



FINANCIAL AND COMPLIANCE AUDIT REPORT

Roane State Community College Foundation

For the Years Ended June 30, 2021, and June 30, 2020

Jason E. Mumpower
Comptroller of the Treasury



DIVISION OF STATE AUDIT

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JASON E. MUMPOWER
Comptroller

November 10, 2022

The Honorable Bill Lee, Governor
Members of the General Assembly
The Honorable Flora W. Tydings, Chancellor
Mr. Scott Niermann, Executive Director

Ladies and Gentlemen:

Transmitted herewith is the financial and compliance audit of the Roane State Community College Foundation for the years ended June 30, 2021, and June 30, 2020. 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,

A handwritten signature in blue ink that reads "Katherine J. Stickel".

Katherine J. Stickel, CPA, CGFM, Director
Division of State Audit

22/051b

Audit Report
Roane State Community College Foundation
For the Years Ended June 30, 2021, and June 30, 2020

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State of Tennessee

A u d i t H i g h l i g h t s

Comptroller of the Treasury

Division of State Audit

Financial and Compliance Audit

Roane State Community College Foundation

For the Years Ended June 30, 2021, and June 30, 2020

Opinion on the Financial Statements

The opinion on the financial statements is unmodified.

Audit Findings

The audit report contains no findings.



JASON E. MUMPOWER
Comptroller

Independent Auditor's Report

The Honorable Bill Lee, Governor
Members of the General Assembly
The Honorable Flora W. Tydings, Chancellor
Mr. Scott Niermann, 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, 2021, and June 30, 2020; 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 audits. We conducted our audits 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, 2021, and June 30, 2020, 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 3, 2022, 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 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 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.



Katherine J. Stickel, CPA, CGFM, Director
Division of State Audit
October 3, 2022

ROANE STATE COMMUNITY COLLEGE FOUNDATION
Statements of Financial Position
June 30, 2021, and June 30, 2020

	June 30, 2021	June 30, 2020
Assets		
Current assets:		
Cash and cash equivalents (Note 2)	\$ 374,712.61	\$ 312,835.56
Promises to give (Note 3)	50,099.96	50,474.96
Due from RSCC	3,354.00	-
Accrued interest receivable	13,832.55	13,499.82
Total current assets	441,999.12	376,810.34
Noncurrent assets:		
Cash and cash equivalents (Note 2)	383,628.23	338,517.66
Investments (Note 5)	18,342,433.65	13,755,926.50
Promises to give (Note 3)	49,938.81	99,858.88
Capital assets: (Note 4)		
Land	555,300.00	569,800.00
Manly art collection	43,805.00	43,805.00
Receivable from split-interest agreement (Note 6)	-	94,102.60
Total noncurrent assets	19,375,105.69	14,902,010.64
Total assets	19,817,104.81	15,278,820.98
Liabilities		
Current liabilities:		
Due to RSCC	-	4,910.54
Liability – charitable gift annuities (Note 6)	2,400.00	4,920.00
Total current liabilities	2,400.00	9,830.54
Long-term liabilities:		
Liability – charitable gift annuities (Note 6)	26,337.03	27,135.96
Total long-term liabilities	26,337.03	27,135.96
Total liabilities	28,737.03	36,966.50
Net assets		
Without donor restrictions (Note 7)	1,346,908.10	1,125,576.53
With donor restrictions (Note 7)	18,441,459.68	14,116,277.95
Total net assets	19,788,367.78	15,241,854.48
Total liabilities and net assets	\$ 19,817,104.81	\$ 15,278,820.98

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, 2021, and June 30, 2020

	June 30, 2021			June 30, 2020		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Revenues, support, and other additions						
Contributions	\$ 7,800.00	\$1,657,929.85	\$1,665,729.85	\$ 9,700.00	\$ 653,794.38	\$ 663,494.38
Private grants	-	153,023.54	153,023.54	-	61,831.00	61,831.00
Miscellaneous income	577.33	-	577.33	910.00	-	910.00
Donated services	312,744.75	-	312,744.75	313,025.14	-	313,025.14
Donated materials and equipment	47,380.51	-	47,380.51	244,336.70	-	244,336.70
Net realized/unrealized gains (losses)	181,951.26	3,104,486.05	3,286,437.31	8,720.91	272,352.89	281,073.80
Interest and investment income (net of investment expense of \$77,204.83 for the year ended June 30, 2021, and \$65,708.88 for the year ended June 30, 2020)	16,300.51	277,865.51	294,166.02	13,394.91	293,922.37	307,317.28
Change in value of split-interest agreement	-	(90,783.67)	(90,783.67)	-	4,331.88	4,331.88
Net assets released from restrictions	683,875.26	(683,875.26)	-	566,146.52	(566,146.52)	-
Gain on sale of land	2,478.72	-	2,478.72	-	-	-
Total revenues, support, and other additions	1,253,108.34	4,418,646.02	5,671,754.36	1,156,234.18	720,086.00	1,876,320.18
Expenses and losses						
Program services:						
Scholarships	467,382.72	-	467,382.72	408,842.71	-	408,842.71
Campus projects and activities	198,575.91	-	198,575.91	181,840.81	-	181,840.81
Faculty and staff development and awards	3,500.00	-	3,500.00	6,201.21	-	6,201.21
Donated services	312,744.75	-	312,744.75	313,025.14	-	313,025.14
Donated materials and equipment	47,380.51	-	47,380.51	244,336.70	-	244,336.70
Supporting activities:						
Management and general activities	86,377.17	-	86,377.17	68,762.03	-	68,762.03
Distributions to trust beneficiaries	2,780.00	-	2,780.00	5,595.00	-	5,595.00
Loss on sale of land	-	6,500.00	6,500.00	19,411.12	-	19,411.12
Total expenses	1,118,741.06	6,500.00	1,125,241.06	1,248,014.72	-	1,248,014.72
Transfers						
Total transfers	86,964.29	(86,964.29)	-	60,065.51	(60,065.51)	-
Changes in net assets	221,331.57	4,325,181.73	4,546,513.30	(31,715.03)	660,020.49	628,305.46
Net assets at beginning of year	1,125,576.53	14,116,277.95	15,241,854.48	1,157,291.56	13,456,257.46	14,613,549.02
Net assets at end of year	\$1,346,908.10	\$18,441,459.68	\$19,788,367.78	\$1,125,576.53	\$14,116,277.95	\$15,241,854.48

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, 2021, and June 30, 2020

	Year Ended June 30, 2021	Year Ended June 30, 2020
Cash flows from operating activities		
Increase in net assets	\$4,546,513.30	\$ 628,305.46
Adjustments to reconcile change in net cash provided by operating activities:		
Provision for uncollectible pledges	(375.00)	-
Discount on pledges receivable	(119.90)	(299.79)
Net unrealized gains on investments	(1,942,896.24)	(667,276.82)
Realized (gains) losses on investments	(1,343,541.07)	386,203.02
Noncash contributions	(660,562.33)	-
Decrease in accounts receivable	(3,686.73)	12,199.00
Decrease in receivable from split-interest agreement	94,102.60	2,075.79
Increase in in-kind property	14,500.00	100,000.00
Increase (decrease) in accounts payable	(4,910.54)	4,636.49
Decrease in liability for split-interest agreement	(3,318.93)	(6,407.67)
Contributions restricted for long-term purposes:		
Unconditional promises to give	50,789.97	43,671.19
Net cash provided by operating activities	746,495.13	503,106.67
Cash flows from investing activities		
Purchases of investments	(12,056,967.16)	(13,780,863.53)
Proceeds from sale of investments	11,368,526.94	13,387,997.41
Other investing receipts	46,152.71	157,694.16
Net cash used for investing activities	(642,287.51)	(235,171.96)
Cash flows from financing activities		
Payments from charitable gift annuities	2,780.00	5,595.00
Net cash provided by financing activities	2,780.00	5,595.00
Net increase in cash and cash equivalents	106,987.62	273,529.71
Cash and cash equivalents at beginning of year	651,353.22	377,823.51
Cash and cash equivalents at end of year	\$758,340.84	\$ 651,353.22

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

ROANE STATE COMMUNITY COLLEGE FOUNDATION
Notes to the Financial Statements
June 30, 2021, and June 30, 2020

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 10-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 accordance 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 accordance 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 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.

Notes to the Financial Statements (Continued)

Capital Assets

Capital assets, which include property and works of art, are reported in the statement of activities at historical cost or at acquisition value at date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the assets' useful life are not capitalized.

All land received and held by the foundation is capitalized. The capitalization threshold for art, historical treasures/collections, and similar assets is set at \$5,000.

Land and art, historical treasures/collections, and similar assets are deemed inexhaustible and are not depreciated.

Investments

Investments in marketable securities are stated at the quoted fair 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 Section 35-10-204, *Tennessee Code Annotated*, Uniform Prudent Management of Institutional Funds Act, 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 earned on the combined investment accounts are allocated to the expendable portion of the endowments semi-annually and to accounts with and without donor restrictions with average balances of \$10,000 or more. The allocation is based on each fund's (project's) average balance during the period in relation to the total balance in all funds (projects).

Contributions

Contributions received are recorded as without donor restrictions or with donor restrictions depending on the existence and/or nature of any donor restrictions. Support that is restricted by the donor is reported as an increase in net assets without donor restrictions 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 net assets with donor restrictions. When a restriction expires (that is, when a stipulated time restriction ends or a purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions.

Notes to the Financial Statements (Continued)

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 958-605-25-16. 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 services requiring recognition include services provided by Roane State Community College discussed in Note 8, as well as audit services provided by the Office of the Comptroller of the Treasury.

Donated Assets

Donated real estate is recognized 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. The Manly Art Collection is on display at various Roane State campuses and is reported on the statement of financial position at the original appraised value (no depreciation has been taken). 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 will be reached by consultation between the Director of Accounting, the Vice President of Financial Services, and the department receiving the donated items. Such donations are reported as without donor restrictions support unless the donor has restricted the donated asset to a specific purpose.

Note 2. Cash and Cash Equivalents

Cash and cash equivalents consist of demand deposit accounts and money market funds. The bank balance of deposits at June 30, 2021, was entirely insured. At June 30, 2020, \$62,725.56 of the foundation's bank balance of \$312,835.56 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, 2021, and June 30, 2020, the foundation considered all recorded promises to give to be collectible. Unconditional promises to give are as follows:

Notes to the Financial Statements (Continued)

June 30, 2021

	Without Donor Restrictions	With Donor Restrictions	Total
Receivable due in less than one year	\$99.96	\$ 50,000.00	\$ 50,099.96
Receivable due in one to five years	-	50,058.71	50,058.71
Receivable due in more than five years	-	-	-
Total unconditional promises to give	\$99.96	\$100,058.71	\$100,158.67
Less discounts to net present value (unamortized)	-	(119.90)	(119.90)
Net unconditional promises to give	\$99.96	\$ 99,938.81	\$100,038.77

June 30, 2020

	Without Donor Restrictions	With Donor Restrictions	Total
Receivable due in less than one year	\$99.96	\$ 50,375.00	\$ 50,474.96
Receivable due in one to five years	-	100,158.67	100,158.67
Receivable due in more than five years	-	-	-
Total unconditional promises to give	\$99.96	\$150,533.67	\$150,633.63
Less discounts to net present value (unamortized)	-	(299.79)	(299.79)
Net unconditional promises to give	\$99.96	\$150,233.88	\$150,333.84

Note 4. Capital Assets

Capital assets were as follows:

	June 30, 2021	June 30, 2020
Land	\$555,300.00	\$569,800.00
Manly art collection	43,805.00	43,805.00
Capital assets, net	\$599,105.00	\$613,605.00

Note 5. Investments

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. The foundation’s investments are presented in the financial statements at fair value and are summarized as follows:

Notes to the Financial Statements (Continued)

June 30, 2021

	Cost	Fair Value
Corporate stock	\$ 3,374,139.73	\$ 4,704,823.03
Corporate bonds	1,421,451.24	1,546,911.41
Mutual bond funds	2,958,750.80	3,020,209.87
Mutual equity funds	7,212,621.07	8,832,904.87
Alternative investments:		
Regions Timber Fund	200,000.00	237,584.47
Total	\$ 15,166,962.84	\$ 18,342,433.65

June 30, 2020

	Cost	Fair Value
Corporate stock	\$ 2,497,968.96	\$ 2,994,553.97
Corporate bonds	1,477,300.80	1,637,354.69
Mutual bond funds	1,315,014.36	1,345,473.96
Mutual equity funds	7,028,840.49	7,536,736.63
Alternative investments:		
Regions Timber Fund	200,000.00	241,807.25
Total	\$ 12,519,124.61	\$ 13,755,926.50

Alternative investments – The foundation has investments in Regions Southeast Timber Fund II, LLC. The estimated fair value of this asset was \$237,584.47 at June 30, 2021, and \$241,807.25 at June 30, 2020.

The foundation believes that the carrying amount of its alternative investments is a reasonable estimate of fair value as of June 30, 2021. Because these investments are 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 investments existed, and such differences could be material. These investments are 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. These investments are designed to enhance diversification and provide reductions in overall portfolio volatility. These fair values are estimated using various valuation techniques.

The carrying value of the foundation’s position is based on Regions Southeast Timber Fund II, LLC’s financial statements as of March 31, 2021, and June 30, 2020, for June 30, 2021, and June 30, 2020, respectively. The fund’s financial statements are presented on the market value basis of accounting in accordance with accounting principles generally accepted in the United States of America (GAAP). The fund’s June 30th statements were not available at the time the fiscal year 2021 report was prepared. Timber and timberlands are stated at fair value, which Region's

Notes to the Financial Statements (Continued)

Southeast Timber Fund II, LLC's management has determined approximates the acquisition cost, adjusted for recent activity, 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 and are used as the basis to adjust the foundation's net carrying value of this investment.

The following tables show the relationship between the carrying amounts and market values of the investments.

	Cost	Market	Excess (Deficit) of Market Over Cost
Balance June 30, 2021	\$ 15,166,962.85	\$ 18,342,433.65	\$3,175,470.80
Balance June 30, 2020	12,519,124.61	13,755,926.50	1,236,801.89
Increase (Decrease) in Unrealized Appreciation			\$1,938,668.91

	Cost	Market	Excess (Deficit) of Market Over Cost
Balance June 30, 2020	\$ 12,519,124.61	\$ 13,755,926.50	\$ 1,236,801.89
Balance June 30, 2019	12,628,594.38	13,245,275.74	616,681.36
Increase (Decrease) in Unrealized Appreciation			\$ 620,120.53

For the year ended June 30, 2021, the average annual yield exclusive of net gains (losses) was 2.14%, and the annual total return based on average market value was 21.83%. For the year ended June 30, 2020, the average annual yield exclusive of net gains (losses) was 2.41%, and the annual total return based on market value was 3.06%.

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

Liquidity and availability – Financial assets available for general expenditure—that is, without donor or other restrictions limiting their use, within one year of the statement of financial position date—comprise the following:

Notes to the Financial Statements (Continued)

	<u>June 30, 2021</u>
Cash and cash equivalents	\$366,787.46
Operating investments	285,551.98
Promises to give	99.96
Total	\$652,439.40

	<u>June 30, 2020</u>
Cash and cash equivalents	\$175,932.53
Operating investments	247,075.34
Promises to give	99.96
Total	\$423,107.83

The foundation's endowment funds consist of donor-restricted endowments and two quasi-endowments. Income from donor-restricted endowments is restricted for specific purposes and, therefore, is not available for general expenditure. The quasi-endowments have a spending rate of 4%. Within the next 12 months, \$6,179.31 will be available from quasi-endowments for spending.

The foundation does not have a formal liquidity management plan but operates primarily on annual contributions. Except on rare occasions, these contributions have exceeded the annual expenditures. The foundation's investments are structured so that, if there is a need, some of the assets can be easily liquidated without negative consequences. The amount listed above is net of the value of the two quasi-endowments, which totals \$139,438.16.

Note 6. Split-Interest Agreement and Charitable Gift Annuities

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 is currently one charitable gift annuity 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.

Notes to the Financial Statements (Continued)

Note 7. Restrictions on Net Assets

Non-endowment net assets with donor restrictions are available for scholarship assistance, instructional assistance, the college's building and other programs, and capital assets to further the vision of the college and the foundation's supporters.

	<u>June 30, 2021</u>	<u>June 30, 2020</u>
RSCC building and other programs	\$1,526,090.87	\$1,157,822.92
Capital assets	43,805.00	50,305.00
Instructional assistance	312,581.32	146,795.00
Scholarship assistance	8,036,226.99	5,460,153.30
Total non-endowment net assets with donor restrictions	<u>\$9,918,704.18</u>	<u>\$6,815,076.22</u>

Endowment net assets with donor restrictions are to provide permanent endowments for the foundation, with investment income restricted primarily for scholarships, instructional assistance, and the college's building and other programs.

	<u>June 30, 2021</u>	<u>June 30, 2020</u>
RSCC building and other programs	\$ 512,746.44	\$ 538,067.08
Instructional assistance	444,276.67	416,297.94
Scholarship assistance	7,565,732.39	6,346,836.71
Total endowment net assets with donor restrictions	<u>\$8,522,755.50</u>	<u>\$7,301,201.73</u>

Note 8. 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 pay certain payroll costs and supply other items necessary for the operation of the foundation office such as supplies, continuing professional education funds, and travel funds. The expenses incurred by the college in accordance with this agreement totaled \$339,511.04 and \$341,719.71 for the years ended June 30, 2021, and June 30, 2020, respectively. The payroll costs paid by the college are reflected in the statement of activities as donated services, and the operational costs paid are included in donated materials and equipment, with like amounts included in expenses. The college provides office space and the use of certain common facilities and services to the foundation at no cost. These costs have not been recorded in the statement of activities because they are not considered to be significant to the operations of the foundation.

Notes to the Financial Statements (Continued)

Note 9. 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, 2021, and June 30, 2020, respectively:

	Total Fair Value at June 30, 2021	Quoted Prices: Level 1	Significant Other Inputs: Level 2	Significant Unobservable Inputs: Level 3
Assets:				
Corporate stock	\$ 4,704,823.03	\$ 4,704,823.03	\$ -	\$ -
Corporate bonds	1,546,911.41	1,546,911.41	-	-
Mutual bond funds	3,020,209.87	3,020,209.87	-	-
Mutual equity funds	8,832,904.87	8,832,904.87	-	-
Alternative investments:				
Regions Timber Fund	237,584.47	-	-	237,584.47
Pledges receivable	100,038.77	-	-	100,038.77
Total assets	18,442,472.42	18,104,849.18	-	337,623.24

Liabilities:				
Payable – charitable gift annuities	28,737.03	-	-	28,737.03
Total liabilities	\$ 28,737.03	\$ -	\$ -	\$ 28,737.03

	Total Fair Value at June 30, 2020	Quoted Prices: Level 1	Significant Other Inputs: Level 2	Significant Unobservable Inputs: Level 3
Assets:				
Corporate stock	\$ 2,994,553.97	\$ 2,994,553.97	\$ -	\$ -
Corporate bonds	1,637,354.69	1,637,354.69	-	-
Mutual bond funds	1,345,473.96	1,345,473.96	-	-
Mutual equity funds	7,536,736.63	7,536,736.63	-	-
Alternative investments:				
Regions Timber Fund	241,807.25	-	-	241,807.25
Pledges receivable	150,333.84	-	-	150,333.84
Receivable – split-interest agreement	94,102.60	-	-	94,102.60
Total assets	14,000,362.94	13,514,119.25	-	486,243.69

Liabilities:				
Payable – charitable gift annuities	32,055.96	-	-	32,055.96
Total liabilities	\$ 32,055.96	\$ -	\$ -	\$ 32,055.96

Notes to the Financial Statements (Continued)

The following tables reconcile beginning and ending balances of all assets/liabilities valued using Level 3 inputs for fiscal years ended June 30, 2021, and June 30, 2020, respectively:

	Change in Present		Purchases	Settlements	Ending Balance
	Beginning Balance	Value			
Assets:					
Pledges receivable	\$ 150,333.84	\$ -	\$ -	\$ (50,295.07)	\$ 100,038.77
Regions Timber Fund	241,807.25	1,277.22	-	(5,500.00)	237,584.47
Receivable – split-interest agreement	94,102.60	(94,102.60)	-	-	-
Total assets	486,243.69	(92,825.38)	-	(55,795.07)	337,623.24
Liabilities:					
Payable – charitable gift annuities	32,055.96	(538.93)	-	(2,780.00)	28,737.03
Total liabilities	\$ 32,055.96	\$ (538.93)	\$ -	\$ (2,780.00)	\$ 28,737.03

	Change in Present		Purchases	Settlements	Ending Balance
	Beginning Balance	Value			
Assets:					
Pledges receivable	\$ 193,705.24	\$ -	\$ -	\$ (43,371.40)	\$ 150,333.84
Regions Timber Fund	237,162.66	4,644.59	-	-	241,807.25
Receivable – split-interest agreement	96,178.39	(2,075.79)	-	-	94,102.60
Total assets	527,046.29	2,568.80	-	(43,371.40)	486,243.69
Liabilities:					
Payable – charitable gift annuities	38,463.63	(812.67)	-	(5,595.00)	32,055.96
Total liabilities	\$ 38,463.63	\$ (812.67)	\$ -	\$ (5,595.00)	\$ 32,055.96

All gains and losses, both realized and unrealized, have been reported on the statements of activity. Of this total, \$(6,211.04) and \$(1,387.98) are attributable to the unrealized gains or losses relating to those assets and liabilities still held at June 30, 2021, and June 30, 2020, 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.

Notes to the Financial Statements (Continued)

Note 10. Endowments

Endowments – The Roane State Community College Foundation’s endowments consist of approximately 90 individual funds established for a variety of purposes. Its endowments include mainly donor-restricted endowment funds and 5 funds designated by the Board of Directors to function as an endowment. As required by GAAP, net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law

The Roane State Community College Foundation is subject to the Uniform Prudent Management of Institutional Funds Act (the Act) as adopted by Tennessee, and thus classifies amounts in its donor-restricted endowment funds as net assets with donor restrictions because those net assets are time-restricted until the foundation’s board appropriates such amounts for expenditures. Most of those net assets also are subject to purpose restrictions that must be met before classifying those net assets to net assets without donor restrictions.

The Roane State Community College Foundation Board of Directors’ interpretation of the Uniform Prudent Management of Institutional Funds Act (the Act) as adopted by Tennessee requires the foundation not to 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 endowment net assets with donor restrictions (a) the original value of gifts donated to the endowment, (b) the original value of subsequent gifts to the endowment, and (c) accumulations to the 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 is classified as net position with donor restrictions until those amounts are appropriated for expenditure by the foundation in a manner consistent with the standard of prudence prescribed by the Act. In accordance with the Act, the foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

1. the duration and preservation of the fund,
2. the purposes of the foundation and the endowment fund,
3. general economic conditions,
4. the possible effect of inflation or deflation,
5. the expected total return from income and the appreciation of investments,
6. other resources of the foundation, and
7. the investment policies of the foundation.

Notes to the Financial Statements (Continued)

Composition of Endowments by Net Asset Class As of June 30, 2021

	Without Donor Restrictions	With Donor Restrictions	Total
Board-designated endowment funds	\$ 192,126.30	\$ 1,459,198.09	\$ 1,651,324.39
Donor-restricted endowment funds:			
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor	-	8,522,755.50	8,522,755.50
Accumulated investment gains	-	5,175,444.12	5,175,444.12
Total funds	\$ 192,126.30	\$ 15,157,397.71	\$ 15,349,524.01

Changes in Endowment Net Asset Class For Fiscal Year Ended June 30, 2021

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	\$ 151,629.86	\$ 11,356,170.34	\$ 11,507,800.20
Investment return:			
Investment income	8,205.07	233,065.22	241,270.29
Net appreciation (realized and unrealized)	33,156.54	2,602,579.00	2,635,735.54
Total investment return	41,361.61	2,835,644.22	2,877,005.83
Contributions	-	1,147,823.13	1,147,823.13
Appropriations of endowment assets for expenditure	-	(117,145.91)	(117,145.91)
Transfers	(865.17)	29,008.53	28,143.36
Other changes:			-
Change in value split-interest agreement	-	(94,102.60)	(94,102.60)
Endowment net assets, end of year	\$ 192,126.30	\$ 15,157,397.71	\$ 15,349,524.01

Notes to the Financial Statements (Continued)

Composition of Endowments by Net Asset Class As of June 30, 2020

	Without Donor Restrictions	With Donor Restrictions	Total
Board-designated endowment funds	\$ 151,629.86	\$ 1,186,708.32	\$ 1,338,338.18
Donor-restricted endowment funds:			
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor	-	7,301,201.73	7,301,201.73
Accumulated investment gains	-	2,868,260.29	2,868,260.29
Total funds	\$ 151,629.86	\$ 11,356,170.34	\$ 11,507,800.20

Changes in Endowment Net Asset Class For Fiscal Year Ended June 30, 2020

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	\$ 147,930.45	\$ 10,741,849.85	\$ 10,889,780.30
Investment return:			
Investment income	3,337.30	240,316.76	243,654.06
Net appreciation (realized and unrealized)	3,120.01	218,517.52	221,637.53
Total investment return	6,457.31	458,834.28	465,291.59
Contributions	-	273,582.41	273,582.41
Appropriations of endowment assets for expenditure	(2,018.25)	(153,890.57)	(155,908.82)
Transfers	(739.65)	37,870.16	37,130.51
Other changes:			
Change in value split-interest agreement	-	(2,075.79)	(2,075.79)
Endowment net assets, end of year	\$ 151,629.86	\$ 11,356,170.34	\$ 11,507,800.20

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 historical value of the endowment assets. Endowment assets include those assets

Notes to the Financial Statements (Continued)

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 6% annually. Actual returns in any given year may vary from this amount.

Strategies Employed for Achieving Objectives

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

Spending Policy and How the Investment Objectives Relate

The foundation has a policy of appropriating for distribution each year a percentage of the three-year rolling average of the total endowment balance. This 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 1.5% 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 11. Natural Classification With Functional Classifications

The foundation’s operating expenses by functional classification for the years ended June 30, 2021, and June 30, 2020, are as follows:

Notes to the Financial Statements (Continued)

June 30, 2021

<u>Functional Classification</u>	<u>Natural Classification</u>				<u>Payments Made to or on Behalf of College</u>	<u>Total</u>
	<u>Salaries</u>	<u>Benefits</u>	<u>Other Operating</u>	<u>Scholarships</u>		
Program services	\$ 230,037.55	\$ 82,707.20	\$ 37,281.71	\$ 165,034.89	\$ -	\$ 515,061.35
Support activities	-	-	86,377.17	-	-	86,377.17
Payments to the College	-	-	-	-	514,522.54	514,522.54
Total	\$ 230,037.55	\$ 82,707.20	\$ 123,658.88	\$ 165,034.89	\$ 514,522.54	\$ 1,115,961.06

June 30, 2020

<u>Functional Classification</u>	<u>Natural Classification</u>				<u>Payments Made to or on Behalf of College</u>	<u>Total</u>
	<u>Salaries</u>	<u>Benefits</u>	<u>Other Operating</u>	<u>Scholarships</u>		
Program services	\$ 233,669.46	\$ 79,355.68	\$ 97,676.70	\$ 204,368.78	\$ -	\$ 615,070.62
Support activities	-	-	68,762.03	-	-	68,762.03
Payments to the College	-	-	-	-	539,175.95	539,175.95
Total	\$ 233,669.46	\$ 79,355.68	\$ 166,438.73	\$ 204,368.78	\$ 539,175.95	\$ 1,223,008.60

The foundation's financial statements report certain categories of expenses that are attributed to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated as program services include items that directly benefit the students, faculty, and staff of the college. All other items are classified as support activities, which are allocated based on the basis of purpose.

Note 12. 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, 2021, and June 30, 2020, through October 3, 2022, the date the financial statements were available to be issued.



JASON E. MUMPOWER
Comptroller

**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 Lee, Governor
Members of the General Assembly
The Honorable Flora W. Tydings, Chancellor
Mr. Scott Niermann, Executive Director

We have audited the financial statements 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, 2021, and June 30, 2020, and the related notes to the financial statements, which collectively comprise the foundation’s basic financial statements, and have issued our report thereon dated October 3, 2022. 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, 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.



Katherine J. Stickel, CPA, CGFM, Director
Division of State Audit
October 3, 2022