in thousands)</b>			
	<u><b>2011</b></u>	<u><b>2010</b></u>	<u><b>2009</b></u>
<b>Operating Revenues:</b>			
Net Tuition and Fees	\$ 9,837.6	\$ 9,109.4	\$ 8,834.4
Grants and Contracts	2,368.0	2,390.9	2,032.6
Auxiliary Enterprises	346.5	346.8	315.2
Other	494.7	548.8	513.5
<b>Total Operating Revenues</b>	<u>\$ 13,046.8</u>	<u>\$ 12,395.9</u>	<u>\$ 11,695.7</u>
Operating Expenses	<u>\$ 48,620.5</u>	<u>\$ 45,333.1</u>	<u>\$ 41,886.8</u>
<b>Operating Income (Loss)</b>	<u>\$ (35,573.7)</u>	<u>\$ (32,937.2)</u>	<u>\$ (30,191.1)</u>
<b>Nonoperating Revenues and Expenses:</b>			
State Appropriations	\$ 19,347.9	\$ 17,247.5	\$ 18,354.2
Gifts	461.8	440.7	620.3
Grants and Contracts	18,804.4	18,987.7	10,045.5
Investment Income	35.2	43.3	135.0
Other Revenues and Expenses	(126.1)	(63.6)	(90.6)
<b>Total Nonoperating Revenues and Expenses</b>	<u>\$ 38,523.2</u>	<u>\$ 36,655.6</u>	<u>\$ 29,064.4</u>
<b>Income (Loss) Before Other Revenues, Expenses, Gains, or Losses</b>	<u>\$ 2,949.5</u>	<u>\$ 3,718.4</u>	<u>\$ (1,126.7)</u>
<b>Other Revenues, Expenses, Gains, or Losses:</b>			
Capital Appropriations	\$ 624.5	\$ 387.1	\$ 214.6
Capital Grants and Gifts	1,037.2	466.3	42.4
<b>Total Revenues, Expenses, Gains, or Losses</b>	<u>\$ 1,661.7</u>	<u>\$ 853.4</u>	<u>\$ 257.0</u>
<b>Increase (Decrease) in Net Assets</b>	<u>\$ 4,611.2</u>	<u>\$ 4,571.8</u>	<u>\$ (869.7)</u>
<b>Net Assets at Beginning of Period</b>	<u>\$ 46,609.5</u>	<u>\$ 42,037.7</u>	<u>\$ 42,907.4</u>
<b>Net Assets at End of Year</b>	<u>\$ 51,220.7</u>	<u>\$ 46,609.5</u>	<u>\$ 42,037.7</u>

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.

**Tennessee Board of Regents  
Roane State Community College  
Management's Discussion and Analysis (Cont.)  
June 30, 2011, and June 30, 2010**

**Roane State Foundation  
Revenues, Expenses, and Changes in Net Assets  
(in thousands)**

	<u>2011</u>	<u>2010</u>	<u>2009</u>
<b>Operating Revenues:</b>			
Gifts and Contributions	\$ 372.6	\$ 700.6	\$ 1,499.3
Grants and Contracts	13.0	-	-
<b>Total Operating Revenues</b>	<u>\$ 385.6</u>	<u>\$ 700.6</u>	<u>\$ 1,499.3</u>
Operating Expenses	<u>\$ 641.9</u>	<u>\$ 515.2</u>	<u>\$ 612.3</u>
<b>Operating Income (Loss)</b>	<u>\$ (256.3)</u>	<u>\$ 185.4</u>	<u>\$ 887.0</u>
<b>Nonoperating Revenues and Expenses:</b>			
Investment Income	\$ 1,511.8	\$ 402.3	\$ (686.0)
Other Revenues and Expenses	2.1	0.9	(18.8)
<b>Total Nonoperating Revenues and Expenses</b>	<u>\$ 1,513.9</u>	<u>\$ 403.2</u>	<u>\$ (704.8)</u>
<b>Income (Loss) Before Other Revenues, Expenses, Gains, or Losses</b>	<u>\$ 1,257.6</u>	<u>\$ 588.6</u>	<u>\$ 182.2</u>
<b>Other Revenues, Expenses, Gains, or Losses:</b>			
Additions to Permanent Endowments	\$ 44.0	\$ 43.9	\$ 2,018.1
<b>Total Revenues, Expenses, Gains, or Losses</b>	<u>\$ 44.0</u>	<u>\$ 43.9</u>	<u>\$ 2,018.1</u>
<b>Increase (Decrease) in Net Assets</b>	<u>\$ 1,301.6</u>	<u>\$ 632.5</u>	<u>\$ 2,200.3</u>
<b>Net Assets at Beginning of Period</b>	<u>\$ 9,689.5</u>	<u>\$ 9,057.0</u>	<u>\$ 6,856.7</u>
<b>Net Assets at End of Year</b>	<u><u>\$ 10,991.1</u></u>	<u><u>\$ 9,689.5</u></u>	<u><u>\$ 9,057.0</u></u>

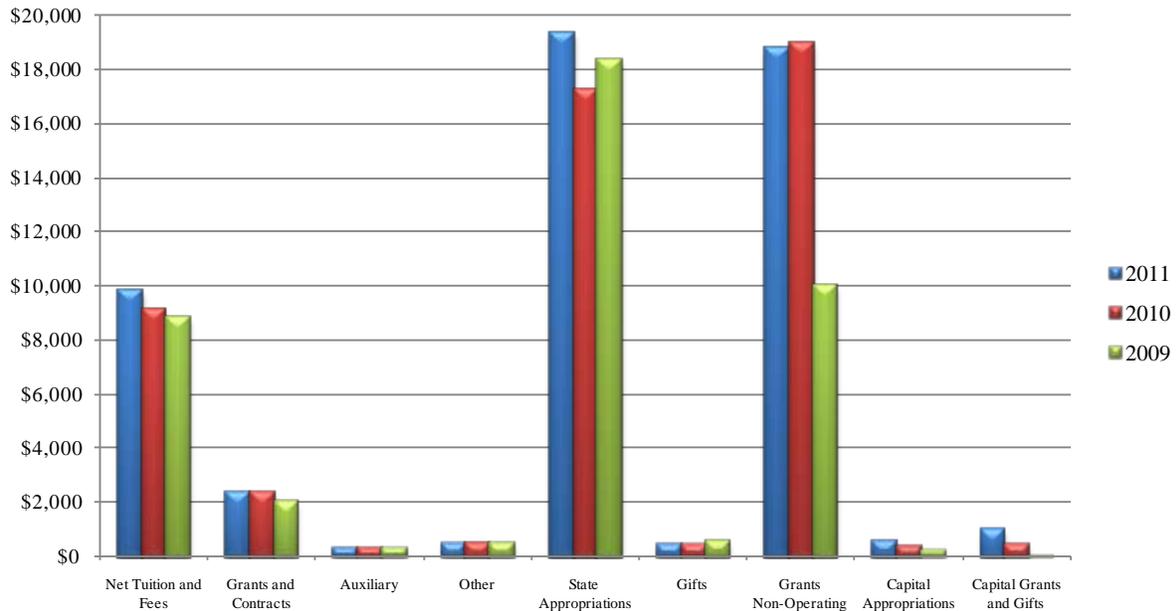
*Revenues*

The following is a graphic illustration of revenues by source (both operating and nonoperating), which are used to fund the college's operating activities for the year ended June 30, 2011; June 30, 2010; and June 30, 2009 (amounts are presented in thousands of dollars).

**Tennessee Board of Regents  
Roane State Community College  
Management's Discussion and Analysis (Cont.)  
June 30, 2011, and June 30, 2010**

---

**College  
Revenue by Source  
(in thousands)**



***Comparison of FY 2011 to FY 2010***

- Tuition and fee revenue increased due to an approximate 6% increase in tuition rates, an approximate 1% increase in enrollment, and implementation of a new institutional fee for on-line courses.
- State appropriation revenue increased significantly due to receipt of non-recurring appropriation support in lieu of American Recovery and Reinvestment Act (ARRA) funding.
- Non-operating grant and contract revenue decreased slightly due to the receipt of over \$3 million in non-recurring ARRA funding in FY 2010 which was offset by significant current year increases in revenue from Pell grants, Tennessee Education Lottery scholarships and grants, and Tennessee Student Assistance Corporation grants.

**Tennessee Board of Regents  
Roane State Community College  
Management's Discussion and Analysis (Cont.)  
June 30, 2011, and June 30, 2010**

---

- Capital appropriations increased due to expenditure of appropriations for several new capital projects including the Fire Alarm Modernization, Security Systems Upgrade, and Oak Ridge Campus Expansion projects.
- Capital grants and gifts increased due to revenue from a federal grant from the U.S. Economic Development Administration for construction of the Cumberland Business Incubator building project and a gift from the Roane State Foundation to support the Oak Ridge Campus Expansion project.

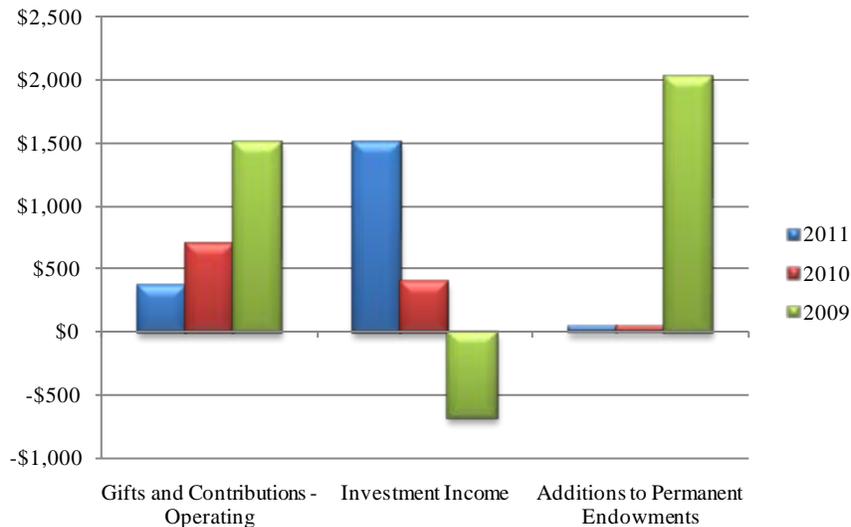
***Comparison of FY 2010 to FY 2009***

- Tuition and fee revenue increased due to a 3.7% increase in in-state tuition fee rates and a 13.9% increase in full-time equivalent (FTE) enrollment for the academic year which was partially offset by significant increases in scholarship allowances.
- Operating grants and contracts increased due to implementation of a *Distance Learning and Telemedicine Grant* from the United States Department of Agriculture-Rural Development program and increases in the Community College Initiative-Egypt and Tennessee Early Childhood Training Alliance contracts. These increases were partially offset by a reduction in Adult Education contract funding and discontinuation of the Tennessee Energy Education Network contract at the end of FY 2009.
- State appropriation revenue declined due to reductions in base operating appropriations because of continuing shortfalls in state tax collections.
- Non-operating gifts decreased as a result of declines in contributions from the Roane State Foundation for scholarships.
- Non-operating grant and contract revenue increased dramatically due to receipt of American Recovery and Reinvestment Act of 2009 (ARRA) funding and due to increases in Pell grants resulting from an increase in the maximum Pell grant award and increases in the number of students receiving grants.
- Capital appropriations increased due to increased funding used for the Expo Center Roof Repairs/ Replacement project.
- Capital grants and gifts increased due to local grants received from the City of Crossville and Cumberland County governments in support of the Cumberland Business Incubator building project.

**Tennessee Board of Regents  
Roane State Community College  
Management's Discussion and Analysis (Cont.)  
June 30, 2011, and June 30, 2010**

---

**Roane State Foundation  
Revenues by Source  
(in thousands)**



***Comparison of FY 2011 to FY 2010***

- The Roane State Foundation's operating gifts and contribution revenue decreased in FY 2011 due to completion of the Oak Ridge Capital Campaign in the previous year.
- Investment income increased dramatically due to increases in realized and unrealized gains on investments resulting from favorable market conditions.

***Comparison of FY 2010 to FY 2009***

- The Roane State Foundation's operating gifts and contribution revenue decreased as the foundation completed the Oak Ridge Capital Campaign during the year and due to receipt in the prior year of accrued interest in excess of \$445,000 on the final settlement payment from a \$2 million estate.
- Investment income increased dramatically due to increases in realized and unrealized gains on investments due to more favorable market conditions.

**Tennessee Board of Regents  
Roane State Community College  
Management's Discussion and Analysis (Cont.)  
June 30, 2011, and June 30, 2010**

---

- Additions to permanent endowments decreased significantly to a more normal level following receipt of a \$2 million bequeath in the prior year.

*Expenses*

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

*Natural Classification*

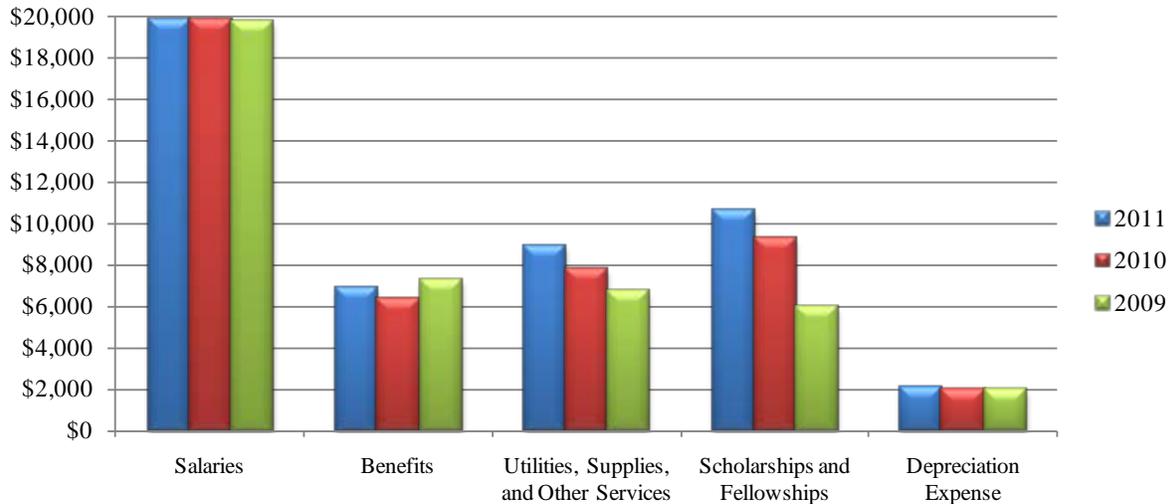
**College  
Operating Expenses by Natural Classification  
(in thousands)**

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Salaries	\$ 19,906.3	\$ 19,902.0	\$ 19,812.2
Benefits	6,971.7	6,359.2	7,303.9
Utilities, Supplies, and Other Services	8,951.7	7,824.6	6,714.2
Scholarships and Fellowships	10,650.2	9,270.5	6,054.0
Depreciation Expense	2,140.6	1,976.8	2,002.5
Total Operating Expenses	<u>\$ 48,620.5</u>	<u>\$ 45,333.1</u>	<u>\$ 41,886.8</u>

**Tennessee Board of Regents  
Roane State Community College  
Management's Discussion and Analysis (Cont.)  
June 30, 2011, and June 30, 2010**

---

**College  
Expenses by Natural Classification  
(in thousands)**



***Comparison of FY 2011 to FY 2010***

- Overall, operating expenses increased by approximately 7.2% over FY 2010.
- Employee benefits increased due to an increase in state retirement contribution rates and an increase in group insurance expense due to the prior-year waiver of two months' employer premiums for the State Employee Group Insurance plan, which were partially offset by a reduction in current-year other post-employment benefit expense.
- Utilities, supplies, and other services increased significantly due to increases in in-state travel, out-of-state travel, and travel associated with international education; increases in purchases from Technology Access Fees and unexpended plant and renewals and replacements funds for supply items; increases in utilities caused by increases in electricity costs due to rate increases; and increases in bad debt expense.
- Scholarships and fellowships increased significantly due to increases in Pell grants, Tennessee Lottery scholarships, Tennessee Lottery Dual Enrollment grants, and Tennessee Student Assistance Award grants, caused primarily by increases in the number of students participating in these programs.

**Tennessee Board of Regents  
Roane State Community College  
Management's Discussion and Analysis (Cont.)  
June 30, 2011, and June 30, 2010**

---

***Comparison of FY 2010 to FY 2009***

- Overall, operating expenses increased from FY 2009.
- Employee benefits decreased due to benefit savings from the Voluntary Buyout Program and other organizational changes implemented in response to continuing reductions in state funding, a reduction in current-year other post-employment benefit expense, and the waiver of two months' employer premiums for the state employee group insurance plan because of an excess in the state's insurance reserve fund.
- Utilities, supplies, and other services increased due to increases in maintenance and repairs expenses associated with unexpended plant fund capital maintenance projects and an increase in contracted custodial services expenses resulting from the initial contract starting in November 2008 and increases in supply purchases due to use of non-recurring American Recovery and Reinvestment Act of 2009 (ARRA) funding.
- Scholarships and fellowships increased significantly due to significant increases in Pell grants resulting from an increase in the maximum Pell grant award and an increase in the number of students receiving grants. Lottery scholarships and Dual Credit scholarships also increased due to increases in the number of students receiving scholarships.

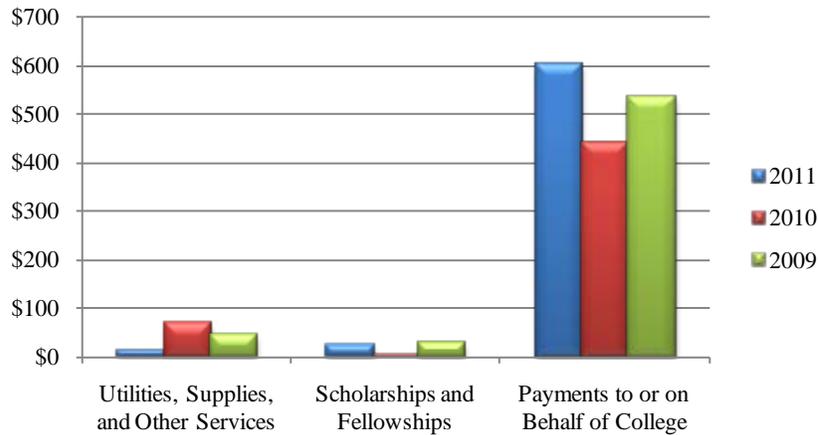
**Roane State Foundation  
Operating Expenses by Natural Classification  
(in thousands)**

	<b>2011</b>	<b>2010</b>	<b>2009</b>
Utilities, Supplies, and Other Services	\$ 14.4	\$ 69.7	\$ 46.1
Scholarships and Fellowships	24.0	6.0	31.2
Payments to or on Behalf of College	603.5	439.5	535.0
Total Operating Expenses	\$ 641.9	\$ 515.2	\$ 612.3

**Tennessee Board of Regents  
Roane State Community College  
Management's Discussion and Analysis (Cont.)  
June 30, 2011, and June 30, 2010**

---

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



***Comparison of FY 2011 to FY 2010***

- Payments to or on behalf of the college increased due to a transfer for the Oak Ridge Campus Expansion project and transfer of a donated scanning electron microscope.

***Comparison of FY 2010 to FY 2009***

- Payments to or on behalf of the college decreased due to reductions in transfers to the college for scholarships.

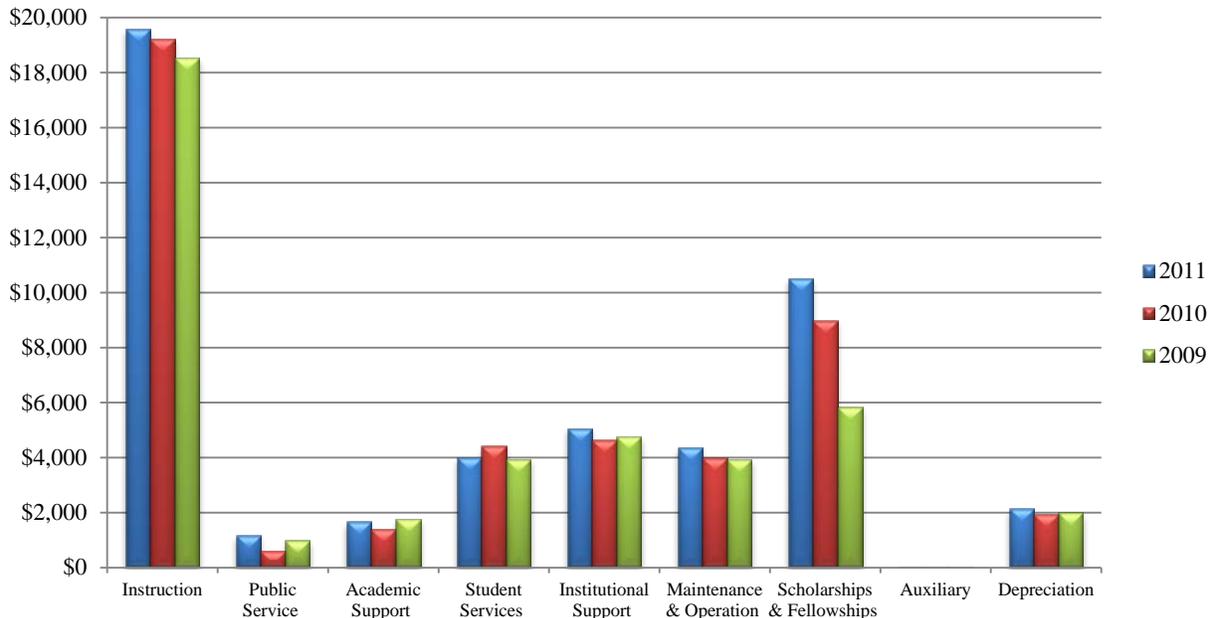
**Tennessee Board of Regents  
Roane State Community College  
Management's Discussion and Analysis (Cont.)  
June 30, 2011, and June 30, 2010**

*Program Classification*

**College  
Operating Expenses by Functional Classification  
(in thousands)**

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Instruction	\$ 19,599.6	\$ 19,238.6	\$ 18,548.7
Public Service	1,165.5	629.5	974.4
Academic Support	1,665.2	1,419.2	1,779.3
Student Services	4,015.3	4,439.0	3,969.7
Institutional Support	5,084.0	4,644.4	4,787.4
Maintenance & Operation	4,376.2	3,968.8	3,955.4
Scholarships & Fellowships	10,534.7	8,985.2	5,830.9
Auxiliary	39.4	31.6	38.5
Depreciation	2,140.6	1,976.8	2,002.5
<b>Total Operating Expenses</b>	<u><u>\$ 48,620.5</u></u>	<u><u>\$ 45,333.1</u></u>	<u><u>\$ 41,886.8</u></u>

**College  
Expenses by Functional Classification  
(in thousands)**



**Tennessee Board of Regents  
Roane State Community College  
Management's Discussion and Analysis (Cont.)  
June 30, 2011, and June 30, 2010**

---

***Comparison of FY 2011 to FY 2010***

- As indicated in the Natural Classification section above, total operating expenses increased from the prior year.
- Public service increased due to implementation of the Advanced Materials and Training Education Center (AMTEC) grant, expenses for Cumberland Business Incubator administrative operations, and increased expenses for the Fund for Improvement in Postsecondary Education (FIPSE) Help to Opportunities (H<sub>2</sub>O) grant project.
- Academic support increased primarily due to a credit prior-year expense associated with American Reinvestment and Recovery Act (ARRA) expenses which were redistributed to other functions as a part of the computer resources use allocation.
- Student services decreased due to decreases in Community College Initiative Egypt contract expenses and elimination of prior-year expenses funded from ARRA funds.
- Scholarships and fellowships increased significantly due to increases in Pell grants, Lottery scholarships, Dual Enrollment grants, and Tennessee Student Assistance awards, primarily resulting from increases in the number of students receiving grants and scholarships.

***Comparison of FY 2010 to FY 2009***

- As indicated in the Natural Classification section above, total operating expenses increased from FY 2009.
- Public service decreased due to cost reductions associated with reorganization of the Continuing Education/Workforce Development Division, discontinuation of the Tennessee Energy Education Network (TEEN) contract, and decreases in Adult Basic Education contract funding.
- Academic support decreased due to cost reductions implemented in response to permanent reductions in state support and redistribution of ARRA expenses for computer service and networking infrastructure to other functions.
- Student services increased due to increases in the Community College Initiative Egypt contract and ARRA expenses for student service activities.

**Tennessee Board of Regents  
Roane State Community College  
Management's Discussion and Analysis (Cont.)  
June 30, 2011, and June 30, 2010**

---

- Scholarships and fellowships increased significantly due to a dramatic increase in Pell grants primarily resulting from an increase in the maximum Pell grant award and an increase in the number of students receiving grants and increases in Lottery scholarships and Dual Credit scholarships resulting from increases in the number of students receiving scholarships.

**Capital Asset and Debt Administration**

*Capital Assets*

Roane State Community College had \$38,431,227 in capital assets, net of accumulated depreciation of \$27,713,889 at June 30, 2011; \$37,677,327 in capital assets, net of accumulated depreciation of \$26,031,870 at June 30, 2010; and \$37,666,854 in capital assets, net of accumulated depreciation of \$24,489,470 at June 30, 2009. Depreciation charges totaled \$2,140,582, \$1,976,820, and \$2,002,534 for the years ending June 30, 2011, 2010, and 2009, respectively. Details of these assets are shown below.

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

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Land	\$ 4,149.3	\$ 4,149.3	\$ 4,137.3
Land improvements & infrastructure	1,216.8	974.0	621.9
Buildings	29,977.4	29,388.1	30,707.1
Equipment	1,526.1	1,293.0	728.3
Library holdings	438.7	467.6	489.9
Software	843.0	999.5	982.4
Projects in progress	<u>279.9</u>	<u>405.8</u>	<u>-</u>
Total Capital Assets, Net of Depreciation	<u>\$ 38,431.2</u>	<u>\$ 37,677.3</u>	<u>\$ 37,666.9</u>

During FY 2011, net capital assets increased by \$753,901. Land improvements and infrastructure increased due to completion of the Telephone Infrastructure project. Buildings increased significantly due to completion of the Cumberland Business Incubator and Science Lab Renovations projects. Equipment increased due to the excess of current-year equipment purchases over current-year depreciation. Projects in progress decreased due to completion of the previously noted projects. The decrease was partially offset by capitalization of expenses for the new Oak Ridge Campus Expansion, Fire Alarms Modernization, and Security Systems

**Tennessee Board of Regents  
Roane State Community College  
Management's Discussion and Analysis (Cont.)  
June 30, 2011, and June 30, 2010**

---

Upgrade projects. Accumulated depreciation increased by \$1,682,019 due to the excess of depreciation expense of \$2,140,582 over write-offs of equipment disposals and fully depreciated library holdings.

For FY 2010, net capital assets decreased by \$10,472. Major changes for the year included equipment purchases totaling \$866,970, improvements purchases totaling \$451,917, additions to the college's library holdings totaling \$92,237, and additions to intangible assets for software totaling \$158,461. During FY 2010, the college received a gift of land in Scott County valued at \$12,000 and projects in progress increased by \$405,803 due to capitalization of payments for architectural services and other costs for design of the new Cumberland Business Incubator building and expenses associated with the Telephone Infrastructure project.

Additionally, the college had a capital maintenance project to replace the roof on the Dunbar Building. The project was in progress at June 30<sup>th</sup>. Also, the re-roofing project for the Expo Center was completed during FY 2010. Accumulated depreciation increased by \$1,542,400 due to the excess of depreciation expense of \$1,976,820 over write-offs of equipment disposals and fully depreciated library holdings.

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

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Land	\$ 153.5	\$ 153.5	\$ 153.5
Other Capital Assets	<u>43.8</u>	<u>43.8</u>	<u>43.8</u>
Total Capital Assets, Net of Depreciation	<u>\$ 197.3</u>	<u>\$ 197.3</u>	<u>\$ 197.3</u>

For FY 2011 and FY 2010, the Roane State Foundation's net capital assets remained unchanged.

For FY 2012, the college anticipates completion of the Security System Upgrade project. This project, to update security/surveillance systems on the Roane County campus, was funded in FY 2011 by a state capital maintenance appropriation totaling \$440,000. The college also anticipates completion of the Fire Alarms Modernization project, which was funded in FY 2010 by a state capital maintenance appropriation totaling \$610,000. Additionally, the college anticipates starting construction on the \$11.5 million Oak Ridge Campus Expansion project. This project, to construct a new Allied Health and Nursing building, will be funded from a \$9 million state appropriation received in FY 2011 and \$2.5 million in private contributions from the Roane State Foundation.

**Tennessee Board of Regents  
Roane State Community College  
Management's Discussion and Analysis (Cont.)  
June 30, 2011, and June 30, 2010**

---

Previously authorized capital maintenance projects to remediate fire and safety code deficiencies for the Knoxville campus and re-roof the Roane County Gymnasium are also expected to be completed. A capital maintenance project appropriation totaling \$460,000 was authorized for FY 2012 to replace HVAC systems in several buildings on the Roane County campus.

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

*Debt*

The college had \$1,231,372, \$1,328,672, and \$1,586,375 in debt outstanding at June 30, 2011, 2010, and 2009, respectively. The table below summarizes these amounts by type of debt instrument.

<b>College Schedule of Outstanding Debt (in thousands)</b>			
	<u>2011</u>	<u>2010</u>	<u>2009</u>
Bonds Payable	\$ 1,231.4	\$ 1,328.7	\$ 1,586.4
Total Outstanding Debt	<u>\$ 1,231.4</u>	<u>\$ 1,328.7</u>	<u>\$ 1,586.4</u>

During FY 2011, indebtedness was reduced by \$97,300 through annual debt service payments. The ratings on debt issued by the Tennessee State School Bond Authority at June 30, 2011, were as follows:

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

During FY 2010, indebtedness was reduced by \$257,704 through annual debt service payments.

The Roane State Foundation has no outstanding debt.

More detailed information about the college's long-term liabilities is presented in Note 6 to the financial statements.

**Tennessee Board of Regents  
Roane State Community College  
Management's Discussion and Analysis (Cont.)  
June 30, 2011, and June 30, 2010**

---

**Economic Factors That Will Affect the Future**

Due to the contraction of the state's tax base resulting from the national economic downturn, the Tennessee Legislature approved a 2% recurring reduction, totaling \$331,200, in the college's base operating appropriation for FY 2012. Additionally, the Tennessee Higher Education Commission has adopted a new funding formula for Tennessee Board of Regents (TBR) colleges and universities. As a result of changing to the new formula, it is currently projected that Roane State will experience an additional net recurring reduction in the college's base operating appropriation in the amount of \$98,300 for FY 2012; \$634,642 for FY 2013; \$640,320 for FY 2014; and \$270,700 for FY 2015. The college does not anticipate significant improvements in state appropriations for the foreseeable future and will implement structural changes in its organization and operations to address the reduced appropriation levels. The college's governing board, TBR, approved a 9.3% increase in in-state tuition fees effective in the fall semester of 2011. TBR also approved an increase in the hourly rate charged for hours in excess of 12 per semester from \$18 per credit hour to \$26 per credit hour. This increase in rates is projected to generate approximately \$1.5 million in new funds for operations. Additionally, a new Allied Health course fee was approved for FY 2012 and is expected to generate approximately \$400,000 annually for operations.

The Roane State Foundation has agreed to provide up to \$2.5 million to match \$9 million in state appropriations to support the college's Oak Ridge Campus Expansion project. It is expected that these matching funds will be transferred to the college during FY 2012.

**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, 2011, AND June 30, 2010**

	Roane State Community College		Component Unit Roane State Community College Foundation	
	June 30, 2011	June 30, 2010	June 30, 2011	June 30, 2010
<b>ASSETS</b>				
Current assets				
Cash and cash equivalents (Note 2 and 16)	\$ 10,629,426.96	\$ 8,039,942.70	\$ 2,460,191.67	\$ 747,097.57
Short-term investments (Note 16)	-	-	-	100,000.00
Accounts, notes, and grants receivable (net) (Note 4)	1,409,944.99	1,023,030.02	250.00	-
Due from primary government	72,390.00	114,623.03	-	-
Pledges receivable (net) (Note 16)	-	-	638,214.14	450,076.92
Inventories (at lower of cost or market)	-	8,695.72	-	-
Prepaid expenses and deferred charges	44,804.00	50,252.58	-	-
Accrued interest receivable	-	-	-	6,393.00
Other assets	300.00	500.00	-	-
Total current assets	<u>12,156,865.95</u>	<u>9,237,044.05</u>	<u>3,098,655.81</u>	<u>1,303,567.49</u>
Noncurrent assets				
Cash and cash equivalents (Note 2 and 16)	12,406,622.82	9,439,144.46	-	15,715.30
Investments (Note 16)	-	-	7,139,676.59	7,313,535.76
Accounts, notes, and grants receivable (net) (Note 4)	669,844.90	21,636.05	60,417.76	56,459.78
Pledges receivable (net) (Note 16)	-	-	518,762.63	810,304.74
Capital assets (net) (Note 5 and 16)	38,431,227.31	37,677,326.50	197,305.00	197,305.00
Total noncurrent assets	<u>51,507,695.03</u>	<u>47,138,107.01</u>	<u>7,916,161.98</u>	<u>8,393,320.58</u>
Total assets	<u>63,664,560.98</u>	<u>56,375,151.06</u>	<u>11,014,817.79</u>	<u>9,696,888.07</u>
<b>LIABILITIES</b>				
Current liabilities				
Accounts payable	543,320.71	216,307.57	16,406.68	57.50
Accrued liabilities	1,154,039.27	1,031,016.17	-	-
Due to grantors (Note 6)	1,639.75	3,388.38	-	-
Deferred revenue	1,010,332.95	883,715.79	-	-
Compensated absences (Note 6)	349,853.21	343,275.58	-	-
Accrued interest payable	8,896.56	9,568.65	-	-
Long-term liabilities, current portion (Note 6 and 16)	101,387.00	97,300.00	1,630.40	2,166.42
Deposits held in custody for others	5,035,616.79	3,181,298.99	-	-
Other liabilities	178,514.83	173,449.44	-	-
Total current liabilities	<u>8,383,601.07</u>	<u>5,939,320.57</u>	<u>18,037.08</u>	<u>2,223.92</u>
Noncurrent liabilities				
Net OPEB obligation (Note 10)	2,164,080.95	1,821,042.15	-	-
Compensated absences (Note 6)	763,432.18	771,147.52	-	-
Long-term liabilities (Note 6 and 16)	1,129,984.50	1,231,371.50	5,684.59	5,220.72
Due to grantors (Note 6)	2,812.36	2,807.16	-	-
Total noncurrent liabilities	<u>4,060,309.99</u>	<u>3,826,368.33</u>	<u>5,684.59</u>	<u>5,220.72</u>
Total liabilities	<u>12,443,911.06</u>	<u>9,765,688.90</u>	<u>23,721.67</u>	<u>7,444.64</u>
<b>NET ASSETS</b>				
Invested in capital assets, net of related debt	38,431,227.31	37,677,326.50	197,305.00	197,305.00
Restricted for				
Nonexpendable				
Scholarships and fellowships	-	-	4,225,550.44	4,189,888.64
Instructional department uses	-	-	388,841.93	383,969.95
Other	-	-	465,722.74	457,615.20
Expendable				
Scholarships and fellowships	3,254.48	17,760.48	2,443,487.41	1,686,395.81
Instructional department uses	85,803.41	80,337.01	60,302.74	37,933.37
Loans	28,267.03	27,610.95	-	-
Capital projects	302,786.65	642,664.29	2,528,587.62	2,444,448.92
Debt service	225,268.07	175,252.19	-	-
Other	298,598.05	244,667.15	713,993.62	502,855.68
Unrestricted (Note 7)	11,845,444.92	7,743,843.59	(32,695.38)	(210,969.14)
Total net assets	<u>\$ 51,220,649.92</u>	<u>\$ 46,609,462.16</u>	<u>\$ 10,991,096.12</u>	<u>\$ 9,689,443.43</u>

*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, 2011, and June 30, 2010**

	Roane State Community College		Foundation	
	Year Ended June 30, 2011	Year Ended June 30, 2010	Year Ended June 30, 2011	Year Ended June 30, 2010
<b>REVENUES</b>				
Operating revenues				
Student tuition and fees (net of scholarship allowances of \$9,744,427.87 for the year ended June 30, 2011, and \$8,381,605.57 for the year ended June 30, 2010)	\$ 9,837,611.58	\$ 9,109,356.40	-	\$ -
Gifts and contributions	-	-	372,508.43	700,603.19
Governmental grants and contracts	2,305,608.91	2,328,948.45	-	-
Non-governmental grants and contracts	62,386.39	61,964.94	13,000.00	-
Sales and services of educational departments	17,916.44	11,755.32	-	-
Auxiliary enterprises:				
Bookstore	331,545.23	335,878.98	-	-
Food service	15,016.79	10,852.50	-	-
Interest earned on loans to students	338.24	338.24	-	-
Other operating revenues	476,426.58	536,826.58	-	-
Total operating revenues	<u>13,046,850.16</u>	<u>12,395,921.41</u>	<u>385,508.43</u>	<u>700,603.19</u>
<b>EXPENSES</b>				
Operating expenses (Note 13)				
Salaries and wages	19,906,283.26	19,901,960.46	-	-
Benefits	6,971,677.82	6,359,252.88	-	-
Utilities, supplies, and other services	8,951,716.76	7,824,583.85	14,394.73	69,679.49
Scholarships and fellowships	10,650,275.54	9,270,477.78	24,018.73	6,047.92
Depreciation expense	2,140,582.02	1,976,819.76	-	-
Payments to or on behalf of Roane State Community College (Note 17)	-	-	603,445.69	439,520.48
Total operating expenses	<u>48,620,535.40</u>	<u>45,333,094.73</u>	<u>641,859.15</u>	<u>515,247.89</u>
Operating income (loss)	<u>(35,573,685.24)</u>	<u>(32,937,173.32)</u>	<u>(256,350.72)</u>	<u>185,355.30</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>				
State appropriations	19,347,844.00	17,247,541.50	-	-
Gifts, including \$403,352.34 from component unit for the year ended June 30, 2011, and \$385,238.26 for the year ended June 30, 2010	461,819.12	440,664.57	-	-
Grants and contracts	18,804,432.43	18,987,729.80	-	-
Investment income (net of investment expense of \$47,170.21 for the component unit for the year ended June 30, 2011, and \$31,831.99 for the year ended June 30, 2010)	35,158.22	43,271.63	1,511,845.37	402,278.59
Interest on capital asset-related debt	(54,684.12)	(63,869.40)	-	-
Other non-operating revenues/(expenses)	(71,389.68)	266.05	2,113.71	893.82
Net nonoperating revenues	<u>38,523,179.97</u>	<u>36,655,604.15</u>	<u>1,513,959.08</u>	<u>403,172.41</u>
Income before other revenues, expenses, gains, or losses	<u>2,949,494.73</u>	<u>3,718,430.83</u>	<u>1,257,608.36</u>	<u>588,527.71</u>
Capital appropriations	624,450.78	387,073.60	-	-
Capital grants and gifts, including \$200,093.35 from component unit for the year ended June 30, 2011, and \$54,282.22 for the year ended June 30, 2010	1,037,242.25	466,282.22	-	-
Additions to permanent endowments	-	-	44,044.33	43,906.27
Total other revenues	<u>1,661,693.03</u>	<u>853,355.82</u>	<u>44,044.33</u>	<u>43,906.27</u>
Increase (decrease) in net assets	<u>4,611,187.76</u>	<u>4,571,786.65</u>	<u>1,301,652.69</u>	<u>632,433.98</u>
<b>NET ASSETS</b>				
Net Assets - beginning of year	46,609,462.16	42,037,675.51	9,689,443.43	9,057,009.45
Net Assets - end of year	<u>\$ 51,220,649.92</u>	<u>\$ 46,609,462.16</u>	<u>\$ 10,991,096.12</u>	<u>\$ 9,689,443.43</u>

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

**TENNESSEE BOARD OF REGENTS  
ROANE STATE COMMUNITY COLLEGE  
STATEMENTS OF CASH FLOWS  
For The Years Ended June 30, 2011, and June 30, 2010**

	Year Ended <u>June 30, 2011</u>	Year Ended <u>June 30, 2010</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Tuition and fees	\$ 9,809,521.69	\$ 9,489,755.54
Grants and contracts	2,371,615.63	2,313,851.41
Sales and services of educational activities	17,916.44	11,755.32
Payments to suppliers and vendors	(8,797,372.41)	(7,727,303.74)
Payments to employees	(19,845,805.87)	(19,993,111.90)
Payments for benefits	(6,546,911.78)	(5,919,154.65)
Payments for scholarships and fellowships	(10,625,422.46)	(9,255,779.45)
Loans issued to students	(9,920.37)	(13,528.73)
Collection of loans from students	11,457.87	10,150.98
Auxiliary enterprises:		
Bookstore	329,266.89	313,528.68
Food services	14,367.41	11,161.93
Other receipts (payments)	514,428.68	553,236.31
Net cash flows provided (used) by operating activities	<u>(32,756,858.28)</u>	<u>(30,205,438.30)</u>
<b>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES</b>		
State appropriations	19,335,000.00	17,231,900.00
Gifts and grants received for other than capital or endowment purposes, including \$365,667.47 from Roane State Community College Foundation for year ended June 30, 2011, and \$430,119.71 for the year ended June 30, 2010	18,884,818.32	18,298,188.76
Federal student loan receipts	8,058,680.50	-
Federal student loan disbursements	(8,057,685.00)	-
Changes in deposits held for others	1,936,723.73	446,006.49
Other non-capital financing receipts (payments)	2,265.00	360.92
Net cash flows provided by non-capital financing activities	<u>40,159,802.55</u>	<u>35,976,456.17</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Capital appropriations	624,450.78	387,073.60
Capital grants and gifts received, including \$100,000.00 from Roane State Community College Foundation for year ended June 30, 2011	267,304.00	400,000.00
Purchase of capital assets and construction	(2,620,243.64)	(1,915,213.85)
Principal paid on capital debt	(97,300.00)	(257,703.50)
Interest paid on capital debt	(55,356.21)	(65,608.17)
Net cash flows provided (used) by capital and related financing activities	<u>(1,881,145.07)</u>	<u>(1,451,451.92)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Income on investments	35,163.42	43,280.44
Net cash provided by investing activities	<u>35,163.42</u>	<u>43,280.44</u>
Net increase in cash and cash equivalents	5,556,962.62	4,362,846.39
Cash and cash equivalents - beginning of year	17,479,087.16	13,116,240.77
Cash and cash equivalents - end of year (Note 2)	\$ <u>23,036,049.78</u>	\$ <u>17,479,087.16</u>

**TENNESSEE BOARD OF REGENTS  
ROANE STATE COMMUNITY COLLEGE  
STATEMENTS OF CASH FLOWS  
For The Years Ended June 30, 2011, and June 30, 2010**

**RECONCILIATION OF OPERATING INCOME/(LOSS) TO NET CASH  
PROVIDED (USED) BY OPERATING ACTIVITIES**

Operating income/(loss)	\$	(35,573,685.24)	\$	(32,937,173.32)
Adjustments to reconcile operating loss to net cash provided (used) by operating activities				
Depreciation expense		2,140,582.02		1,976,819.76
Gifts in-kind		37,416.62		76,329.56
Other adjustments		16,844.00		14,441.50
Change in assets and liabilities				
Receivables, net		(81,280.02)		(15,399.38)
Inventories		8,695.72		(4,265.23)
Prepaid/deferred items		14,938.48		(33,839.65)
Other assets		200.00		-
Accounts payable		83,593.41		5,609.92
Accrued liabilities		466,061.90		410,732.37
Deferred revenues		126,617.16		340,145.95
Compensated absences		(1,137.71)		(38,282.10)
Due to grantors		(3,333.38)		3,369.38
Loans to students		1,537.50		(3,377.75)
Other		6,091.26		(549.31)
Net cash provided (used) by operating activities	\$	<u>(32,756,858.28)</u>	\$	<u>(30,205,438.30)</u>
<b>NON-CASH TRANSACTIONS</b>				
In-Kind Gifts - Capital Items	\$	100,093.35	\$	66,282.22
Loss on disposal of capital assets	\$	73,654.68	\$	94.87

*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, 2011, and June 30, 2010**

---

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Reporting Entity**

The college is a part of the State University and Community College System of Tennessee (Tennessee Board of Regents). This system is a component unit of the State of Tennessee because the state appoints a majority of the system's governing body and provides significant financial support; the system is discretely presented in the *Tennessee Comprehensive Annual Financial Report*.

The financial statements present only that portion of the Tennessee Board of Regents' activities that is attributable to the transactions of 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 16 for more detailed information about the component unit and how to obtain the report.

**Basis of Presentation**

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

**Basis of Accounting**

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

**Tennessee Board of Regents**  
**Roane State Community College**  
**Notes to the Financial Statements (Cont.)**  
**June 30, 2011, and June 30, 2010**

---

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

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

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

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

**Cash Equivalents**

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

**Inventories**

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

**Compensated Absences**

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

**Tennessee Board of Regents  
Roane State Community College  
Notes to the Financial Statements (Cont.)  
June 30, 2011, and June 30, 2010**

---

**Capital Assets**

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

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

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

**Net Assets**

The college's net assets are classified as follows:

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

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

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

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

**Tennessee Board of Regents  
Roane State Community College  
Notes to the Financial Statements (Cont.)  
June 30, 2011, and June 30, 2010**

---

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

**Scholarship Discounts and Allowances**

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

**NOTE 2. CASH**

This classification includes demand deposits and petty cash on hand. At June 30, 2011, cash consisted of \$593,876.53 in bank accounts, \$7,680.00 of petty cash on hand, \$22,354,746.16 in the State of Tennessee Local Government Investment Pool (LGIP) administered by the State Treasurer, and \$79,747.09 in LGIP deposits for capital projects. At June 30, 2010, cash consisted of \$989,325.93 in bank accounts, \$7,680.00 of petty cash on hand, \$16,478,892.02 in LGIP, and \$3,189.21 in LGIP deposits for capital projects.

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

**Tennessee Board of Regents  
Roane State Community College  
Notes to the Financial Statements (Cont.)  
June 30, 2011, and June 30, 2010**

---

**NOTE 3. INVESTMENTS**

**Credit Risk**

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The college is authorized by statute to invest funds in accordance with Tennessee Board of Regents policies. Under the current policy, funds other than endowments may be invested only in obligations of the United States or its agencies which are backed by the full faith and credit of the United States, repurchase agreements for United States securities, certificates of deposit in banks and savings and loan associations, banker's acceptances, commercial paper, money market mutual funds, and the State of Tennessee Local Government Investment Pool (LGIP).

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

Tennessee Board of Regents policy requires that prime commercial paper shall be limited to that of corporations that meet the following criteria: 1) Senior long-term debt, if any, should have a minimum rating of A1 or equivalent, and short-term debt should have a minimum rating of A1 or equivalent, as provided by a majority of the rating services that rate the issuer. If there is no long-term debt rating, the short-term debt rating must be A1 by all rating services (minimum of two). 2) The rating should be based on the merits of the issuer or guaranteed by a nonbank. 3) A financial review should be made to ascertain the issuer's financial strength to cover the debt. 4) Commercial paper of a banking institution should not be purchased. Prime commercial paper shall not have a maturity that exceeds 270 days.

As of June 30, 2011, and June 30, 2010, the college's investments consisted entirely of investments in the Local Government Investment Pool. The fair value of these investments was \$22,434,493.25 at June 30, 2011, and \$16,482,081.23 at June 30, 2010. LGIP investments are not rated by nationally recognized statistical ratings

**Tennessee Board of Regents  
Roane State Community College  
Notes to the Financial Statements (Cont.)  
June 30, 2011, and June 30, 2010**

---

organizations. The LGIP is part of the State Pooled Investment Fund. The fund's required risks disclosures are presented in the *State of Tennessee's Treasurer's Report*. That report is available on the state's website at [www.treasury.tn.gov](http://www.treasury.tn.gov) or by calling (615) 741-2956.

**NOTE 4. RECEIVABLES**

Receivables included the following:

	<u>June 30, 2011</u>	<u>June 30, 2010</u>
Student accounts receivable	\$1,929,118.32	\$1,460,578.90
Grants receivable	1,401,878.65	325,175.57
Notes receivable	11,580.88	13,118.38
State appropriation receivable	27,400.00	31,400.00
Other receivables	<u>382,224.91</u>	<u>530,795.52</u>
Subtotal	<u>3,752,202.76</u>	<u>2,361,068.37</u>
Less allowance for doubtful accounts	<u>(1,672,412.87)</u>	<u>(1,316,402.30)</u>
Total receivables	<u>\$2,079,789.89</u>	<u>\$1,044,666.07</u>

Federal Perkins Loan Program funds included the following:

	<u>June 30, 2011</u>	<u>June 30, 2010</u>
Perkins loans receivable	\$ 10,347.02	\$ 10,008.78
Less allowance for doubtful accounts	<u>(10,347.02)</u>	<u>(10,008.78)</u>
Total	<u>\$ -</u>	<u>\$ -</u>

**Tennessee Board of Regents  
Roane State Community College  
Notes to the Financial Statements (Cont.)  
June 30, 2011, and June 30, 2010**

**NOTE 5. CAPITAL ASSETS**

Capital asset activity for the year ended June 30, 2011, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Transfers</u>	<u>Reductions</u>	<u>Ending Balance</u>
Land	\$ 4,149,297.04	\$ -	\$ -	\$ -	\$ 4,149,297.04
Land improvements and infrastructure	2,170,157.20	-	380,632.01	-	2,550,789.21
Buildings	49,378,041.65	-	2,097,157.31	-	51,475,198.96
Equipment	4,943,096.55	536,374.07	-	406,123.89	5,073,346.73
Library holdings	1,133,420.36	79,861.61	-	126,093.87	1,087,188.10
Intangible assets	1,529,380.87	-	-	-	1,529,380.87
Projects in progress	<u>405,803.07</u>	<u>2,351,901.83</u>	<u>(2,477,789.32)</u>	<u>-</u>	<u>279,915.58</u>
Total	<u>63,709,196.74</u>	<u>2,968,137.51</u>	<u>-</u>	<u>532,217.76</u>	<u>66,145,116.49</u>
Less accumulated depreciation/ amortization:					
Land improvements and infrastructure	1,196,113.68	137,857.83	-	-	1,333,971.51
Buildings	19,989,959.53	1,507,783.38	-	-	21,497,742.91
Equipment	3,650,040.04	229,722.62	-	332,469.21	3,547,293.45
Library holdings	665,862.74	108,721.81	-	126,093.87	648,490.68
Intangible assets	<u>529,894.25</u>	<u>156,496.38</u>	<u>-</u>	<u>-</u>	<u>686,390.63</u>
Total	<u>26,031,870.24</u>	<u>2,140,582.02</u>	<u>-</u>	<u>458,563.08</u>	<u>27,713,889.18</u>
Capital assets, net	<u>\$37,677,326.50</u>	<u>\$ 827,555.49</u>	<u>\$ -</u>	<u>\$ 73,654.68</u>	<u>\$38,431,227.31</u>

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

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Transfers</u>	<u>Reductions</u>	<u>Ending Balance</u>
Land	\$ 4,137,297.04	\$ 12,000.00	\$ -	\$ -	\$ 4,149,297.04
Land improvements and infrastructure	1,718,240.47	451,916.73	-	-	2,170,157.20
Buildings	49,378,041.65	-	-	-	49,378,041.65
Equipment	4,388,651.83	866,969.63	-	312,524.91	4,943,096.55
Library holdings	1,163,173.24	92,236.78	-	121,989.66	1,133,420.36
Intangible assets	1,370,920.26	158,460.61	-	-	1,529,380.87
Projects in progress	<u>-</u>	<u>405,803.07</u>	<u>-</u>	<u>-</u>	<u>405,803.07</u>

**Tennessee Board of Regents  
Roane State Community College  
Notes to the Financial Statements (Cont.)  
June 30, 2011, and June 30, 2010**

Total	<u>62,156,324.49</u>	<u>1,987,386.82</u>	<u>-</u>	<u>434,514.57</u>	<u>63,709,196.74</u>
Less accumulated depreciation/ amortization:					
Land improvements and infrastructure	1,096,319.05	99,794.63	-	-	1,196,113.68
Buildings	18,671,001.61	1,318,957.92	-	-	19,989,959.53
Equipment	3,660,337.12	302,132.96	-	312,430.04	3,650,040.04
Library holdings	673,287.45	114,564.95	-	121,989.66	665,862.74
Intangible assets	<u>388,524.95</u>	<u>141,369.30</u>	<u>-</u>	<u>-</u>	<u>529,894.25</u>
Total	<u>24,489,470.18</u>	<u>1,976,819.76</u>	<u>-</u>	<u>434,419.70</u>	<u>26,031,870.24</u>
Capital assets, net	<u>\$37,666,854.31</u>	<u>\$ 10,567.06</u>	<u>\$ -</u>	<u>\$ 94.87</u>	<u>\$37,677,326.50</u>

**NOTE 6. LONG-TERM LIABILITIES**

Long-term liabilities activity for the year ended June 30, 2011, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Current Portion</u>
Payables:					
TSSBA debt:					
Bonds	\$1,328,671.50	\$ -	\$ 97,300.00	\$1,231,371.50	\$101,387.00
Other liabilities:					
Compensated absences	1,114,423.10	1,114,993.76	1,116,131.47	1,113,285.39	349,853.21
Due to grantors	<u>6,195.54</u>	<u>1,983.77</u>	<u>3,727.20</u>	<u>4,452.11</u>	<u>1,639.75</u>
Subtotal	<u>1,120,618.64</u>	<u>1,116,977.53</u>	<u>1,119,858.67</u>	<u>1,117,737.50</u>	<u>351,492.96</u>
Total long-term liabilities	<u>\$2,449,290.14</u>	<u>\$1,116,977.53</u>	<u>\$1,217,158.67</u>	<u>\$2,349,109.00</u>	<u>\$452,879.96</u>

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

**Tennessee Board of Regents  
Roane State Community College  
Notes to the Financial Statements (Cont.)  
June 30, 2011, and June 30, 2010**

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Current Portion</u>
Payables:					
TSSBA debt:					
Bonds	\$1,586,375.00	\$ -	\$ 257,703.50	\$1,328,671.50	\$ 97,300.00
Other liabilities:					
Compensated absences	1,152,705.20	792,652.20	830,934.30	1,114,423.10	343,275.58
Due to grantors	<u>9,877.75</u>	<u>3,736.53</u>	<u>7,418.74</u>	<u>6,195.54</u>	<u>3,388.38</u>
Subtotal	<u>1,162,582.95</u>	<u>796,388.73</u>	<u>838,353.04</u>	<u>1,120,618.64</u>	<u>346,663.96</u>
Total long-term liabilities	<u>\$2,748,957.95</u>	<u>\$ 796,388.73</u>	<u>\$1,096,056.54</u>	<u>\$2,449,290.14</u>	<u>\$443,963.96</u>

**TSSBA Debt - Bonds**

Bonds, with interest rates ranging from 4.0% to 4.5%, 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 (See Note 8 for further detail) 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. The reserve amount was \$0.00 at June 30, 2011, and \$0.00 at June 30, 2010. Unexpended debt proceeds were \$0.00 at June 30, 2011, and \$0.00 at June 30, 2010.

Debt service requirements to maturity for the college's portion of TSSBA bonds at June 30, 2011, are as follows:

Year Ending <u>June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 101,387.00	\$ 51,464.22	\$ 152,851.22
2013	105,645.00	47,408.74	153,053.74
2014	110,082.00	43,182.94	153,264.94
2015	114,705.50	38,779.66	153,485.16
2016	119,523.00	34,191.44	153,714.44
2017 – 2021	<u>680,029.00</u>	<u>92,340.20</u>	<u>772,369.20</u>
Total	<u>\$ 1,231,371.50</u>	<u>\$ 307,367.20</u>	<u>\$ 1,538,738.70</u>

**Tennessee Board of Regents  
Roane State Community College  
Notes to the Financial Statements (Cont.)  
June 30, 2011, and June 30, 2010**

---

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 is available on the state's website at [www.comptroller.tn.gov/tssba/cafr.asp](http://www.comptroller.tn.gov/tssba/cafr.asp).

**NOTE 7. UNRESTRICTED NET ASSETS**

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

	<u>June 30, 2011</u>	<u>June 30, 2010</u>
Working capital	\$ 502,007.62	\$ 493,984.58
Encumbrances	247,805.62	41,236.42
Designated fees	128,504.46	328,965.43
Auxiliaries	242,818.90	206,186.02
Plant construction	1,833,943.09	2,592,452.66
Renewal and replacement of equipment	10,711,345.06	6,047,292.30
Undesignated	<u>(1,820,979.83)</u>	<u>(1,966,273.82)</u>
Total	<u>\$11,845,444.92</u>	<u>\$ 7,743,843.59</u>

**NOTE 8. PLEDGED REVENUES**

The college has pledged certain revenues and fees, including state appropriations, to repay \$1,231,371.50 in revenue bonds issued in June 2006 (see Note 6 for further detail). Proceeds from the bonds provided financing for an energy savings performance contracting project. The bonds are payable through 2021. Annual principal and interest payments on the bonds are expected to require less than one percent of available revenues. The total principal and interest remaining to be paid on the bonds at June 30, 2011, is \$1,538,738.70. Principal and interest paid for fiscal year 2011 and total available revenues in that year were \$151,984.12 and \$39,630,093.94, respectively. See Note 6 for further detail.

**Tennessee Board of Regents  
Roane State Community College  
Notes to the Financial Statements (Cont.)  
June 30, 2011, and June 30, 2010**

---

**NOTE 9. PENSION PLANS**

**A. Defined Benefit Plan**

**Tennessee Consolidated Retirement System**

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

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

Funding Policy - Plan members are noncontributory. The college is required to contribute an actuarially determined rate. The current rate is 14.91% 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, 2011, 2010, and 2009 were \$1,526,069.65, \$1,302,561.35, and \$1,388,832.62. Contributions met the requirements for each year.

**B. Defined Contribution Plans**

**Optional Retirement Plans**

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

**Tennessee Board of Regents**  
**Roane State Community College**  
**Notes to the Financial Statements (Cont.)**  
**June 30, 2011, and June 30, 2010**

---

*Tennessee Code Annotated.* State statutes are amended by the Tennessee General Assembly.

Funding Policy - Plan members are noncontributory. The college contributes an amount equal to 10% of the employee's base salary up to the social security wage base and 11% above the social security wage base. Contribution requirements are established and amended by state statute. The contributions made by the college to the plans were \$609,324.59 for the year ended June 30, 2011, and \$607,840.23 for the year ended June 30, 2010. Contributions met the requirements for each year.

**NOTE 10. OTHER POST-EMPLOYMENT BENEFITS**

Healthcare is the only "other postemployment benefit" (OPEB) provided to employees. The State of Tennessee administers a group health insurance program which provides postemployment health insurance benefits to eligible college retirees. This program includes two plans available to higher education employees—the State Employee Group Plan and the Medicare Supplement Plan. For accounting purposes, the plans are agent multiple-employer defined benefit OPEB plans. Benefits are established and amended by an insurance committee created by Section 8-27-101, *Tennessee Code Annotated*. Prior to reaching age 65, retirees may participate in the State Employee Group Plan. In previous fiscal years, prior to reaching the age of 65, all members had the option of choosing a preferred provider organization (PPO), point of service (POS), or health maintenance organization (HMO) plan for healthcare benefits. However, as of January 1, 2011, the insurance plan structure was changed, and as a result, all members now have the option of choosing between the standard or partnership preferred provider organization plan for healthcare benefits. Subsequent to age 65, retirees who are also in the state's retirement system may participate in a state-administered Medicare supplement that does not include pharmacy. The state makes on-behalf payments to the Medicare supplement plan for the college's eligible retirees; see Note 14. The plans are reported in the State of Tennessee's *Comprehensive Annual Financial Report* (CAFR). The CAFR is available on the state's website at [tennessee.gov/finance/act/cafr.html](http://tennessee.gov/finance/act/cafr.html).

**Special Funding Situation**

The State of Tennessee is legally responsible for contributions to the Medicare Supplement Plan that covers the retirees of other governmental entities, including Roane State Community College. The state is the sole contributor for the college

**Tennessee Board of Regents  
Roane State Community College  
Notes to the Financial Statements (Cont.)  
June 30, 2011, and June 30, 2010**

---

retirees that participate in the Medicare Supplement Plan and, therefore, is acting as the employer.

**Funding Policy**

The premium requirements of members of the State Employee Group Plan are established and may be amended by the insurance committee. The plan is self-insured and financed on a pay-as-you-go basis with the risk shared equally among the participants. Claims liabilities of the plan are periodically computed using actuarial and statistical techniques to establish premium rates. Administrative costs of the plan are allocated to plan participants. In accordance with Section 8-27-205(b), *Tennessee Code Annotated*, retirees in the State Employee Group Plan pay the same base premium as active employees in the plan adjusted for years of service. Retirees with 30 years of service are subsidized 80 percent; 20 but less than 30 years, 70 percent; and less than 20 years, 60 percent. Retired employees who are 65 years of age or older have flat rate premium subsidies based on years of service. Retirees with 30 years of service receive \$50 per month; 20 but less than 30 years, \$37.50; and 15 but less than 20 years, \$25.

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

	<u>2011</u>	<u>2010</u>
Annual required contribution (ARC)	\$ 678,000.00	\$ 747,000.00
Interest on the net OPEB obligation	81,946.90	60,869.88
Adjustment to the ARC	<u>(77,619.97)</u>	<u>(57,655.86)</u>
Annual OPEB cost	682,326.93	750,214.02
Amount of contribution	<u>(339,288.13)</u>	<u>(281,835.94)</u>
Increase in net OPEB obligation	343,038.80	468,378.08
Net OPEB obligation – beginning of year	<u>1,821,042.15</u>	<u>1,352,664.07</u>
Net OPEB obligation – end of year	<u>\$2,164,080.95</u>	<u>\$1,821,042.15</u>

**Tennessee Board of Regents  
Roane State Community College  
Notes to the Financial Statements (Cont.)  
June 30, 2011, and June 30, 2010**

Year-end	Plan	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation at Year-end
June 30, 2011	State Employee Group Plan	\$ 682,326.93	49.7%	\$2,164,080.95
June 30, 2010	State Employee Group Plan	\$ 750,214.02	37.6%	\$1,821,042.15
June 30, 2009	State Employee Group Plan	\$1,008,827.11	34.1%	\$1,352,664.07

**Funded Status and Funding Progress**

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

State Employee Group Plan

	July 1, 2010	July 1, 2009
Actuarial valuation date	July 1, 2010	July 1, 2009
Actuarial accrued liability (AAL)	\$6,708,000.00	\$7,504,000.00
Actuarial value of plan assets	-	-
Unfunded actuarial accrued liability (UAAL)	\$6,708,000.00	\$7,504,000.00
Actuarial value of assets as a percentage of the AAL	0.00%	0.00%
Covered payroll (active plan members)	\$13,801,945.37	\$14,575,921.51
UAAL as percentage of covered payroll	48.6%	51.5%

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

**Tennessee Board of Regents  
Roane State Community College  
Notes to the Financial Statements (Cont.)  
June 30, 2011, and June 30, 2010**

---

**Actuarial Methods and Assumptions**

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

In the July 1, 2010, actuarial valuation, the Projected Unit Credit actuarial cost method was used. The actuarial assumptions included a 4.5 percent investment rate of return (net of administrative expenses) and an annual healthcare cost trend rate of 10 percent in fiscal year 2011. The rate decreases to 9.5 percent in fiscal year 2012, and then is reduced by decrements of 0.5 percent per year to an ultimate rate of 5 percent in fiscal year 2021. All rates include a 3 percent inflation assumption. The unfunded actuarial accrued liability is being amortized as a level percentage of payroll on a closed basis over a 30-year period beginning with July 1, 2007.

**NOTE 11. INSURANCE-RELATED ACTIVITIES**

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

The college participates in the Risk Management Fund. The fund allocates the cost of providing claims servicing and claims payment by charging a premium to the college based on a percentage of the college's expected loss costs, which include both experience and exposures. This charge considers recent trends in actual claims experience of the state as a whole. An actuarial valuation is performed as of fiscal year-end to determine the fund liability and premium allocation. Information

**Tennessee Board of Regents  
Roane State Community College  
Notes to the Financial Statements (Cont.)  
June 30, 2011, and June 30, 2010**

---

regarding the determination of the claims liabilities and the changes in the balances of the claims liabilities for the years ended June 30, 2011, and June 30, 2010, are presented in the *Tennessee Comprehensive Annual Financial Report*. The CAFR is available on the state's website at [tennessee.gov/finance/act/cafr.html](http://tennessee.gov/finance/act/cafr.html). Since the college participates in the Risk Management Fund, it is subject to the liability limitations under the provisions of the Tennessee Claims Commission Act, *Tennessee Code Annotated*, Section 9-8-101 et seq. Liability for negligence of the college for bodily injury and property damage is limited to \$300,000 per person and \$1,000,000 per occurrence. The limits of liability under workers' compensation are set forth in *Tennessee Code Annotated*, Section 50-6-101 et seq. Claims are paid through the state's Risk Management Fund. At June 30, 2011, the Risk Management Fund held \$107.6 million in cash and cash equivalents designated for payment of claims. At June 30, 2010, the Risk Management Fund held \$114.5 million in cash and cash equivalents designated for payment of claims.

At June 30, 2011, the scheduled coverage for the college was \$133,073,600 for buildings and \$33,268,600 for contents. At June 30, 2010, the scheduled coverage for the college was \$132,562,900 for buildings and \$29,642,000 for contents.

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

**NOTE 12. COMMITMENTS AND CONTINGENCIES**

**Sick Leave**

The college records the cost of sick leave when paid. 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 \$5,698,095.72 at June 30, 2011, and \$5,762,285.43 at June 30, 2010.

**Tennessee Board of Regents  
Roane State Community College  
Notes to the Financial Statements (Cont.)  
June 30, 2011, and June 30, 2010**

---

**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 \$105,725.16 and for personal property were \$135,523.78 for the year ended June 30, 2011. The amounts for the year ended June 30, 2010, were \$111,462.79 and \$131,598.62. All operating leases are cancelable at the lessee's option.

**Construction in Progress**

At June 30, 2011, outstanding commitments under construction contracts totaled \$1,253,687.34 for the Expo Center/Dunbar/Gym Roof Repair/Replacement project, Fire Alarm System Modernization project, Cumberland Business Incubator project, Science Labs Modernization project, Security System Upgrade project, ADA Adaptations project, Oak Ridge Campus Expansion project, and Knox County Center Renovations project, of which \$1,236,932.51 will be funded by future state capital outlay appropriations.

**NOTE 13. NATURAL CLASSIFICATIONS WITH FUNCTIONAL CLASSIFICATIONS**

The college's operating expenses for the year ended June 30, 2011, are as follows:

Functional Classification	Natural Classification					Total
	Salaries	Benefits	Other Operating	Scholarships	Depreciation	
Instruction	\$ 11,919,701.53	\$ 3,713,923.97	\$ 3,832,073.30	\$ 133,949.91	\$ -	\$ 19,599,648.71
Public service	545,412.29	179,674.17	439,611.81	783.31	-	1,165,481.58
Academic support	1,886,154.10	786,021.78	(1,009,280.23)	2,349.94	-	1,665,245.59
Student services	1,843,136.51	768,089.35	1,182,927.10	221,178.08	-	4,015,331.04
Institutional support	2,648,027.67	1,050,467.33	1,382,389.45	3,133.25	-	5,084,017.70
Maintenance & operation	926,968.66	473,501.22	2,975,740.94	-	-	4,376,210.82
Scholarships & fellowships	136,882.50	-	108,885.91	10,288,881.05	-	10,534,649.46
Auxiliary	-	-	39,368.48	-	-	39,368.48
Depreciation	-	-	-	-	2,140,582.02	2,140,582.02
<b>Total</b>	<u>\$ 19,906,283.26</u>	<u>\$ 6,971,677.82</u>	<u>\$ 8,951,716.76</u>	<u>\$ 10,650,275.54</u>	<u>\$ 2,140,582.02</u>	<u>\$ 48,620,535.40</u>

**Tennessee Board of Regents  
Roane State Community College  
Notes to the Financial Statements (Cont.)  
June 30, 2011, and June 30, 2010**

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

<u>Functional Classification</u>	<u>Natural Classification</u>					
	<u>Salaries</u>	<u>Benefits</u>	<u>Other Operating</u>	<u>Scholarships</u>	<u>Depreciation</u>	<u>Total</u>
Instruction	\$ 11,933,850.53	\$ 3,426,449.15	\$ 3,669,277.63	\$ 208,948.32	\$ -	\$ 19,238,525.63
Public service	335,236.42	98,450.16	194,736.86	1,102.87	-	629,526.31
Academic support	1,971,448.89	713,889.10	(1,292,584.55)	26,484.70	-	1,419,238.14
Student services	1,895,148.13	744,000.77	1,525,372.69	274,456.95	-	4,438,978.54
Institutional support	2,654,118.17	949,062.10	1,038,077.94	3,151.07	-	4,644,409.28
Maintenance & operation	895,106.32	427,401.60	2,645,546.92	787.77	-	3,968,842.61
Scholarships & fellowships	217,052.00	-	12,587.82	8,755,546.10	-	8,985,185.92
Auxiliary	-	-	31,568.54	-	-	31,568.54
Depreciation	-	-	-	-	1,976,819.76	1,976,819.76
<b>Total</b>	<b>\$ 19,901,960.46</b>	<b>\$ 6,359,252.88</b>	<b>\$ 7,824,583.85</b>	<b>\$ 9,270,477.78</b>	<b>\$ 1,976,819.76</b>	<b>\$ 45,333,094.73</b>

Expenses initially incurred by the academic support function as a result of providing internal services to the other functional classifications were allocated to the other functional areas by reducing the academic support function's operating expenses by the total amount of salaries, benefits, and operating expenses incurred in the provision of these services, and allocating this amount to the other functional areas' operating expenses on the basis of usage. As a result of this process, expenses totaling \$2,899,949.26 for the year ended June 30, 2011, and \$2,995,443.26 for the year ended June 30, 2010, were reallocated from academic support to the other functional areas and caused academic support operating expenses to appear as a negative amount in the schedule above.

**NOTE 14. ON-BEHALF PAYMENTS**

During the year ended June 30, 2011, the State of Tennessee made payments of \$16,844.00 on behalf of the college for retirees participating in the Medicare Supplement Plan. The amount for the year ended June 30, 2010, was \$14,441.50. The Medicare Supplement Plan is a postemployment benefit healthcare plan and is discussed further in Note 10. The plan is reported in the *Tennessee Comprehensive Annual Financial Report*. That report is available on the state's website at [tennessee.gov/finance/act/cafr.html](http://tennessee.gov/finance/act/cafr.html).

**Tennessee Board of Regents  
Roane State Community College  
Notes to the Financial Statements (Cont.)  
June 30, 2011, and June 30, 2010**

---

**NOTE 15. VOLUNTARY BUYOUT PROGRAM**

The college implemented a Voluntary Buyout Plan in fiscal year 2010 as a strategy to assist the college in addressing budgetary constraints due to several years of state appropriation reductions and potential budget reductions in the forthcoming fiscal years. The college had 22 employees participate in the Voluntary Buyout Plan.

All severance was payable during 2009-10 fiscal year. Severance pay included:

- Service payment of \$500 for each full year of state service as of the Voluntary Separation Date
- Salary payment equal to four (4) months' salary
- Lump sum stipend payment of \$1,000
- Amount equivalent to the employee's next longevity payment based on their years of creditable service

As of June 30, 2010, expenses, including benefits, for payout of accrued annual leave, compensatory time, or worked holidays for the Voluntary Buyout Plan were \$79,601.02. Expenses for severance pay were \$575,981.43 including benefits at June 30, 2010.

**NOTE 16. 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 the President of the college as an ex-officio member and other outstanding citizens, business, and/or professional men and women. 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.

**Tennessee Board of Regents  
Roane State Community College  
Notes to the Financial Statements (Cont.)  
June 30, 2011, and June 30, 2010**

The foundation is a nonprofit organization that reports under Financial Accounting Standards Board (FASB) standards. As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features. With the exception of necessary presentation adjustments, no modifications have been made to the foundation's financial information in the college's financial statements for these differences.

During the year ended June 30, 2011, the foundation made distributions of \$603,445.69 to or on behalf of the college for both restricted and unrestricted purposes. During the year ended June 30, 2010, the foundation made distributions of \$439,520.48 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.

**Fair Value Measurements**

The foundation reports certain assets and liabilities at fair value. Fair value has been determined using quoted prices in active markets for identical assets and liabilities that are accessible at the measurement date (Level 1), inputs other than quoted market prices included in Level 1 that are directly or indirectly observable for the asset or liability (Level 2), or significant unobservable inputs (Level 3). The following tables categorize the recurring fair value measurements for assets and liabilities at June 30, 2011, and at June 30, 2010.

	Total Fair Value at <u>June 30, 2011</u>	Quoted Prices <u>Level 1</u>	Significant Other Inputs <u>Level 2</u>	Significant Unobservable Inputs <u>Level 3</u>
Assets:				
Cash equivalents	\$ 2,100,251.51	\$ 2,100,251.51	\$ -	\$ -
U.S. Treasury	310,580.35	310,580.35	-	-
U.S. Agency	663,545.11	663,545.11	-	-
Corporate stocks	4,395,085.45	4,395,085.45	-	-
Corporate bonds	599,691.62	599,691.62	-	-
Mutual equity funds	864,838.44	864,838.44	-	-
Money market funds	1,529.18	1,529.18	-	-
International stocks	304,406.44	304,406.44	-	-
Pledges receivable	1,156,976.77	-	-	1,156,976.77
Receivable - Split Interest Agreement	<u>60,417.76</u>	<u>-</u>	<u>-</u>	<u>60,417.76</u>
Total assets	<u>\$ 10,457,322.63</u>	<u>\$ 9,239,928.10</u>	<u>\$ -</u>	<u>\$ 1,217,394.53</u>

**Tennessee Board of Regents  
Roane State Community College  
Notes to the Financial Statements (Cont.)  
June 30, 2011, and June 30, 2010**

Liabilities:				
Split-interest agreement	\$ 7,314.99	\$ -	\$ -	\$ 7,314.99
Total liabilities	<u>\$ 7,314.99</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 7,314.99</u>

	Total Fair Value at June 30, 2010	Quoted Prices Level 1	Significant Other Inputs Level 2	Significant Unobservable Inputs Level 3
Assets:				
Cash equivalents	\$ 405,500.26	\$ 405,500.26	\$ -	\$ -
U.S. Treasury	406,510.71	406,510.71	-	-
U.S. Agency	748,362.09	748,362.09	-	-
Certificates of deposit	100,000.00	-	100,000.00	-
Corporate stocks	4,912,961.50	4,912,961.50	-	-
Corporate bonds	801,790.09	801,790.09	-	-
Mutual equity funds	443,911.37	443,911.37	-	-
Pledges receivable	1,260,381.66	-	-	1,260,381.66
Receivable - Split Interest Agreement	<u>56,459.78</u>	<u>-</u>	<u>-</u>	<u>56,459.78</u>
Total assets	<u>\$ 9,135,877.46</u>	<u>\$ 7,719,036.02</u>	<u>\$ 100,000.00</u>	<u>\$ 1,316,841.44</u>
Liabilities:				
Split-interest agreement	\$ 7,387.14	\$ -	\$ -	\$ 7,387.14
Total liabilities	<u>\$ 7,387.14</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 7,387.14</u>

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

	Beginning Balance	Total Gains/(Losses), Realized and Unrealized	Purchases, Issuances, and Settlements	Transfers In/(Out) of Level 3	Ending Balance
At June 30, 2011					
Assets:					
Pledge receivable	\$ 1,260,381.66	\$ -	\$ (103,404.89)	\$ -	\$ 1,156,976.77
Receivable - Split interest agreement	<u>56,459.78</u>	<u>3,957.98</u>	<u>-</u>	<u>-</u>	<u>60,417.76</u>
Total assets	<u>\$ 1,316,841.44</u>	<u>\$ 3,957.98</u>	<u>\$ (103,404.89)</u>	<u>\$ -</u>	<u>\$ 1,217,394.53</u>
Liabilities:					
Payable - Split interest agreement	\$ 7,387.14	\$ (72.15)	\$ -	\$ -	\$ 7,314.99

**Tennessee Board of Regents  
Roane State Community College  
Notes to the Financial Statements (Cont.)  
June 30, 2011, and June 30, 2010**

Total liabilities	<u>\$ 7,387.14</u>	<u>\$ (72.15)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 7,314.99</u>
		Total			
	Beginning	Gains/(Losses),	Purchases,	Transfers	Ending
At June 30, 2010	<u>Balance</u>	<u>Realized and</u>	<u>Issuances, and</u>	<u>In/(Out)</u>	<u>Balance</u>
Assets:		<u>Unrealized</u>	<u>Settlements</u>	<u>of Level 3</u>	
Pledge receivable	\$ 1,116,583.17	\$ -	\$ 143,798.49	\$ -	\$ 1,260,381.66
Receivable - Split interest agreement	<u>54,258.65</u>	<u>-</u>	<u>2,201.13</u>	<u>-</u>	<u>56,459.78</u>
Total assets	<u>\$ 1,170,841.82</u>	<u>\$ -</u>	<u>\$ 145,999.62</u>	<u>\$ -</u>	<u>\$ 1,316,841.44</u>
Liabilities:					
Payable - Split interest agreement	\$ 7,364.53	\$ -	\$ 22.61	\$ -	\$ 7,387.14
Total liabilities	<u>\$ 7,364.53</u>	<u>\$ -</u>	<u>\$ 22.61</u>	<u>\$ -</u>	<u>\$ 7,387.14</u>

All gains and losses, both realized and unrealized, have been reported on the statement of revenues, expenses, and changes in net assets as investment income. Of this total, \$1,008,180.92 is attributable to the change in unrealized gains or losses relating to those assets and liabilities still held at June 30, 2011, and \$327,252.58 is attributable to the change in unrealized gains or losses relating to those assets and liabilities still held at June 30, 2010.

Pledge receivables are discounted to present value on an annual basis at June 30. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using the risk-free interest rate at June 30. Amortization of the discounts is included in revenues from contributions.

**Cash and Cash Equivalents**

Cash and cash equivalents consists of demand deposit accounts, certificates of deposit, and money market funds. Uninsured bank balances at June 30, 2011, totaled \$2,187,833.65. Uninsured bank balances at June 30, 2010, totaled \$506,557.90.

**Investments**

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

**Tennessee Board of Regents  
Roane State Community College  
Notes to the Financial Statements (Cont.)  
June 30, 2011, and June 30, 2010**

---

Investments held at June 30, 2011, were as follows:

	<u>Cost</u>	<u>Market Value</u>
U.S. Treasury	\$ 302,662.47	\$ 310,580.35
U.S. Agency	639,192.48	663,545.11
Corporate stocks	3,680,234.41	4,395,085.45
Corporate bonds	573,986.21	599,691.62
Mutual equity funds	804,337.83	864,838.44
Money market funds	1,529.18	1,529.18
International stocks	<u>263,718.87</u>	<u>304,406.44</u>
 Total investments	 <u>\$ 6,265,661.45</u>	 <u>\$ 7,139,676.59</u>

Investments held at June 30, 2010, were as follows:

	<u>Cost</u>	<u>Market Value</u>
U.S. Treasury	\$ 399,841.47	\$ 406,510.71
U.S. Agency	711,275.40	748,362.09
Certificates of deposit	100,000.00	100,000.00
Corporate stocks	5,097,704.60	4,912,961.50
Corporate bonds	759,587.98	801,790.09
Mutual equity funds	<u>476,338.12</u>	<u>443,911.37</u>
 Total investments	 <u>\$ 7,544,747.57</u>	 <u>\$ 7,413,535.76</u>

**Pledges Receivable**

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

**Tennessee Board of Regents  
Roane State Community College  
Notes to the Financial Statements (Cont.)  
June 30, 2011, and June 30, 2010**

	<u>June 30, 2011</u>	<u>June 30, 2010</u>
Current pledges	\$ 638,214.14	\$ 450,076.92
Pledges due in one to five years	521,808.03	825,147.14
Pledges due after five years	<u>500.00</u>	<u>1,000.00</u>
Subtotal	1,160,522.17	1,276,224.06
Less discount to net present value	<u>(3,545.40)</u>	<u>(15,842.40)</u>
 Total pledges receivable, net	 <u>\$ 1,156,976.77</u>	 <u>\$ 1,260,381.66</u>

**Capital Assets**

Capital assets at June 30, 2011, and June 30, 2010, were as follows:

	<u>June 30, 2011</u>	<u>June 30, 2010</u>
Land	\$ 153,500.00	\$ 153,500.00
Manly Art Collection	<u>43,805.00</u>	<u>43,805.00</u>
 Total capital assets	 <u>\$ 197,305.00</u>	 <u>\$ 197,305.00</u>

**Long-term Liabilities**

Long-term liabilities at June 30, 2011, consisted of the following:

	<u>Ending Balance</u>	<u>Current Portion</u>
Other liabilities		
Liability under split interest agreements	\$ 7,314.99	\$ 1,630.40

Long-term liabilities at June 30, 2010, consisted of the following:

	<u>Ending Balance</u>	<u>Current Portion</u>
Other liabilities		
Liability under split interest agreements	\$ 7,387.14	\$ 2,166.42

**Endowments**

The Roane State Community College Foundation's endowment consists of approximately 82 individual funds established for a variety of purposes. Its endowment includes both donor-restricted endowment funds and one fund designated by the Board of Directors to function as an endowment. As required by GAAP, net

**Tennessee Board of Regents  
Roane State Community College  
Notes to the Financial Statements (Cont.)  
June 30, 2011, and June 30, 2010**

---

assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of relevant law - The Board of Directors of the Roane State Community College Foundation has interpreted the Uniform Prudent Management of Institutional Funds Act (the Act) as adopted by Tennessee as requiring the foundation to not spend below 95% of the endowment's historic dollar value except as approved by the Investment Committee. As a result of this interpretation, the Roane State Community College Foundation classifies as permanently restricted net assets (1) the original value of gifts donated to the permanent endowment; (2) the original value of subsequent gifts to the permanent endowment; and (3) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the foundation in a manner consistent with the standard of prudence prescribed by the Act. In accordance with the Act, the foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the fund; (2) the purposes of the foundation and the endowment fund; (3) general economic conditions; (4) the possible effect of inflation or deflation; (5) the expected total return from income and the appreciation of investments; (6) other resources of the foundation; and (7) the investment policies of the foundation.

Composition of Endowment by Net Asset Class  
As of June 30, 2011

	Permanently Restricted	Temporarily Restricted	Unrestricted	Total
Donor-Restricted Endowment Funds	\$5,080,115.11	\$1,273,210.93	\$ (6,829.39)	\$6,346,496.65
Board-Designated Endowment Funds	-	-	59,892.62	59,892.62
Total Funds	<u>\$5,080,115.11</u>	<u>\$1,273,210.93</u>	<u>\$ 53,063.23</u>	<u>\$6,406,389.27</u>

**Tennessee Board of Regents  
Roane State Community College  
Notes to the Financial Statements (Cont.)  
June 30, 2011, and June 30, 2010**

Changes in Endowment Net Asset Class For Fiscal Year Ended June 30, 2011				
	Permanently Restricted	Temporarily Restricted	Unrestricted	Total
Endowment Net Assets, Beginning of Year	\$5,031,473.79	\$ 586,632.75	\$ (98,197.98)	\$5,519,908.56
Investment Return:				
Investment Income	1,776.80	73,182.27	37,075.28	112,034.35
Net Appreciation (Realized and Unrealized)	956.48	748,646.00	155,739.58	905,342.06
Total Investment Return	2,733.28	821,828.27	192,814.86	1,017,376.41
Contributions	44,044.33	-	-	44,044.33
Appropriations of Endowment Assets for Expenditure	-	(53,134.30)	(39,830.99)	(92,965.29)
Transfers	-	(82,115.79)	(1,722.66)	(83,838.45)
Other changes:				
Change in Value Split Interest Agreement	3,494.11	-	-	3,494.11
Distributions to Trust Beneficiaries	(1,630.40)	-	-	(1,630.40)
Endowment Net Assets, End of Year	\$5,080,115.11	\$1,273,210.93	\$ 53,063.23	\$6,406,389.27

Composition of Endowment by Net Asset Class As of June 30, 2010				
	Permanently Restricted	Temporarily Restricted	Unrestricted	Total
Donor-Restricted Endowment Funds	\$5,031,473.79	\$ 586,632.75	\$(149,500.35)	\$5,468,606.19
Board-Designated Endowment Funds	-	-	51,302.37	51,302.37
Total Funds	\$5,031,473.79	\$ 586,632.75	\$ (98,197.98)	\$5,519,908.56

**Tennessee Board of Regents  
Roane State Community College  
Notes to the Financial Statements (Cont.)  
June 30, 2011, and June 30, 2010**

	Changes in Endowment Net Asset Class For Fiscal Year Ended June 30, 2010			
	Permanently Restricted	Temporarily Restricted	Unrestricted	Total
Endowment Net Assets, Beginning of Year	\$5,151,812.24	\$ 228,847.09	\$ 46,811.74	\$5,427,471.07
Prior period adjustment to correct net asset classification	(179,743.44)	422,724.12	(242,980.68)	-
Investment Return:				
Investment Income	860.74	64,371.72	49,626.33	114,858.79
Net Appreciation (Realized and Unrealized)	1,716.30	(18,806.15)	112,518.98	95,429.13
Total Investment Return	2,577.04	45,565.57	162,145.31	210,287.92
Contributions	43,906.27	-	-	43,906.27
Appropriations of Endowment				
Assets for Expenditure	-	(31,504.03)	(62,068.00)	(93,572.03)
Transfers	12,027.86	(79,000.00)	(2,106.35)	(69,078.49)
Other changes:				
Change in Value Split				
Interest Agreement	2,178.52	-	-	2,178.52
Distributions to Trust Beneficiaries	(1,284.70)	-	-	(1,284.70)
Endowment Net Assets, End of Year	\$5,031,473.79	\$ 586,632.75	\$ (98,197.98)	\$5,519,908.56

Funds with Deficiencies - From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or State Prudent Management of Institutional Funds Act (SPMIFA) requires a not-for-profit (NFP) to retain as a fund of perpetual duration. In accordance with Generally Accepted Accounting Principles (GAAP), deficiencies of this nature that are reported in unrestricted net assets were \$6,829.39 as of June 30, 2011 and \$149,500.35 as of June 30, 2010. These deficiencies resulted from unfavorable market fluctuations that occurred shortly after the investment of new permanently restricted contributions and continued appropriation for certain programs that was deemed prudent by the Board of Directors.

Return objectives and risk parameters - The foundation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the organization must hold in perpetuity or for a donor-

**Tennessee Board of Regents  
Roane State Community College  
Notes to the Financial Statements (Cont.)  
June 30, 2011, and June 30, 2010**

---

specified period(s) as well as board-designated funds. Under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner that is intended to preserve and protect its assets by earning a total return for assets which is appropriate for the time horizon, distribution requirements, and risk tolerance. The foundation expects its endowment funds, over time, to provide an average rate of return of approximately 5 percent annually. Actual returns in any given year may vary from this amount.

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

Spending policy and how the investment objectives relate - The foundation has a policy of appropriating for distribution each year a percentage of the three-year rolling average of the total endowment balance. This distribution percentage is reviewed and revised annually by the Investment Committee. In establishing this policy, the foundation considered the long-term expected return on its endowment. Accordingly, over the long-term, the foundation expects the current spending policy to allow its endowment to grow at an average of 2 percent annually. This is consistent with the foundation's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.

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

Actuarial Valuation Date	Plan	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b-a)/c]
July 1, 2010	State Employee Group Plan	\$ -	\$6,708,000.00	\$6,708,000.00	0%	\$13,801,945.37	48.6%
July 1, 2009	State Employee Group Plan	\$ -	\$7,504,000.00	\$7,504,000.00	0%	\$14,575,921.51	51.5%
July 1, 2007	State Employee Group Plan	\$ -	\$9,191,000.00	\$9,191,000.00	0%	\$14,676,753.83	62.6%

**TENNESSEE BOARD OF REGENTS**  
**ROANE STATE COMMUNITY COLLEGE FOUNDATION**  
**SUPPLEMENTARY SCHEDULES OF CASH FLOWS - COMPONENT UNIT**  
**For The Years Ended June 30, 2011, and June 30, 2010**

	<u>Year Ended</u> <u>June 30, 2011</u>	<u>Year Ended</u> <u>June 30, 2010</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Gift and contributions	\$ 387,612.65	\$ 549,921.70
Grants and contracts	13,000.00	-
Payments to suppliers and vendors	(49,978.77)	(83,138.21)
Payments for scholarships and fellowships	(24,018.73)	(6,047.92)
Payments to Roane State Community College	(465,667.47)	(430,119.71)
Net cash flows provided (used) by operating activities	<u>(139,052.32)</u>	<u>30,615.86</u>
<b>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES</b>		
Private gifts for endowment purposes	46,500.00	40,631.00
Other non-capital financing receipts (payments)	(2,166.42)	(1,284.70)
Net cash flows provided (used) by non-capital financing activities	<u>44,333.58</u>	<u>39,346.30</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from sales and maturities of investments	4,752,185.11	6,492,135.56
Income on investments	175,301.23	196,302.45
Purchase of investments	(3,135,388.80)	(6,481,735.29)
Net cash provided (used) by investing activities	<u>1,792,097.54</u>	<u>206,702.72</u>
Net increase (decrease) in cash and cash equivalents	1,697,378.80	276,664.88
Cash and cash equivalents - beginning of year	762,812.87	486,147.99
Cash and cash equivalents - end of year (Note 16)	<u>\$ 2,460,191.67</u>	<u>\$ 762,812.87</u>
<b>Reconciliation of Operating Income/(Loss) to net cash provided (used) by operating activities:</b>		
Operating income/(loss)	\$ (256,350.72)	\$ 185,355.30
Adjustments to reconcile operating loss to net cash provided (used) by operating activities:		
Change in assets and liabilities:		
Receivables, net	100,949.22	(140,523.22)
Accounts payable	16,349.18	(14,216.22)
Net cash provided (used) by operating activities	<u>\$ (139,052.32)</u>	<u>\$ 30,615.86</u>
<b>NON-CASH TRANSACTIONS</b>		
Unrealized gains/losses on investments	\$ 1,008,180.92	\$ 327,252.58
Change in value of split interest agreements	\$ 3,957.98	\$ 2,201.13