AUDIT REPORT

Chattanooga State Technical Community College Foundation

For the Years Ended
June 30, 2010, and June 30, 2009

STATE OF TENNESSEE

COMPTROLLER OF THE TREASURY

Department of Audit

Division of State Audit

Tennessee Comptroller of the Treasury

Arthur A. Hayes, Jr., CPA, JD, CFE
Director

Edward Burr, CPA
Assistant Director

Robert D. Hunter, Jr., CPA
Audit Manager

Sheilah Pride, CFE
In-Charge Auditor

Amy Brown
Justin Daniel
Benjamin Elliott
Markheia Koger
Staff Auditors

Gerry Boaz, CPA
Technical Manager

Amy Brack
Editor

Comptroller of the Treasury, Division of State Audit
1500 James K. Polk Building, Nashville, TN 37243-1402
(615) 401-7897

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STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
DEPARTMENT OF AUDIT
DIVISION OF STATE AUDIT
SUITE 1500
JAMES K. POLK STATE OFFICE BUILDING
NASHVILLE, TENNESSEE 37243-1402
PHONE (615) 401-7897
FAX (615) 532-2765

September 2, 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 340
Nashville, Tennessee 37217
and
Mr. Archie Meyers, Jr., President
Chattanooga State Technical Community College Foundation
4501 Amnicola Highway
Chattanooga, Tennessee 37406

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, 2010, and June 30, 2009. 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,

Arthur A. Hayes, Jr., CPA
Director

AAH/sds
11/042

State of Tennessee

Audit Highlights

Comptroller of the Treasury — Division of State Audit

Financial and Compliance Audit
Chattanooga State Technical Community College Foundation
For the Years Ended June 30, 2010, and June 30, 2009

AUDIT OBJECTIVES

The objectives of the audit were to consider the college'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, 2010, and June 30, 2009

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Chattanooga State Technical Community College Foundation
For the Years Ended June 30, 2010, and June 30, 2009

INTRODUCTION

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 49-7-107, *Tennessee Code Annotated*, which states "all annual reports and all books of accounts and financial records of a foundation created for the benefit of a state college or university shall be subject to audit by the comptroller of the treasury."

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 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 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.

AUDIT SCOPE

The audit was limited to the period July 1, 2008, through June 30, 2010, 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, 2010, and June 30, 2009. The Chattanooga State Technical Community College Foundation is a discretely presented component unit of Chattanooga 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 institution. 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, 2010, and June 30, 2009, 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. Consideration of internal control over financial reporting disclosed no material weaknesses.

Compliance

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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DIVISION OF STATE AUDIT
SUITE 1500
JAMES K. POLK STATE OFFICE BUILDING
NASHVILLE, TENNESSEE 37243-1402
PHONE (615) 401-7897
FAX (615) 532-2765

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*

August 15, 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 340
Nashville, Tennessee 37217
and
Mr. Archie Meyers, Jr., President
Chattanooga State Technical Community College Foundation
4501 Amnicola Highway
Chattanooga, Tennessee 37406

Ladies and Gentlemen:

We have audited the financial statements of the Chattanooga State Technical Community College Foundation, a discretely presented component unit of Chattanooga State Community College, as of and for the years ended June 30, 2010, and June 30, 2009, and have issued our report thereon dated August 15, 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 as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the foundation's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the foundation's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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

This report is intended solely for the information and use of the General Assembly of the State of Tennessee, the foundation's 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,

Arthur A. Hayes, Jr.

Arthur A. Hayes, Jr., CPA
Director

AAH/sds

STATE OF TENNESSEE
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DIVISION OF STATE AUDIT
SUITE 1500
JAMES K. POLK STATE OFFICE BUILDING
NASHVILLE, TENNESSEE 37243-1402
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Independent Auditor's Report

August 15, 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 340
Nashville, Tennessee 37217
and
Mr. Archie Meyers, Jr., President
Chattanooga State Technical Community College Foundation
4501 Amnicola Highway
Chattanooga, Tennessee 37406

Ladies and Gentlemen:

We have audited the accompanying statements of financial position of the Chattanooga State Technical Community College Foundation, a discretely presented component unit of Chattanooga State Community College, as of June 30, 2010, and June 30, 2009, 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.

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, 2010, and June 30, 2009, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 3, the financial statements include investments valued at $947,847.00 at June 30, 2010, (15 percent of net assets) and $922,383.00 at June 30, 2009, (16.6 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 generally accepted government auditing standards, we have also issued our report dated August 15, 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, and contracts and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 considered in assessing the results of our audit.

Sincerely,

Arthur A. Hayes, Jr.

Arthur A. Hayes, Jr., CPA
Director

AAH/sds

Exhibit A

CHATTANOOGA STATE TECHNICAL COMMUNITY COLLEGE FOUNDATION
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2010, AND JUNE 30, 2009

	June 30, 2010				June 30, 2009			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Assets:								
Cash and cash equivalents (Note 2)	$ 358,851.85	$ 138,474.11	$ 19,365.18	$ 516,691.14	$ 106,597.74	$ 116,322.97	$ 114,207.40	$ 337,128.11
Investments (Note 3)	286,249.63	1,859,341.86	1,706,263.48	3,851,854.97	650,363.27	1,765,774.63	1,417,273.48	3,833,411.38
Accounts receivable	1,931.81	-	-	1,931.81	1,337.01	-	-	1,337.01
Unconditional promises to give (Note 5)	306.00	932,416.10	307,807.66	1,240,529.76	791.92	537,378.96	214,505.25	752,676.13
Cash surrender value of life insurance	1,425.68	-	-	1,425.68	1,304.99	-	-	1,304.99
Land	-	725,603.03	-	725,603.03	-	725,603.03	-	725,603.03
Total assets	$ 648,764.97	$ 3,655,835.10	$ 2,033,436.32	$ 6,338,036.39	$ 760,394.93	$ 3,145,079.59	$ 1,745,986.13	$ 5,651,460.65
Liabilities and net assets:								
Liabilities:								
Accounts payable	$ 17,562.05	$ 1,685.14	$ -	$ 19,247.19	$ 78,325.95	$ 1,337.01	$ -	$ 79,662.96
Total liabilities	17,562.05	1,685.14	-	19,247.19	78,325.95	1,337.01	-	79,662.96
Net assets:								
Unrestricted	631,202.92	-	-	631,202.92	682,068.98	-	-	682,068.98
Temporarily restricted (Note 6)	-	3,654,149.96	-	3,654,149.96	-	3,143,742.58	-	3,143,742.58
Permanently restricted (Note 6)	-	-	2,033,436.32	2,033,436.32	-	-	1,745,986.13	1,745,986.13
Total net assets	631,202.92	3,654,149.96	2,033,436.32	6,318,789.20	682,068.98	3,143,742.58	1,745,986.13	5,571,797.69
Total liabilities and net assets	$ 648,764.97	$ 3,655,835.10	$ 2,033,436.32	$ 6,338,036.39	$ 760,394.93	$ 3,145,079.59	$ 1,745,986.13	$ 5,651,460.65

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

Exhibit B

CHATTANOOGA STATE TECHNICAL COMMUNITY COLLEGE FOUNDATION
STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED JUNE 30, 2010, AND JUNE 30, 2009

	June 30, 2010				June 30, 2009			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues and other additions:								
Contributions	$ 12,009.78	$ 804,476.71	$ 282,450.19	$ 1,098,936.68	$ 4,192.92	$ 134,730.44	$ 210,405.63	$ 349,328.99
Investment income	21,142.52	63,309.82	-	84,452.34	15,502.54	84,484.26	-	99,986.80
Other income	2,640.00	-	-	2,640.00	2,719.99	-	-	2,719.99
Special event revenue	2,053.31	-	-	2,053.31	-	-	-	-
Net realized/unrealized gains (losses)	49,266.19	214,178.70	-	263,444.89	(160,737.21)	(737,243.75)	-	(897,980.96)
Net assets released from restrictions	567,192.98	(567,192.98)	-	-	261,758.53	(261,758.53)	-	-
Other additions	7,060.69	-	-	7,060.69	-	-	-	-
Total revenues and other additions	661,365.47	514,772.25	282,450.19	1,458,587.91	123,436.77	(779,787.58)	210,405.63	(445,945.18)
Expenses:								
Program expenses:								
Scholarships	208,520.05	-	-	208,520.05	176,932.53	-	-	176,932.53
Faculty/staff development	15,681.05	-	-	15,681.05	16,369.66	-	-	16,369.66
Employee awards	3,000.00	-	-	3,000.00	3,000.00	-	-	3,000.00
Program development	441,959.58	-	-	441,959.58	169,353.95	-	-	169,353.95
Dues	1,980.00	-	-	1,980.00	2,510.00	-	-	2,510.00
Other program expenses	1,881.47	-	-	1,881.47	4,542.09	-	-	4,542.09
Cost of direct benefits to donors	1,963.71	-	-	1,963.71	-	-	-	-
General and administrative expenses:								
Operating expenses	657.77	-	-	657.77	839.69	-	-	839.69
Fundraising	8,513.75	-	-	8,513.75	10,022.24	-	-	10,022.24
Insurance	240.00	-	-	240.00	505.50	-	-	505.50
Taxes	15,003.85	-	-	15,003.85	26,757.46	-	-	26,757.46
Professional services	5,800.00	-	-	5,800.00	1,900.00	-	-	1,900.00
Other	6,395.17	-	-	6,395.17	1,402.15	-	-	1,402.15
Total expenses	711,596.40	-	-	711,596.40	414,135.27	-	-	414,135.27
Transfers:								
Permanently restricted	(635.13)	(4,364.87)	5,000.00	-	(1,332.00)	(2,754.98)	4,086.98	-
Total transfers	(635.13)	(4,364.87)	5,000.00	-	(1,332.00)	(2,754.98)	4,086.98	-
Changes in net assets	(50,866.06)	510,407.38	287,450.19	746,991.51	(292,030.50)	(782,542.56)	214,492.61	(860,080.45)
Net assets at beginning of year	682,068.98	3,143,742.58	1,745,986.13	5,571,797.69	974,099.48	3,926,285.14	1,531,493.52	6,431,878.14
Net assets at end of year	$ 631,202.92	$ 3,654,149.96	$ 2,033,436.32	$ 6,318,789.20	$ 682,068.98	$ 3,143,742.58	$ 1,745,986.13	$ 5,571,797.69

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

Exhibit C

CHATTANOOGA STATE TECHNICAL COMMUNITY COLLEGE FOUNDATION
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2010, AND JUNE 30, 2009

	Year Ended June 30, 2010	Year Ended June 30, 2009
Cash flows from operating activities:		
Increase (decrease) in net assets	$ 746,991.51	$ (860,080.45)
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Decrease (increase) in accounts receivable	(246.67)	1,018.50
Decrease (increase) in unconditional promises to give	(487,853.63)	182,984.98
Decrease (increase) in cash surrender value of life insurance	(120.69)	2,675.13
Decrease in accounts payable	(60,763.90)	(104,453.66)
Net realized/unrealized gains (losses) on investments	(263,444.89)	897,980.96
Net cash provided (used) by operating activities	(65,438.27)	120,125.46
Cash flows from investing activities:		
Proceeds from sale of investments	245,001.30	(100,152.69)
Net cash provided (used) by investing activities	245,001.30	(100,152.69)
Net increase in cash and cash equivalents	179,563.03	19,972.77
Cash and cash equivalents at beginning of year	337,128.11	317,155.34
Cash and cash equivalents at end of year	$ 516,691.14	$ 337,128.11

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

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 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. 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 Chattanooga State Community College.

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 discount rate is changed at each year-end. 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, 2009, this partnership had investments in 11 hedge funds (structured as either limited partnerships or limited liability companies). The estimated fair value of this investment is based on estimates reported by the various fund managers where a ready market for the 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 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, 2010, cash and cash equivalents consisted of $161,700.67 in bank accounts and $354,990.47 in money market mutual funds and cash held temporarily by the investment managers. At June 30, 2009, cash and cash equivalents consisted of $254,701.49 in bank accounts and $82,426.62 in money market mutual funds.

Financial instruments that potentially subject the foundation to concentrations of credit risk consist principally of cash accounts in financial institutions. Of the bank balance at June 30, 2010, all was insured. Of the bank balance at June 30, 2009, $4,701.49 was uninsured.

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:

Investment Type	June 30, 2010	June 30, 2009
U.S. treasury obligations	$ 21,439.85	$ -
U.S. agency obligations	321,405.10	401,367.75
Corporate stock	866,496.66	615,572.51
Corporate bonds	204,788.50	25,942.80
Mutual bond funds	433,947.70	644,219.03
Mutual equity funds	1,055,930.16	1,223,926.29
Investment as limited partner in hedge fund	947,847.00	922,383.00
	$3,851,854.97	$3,833,411.38

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

Alternative Investments

The foundation has an investment in a hedge fund partnership. The estimated fair value of this investment is $947,847.00 at June 30, 2010, and $922,383.00 at June 30, 2009.

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 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. FAIR VALUE MEASUREMENTS

Certain assets are measured at fair value on a recurring basis. Fair value has been determined using quoted prices in active markets for identical assets 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 (Level 2), or significant unobservable inputs (Level 3). The following table categorizes the recurring fair value measurements for assets at June 30, 2010, and at June 30, 2009:

	Total Fair Value at June 30, 2010	Quoted Prices Level 1	Significant Other Inputs Level 2	Significant Unobservable Inputs Level 3
Assets:				
Cash equivalents	$ 361,226.88	$ 361,226.88	$ -	$ -
Investments	3,851,854.97	2,904,007.97	-	947,847.00
Unconditional promises to give	1,240,529.76	-	-	1,240,529.76
Total assets	$5,453,611.61	$3,265,234.85	$ -	$2,188,376.76

	Total Fair Value at June 30, 2009	Quoted Prices Level 1	Significant Other Inputs Level 2	Significant Unobservable Inputs Level 3
Assets:				
Cash equivalents	$ 82,426.62	$ 82,426.62	$ -	$ -
Investments	3,833,411.38	2,911,028.38	-	922,383.00
Unconditional promises to give	752,676.13	-	-	752,676.13
Total assets	$4,668,514.13	$2,993,455.00	$ -	$1,675,059.13

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

June 30, 2010	Beginning Balance	Total Gains/(Losses), Realized and Unrealized	Purchases, Issuances, and Settlements	Other	Transfers In/(Out) of Level 3	Ending Balance
Assets:						
Investments	$ 922,383.00	$25,464.00	$ -	$ -	$ -	$ 947,847.00
Unconditional Promises to Give	752,676.13	-	-	487,853.63	-	1,240,529.76
Total assets	$1,675,059.13	$25,464.00	$ -	$487,853.63	$ -	$2,188,376.76

June 30, 2009	Beginning Balance	Total Gains/(Losses), Realized and Unrealized	Purchases, Issuances, and Settlements	Other	Transfers In/(Out) of Level 3	Ending Balance
Assets:						
Investments	$1,118,818.00	($196,435.00)	$ -	$ -	$ -	$ 922,383.00
Unconditional Promises to Give	935,661.11	-	-	(182,984.98)	-	752,676.13
Total assets	$2,054,479.11	($196,435.00)	$ -	($182,984.98)	$ -	$1,675,059.13

All gains and losses, both realized and unrealized, have been reported on the statement of activities as investment income and net realized/unrealized gains or losses. Of this total, $46,687.00 is attributable to the change in unrealized gains or losses relating to those assets still held at June 30, 2010, and ($185,342.00) is attributable to the change in unrealized gains or losses relating to those assets still held at June 30, 2009.

NOTE 5. PROMISES TO GIVE

Unconditional promises to give are as follows:

June 30, 2010	Unrestricted	Temporarily Restricted	Permanently Restricted
Receivable in less than one year	$306.00	$246,792.87	$139,997.91
Receivable in one to five years	-	729,659.66	177,272.50
Receivable after five years	-	-	60.00
Total unconditional promises	306.00	976,452.53	317,330.41
Less discount to net present value	-	44,036.43	9,522.75
Net unconditional promises to give	$306.00	$932,416.10	$307,807.66

June 30, 2009	Unrestricted	Temporarily Restricted	Permanently Restricted
Receivable in less than one year	$590.00	$230,869.83	$104,497.62
Receivable in one to five years	210.00	332,878.86	115,157.41
Receivable after five years	-	-	180.00
Total unconditional promises	800.00	563,748.69	219,835.03
Less discount to net present value	8.08	26,369.73	5,329.78
Net unconditional promises to give	$791.92	$537,378.96	$214,505.25

At June 30, 2010, and June 30, 2009, the foundation considered all recorded promises to give to be collectible.

NOTE 6. 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.

	June 30, 2010	June 30, 2009
Scholarship assistance	$ 771,521.64	$ 665,112.81
Academic programs	1,644,626.07	975,218.01
College building program	1,153,521.79	1,444,200.74
Other	84,480.46	59,211.02
Total	$3,654,149.96	$3,143,742.58

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 7. ENDOWMENTS

The foundation's endowment consists of approximately 60 individual funds established for a variety of purposes. Its endowment consists of donor-restricted endowment funds. As required by GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law

The foundation board has interpreted the Uniform Prudent Management of Institutional Funds Act (the Act) as adopted by Tennessee as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the foundation classifies as permanently restricted net assets (1) the original value of gifts donated to the permanent endowment, (2) the original value of subsequent gifts to the permanent endowment, and (3) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the organization in a manner consistent with the standard of prudence prescribed by the Act unless specified otherwise by the applicable donor gift instrument. In accordance with the Act, the foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the fund; (2) the purposes of the foundation and the endowment fund; (3) general economic conditions; (4) the possible effect of inflation or deflation; (5) the expected total return from income and the appreciation of investments; (6) other resources of the foundation; and (7) the investment policies of the foundation.

Composition of Endowment by Net Asset Class
As of June 30, 2010

	Permanently Restricted	Temporarily Restricted	Total
Donor-restricted endowment funds	$2,033,436.32	$210,323.65	$2,243,759.97

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

	Permanently Restricted	Temporarily Restricted	Total
Donor-restricted endowment funds	$1,745,986.13	$247,556.30	$1,993,542.43

Chattanooga State Technical Community College Foundation
Notes to the Financial Statements (Cont.)
June 30, 2010, and June 30, 2009

Changes in Endowment Net Assets
For the Fiscal Year Ended June 30, 2010

	Permanently Restricted	Temporarily Restricted	Total
Endowment net assets, beginning of year	$1,745,986.13	$247,556.30	$1,993,542.43
Investment return:			
Investment income	-	63,309.82	63,309.82
Net realized/unrealized gain (loss)	-	214,182.75	214,182.75
Total investment return	-	277,492.57	277,492.57
Contributions	282,450.19	-	282,450.19
Appropriation of endowment assets for expenditure	-	(37,770.07)	(37,770.07)
Transfers	5,000.00	(4,651.87)	348.13
Effect of change in allocation methodology for investment income (Note 8)	-	(272,303.28)	(272,303.28)
Endowment net assets, end of year	$2,033,436.32	$210,323.65	$2,243,759.97

Changes in Endowment Net Assets
For the Fiscal Year Ended June 30, 2009

	Permanently Restricted	Temporarily Restricted	Total
Endowment net assets, beginning of year	$1,531,493.52	$586,954.37	$2,118,447.89
Investment return:			
Investment income	-	42,206.06	42,206.06
Net realized/unrealized gain (loss)	-	(338,926.11)	(338,926.11)

Total investment return	-	(296,720.05)	(296,720.05)
Contributions	210,405.63	-	210,405.63
Appropriation of endowment assets for expenditure	-	(40,260.50)	(40,260.50)
Transfers	4,086.98	(2,417.52)	1,669.46
Endowment net assets, end of year	$1,745,986.13	$247,556.30	$1,993,542.43

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. Under this policy, as approved by the foundation board, the endowment assets are invested in a manner that is intended to maximize long-term returns. The foundation expects its endowment funds, over time, to provide an average rate of return of approximately 7.8% 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 balanced appreciation strategy which strives to maximize long-term returns through a focus on capital appreciation. As such, current income is of secondary importance. The foundation targets an asset allocation that places 1% to 6% in cash equivalents, 20% to 40% in fixed income securities, 60% to 80% in equities, and 0% to 30% in alternative investments.

Spending Policy and How the Investment Objectives Relate

The foundation has a policy of appropriating for distribution each year (unless stated otherwise in the applicable donor gift instrument) the lesser of (a) 4.5 percent of the endowment fund's average fair value, calculated on fair values determined at least quarterly and averaged over a period of not less than three years through the calendar year-end preceding the fiscal year in which the distribution is planned or (b) the balance of the expendable portion of the endowment fund as projected for June 30 of the year preceding the fiscal year in which the distribution is planned. 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 the annual inflation rate. This is consistent with the foundation's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.

NOTE 8. CHANGE IN ALLOCATION METHODOLOGY FOR INVESTMENT INCOME

The foundation changed its investment income allocation methodology as of July 1, 2009. Effective July 1, 2009, based on a decision made by the foundation's board, investment income and net realized gains/losses are allocated quarterly only to the expendable portion of the endowments and the unrestricted fund. The allocation is based on each fund's balance (endowment expendable, endowment nonexpendable, and unrestricted) at the end of the quarter in relation to the total balance of those funds. Prior to this year, the allocations were made also to temporarily restricted (non-endowment) funds. On June 30, 2010, cumulative unrealized losses were allocated using the same methodology.