AUDIT REPORT

Roane State Community College Foundation

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

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September 4, 2014

The Honorable Bill Haslam, Governor
Members of the General Assembly
The Honorable John G. Morgan, Chancellor
Mr. Paul Phillips, Executive Director

Ladies and Gentlemen:

Transmitted herewith is the financial and compliance audit of the Tennessee Board of Regents, Roane State Community College Foundation, for the years ended June 30, 2013, and June 30, 2012. You will note from the independent auditor's report that an unmodified opinion was given on the fairness of the presentation of the financial statements.

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

Sincerely,

Deborah V. Loveless

Deborah V. Loveless, CPA
Director

14/040

Audit Report
Roane State Community College Foundation
For the Years Ended June 30, 2013, and June 30, 2012

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Roane State Community College Foundation

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

Opinion on the Financial Statements

The opinion on the financial statements is unmodified.

Audit Findings

The audit report contains no findings.

STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
DEPARTMENT OF AUDIT
DIVISION OF STATE AUDIT
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Independent Auditor's Report

The Honorable Bill Haslam, Governor
Members of the General Assembly
The Honorable John G. Morgan, Chancellor
Mr. Paul Phillips, Executive Director

Report on the Financial Statements

We have audited the accompanying financial statements of the Roane State Community College Foundation, a discretely presented component unit of Roane State Community College, which comprise the statements of financial position as of June 30, 2013, and June 30, 2012; the related statements of activities and cash flows for the years then ended; and the related notes to the financial statements.

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 an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *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 from 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 opinion.

Opinion

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

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 foundation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 foundation's internal control over financial reporting and compliance.

Deborah V. Loveless

Deborah V. Loveless, CPA
Director
August 20, 2014

ROANE STATE COMMUNITY COLLEGE FOUNDATION
Statements of Financial Position
June 30, 2013, and June 30, 2012

	June 30, 2013	June 30, 2012
ASSETS		
Current Assets:		
Cash and cash equivalents (Note 2)	$ 1,136,989.95	$ 3,137,316.79
Promises to give (Note 3)	149,293.69	518,631.28
Other receivables	160.00	-
Total current assets	1,286,443.64	3,655,948.07
Noncurrent Assets:		
Investments (Note 4)	8,516,612.55	6,805,087.88
Promises to give (Note 3)	21,177.95	17,281.11
Capital assets:		
Land	153,500.00	153,500.00
Manly art collection	43,805.00	43,805.00
Receivable from split interest agreement (Note 5)	64,885.27	59,488.88
Assets held in charitable remainder unitrust (Note 5)	27,854.31	26,982.51
Total noncurrent assets	8,827,835.08	7,106,145.38
Total assets	$10,114,278.72	$10,762,093.45
LIABILITIES		
Current Liabilities:		
Accounts payable	$ 15,614.95	$ 34,697.37
Liability - split interest agreement (Note 5)	1,761.41	1,418.97
Liability - charitable gift annuities (Note 5)	12,980.00	-
Total current liabilities	30,356.36	36,116.34
Long-term Liabilities:		
Liability - split interest agreement (Note 5)	5,396.50	3,305.02
Liability - charitable gift annuities (Note 5)	56,899.79	-
Total long-term liabilities	62,296.29	3,305.02
Total liabilities	92,652.65	39,421.36
NET ASSETS		
Unrestricted	463,947.34	365,179.60
Temporarily restricted (Note 6)	3,794,094.13	5,339,130.68
Permanently restricted (Note 6)	5,763,584.60	5,018,361.81
Total net assets	10,021,626.07	10,722,672.09
Total liabilities and net assets	$10,114,278.72	$10,762,093.45

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

ROANE STATE COMMUNITY COLLEGE FOUNDATION
Statements of Activities
For the Years Ended June 30, 2013, and June 30, 2012

	June 30, 2013				June 30, 2012			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUES, SUPPORT, AND OTHER ADDITIONS								
Contributions	$ 56,831.86	$ 366,811.04	$ 676,334.50	$ 1,099,977.40	$ 23,219.00	$ 324,842.49	$ 14,759.68	$ 362,821.17
Private grants	8,000.00	-	-	8,000.00	10,000.00	-	-	10,000.00
Miscellaneous income	50.00	3,643.56	-	3,693.56	-	7,098.01	-	7,098.01
Donated services	250,344.56	-	-	250,344.56	188,064.31	-	-	188,064.31
Donated materials and equipment	82,748.98	-	-	82,748.98	106,271.41	-	-	106,271.41
Net realized/unrealized gains (losses)	33,374.11	584,328.26	513.84	618,216.21	(13,428.20)	(131,816.67)	428.68	(144,816.19)
Interest and investment income (net of investment expense of $43,261.31 for the year ended June 30, 2013, and $43,057.08 for the year ended June 30, 2012)	6,929.91	165,225.18	1,776.92	173,932.01	9,741.26	163,531.59	1,776.92	175,049.77
Change in value of split interest agreement	-	47,285.74	2,962.47	50,248.21	-	-	1,662.12	1,662.12
Net assets released from restrictions	2,661,550.07	(2,661,550.07)	-	-	605,225.53	(605,225.53)	-	-
Total revenues, support and other additions	3,099,829.49	(1,494,256.29)	681,587.73	2,287,160.93	929,093.31	(241,570.11)	18,627.40	706,150.60
EXPENSES AND LOSSES								
Program services:								
Scholarships	383,453.56	-	-	383,453.56	387,514.33	-	-	387,514.33
Campus projects and activities	2,167,258.58	-	-	2,167,258.58	203,744.12	-	-	203,744.12
Faculty and staff development and awards	11,350.00	-	-	11,350.00	21,543.00	-	-	21,543.00
Donated services	250,344.56	-	-	250,344.56	188,064.31	-	-	188,064.31
Donated materials and equipment	82,748.98	-	-	82,748.98	106,271.41	-	-	106,271.41
Supporting activities:								
Management and general activities	85,237.31	-	-	85,237.31	65,807.08	-	-	65,807.08
Distributions to trust beneficiaries	-	6,395.00	1,418.96	7,813.96	-	-	1,630.38	1,630.38
Total Expenses	2,980,392.99	6,395.00	1,418.96	2,988,206.95	972,944.25	-	1,630.38	974,574.63
TRANSFERS								
Unrestricted	(20,668.76)	20,668.76	-	-	227,893.79	-	(227,893.79)	-
Temporarily Restricted	-	-	-	-	66,832.13	(246,575.57)	179,743.44	-
Permanently Restricted	-	(65,054.02)	65,054.02	-	-	30,599.97	(30,599.97)	-
Total Transfers	(20,668.76)	(44,385.26)	65,054.02	-	294,725.92	(215,975.60)	(78,750.32)	-
Changes in Net Assets	98,767.74	(1,545,036.55)	745,222.79	(701,046.02)	250,874.98	(457,545.71)	(61,753.30)	(268,424.03)
Net Assets at Beginning of Year	365,179.60	5,339,130.68	5,018,361.81	10,722,672.09	114,304.62	5,796,676.39	5,080,115.11	10,991,096.12
Net Assets at End of Year	$ 463,947.34	$3,794,094.13	$5,763,584.60	$ 10,021,626.07	$365,179.60	$5,339,130.68	$5,018,361.81	$10,722,672.09

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

ROANE STATE COMMUNITY COLLEGE FOUNDATION
Statements of Cash Flows
For the Years Ended June 30, 2013, and June 30, 2012

	Year Ended June 30, 2013	Year Ended June 30, 2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase (Decrease) in Net Assets	$ (701,046.02)	$ (268,424.03)
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by (Used for) Operating Activities:		
Provision for Uncollectible Pledges	(6,868.19)	(973.33)
Discount on Pledges Receivable	(373.32)	(162.92)
Net Unrealized (Gains) Losses on Investments	(621,083.25)	251,174.00
Realized (Gains) Losses on Sale of Investments	2,867.04	(106,357.81)
Noncash Contributions		
(Increase) Decrease in Unrestricted Unconditional Promises to Give	(6,687.57)	(1,088.54)
(Increase) Decrease in Accounts Receivable	(160.00)	250.00
(Increase) Decrease in Receivable from Split Interest Agreement	(5,396.39)	928.88
Increase (Decrease) in Accounts Payable	(19,082.42)	18,290.69
Increase (Decrease) in Liability for Split Interest Agreement	72,313.71	(2,591.00)
Contributions Restricted for Long-term Purposes:		
Unconditional Promises to Give	379,369.83	623,289.17
Net Cash Provided (Used) by Operating Activities	(906,146.58)	514,335.11
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of Investments	(3,659,759.29)	(75,914.57)
Proceeds from Sale of Investments	2,503,166.88	2,113,841.14
Other Investing Receipts (Expenses)	56,017.15	(1,875,136.56)
Net Cash Provided (Used) for Investing Activities	(1,100,575.26)	162,790.01
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments from Charitable Gift Annuities	6,395.00	-
Net Cash Provided (Used) for Financing Activities	6,395.00	-
Net Increase (Decrease) in Cash and Cash Equivalents	(2,000,326.84)	677,125.12
Cash and Cash Equivalents at Beginning of Year	3,137,316.79	2,460,191.67
Cash and Cash Equivalents at End of Year	$ 1,136,989.95	$ 3,137,316.79

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

Note 1. Summary of Significant Accounting Policies

Nature of Activities

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

Basis of Presentation

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

Use of Estimates

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

Cash Equivalents

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

Promises to Give

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

Investments

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

Allocation of Investment Income and Net Appreciation

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

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

Contributions

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

Donated Services

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

Donated Assets

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

Note 2. Cash and Cash Equivalents

Financial instruments that potentially subject the foundation to concentrations of credit risk consist principally of cash and cash equivalent accounts in financial institutions. These accounts consist of demand deposit accounts and money market funds. Of the bank balances on deposit at June 30, 2013, $509,596.76 was insured by the FDIC and $627,393.19 was uninsured. Of the bank balances on deposit at June 30, 2012, $474,308.33 was insured by FDIC and $2,663,008.46 was uninsured.

Note 3. Promises to Give

Concentrations of credit risk exist with respect to promises to give due to the fact that the foundation's contributor base is generally confined to Roane State Community College's service area. Also, a significant portion of the foundation's receivables were promised by persons or organizations associated with particular local industries. However, promises to give are reflected net of any doubtful accounts. At June 30, 2013 and 2012, the foundation considered all recorded promises to give to be collectible. Unconditional promises to give are as follows:

June 30, 2013

	Unrestricted	Temporarily Restricted	Permanently Restricted
Receivable in Less than One Year	$12,886.56	$132,847.13	$3,560.00
Receivable in One to Five Years	-	17,932.68	2,000.00
Receivable in More than Five Years	-	1,618.59	-
Total Unconditional Promises to Give	12,886.56	152,398.40	5,560.00
Less Discounts to Net Present Value (Unamortized)	-	(335.57)	(37.75)
Net Unconditional Promises to Give	$12,886.56	$152,062.83	$5,522.25

June 30, 2012

	Unrestricted	Temporarily Restricted	Permanently Restricted
Receivable in Less than One Year	$3,499.94	$510,361.34	$4,770.00
Receivable in One to Five Years	200.03	14,324.00	2,920.00

Receivable in More than Five Years	-	-	-
Total Unconditional Promises to Give	3,699.97	524,685.34	7,690.00
Less Discounts to Net Present Value (Unamortized)	(1.12)	(116.80)	(45.00)
Net Unconditional Promises to Give	$3,698.85	$524,568.54	$7,645.00

Note 4. 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 year end were as follows:

June 30, 2013

	Cost	Market
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	576,532.57	602,182.29
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	$7,269,643.40	$8,516,612.55

June 30, 2012

	Cost	Market
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	599,234.05	640,481.60
Mutual equity funds	2,376,038.44	2,671,441.73
Mutual bond funds	827,093.08	857,203.07
Total	$6,180,729.36	$6,805,087.88

For classification purposes on the statement of financial position, a portion of the mutual fund investments is classified as assets held in charitable remainder trust, $27,854.31 and $26,982.51 at June 30, 2013 and 2012, respectively.

<u>Alternative Investments</u> - 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 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 Region's 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.

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

	Cost	Market	Excess (Deficit) of Market Over Cost
Balance June 30, 2013	$7,269,643.40	$8,516,612.55	$1,246,969.15
Balance June 30, 2012	6,180,729.36	6,805,087.88	624,358.52
Increase (Decrease) in Unrealized Appreciation			$ 622,610.63

	Cost	Market	Excess (Deficit) of Market Over Cost
Balance June 30, 2012	$6,180,729.36	$6,805,087.88	$ 624,358.52
Balance June 30, 2011	6,236,132.27	7,112,186.09	876,053.82
Increase (Decrease) in Unrealized Appreciation			$ (251,695.30)

For the year ended June 30, 2013, the average annual yield exclusive of net gains (losses) was 2.46%, and the annual total return based on market value was 9.58%. For the year ended June 30, 2012, the average annual yield exclusive of net gains (losses) was 2.64%, and the annual total return based on market value was 9.12%.

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

Note 5. Split Interest Agreement and Charitable Gift Annuities

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

During the year ended June 30, 2013, the foundation obtained a license from the State of Tennessee to begin offering Charitable Gift Annuities to donors. Following the guidelines set forth by the state, funds donated in this manner are placed in a separate investment account. There are currently two charitable gift annuities held by the foundation. On an annual basis, the foundation revalues the liability based on actuarial assumptions and trust agreements. The present values of the estimated future payments are calculated using Internal Revenue Service prescribed rates and applicable mortality tables.

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

Note 6. Restrictions on Net Assets

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

	June 30, 2013	June 30, 2012
RSCC Building and Other Programs	$1,232,164.49	$3,090,398.97
Instructional Assistance	67,711.43	40,990.57
Scholarship Assistance	2,494,218.21	2,207,741.14
Total Temporarily Restricted Net Assets	$3,794,094.13	$5,339,130.68

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

Note 7. Related Party Transactions

Effective August 15, 1991, the foundation and Roane State Community College entered into a support agreement that provides for the college to compensate the foundation staff and supply other items necessary for the operation of the foundation office such as clerical support, telephone service, supplies, and travel funds. The expenses incurred by the college in accordance with this agreement totaled $262,355.54 and $202,990.72 for the years ended June 30, 2013 and 2012, respectively.

Note 8. Fair Value Measurements

The foundation reports certain assets and liabilities at fair value. Fair value has been determined using quoted prices in active markets for identical assets and liabilities that are accessible at the measurement date (Level 1), inputs other than quoted market prices included in Level 1 that are directly or indirectly observable for the asset or liability (Level 2), or significant unobservable inputs (Level 3). The following tables categorize the recurring fair value measurements for assets and liabilities at June 30, 2013 and 2012, respectively:

	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	$-	$ -
U.S. Treasury	453,526.65	453,526.65	-	-
U.S. Agency	410,048.25	410,048.25	-	-
Corporate stocks	2,076,496.71	2,076,496.71	-	-
Corporate bonds	629,086.37	629,086.37	-	-
Mutual equity funds	4,011,676.76	4,011,676.76	-	-
Mutual bond funds	842,491.20	842,491.20	-	-
Money market funds	950.23	950.23	-	-
Alternative investments: Regions timber fund	120,190.69	-	-	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:				
Payable - Split interest agreement	7,157.91	-	-	7,157.91
Payable – 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	$-	$ -
U.S. Treasury	403,612.09	403,612.09	-	-
U.S. Agency	480,002.83	480,002.83	-	-
Corporate stocks	1,752,346.56	1,752,346.56	-	-
Corporate bonds	666,871.60	666,871.60	-	-
Mutual equity funds	2,671,441.73	2,671,441.73	-	-
Mutual bond funds	857,203.07	857,203.07	-	-
Money market funds	592.51	592.51	-	-
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:				
Payable - Split interest agreement	4,723.99	-	-	4,723.99
Total Liabilities	$ 4,723.99	$ -	$-	$ 4,723.99

The following table reconciles beginning and ending balance of all assets/liabilities valued using Level 3 inputs for fiscal year ended June 30, 2013 and 2012, respectively:

	Beginning Balance	Change in Present Value	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:					
Payable – Split interest agreement	4,723.99	2,433.92	-	-	7,157.91
Payable – 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

	Beginning Balance	Change in Present Value	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:					
Payable – 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 Statements of Activity. Of this total, $50,438.90 and $1,662.21 are attributable to the unrealized gains or losses relating to those assets and liabilities still held at June 30, 2013 and 2012, respectively.

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

Note 9. Endowments

<u>Endowments</u> – The Roane State Foundation's endowment consists of approximately 86 individual funds established for a variety of purposes. Its endowment includes mainly donor-restricted endowment funds and two funds designated by the Board of Directors to function as endowments. As required by GAAP, net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law

The Roane State Foundation Board of Directors' interpretation of the Uniform Prudent Management of Institutional Funds Act (the Act) as adopted by Tennessee requires 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 Foundation classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the foundation in a manner consistent with the standard of prudence prescribed by the Act. In accordance with the Act, the foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

1. The duration and preservation of the fund

2. The purposes of the foundation and the endowment fund
3. General economic conditions
4. The possible effect of inflation or deflation
5. The expected total return from income and the appreciation of investments
6. Other resources of the foundation
7. The investment policies of the foundation

Composition of Endowment by Net Asset Class
As of June 30, 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 Asset Class
For Fiscal Year Ended June 30, 2013

	Permanently Restricted	Temporarily Restricted	Unrestricted	Total
Endowment Net Assets, 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)
Pledge write-offs	(510.00)	-	-	(510.00)
Pledge discounts	7.25	-	-	7.25
Transfers	65,054.02	(126,277.23)	7,875.93	(53,347.28)
Other changes:				
Miscellaneous income	-	640.56	-	640.56
Change in Value Split Interest Agreement	2,962.47	-	-	2,962.47
Distributions to Trust Beneficiaries	(1,418.96)	-	-	(1,418.96)
Endowment Net Assets, End of Year	$5,763,584.60	$1,388,571.75	$169,438.86	$7,321,595.21

Composition of Endowment by Net Asset 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 Asset Class
For Fiscal Year Ended June 30, 2012

	Permanently Restricted	Temporarily Restricted	Unrestricted	Total
Endowment Net Assets, 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)
Pledge write-offs	(800.00)	-	-	(800.00)
Pledge discounts	84.68	-	-	84.68
Transfers	(78,750.32)	(301,747.58)	99,861.32	(280,636.58)
Other changes:				
Change in Value Split Interest Agreement	1,662.12	-	-	1,662.12
Distributions to Trust Beneficiaries	(1,630.38)	-	-	(1,630.38)
Endowment Net Assets, 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 the foundation is required to retain in a fund of perpetual duration. In accordance with Generally Accepted Accounting Principles (GAAP), deficiencies of this nature that are reported in unrestricted net assets were $919.88 as of June 30, 2013, and $9,669.55 as of June 30, 2012. These deficiencies resulted from unfavorable market fluctuations that occurred shortly after the investment of new permanently restricted contributions and continued appropriation for certain programs that was deemed prudent by the Board of Directors.

Return Objectives and Risk Parameters

The foundation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the organization must hold in perpetuity or for a donor-specified period(s) as well as board-designated funds. Under this policy, as approved by the board of directors, the endowment assets are invested in a manner that is intended to preserve and protect its assets by earning a total return for each category of assets (a “fund”), which is appropriate for each fund’s time horizon, distribution requirements, and risk tolerance. The specific objectives, risk parameters, and asset allocations will vary, as appropriate, from fund to fund. The foundation expects its endowment funds, over time, to provide an average rate of return of approximately 5 percent annually. Actual returns in any given year may vary from this amount.

Strategies Employed for Achieving Objectives

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

Spending Policy and How the Investment Objectives Relate

The foundation has a policy of appropriating for distribution each year a percentage of the three (3) year rolling average of the total endowment balance. This percentage is reviewed and revised annually by the Investment Committee. In establishing this policy, the foundation considered the long-term expected return on its endowment. Accordingly, over the long-term, the foundation expects the current spending policy to allow its endowment to grow at an average of 2 percent annually. This is consistent with the foundation’s objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.

Note 10. Subsequent events

In connection with the preparation of the financial statements, the foundation evaluated subsequent events after the statements of financial position dates of June 30, 2013 and June 30, 2012 through August 20, 2014, the date the financial statements were available to be issued.

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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
Mr. Paul Phillips, Executive Director

We have audited the statements of financial position of the Roane State Community College Foundation, a discretely presented component unit of Roane State Community College, as of and for the years ended June 30, 2013, and June 30, 2012, and the related statements of activities, statements of cash flows, and notes to the financial statements, and have issued our report thereon dated August 20, 2014. 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.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the foundation'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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the foundation's internal control. Accordingly, we do not express an opinion on the effectiveness of the foundation'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 entity's 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 in internal control 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 foundation's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *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