AUDIT REPORT

Tennessee Board of Regents

Roane State Community College

For the Years Ended
June 30, 2013, and June 30, 2012

STATE OF TENNESSEE

COMPTROLLER OF THE TREASURY

Department of Audit

Division of State Audit

Tennessee Comptroller of the Treasury

Deborah V. Loveless, CPA, CGFM
Director

Edward Burr, CPA, CGFM
Assistant Director

Aaron Jewell, CPA, CFE, CGFM
Audit Manager

Ben Wright, CPA, CFE
In-Charge Auditor

Jacob Schuetze
Chelon Wilson
Staff Auditors

Gerry C. Boaz, CPA, CGFM
Technical Manager

Amy Brack
Editor

Amanda Adams
Assistant Editor

Comptroller of the Treasury, Division of State Audit
Suite 1500, James K. Polk State Office Building, 505 Deaderick Street
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.
For more information about the Comptroller of the Treasury, please visit our website at
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
505 DEADERICK STREET
NASHVILLE, TENNESSEE 37243-1402

PHONE (615) 401-7897
FAX (615) 532-2765

August 29, 2014

The Honorable Bill Haslam, Governor
Members of the General Assembly
The Honorable John G. Morgan, Chancellor
Dr. Chris Whaley, President

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, 2013, and June 30, 2012. You will note from the independent auditor's report that unmodified opinions were given on the fairness of the presentation of the financial statements.

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

Sincerely,

Deborah V. Loveless

Deborah V. Loveless, CPA
Director

14/039

Audit Report
Tennessee Board of Regents
Roane State Community College
For the Years Ended June 30, 2013, and June 30, 2012

TABLE OF CONTENTS

State of Tennessee

Audit Highlights

Comptroller of the Treasury Division of State Audit

Financial and Compliance Audit

Tennessee Board of Regents

Roane State Community College

For the Years Ended June 30, 2013, and June 30, 2012

Opinions on the Financial Statements

The opinions on the financial statements are unmodified.

Audit Findings

The audit report contains no findings.

STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
DEPARTMENT OF AUDIT
DIVISION OF STATE AUDIT
SUITE 1500, JAMES K. POLK STATE OFFICE BUILDING
505 DEADERICK STREET
NASHVILLE, TENNESSEE 37243-1402

PHONE (615) 401-7897
FAX (615) 532-2765

Independent Auditor's Report

The Honorable Bill Haslam, Governor
Members of the General Assembly
The Honorable John G. Morgan, Chancellor
Dr. Chris Whaley, President

Report on the Financial Statements

We have audited the accompanying 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, 2013, and June 30, 2012, and the related notes to the financial statements, which collectively comprise the basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of Roane State Community College, and its discretely presented component unit as of June 30, 2013, and June 30, 2012, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

As discussed in Note 1, the financial statements of 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, 2013, and June 30, 2012, and the changes in financial position and cash flows thereof for the years then ended, in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

As discussed in Note 1, the college implemented GASB Statement 65, *Items Previously Reported as Assets and Liabilities*, during the year ended June 30, 2013. Our opinion is not modified with respect to this matter.

As discussed in Note 14, the financial statements of Roane State Community College Foundation, a discretely presented component unit of Roane State Community College, include investments valued at $120,190.69 (1.2% of net position of the foundation) at June 30, 2013, whose fair values have been estimated by management in the absence of readily determinable fair values. Management's estimates are based on information provided by the fund managers or the general partners. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 through 16 and the schedule of funding progress on page 44 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during the audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the college's basic financial statements. The schedules of cash flows – component unit on page 45 are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated August 20, 2014, on our consideration of the college's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the college's internal control over financial reporting and compliance.

Deborah V. Loveless

Deborah V. Loveless, CPA
Director
August 20, 2014

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

This section of Roane State's annual financial report presents a discussion and analysis of the financial performance of the College during the fiscal years ended June 30, 2013, and June 30, 2012, with comparative information for the year ended June 30, 2011. This discussion has been prepared by management along with the basic financial statements and related note disclosures and should be read in conjunction with the basic financial statements and notes. The financial statements, notes, and this discussion are the responsibility of management.

The College has one discretely presented component unit, the Roane State Foundation. More detailed information about the foundation is presented in Note 14 to the financial statements. This discussion and analysis focuses on the College and does not include the foundation.

Overview of the Financial Statements

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

The College's financial report includes the Statement of Net Position, the Statement of Revenues, Expenses, and Changes in Net Position, and the Statement of Cash Flows. Notes to the financial statements are also presented to provide additional information that is essential to a full understanding of the financial statements.

The Statement of Net Position

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

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

The Statement of Net Position also indicates the availability of net position for expenditure by the College. Net position is divided into three major categories. The first category, net investment in capital assets, represents the College's total investment in property, plant, and equipment, net of outstanding debt obligations related to these capital assets. To the extent debt or deferred inflows of resources has been incurred but not yet expended for capital assets, such amounts are not included. The next category is restricted net position. Expendable restricted net position is available for expenditure by the College but must be spent for purposes as determined by donors and/or external entities that have placed time or purpose restrictions on the use of the resources. The final category is unrestricted net position. Unrestricted net position is available to the College for any lawful purpose of the College.

The following table summarizes the College's assets, liabilities, deferred outflows/inflows of resources, and net position at June 30, 2013, and June 30, 2012, with comparative information at June 30, 2011.

Statement of Net Position Summary
(in thousands)

	2013	2012	2011
Assets:			
Current Assets	$15,072.8	$14,082.1	$12,156.9
Capital Assets, Net	42,002.6	37,518.9	38,431.2
Other Assets	13,230.0	11,651.5	13,076.5
Total Assets	70,305.4	63,252.5	63,664.6
Deferred Outflows of Resources:			
Deferred Loss on Debt Refunding	73.5	-	-
Total Deferred Outflows	73.5	-	-
Liabilities:			
Current Liabilities	7,793.7	8,223.1	8,383.6
Non-Current Liabilities	4,347.3	4,171.3	4,060.3
Total Liabilities	12,141.0	12,394.4	12,443.9
Net Position:			
Net Investment in Capital Assets	42,002.6	37,518.9	38,431.2
Restricted – Expendable	2,712.0	852.9	944.0
Unrestricted	13,523.3	12,486.3	11,845.5
Total Net Position	$58,237.9	$50,858.1	$51.220.7

Comparison of FY 2013 to FY 2012

- Current assets increased due to an increase in Cash and Cash Equivalents resulting from the excess of unrestricted revenues over expenses and increases in Accounts, Notes, and Grants Receivable resulting from increases in Grants Receivable for the

Prescription for Healthcare Training in Tennessee (RX Tennessee), National STEM Consortium, Advanced Composites Employment Accelerator (ACE), and Jobs for Upper Cumberland (Jobs4UC) grants. The increase was partially offset by a decrease in funds on deposit for the four Tennessee Technology Centers for which the College provides accounting services.

- Capital assets increased significantly due to increases in Projects in Progress related to construction expenses associated with the Oak Ridge Branch Campus Expansion and Several Buildings HVAC corrections projects in excess of current-year depreciation expense.
- Other assets increased due to receipt of a $2.1 million capital gift from the Roane State Foundation for the Oak Ridge Branch Campus Expansion capital outlay project.
- Deferred outflows of resources increased due to the deferred loss on debt refunding resulting from recognition of the loss on issuance of bonds in August 2012 to refund 2006 bonds issued for energy savings performance contracting projects.
- Current liabilities decreased due to a decrease in deposits held in custody for others resulting from a decline in funds on deposit for the four Tennessee Technology Centers for which the College provides accounting services.

Comparison of FY 2012 to FY 2011

- Current assets increased due to an increase in Cash and Cash Equivalents primarily resulting from the excess of revenues over expenses and a significant transfer of funds previously set aside for renewal and replacement of equipment. This increase was partially offset by a decrease in Accounts, Notes, and Grants Receivable primarily resulting from a significant decrease in the Grant Receivable due from the Tennessee Student Assistance Corporation for Tennessee Student Assistance Award grants.
- Other assets decreased significantly due to the aforementioned transfer from renewal and replacement funds as well as a decrease in Accounts, Notes, and Grants Receivable for the U.S. Economic Development Administration grant for construction of the now completed Cumberland Business Incubator.
- Current liabilities decreased due to payment of a prior-year Accounts Payable to the State of Tennessee/Tennessee Board of Regents for expenses associated with the Cumberland Business Incubator project.

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

The Statement of Revenues, Expenses, and Changes in Net Position presents the results of operations for the fiscal year. Revenues and expenses are recognized when earned or incurred, regardless of when cash is received. The statement indicates whether the College's financial condition has improved or deteriorated during the fiscal year. The statement presents the revenues received by the College, both operating and nonoperating, and the expenses paid by the

College, operating and nonoperating, and any other revenues, expenses, gains, or losses received or spent by the College.

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

A summary of the College's revenues, expenses, and changes in net position for the years ended June 30, 2013, and June 30, 2012, with comparative information for the year ended June 30, 2011, follows.

Summary of the Statement of Revenues, Expenses, and Changes in Net Position (in thousands)

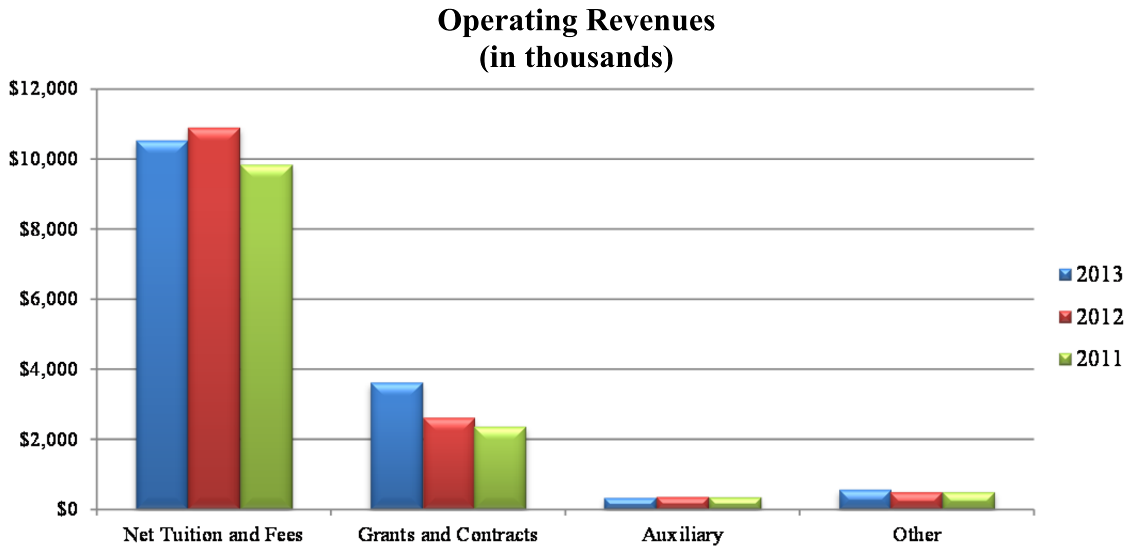
	2013	2012	2011
Operating Revenues	$15,049.3	$14,367.3	$13,046.8
Operating Expenses	50,162.6	50,349.9	48,620.5
Operating Loss	(35,113.3)	(35,982.6)	(35,573.7)
Nonoperating Revenues and Expenses	33,996.8	34,179.2	38,523.2
Income (Loss) Before Other Revenues, Expenses, Gains, or Losses	(1,116.5)	(1,803.4)	2,949.5
Other Revenues, Expenses, Gains, or Losses	8,496.3	1,440.8	1,661.7
Increase (Decrease) in Net Position	7,379.8	(362.6)	4,611.2
Net Position at Beginning of Year	50,858.1	51,220.7	46,609.5
Net Position at End of Year	$58,237.9	$50,858.1	$51,220.7

Operating Revenues

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

Operating Revenues (in thousands)

	2013	2012	2011
Operating Revenues:			
Net Tuition and Fees	$10,530.8	$10,902.2	$ 9,837.6
Grants and Contracts	3,622.7	2,619.2	2,368.0
Auxiliary Enterprises	332.4	355.9	346.5
Other	563.4	490.0	494.7
Total Operating Expenses	$15,049.3	$14,367.3	$13,046.8



<u>Comparison of FY 2013 to FY 2012</u>

- Overall, operating revenues increased by approximately 4.8% over FY 2012.
- Net tuition and fees decreased as a result of a decline in enrollment and a significant increase in scholarship allowances which was partially offset by a 4.7% increase in in-state tuition fees rates.
- Operating grants and contracts increased significantly due to implementation of the first year of the $12.6 million Prescription for Healthcare Training in Tennessee (RX Tennessee) grant and increases in the National STEM Consortium, Advanced Composites Employment Accelerator (ACE), and Jobs for Upper Cumberland (Jobs4UC) grants.

<u>Comparison of FY 2012 to FY 2011</u>

- Tuition and fee revenue increased due to an approximate 9% increase in tuition rates and implementation of a new special course fee for Allied Health courses.
- Operating grants and contracts revenue increased primarily from implementation of the second year of the Advanced Materials Training and Education Center (AMTEC) grant from the U.S. Department of Labor and implementation of the first year of the Advanced Composites Employment Accelerator (ACE) and National Stem Consortium grants from the U.S. Department of Labor. These revenue increases were partially offset by decreases in operating grant and contract revenue resulting from the expiration of the Roane State/Pellissippi Nursing Collaborative contract in FY 2011 and decreases in the current-year revenue for the Tennessee Early Childhood Training Alliance (TECTA) contract.

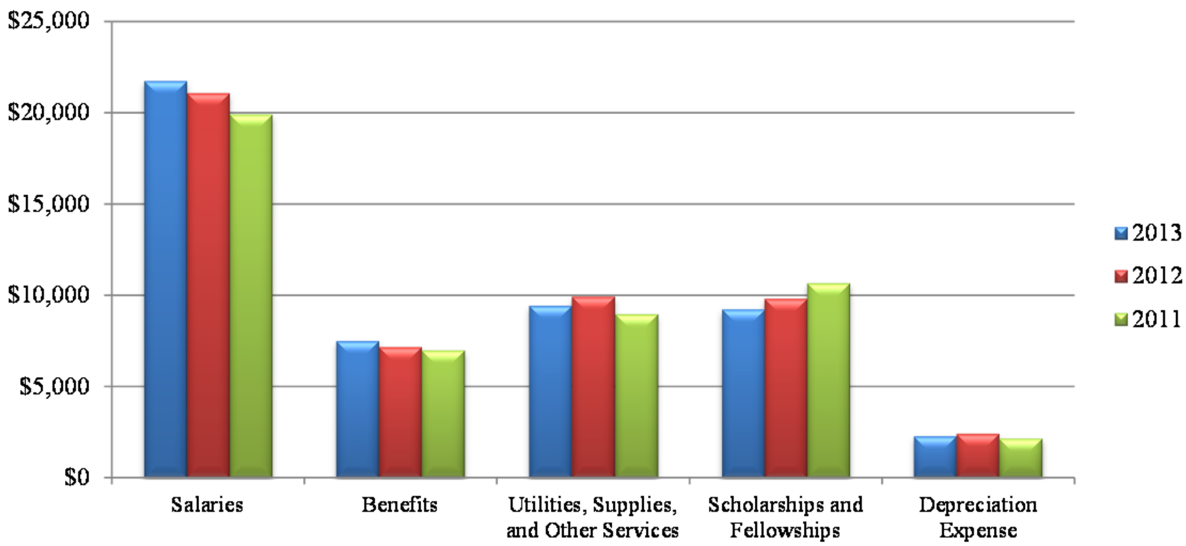
Operating Expenses

Operating expenses may be reported by nature or function. The College has chosen to report the expenses in their natural classification on the Statement of Revenues, Expenses, and Changes in Net Position and has displayed the functional classification in the notes to the financial statements. The following summarizes the operating expenses by natural classifications for the last three fiscal years:

Operating Expenses by Natural Classification
(in thousands)

	2013	2012	2011
Operating Expenses:			
Salaries	$21,734.9	$21,062.2	$19,906.3
Benefits	7,495.1	7,148.9	6,971.7
Utilities, Supplies, and Other Services	9,429.4	9,914.9	8,951.7
Scholarships and Fellowships	9,231.2	9,809.0	10,650.2
Depreciation Expense	2,272.0	2,414.9	2,140.6
Total Operating Expenses	$50,162.6	$50,349.9	$48,620.5

Operating Expenses by Natural Classification
(in thousands)



Comparison of FY 2013 to FY 2012

- Overall, operating expenses declined slightly over FY 2012.
- Salaries increased due to a 2.5% salary increase in July 2012, salaries for new employees added to implement the RX Tennessee grant awarded in September 2012, and increased salary costs for the National STEM Consortium, Advanced Composites Employment Accelerator (ACE), and Jobs for Upper Cumberland (Jobs4UC) grants.

- Benefits increased due to the increase in retirement and social security on the 2.5% salary increase in July 2012; a 2% increase in group insurance premiums in January 2013; group insurance costs for new employees added to implement the RX Tennessee grant; increased group insurance costs for the National STEM Consortium, Advanced Composites Employment Accelerator (ACE), and Jobs for Upper Cumberland (Jobs4UC) grants; and increases in discount and fee waiver benefits provided to employees.
- Utilities, supplies, and other services decreased due to a decrease in supply expenses funded from Technology Access fees; a significant decrease in maintenance and repair expenses due to completion in the prior year of several state-funded capital maintenance projects, off-campus renovation projects, and carpeting and flooring replacements; and a decrease in other services and expenses due to a decline in bad debt expenses. These decreases were partially offset by increases in professional services expenses for various services associated with new and continuing grant programs.
- Scholarships and fellowships decreased due to a significant increase in scholarship allowances.
- Depreciation expense declined due to prior-year recognition of a change in the estimated useful life for accounting purposes of library holding periodicals from ten years to zero.

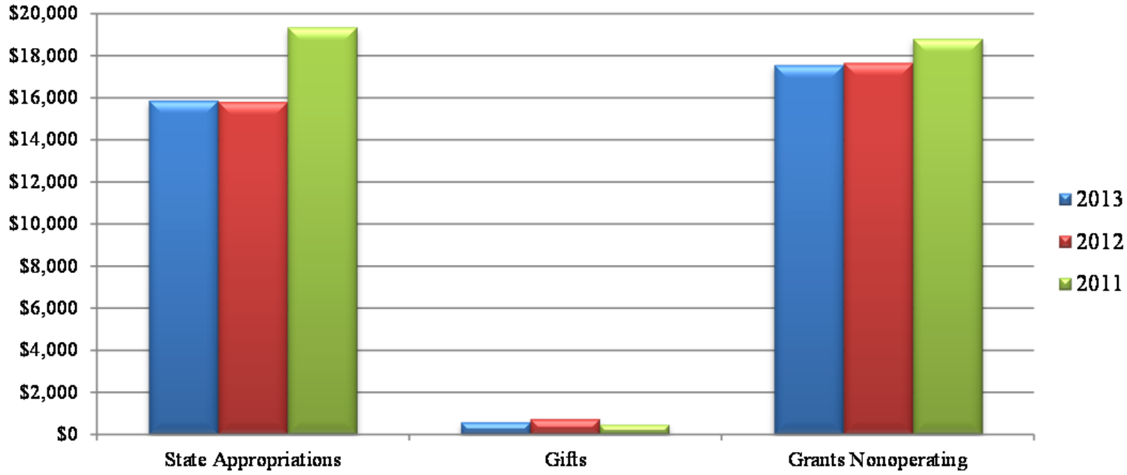
Comparison of FY 2012 to FY 2011

- Overall, operating expenses increased by approximately 3.6% over FY 2011.
- Utilities, supplies, and other services increased significantly due to increases in purchases of non-capital furniture and office fixtures from plant net assets; increases in non-capital expenses for computers and related items from plant net assets; increases in maintenance and repair expenses from plant net assets; and an increase in bad debt expenses.
- Depreciation expense increased primarily due to a change in the estimated useful life for accounting purposes of library holding periodicals from ten years to zero.

Nonoperating Revenues and Expenses

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

Nonoperating Revenues and Expenses
(in thousands)



Comparison of FY 2013 to FY 2012

- State appropriations increased slightly due an increase in recurring appropriations for salary increases and an increase in recurring appropriations resulting from College improvement in selected higher education funding formula outcome measures. These increases were partially offset by a recurring 2% reduction in the College's base appropriation and reductions in non-recurring and recurring hold-harmless appropriations related to changes in the higher education funding formula.
- Gifts decreased due to a decline in gifts from the Roane State Foundation for Scott County Center projects, the Rural Communities STEM Initiative Lab-in-a-Box program, the Advanced Materials Training and Education Center, and Princess Theatre operations.
- Non-operating grants and contracts decreased slightly due to a decrease in Pell grant revenue which was offset by increases in Lottery and Tennessee Student Assistance Corporation grant revenue.

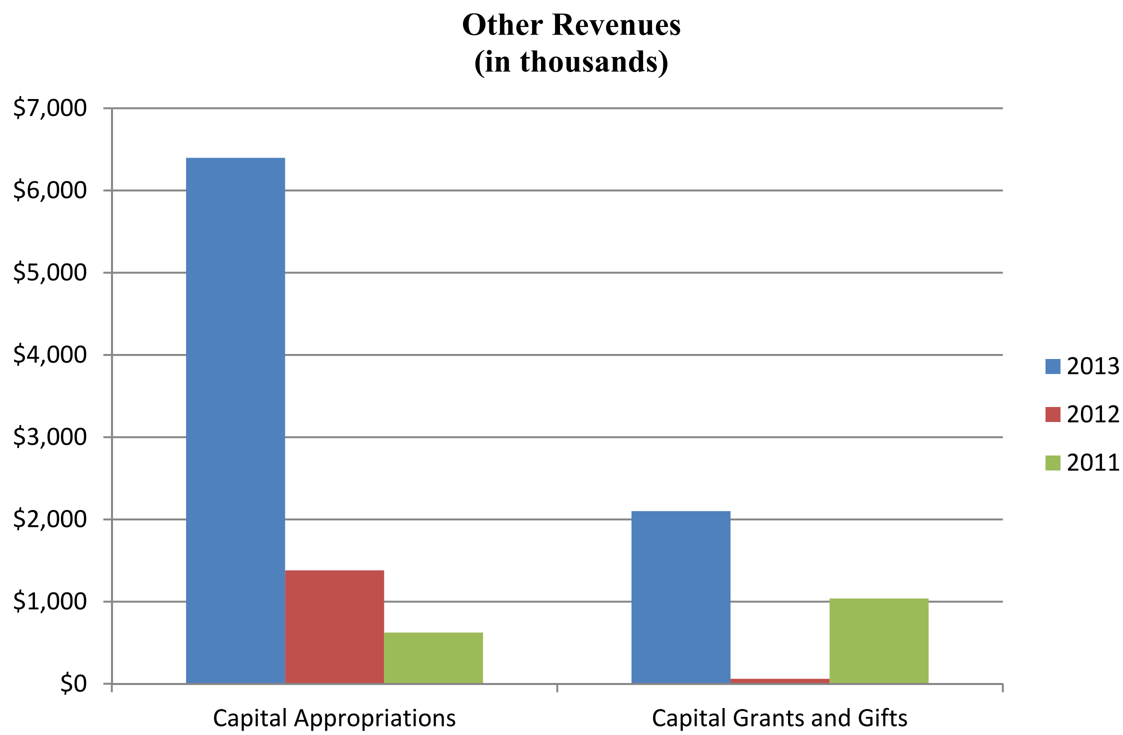
Comparison of FY 2012 to FY 2011

- State appropriation revenue decreased significantly primarily due to elimination of non-recurring appropriation support which the College received in FY 2011 in lieu of American Recovery and Reinvestment Act (ARRA) grant funding, reduction of non-recurring maintenance of effort (MOE) appropriations, and a 2% reduction in recurring base appropriations.
- Non-operating gift revenue increased due to in-kind gifts of equipment for AMTEC; payments made on behalf of the College by the Roane State Foundation for lobby renovations, a covered picnic shelter, and construction of outdoor bleachers at the Scott County Center; gifts from the Roane State Foundation for the Rural Communities STEM Initiative Lab-in-a-Box program; and a gift from the Roane State Foundation to support salary costs for operation of the Princess Theatre.

- Non-operating grant and contract revenue decreased as a result of a significant decrease in Pell grant revenue due to a decline in the number of students receiving grants.

<u>Other Revenues</u>

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



<u>Comparison of FY 2013 to FY 2012</u>

- Capital appropriations increased significantly due to building construction costs associated with the Oak Ridge Branch Campus Expansion capital outlay project and the Several Buildings HVAC Corrections capital maintenance project.
- Capital grants and gifts increased significantly due to a $2.1 million gift from the Roane State Foundation for the Oak Ridge Branch Campus Expansion capital outlay project.

<u>Comparison of FY 2012 to FY 2011</u>

- Capital appropriations increased due to increased expenditure of appropriations for the Security Systems Upgrade project and Oak Ridge Campus Expansion project.
- Capital grants and gifts decreased due a significant reduction in revenue from a federal grant from the U.S. Economic Development Administration for construction of the now completed Cumberland Business Incubator Building and a gift received in

the prior year from the Roane State Foundation to support the Oak Ridge Campus Expansion project.

Capital Asset and Debt Administration

Capital Assets

Roane State Community College had $42,002,662.56 invested in capital assets, net of accumulated depreciation of $30,991,405.46 at June 30, 2013; $37,518,889.62 invested in capital assets, net of accumulated depreciation of $29,502,754.97 at June 30, 2012; and $38,431,227.31 invested in capital assets, net of accumulated depreciation of $27,713,889.18 at June 30, 2011. Depreciation charges totaled $2,271,948.47; $2,414,946.29; and $2,140,582.02 for the years ended June 30, 2013; June 30, 2012; and June 30, 2011, respectively.

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

	2013	2012	2011
Land	$ 4,149.3	$ 4,149.3	$ 4,149.3
Land improvements & infrastructure	1,305.6	1,460.2	1,216.8
Buildings	27,558.7	28,823.4	29,977.5
Equipment	1,788.1	1,685.7	1,526.0
Library holdings	201.2	224.2	438.7
Intangible assets	526.2	684.6	843.0
Projects in Progress	6,473.5	491.5	279.9
Total Capital Assets, Net of Depreciation	$ 42,002.6	$ 37,518.9	$ 38,431.2

Significant additions (or reductions) to capital assets occurred in fiscal year 2013. These additions (or reductions) include the following:

- Land improvements and infrastructure decreased due to an increase in accumulated depreciation resulting from current-year depreciation expenses.
- Buildings decreased due to the excess of current-year depreciation expense over transfers from Projects in Progress resulting from the completion of the Library HVAC subproject of the Several Buildings HVAC Corrections project.
- Equipment increased due to the excess of current-year equipment purchases over current-year depreciation.
- Projects in progress increased significantly due to the excess of construction costs associated with the Oak Ridge Branch Campus Expansion and Several Buildings HVAC Corrections projects over transfers to Buildings for completed capital projects.
- Intangible assets decreased due to an increase in accumulated depreciation resulting from current-year amortization of capitalized software costs.

Significant additions (or reductions) to capital assets occurred in fiscal year 2012. These additions (or reductions) include the following:

- Land improvements and infrastructure increased due to completion of the Security System Upgrade project.
- Buildings decreased due to the excess of current-year depreciation expense over increases resulting from completion of the Fire Alarm Modernization project and additional capitalized expenses for the Cumberland Business Incubator project.
- Equipment increased due to the excess of current-year equipment purchases over current-year depreciation.
- Library holdings decreased due to a significant current-year charge to depreciation to recognize a change in the estimated useful life of periodicals.
- Intangible assets decreased due to current-year amortization of capitalized software costs.
- Projects in progress increased due to the excess of capitalized expenses for the Oak Ridge Campus Expansion and Roane County HVAC Corrections projects over transfers to other asset categories for the previously noted projects.
- Accumulated depreciation increased by $1,788,865.79 due to the excess of depreciation expense over write-offs of equipment disposals and fully depreciated library holdings.

At June 30, 2013, outstanding commitments under construction contracts totaled $7,843,177.19 for construction, renovations, and repairs of buildings and infrastructure. Future state capital outlay appropriations will fund $4,670,591.35 of these costs. At June 30, 2012, outstanding commitments under construction contracts totaled $2,994,333.12 for construction, renovations, and repairs of buildings and infrastructure. Future state capital outlay appropriations will fund $2,994,333.12 of these costs.

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

Debt

The College had $940,532.00; $1,129,984.50; and $1,231,371.50 in debt outstanding at June 30, 2013; June 30, 2012; and June 30, 2011, respectively. The table below summarizes these amounts by type of debt instrument.

Schedule of Outstanding Debt
(in thousands)

	2013	2012	2011
Bonds Payable	$940.5	$1,130.0	$1,231.4
Total Outstanding Debt	$940.5	$1,130.0	$1,231.4

The TSSBA has issued bonds with interest rates ranging from 4% to 5% due serially until 2021 on behalf of Roane State Community College. The College is responsible for the debt service of these bonds. The current portion of the $940,532 outstanding at June 30, 2013, is $110,082. The ratings on debt issued by the Tennessee State School Bond Authority at June 30, 2013, June 30 2012, and June 30, 2011, were as follows:

	2013	2012	2011
Fitch	AA+	AA+	AA
Moody’s Investor Service	Aa1	Aa1	Aa2
Standard & Poor’s	AA	AA	AA

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

Economic Factors That Will Affect the Future

For FY 2014, Roane State will receive a net increase in operating appropriations of $562,000 due to continuing implementation of the Tennessee Higher Education outcomes-based funding formula. Additionally, the College will receive $251,400 to fund recurring salary increases as well as $96,800 to cover increased premiums for the College’s group medical insurance plan. The College’s governing board, the Tennessee Board of Regents (TBR), approved a 3% percent increase in in-state tuition fees effective Fall Semester 2013. The TBR also approved an increase in the hourly rate charged for hours in excess of 12 per semester from $27 per credit hour to $28 per credit hour. This increase in rates is projected to generate approximately $500,000 in new funds for operations if enrollment remains stable.

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 Position
June 30, 2013, June 30, 2012

	College		Component Unit	
	June 30, 2013	June 30, 2012	June 30, 2013	June 30, 2012
ASSETS				
Current assets:				
Cash and cash equivalents (Notes 2 and 14)	$12,902,308.75	$12,786,021.10	$ 1,136,989.95	$ 3,137,316.79
Accounts, notes, and grants receivable (net) (Note 4)	2,104,604.45	1,225,194.85	-	-
Due from primary government	-	23,600.00	160.00	-
Due from component unit	15,570.00	-	-	-
Pledges receivable (net) (Note 14)	-	-	149,293.69	518,631.28
Prepaid expenses	50,048.99	46,973.88	-	-
Other assets	300.00	300.00	-	-
Total current assets	15,072,832.19	14,082,089.83	1,286,443.64	3,655,948.07
Noncurrent assets:				
Cash and cash equivalents (Notes 2 and 14)	13,229,968.53	11,651,461.03	-	-
Investments (Note 14)	-	-	8,544,466.86	6,832,070.39
Accounts, notes, and grants receivable (net) (Note 14)	-	-	64,885.27	59,488.88
Pledges receivable (net) (Note 14)	-	-	21,177.95	17,281.11
Capital assets (net) (Note 5 and 14)	42,002,662.56	37,518,889.62	197,305.00	197,305.00
Total noncurrent assets	55,232,631.09	49,170,350.65	8,827,835.08	7,106,145.38
Total assets	70,305,463.28	63,252,440.48	10,114,278.72	10,762,093.45
DEFERRED OUTFLOWS OF RESOURCES				
Deferred loss on debt refunding	73,488.61	-	-	-
Total deferred outflows of resources	73,488.61	-	-	-
LIABILITIES				
Current liabilities:				
Accounts payable	686,082.52	394,504.14	44.95	34,697.37
Accrued liabilities	1,120,816.92	1,146,104.99	-	-
Due to grantors (Note 6)	-	19,794.09	-	-
Due to component unit	160.00	-	-	-
Unearned revenue	814,144.29	1,022,314.45	-	-
Compensated absences (Note 6)	399,143.32	359,059.03	-	-
Accrued interest payable	6,749.63	8,193.95	-	-
Long-term liabilities, current portion (Note 6 and 14)	110,082.00	105,645.00	14,741.41	1,418.97
Deposits held in custody for others	4,656,547.41	5,023,318.60	-	-
Due to primary government	-	-	15,570.00	-
Other Liabilities	-	144,159.11	-	-
Total current liabilities	7,793,726.09	8,223,093.36	30,356.36	36,116.34
Noncurrent liabilities:				
Net OPEB obligation (Note 9)	2,660,963.07	2,399,274.99	-	-
Compensated absences (Note 6)	702,785.54	744,828.14	-	-
Long-term liabilities (Note 6 and 14)	980,781.96	1,024,339.50	62,296.29	3,305.02
Due to grantors (Note 6)	2,818.86	2,815.49	-	-
Total noncurrent liabilities	4,347,349.43	4,171,258.12	62,296.29	3,305.02
Total liabilities	12,141,075.52	12,394,351.48	92,652.65	39,421.36
NET POSITION				
Net investment in capital assets	42,002,662.56	37,518,889.62	197,305.00	197,305.00
Restricted for:				
Nonexpendable:				
Scholarships and fellowships	-	-	4,826,181.18	4,092,075.73
Instructional department uses	-	-	371,366.59	360,249.25
Other	-	-	566,036.83	566,036.83
Expendable:				
Scholarships and fellowships	5,912.15	13,719.98	2,494,218.21	2,207,741.14
Instructional department uses	92,366.34	124,860.35	67,711.43	40,990.57
Loans	29,740.25	29,739.87	-	-
Capital projects	2,306,729.80	206,729.80	562,500.44	2,653,014.34
Debt service	-	225,119.46	-	-
Other	277,168.05	252,765.53	619,359.05	387,079.63
Unrestricted	13,523,297.22	12,486,264.39	316,947.34	218,179.60
Total net position	$58,237,876.37	$50,858,089.00	$10,021,626.07	$10,722,672.09

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

Tennesee Board of Regents
ROANE STATE COMMUNITY COLLEGE
Statements of Revenues, Expenses, and Changes in Net Position
For the Years Ended June 30, 2013, and June 30, 2012

	College		Component Unit	
	June 30, 2013	June 30, 2012	June 30, 2013	June 30, 2012
REVENUES				
Operating revenues:				
Student tuition and fees (net of scholarship allowances of $10,109,398.42 for the year ended June 30, 2013, and $9,560,376.39 for the year ended June 30, 2012)	$ 10,530,794.48	$ 10,902,167.75	$ -	$ -
Gifts and contributions	-	-	756,736.44	642,397.21
Governmental grants and contracts	3,551,730.04	2,516,688.83	-	-
Nongovernmental grants and contracts	71,002.87	102,503.15	8,000.00	10,000.00
Sales and services of educational activities	40,310.10	42,726.37	-	-
Sales and services of other activities	506,003.28	437,080.76	-	-
Auxiliary enterprises:				
Bookstore	318,686.55	342,270.00	-	-
Food Service	13,725.23	13,690.55	-	-
Interest earned on loans to students	338.24	338.24	-	-
Other operating revenues	16,704.79	9,824.44	-	-
Total operating revenues	15,049,295.58	14,367,290.09	764,736.44	652,397.21
EXPENSES				
Operating expenses (Note 12):				
Salaries and wages	21,734,927.47	21,062,166.08	-	-
Benefits	7,495,102.43	7,148,839.58	-	-
Utilities, supplies, and other services	9,429,448.70	9,914,872.08	355,210.19	273,119.05
Scholarships and fellowships	9,231,212.03	9,809,035.24	32,151.35	25,514.63
Depreciation expense	2,271,948.47	2,414,946.29	-	-
Payments to or on behalf of Roane State Community College (Note 14)	-	-	2,593,031.45	674,310.57
Total operating expenses	50,162,639.10	50,349,859.27	2,980,392.99	972,944.25
Operating income (loss)	(35,113,343.52)	(35,982,569.18)	(2,215,656.55)	(320,547.04)
NONOPERATING REVENUES (EXPENSES)				
State appropriations	15,863,194.00	15,813,143.33	-	-
Gifts (including $493,031.45 from component unit for the year ended June 30, 2013, and $656,038.65 for the year ended June 30, 2012)	576,269.40	732,240.23	-	-
Grants and contracts	17,559,121.63	17,656,633.77	-	-
Investment income (expense) (net of investment expense of $43,261.31 for the component unit for the year ended June 30, 2013, and $43,057.08 for the year ended June 30, 2012)	29,014.66	25,364.31	792,148.22	30,233.58
Interest on capital asset-related debt	(28,554.15)	(50,761.61)	-	-
Bond issuance costs	(2,641.27)	-	-	-
Other nonoperating revenues	370.00	2,625.00	46,127.81	7,129.75
Net nonoperating revenues	33,996,774.27	34,179,245.03	838,276.03	37,363.33
Income (loss) before other revenues, expenses, gains, or losses	(1,116,569.25)	(1,803,324.15)	(1,377,380.52)	(283,183.71)
Capital appropriations	6,396,356.62	1,379,640.21	-	-
Capital grants and gifts, including $2,100,000 from the component unit for the year ended June 30, 2013, and $18,271.92 for the year ended June 30, 2012	2,100,000.00	61,123.02	-	-
Additions to permanent endowments	-	-	676,334.50	14,759.68
Total other revenues	8,496,356.62	1,440,763.23	676,334.50	14,759.68
Increase in net position	7,379,787.37	(362,560.92)	(701,046.02)	(268,424.03)
NET POSITION				
Net position - beginning of year	50,858,089.00	51,220,649.92	10,722,672.09	10,991,096.12
Net position - end of year	$ 58,237,876.37	$ 50,858,089.00	$ 10,021,626.07	$ 10,722,672.09

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, 2013, and June 30, 2012

	June 30, 2013	June 30, 2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Tuition and fees	$ 10,318,605.44	$ 11,060,873.48
Grants and contracts	2,774,425.62	2,594,343.13
Sales and services of educational activities	40,310.10	42,726.37
Sales and services of other activities	478,566.54	417,162.00
Payments to suppliers and vendors	(9,052,518.68)	(9,929,883.50)
Payments to employees	(21,739,821.54)	(21,058,579.15)
Payments for benefits	(7,377,262.56)	(6,905,861.34)
Payments for scholarships and fellowships	(9,229,995.94)	(9,980,463.56)
Loans issued to students	(6,120.85)	19,868.85
Collection of loans from students	5,068.85	(18,396.35)
Auxiliary enterprise charges:		
Bookstore	329,304.46	331,545.23
Food Services	13,679.49	15,079.31
Other receipts	16,704.79	9,402.40
Net cash used by operating activities	(33,429,054.28)	(33,402,183.13)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State appropriations	15,872,800.00	15,798,631.72
Gifts and grants received for other than capital or endowment purposes, including $432,149.27 from the component unit for the year ended June 30, 2013, and $501,182.86 for the year ended June 30, 2012	18,054,581.91	18,689,703.60
Federal student loan receipts	8,794,772.00	1,370,322.50
Federal student loan disbursements	(8,857,054.00)	(1,374,009.00)
Changes in deposits held for others	(367,944.83)	4,644.67
Other non-capital financing receipts	370.00	2,625.00
Net cash provided by noncapital financing activities	33,497,525.08	34,491,918.49
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital appropriations	5,710,833.89	1,379,640.21
Capital grants and gifts received, including $2,100,000 from the component unit for the year ended June 30, 2012, and $0 for the year ended June 30, 2012	2,100,000.00	712,696.00
Proceeds from issuance of capital debt	999,573.46	-
Bond issuance cost	(2,641.27)	-
Purchase of capital assets and construction	(6,068,278.68)	(1,653,155.44)
Principal paid on capital debt	(1,102,577.19)	(101,387.00)
Interest paid on capital debt	(39,603.89)	(51,464.22)
Net cash used by capital and related financing activities	1,597,306.32	286,329.55
CASH FLOWS FROM INVESTING ACTIVITIES		
Income on investments	29,018.03	25,367.44
Net cash provided by investing activities	29,018.03	25,367.44
Net decrease in cash	1,694,795.15	1,401,432.35
Cash - beginning of year	24,437,482.13	23,036,049.78
Cash - end of year	$ 26,132,277.28	$ 24,437,482.13

Reconciliation of operating loss to net cash used by operating activities:		
Operating loss	$ (35,113,343.52)	$ (35,982,569.18)
Adjustments to reconcile operating loss to net cash used by operating activities:		
Depreciation expense	2,271,948.47	2,414,946.29
Gifts in-kind	94,009.65	91,276.34
Other adjustments	13,994.00	18,311.61
Change in assets, liabilities, and deferrals:		
Receivables, net	(845,691.13)	(240,587.96)
Prepaid items	(3,075.11)	(11,659.78)
Accounts payable	293,235.65	92,407.51
Accrued liabilities	235,001.38	227,259.76
Unearned revenue	(208,170.16)	11,981.50
Compensated absences	(1,958.31)	(9,398.22)
Due to grantors	(19,794.09)	19,758.09
Loans to students	(1,052.00)	1,472.50
Other	(144,159.11)	(35,381.59)
Net cash used by operating activities	$ (33,429,054.28)	$ (33,402,183.13)
Non-Cash Investing, Capital, and Financing Transactions		
Gifts In-Kind - Capital	$ -	$ 18,271.92

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

Note 1. Summary of Significant Accounting Policies

Reporting Entity

The college is a part of the State University and Community College System of Tennessee (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 its donors. Because these restricted resources held by the foundation can only be used by, or for the benefit of, the college, the foundation is considered a component unit of the college and is discretely presented in the college's financial statements. See Note 14 for more detailed information about the component unit and how to obtain the report.

Basis of Presentation

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

Basis of Accounting

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

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

Operating expenses include (1) salaries and wages; (2) employee benefits; (3) utilities, supplies, and other services; (4) scholarships and fellowships; and (5) depreciation.

Nonoperating revenues and expenses include activities that have the characteristics of nonexchange transactions, such as gifts and contributions, and other activities that are defined as nonoperating by GASB Statement 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities that Use Proprietary Fund Accounting*, and GASB Statement 34, such as state appropriations and investment income.

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

Cash Equivalents

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

Compensated Absences

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

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

Capital Assets

Capital assets, which include property, plant, equipment, library holdings, and intangible assets, are reported in the statement of net position 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 Position

The college's net position is classified as follows:

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

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

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

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

Scholarship Discounts and Allowances

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

Accounting Change

The college implemented GASB Statement 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, during the year ended June 30, 2013. The effect on the college was the renaming of the residual of all other elements in the statement of financial position as net position, rather than net assets. Amounts on the statement of net position and statement of revenues, expenses, and changes in net position, have been restated for comparative purposes for the year ended June 30, 2012.

Early Implementation of Accounting Pronouncement

In March 2012, GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities; it also recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. The provisions of this statement are effective for financial statements for periods beginning after December 15, 2012. However, the college has elected to implement the provisions of this statement for fiscal year 2013. Amounts on the statement of net position and statement of revenues, expenses, and changes in net position, have been restated for comparative purposes for the year ended June 30, 2012.

Note 2. Cash

This classification includes demand deposits and petty cash on hand. At June 30, 2013, cash consisted of $848,653.18 in bank accounts, $7,680.00 of petty cash on hand, $21,875,664.65 in the State of Tennessee Local Government Investment Pool (LGIP) administered by the State Treasurer, and $3,400,279.45 in LGIP deposits for capital projects. At June 30, 2012, cash consisted of $439,673.45 in bank accounts, $7,680.00 of petty cash on hand, $23,990,128.68 in the State of Tennessee Local Government Investment Pool (LGIP) administered by the State Treasurer, and $0 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, the Tennessee Board of Regents withdraws funds from the LGIP account and transfers them to the Department of Finance and Administration. The funds in the account are not available to the college for any other purpose until the project is completed and the Tennessee Board of Regents releases any remaining funds.

Note 3. 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; bankers' acceptances; commercial paper; money market mutual funds; and the State of Tennessee Local Government Investment Pool.

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

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 guarantee by a nonbank. 3) A financial review should be made to ascertain the issuer's financial strength to cover the debt. 4) Commercial paper of a banking institution should not be purchased. Prime commercial paper shall not have a maturity that exceeds 270 days.

As of June 30, 2013, and June 30, 2012, the college's investments consisted entirely of investments in the Local Government Investment Pool. The fair value of these investments was $25,275,944.10 at June 30, 2013, and $23,990,128.68 at June 30, 2012. LGIP investments are not rated by nationally recognized statistical ratings organizations. The LGIP is part of the State Pooled Investment Fund. The fund's required risk disclosures are presented in the *State of Tennessee Treasurer's Report*. That report is available on the state's website at www.treasury.tn.gov.

Note 4. Receivables

Receivables included the following:

	June 30, 2013	June 30, 2012
Student accounts receivable	$2,332,187.52	$1,826,546.32
Grants receivable	1,170,696.72	450,895.18
Notes receivable	11,160.38	10,108.38
Other receivables	524,595.70	418,513.80
Subtotal	4,038,640.32	2,706,063.68
Less allowance for doubtful accounts	(1,934,035.87)	(1,480,868.83)
Total receivables	$2,104,604.45	$1,225,194.85

Federal Perkins Loan Program funds included the following:

	June 30, 2013	June 30, 2012
Perkins loans receivable	$ 11,023.50	$ 10,685.26
Less allowance for doubtful accounts	(11,023.50)	(10,685.26)
Total	$ -	$ -

Note 5. Capital Assets

Capital asset activity for the year ended June 30, 2013, was as follows:

	Beginning Balance	Additions	Transfers	Reductions	Ending Balance
Land	$ 4,149,297.04	$ -	$ -	$ -	$ 4,149,297.04
Land improvements and infrastructure	2,952,048.78	3,587.00	-	-	2,955,635.78
Buildings	51,935,810.55	-	393,790.26	-	52,329,600.81
Equipment	5,399,958.33	348,178.50	-	703,605.62	5,044,531.21
Library holdings	563,619.80	28,204.25	-	79,692.36	512,131.69
Intangible assets	1,529,380.87	-	-	-	1,529,380.87
Projects in progress	491,529.22	6,375,751.66	(393,790.26)	-	6,473,490.62
Total	67,021,644.59	6,755,721.41	-	783,297.98	72,994,068.02
Less accumulated depreciation/ amortization:					
Land improvements and infrastructure	1,491,892.31	158,109.59	-	-	1,650,001.90
Buildings	23,112,420.53	1,658,432.09	-	-	24,770,852.62
Equipment	3,714,225.13	245,803.35	-	703,605.62	3,256,422.86
Library holdings	339,439.10	51,216.17	-	79,692.36	310,962.91
Intangible assets	844,777.90	158,387.27	-	-	1,003,165.17
Total	29,502,754.97	2,271,948.47	-	783,297.98	30,991,405.46
Capital assets, net	$ 37,518,889.62	$ 4,483,772.94	$ -	$ -	$ 42,002,662.56

Capital asset activity for the year ended June 30, 2012, was as follows:

	Beginning Balance	Additions	Transfers	Reductions	Ending Balance
Land	$ 4,149,297.04	$ -	$ -	$ -	$ 4,149,297.04
Land improvements and infrastructure	2,550,789.21	-	401,259.57	-	2,952,048.78
Buildings	51,475,198.96	35,394.12	425,217.47	-	51,935,810.55
Equipment	5,073,346.73	385,710.70	-	59,099.10	5,399,958.33
Library holdings	1,087,188.10	43,413.10	-	566,981.40	563,619.80
Intangible assets	1,529,380.87	-	-	-	1,529,380.87
Projects in progress	279,915.58	1,038,090.68	(826,477.04)	-	491,529.22
Total	66,145,116.49	1,502,608.60	-	626,080.50	67,021,644.59
Less accumulated depreciation/ amortization:					
Land improvements and infrastructure	1,333,971.51	157,920.80	-	-	1,491,892.31
Buildings	21,497,742.91	1,614,677.62	-	-	23,112,420.53

Equipment	3,547,293.45	226,030.78	-	59,099.10	3,714,225.13
Library holdings	648,490.68	257,929.82	-	566,981.40	339,439.10
Intangible assets	686,390.63	158,387.27	-	-	844,777.90
Total	27,713,889.18	2,414,946.29	-	626,080.50	29,502,754.97
Capital assets, net	$38,431,227.31	$ (912,337.69)	$ -	$ -	$ 37,518,889.62

Note 6. Long-term Liabilities

Long-term liabilities activity for the year ended June 30, 2013, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Payables:					
TSSBA debt:					
Bonds	$1,129,984.50	$ 830,450.00	$1,019,902.50	$ 940,532.00	$110,082.00
Unamortized bond premium	-	169,123.46	18,791.50	150,331.96	-
Subtotal	1,129,984.50	999,573.46	1,038,694.00	1,090,863.96	110,082.00
Other liabilities:					
Compensated absences	1,103,887.17	1,255,120.69	1,257,079.00	1,101,928.86	399,143.32
Due to grantors	22,609.58	341.99	20,132.71	2,818.86	-
Subtotal	1,126,496.75	1,255,462.68	1,277,211.71	1,104,747.72	399,143.32
Total long-term liabilities	$2,256,481.25	$2,255,036.14	$2,315,905.71	$2,195,611.68	$509,225.32

Long-term liabilities activity for the year ended June 30, 2012, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Payables:					
TSSBA debt:					
Bonds	$1,231,371.50	$ -	$ 101,387.00	$1,129,984.50	$105,645.00
Subtotal	1,231,371.50	-	101,387.00	1,129,984.50	105,645.00
Other liabilities:					
Compensated absences	1,113,285.39	1,183,628.06	1,193,026.28	1,103,887.17	359,059.03
Due to grantors	4,452.11	20,135.80	1,978.33	22,609.58	19,794.09
Subtotal	1,117,737.50	1,203,763.86	1,195,004.61	1,126,496.75	378,853.12
Total long-term liabilities	$2,349,109.00	$1,203,763.86	$1,296,391.61	$2,256,481.25	$484,498.12

TSSBA Debt – Bonds

Bonds, with interest rates ranging from 4% to 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 and certain other revenues and fees of the college, including state appropriations; see Note 7 for further details.

Debt service requirements to maturity for the college's portion of TSSBA bonds at June 30, 2013, are as follows:

Year Ending June 30	Principal	Interest	Total
2014	$110,082.00	$ 45,925.78	$ 156,007.78
2015	101,157.00	40,258.05	141,415.05
2016	106,492.00	35,133.51	141,625.51
2017	112,108.00	29,738.71	141,846.71
2018	118,017.00	24,059.43	142,076.43
2019 – 2021	392,676.00	35,030.66	427,706.66
Total	$940,532.00	$ 210,146.14	$ 1,150,678.14

More detailed information regarding the bonds 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.

Refunding of Debt

On August 1, 2012, the state issued $830,450 in revenue bonds with an average interest rate of 5% to advance refund $914,257.50 of outstanding 2006A bonds with an average interest rate of 4.3%. The net proceeds of $996,932.19 (including a premium of $169,123.46 and after payment of $2,641.27 in underwriter's fees and issuance costs) were deposited with an escrow agent to provide for all future debt service payments on the 2006A bonds. As a result, the 2006A bonds are considered to be defeased, and the liability for those bonds has been removed from the college's long-term liabilities.

Although the advance refunding resulted in the recognition of a deferred loss of $82,674.69 to be amortized over the next nine years, the college in effect reduced its aggregate debt service payments by $89,793.38 over the next nine years and obtained an economic gain (difference between the present values of the old and new debt service payments) of $72,686.29.

Note 7. Pledged Revenues

The college has pledged certain revenues and fees, including state appropriations, to repay $940,532 in revenue bonds issued from June 2006 to August 2012 (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, 2013, is $1,150,678.14. Principal and interest paid for fiscal year 2013 and total available revenues were $134,199.15 and $37,521,309.91, respectively. Principal and interest paid for fiscal year 2012 and total available revenues were $152,148.61 and $37,150,961.31, respectively. The amount of principal and interest paid for the current year does not include debt of $914,257.50 defeased through a bond refunding in the current year.

Note 8. Pension Plans

Defined Benefit Plans

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.treasury.tn.gov/tcrs.

Funding Policy – Plan members are noncontributory. The college is required to contribute an actuarially determined rate. The current rate is 15.03% 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, 2013; June 30, 2012; and June 30, 2011, were $1,734,554.06, $1,581,807.85, and $1,526,069.65, respectively. Contributions met the requirements for each year.

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, ING Life Insurance and Annuity Company, and Variable Annuity Life Insurance Company. These plans are administered by the Tennessee Department of the Treasury. Each plan provides retirement benefits to faculty and staff who are exempt from the overtime provisions of the Fair Labor Standards Act and who waive membership in the TCRS. Benefits depend solely on amounts contributed to the plan plus investment earnings. Plan provisions are established by state statute in Title 8, Chapter 35, Part 4, *Tennessee Code Annotated*. State statutes are amended by the Tennessee General Assembly.

Funding Policy – Plan members are noncontributory. The college contributes an amount equal to 10% of the employee's base salary up to the social security wage base and 11% above the social security wage base. Contribution requirements are established and amended by state statute. The contributions made by the college to the plans were $619,766.08 for the year ended June 30, 2013, and $655,023.45 for the year ended June 30, 2012. Contributions met the requirements for each year.

Note 9. Other Postemployment Benefits

Health care 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, all members have the option of choosing between the standard or partnership preferred provider organization plan for health care benefits. Subsequent to age 65, members 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 13. The plans are reported in the *Tennessee Comprehensive Annual Financial Report* (CAFR). The CAFR is available on the state's website at www.tn.gov/finance/act/cafr.shtml.

Special Funding Situation

The State of Tennessee is legally responsible for contributions to the Medicare Supplement Plan, which covers the retirees of other governmental entities, including Roane State Community College. The state is the sole contributor for the college retirees who 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. The plan's claims liabilities are periodically computed using actuarial and statistical techniques to establish premium rates. The plan's administrative costs 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, adjusted for years of service, as active employees. Retirees with 30 years of service are subsidized 80%; retirees with 20 years of service but less than 30 years of service, 70%; and retirees with less than 20 years of service, 60%. Retirees in the Medicare Supplement Plan have flat-rate premium subsidies based on years of service. Retirees with 30 years of service receive $50 per month; retirees with 20 years of service but less than 30 years of service, $37.50; and retirees with 15 years of service but less than 20 years of service, $25.

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

	2013	2012
Annual required contribution (ARC)	$ 631,000.00	$ 624,000.00
Interest on the net OPEB obligation	95,971.00	86,563.24
Adjustment to the ARC	(101,871.39)	(91,885.23)
Annual OPEB cost	625,099.61	618,678.01
Amount of contribution	(363,411.53)	(383,483.97)
Increase in net OPEB obligation	261,688.08	235,194.04
Net OPEB obligation – beginning of year	2,399,274.99	2,164,080.95
Net OPEB obligation – end of year	$ 2,660,963.07	$ 2,399,274.99

Year-end	Plan	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation at Year-end
June 30, 2013	State Employee Group Plan	$625,099.61	58.1%	$2,660,963.07
June 30, 2012	State Employee Group Plan	$618,678.01	62.0%	$2,399,274.99
June 30, 2011	State Employee Group Plan	$682,326.93	49.7%	$2,164,080.95

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	
Actuarial valuation date	July 1, 2011
Actuarial accrued liability (AAL)	$ 5,975,000.00
Actuarial value of plan assets	-
Unfunded actuarial accrued liability (UAAL)	$ 5,975,000.00
Actuarial value of assets as a percentage of the AAL	0.0%
Covered payroll (active plan members)	$ 14,119,733.03
UAAL as percentage of covered payroll	42.3%

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

Actuarial Methods and Assumptions

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

In the July 1, 2011, actuarial valuation, the Projected Unit Credit actuarial cost method, was used. The actuarial assumptions included a 4% investment rate of return (net of administrative expenses) and an annual health care cost trend rate of 9.25% initially. The rate decreased to 8.75% in fiscal year 2013 and then reduces by decrements to an ultimate rate of 5% in fiscal year 2021. All rates include a 2.5% inflation assumption, which also represents the projected salary increase. 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 10. Insurance-related Activities

It is the policy of the state not to purchase commercial insurance for the risks associated with casualty losses for general liability, automobile liability, professional medical 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, builder's risk (for construction projects starting prior to July 1, 2012), and crime and fidelity coverage on the state's officials and employees. The contractor is responsible for acquiring builder's risk insurance for all construction projects after June 30, 2012; thus, builder's risk is no longer covered by the Risk Management Fund. For property coverage, the deductible for an individual state agency is the first $25,000 of losses. The Risk Management Fund is responsible for property losses for the annual aggregate deductible of $10 million for perils other than earthquakes and flood. Purchased insurance coverage is responsible for losses exceeding the $10 million annual aggregate deductible. For earthquake and flood, there is a deductible of $10 million per occurrence. The maximum insurance coverage is $750 million per year for perils other than earthquake and flood. The maximum flood insurance coverage is $50 million per occurrence, except there is only $25 million of coverage in flood zones A and V. The maximum earthquake insurance coverage is $50 million per occurrence. The amounts of settlements have not exceeded insurance coverage for each of the three past fiscal years.

The college participates in the Risk Management Fund. The fund allocates the cost of providing claims servicing and claims payment by charging a premium to the college based on a percentage of the college's expected loss costs, which include both experience and exposures. This charge considers recent trends in actual claims experience of the state as a whole. An actuarial valuation is performed as of fiscal year-end to determine the fund liability and premium allocation. Information regarding the determination of the claims liabilities and the changes in the balances of the claims liabilities for the year ended June 30, 2013, is presented in the *Tennessee Comprehensive Annual Financial Report* (CAFR). The CAFR is available on the state's website at www.tn.gov/finance/act/cafr.shtml. 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, 2013, the Risk Management Fund held $108.5 million in cash designated for payment of claims. At June 30, 2012, the Risk Management Fund held $97.2 million in cash designated for payment of claims.

At June 30, 2013, the scheduled coverage for the college was $132,925,900 for buildings and $34,422,900 for contents. At June 30, 2012, the scheduled coverage for the college was $135,401,300 for buildings and $33,922,900 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 11. Commitments and Contingencies

Sick Leave

The college records the cost of sick leave when paid. The dollar amount of unused sick leave was $5,867,925.97 at June 30, 2013, and $5,635,379.49 at June 30, 2012.

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 $109,393.52 and expenses for personal property were $104,363.59 for the year ended June 30, 2013. The amounts for the year ended June 30, 2012, were $97,497.03 and $114,299.26. All operating leases are cancelable at the lessee's option.

Construction in Progress

At June 30, 2013, outstanding commitments under construction contracts totaled $7,843,177.19 for the Oak Ridge Campus Expansion project and Several Buildings HVAC Corrections project of which $4,670,591.35 will be funded by future state capital outlay appropriations.

Note 12. Natural Classification With Functional Classifications

The college's operating expenses for the year ended June 30, 2013, are as follows:

	Natural Classification					
Functional Classification	Salaries	Benefits	Other Operating	Scholarships	Depreciation	Total
Instruction	$12,651,530.41	$3,971,047.19	$3,707,596.05	$ 80,141.42	$ -	$20,410,315.07
Public service	827,670.00	193,296.85	774,722.84	-	-	1,795,689.69
Academic support	2,046,223.29	885,039.88	(724,383.33)	-	-	2,206,879.84
Student services	2,316,286.58	894,966.00	1,340,469.12	173,859.61	-	4,725,581.31
Institutional support	2,861,155.71	1,064,976.27	1,607,016.95	-	-	5,533,148.93
Maintenance & operation	899,658.78	485,776.24	2,662,648.39	-	-	4,048,083.41
Scholarships & fellowships	132,402.70	-	23,396.57	8,977,211.00	-	9,133,010.27
Auxiliary	-	-	37,982.11	-	-	37,982.11
Depreciation	-	-	-	-	2,271,948.47	2,271,948.47
Total	$21,734,927.47	$7,495,102.43	$9,429,448.70	$ 9,231,212.03	$ 2,271,948.47	$50,162,639.10

The college's operating expenses for the year ended June 30, 2012, are as follows:

	Natural Classification					
Functional Classification	Salaries	Benefits	Other Operating	Scholarships	Depreciation	Total
Instruction	$12,206,036.88	$3,684,752.38	$3,688,489.11	$ 86,973.16	$ -	$ 19,666,251.53
Public service	802,954.79	262,892.73	722,003.78	-	-	1,787,851.30
Academic support	1,984,228.68	859,451.22	(764,035.62)	(50.64)	-	2,079,593.64
Student services	2,156,382.18	823,508.23	1,239,133.02	177,086.39	-	4,396,109.82
Institutional support	2,814,222.39	1,077,581.76	1,765,269.51	1,139.44	-	5,658,213.10
Maintenance & operation	921,921.43	440,653.26	3,086,828.98	-	-	4,449,403.67
Scholarships & fellowships	176,419.73	-	134,320.31	9,543,886.89	-	9,854,626.93
Auxiliary	-	-	42,862.99	-	-	42,862.99
Depreciation	-	-	-	-	2,414,946.29	2,414,946.29
Total	$21,062,166.08	$7,148,839.58	$9,914,872.08	$ 9,809,035.24	$ 2,414,946.29	$50,349,859.27

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 $2,282,579.54 for the year ended June 30, 2013, and $2,553,321.73 for the year ended June 30, 2012, 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 13. On-behalf Payments

During the year ended June 30, 2013, the State of Tennessee made payments of $13,994.00 on behalf of the college for retirees participating in the Medicare Supplement Plan. The amount for the year ended June 30, 2012, was $18,311.61. The Medicare Supplement Plan is a postemployment benefit health care plan and is discussed further in Note 9. That report is available on the state's website at www.tn.gov/finance/act/cafr.shtml.

Note 14. 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 29-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.

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, 2013, the foundation made distributions of $2,593,031.45 to or on behalf of the college for both restricted and unrestricted purposes. During the year ended June 30, 2012, the foundation made distributions of $674,310.57 to or on behalf of the college for both restricted and unrestricted purposes. Complete financial statements for the foundation can be obtained from the 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 table categorizes the recurring fair-value measurements for assets and liabilities at June 30, 2013, and at June 30, 2012.

	Total Fair Value at June 30, 2013	Quoted Prices Level 1	Significant Other Inputs Level 2	Significant Unobservable Inputs Level 3
Assets:				
Cash equivalents	$ 899,770.27	$ 899,770.27	$-	$ -
Investments	8,544,466.86	8,424,276.17	-	120,190.69
Pledges receivable	170,471.64	-	-	170,471.64
Receivable – Split interest agreement	64,885.27	-	-	64,885.27
Total assets	9,679,594.04	9,324,046.44	-	355,547.60
Liabilities:				
Split interest agreement	7,157.91	-	-	7,157.91
Charitable gift annuities	69,879.79	-	-	69,879.79
Total liabilities	$ 77,037.70	$ -	$-	$ 77,037.70

	Total Fair Value at June 30, 2012	Quoted Prices Level 1	Significant Other Inputs Level 2	Significant Unobservable Inputs Level 3
Assets:				
Cash equivalents	$ 2,935,377.70	$ 2,935,377.70	$-	$ -
Investments	6,832,070.39	6,832,070.39	-	-
Pledges receivable	535,912.39	-	-	535,912.39
Receivable – Split interest agreement	59,488.88	-	-	59,488.88
Total assets	10,362,849.36	9,767,448.09	-	595,401.27
Liabilities:				
Split interest agreement	4,723.99	-	-	4,723.99
Total liabilities	$ 4,723.99	$ -	$-	$ 4,723.99

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

At June 30, 2013	Beginning Balance	Total Gains/ (Losses), Realized and Unrealized	Purchases	Settlements	Ending Balance
Assets:					
Pledges receivable	$535,912.39	$ -	$ 38,550.00	$(403,990.75)	$ 170,471.64
Regions timber fund	-	190.69	120,000.00	-	120,190.69
Receivable – Split interest agreement	59,488.88	5,396.39	-	-	64,885.27
Total assets	595,401.27	5,587.08	158,550.00	(403,990.75)	355,547.60
Liabilities:					
Split interest agreement	4,723.99	2,433.92	-	-	7,157.91

Charitable gift annuities	-	(47,285.74)	117,165.53	-	69,879.79
Total Liabilities	$ 4,723.99	$ (44,851.82)	$ 117,165.53	$ -	$ 77,037.70

At June 30, 2012	Beginning Balance	Total Gains/ (Losses), Realized and Unrealized	Purchases	Settlements	Ending Balance
Assets:					
Pledges receivable	$1,156,976.77	$ -	$ 166,400.00	$(787,464.38)	$ 535,912.39
Receivable – split interest agreement	60,417.76	(928.88)	-	-	59,488.88
Total assets	1,217,394.53	(928.88)	166,400.00	(787,464.38)	595,401.27
Liabilities:					
Split interest agreement	7,314.99	(2,591.00)	-	-	4,723.99
Total Liabilities	$ 7,314.99	$ (2,591.00)	$ -	$ -	$ 4,723.99

All gains and losses, both realized and unrealized, have been reported on the statement of revenues, expenses, and changes in net position as investment income and other non-operating revenues/(expenses). Of this total, $50,438.90 is attributable to the change in unrealized gains or losses relating to those assets and liabilities still held at June 30, 2013, and $1,662.12 is attributable to the change in unrealized gains or losses relating to those assets and liabilities still held at June 30, 2012.

Cash and Cash Equivalents

Cash and cash equivalents consist of demand deposit accounts and money market funds. Uninsured bank balances at June 30, 2013, totaled $627,393.19. Uninsured bank balances at June 30, 2012, totaled $2,663,008.46.

Investments

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

Investments held at June 30, 2013, were as follows:

	Cost	Fair Value
U.S. Treasury	$ 448,453.79	$ 453,526.65
U.S. Agency	407,803.14	410,048.25
Corporate Stocks	1,513,484.52	2,076,496.71
Corporate Bonds	604,532.57	629,086.37
Money Market Funds	950.23	950.23
Mutual Equity Funds	3,358,387.99	4,011,676.76
Mutual Bond Funds	844,981.39	842,491.20
Alternative Investments:		
Regions Timber Fund	120,000.00	120,190.69
Total investments	$ 7,298,593.63	$ 8,544,466.86

Investments held at June 30, 2012, were as follows:

	Cost	Fair Value
U.S. Treasury	$ 380,704.05	$ 403,612.09
U.S. Agency	465,318.01	480,002.83
Corporate Stocks	1,532,341.73	1,752,346.56
Corporate Bonds	627,234.05	666,871.60
Money Market Funds	592.51	592.51
Mutual Equity Funds	2,376,038.44	2,671,441.73
Mutual Bond Funds	827,093.08	857,203.07
Total investments	$ 6,209,321.87	$ 6,832,070.39

Alternative Investments – The foundation has investments in Regions Southeast Timber Fund II, LLC. The estimated fair value of this asset was $120,190.69 at June 30, 2013.

The foundation believes the carrying amount of its alternative investments is a reasonable estimate of fair value as of June 30, 2013. Because this investment is not readily marketable, the estimated value is subject to uncertainty and, therefore, may differ from the value that would have been used had a ready market for the investment existed, and such differences could be material. This investment is made in accordance with the foundation's investment policy that approves the allocation of funds to various asset classes in order to ensure the proper level of diversification. This investment is designed to enhance diversification and provide reductions in overall portfolio volatility. The carrying value of the foundation's position is based on Regions Southeast Timber Fund II, LLC's Financial Statements for the quarter and six months ended June 30, 2013, which is presented on the market value basis of accounting in accordance with accounting principles generally accepted in the United States of America (GAAP). Timber and timberlands are stated at fair value, which Regions Southeast Timber Fund II, LLC's management has determined approximates the acquisition cost, adjusted for recent activity, as of June 30, 2013, and the fund believes its valuation methodologies are appropriate and consistent with other market participants. Capital Account Reconciliations at market value are received from the fund each quarter which are used as the basis to adjust the foundation's net carrying value of this investment.

Pledges Receivable

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

	June 30, 2013	June 30, 2012
Current pledges	$149,293.69	$518,631.28
Pledges due in one to five years	19,932.68	17,444.03
Pledges due after five years	1,618.59	-
Subtotal	170,844.96	536,075.31
Less discount to net present value	(373.32)	(162.92)
Total pledges receivable, net	$170,471.64	$535,912.39

Capital Assets

Capital assets at June 30, 2013, and June 30, 2012, were as follows:

	June 30, 2013	June 30, 2012
Land	$153,500.00	$153,500.00
Manly Art Collection	43,805.00	43,805.00
Total capital assets	$197,305.00	$197,305.00

Long-term Liabilities

Long-term liabilities at June 30, 2013, consisted of the following:

	Ending Balance	Current Portion
Other liabilities		
Liability under split interest agreements	$ 7,157.91	$ 1,761.41
Liability under charitable gift annuities	69,879.79	12,980.00
Total long-term liabilities	$77,037.70	$14,741.41

Long-term liabilities at June 30, 2012, consisted of the following:

	Ending Balance	Current Portion
Other liabilities		
Liability under split interest agreements	$4,723.99	$1,418.97
Total long-term liabilities	$4,723.99	$1,418.97

Endowments

The Roane State Community College Foundation's endowment consists of approximately 86 individual funds established for a variety of purposes. Its endowment includes both donor-restricted endowment funds and two funds designated by the Board of Directors to function as endowments. As required by accounting principles generally accepted in the United States of America, net position associated with endowment funds, including funds designated by the Board of 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 down the endowment to a level below the endowment's Historic Dollar Value. As a result of this interpretation, the Roane State Community College Foundation classifies as permanently restricted net position (1) the original value of gifts donated to the permanent endowment; (2) the original value of subsequent gifts to the permanent endowment; and (3) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net position is classified as temporarily restricted net position until the foundation appropriates those amounts for expenditure in a manner consistent with the standard of prudence prescribed by the Act. In accordance with the Act, the foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the fund; (2) the purposes of the foundation and the endowment fund; (3) 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 Position Class
As of June 30, 2013

	Permanently Restricted	Temporarily Restricted	Unrestricted	Total
Donor-restricted endowment funds	$5,763,584.60	$1,287,387.80	$ (919.88)	$7,050,052.52
Board-designated endowment funds	-	101,183.95	170,358.74	271,542.69
Total funds	$5,763,584.60	$1,388,571.75	$ 169,438.86	$7,321,595.21

Changes in Endowment Net Position
for the Fiscal Year Ended June 30, 2013

	Permanently Restricted	Temporarily Restricted	Unrestricted	Total
Endowment net position, beginning of year	$ 5,018,361.81	$ 896,453.29	$153,022.16	$6,067,837.26
Investment return:				
Investment income	1,776.92	131,273.62	2,557.91	135,608.45
Net appreciation (realized and unrealized)	513.84	464,692.59	12,193.36	477,399.79
Total investment return	2,290.76	595,966.21	14,751.27	613,008.24
Contributions	676,837.25	101,183.95	-	778,021.20
Appropriations of endowment assets for expenditure	-	(79,395.03)	(6,210.50)	(85,605.53)
Transfers	65,054.02	(126,277.23)	7,875.93	(53,347.28)
Other changes:				
Pledge write-offs	(510.00)	-	-	(510.00)
Pledge discounts	7.25	-	-	7.25
Miscellaneous income	-	640.56	-	640.56
Change in value of split Interest agreement	2,962.47	-	-	2,962.47
Distributions to trust beneficiaries	(1,418.96)	-	-	(1,418.96)
Endowment net position, end of year	$ 5,763,584.60	$ 1,388,571.75	$169,438.86	$7,321,595.21

Composition of Endowment by Net Position Class
As of June 30, 2012

	Permanently Restricted	Temporarily Restricted	Unrestricted	Total
Donor-restricted endowment funds	$5,018,361.81	$896,453.29	$ (9,669.55)	$5,905,145.55
Board-designated endowment funds	-	-	162,691.71	162,691.71
Total funds	$5,018,361.81	$896,453.29	$ 153,022.16	$6,067,837.26

Changes in Endowment Net Position
for the Fiscal Year Ended June 30, 2012

	Permanently Restricted	Temporarily Restricted	Unrestricted	Total
Endowment net position, beginning of year	$5,080,115.11	$ 1,273,210.93	$ 53,063.23	$6,406,389.27
Investment return:				
Investment income	1,776.92	122,970.81	2,409.66	127,157.39
Net appreciation (realized and unrealized)	428.68	(77,644.47)	(2,312.05)	(79,527.84)
Total investment return	2,205.60	45,326.34	97.61	47,629.55

Contributions	15,475.00	-	-	15,475.00
Appropriations of endowment assets for expenditure	-	(120,336.40)	-	(120,336.40)
Transfers	(78,750.32)	(301,747.58)	99,861.32	(280,636.58)
Other changes:				
Pledge write-offs	(800.00)	-	-	(800.00)
Pledge discounts	84.68	-	-	84.68
Change in value of split interest agreement	1,662.12	-	-	1,662.12
Distributions to trust beneficiaries	(1,630.38)	-	-	(1,630.38)
Endowment net position, end of year	$5,018,361.81	$ 896,453.29	$ 153,022.16	$6,067,837.26

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 foundation is required to retain in a fund of perpetual duration. In accordance with accounting principles generally accepted in the United States of America, deficiencies of this nature are reported in unrestricted net position. These deficiencies resulted from unfavorable market fluctuations that occurred after the investment of permanently restricted contributions and/or continued appropriation for fees and previously approved budgeted expenditures. At June 30, 2013, and June 30, 2012, deficiencies of this nature totaled $919.18 and $9,669.55, respectively.

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 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 & cash equivalents that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk restraints.

Spending policy and how the investment objectives relate – The foundation has a policy of appropriating for distribution each year 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

Actuarial Valuation Date	Plan	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
July 1, 2011	State Plan	$ -	$ 5,975,000.00	$ 5,975,000.00	0%	$ 14,119,733.03	42.3%
July 1, 2010	State Plan	$ -	$ 6,708,000.00	$ 6,708,000.00	0%	$ 13,801,945.37	48.6%
July 1, 2009	State Plan	$ -	$ 7,504,000.00	$ 7,504,000.00	0%	$ 14,575,921.51	51.5%

Supplementary Information

ROANE STATE COMMUNITY COLLEGE FOUNDATION

Supplementary Schedules of Cash Flows - Component Unit

For the Years Ended June 30, 2013, and June 30, 2012

	June 30, 2013	June 30, 2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Gifts and contributions	$ 786,800.90	$ 965,790.55
Grants and Contracts	8,000.00	10,000.00
Payments to suppliers and vendors	(102,081.25)	(133,620.35)
Payments for scholarships and fellowships	(32,151.35)	(25,514.63)
Payments to Roane State Community College	(2,532,149.27)	(501,182.86)
Net cash provided (used) by operating activities	(1,871,580.97)	315,472.71
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Private gifts for endowment purposes	678,457.25	18,095.00
Other non-capital financing receipts	113,045.13	5,717.63
Net cash provided by noncapital financing activities	791,502.38	23,812.63
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of investments	2,503,166.88	2,113,841.14
Income on investments	173,932.01	175,049.77
Purchases of investments	(3,597,347.14)	(1,951,051.13)
Net cash provided (used) by investing activities	(920,248.25)	337,839.78
Net increase (decrease) in cash	(2,000,326.84)	677,125.12
Cash - beginning of year	3,137,316.79	2,460,191.67
Cash - end of year	1,136,989.95	3,137,316.79
Reconciliation of operating income to net cash provided by operating activities:		
Operating income (loss)	(2,215,656.55)	(320,547.04)
Adjustments to reconcile operating income to net cash provided by operating activities:		
Change in assets and liabilities:		
Receivables, net	(160.00)	-
Pledges receivable	363,318.00	617,729.06
Accounts payable	(19,082.42)	18,290.69
Net cash provided (used) by operating activities	$ (1,871,580.97)	$ 315,472.71
Noncash investing, capital, and financing activities		
Unrealized gain (loss) on investments	$ 621,083.25	$ (251,174.00)
Change in value of split interest agreement	$ (74,731.28)	$ 1,662.12

STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
DEPARTMENT OF AUDIT
DIVISION OF STATE AUDIT
SUITE 1500, JAMES K. POLK STATE OFFICE BUILDING
505 DEADERICK STREET
NASHVILLE, TENNESSEE 37243-1402

PHONE (615) 401-7897
FAX (615) 532-2765

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

The Honorable Bill Haslam, Governor
Members of the General Assembly
The Honorable John G. Morgan, Chancellor
Dr. Chris Whaley, President

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, 2013, and June 30, 2012, and the related notes to the financial statements, which collectively comprise the college's basic financial statements, and have issued our report thereon dated August 20, 2014. We conducted our audit in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of This Report

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

Deborah V. Loveless

Deborah V. Loveless, CPA
Director
August 20, 2014

Observations and Comments

Colleges of Applied Technology

Roane State Community College serves as the lead institution under agreements with the Tennessee College of Applied Technology at Harriman, the Tennessee College of Applied Technology at Crossville, the Tennessee College of Applied Technology at Oneida, and the Tennessee College of Applied Technology at Jacksboro. Under these agreements, Roane State Community College performs the accounting and reporting functions for the colleges. The chief administrative officer of each college 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. Prior to July 1, 2013, these workforce training schools were named Tennessee Technology Centers.