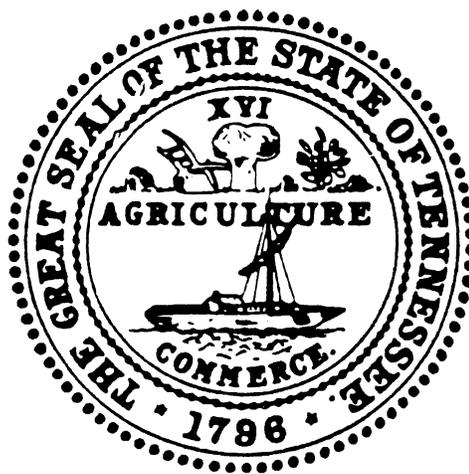


# AUDIT REPORT

Chattanooga State Technical Community College Foundation

For the Years Ended  
June 30, 2006, and June 30, 2005



STATE OF TENNESSEE  
COMPTROLLER OF THE TREASURY

Department of Audit  
Division of State Audit



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Director

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Financial/compliance audits of colleges and universities are available on-line at  
[www.comptroller.state.tn.us/sa/reports/index.html](http://www.comptroller.state.tn.us/sa/reports/index.html).  
For more information about the Comptroller of the Treasury, please visit our website at  
[www.comptroller.state.tn.us](http://www.comptroller.state.tn.us).



STATE OF TENNESSEE  
COMPTROLLER OF THE TREASURY

State Capitol  
Nashville, Tennessee 37243-0260  
(615) 741-2501

John G. Morgan  
Comptroller

September 12, 2007

The Honorable Phil Bredesen, Governor  
and

Members of the General Assembly  
State Capitol  
Nashville, Tennessee 37243

and

The Honorable Charles W. Manning, Chancellor  
Tennessee Board of Regents  
1415 Murfreesboro Road, Suite 350  
Nashville, Tennessee 37217

and

Mr. Archie Meyers Jr., President  
Chattanooga State Technical Community College Foundation  
4501 Amnicola Highway  
Chattanooga, Tennessee 37406-1097

Ladies and Gentlemen:

Transmitted herewith is the financial and compliance audit of the Chattanooga State Technical Community College Foundation, for the years ended June 30, 2006, and June 30, 2005. 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 resulted in no audit findings.

Sincerely,

A handwritten signature in black ink that reads "John G. Morgan".

John G. Morgan  
Comptroller of the Treasury

JGM/sds  
07/072

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  
**Chattanooga State Technical Community College Foundation**  
For the Years Ended June 30, 2006, and June 30, 2005

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## **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.

## **AUDIT FINDINGS**

The audit report contains no findings.

## **OPINION ON THE FINANCIAL STATEMENTS**

The opinion on the financial statements is unqualified.

**Audit Report**  
**Chattanooga State Technical Community College Foundation**  
**For the Years Ended June 30, 2006, and June 30, 2005**

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**TABLE OF CONTENTS**

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	<u>Exhibit</u>	<u>Page</u>
<b>INTRODUCTION</b>		1
Post-Audit Authority		1
Background		1
Organization		1
<b>AUDIT SCOPE</b>		2
<b>OBJECTIVES OF THE AUDIT</b>		2
<b>PRIOR AUDIT FINDINGS</b>		2
<b>OBSERVATIONS AND COMMENTS</b>		3
Management's Responsibility for Risk Assessment		3
Fraud Considerations		3
<b>RESULTS OF THE AUDIT</b>		4
Audit Conclusions		4
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i>		5
<b>FINANCIAL SECTION</b>		7
Independent Auditor's Report		7

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**TABLE OF CONTENTS (CONT.)**

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	<u>Exhibit</u>	<u>Page</u>
Financial Statements		9
Statements of Financial Position	A	9
Statement of Activities for the Year Ended June 30, 2006	B	10
Statement of Activities for the Year Ended June 30, 2005	C	11
Statements of Cash Flows	D	12
Notes to the Financial Statements		13

**Tennessee Board of Regents  
Chattanooga State Technical Community College Foundation  
For the Years Ended June 30, 2006, and June 30, 2005**

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**INTRODUCTION**

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**POST-AUDIT AUTHORITY**

This is a report on the financial and compliance audit of the Chattanooga State Technical 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 Chattanooga State Technical Community College Foundation is a nonprofit foundation incorporated on November 18, 1977. The foundation’s purpose is to aid Chattanooga State Technical Community College in carrying out its goals and purposes. The foundation is not authorized to issue capital stock. All corporate powers are executed by the board of directors.

**ORGANIZATION**

The Chattanooga State Technical Community College Foundation is governed by a board of directors. The directors are chosen from the Chattanooga State Technical Community College Board of Associates or are placed on the Board of Associates upon accepting the Foundation appointment to the board of directors. The exact number of directors is determined by the board; however, no fewer than three directors can serve at any time. The board’s normal transactions are executed by an executive committee.

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## **AUDIT SCOPE**

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The audit was limited to the period July 1, 2004, through June 30, 2006, 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 *Government Auditing Standards*, issued by the Comptroller General of the United States. Financial statements are presented for the years ended June 30, 2006, and June 30, 2005. The Chattanooga State Technical Community College Foundation is a discretely presented component unit of Chattanooga State Technical Community College.

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## **OBJECTIVES OF THE AUDIT**

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The objectives of the audit were

1. to consider the college'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, contracts, and grant agreements;
  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**

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There were no findings in the prior audit report.

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## **OBSERVATIONS AND COMMENTS**

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### **MANAGEMENT'S RESPONSIBILITY FOR RISK ASSESSMENT**

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

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

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

### **FRAUD CONSIDERATIONS**

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

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

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## RESULTS OF THE AUDIT

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### AUDIT CONCLUSIONS

#### Internal Control

As part of the audit of the foundation's financial statements for the years ended June 30, 2006, and June 30, 2005, we considered internal control over financial reporting to determine 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 *Government Auditing Standards*, issued by the Comptroller General of the United States. Consideration of internal control over financial reporting disclosed no material weaknesses.

#### Compliance

The results of our tests disclosed no instances of noncompliance that are required to be reported under *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  
**COMPTROLLER OF THE TREASURY**  
DEPARTMENT OF AUDIT  
DIVISION OF STATE AUDIT  
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NASHVILLE, TENNESSEE 37243-0264  
PHONE (615) 401-7897  
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**Report on Internal Control Over Financial Reporting and  
on Compliance and Other Matters Based on an Audit of  
Financial Statements Performed in Accordance With  
*Government Auditing Standards***

June 1, 2007

The Honorable John G. Morgan  
Comptroller of the Treasury  
State Capitol  
Nashville, Tennessee 37243

Dear Mr. Morgan:

We have audited the financial statements of Chattanooga State Technical Community College Foundation, a discretely presented component unit of Chattanooga State Technical Community College, as of and for the years ended June 30, 2006, and June 30, 2005, and have issued our report thereon dated June 1, 2007. 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, 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 the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce

The Honorable John G. Morgan  
June 1, 2007  
Page Two

to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

However, we 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, 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*.

This report is intended solely for the information and use of the General Assembly of the State of Tennessee, the board of directors, 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 that reads "Arthur A. Hayes, Jr." in a cursive script.

Arthur A. Hayes, Jr., CPA  
Director

AAH/sds



STATE OF TENNESSEE  
**COMPTROLLER OF THE TREASURY**  
DEPARTMENT OF AUDIT  
DIVISION OF STATE AUDIT

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**Independent Auditor's Report**

June 1, 2007

The Honorable John G. Morgan  
Comptroller of the Treasury  
State Capitol  
Nashville, Tennessee 37243

Dear Mr. Morgan:

We have audited the accompanying statements of financial position of Chattanooga State Technical Community College Foundation, a discretely presented component unit of Chattanooga State Technical Community College, as of June 30, 2006, and June 30, 2005, 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 *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit 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.

The Honorable John G. Morgan  
June 1, 2007  
Page Two

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Chattanooga State Technical Community College Foundation as of June 30, 2006, and June 30, 2005, and the changes in net assets and the cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As explained in Note 3, the financial statements include investments valued at \$894,450.00 at June 30, 2006, (17.3 percent of net assets) and \$842,630.00 at June 30, 2005, (17.7 percent of net assets) whose fair values have been estimated by management in the absence of readily determinable fair values. Management's estimates are based on information provided by the fund managers.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 1, 2007, 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 *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." with a stylized, cursive script.

Arthur A. Hayes, Jr., CPA  
Director

AAH/sds

**CHATTANOOGA STATE TECHNICAL COMMUNITY COLLEGE FOUNDATION**  
**STATEMENTS OF FINANCIAL POSITION**  
**JUNE 30, 2006, AND JUNE 30, 2005**

	June 30, 2006				June 30, 2005			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>Assets:</b>								
Cash and cash equivalents (Note 2)	\$ 99,614.17	\$ 78,684.43	\$ 12,283.83	\$ 190,582.43	\$ 30,827.42	\$ 34,199.91	\$ 8,605.18	\$ 73,632.51
Investments (Note 3)	1,168,322.97	1,898,004.09	1,047,785.90	4,114,112.96	1,342,297.79	1,793,589.58	940,318.77	4,076,206.14
Accounts receivable	-	-	-	-	-	608.45	-	608.45
Unconditional promises to give (Note 4)	-	287,357.15	-	287,357.15	-	-	-	-
Prepaid expenses	-	-	-	-	171.25	-	-	171.25
Land	-	725,603.03	-	725,603.03	-	725,603.03	-	725,603.03
<b>Total assets</b>	<b>\$ 1,267,937.14</b>	<b>\$ 2,989,648.70</b>	<b>\$ 1,060,069.73</b>	<b>\$ 5,317,655.57</b>	<b>\$ 1,373,296.46</b>	<b>\$ 2,554,000.97</b>	<b>\$ 948,923.95</b>	<b>\$ 4,876,221.38</b>
<b>Liabilities and net assets:</b>								
<b>Liabilities:</b>								
Accounts payable	\$ 52,633.35	\$ -	\$ -	\$ 52,633.35	\$ 36,296.34	\$ -	\$ -	\$ 36,296.34
Other liabilities (Note 6)	-	-	100,000.00	100,000.00	-	-	85,000.00	85,000.00
<b>Total liabilities</b>	<b>52,633.35</b>	<b>-</b>	<b>100,000.00</b>	<b>152,633.35</b>	<b>36,296.34</b>	<b>-</b>	<b>85,000.00</b>	<b>121,296.34</b>
<b>Net assets:</b>								
Unrestricted	1,215,303.79	-	-	1,215,303.79	1,337,000.12	-	-	1,337,000.12
Temporarily restricted (Note 5)	-	2,989,648.70	-	2,989,648.70	-	2,554,000.97	-	2,554,000.97
Permanently restricted (Note 5)	-	-	960,069.73	960,069.73	-	-	863,923.95	863,923.95
<b>Total net assets</b>	<b>1,215,303.79</b>	<b>2,989,648.70</b>	<b>960,069.73</b>	<b>5,165,022.22</b>	<b>1,337,000.12</b>	<b>2,554,000.97</b>	<b>863,923.95</b>	<b>4,754,925.04</b>
<b>Total liabilities and net assets</b>	<b>\$ 1,267,937.14</b>	<b>\$ 2,989,648.70</b>	<b>\$ 1,060,069.73</b>	<b>\$ 5,317,655.57</b>	<b>\$ 1,373,296.46</b>	<b>\$ 2,554,000.97</b>	<b>\$ 948,923.95</b>	<b>\$ 4,876,221.38</b>

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

**CHATTANOOGA STATE TECHNICAL COMMUNITY COLLEGE FOUNDATION**  
**STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED JUNE 30, 2006**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<b>Revenues and other additions:</b>				
Contributions	\$ 8,007.16	\$ 530,319.18	\$ 9,058.00	\$ 547,384.34
Investment income	30,742.73	63,948.26	488.77	95,179.76
Other income	2,490.00	-	-	2,490.00
Net realized/unrealized gains	34,119.85	144,342.15	1,062.26	179,524.26
Net assets released from restrictions	219,626.61	(219,626.61)	-	-
Other additions	-	2,201.50	-	2,201.50
<b>Total revenues and other additions</b>	<u>294,986.35</u>	<u>521,184.48</u>	<u>10,609.03</u>	<u>826,779.86</u>
<b>Expenses:</b>				
<b>Program expenses:</b>				
Scholarships	194,969.73	-	-	194,969.73
Faculty/staff development	15,001.83	-	-	15,001.83
Employee awards	3,000.00	-	-	3,000.00
Program development	140,957.27	-	-	140,957.27
Dues	5,596.25	-	-	5,596.25
Other program expenses	3,611.26	-	-	3,611.26
<b>General and administrative expenses:</b>				
Operating expenses	797.44	-	-	797.44
Fund raising	28,288.83	-	-	28,288.83
Insurance	594.00	-	-	594.00
Taxes	16,156.46	-	-	16,156.46
Professional services	5,000.00	-	-	5,000.00
Other	2,709.61	-	-	2,709.61
<b>Total expenses</b>	<u>416,682.68</u>	<u>-</u>	<u>-</u>	<u>416,682.68</u>
<b>Transfers:</b>				
Permanently restricted	-	(85,536.75)	85,536.75	-
<b>Total transfers</b>	<u>-</u>	<u>(85,536.75)</u>	<u>85,536.75</u>	<u>-</u>
Changes in net assets	(121,696.33)	435,647.73	96,145.78	410,097.18
Net assets at beginning of year	<u>1,337,000.12</u>	<u>2,554,000.97</u>	<u>863,923.95</u>	<u>4,754,925.04</u>
Net assets at end of year	<u>\$ 1,215,303.79</u>	<u>\$ 2,989,648.70</u>	<u>\$ 960,069.73</u>	<u>\$ 5,165,022.22</u>

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

**CHATTANOOGA STATE TECHNICAL COMMUNITY COLLEGE FOUNDATION**  
**STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED JUNE 30, 2005**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<b>Revenues and other additions:</b>				
Contributions	\$ 29,078.20	\$ 141,294.35	\$ 640.00	\$ 171,012.55
Investment income	27,922.65	58,197.83	326.06	86,446.54
Net realized/unrealized gains (losses)	45,598.90	65,920.99	(19.06)	111,500.83
Net assets released from restrictions	<u>261,792.47</u>	<u>(261,792.47)</u>	<u>-</u>	<u>-</u>
<b>Total revenues and other additions</b>	<u>364,392.22</u>	<u>3,620.70</u>	<u>947.00</u>	<u>368,959.92</u>
<b>Expenses:</b>				
<b>Program expenses:</b>				
Scholarships	196,741.99	-	-	196,741.99
Faculty/staff development	15,666.37	-	-	15,666.37
Employee awards	3,000.00	-	-	3,000.00
Program development	185,603.42	-	-	185,603.42
Dues	5,388.75	-	-	5,388.75
Other program expenses	7,004.14	-	-	7,004.14
<b>General and administrative expenses:</b>				
Operating expenses	731.61	-	-	731.61
Fund raising	95.99	-	-	95.99
Insurance	603.56	-	-	603.56
Taxes	15,567.25	-	-	15,567.25
Other	<u>15,570.66</u>	<u>-</u>	<u>-</u>	<u>15,570.66</u>
<b>Total expenses</b>	<u>445,973.74</u>	<u>-</u>	<u>-</u>	<u>445,973.74</u>
<b>Transfers:</b>				
Temporarily restricted	(236.73)	236.73	-	-
Unrestricted	1,286.73	(1,286.73)	-	-
<b>Total transfers</b>	<u>1,050.00</u>	<u>(1,050.00)</u>	<u>-</u>	<u>-</u>
Changes in net assets	(80,531.52)	2,570.70	947.00	(77,013.82)
Net assets at beginning of year	<u>1,417,531.64</u>	<u>2,551,430.27</u>	<u>862,976.95</u>	<u>4,831,938.86</u>
<b>Net assets at end of year</b>	<u>\$ 1,337,000.12</u>	<u>\$ 2,554,000.97</u>	<u>\$ 863,923.95</u>	<u>\$ 4,754,925.04</u>

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

**CHATTANOOGA STATE TECHNICAL COMMUNITY COLLEGE FOUNDATION**  
**STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED JUNE 30, 2006, AND JUNE 30, 2005**

	Year Ended <u>June 30, 2006</u>	Year Ended <u>June 30, 2005</u>
Cash flows from operating activities:		
Increase (decrease) in net assets	\$ 410,097.18	\$ (77,013.82)
Adjustments to reconcile change in net assets to net cash used by operating activities:		
Increase in unconditional promises to give	(287,357.15)	-
Decrease (increase) in accounts receivable	608.45	(608.45)
Decrease in prepaid expense	171.25	2,828.75
Increase (decrease) in accounts payable	16,337.01	(8,543.04)
Increase in other liabilities	15,000.00	20,000.00
Net realized/unrealized gains on investments	<u>(179,524.26)</u>	<u>(111,500.83)</u>
Net cash used by operating activities	<u>(24,667.52)</u>	<u>(174,837.39)</u>
Cash flows from investing activities:		
Purchases of investments	(81,272.96)	-
Proceeds from sale of investments	<u>222,890.40</u>	<u>149,322.69</u>
Net cash provided by investing activities	<u>141,617.44</u>	<u>149,322.69</u>
Net increase (decrease) in cash and cash equivalents	116,949.92	(25,514.70)
Cash and cash equivalents at beginning of year	<u>73,632.51</u>	<u>99,147.21</u>
Cash and cash equivalents at end of year	<u>\$ 190,582.43</u>	<u>\$ 73,632.51</u>

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

**Chattanooga State Technical Community College Foundation**  
**Notes to the Financial Statements**  
**June 30, 2006, and June 30, 2005**

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**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Nature of Activities**

The Chattanooga State Technical 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 Chattanooga State Technical Community College. The foundation receives support from individual, corporate, and other donors and uses its resources for scholarships, property and equipment, and other purposes to further the college's goals.

**Basis of Presentation**

The foundation's 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 (FASB). 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 and Cash Equivalents**

For purposes of the statement of cash flows, 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 are recognized as revenue in the period received and as assets, decreases of liabilities, or expenses 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

**Chattanooga State Technical Community College Foundation**  
**Notes to the Financial Statements (Cont.)**  
**June 30, 2006, and June 30, 2005**

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promises are received. Amortization of the discounts is included in contribution revenue.

**Investments**

The foundation reports its investments at fair value or at estimated fair value.

The foundation is a limited partner in a hedge fund partnership. As of December 31, 2005, this partnership had investments in 20 other hedge funds (limited partnerships or limited liability corporations). The estimated fair value of this investment is based on estimates reported by the various fund managers where a ready market for an investment does not exist. 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 estimated values are reviewed and evaluated by college accounting personnel and by the investment committee of the foundation's board of directors.

**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.

**NOTE 2. CASH AND CASH EQUIVALENTS**

At June 30, 2006, cash and cash equivalents consisted of \$139,784.70 in bank accounts and \$50,797.73 in money market mutual funds. At June 30, 2005, cash and cash equivalents consisted of \$51,044.00 in bank accounts and \$22,588.51 in money market mutual funds.

**Chattanooga State Technical Community College Foundation**  
**Notes to the Financial Statements (Cont.)**  
**June 30, 2006, and June 30, 2005**

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Financial instruments that potentially subject the foundation to concentrations of credit risk consist principally of cash and cash equivalent accounts in financial institutions.

Of the bank balance on deposit at June 30, 2006, \$100,000.00 was insured, and \$42,708.70 was uninsured.

Of the bank balance on deposit at June 30, 2005, all was insured.

**NOTE 3. INVESTMENTS**

The Chattanooga State Technical Community College Foundation is authorized to invest funds in accordance with its board of directors' policies. The foundation's investments are presented in the financial statements at fair value or estimated fair value and are summarized as follows:

	<u>June 30, 2006</u>	<u>June 30, 2005</u>
Investment as limited partner in hedge fund	\$ 894,450.00	\$ 842,630.00
Mutual funds	1,891,666.53	784,800.63
Corporate stock	765,448.13	1,698,257.61
U.S. treasury obligations	236,103.75	315,964.65
U.S. agency obligations	275,702.55	333,250.75
Corporate bonds	<u>50,742.00</u>	<u>101,302.50</u>
Total investments	<u>\$4,114,112.96</u>	<u>\$4,076,206.14</u>

Concentrations of credit risk exist with respect to the foundation's investments.

**Alternative Investment**

The foundation has an investment in a hedge fund partnership. The estimated fair value of this investment was \$894,450.00 at June 30, 2006, and \$842,630.00 at June 30, 2005.

The hedge fund partnership is a "fund of funds," a hedge fund which invests for the most part in other hedge funds. The foundation believes that the reported amounts for this alternative investment are a reasonable estimate of fair value at each year end. Because these investments are not readily marketable, the estimated value is subject

**Chattanooga State Technical Community College Foundation**  
**Notes to the Financial Statements (Cont.)**  
**June 30, 2006, and June 30, 2005**

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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 fair values are estimated by the general partner of each limited partnership or manager of each corporate entity using various valuation techniques.

**NOTE 4. PROMISES TO GIVE**

Unconditional promises to give are as follows:

<u>June 20, 2006</u>	<u>Temporarily Restricted</u>
Receivable in less than one year	\$200,026.67
Receivable in one to five years	<u>94,216.25</u>
Total unconditional promises	294,242.92
Less discount to net present value	<u>6,885.77</u>
Net unconditional promises to give	<u>\$287,357.15</u>

At June 30, 2006, the foundation considered all recorded promises to give to be collectible. The foundation did not have any promises to give at June 30, 2005.

**NOTE 5. RESTRICTIONS ON NET ASSETS**

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

	<u>June 30, 2006</u>	<u>June 30, 2005</u>
College building program	\$ 960,939.30	\$ 726,150.39
Scholarship assistance	700,483.42	709,503.97
Academic programs	1,253,754.23	1,083,504.97
Other	<u>74,471.75</u>	<u>34,841.64</u>
	<u>\$2,989,648.70</u>	<u>\$2,554,000.97</u>

**Chattanooga State Technical Community College Foundation**  
**Notes to the Financial Statements (Cont.)**  
**June 30, 2006, and June 30, 2005**

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

**NOTE 6. OTHER LIABILITIES**

Associates in Diagnostic Radiology deposited with the foundation the following amounts to generate income for the Diagnostic Imaging and Radiation Therapy Programs with the stipulation that should the program close within five years, the deposit will be returned. The five-year period will end as of September 30, 2006.

<u>Year</u> <u>Ended</u>	<u>Deposit</u> <u>Amount</u>
June 30, 2002	\$ 20,000.00
June 30, 2003	25,000.00
June 30, 2004	20,000.00
June 30, 2005	20,000.00
June 30, 2006	<u>15,000.00</u>
Total	<u>\$100,000.00</u>