

AUDIT REPORT

Roane State Community College Foundation

For the Years Ended
June 30, 2009, and June 30, 2008



STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY

Department of Audit
Division of State Audit



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COMPTROLLER OF THE TREASURY
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April 5, 2011

The Honorable Bill Haslam, Governor
and

Members of the General Assembly
State Capitol
Nashville, Tennessee 37243

and

The Honorable John G. Morgan, Chancellor
Tennessee Board of Regents
1415 Murfreesboro Road, Suite 350
Nashville, Tennessee 37217

and

Ms. Melinda Hillman, Executive Director
Roane State Community College Foundation
276 Patton Lane
Harriman, Tennessee 37748

Ladies and Gentlemen:

Transmitted herewith is the financial and compliance audit of the Tennessee Board of Regents, Roane State Community College Foundation, for the years ended June 30, 2009, and June 30, 2008. You will note from the independent auditor's report that an unqualified opinion was given on the fairness of the presentation of the financial statements.

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

Sincerely,

Arthur A. Hayes, Jr., CPA
Director

AAH/aj
10/010

State of Tennessee

Audit Highlights

Comptroller of the Treasury

Division of State Audit

Financial and Compliance Audit
Roane State Community College Foundation
For the Years Ended June 30, 2009, and June 30, 2008

AUDIT OBJECTIVES

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

INTERNAL CONTROL FINDING

The Foundation Did Not Ensure That the Disclosures in the Notes to the Financial Statements Were Complete

Our audit of the financial statements of the Roane State Community College Foundation discovered significant omissions in the notes to the financial statements (page 8).

The significant deficiency described above is considered a material weakness. A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the foundation's internal control.

OPINION ON THE FINANCIAL STATEMENTS

The opinion on the financial statements is unqualified.

Audit Report
Roane State Community College Foundation
For the Years Ended June 30, 2009, and June 30, 2008

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Roane State Community College Foundation
For the Years Ended June 30, 2009, and June 30, 2008

INTRODUCTION

POST-AUDIT AUTHORITY

This is a report on the financial and compliance audit of the Tennessee Board of Regents, Roane State Community College Foundation. The audit was conducted pursuant to Section 4-3-304, *Tennessee Code Annotated*, which authorizes the Department of Audit to “perform currently a post-audit of all accounts and other financial records of the state government, and of any department, institution, office, or agency thereof in accordance with generally accepted auditing standards and in accordance with such procedures as may be established by the comptroller.”

Section 8-4-109, *Tennessee Code Annotated*, authorizes the Comptroller of the Treasury to audit any books and records of any governmental entity that handles public funds when the Comptroller considers an audit to be necessary or appropriate.

BACKGROUND

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

ORGANIZATION

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

AUDIT SCOPE

The audit was limited to the period July 1, 2007, through June 30, 2009, and was conducted in accordance with auditing standards generally accepted in the United States of

America and the standards applicable to financial audits contained in generally accepted government auditing standards. Financial statements are presented for the years ended June 30, 2009, and June 30, 2008. Roane State Community College Foundation is a discretely presented component unit of Roane State Community College.

OBJECTIVES OF THE AUDIT

The objectives of the audit were

1. to consider the foundation's internal control over financial reporting to determine auditing procedures for the purpose of expressing an opinion on the financial statements;
2. to determine compliance with certain provisions of laws, regulations, and contracts;
3. to determine the fairness of the presentation of the financial statements; and
4. to recommend appropriate actions to correct any deficiencies.

PRIOR AUDIT FINDINGS

There were no findings in the prior audit report.

OBSERVATIONS AND COMMENTS

MANAGEMENT'S RESPONSIBILITY FOR RISK ASSESSMENT

Auditors and management are required to assess the risk of fraud in the operations of the foundation. The risk assessment is based on a critical review of operations considering what frauds could be perpetrated in the absence of adequate controls. The auditors' risk assessment is limited to the period during which the audit is conducted and is limited to the transactions that the auditors are able to test during that period. The risk assessment by management is the primary method by which the institution is protected from fraud, waste, and abuse. Since new programs may be established at any time by management or older programs may be discontinued, that assessment is ongoing as part of the daily operations of the foundation.

Risks of fraud, waste, and abuse are mitigated by effective internal controls. It is management's responsibility to design, implement, and monitor effective controls in the foundation. Although internal and external auditors may include testing of controls as part of their audit procedures, these procedures are not a substitute for the ongoing monitoring required of management. After all, the auditor testing is limited and is usually targeted to test the effectiveness of particular controls. Even if controls appear to be operating effectively during the time of the auditor testing, they may be rendered ineffective the next day by management override or by other circumventions that, if left up to the auditor to detect, will not be noted until the next audit engagement and then only if the auditor tests the same transactions and controls. Furthermore, since staff may be seeking to avoid auditor criticisms, they may comply with the controls during the period that the auditors are on site and revert to ignoring or disregarding the control after the auditors have left the field.

The risk assessments and the actions of management in designing, implementing, and monitoring the controls should be adequately documented to provide an audit trail both for auditors and for management, in the event that there is a change in management or staff, and to maintain a record of areas that are particularly problematic.

FRAUD CONSIDERATIONS

Statement on Auditing Standards No. 99, *Consideration of Fraud in a Financial Statement Audit*, promulgated by the American Institute of Certified Public Accountants, requires auditors to specifically assess the risk of material misstatement of an audited entity's financial statements due to fraud. The standard also restates the obvious premise that management, not the auditors, is primarily responsible for preventing and detecting fraud in its own entity. Management's responsibility is fulfilled in part when it takes appropriate steps to assess the risk of fraud within the entity and to implement adequate internal controls to address the results of those risk assessments.

During our audit, we discussed these responsibilities with management and how management might approach meeting them. We also increased the breadth and depth of our inquiries of management and others in the entity as we deemed appropriate. We obtained formal assurances from top management that management had reviewed the entity's policies and procedures to ensure that they are properly designed to prevent and detect fraud and that management had made changes to the policies and procedures where appropriate. Top management further assured us that all staff had been advised to promptly alert management of all allegations of fraud, suspected fraud, or detected fraud and to be totally candid in all communications with the auditors. All levels of management assured us there were no known instances or allegations of fraud that were not disclosed to us.

RESULTS OF THE AUDIT

AUDIT CONCLUSIONS

Internal Control

As part of the audit of the foundation's financial statements for the years ended June 30, 2009, and June 30, 2008, we considered internal control over financial reporting as a basis for designing auditing procedures for the purpose of expressing an opinion on the financial statements, as required by auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in generally accepted government auditing standards. A material weakness, along with the recommendation and management's response, is detailed in the Finding and Recommendation section of this report.

Compliance and Other Matters

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

Fairness of Financial Statement Presentation

The Division of State Audit has rendered an unqualified opinion on the foundation's financial statements.



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

February 24, 2011

The Honorable Bill Haslam, Governor
and

Members of the General Assembly
State Capitol
Nashville, Tennessee 37243

and

The Honorable John G. Morgan, Chancellor
Tennessee Board of Regents
1415 Murfreesboro Road, Suite 350
Nashville, TN 37217

and

Ms. Melinda Hillman, Executive Director
Roane State Community College Foundation
276 Patton Lane
Harriman, Tennessee 37748

Ladies and Gentlemen:

We have audited the financial statements of Roane State Community College Foundation, a discretely presented component unit of Roane State Community College, as of and for the years ended June 30, 2009, and June 30, 2008, and have issued our report thereon dated February 24, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in generally accepted government auditing standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the foundation's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the foundation's ability to initiate, authorize, record, process or report financial data reliably in accordance with accounting principles generally accepted in the United States of America such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the foundation's internal control.

We consider the following deficiency to be a significant deficiency in internal control over financial reporting:

- The foundation did not ensure that the disclosures in the notes to the financial statements were complete

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

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe the significant deficiency described above is a material weakness.

We also noted certain matters involving the internal control over financial reporting, which we have reported to the foundation's management in a separate letter.

Compliance and Other Matters

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

Roane State Community College Foundation's response to the finding identified in our audit is included in the Finding and Recommendation section of this report. We did not audit the foundation's response, and accordingly, we express no opinion on it.

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

Sincerely,

A handwritten signature in black ink, appearing to read "Arthur A. Hayes, Jr.", written in a cursive style.

Arthur A. Hayes, Jr., CPA
Director

AAH/aj
10/010

FINDING AND RECOMMENDATION

The foundation did not ensure that the disclosures in the notes to the financial statements were complete

Finding

Our audit of the financial statements and accompanying notes to the financial statements of the Roane State Community College Foundation found that the endowment disclosures in the notes to the financial statements were not complete. The foundation is a discretely presented component unit of Roane State Community College. The responsibility for financial reporting for the foundation is split between the Foundation Coordinator and the Vice President, who serves as the executive director of the foundation, both of whom are employees of the college.

Roane State Community College reports under standards of the Governmental Accounting Standards Board (GASB), while Roane State Community College Foundation reports under standards of the Financial Accounting Standards Board (FASB). The scope of our audit includes only the foundation's FASB financial statements and notes. As a component unit of the college, the foundation also prepares GASB statements and notes that are included in the college's financial report.

More detailed information on the omission is presented below.

FASB Staff Position Number FAS 117-1, Paragraph 11, states:

At a minimum, an organization shall disclose the following information for each period for which the organization presents financial statements:

- a. A description of the governing board's interpretation of the law(s) that underlies the organization's net asset classification of donor-restricted endowment funds.
- b. A description of the organization's policy(ies) for the appropriation of endowment assets for expenditure (its endowment spending policy[ies]).
- c. A description of the organization's endowment investment policies. The description shall include the organization's return objectives and risk parameters; how those objectives relate to the organization's endowment spending policy(ies); and the strategies employed for achieving those objectives.
- d. The composition of the organization's endowment by net asset class at the end of the period, in total and by type of endowment fund, showing donor-restricted endowment funds separately from board-designated endowment funds.

- e. A reconciliation of the beginning and ending balance of the organization's endowment, in total and by net asset class, including, at a minimum, the following line items (as applicable): investment return, separated into investment income (for example, interest, dividends, rents) and net appreciation or depreciation of investments; contributions; amounts appropriated for expenditure; reclassifications; and other changes.

Based on discussion with the Foundation Coordinator, neither she nor the Vice President was aware of the disclosure changes described above. As a result, the foundation's financial report did not include any of the required disclosures described above, and the foundation's notes to the financial statements were materially misstated. The college did include all the required disclosures in its financial report for the fiscal year ended June 30, 2009, and the disclosures were revised in this report in accordance with FASB guidelines.

Each year the Tennessee Board of Regents (TBR) Central Office sends instructions for preparation of the financial statements to the state's colleges and universities. The instructions include templates for the notes to the financial statements. The template for the component unit note in the college's report included the new endowments disclosures required by FAS 117-1. If the Vice President and the Foundation Coordinator had reviewed and updated the foundation's financial report based on the guidance received from TBR, this omission could have been avoided.

In May 2007, Roane State Community College management completed the Accounting and Financial Reporting section of the college's risk assessment. The foundation is included in the risk assessment of the college. The college identified inaccurate or untimely financial reporting as a medium impact, medium probability of occurrence risk of financial management. Management's intention is to mitigate this risk by monitoring all aspects of financial operations. However, their monitoring failed to detect material misstatements of the notes of the foundation. Incomplete financial statement notes could ultimately lead to improper financial decisions for the foundation.

Recommendation

The Vice President and the Foundation Coordinator should ensure all required note disclosures are included in the foundation's financial report. The Vice President and the Foundation Coordinator should obtain a copy of the annual instructions and notes template for colleges and universities from the TBR Central Office, review the instructions and notes, and ensure the foundation's financial report includes the appropriate disclosures.

Management should continue to evaluate risks and include them in documented risk assessments. Management should ensure that staff who are responsible for the design and implementation of internal controls to adequately mitigate those risks and to prevent and detect exception timely are continually evaluating those controls. Management should ensure that staff

are monitoring and taking prompt action should exceptions occur. All controls and control activities, including monitoring, should be adequately documented.

Management's Comment

Roane State Foundation Management concurs with this finding. Although all required information was included in the component unit section of the Roane State Community College financial statements, the information was omitted from the Foundation notes. This was due to a misunderstanding of the new requirements. In the future, the template from TBR will be reviewed and evaluated for inclusion in the FASB statements. Management will continue to evaluate risks and include them in documented risk assessments. Staff will continually monitor controls and take prompt action should exceptions occur.



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Independent Auditor's Report

February 24, 2011

The Honorable Bill Haslam, Governor
and
Members of the General Assembly
State Capitol
Nashville, Tennessee 37243
and

The Honorable John G. Morgan, Chancellor
Tennessee Board of Regents
1415 Murfreesboro Road, Suite 350
Nashville, TN 37217
and

Ms. Melinda Hillman, Executive Director
Roane State Community College Foundation
276 Patton Lane
Harriman, Tennessee 37748

Ladies and Gentlemen:

We have audited the accompanying statements of financial position of the Roane State Community College Foundation, a discretely presented component unit of Roane State Community College as of June 30, 2009, and June 30, 2008, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the foundation's management. Our responsibility is to express an opinion on these financial statements, based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in generally

accepted government auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1, the financial statements of Roane State Community College Foundation are intended to present the financial position, the changes in financial position, and the cash flows of only Roane State Community College Foundation. They do not purport to, and do not, present fairly the financial position of Roane State Community College, as of June 30, 2009, and as of June 30, 2008, and the changes in its financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Roane State Community College Foundation as of June 30, 2009, and June 30, 2008, and the changes in financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with generally accepted government auditing standards, we have also issued our report dated February 24, 2011, on our consideration of the foundation's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with generally accepted government auditing standards and should be read in conjunction with this report in considering the results of our audit.

Sincerely,

A handwritten signature in black ink that reads "Arthur A. Hayes, Jr." The signature is written in a cursive style with a prominent initial "A".

Arthur A. Hayes, Jr., CPA
Director

AAH/aj
10/010

ROANE STATE COMMUNITY COLLEGE FOUNDATION
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2009, AND JUNE 30, 2008

	June 30, 2009				June 30, 2008			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Assets:								
Current Assets:								
Cash and cash equivalents (Note 2)	\$ 27,952.49	\$ 437,085.50	\$ -	\$ 465,037.99	\$ 290,776.26	\$ 93,274.06	\$ -	\$ 384,050.32
Promises to give (Note 3)	435.00	317,653.61	6,750.00	324,838.61	4,540.48	228,759.92	7,500.00	240,800.40
Other receivables (accrued interest)	-	34,144.00	-	34,144.00	-	-	-	-
Due from Permanently Restricted	-	-	-	-	-	75,221.84	-	75,221.84
Due from Unrestricted	-	31,194.77	-	31,194.77	-	-	-	-
Investments (Note 4)	-	504,711.22	2,000,000.00	2,504,711.22	268,467.80	-	-	268,467.80
Total Current Assets	28,387.49	1,324,789.10	2,006,750.00	3,359,926.59	563,784.54	397,255.82	7,500.00	968,540.36
Noncurrent assets:								
Cash and cash equivalents (Note 2)	-	-	21,110.00	21,110.00	-	-	-	-
Investments (Note 4)	-	1,616,920.27	3,044,029.31	4,660,949.58	-	1,920,662.94	3,378,731.64	5,299,394.58
Promises to Give (Note 3)	-	783,263.84	8,480.72	791,744.56	-	364,965.86	12,230.10	377,195.96
Land	147,000.00	6,500.00	-	153,500.00	147,000.00	6,500.00	-	153,500.00
Manly art collection	-	43,805.00	-	43,805.00	-	43,805.00	-	43,805.00
Receivable from split interest agreement (Note 5)	-	-	54,258.65	54,258.65	-	-	72,140.28	72,140.28
Assets held in charitable remainder trust (Note 5)	-	-	24,548.09	24,548.09	-	-	26,384.40	26,384.40
Total noncurrent assets	147,000.00	2,450,489.11	3,152,426.77	5,749,915.88	147,000.00	2,335,933.80	3,489,486.42	5,972,420.22
Total assets	\$ 175,387.49	\$ 3,775,278.21	\$ 5,159,176.77	\$ 9,109,842.47	\$ 710,784.54	\$ 2,733,189.62	\$ 3,496,986.42	\$ 6,940,960.58
Liabilities and net assets:								
Liabilities:								
Current liabilities:								
Accounts payable	\$ 37.96	\$ 14,235.76	\$ -	\$ 14,273.72	\$ 252.92	\$ 1,048.26	\$ -	\$ 1,301.18
Due to temporarily restricted	31,194.77	-	-	31,194.77	-	-	75,221.84	75,221.84
Liability - split interest agreement (Note 5)	-	-	1,284.70	1,284.70	-	-	1,294.24	1,294.24
Total current liabilities	31,232.73	14,235.76	1,284.70	46,753.19	252.92	1,048.26	76,516.08	77,817.26
Long-term Liabilities:								
Liability -split interest agreement (Note 5)	-	-	6,079.83	6,079.83	-	-	6,448.85	6,448.85
Total liabilities	31,232.73	14,235.76	7,364.53	52,833.02	252.92	1,048.26	82,964.93	84,266.11
Net assets:								
Unrestricted	144,154.76	-	-	144,154.76	710,531.62	-	-	710,531.62
Temporarily restricted (Note 6)	-	3,761,042.45	-	3,761,042.45	-	2,732,141.36	-	2,732,141.36
Permanently restricted (Note 6)	-	-	5,151,812.24	5,151,812.24	-	-	3,414,021.49	3,414,021.49
Total net assets	144,154.76	3,761,042.45	5,151,812.24	9,057,009.45	710,531.62	2,732,141.36	3,414,021.49	6,856,694.47
Total liabilities and net assets	\$ 175,387.49	\$ 3,775,278.21	\$ 5,159,176.77	\$ 9,109,842.47	\$ 710,784.54	\$ 2,733,189.62	\$ 3,496,986.42	\$ 6,940,960.58

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

ROANE STATE COMMUNITY COLLEGE FOUNDATION
STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED JUNE 30, 2009, AND JUNE 30, 2008

	June 30, 2009				June 30, 2008			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
	Revenues, support and other additions:							
Contributions	\$ 32,376.96	\$ 1,440,330.59	\$ 2,018,145.62	\$ 3,490,853.17	\$ 25,299.48	\$ 916,219.56	\$ 61,621.58	\$ 1,003,140.62
Donated materials and equipment	26,589.23	-	-	26,589.23	73,905.44	-	-	73,905.44
Net realized/unrealized gains (losses)	(67,891.47)	(792,121.02)	(1,236.81)	(861,249.30)	(58,158.18)	(195,131.14)	(322,223.75)	(575,513.07)
Interest and investment income	6,909.28	166,380.38	1,949.75	175,239.41	24,342.52	82,383.94	139,170.16	245,896.62
Change in value of split interest agreement	-	-	(17,503.07)	(17,503.07)	-	-	(9,355.45)	(9,355.45)
Net assets released from restrictions	552,285.09	(552,285.09)	-	-	954,003.42	(834,499.91)	(119,503.51)	-
Total revenues, support, and other additions	550,269.09	262,304.86	2,001,355.49	2,813,929.44	1,019,392.68	(31,027.55)	(250,290.97)	738,074.16
Expenses and losses:								
Program expenses								
Scholarships	418,839.23	-	-	418,839.23	257,186.98	-	-	257,186.98
Campus projects and activities	112,727.87	-	-	112,727.87	649,261.58	-	-	649,261.58
Faculty and staff development and awards	22,951.30	-	-	22,951.30	40,280.00	-	-	40,280.00
Administrative expenses	31,212.59	-	-	31,212.59	41,207.21	-	-	41,207.21
Donated materials and equipment	26,589.23	-	-	26,589.23	73,905.44	-	-	73,905.44
Distributions to trust beneficiaries	-	-	1,294.24	1,294.24	-	-	1,264.66	1,264.66
Total expenses	612,320.22	-	1,294.24	613,614.46	1,061,841.21	-	1,264.66	1,063,105.87
Transfers:								
Unrestricted	(504,325.73)	504,325.73	-	-	(31,766.98)	31,766.98	-	-
Temporarily restricted	-	262,270.50	(262,270.50)	-	-	1,245.00	(1,245.00)	-
Total transfers	(504,325.73)	766,596.23	(262,270.50)	-	(31,766.98)	33,011.98	(1,245.00)	-
Changes in net assets	(566,376.86)	1,028,901.09	1,737,790.75	2,200,314.98	(74,215.51)	1,984.43	(252,800.63)	(325,031.71)
Net assets at beginning of year	710,531.62	2,732,141.36	3,414,021.49	6,856,694.47	784,747.13	2,730,156.93	3,666,822.12	7,181,726.18
Net assets at end of year	\$ 144,154.76	\$ 3,761,042.45	\$ 5,151,812.24	\$ 9,057,009.45	\$ 710,531.62	\$ 2,732,141.36	\$ 3,414,021.49	\$ 6,856,694.47

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, 2009, AND JUNE 30, 2008

	Year Ended June 30, 2009	Year Ended June 30, 2008
Cash Flows from Operating Activities:		
Increase (Decrease) in net assets	\$ 2,200,314.98	\$ (325,031.71)
Adjustments to reconcile change in net assets to net cash provided by (used for) operating activities:		
Provision for uncollectible pledges	(471.51)	(1,973.81)
Discount on pledges receivable	(48,690.41)	(37,226.17)
Net unrealized (gains) losses on investments	552,082.57	785,367.57
Realized (gains) losses on sale of investments	309,166.73	(209,854.50)
Noncash contributions	-	357,000.00
(Increase) decrease in unrestricted unconditional promises to give	4,105.48	599.40
(Increase) Decrease in accounts receivable	(34,144.00)	-
(Increase) decrease in receivable from split interest agreement	17,881.63	9,463.85
Increase (decrease) in accounts payable	12,972.54	(5,424.80)
Increase (decrease) in liability for split interest agreement	(378.56)	(108.40)
Contributions restricted for long-term purposes:		
Unconditional promises to give	(453,530.37)	(490,339.33)
Net cash provided (used) by operating activities	<u>2,559,309.08</u>	<u>82,472.10</u>
Cash flows from investing activities:		
Purchases of investments	(4,857,915.67)	(2,523,669.41)
Proceeds from sale of investments	2,349,710.09	2,533,922.35
Other investing receipts	50,994.17	96,325.65
Net cash provided by (used for) investing activities	<u>(2,457,211.41)</u>	<u>106,578.59</u>
Net increase (decrease) in cash and cash equivalents	102,097.67	189,050.69
Cash and cash equivalents at beginning of year	<u>384,050.32</u>	<u>194,999.63</u>
Cash and cash equivalents at end of year	<u>\$ 486,147.99</u>	<u>\$ 384,050.32</u>

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

Roane State Community College Foundation
Notes to the Financial Statements
June 30, 2009, and June 30, 2008

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

Roane State Community College Foundation
Notes to the Financial Statements (Cont.)
June 30, 2009, and June 30, 2008

discounts on those amounts are computed using risk-free interest rates applicable to the years in which the promises are received. Amortization of the discounts is included in contribution revenue.

Investments

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

Allocation of Investment Income and Net Appreciation

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

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

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

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

Roane State Community College Foundation
Notes to the Financial Statements (Cont.)
June 30, 2009, and June 30, 2008

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 Statement of Financial Accounting Standards No. 116. 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

Roane State Community College Foundation
Notes to the Financial Statements (Cont.)
June 30, 2009, and June 30, 2008

institutions. These accounts consist of demand deposit accounts and money market funds. Of the bank balances on deposit at June 30, 2009, \$204,558.22 was insured by the FDIC and \$281,589.77 was uninsured. Of the bank balances on deposit at June 30, 2008, \$153,474.74 was insured by FDIC and \$230,575.58 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, 2009 and 2008, the foundation considered all recorded promises to give to be collectible. Unconditional promises to give are as follows:

June 30, 2009

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>
Receivable in Less than One Year	\$ 435.00	\$ 317,653.61	\$ 6,750.00
Receivable in One to Five Years	-	831,484.97	7,450.00
Receivable in More than Five Years	-	-	1,500.00
Total Unconditional Promises to Give	435.00	1,149,138.58	15,700.00
Less Discounts to Net Present Value (Unamortized)	-	(48,221.13)	(469.28)
Net Unconditional Promises to Give	<u>\$ 435.00</u>	<u>\$ 1,100,917.45</u>	<u>\$ 15,230.72</u>

June 30, 2008

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>
Receivable in Less than One Year	\$ 4,540.48	\$ 228,759.92	\$ 7,500.00
Receivable in One to Five Years	-	400,872.13	11,550.00
Receivable in More than Five Years	-	-	2,000.00
Total Unconditional Promises to Give	4,540.48	629,632.05	21,050.00
Less Discounts to Net Present Value (Unamortized)	-	(35,906.27)	(1,319.90)
Net Unconditional Promises to Give	<u>\$ 4,540.48</u>	<u>\$ 593,725.78</u>	<u>\$ 19,730.10</u>

Roane State Community College Foundation
Notes to the Financial Statements (Cont.)
June 30, 2009, and June 30, 2008

NOTE 4. INVESTMENTS

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

June 30, 2009

	<u>Cost</u>	<u>Market</u>
Unrestricted Net Assets	\$ -	\$ -
Temporarily Restricted Net Assets	1,774,060.10	1,616,920.27
Permanently Restricted Net Assets	<u>3,339,862.22</u>	<u>3,044,029.31</u>
Total	<u>\$5,113,922.32</u>	<u>\$4,660,949.58</u>

June 30, 2008

	<u>Cost</u>	<u>Market</u>
Unrestricted Net Assets	\$ 263,730.81	\$ 268,467.80
Temporarily Restricted Net Assets	1,886,773.75	1,920,662.94
Permanently Restricted Net Assets	<u>3,319,115.51</u>	<u>3,378,731.64</u>
Total	<u>\$5,469,620.07</u>	<u>\$5,567,862.38</u>

For classification purposes on the statement of financial position, the mutual fund investments in temporarily restricted net assets and permanently restricted net assets are recorded as noncurrent assets because management generally considers such investments to be long-term. Also, under permanently restricted net assets, a portion of the mutual fund investments is classified as assets held in charitable remainder trust, \$24,548.09 and \$26,384.40 at June 30, 2009 and 2008, respectively.

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

Roane State Community College Foundation
Notes to the Financial Statements (Cont.)
June 30, 2009, and June 30, 2008

	Cost	Market	Excess (Deficit) of Market Over Cost
Balance June 30, 2009	\$ 5,113,922.32	\$4,660,949.58	\$ (452,972.74)
Balance June 30, 2008	5,469,620.07	5,567,862.38	98,242.31
Increase (Decrease) in Unrealized Appreciation			\$ (551,214.05)

	Cost	Market	Excess (Deficit) of Market Over Cost
Balance June 30, 2008	\$ 5,469,620.07	\$5,567,862.38	\$ 98,242.31
Balance June 30, 2007	5,297,120.91	6,180,637.15	883,516.24
Increase (Decrease) in Unrealized Appreciation			\$(785,273.93)

For the year ended June 30, 2009, the average annual yield exclusive of net gains (losses) was 2.46%, and the annual total return based on market value was (16.40%). For the year ended June 30, 2008, the average annual yield exclusive of net gains (losses) was 4.36%, and the annual total return based on market value was (7.34%).

The foundation also had short-term investments as follows:

	June 30, 2009	June 30, 2008
Certificates of Deposit	\$ 2,504,711.22	\$ -
Total short-term investments	\$ 2,504,711.22	\$ -

Cost approximates fair value for these short-term investments. The average annual yield was 3.34% and 4.67% for the years ended June 30, 2009 and 2008, respectively.

Concentrations of credit risk exist with respect to investments due to the fact that the foundation's investments are uninsured and are subject to market fluctuations. However, most of the investments are invested with a long-term strategy, and overall gains are anticipated over the long-term.

Roane State Community College Foundation
Notes to the Financial Statements (Cont.)
June 30, 2009, and June 30, 2008

NOTE 5. SPLIT INTEREST AGREEMENT

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

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

NOTE 6. RESTRICTIONS ON NET ASSETS

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

	<u>June 30, 2009</u>	<u>June 30, 2008</u>
RSCC Building and Other Programs	\$ 2,325,399.49	\$ 2,250,155.30
Instructional Assistance	(18,058.99)	-
Scholarship Assistance	<u>1,453,701.95</u>	<u>481,986.06</u>
Total Temporarily Restricted Net Assets	<u>\$ 3,761,042.45</u>	<u>\$ 2,732,141.36</u>

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

Roane State Community College Foundation
Notes to the Financial Statements (Cont.)
June 30, 2009, and June 30, 2008

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 \$241,568.14 and \$267,630.16 for the years ended June 30, 2009 and 2008, 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 table categorizes the recurring fair value measurements for assets and liabilities at June 30, 2009:

	Total Fair Value at June 30, 2009	Quoted Prices: Level 1	Significant Other Inputs: Level 2	Significant Unobservable Inputs: Level 3
Assets:				
US Treasury	\$ 293,842.57	\$ 293,842.57	\$ -	-
US Agency	842,920.52	842,920.52	-	-
Corporate Stocks	2,935,662.05	2,935,662.05	-	-
Corporate Bonds	612,554.44	612,554.44	-	-
Money Market	518.09	518.09	-	-
Pledges Receivable	1,116,583.17	-	-	1,116,583.17
Receivable – Split Interest Agreement	54,258.65	-	-	54,258.65
Total Assets	\$ 5,856,339.49	\$ 4,685,497.67	\$ -	\$ 1,170,841.82
Liabilities:				
Payable - Split Interest Agreement	\$ 7,364.53	\$ -	-	7,364.53
Total Liabilities	\$ 7,364.53	\$ -	\$ -	\$ 7,364.53

Roane State Community College Foundation
Notes to the Financial Statements (Cont.)
June 30, 2009, and June 30, 2008

All gains and losses, both realized and unrealized, have been reported on the Statements of Activity. Of this total, (\$552,082.57) are attributable to the unrealized gains or losses relating to those assets and liabilities still held at June 30, 2009.

NOTE 9. ENDOWMENTS

Endowments – The Roane State Foundation’s endowment consists of approximately 80 individual funds established for a variety of purposes. Its endowment includes mainly donor-restricted endowment funds and one fund designated by the Board of Directors to function as an endowment. As required by GAAP, net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law

The Roane State Foundation Board of Directors’ interpretation of the Uniform Prudent Management of Institutional Funds Act (the Act) as adopted by Tennessee permits it to spend down the endowment to a level not to fall below 95 percent of the endowment’s Historic Dollar Value except as approved by the Investment Committee. As a result of this interpretation, the Roane State Foundation classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. Earnings (losses) associated with the endowments through dividend, interest, realized gains (losses) and unrealized gains (losses) are recorded in separate individual funds 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

Roane State Community College Foundation
Notes to the Financial Statements (Cont.)
June 30, 2009, and June 30, 2008

Composition of Endowment by Net Asset Class
As of June 30, 2009

	Permanently Restricted	Temporarily Restricted	Unrestricted	Total
Donor-Restricted Endowment Funds	\$ 5,151,812.24	\$ 228,847.09	\$ -	\$ 5,380,659.33
Board-Designated Endowment Funds	-	-	46,811.74	46,811.74
Total Funds	\$ 5,151,812.24	\$ 228,847.09	\$ 46,811.74	\$ 5,427,471.07

Changes in Endowment Net Asset Class
For Fiscal Year Ended June 30, 2009

	Permanently Restricted	Temporarily Restricted	Unrestricted	Total
Endowment Net Assets, Beginning of Year	\$ 3,146,546.68	\$ 267,474.81	\$ 52,823.73	\$ 3,466,845.22
Investment Return:				
Investment Income	1,949.75	111,168.95	1,175.31	114,294.01
Net Depreciation (Realized and Unrealized)	(1,236.81)	(476,392.11)	(7,187.30)	(484,816.22)
Total Investment Return	712.94	(365,223.16)	(6,011.99)	(370,522.21)
Contributions	2,018,145.62	445,805.34	-	2,463,950.96
Appropriations of Endowment Assets for Expenditure	-	(112,662.00)	-	(112,662.00)
Other Changes	5,204.31	(6,547.90)	-	(1,343.59)
Transfers				
Other:				
Change in Value Split				
Interest Agreement	(17,503.07)	-	-	(17,503.07)
Distributions to Trust Beneficiaries	(1,294.24)	-	-	(1,294.24)
Endowment Net Assets, End of Year	\$ 5,151,812.24	\$ 228,847.09	\$ 46,811.74	\$ 5,427,471.07

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

Roane State Community College Foundation
Notes to the Financial Statements (Cont.)
June 30, 2009, and June 30, 2008

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 8 percent annually. Actual returns in any given year may vary from this amount.

Strategies Employed for Achieving Objectives

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

Spending Policy and How the Investment Objectives Relate

The foundation has a policy of appropriating for distribution each year a percentage of the three (3) year rolling average of the total endowment balance. This percentage is reviewed and revised annually by the Investment Committee. In establishing this policy, the foundation considered the long-term expected return on its endowment. Accordingly, over the long-term, the foundation expects the current spending policy to allow its endowment to grow at an average of 5 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.