AUDIT REPORT

Roane State Community College Foundation

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

Tennessee Comptroller of the Treasury

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COMPTROLLER OF THE TREASURY
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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 350
Nashville, Tennessee 37217
and
Ms. Melinda Hillman, Executive Director
Roane State Community College Foundation
276 Patton Lane
Harriman, Tennessee 37748

Ladies and Gentlemen:

Transmitted herewith is the financial and compliance audit of the Tennessee Board of Regents, Roane State Community College Foundation, for the years ended June 30, 2011, and June 30, 2010. You will note from the independent auditor's report that an unqualified opinion was given on the fairness of the presentation of the financial statements.

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

Sincerely,

Arthur A. Hayes, Jr., CPA
Director

AAH/aj
12/055

State of Tennessee

Audit Highlights

Comptroller of the Treasury　　　　Division of State Audit

Financial and Compliance Audit
Roane State Community College Foundation
For the Years Ended June 30, 2011, and June 30, 2010

AUDIT OBJECTIVES

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

INTERNAL CONTROL FINDING

The foundation did not properly classify net assets and did not include all required disclosures
The financial statements and notes prepared by the foundation contained material departures from Financial Accounting Standards Board standards (page 8).

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.

OPINION ON THE FINANCIAL STATEMENTS

The opinion on the financial statements is unqualified.

Audit Report
Roane State Community College Foundation
For the Years Ended June 30, 2011, and June 30, 2010

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Roane State Community College Foundation
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 Foundation. The audit was conducted pursuant to Section 49-7-107, *Tennessee Code Annotated,* which states "all annual reports and all books of accounts and financial records of a foundation created for the benefit of a state college or university shall be subject to audit by the comptroller of the treasury."

BACKGROUND

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

ORGANIZATION

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

AUDIT SCOPE

The audit was limited to the period July 1, 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 Foundation is a discretely presented component unit of Roane State Community College.

OBJECTIVES OF THE AUDIT

The objectives of the audit were

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

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

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

4. to recommend appropriate actions to correct any deficiencies.

PRIOR AUDIT FINDINGS

Section 8-4-109, *Tennessee Code Annotated*, requires that each state department, agency, or institution report to the Comptroller of the Treasury the action taken to implement the recommendations in the prior audit report. The foundation 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 foundation has corrected the previous audit finding concerning the foundation not ensuring that disclosures in the notes to the financial statements were complete.

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 foundation. 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 foundation 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 foundation.

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 foundation. 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.

RESULTS OF THE AUDIT

AUDIT CONCLUSIONS

Internal Control

As part of the audit of the foundation's financial statements for the years ended June 30, 2011, and June 30, 2010, we considered internal control over financial reporting as a basis for designing auditing procedures for the purpose of expressing an opinion 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 weakness, along with the recommendation and management's response, is detailed in the Finding and Recommendation section of this report.

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 an unqualified opinion on the foundation's financial statements.

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

June 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 350
Nashville, TN 37217
and
Ms. Melinda Hillman, Executive Director
Roane State Community College Foundation
276 Patton Lane
Harriman, Tennessee 37748

Ladies and Gentlemen:

We have audited the financial statements of Roane State Community College Foundation, a discretely presented component unit of Roane State Community College, 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 foundation is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the foundation's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of the foundation's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the foundation'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 foundation did not properly classify net assets and did include 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 foundation's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, 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 have noted certain matters that we have reported to management of the foundation in a separate letter.

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

Sincerely,

Arthur A. Hayes, Jr., CPA
Director

AAH/aj

FINDING AND RECOMMENDATION

The foundation did not properly classify net assets and did not include all required disclosures

Finding

The Roane State Community College Foundation reports under standards of the Financial Accounting Standards Board (FASB). The financial statements and notes prepared by the foundation contained material departures from those standards so corrections were made to the audited financial 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.

<u>Improper Netting of Non-Endowment Project Balances</u>

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.

<u>Disclosure Omitted</u>

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 Foundation Coordinator should not net underwater endowments with other endowments or other negative project balances with other projects in calculating temporarily restricted net assets and unrestricted net assets. The coordinator should review all endowment agreements and ensure that term endowment principal net assets are reported as temporarily restricted net assets. When underwater endowment balances exist, the coordinator should 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. To improve financial reporting, the foundation coordinator should as a part of continuing professional education attend training that specifically addresses endowment accounting and financial reporting.

Management's Comment

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

The Foundation accounting staff attended the accounting and financial reporting training sponsored by the TBR in May 2012. We will require our Foundation accounting staff to attend this annual training, 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
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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 350
Nashville, TN 37217
and
Ms. Melinda Hillman, Executive Director
Roane State Community College Foundation
276 Patton Lane
Harriman, Tennessee 37748

Ladies and Gentlemen:

We have audited the accompanying statements of financial position of the Roane State Community College Foundation, a discretely presented component unit of Roane State Community College as of June 30, 2011, and June 30, 2010, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the foundation's management. Our responsibility is to express an opinion on these financial statements, based on our audit.

We conducted our audit in accordance with 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 opinion.

As discussed in Note 1, the financial statements of Roane State Community College Foundation are intended to present the financial position, the changes in financial position, and the cash flows of only Roane State Community College Foundation. They do not purport to, and do not, present fairly the financial position of Roane State Community College, as of June 30, 2011, and as of 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 financial position of the Roane State Community College Foundation as of June 30, 2011, and June 30, 2010, and changes in net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

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

Sincerely,

Arthur A. Hayes, Jr.

Arthur A. Hayes, Jr., CPA
Director

AAH/aj

Exhibit A

ROANE STATE COMMUNITY COLLEGE FOUNDATION
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2011, AND JUNE 30, 2010

	June 30, 2011	June 30, 2010
Assets:		
Current Assets:		
Cash and cash equivalents (Note 2)	$ 2,460,191.67	$ 747,097.57
Promises to give (Note 3)	638,214.14	450,076.92
Other receivables (accrued interest)	250.00	6,393.00
Investments (Note 4)	-	100,000.00
Total Current Assets	3,098,655.81	1,303,567.49
Noncurrent assets:		
Cash and cash equivalents (Note 2)	-	15,715.30
Investments (Note 4)	7,112,186.09	7,286,410.63
Promises to Give (Note 3)	518,762.63	810,304.74
Capital assets:		
Land	153,500.00	153,500.00
Manly art collection	43,805.00	43,805.00
Receivable from split interest agreement (Note 5)	60,417.76	56,459.78
Assets held in charitable remainder trust (Note 5)	27,490.50	27,125.13
Total noncurrent assets	7,916,161.98	8,393,320.58
Total assets	$ 11,014,817.79	$ 9,696,888.07
Liabilities and net assets:		
Liabilities:		
Current liabilities:		
Accounts payable	$ 16,406.68	$ 57.50
Liability - split interest agreement (Note 5)	1,630.40	2,166.42
Total current liabilities	18,037.08	2,223.92
Long-term Liabilities:		
Liability - split interest agreement (Note 5)	5,684.59	5,220.72
Total liabilities	23,721.67	7,444.64
Net assets:		
Unrestricted	114,304.62	(37,764.63)
Temporarily restricted (Note 6)	5,796,676.39	4,695,734.27
Permanently restricted (Note 6)	5,080,115.11	5,031,473.79
Total net assets	10,991,096.12	9,689,443.43
Total liabilities and net assets	$ 11,014,817.79	$ 9,696,888.07

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

Exhibit B

ROANE STATE COMMUNITY COLLEGE FOUNDATION
STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED JUNE 30, 2011, AND JUNE 30, 2010

	June 30, 2011				June 30, 2010			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues, support and other additions:								
Contributions	$ 16,009.53	$ 269,653.90	$ 44,044.33	$ 329,707.76	$ 31,997.68	$ 658,447.24	$ 43,906.27	$ 734,351.19
Private grants	13,000.00	-	-	13,000.00	-	-	-	-
Miscellaneous income	250.00	-	-	250.00	-	-	-	-
Donated services	186,780.20	-	-	186,780.20	177,431.23	-	-	177,431.23
Donated materials and equipment	99,966.66	-	-	99,966.66	16,219.05	-	-	16,219.05
Net realized/unrealized gains (losses)	164,231.35	1,177,749.31	956.48	1,342,937.14	119,340.28	112,670.56	1,716.30	233,727.14
Interest and investment income	36,939.49	130,191.94	1,776.80	168,908.23	50,703.85	116,986.86	860.74	168,551.45
Change in value of split interest agreement	-	-	3,494.11	3,494.11	-	-	2,178.52	2,178.52
Net assets released from restrictions	489,386.47	(489,386.47)	-	-	417,146.01	(417,146.01)	-	-
Total revenues, support, and other additions	1,006,563.70	1,088,208.68	50,271.72	2,145,044.10	812,838.10	470,958.65	48,661.83	1,332,458.58
Expenses and losses:								
Program services:								
Scholarships	327,411.51	-	-	327,411.51	312,385.20	-	-	312,385.20
Campus projects and activities	193,545.74	-	-	193,545.74	109,908.32	-	-	109,908.32
Faculty and staff development and awards	4,525.00	-	-	4,525.00	25,793.10	-	-	25,793.10
Donated materials and equipment	99,966.66	-	-	99,966.66	16,219.05	-	-	16,219.05
Supporting activities:								
Management and general activities	216,312.10	-	-	216,312.10	234,434.23			234,434.23
Distributions to trust beneficiaries	-	-	1,630.40	1,630.40	-	-	1,284.70	1,284.70
Total expenses	841,761.01	-	1,630.40	843,391.41	698,739.90	-	1,284.70	700,024.60
Transfers:								
Unrestricted	(12,733.89)	12,733.89	-	-	12,556.72	(12,556.72)	-	-
Temporarily restricted	-	(0.45)	0.45	-	-	69,078.49	(69,078.49)	-
Permanently restricted	0.45	-	(0.45)	-	-	(81,106.35)	81,106.35	-
Total transfers	(12,733.44)	12,733.44	-	-	12,556.72	(24,584.58)	12,027.86	-
Changes in net assets	152,069.25	1,100,942.12	48,641.32	1,301,652.69	126,654.92	446,374.07	59,404.99	632,433.98
Net assets at beginning of year	(37,764.63)	4,695,734.27	5,031,473.79	9,689,443.43	144,154.76	3,761,042.45	5,151,812.24	9,057,009.45
Prior Period Restatement (Note 9)	-	-	-	-	(308,574.31)	488,317.75	(179,743.44)	-
Net assets at end of year	$ 114,304.62	$ 5,796,676.39	$ 5,080,115.11	$ 10,991,096.12	$ (37,764.63)	$ 4,695,734.27	$ 5,031,473.79	$ 9,689,443.43

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

Exhibit C

ROANE STATE COMMUNITY COLLEGE FOUNDATION
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2011, AND JUNE 30, 2010

	Year Ended June 30, 2011	Year Ended June 30, 2010
Cash Flows from Operating Activities:		
Increase (Decrease) in net assets	$ 1,301,652.69	$ 632,433.98
Adjustments to reconcile change in net assets to net cash provided by (used for) operating activities:		
Provision for uncollectible pledges	(510.00)	-
Discount on pledges receivable	(3,545.40)	(15,842.40)
Net unrealized (gains) losses on investments	(1,008,180.92)	(327,252.58)
Realized (gains) losses on sale of investments	(334,756.22)	93,525.44
(Increase) decrease in unrestricted unconditional promises to give	3,374.95	(5,371.69)
(Increase) Decrease in accounts receivable	6,143.00	27,751.00
(Increase) decrease in receivable from split interest agreement	(3,957.98)	(2,201.13)
Increase (decrease) in accounts payable	16,349.18	(14,216.22)
Increase (decrease) in liability for split interest agreement	(72.15)	22.61
Contributions restricted for long-term purposes:		
Unconditional promises to give	104,085.34	(122,584.40)
Net cash provided (used) by operating activities	80,582.49	266,264.61
Cash flows from investing activities:		
Purchases of investments	(4,814,037.00)	(6,599,410.83)
Proceeds from sale of investments	4,752,185.11	6,492,135.56
Other investing receipts	1,678,648.20	117,675.54
Net cash provided by (used for) investing activities	1,616,796.31	10,400.27
Net increase (decrease) in cash and cash equivalents	1,697,378.80	276,664.88
Cash and cash equivalents at beginning of year	762,812.87	486,147.99
Cash and cash equivalents at end of year	$ 2,460,191.67	$ 762,812.87

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

Roane State Community College Foundation
Notes to the Financial Statements
June 30, 2011, and June 30, 2010

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities

The Roane State Community College Foundation is a not-for-profit organization exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. The foundation was formed to support Roane State Community College and its eight-county service area. The foundation receives support from individual, corporate, and other donors and uses its resources for scholarships, facilities, and other purposes to further the college's goals. Because these resources held by the foundation can only be used by, or for the benefit of, the college, the foundation is considered a discretely presented component unit of Roane State Community College.

Basis of Presentation

The financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America as prescribed by the Financial Accounting Standards Board. The financial statements have been prepared on the accrual basis of accounting and, accordingly, reflect all significant receivables, payables, and other liabilities.

Use of Estimates

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

Cash Equivalents

The foundation considers all unrestricted highly liquid investments with an initial maturity of three months or less to be cash equivalents.

Promises to Give

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

Investments

Investments in marketable securities are stated at the quoted market value at June 30. Unrealized gains and losses are included in the change in net assets in the accompanying statement of activities.

Allocation of Investment Income and Net Appreciation

As provided in Title 35, Chapter 10, *Tennessee Code Annotated*, Uniform Prudent Management of Institutional Funds Act, Section 35-10-204, the governing board has the authority to appropriate for expenditure for the uses and purposes for which an endowment fund is established so much of the net appreciation, realized and unrealized, in the fair value of the assets of an endowment fund over the historic dollar value of the fund as is deemed prudent, or as specified in the terms of the gift instrument or the charter of the foundation.

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

Beginning July 1, 2004, based on a decision made by the foundation's board of directors, the realized and unrealized gains and losses on the combined investment accounts are allocated to the expendable portion of the endowments semiannually. The allocation is based on each fund's (project's) average balance during the period in relation to the total balance of all funds (projects). Prior to this year, the realized and unrealized gains and losses on the combined investments were allocated to the principal portion (corpus) of the endowments semiannually.

Interest, dividends, and realized and unrealized gains and losses are allocated to the temporarily restricted and unrestricted accounts with average balances over $5,000 semiannually. The allocation is based on each fund's (project's) average balance during the period in relation to the total balance of all funds (projects).

Contributions

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

Donated Services

A significant portion of the foundation’s functions is conducted by unpaid volunteers. The value of this contributed time is not reflected in the financial statements since the volunteers’ time does not meet the criteria for recognition under Financial Accounting Standards Board’s Accounting Standards Codification 958-605-50-1. However, specialized services (legal, accounting, and advertising) which would otherwise need to be purchased are recognized as income and an expense at their fair value.

Donated Assets

Donated real estate is recorded at the fair value as stated in an appraisal obtained by the donor as of the gift date. Marketable securities are recorded at their fair value as listed on the respective stock exchange as of the gift date. Other noncash donations with a total value as assigned by the donor equal to or greater than $500 are recorded at the value established by the donor unless the value as assigned by the donor is considered to exceed the value of the items to the college. If an appraisal is required for tax purposes, the fair value as stated in the appraisal is used to value the gift. The determination of the value to the college is reached by consultation between the Director of Fiscal and Auxiliary Services, the Vice President of Financial Services, and the department receiving the donated items. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose.

NOTE 2. CASH AND CASH EQUIVALENTS

Financial instruments that potentially subject the foundation to concentrations of credit risk consist principally of cash and cash equivalent accounts in financial institutions. These accounts consist of demand deposit accounts and money market funds. Of the bank balances on deposit at June 30, 2011, $272,358.02 was insured by the FDIC and $2,187,833.65 was uninsured. Of the bank balances on deposit at June 30, 2010, $256,254.97 was insured by FDIC and $506,557.90 was uninsured.

NOTE 3. PROMISES TO GIVE

Concentrations of credit risk exist with respect to promises to give due to the fact that the foundation's contributor base is generally confined to Roane State Community College's service area. Also, a significant portion of the foundation's receivables were promised by persons or organizations associated with particular local industries. However, promises to give are reflected net of any doubtful accounts. At June 30, 2011 and 2010, the foundation considered all recorded promises to give to be collectible. Unconditional promises to give are as follows:

June 30, 2011

	Unrestricted	Temporarily Restricted	Permanently Restricted
Receivable in Less than One Year	$ 2,039.95	$ 629,154.19	$ 7,020.00
Receivable in One to Five Years	400.03	517,818.00	3,590.00
Receivable in More than Five Years	-	-	500.00
Total Unconditional Promises to Give	2,439.98	1,146,972.19	11,110.00
Less Discounts to Net Present Value			
(Unamortized)	(4.12)	(3,411.60)	(129.68)
Net Unconditional Promises to Give	$ 2,435.86	$ 1,143,560.59	$ 10,980.32

June 30, 2010

	Unrestricted	Temporarily Restricted	Permanently Restricted
Receivable in Less than One Year	$ 1,599.95	$ 440,456.97	$ 8,020.00
Receivable in One to Five Years	626.66	819,940.48	4,580.00
Receivable in More than Five Years	-	-	1,000.00
Total Unconditional Promises to Give	2,226.61	1,260,397.45	13,600.00
Less Discounts to Net Present Value			
(Unamortized)	(8.62)	(15,639.77)	(194.01)
Net Unconditional Promises to Give	$ 2,217.99	$ 1,244,757.68	$ 13,405.99

NOTE 4. INVESTMENTS

Regions Morgan Keegan Trust and SunTrust investments are presented in the financial statements at fair value and are summarized as follows:

June 30, 2011

	Cost	Market
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	545,986.21	573,730.30
Mutual equity funds	804,337.83	864,838.44
International stocks	263,718.87	304,406.44
Total	$6,236,132.27	$7,112,186.09

June 30, 2010

	Cost	Market
U.S. Treasury	$ 399,841.47	$ 406,510.71
U.S. Agency	711,275.40	748,362.09
Corporate stocks	5,097,704.60	4,912,961.50
Corporate bonds	729,467.79	774,664.96
Mutual equity funds	476,338.12	443,911.37
Total	$7,414,627.38	$7,286,410.63

For classification purposes on the statement of financial position, a portion of the mutual fund investments is classified as assets held in charitable remainder trust, $27,490.50 and $27,125.13 at June 30, 2011 and 2010, respectively.

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

	Cost	Market	Excess (Deficit) of Market Over Cost
Balance June 30, 2011	$6,236,132.27	$7,112,186.09	$ 876,053.82
Balance June 30, 2010	7,414,727.28	7,286,410.63	(128,316.65)
Increase (Decrease) in Unrealized Appreciation			$1,004,370.47

	Cost	Market	Excess (Deficit) of Market Over Cost
Balance June 30, 2010	$7,414,727.28	$7,286,410.63	$ (128,316.65)
Balance June 30, 2009	5,113,922.32	4,660,949.58	(452,972.74)
Increase (Decrease) in Unrealized Appreciation			$ 324,656.09

For the year ended June 30, 2011, the average annual yield exclusive of net gains (losses) was 2.4%, and the annual total return based on market value was 13.75%. For the year ended June 30, 2010, the average annual yield exclusive of net gains (losses) was 1.98%, and the annual total return based on market value was 3.47%.

The foundation also had short-term investments as follows:

	June 30, 2011	June 30, 2010
Certificates of Deposit	$ -	$ 100,000.00
Total short-term investments	$ -	$ 100,000.00

Cost approximates fair value for these short-term investments. The average annual yield was 3.19% for the year ended June 30, 2010.

Most of the investments are invested with a long-term strategy, and overall gains are anticipated over the long-term.

NOTE 5. SPLIT INTEREST AGREEMENT

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

The foundation is also the beneficiary of an irrevocable charitable remainder trust administered by a bank. The present value of future benefits expected to be received by the foundation is recorded as a receivable. On an annual basis, the foundation revalues the receivable to its present value of the estimated future benefits using Internal Revenue Service prescribed rates and applicable mortality tables.

NOTE 6. RESTRICTIONS ON NET ASSETS

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

	June 30, 2011	June 30, 2010
RSCC Building and Other Programs	$ 3,292,886.24	$ 2,997,609.60
Instructional Assistance	60,302.74	11,728.86
Scholarship Assistance	2,443,487.41	1,686,395.81
Total Temporarily Restricted Net Assets	$ 5,796,676.39	$ 4,695,734.77

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

NOTE 7. RELATED PARTY TRANSACTIONS

Effective August 15, 1991, the foundation and Roane State Community College entered into a support agreement that provides for the college to compensate the foundation staff and supply other items necessary for the operation of the foundation office such as clerical support, telephone service, supplies, and travel funds. The expenses incurred by the college in accordance with this agreement totaled $199,901.86 and $183,475.01 for the years ended June 30, 2011 and 2010, respectively.

NOTE 8. 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 2010, respectively:

	Total Fair Value at June 30, 2011	Quoted Prices: Level 1	Significant Other Inputs: Level 2	Significant Unobservable Inputs: Level 3
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	60,417.76	-	-	60,417.76
Total Assets	$ 10,457,322.63	$ 9,239,928.10	$ -	$ 1,217,394.53
Liabilities:				
Payable - Split interest agreement	$ 7,314.99	$ -	$ -	$ 7,314.99
Total Liabilities	$ 7,314.99	$ -	$ -	$ 7,314.99

Roane State Community College Foundation
Notes to the Financial Statements (Cont.)
June 30, 2011, and June 30, 2010

	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	56,459.78	-	-	56,459.78
Total Assets	$ 9,135,877.46	$ 7,719,036.02	$ 100,000.00	$ 1,316,841.44
Liabilities:				
Payable - Split interest agreement	$ 7,387.14	$ -	$ -	$ 7,387.14
Total Liabilities	$ 7,387.14	$ -	$ -	$ 7,387.14

The following table reconciles beginning and ending balance of all assets/liabilities valued using Level 3 inputs for fiscal year ended June 30, 2011 and 2010, respectively:

	Beginning Balance	Change in Present Value	Purchases, Issuances, and Settlements	Transfers In/Out of Level 3	Ending Balance
Assets:					
Pledges receivable	$ 1,260,381.66	$ -	$ (103,404.89)	$ -	$1,156,976.77
Receivable – Split interest agreement	56,459.78	3,957.98	-	-	$ 60,417.76
Total Assets	$ 1,316,841.44	$ 3,957.98	$ (103,404.89)	$ -	$1,217,394.53
Liabilities:					
Payable – Split interest agreement	$ 7,387.14	(72.15)	$ -	$ -	$ 7,314.99
Total Liabilities	$ 7,387.14	$ (72.15)	$ -	$ -	$ 7,314.99

	Beginning Balance	Change in Present Value	Purchases, Issuances, and Settlements	Transfers In/Out of Level 3	Ending Balance
Assets:					
Pledges receivable	$ 1,116,583.17	$ -	$ 143,798.49	$ -	$1,260,381.66
Receivable – Split interest agreement	54,258.65	-	2,201.03	-	$ 56,459.68
Total Assets	$ 1,170,841.82	$ -	$ 145,999.52	$ -	$1,316,841.34
Liabilities:					
Payable – Split interest agreement	$ 7,364.53	-	$ 22.61	$ -	$ 7,387.14
Total Liabilities	$ 7,364.53	$ -	$ 22.61	$ -	$ 7,387.14

All gains and losses, both realized and unrealized, have been reported on the Statements of Activity. Of this total, $1,008,180.92 and $327,252.58 are attributable to the unrealized gains or losses relating to those assets and liabilities still held at June 30, 2011 and 2010, respectively.

Pledges receivable 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.

NOTE 9. ENDOWMENTS

Endowments – The Roane State Foundation's endowment consists of approximately 82 individual funds established for a variety of purposes. Its endowment includes mainly donor-restricted endowment funds and one fund designated by the Board of Directors to function as an endowment. As required by GAAP, net 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 Roane State Foundation Board of Directors' interpretation of the Uniform Prudent Management of Institutional Funds Act (the Act) as adopted by Tennessee permits it to spend down the endowment to a level not to fall below 95 percent of the endowment's Historic Dollar Value except as approved by the Investment Committee. As a result of this interpretation, the Roane State Foundation classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) 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
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	$5,080,115.11	$1,273,210.93	$ 53,063.23	$6,406,389.27

Roane State Community College Foundation
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

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-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 each category of assets (a “fund”), which is appropriate for each fund’s time horizon, distribution requirements, and risk tolerance. The specific objectives, risk parameters, and asset allocations will vary, as appropriate, from fund to fund. 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, 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 (3) year rolling average of the total endowment balance. This 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.