

Chattanooga State Technical Community College Foundation

**For the Years Ended
June 30, 1998, and June 30, 1997**

Arthur A. Hayes, Jr., CPA

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June 18, 1999

The Honorable Don Sundquist, Governor
and

Members of the General Assembly
State Capitol
Nashville, Tennessee 37243

and

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

and

Mr. John Germ, 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, 1998, and June 30, 1997. 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,

John G. Morgan
Comptroller of the Treasury

JGM/sdr/km
99/033

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, 1998, and June 30, 1997

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 grants; 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 Highlights" is a summary of the audit report. To obtain the complete audit report which contains all findings, recommendations, and management comments, please contact

Comptroller of the Treasury, Division of State Audit
1500 James K. Polk Building, Nashville, TN 37243-0264
(615) 741-3697

Audit Report
Chattanooga State Technical Community College Foundation
For the Years Ended June 30, 1998, and June 30, 1997

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Audit Report
Chattanooga State Technical Community College Foundation
For the Years Ended June 30, 1998, and June 30, 1997

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Chattanooga State Technical Community College Foundation For the Years Ended June 30, 1998, and June 30, 1997

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 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 state 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. 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, 1996, through June 30, 1998, and was conducted in accordance with generally accepted government auditing standards. Financial statements are presented for the years ended June 30, 1998, and June 30, 1997.

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, contracts, and grants;
 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.

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, 1998, and June 30, 1997, 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 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 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.

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

March 4, 1999

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 as of and for the years ended June 30, 1998, and June 30, 1997, and have issued our report thereon dated March 4, 1999. We conducted our audit in accordance with generally accepted government auditing standards.

Compliance

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 grants, 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 that are required to be reported under *Government Auditing Standards*.

The Honorable John G. Morgan
March 4, 1999
Page Two

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 assurance 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 condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements 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 that we have reported to the foundation's management in a separate letter.

This report is intended solely for the information and use of the General Assembly of the State of Tennessee 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, and its distribution is not limited.

Sincerely,

Arthur A. Hayes, Jr., CPA, Director
Division of State Audit

AAH/sdr/km

Independent Auditor's Report

March 4, 1999

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 as of June 30, 1998, and June 30, 1997, 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 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, 1998, and June 30, 1997, and the changes in net assets and the cash flows for the years then ended in conformity with generally accepted accounting principles.

The Honorable John G. Morgan
March 4, 1999
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As discussed in Note 5 to the financial statements, the foundation implemented FASB Statement 116, "Accounting for Contributions Received and Contributions Made," FASB Statement 117, "Financial Statements of Not-for-Profit Organizations," and FASB Statement 124, "Accounting for Certain Investments Held by Not-for-Profit Organizations," in accordance with generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 4, 1999, 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 grants.

Sincerely,

Arthur A. Hayes, Jr., CPA, Director
Division of State Audit

AAH/sdr/km

CHATTANOOGA STATE TECHNICAL COMMUNITY COLLEGE FOUNDATION
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 1998, AND JUNE 30, 1997

	June 30, 1998				June 30, 1997			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Assets:								
Cash and cash equivalents (Note 2)	\$ 192,221.71	\$ 311,982.38	\$ 182,357.54	\$ 686,561.63	\$ 260,474.07	\$ 428,672.47	\$ 58,701.22	\$ 747,847.76
Accounts receivable	44.04	586.00	-	630.04	-	-	-	-
Interest receivable	3,494.17	-	-	3,494.17	3,650.70	-	-	3,650.70
Other assets	-	5,397.64	-	5,397.64	-	4,930.89	-	4,930.89
Investments (Note 3)	<u>2,164,084.74</u>	<u>1,014,554.60</u>	<u>209,454.97</u>	<u>3,388,094.31</u>	<u>1,747,682.85</u>	<u>876,556.87</u>	<u>204,733.26</u>	<u>2,828,972.98</u>
Total assets	<u>\$ 2,359,844.66</u>	<u>\$ 1,332,520.62</u>	<u>\$ 391,812.51</u>	<u>\$ 4,084,177.79</u>	<u>\$ 2,011,807.62</u>	<u>\$ 1,310,160.23</u>	<u>\$ 263,434.48</u>	<u>\$ 3,585,402.33</u>
Liabilities and net assets:								
Liabilities:								
Accounts payable	\$ 132,855.12	\$ -	\$ -	\$ 132,855.12	\$ 38,437.89	\$ -	\$ -	\$ 38,437.89
Total liabilities	<u>132,855.12</u>	<u>-</u>	<u>-</u>	<u>132,855.12</u>	<u>38,437.89</u>	<u>-</u>	<u>-</u>	<u>38,437.89</u>
Net assets:								
Unrestricted	2,226,989.54	-	-	2,226,989.54	1,973,369.73	-	-	1,973,369.73
Temporarily restricted (Note 4)	-	1,332,520.62	-	1,332,520.62	-	1,310,160.23	-	1,310,160.23
Permanently restricted (Note 4)	-	-	391,812.51	391,812.51	-	-	263,434.48	263,434.48
Total net assets	<u>2,226,989.54</u>	<u>1,332,520.62</u>	<u>391,812.51</u>	<u>3,951,322.67</u>	<u>1,973,369.73</u>	<u>1,310,160.23</u>	<u>263,434.48</u>	<u>3,546,964.44</u>
Total liabilities and net assets	<u>\$ 2,359,844.66</u>	<u>\$ 1,332,520.62</u>	<u>\$ 391,812.51</u>	<u>\$ 4,084,177.79</u>	<u>\$ 2,011,807.62</u>	<u>\$ 1,310,160.23</u>	<u>\$ 263,434.48</u>	<u>\$ 3,585,402.33</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, 1998

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Revenues and other additions:				
Contributions	\$ 36,378.38	\$ 24,319.17	\$ 122,231.29	\$ 182,928.84
Investment income	69,309.12	48,887.54	982.38	119,179.04
Net realized/unrealized gains	344,519.11	142,555.08	164.36	487,238.55
Other	-	466.75	-	466.75
Net assets released from restrictions	<u>196,202.74</u>	<u>(196,202.74)</u>	<u>-</u>	<u>-</u>
Total revenues and other additions	<u>646,409.35</u>	<u>20,025.80</u>	<u>123,378.03</u>	<u>789,813.18</u>
Expenses:				
Program expenses:				
Scholarships	149,260.28	-	-	149,260.28
Academic program development	159,325.27	-	-	159,325.27
Faculty/staff development	18,997.86	-	-	18,997.86
Employee awards	2,000.00	-	-	2,000.00
General and administrative expenses:				
Operating expenses	13,495.18	-	-	13,495.18
Consulting	13,116.16	-	-	13,116.16
Club dues	5,556.00	-	-	5,556.00
Insurance	1,599.49	-	-	1,599.49
Fund raising	20,082.86	-	-	20,082.86
Other	<u>2,021.85</u>	<u>-</u>	<u>-</u>	<u>2,021.85</u>
Total expenses	<u>385,454.95</u>	<u>-</u>	<u>-</u>	<u>385,454.95</u>
Transfers:				
Temporarily restricted	(2,334.59)	2,334.59	-	-
Permanently restricted	<u>(5,000.00)</u>	<u>-</u>	<u>5,000.00</u>	<u>-</u>
Total transfers	<u>(7,334.59)</u>	<u>2,334.59</u>	<u>5,000.00</u>	<u>-</u>
Changes in net assets	253,619.81	22,360.39	128,378.03	404,358.23
Net assets at beginning of year	<u>1,973,369.73</u>	<u>1,310,160.23</u>	<u>263,434.48</u>	<u>3,546,964.44</u>
Net assets at end of year	<u>\$ 2,226,989.54</u>	<u>\$ 1,332,520.62</u>	<u>\$ 391,812.51</u>	<u>\$ 3,951,322.67</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, 1997

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues and other additions:				
Contributions	\$ 28,578.96	\$ 39,327.29	\$ 7,477.73	\$ 75,383.98
Investment income	80,970.55	42,377.35	1,203.47	124,551.37
Net realized/unrealized gains	242,169.50	115,557.58	401.94	358,129.02
Other	-	847.65	-	847.65
Net assets released from restrictions	<u>41,225.43</u>	<u>(41,225.43)</u>	<u>-</u>	<u>-</u>
Total revenue and other additions	<u>392,944.44</u>	<u>156,884.44</u>	<u>9,083.14</u>	<u>558,912.02</u>
Expenses:				
Program expenses:				
Scholarships	154,982.27	-	-	154,982.27
Academic program development	2,357.28	-	-	2,357.28
Faculty/staff development	31,272.55	-	-	31,272.55
Employee awards	1,500.00	-	-	1,500.00
General and administrative expenses:				
Operating expenses	15,665.37	-	-	15,665.37
Club dues	5,432.50	-	-	5,432.50
Insurance	1,073.28	-	-	1,073.28
Other	<u>1,586.51</u>	<u>-</u>	<u>-</u>	<u>1,586.51</u>
Total expenses	<u>213,869.76</u>	<u>-</u>	<u>-</u>	<u>213,869.76</u>
Changes in net assets	<u>179,074.68</u>	<u>156,884.44</u>	<u>9,083.14</u>	<u>345,042.26</u>
Net assets at beginning of year	1,744,573.87	1,116,827.42	254,351.34	3,115,752.63
Prior period restatement (Note 6)	(5,253.84)	-	-	(5,253.84)
Cumulative effect of a change in accounting principle (Note 5)	<u>54,975.02</u>	<u>36,448.37</u>	<u>-</u>	<u>91,423.39</u>
Net assets at beginning of year, restated	<u>1,794,295.05</u>	<u>1,153,275.79</u>	<u>254,351.34</u>	<u>3,201,922.18</u>
Net assets at end of year	<u>\$ 1,973,369.73</u>	<u>\$ 1,310,160.23</u>	<u>\$ 263,434.48</u>	<u>\$ 3,546,964.44</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, 1998, AND JUNE 30, 1997

	Year Ended <u>June 30, 1998</u>	Year Ended <u>June 30, 1997</u>
Cash flows from operating activities:		
Increase in net assets	\$ 404,358.23	\$ 345,042.26
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Decrease in accrued interest receivable	156.53	1,603.14
Decrease (increase) in accounts receivable	(630.04)	3,900.00
Increase in cash surrender value of insurance	(466.75)	(847.65)
Increase in accounts payable	94,417.23	9,069.02
Net realized/unrealized gains on investments	<u>(487,238.55)</u>	<u>(358,129.02)</u>
Net cash provided by operating activities	<u>10,596.65</u>	<u>637.75</u>
Cash flows from investing activities:		
Purchases of investments	(158,391.49)	(151,333.26)
Proceeds from sale of investments	<u>86,508.71</u>	<u>62,804.94</u>
Net cash used for investing activities	<u>(71,882.78)</u>	<u>(88,528.32)</u>
Net decrease in cash and cash equivalents	(61,286.13)	(87,890.57)
Cash and cash equivalents at beginning of year	<u>747,847.76</u>	<u>835,738.33</u>
Cash and cash equivalents at end of year	\$ <u><u>686,561.63</u></u>	\$ <u><u>747,847.76</u></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, 1998, and June 30, 1997

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 accompanying 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 generally accepted accounting principles 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.

Investments

Investments in marketable securities are stated at fair value. Unrealized gains and losses are included in the change in net assets in the accompanying statements of activities.

Chattanooga State Technical Community College Foundation
Notes to the Financial Statements (Cont.)
June 30, 1998, and June 30, 1997

Contributions

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions. 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, 1998, cash and cash equivalents consisted of \$659,765.37 in bank accounts and \$26,796.26 in money market mutual funds. At June 30, 1997, cash and cash equivalents consisted of \$694,137.09 in bank accounts and \$53,710.67 in money market mutual funds.

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

Deposits with financial institutions are required to be categorized to indicate the level of risk assumed by the foundation. Category 1 consists of deposits that are insured or collateralized with securities held by the foundation or by its agent in the foundation's name. Category 2 consists of deposits collateralized with securities held by the pledging financial institution's trust department or agent in the foundation's name. Category 3 deposits are uncollateralized. This category includes any bank balance that is collateralized with securities held by the pledging financial institution or by its trust department or agent but not in the foundation's name.

At June 30, 1998, the carrying amount of the foundation's deposits was \$659,765.37, and the bank balance including accrued interest was \$669,215.10. Of the bank balance, \$250,438.30 was category 1, and \$418,776.80 was category 3.

At June 30, 1997, the carrying amount of the foundation's deposits was \$694,137.09, and the bank balance including accrued interest was \$698,377.23. Of the bank balance, \$247,684.70 was category 1, and \$450,692.53 was category 3.

Chattanooga State Technical Community College Foundation
Notes to the Financial Statements (Cont.)
June 30, 1998, and June 30, 1997

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 and are summarized as follows:

	<u>June 30, 1998</u>	<u>June 30, 1997</u>
Mutual funds	\$1,544,552.64	\$1,453,216.99
Common stock	1,185,589.42	839,044.74
U.S. Government bonds	<u>657,952.25</u>	<u>536,711.25</u>
Total investments	<u>\$3,388,094.31</u>	<u>\$2,828,972.98</u>

NOTE 4. RESTRICTIONS ON NET ASSETS

Temporarily restricted net assets are available for scholarship assistance, the college's building program, the college's academic programs, and certain other community-related projects.

	<u>June 30, 1998</u>	<u>June 30, 1997</u>
Purchase of property and equipment for the college	\$ 819,511.49	\$ 836,451.72
Scholarship assistance	471,882.31	440,353.61
Academic programs	26,791.59	21,170.48
Other	<u>14,335.23</u>	<u>12,184.42</u>
	<u>\$1,332,520.62</u>	<u>\$1,310,160.23</u>

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

Chattanooga State Technical Community College Foundation
Notes to the Financial Statements (Cont.)
June 30, 1998, and June 30, 1997

NOTE 5. CHANGE IN ACCOUNTING PRINCIPLE

In 1997, the foundation adopted Statement of Financial Accounting Standards No. 116, *Accounting for Contributions Received and Contributions Made*. In accordance with that statement, contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions. Under the statement, such contributions are required to be reported as temporarily restricted support and are then reclassified to unrestricted net assets upon expiration of the donor restriction. The adoption of this statement had no effect on the change in net assets for the year ended June 30, 1997.

In 1997, the foundation also adopted Statement of Financial Accounting Standards No. 117, *Financial Statements of Not-for-Profit Organizations*. Under that statement, the foundation is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted. As permitted by the statement, the foundation has discontinued its use of fund accounting and has, accordingly, reclassified its financial statements to present the three classes of net assets required. This reclassification had no effect on the change in net assets for the year ended June 30, 1997.

In 1997, the foundation also adopted Statement of Financial Accounting Standards No. 124, *Accounting for Certain Investments Held by Not-for-Profit Organizations*. Under that statement, the foundation is required to report investments in equity securities with readily determinable fair values and all investments in debt securities at fair value. The adoption of this statement had the effect of increasing the foundation's net assets by \$91,423.39 at June 30, 1996.

NOTE 6. PRIOR-YEAR RESTATEMENT

Due to a reporting error, the college overstated interest receivable at June 30, 1996, by \$5,253.84. As a result, beginning unrestricted net assets on Exhibit C was decreased by \$5,253.84.