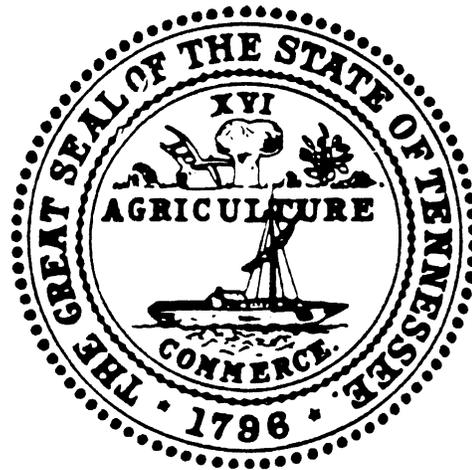


AUDIT REPORT

Tennessee Board of Regents
Motlow State Community College

For the Years Ended
June 30, 2004, and June 30, 2003



STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY

Department of Audit
Division of State Audit



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

Charles K. Bridges, CPA
Assistant Director

Robert D. Hunter, Jr., CPA
Audit Manager

Jeffrey G. Lafever
In-Charge Auditor

Valerie English
Kevin Fearn
Jonathan Smallwood
Staff Auditors

Gerry Boaz, CPA
Technical Analyst

Amy Brack
Editor

Comptroller of the Treasury, Division of State Audit
1500 James K. Polk Building, Nashville, TN 37243-0264
(615) 401-7897

Financial/compliance audits of colleges and universities are available on-line at
www.comptroller.state.tn.us/sa/reports/index.html.
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STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY

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

John G. Morgan
Comptroller

September 22, 2005

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

Dr. Arthur L. Walker, President

Motlow State Community College

P. O. Box 88100

Tullahoma, Tennessee 37388-8100

Ladies and Gentlemen:

Transmitted herewith is the financial and compliance audit of the Tennessee Board of Regents, Motlow State Community College, for the years ended June 30, 2004, and June 30, 2003. You will note from the independent auditor's report that unqualified opinions were 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/sds
05/037

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
Motlow State Community College
For the Years Ended June 30, 2004, and June 30, 2003

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.

OPINIONS ON THE FINANCIAL STATEMENTS

The opinions on the financial statements are unqualified.

Audit Report
Tennessee Board of Regents
Motlow State Community College
For the Years Ended June 30, 2004, and June 30, 2003

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**Tennessee Board of Regents
Motlow State Community College
For the Years Ended June 30, 2004, and June 30, 2003**

INTRODUCTION

POST-AUDIT AUTHORITY

This is a report on the financial and compliance audit of the Tennessee Board of Regents, Motlow State Community College. 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

Tennessee’s community college system was created in 1967 when the General Assembly authorized the State Department of Education to establish several community colleges throughout the state. On June 13, 1967, the State Board of Education selected Tullahoma as the site of a community college to be located in Middle Tennessee. Motlow State Community College’s first classes began in September 1969.

ORGANIZATION

The governance of Motlow State Community College is vested in the Tennessee Board of Regents. The Governor, the Commissioner of Education, the Commissioner of Agriculture, and the Director of the Tennessee Higher Education Commission serve *ex officio* on this board. The chief administrative officer of the college is the president, who is assisted and advised by members of the faculty and administrative staff.

AUDIT SCOPE

The audit was limited to the period July 1, 2002, through June 30, 2004, 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, 2004, and June 30, 2003. Motlow State Community College is an institution of the Tennessee Board of Regents, which is an integral part of state government. As such, the Tennessee Board of Regents has been included as a component unit in the *Tennessee Comprehensive Annual Financial Report*.

OBJECTIVES OF THE AUDIT

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 opinions 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

There were no findings in the prior audit report.

OBSERVATIONS AND COMMENTS

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, and 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.

TECHNOLOGY CENTERS

Motlow State Community College serves as the lead institution under agreements with the Tennessee Technology Center at McMinnville, the Tennessee Technology Center at Murfreesboro, and the Tennessee Technology Center at Shelbyville. Under these agreements, Motlow State Community College performs the accounting and reporting functions for the centers. The chief administrative officer of each center is the director, who is assisted and advised by members of the faculty and administrative staff. Each director is responsible to the Chancellor of the Tennessee Board of Regents.

RESULTS OF THE AUDIT

AUDIT CONCLUSIONS

Internal Control

As part of the audit of the college's financial statements for the years ended June 30, 2004, and June 30, 2003, we considered internal control over financial reporting to determine auditing procedures for the purpose of expressing opinions 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 unqualified opinions on the college's financial statements.



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

SUITE 1500
JAMES K. POLK STATE OFFICE BUILDING
NASHVILLE, TENNESSEE 37243-0264
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***

May 26, 2005

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

Dear Mr. Morgan:

We have audited the financial statements of Motlow State Community College, an institution of the Tennessee Board of Regents, which is a component unit of the State of Tennessee, as of and for the years ended June 30, 2004, and June 30, 2003, and have issued our report thereon dated May 26, 2005. 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. During the year ended June 30, 2004, the college implemented GASB Statement 39, *Determining Whether Certain Organizations Are Component Units*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the college's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions 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 to a relatively low

The Honorable John G. Morgan
May 26, 2005
Page Two

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 a matter involving the internal control over financial reporting, which we have reported to the college's management in a separate letter.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the college's financial statements are free of material misstatement, we performed tests of the college'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 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." with a stylized, cursive script.

Arthur A. Hayes, Jr., CPA
Director

AAH/sds



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

SUITE 1500
JAMES K. POLK STATE OFFICE BUILDING
NASHVILLE, TENNESSEE 37243-0264
PHONE (615) 401-7897
FAX (615) 532-2765

Independent Auditor's Report

May 26, 2005

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

Dear Mr. Morgan:

We have audited the accompanying basic financial statements of Motlow State Community College, an institution of the Tennessee Board of Regents, which is a component unit of the State of Tennessee, and its discretely presented component unit as of and for the years ended June 30, 2004, and June 30, 2003, as listed in the table of contents. These financial statements are the responsibility of the college's management. Our responsibility is to express opinions 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 opinions. Tennessee statutes, in addition to audit responsibilities, entrust certain other responsibilities to the Comptroller of the Treasury. Those responsibilities include serving as a member of the board of directors of many agencies, commissions, and component units of the State of Tennessee; managing the state's debt; and making loans to the state's colleges and universities from debt proceeds. Some of the boards on which the Comptroller of the Treasury serves as a member per state statutes include the State Building Commission and the Tennessee Higher Education Commission.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Tennessee Board of Regents, Motlow State Community College, and its discretely presented component unit as of June 30, 2004, and June 30, 2003, and the respective changes in financial position and cash flows thereof for the years then ended in

The Honorable John G. Morgan
May 26, 2005
Page Two

conformity with accounting principles generally accepted in the United States of America.

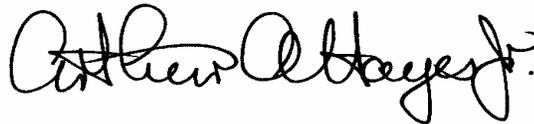
During the year ended June 30, 2004, the college implemented GASB Statement 39, *Determining Whether Certain Organizations Are Component Units*.

The management's discussion and analysis on pages 9 through 24 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it. Motlow State Community College has not presented condensed financial information comparing the 2003 and 2002 fiscal years which is required by accounting principles generally accepted in the United States of America to supplement, although not be a part of the basic financial statements.

Our audit was conducted for the purpose of forming opinions on the basic financial statements. The accompanying financial information on page 44 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 26, 2005, on our consideration of the college'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, appearing to read "Arthur A. Hayes, Jr.", written in a cursive style.

Arthur A. Hayes, Jr., CPA
Director

AAH/sds

Management's Discussion and Analysis

This section of Motlow State Community College's annual financial report presents a discussion and analysis of the financial performance of the college during the fiscal year ended June 30, 2004, with comparative information presented for the fiscal year ended June 30, 2003. This discussion has been prepared by management along with the financial statements and related note disclosures and should be read in conjunction with the financial statements and notes. The financial statements, notes, and this discussion are the responsibility of management.

The college has one discretely presented component unit, the Motlow College Foundation. More detailed information about the college's component unit is provided in note 15 to the financial statements. Information and analysis related to the component unit is also included in this section.

Using This Annual Report

This report consists of three basic financial statements. The statement of net assets; the statement of revenues, expenses, and changes in net assets; and the statement of cash flows provide information on Motlow College as a whole and present a long-term view of the college's finances.

The Statement of Net Assets

The statement of net assets presents the financial position of the college at the end of the fiscal year and includes all assets and liabilities of the college. The difference between total assets and total liabilities—net assets—is an indicator of the current financial condition of the college. Assets and liabilities are generally measured using current values. One notable exception is capital assets, which are stated at historical cost less an allowance for depreciation.

Net assets are divided into three major categories. The first category, invested in capital assets, provides the college's equity in property, plant, and equipment owned by the college. The next asset category is restricted net assets, which is divided into two categories, nonexpendable and expendable. The college has no nonexpendable restricted assets. Expendable restricted net assets are available for expenditure by the college but must be spent for purposes as determined by donors and/or external entities that have placed time or purpose restrictions on the use of the assets. The final category is unrestricted net assets. Unrestricted net assets are available to the institution for any lawful purpose of the institution.

**Statements of Net Assets
(in thousands of dollars)**

	<u>Motlow College</u>		<u>Component Unit</u>	
	2004	2003	2004	2003
Assets:				
Current assets	\$ 8,355	\$ 6,513	\$ 1,521	\$ 1,470
Capital assets, net	17,667	17,329	126	105
Other assets	1,026	1,155	3,274	2,093
Total Assets	<u>\$ 27,048</u>	<u>\$ 24,997</u>	<u>\$ 4,921</u>	<u>\$ 3,668</u>
Liabilities:				
Current liabilities	\$ 7,418	\$ 5,769	\$ 37	\$ 7
Noncurrent liabilities	425	463	-	-
Total Liabilities	<u>\$ 7,843</u>	<u>\$ 6,232</u>	<u>\$ 37</u>	<u>\$ 7</u>
Net Assets:				
Invested in capital assets	\$ 17,667	\$ 17,329	\$ 126	\$ 105
Restricted - nonexpendable	-	-	1,965	1,987
Restricted - expendable	154	177	2,082	1,054
Unrestricted	1,384	1,259	711	515
Total Net Assets	<u>\$ 19,205</u>	<u>\$ 18,765</u>	<u>\$ 4,884</u>	<u>\$ 3,661</u>

Motlow College

- Current assets increased by \$1.842 million. Cash and cash equivalents increased by \$313 thousand and accounts and grants receivable increased by \$35 thousand. Pledges receivable increased by \$643 thousand because of a capital campaign initiated for the Rutherford County teaching facility. Inventories at June 30, 2004, increased by \$5 thousand and interest receivable increased by \$3 thousand. Additionally, foundation investments held by the college increased \$843 thousand.
- Capital assets increased by approximately \$337 thousand due to the completion of the following capital projects: the Nisbett Building Renovation and the Building Systems Equipment Replacement projects for the Nisbett Building and the Forrester Building.
- Current liabilities increased by \$1.649 million primarily due to increases in deposits held for others.
- Noncurrent liabilities decreased by \$38 thousand, resulting from a decrease in compensated absences.

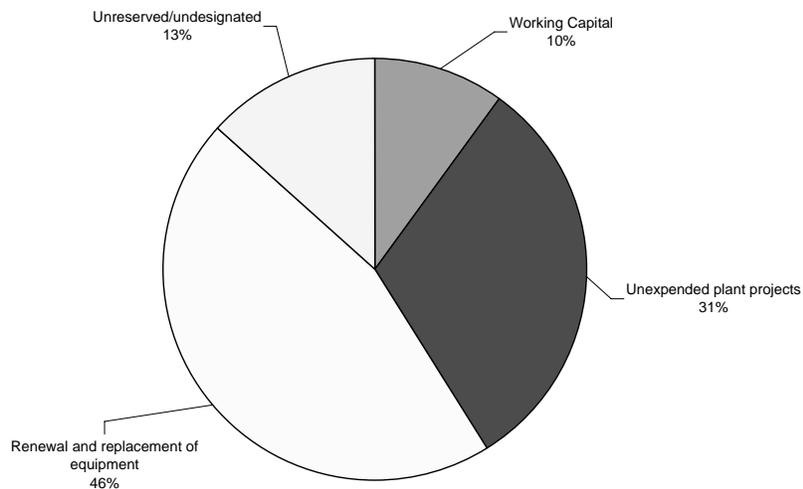
Component Unit

- Current assets increased by \$51 thousand primarily due to a \$51 thousand increase in deposits held with the college which was comprised of current pledges of \$306 thousand, a decrease in cash and cash equivalents of \$259 thousand, and an increase in accounts receivable and interest receivable by \$4 thousand.
- Other assets increased \$1.181 million primarily due to a capital project fund raising activity for the Rutherford County teaching facility associated with an increase in investments.
- Capital assets increased by \$21 thousand as a result of the completion of the softball complex construction.
- Current liabilities increased by \$30 thousand due to an increase in accounts payable at the end of the year.
- Total net assets increased by \$1.223 million due to the increased market value of investments and the fund raising activity for the Rutherford County teaching facility.

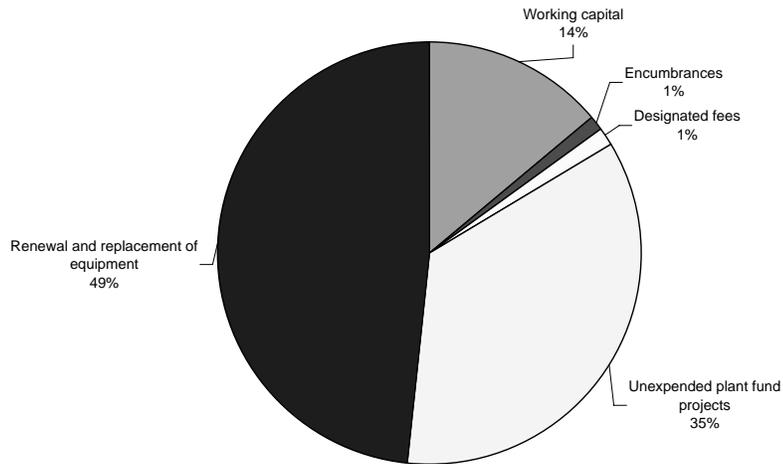
Many of the college's unrestricted net assets have been designated or reserved for specific purposes such as: working capital, encumbrances, designated fees, unexpended plant fund projects, and renewal and replacement of equipment. The following graphs show the allocations:

Allocations of Unrestricted Net Assets – Motlow College

FY 2004



FY 2003

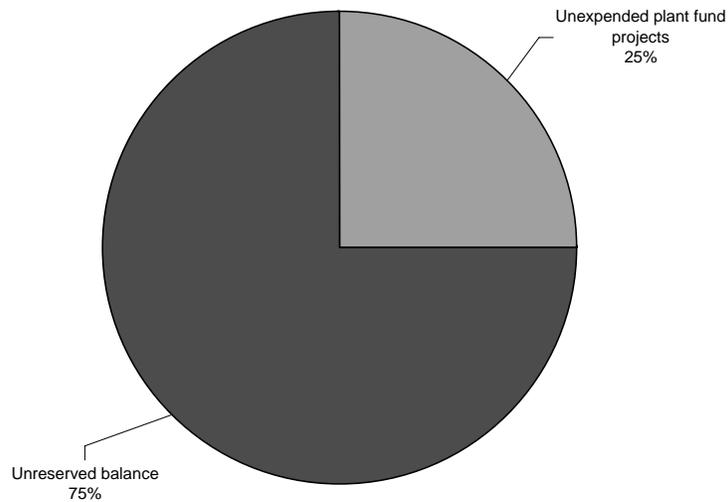


Motlow College

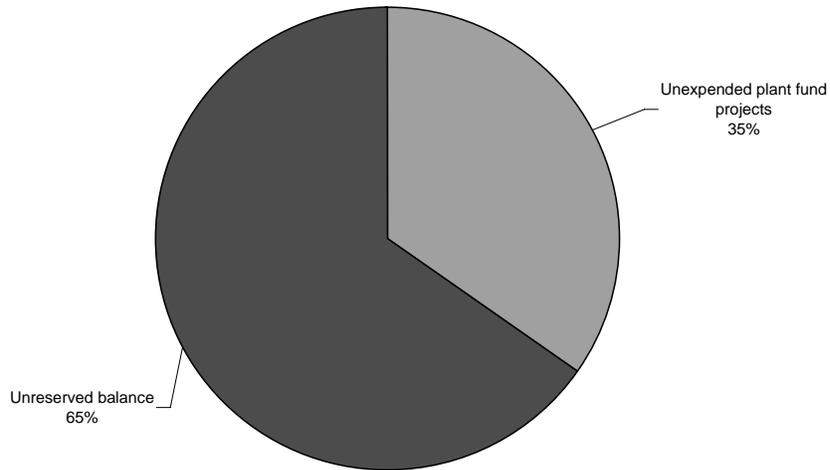
- Working capital decreased by 4% due to a decrease in accounts receivable from an auxiliary.
- Unexpended plant fund projects decreased by 4% due to usage of funds.

Allocations of Unrestricted Net Assets – Component Unit

FY 2004



FY 2003



- The softball building was reclassified to invested in capital assets and the athletic campaign fund balance reduced \$25 thousand. The net effect of these changes caused the percentage change between the 2 years in the unreserved balance and unexpended balances.

The Statement of Revenues, Expenses, and Changes in Net Assets

The statement of revenues, expenses, and changes in net assets presents the operating results of the college, as well as the nonoperating revenues and expenses. Annual state appropriations, while budgeted for operations, are considered nonoperating revenues according to generally accepted accounting principles.

Statements of Revenues, Expenses, and Changes in Net Assets
(in thousands of dollars)

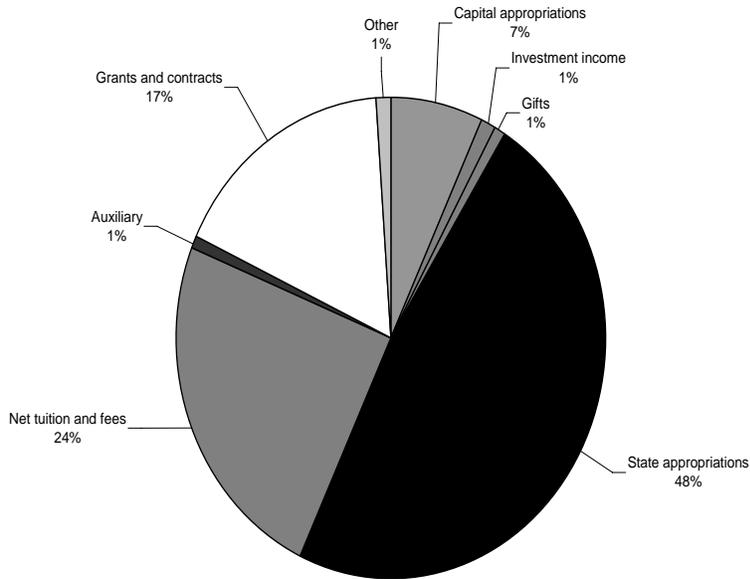
	Motlow College		Component Unit	
Operating revenues:				
Net tuition and fees	\$ 4,512	\$ 4,056	\$ -	\$ -
Gifts and contributions	-	-	1,332	506
Endowment income per spending plan	-	-	40	81
Auxiliary	148	172	4	5
Grants and contracts	432	527	-	-
Other	128	99	4	3
Total operating revenues	<u>5,220</u>	<u>4,854</u>	<u>1,380</u>	<u>595</u>
Operating expenses	<u>17,660</u>	<u>18,113</u>	<u>420</u>	<u>672</u>
Operating loss	<u>(12,440)</u>	<u>(13,259)</u>	<u>960</u>	<u>(77)</u>
Nonoperating revenues and expenses:				
State appropriations	8,892	9,042	-	-
Grants and contracts	2,749	3,219	-	-
Gifts	38	72	-	-
Investment income	35	57	259	(264)
Other expenses	(41)	(253)	-	(85)
Total nonoperating revenues and expenses	<u>11,673</u>	<u>12,137</u>	<u>259</u>	<u>(349)</u>
Income (loss) before other revenues, expenses, gains, or losses	<u>(767)</u>	<u>(1,122)</u>	<u>1,219</u>	<u>(426)</u>
Other revenues, expenses, gains, or losses:				
Capital appropriations	1,206	1,986	-	-
Capital grants and gifts	1	-	-	-
Additions to permanent endowments	-	-	5	133
Total other revenues, expenses, gains, or losses	<u>1,207</u>	<u>1,986</u>	<u>5</u>	<u>133</u>
Increase (decrease) in net assets	<u>440</u>	<u>864</u>	<u>1,224</u>	<u>(293)</u>
Net assets at beginning of year	<u>18,765</u>	<u>17,901</u>	<u>3,661</u>	<u>3,954</u>
Net assets at end of year	<u>\$ 19,205</u>	<u>\$ 18,765</u>	<u>\$ 4,885</u>	<u>\$ 3,661</u>

Revenues

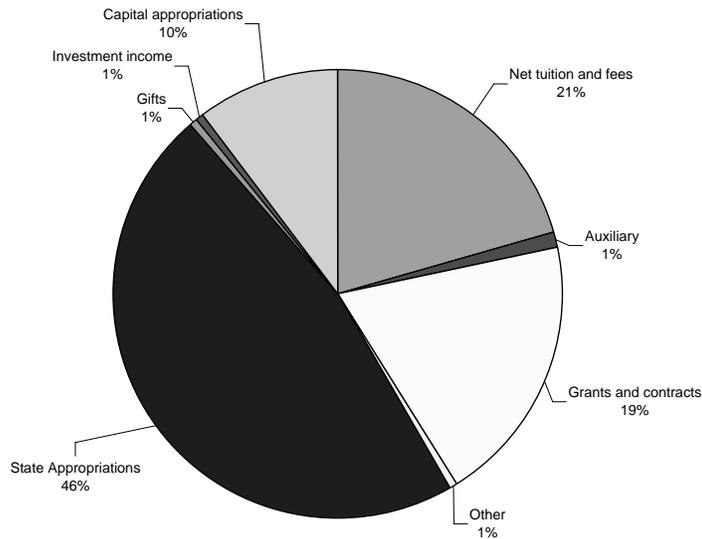
The following is a graphic illustration of revenues by source (both operating and nonoperating), which are used to fund the college's operating activities for the year ended June 30, 2004, and the year ended June 30, 2003.

Revenues by Source – Motlow College

FY 2004



FY 2003

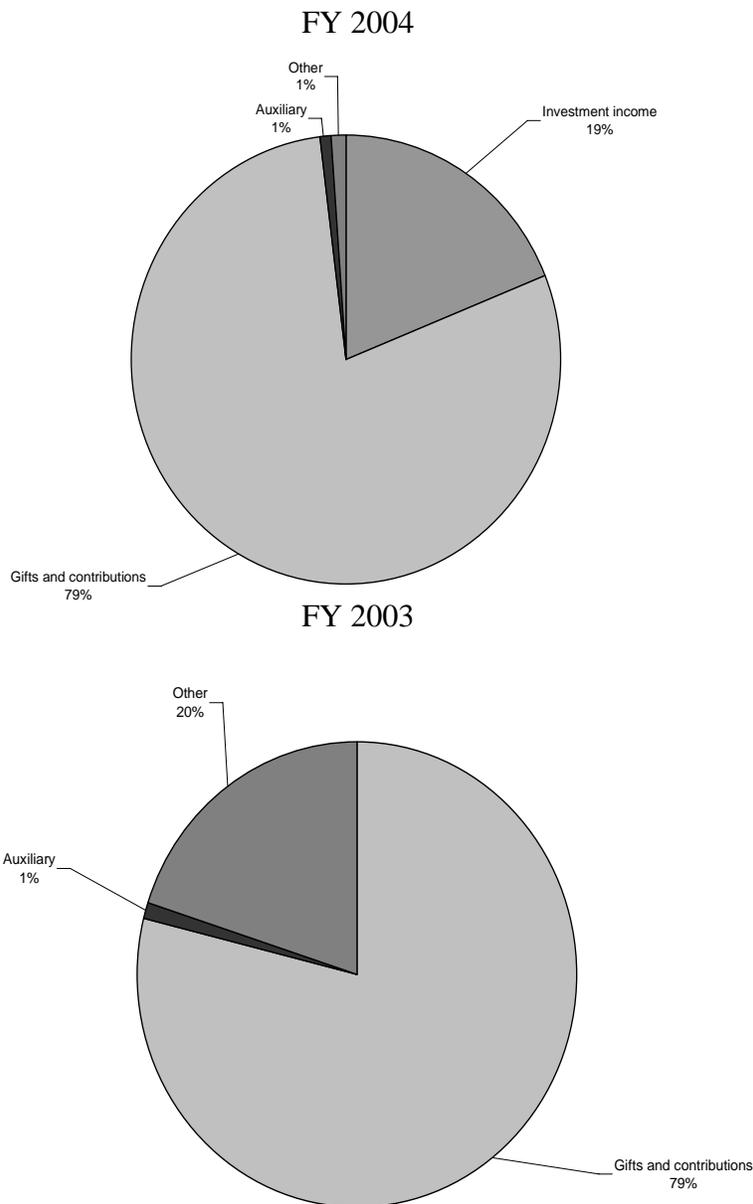


Motlow College

- Student tuition and fees increased by \$456 thousand due to a fee increase of 14 percent offset by an effective 6% reduction in enrollment.
- State appropriations of \$8.9 million (48% of the total revenues generated in 2004) are classified as nonoperating revenues, representing the largest single portion of total revenues.

- Auxiliary operations that include the bookstore, cafeteria, and vending are outsourced and the college received \$148 thousand in commissions from vendors operating the auxiliaries. This amount represents a decrease in commissions for 2004.
- Capital appropriations are funds appropriated by the state for capital projects currently in progress. The Building Systems Equipment Replacement projects for the Forrester and Nisbett Buildings were completed in 2004. Projects in progress include the Rutherford County Teaching Facility and additional funding for the Building Systems Equipment Replacement projects.

Revenues by Source – Component Unit



Component Unit

- The major source of revenue in the foundation is gifts and contributions. Over \$1.3 million of cash contributions were given during 2004. Most of the increase in gifts in 2004 was due to gifts for the Smyrna building project.
- Investment income during 2004 amounts to \$299 thousand including endowment income per the spending plan.

Expenses

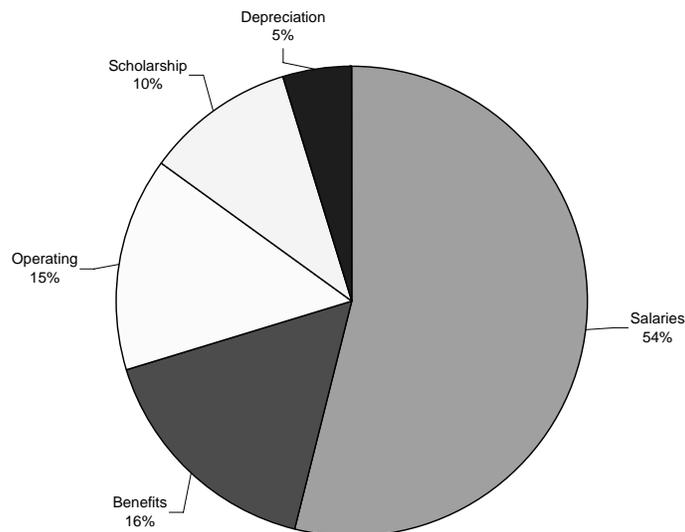
Operating expenses can be displayed in two formats, natural classification and program classification. Both formats are displayed below. (Amounts are presented in thousands of dollars.)

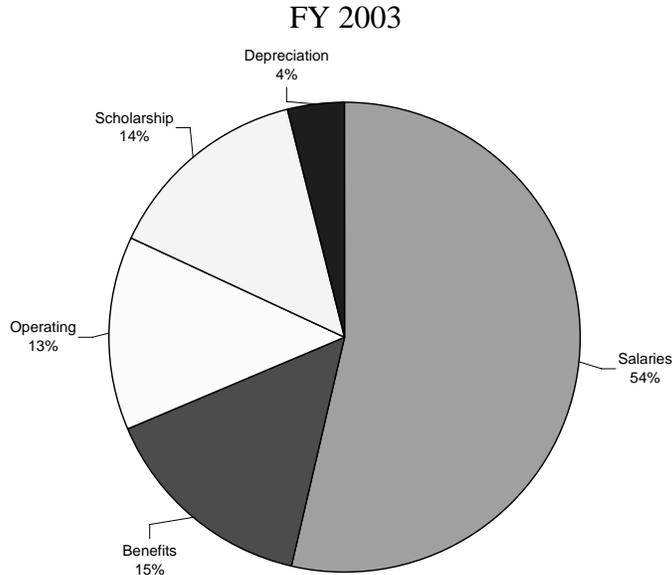
Natural Classification

	<u>Motlow College</u>		<u>Component Unit</u>	
	2004	2003	2004	2003
Salaries	\$ 9,519	\$ 9,698	\$ -	\$ -
Benefits	2,873	2,725	-	-
Other operating	2,623	2,429	270	479
Scholarships	1,832	2,537	120	148
Payments on behalf of college	-	-	27	45
Depreciation	813	724	3	-
Total operating expenses	\$ 17,660	\$ 18,113	\$ 420	\$ 672

Operating Expenses by Natural Classification – Motlow College

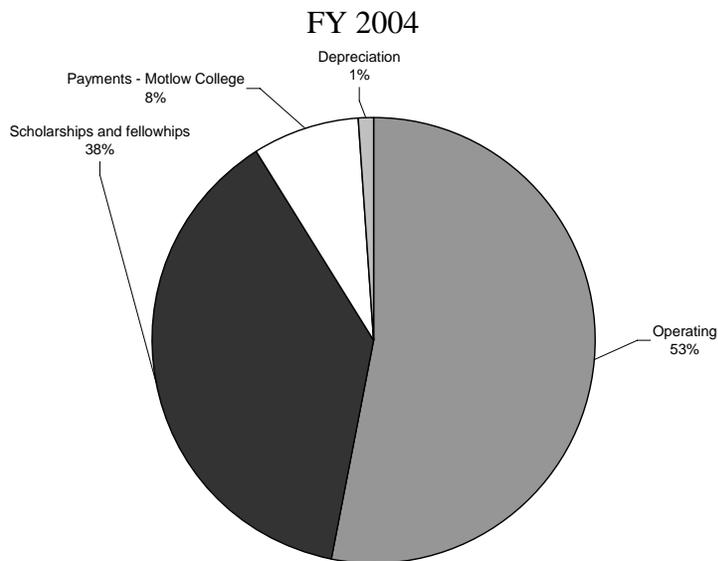
FY 2004



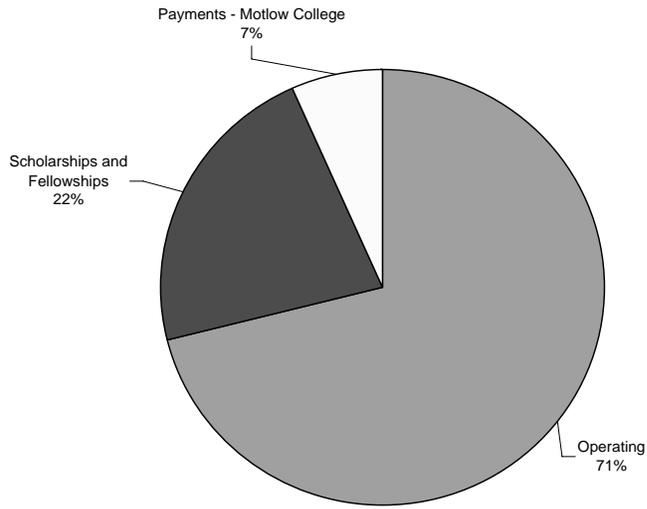


- Salaries and benefits comprise 70% of the institution’s operating expenses. Salaries include salary payments to regular full-time faculty and staff, regular part-time faculty and staff, adjunct faculty, student salaries, and temporary staff.
- Salaries and benefits decreased by \$31 thousand resulting from vacant positions in 2004 that were unfilled, which was compounded by health insurance increases.
- Other operating expenses increased by \$194 thousand primarily due to increases in operational supplies within the departments.
- Scholarships decreased by approximately \$705 thousand which resulted from a decrease *in* financial aid.

Operating Expenses by Natural Classification – Component Unit



FY 2003



Component Unit

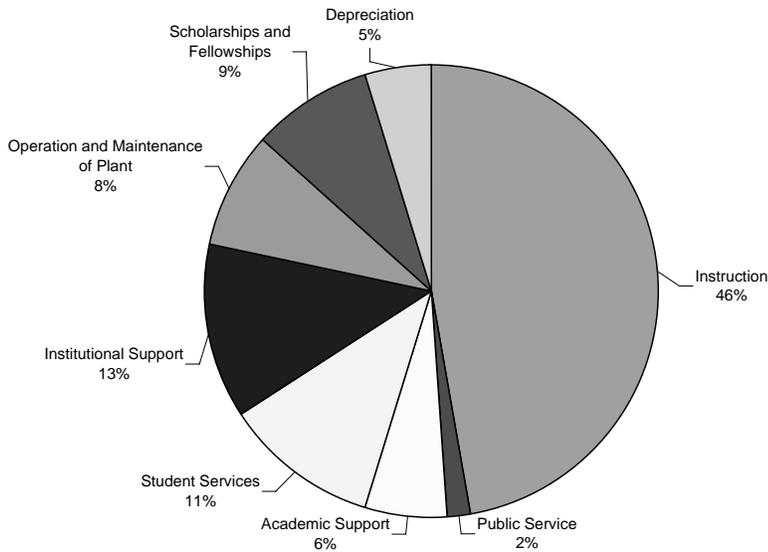
- The foundation pays no salaries.
- Other operating expenses decreased by \$209 thousand.

Program Classification

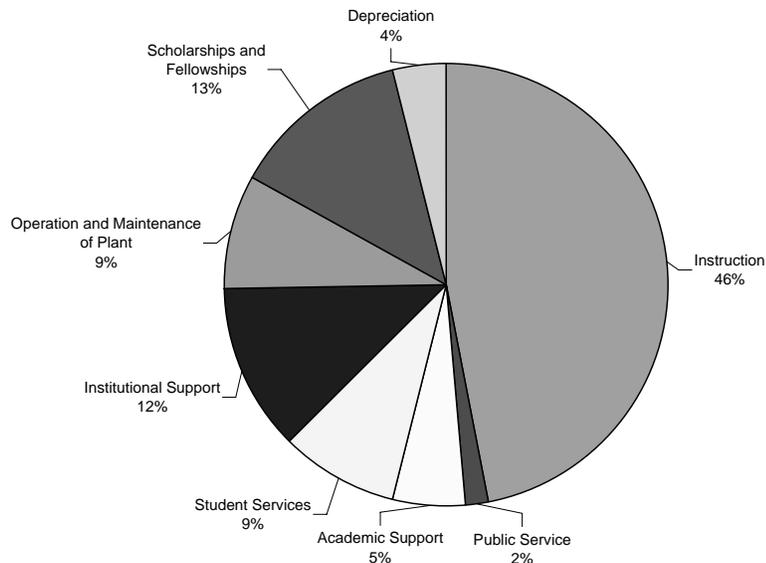
	2004	2003
Instruction	\$ 8,362	\$ 8,512
Public service	267	296
Academic support	1,033	951
Student services	1,946	1,567
Institutional support	2,243	2,190
Operation and maintenance of plant	1,472	1,549
Scholarships and fellowships	1,524	2,324
Depreciation	813	724
Total operating expenses	<u>\$ 17,660</u>	<u>\$ 18,113</u>

Operating Expenses by Function – Motlow College

FY 2004



FY 2003



- The instructional component of the institution which includes the functional areas of instruction, academic support, and public service represents 54% of the total operating expenses. This represents a decrease of \$97 thousand in 2004. The majority of the decrease was due to vacant and unfilled positions and decreases in operating expenses.
- Student services, which includes Admissions and Records, Counseling, Athletics, Student Organizations, etc., represents 11% of the total operating expenses, increasing by \$379

thousand over last year's expense. The increase is primarily due to inclusion of the reporting changes required for athletic expenditures.

- Institutional support represents 13% of the total operating expenses. Compared to last year's expenditures, expenditures for institutional support increased by \$53 thousand. The primary increase is due to compensated absence increases.
- Maintenance and operation of physical plant represents 8% of the total operating expenses. This represents a decrease of \$77 thousand primarily due to the completion and capitalization of state funded projects.
- Scholarships and fellowships represent 9% of the total operating expenses. The majority of these expenditures are for federal financial aid which includes Pell, SEOG, and Work Study which decreased by \$800 thousand in 2004.
- Depreciation represents 5% of the total operating expenses.

The Statement of Cash Flows

The statement of cash flows provides information about cash receipts and cash payments during the year. This statement also assists users in assessing the college's ability to generate net cash flows, its ability to meet its obligations as they come due, and its need for external financing.

Statements of Cash Flows (in thousands of dollars)

	<u>Motlow College</u>		<u>Component Unit</u>	
	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>
Cash provided (used) by:				
Operating activities	\$ (11,520)	\$ (12,524)	\$ 369	\$ 36
Noncapital financing activities	11,648	12,666	36	136
Capital and related financing activities	22	(215)	(22)	(69)
Investing activities	35	471	(646)	387
Net Increase (decrease) in cash	<u>185</u>	<u>398</u>	<u>(263)</u>	<u>490</u>
Cash, beginning of year	<u>5,173</u>	<u>4,775</u>	<u>1,470</u>	<u>980</u>
Cash, end of year	<u>\$ 5,358</u>	<u>\$ 5,173</u>	<u>\$ 1,207</u>	<u>\$ 1,470</u>

Motlow College

- The material sources of cash from current operations are maintenance fees and other student fees and tuition. The material uses of cash for current operations are for salaries and benefits, purchasing operational supplies, payment for contracted services, and scholarships

to students. Cash flows from operating activities increased by \$1 million due mainly to a \$600 thousand increase in tuition and fees and a combined \$800 thousand decrease in cash payments to employees and for scholarships.

- Cash flows from noncapital financing activities decreased by \$1 million primarily due to a decrease in gifts and a change in deposits held for others.
- Cash flows from investing activities are from interest received from the Tennessee Local Government Investment Pool. This decreased by \$436 thousand due to reductions in interest rates and the 9% reduction in state appropriations for the year and reflecting investments in the component unit.
- Cash flows from capital and related financing activities are from state appropriations for capital projects. This section increased by approximately \$237 thousand due to capital project activity.
- The cash increased by \$185 thousand for the year.

Component Unit

- The major portion of cash from operating activities is cash gifts. Compared to last year the cash gifts increased by \$265 thousand with payments to suppliers and vendors, payments to Motlow College, and payments for scholarships decreasing by \$35 thousand, \$45 thousand, and \$29 thousand, respectively.
- Cash flows from noncapital financing activities decreased by \$99 thousand as endowment gifts decreased by \$92 thousand.
- Cash flows from investing activities decreased by \$1.033 million due to additional investments in equity and large/small cap mutual funds.
- Cash flows from capital and related financing activities increased by \$47 thousand due to less funds being invested in capital projects in 2004.
- Cash in the foundation decreased by \$262 thousand for the year due to additional investments in mutual funds and CD's throughout the year.

Capital Asset and Debt Administration

Capital Assets

At June 30, 2004, Motlow College had \$17,666,674.01 invested in capital assets, net of accumulated depreciation of \$7,785,751.05. Depreciation charges totaled \$813,312.09 for the

current fiscal year. Details of these assets are shown below. The Component Unit had \$125,758.42 invested in capital assets, net of accumulated depreciation of \$3,224.58. Depreciation charges for the current year totaled \$3,224.58.

**Schedule of Capital Assets, Net of Depreciation
(in thousands of dollars)**

	<u>Motlow College</u>		<u>Component Unit</u>	
	2004	2003	2004	2003
Land	\$ 171	\$ 171	\$ -	\$ -
Land improvements & infrastructure	802	872	-	-
Buildings	15,762	13,397	126	-
Equipment	391	489	-	-
Library holdings	239	261	-	-
Projects in progress	302	2,140	-	105
Capital assets, net	<u>\$ 17,667</u>	<u>\$ 17,330</u>	<u>\$ 126</u>	<u>\$ 105</u>

Motlow College

- The major capital asset additions completed during the fiscal year included the completion of the Building Systems Equipment Replacement projects in the Forrester Student Center and the Nisbett Gymnasium and the Nisbett Gymnasium renovation. The projects in progress at June 30, 2004, are the Rutherford County Teaching Facility, and the Building Systems Equipment Replacement projects in other buildings. These projects were funded by state capital appropriations.

Component Unit

- The women's softball complex was completed in 2004. The funding for this project was from private donations. The foundation has two capital campaigns in progress: funding for the Rutherford County Teaching Facility and funding for phase 2 and 3 of the athletic campaign, which includes an indoor baseball/softball practice facility and lighting the baseball and softball fields.

More detailed information about the college's capital assets is presented in Note 7 to the financial statements.

Economic Factors That Will Affect the Future

During the 2004 fiscal year, state appropriations were permanently reduced 9%, which amounted to an \$835,900 reduction in revenue to Motlow College. The 14% student fee increase during this year provided only a fraction of the appropriation reduction. This action will affect the future of Motlow College for years to come.

During the 2005 fiscal year, state appropriations are expected to remain constant (at the 2004 level). Student fees will increase 7%; however, with this increase in student fees, the college will be required to give a 2% salary increase to its faculty and staff. The 7% fee increase is expected to generate approximately \$350,000, while the 2% salary increase (including benefits) will cost the college approximately \$200,000. The additional \$150,000 will be used to fill some currently vacant instructional and staff positions.

The implementation of the HOPE scholarship should direct more academic achievers from the high schools to Tennessee colleges. This could increase the traditional student population to be served at Motlow College. Further, completion of the capital campaign to construct a classroom building in Smyrna (Rutherford County) has the potential of significantly increasing the enrollment of Motlow College. The challenge for the college will be the ability to provide higher education to an increased number of students with virtually no additional state appropriated revenue.

Economic indicators show that interest rates along with inflation will increase. With these increases, we will see higher gas prices and higher prices for utilities and other fixed costs of the institution. As gas prices get higher, community colleges will have to take the education to the student to meet its mission of providing access because the student will not be financially able to commute long distances. As inflation increases, more of the institution's revenue will be required for fixed costs, so the institution cannot provide the same level of services to the student. This action compromises the quality of the education the student may receive.

State funding of higher education in Tennessee is not expected to improve for several years. Revenue increases at the institutions will have to come from increased fees charged to the student.

Requests for Information

This financial report is designed to provide a general overview of the institution's finances for all those with an interest in the college's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be directed to Mike Posey, Vice President for Business Affairs at Motlow State Community College, P.O. Box 8500, Lynchburg, TN 37352.

**TENNESSEE BOARD OF REGENTS
MOTLOW STATE COMMUNITY COLLEGE
STATEMENTS OF NET ASSETS
JUNE 30, 2004, AND JUNE 30, 2003**

	Motlow State Community College		Component Unit - Motlow College Foundation	
	June 30, 2004	June 30, 2003	June 30, 2004	June 30, 2003
ASSETS				
Current assets:				
Cash and cash equivalents (Notes 2 and 3)	\$ 4,331,500.70	\$ 4,018,309.96	\$ -	\$ -
Deposits with college (Note 15)	-	-	1,521,293.61	1,470,071.34
Investments (Note 4)	2,810,029.55	1,967,336.07	-	-
Accounts, notes, and grants receivable (net) (Note 5)	425,139.51	389,850.15	-	-
Pledges receivable (net) (Note 6)	770,108.59	126,845.68	-	-
Inventories	10,089.51	5,096.32	-	-
Prepaid expenses and deferred charges	3,155.05	2,634.25	-	-
Accrued interest receivable	4,943.65	2,529.93	-	-
Total current assets	<u>8,354,966.56</u>	<u>6,512,602.36</u>	<u>1,521,293.61</u>	<u>1,470,071.34</u>
Noncurrent assets:				
Cash and cash equivalents (Notes 2 and 3)	1,026,756.15	1,155,069.88	-	-
Deposits with college (Note 15)	-	-	3,274,477.14	2,093,566.33
Capital assets (net) (Notes 7 and 15)	17,666,674.01	17,329,553.82	125,758.42	104,500.00
Total noncurrent assets	<u>18,693,430.16</u>	<u>18,484,623.70</u>	<u>3,400,235.56</u>	<u>2,198,066.33</u>
Total assets	<u>27,048,396.72</u>	<u>24,997,226.06</u>	<u>4,921,529.17</u>	<u>3,668,137.67</u>
LIABILITIES				
Current liabilities:				
Accounts payable	42,718.33	33,964.14	29,887.29	-
Accrued liabilities	849,763.05	842,970.54	-	-
Deferred revenue	176,005.92	139,661.00	-	-
Compensated absences (Note 8)	145,856.09	68,474.59	-	-
Deposits held in custody for others	6,203,701.80	4,683,921.40	7,099.28	7,499.46
Total current liabilities	<u>7,418,045.19</u>	<u>5,768,991.67</u>	<u>36,986.57</u>	<u>7,499.46</u>
Noncurrent liabilities:				
Compensated absences (Note 8)	425,250.00	462,795.55	-	-
Total noncurrent liabilities	<u>425,250.00</u>	<u>462,795.55</u>	<u>-</u>	<u>-</u>
Total liabilities	<u>7,843,295.19</u>	<u>6,231,787.22</u>	<u>36,986.57</u>	<u>7,499.46</u>
NET ASSETS				
Invested in capital assets	17,666,674.01	17,329,553.82	125,758.42	104,500.00
Restricted for:				
Nonexpendable:				
Scholarships and fellowships	-	-	198,647.63	197,973.40
Other	-	-	1,766,885.20	1,788,746.20
Expendable:				
Instructional department uses	151,904.26	174,917.26	-	-
Loans	2,227.19	2,227.19	-	-
Other	-	-	2,081,691.67	1,054,057.99
Unrestricted (Note 9)	1,384,296.07	1,258,740.57	711,559.68	515,360.62
Total net assets	<u>\$ 19,205,101.53</u>	<u>\$ 18,765,438.84</u>	<u>\$ 4,884,542.60</u>	<u>\$ 3,660,638.21</u>

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

**TENNESSEE BOARD OF REGENTS
MOTLOW STATE COMMUNITY COLLEGE
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2004, AND JUNE 30, 2003**

	Motlow State Community College		Component Unit - Motlow College Foundation	
	Year Ended June 30, 2004	Year Ended June 30, 2003	Year Ended June 30, 2004	Year Ended June 30, 2003
REVENUES				
Operating revenues:				
Student tuition and fees (net of scholarship allowances of \$1,578,406.52 for the year ended June 30, 2004, and \$1,277,845.60 for the year ended June 30, 2003)	\$ 4,511,412.00	\$ 4,056,090.54	\$ -	\$ -
Gifts and contributions	-	-	1,331,969.93	506,489.48
Endowment income per spending plan	-	-	39,321.85	80,475.62
Governmental grants and contracts	432,231.38	526,499.13	-	-
Sales and services of educational departments	440.76	378.14	-	-
Auxiliary enterprises:				
Bookstore	139,956.00	163,237.00	-	-
Other	7,676.19	8,350.85	4,292.70	4,814.76
Other operating revenues	<u>128,023.12</u>	<u>99,365.21</u>	<u>4,000.00</u>	<u>2,995.00</u>
Total operating revenues	<u>5,219,739.45</u>	<u>4,853,920.87</u>	<u>1,379,584.48</u>	<u>594,774.86</u>
EXPENSES				
Operating expenses (Note 14):				
Salaries and wages	9,518,702.20	9,698,536.11	-	-
Benefits	2,872,520.39	2,724,823.70	-	-
Utilities, supplies, and other services	2,622,842.46	2,428,748.54	270,088.79	478,568.10
Scholarships and fellowships	1,832,256.42	2,536,644.82	119,960.70	148,513.20
Depreciation expense	813,312.09	724,004.24	3,224.58	-
Payments to or on behalf of Motlow State Community College	-	-	26,577.76	45,084.99
Total operating expenses	<u>17,659,633.56</u>	<u>18,112,757.41</u>	<u>419,851.83</u>	<u>672,166.29</u>
Operating income (loss)	<u>(12,439,894.11)</u>	<u>(13,258,836.54)</u>	<u>959,732.65</u>	<u>(77,391.43)</u>
NONOPERATING REVENUES (EXPENSES)				
State appropriations	8,892,600.00	9,041,170.00	-	-
Gifts (college gifts include \$26,577.76 from component unit in 2004 and \$45,084.99 in 2003)	37,721.01	71,967.26	-	-
Grants and contracts	2,748,689.00	3,219,906.00	-	-
Investment income (for component unit, net of investment expense of \$10,281.48 in 2004 and \$11,621.13 in 2003)	35,004.92	56,899.00	259,345.44	(263,530.22)
Other nonoperating revenues (expenses)	<u>(41,334.77)</u>	<u>(253,362.44)</u>	<u>-</u>	<u>(85,000.00)</u>
Net nonoperating revenues	<u>11,672,680.16</u>	<u>12,136,579.82</u>	<u>259,345.44</u>	<u>(348,530.22)</u>
Income (loss) before other revenues, expenses, gains, or losses	<u>(767,213.95)</u>	<u>(1,122,256.72)</u>	<u>1,219,078.09</u>	<u>(425,921.65)</u>
Capital appropriations	1,205,597.78	1,986,402.88	-	-
Capital grants and gifts	1,278.86	-	-	-
Additions to permanent endowments	-	-	4,826.30	132,800.35
Total other revenues	<u>1,206,876.64</u>	<u>1,986,402.88</u>	<u>4,826.30</u>	<u>132,800.35</u>
Increase (decrease) in net assets	<u>439,662.69</u>	<u>864,146.16</u>	<u>1,223,904.39</u>	<u>(293,121.30)</u>
NET ASSETS				
Net assets - beginning of year	<u>18,765,438.84</u>	<u>17,901,292.68</u>	<u>3,660,638.21</u>	<u>3,953,759.51</u>
Net assets - end of year	<u>\$ 19,205,101.53</u>	<u>\$ 18,765,438.84</u>	<u>\$ 4,884,542.60</u>	<u>\$ 3,660,638.21</u>

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

**TENNESSEE BOARD OF REGENTS
MOTLOW STATE COMMUNITY COLLEGE
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2004, AND JUNE 30, 2003**

	Year Ended <u>June 30, 2004</u>	Year Ended <u>June 30, 2003</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Tuition and fees	\$ 4,562,740.59	\$ 3,952,147.69
Grants and contracts	434,800.90	537,701.31
Sales and services of educational activities	440.76	378.14
Payments to suppliers and vendors	(2,583,259.42)	(2,476,734.05)
Payments to employees	(9,506,221.10)	(9,647,343.09)
Payments for benefits	(2,838,373.03)	(2,624,529.08)
Payments for scholarships and fellowships	(1,832,256.42)	(2,536,644.82)
Auxiliary enterprise charges:		
Bookstore	139,956.00	163,237.00
Other	7,676.19	8,350.85
Other receipts (payments)	94,307.37	99,365.21
Net cash used by operating activities	<u>(11,520,188.16)</u>	<u>(12,524,070.84)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State appropriations	8,893,000.00	9,090,635.74
Gifts and grants received for other than capital or endowment purposes	2,727,290.01	3,291,873.26
Federal student loan receipts	898,678.00	2,339,250.00
Federal student loan disbursements	(898,678.00)	(2,339,250.00)
Changes in deposits held for others	28,371.47	312,918.38
Other non-capital receipts (payments)	-	(29,775.92)
Net cash provided by noncapital financing activities	<u>11,648,661.48</u>	<u>12,665,651.46</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital appropriations	1,205,597.78	1,985,985.11
Capital grants and gifts received	5,647.00	-
Purchases of capital assets and construction	(1,153,206.76)	(1,981,567.15)
Other capital and related financing receipts (payments)	(36,724.43)	(219,371.36)
Net cash provided (used) by capital and related financing activities	<u>21,313.59</u>	<u>(214,953.40)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of investments	-	414,130.55
Income on investments	35,090.10	57,100.58
Net cash provided by investing activities	<u>35,090.10</u>	<u>471,231.13</u>
Net increase in cash and cash equivalents	184,877.01	397,858.35
Cash and cash equivalents at beginning of year	5,173,379.84	4,775,521.49
Cash and cash equivalents at end of year	<u>\$ 5,358,256.85</u>	<u>\$ 5,173,379.84</u>

**TENNESSEE BOARD OF REGENTS
MOTLOW STATE COMMUNITY COLLEGE
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2004, AND JUNE 30, 2003**

	Year Ended <u>June 30, 2004</u>	Year Ended <u>June 30, 2003</u>
Reconciliation of operating loss to net cash used by operating activities:		
Operating loss	\$ (12,439,894.11)	\$ (13,258,836.54)
Adjustments to reconcile operating loss to net cash used by operating activities:		
Depreciation expense	813,312.09	724,004.24
Change in assets and liabilities:		
Receivables, net	20,121.96	(76,106.15)
Inventories	(4,993.19)	(2,985.97)
Prepaid/deferred items	(520.80)	313.25
Accounts payable	8,812.51	(9,301.41)
Accrued liabilities	6,792.51	121,937.06
Deferred revenue	36,344.92	(47,249.90)
Compensated absences	39,835.95	29,550.58
Other	-	(5,396.00)
Net cash used by operating activities	<u>\$ (11,520,188.16)</u>	<u>\$ (12,524,070.84)</u>

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

**Tennessee Board of Regents
Motlow State Community College
Notes to the Financial Statements
June 30, 2004, and June 30, 2003**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The college is a part of the State University and Community College System of Tennessee (Tennessee Board of Regents). This system is a component unit of the State of Tennessee because the state appoints a majority of the system's governing body and provides financial support; the system is discretely presented in the *Tennessee Comprehensive Annual Financial Report*.

Basis of Presentation

The financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB). In June 1999, the GASB issued Statement 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*. This was followed in November 1999 by GASB Statement 35, *Basic Financial Statements—and Management's Discussion and Analysis—for Public Colleges and Universities* and in May 2002, by GASB Statement 39, *Determining Whether Certain Organizations Are Component Units*. The financial statement presentation required by those statements provides a comprehensive, entity-wide perspective of the college's, including its component unit's, assets, liabilities, net assets, revenues, expenses, changes in net assets, and cash flows.

Basis of Accounting

For financial statement purposes, the college is considered a special-purpose government engaged only in business-type activities. Accordingly, the financial statements have been prepared using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. All significant interfund transactions have been eliminated.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. The college has the option of following private-sector guidance issued subsequent to November 30, 1989, subject to the above limitation. The college has

**Tennessee Board of Regents
Motlow State Community College
Notes to the Financial Statements (Cont.)
June 30, 2004, and June 30, 2003**

elected not to follow private-sector guidance issued subsequent to November 30, 1989.

Amounts reported as operating revenues include (1) tuition and fees, net of waivers and discounts; (2) federal and state grants and contracts; (3) sales and services of auxiliary enterprises; and (4) other sources of revenue. Operating expenses for the college include (1) salaries and wages; (2) employee benefits; (3) scholarships and fellowships; (4) depreciation; and (5) utilities, supplies, and other services.

All other activity is nonoperating in nature and includes (1) state appropriations for operations; (2) investment income; and (3) nonoperating gifts and grants.

When both restricted and unrestricted resources are available for use, generally it is the college's policy to use the restricted resources first.

Inventories

Inventories are valued at the lower of cost or market on a first-in, first-out basis.

Compensated Absences

The college's employees accrue annual leave at varying rates, depending on length of service or classification. Some employees also earn compensatory time. The amount of these liabilities and their related benefits are reported in the statement of net assets.

Capital Assets

Capital assets, which include property, plant, equipment, and library holdings, are reported in the statement of net assets at historical cost or at fair value at date of donation, less accumulated depreciation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's useful life are not capitalized.

A capitalization threshold of \$100,000 is used for buildings, and \$50,000 is used for infrastructure. Equipment is capitalized when the unit acquisition cost is \$5,000 or greater. The capitalization threshold for additions and improvements to buildings and land is set at \$50,000.

These assets, with the exception of land, are depreciated using the straight-line method over the estimated useful lives, which range from 5 to 40 years.

**Tennessee Board of Regents
Motlow State Community College
Notes to the Financial Statements (Cont.)
June 30, 2004, and June 30, 2003**

Net Assets

The college's net assets are classified as follows:

Invested in capital assets – This represents the college's total investment in capital assets.

Expendable restricted net assets – Expendable restricted net assets include resources which the college is legally or contractually obligated to spend in accordance with restrictions imposed by external third parties.

Unrestricted net assets – Unrestricted net assets represent resources derived from student tuition and fees, state appropriations, and sales and services of educational departments and auxiliary enterprises. These resources are used for transactions relating to the educational and general operations of the college, and may be used at the discretion of the college to meet current expenses for any purpose. The auxiliary enterprises are substantially self-supporting activities that provide services for students, faculty, and staff.

Scholarship Discounts and Allowances

Student tuition and fee revenues, and certain other revenues from students, are reported net of scholarship discounts and allowances in the statement of revenues, expenses, and changes in net assets. Scholarship discounts and allowances are the difference between the stated charge for goods and services provided by the college and the amount that is paid by the student and/or third parties making payments on the student's behalf. Certain governmental grants, such as Pell grants, and other federal, state, or nongovernmental programs, are recorded as either operating or nonoperating revenues in the college's financial statements. To the extent that revenues from such programs are used to satisfy tuition and fees and other student charges, the college has recorded a scholarship discount and allowance.

NOTE 2. CASH AND CASH EQUIVALENTS

In addition to demand deposits and petty cash on hand, this classification includes instruments which are readily convertible to known amounts of cash and which have original maturities of three months or less. At June 30, 2004, cash and cash equivalents consisted of \$370,163.97 in bank accounts, \$950.00 of petty cash on hand, \$4,883,794.60 in the State of Tennessee Local Government Investment Pool administered by the State Treasurer, and \$103,348.28 in money market mutual funds.

**Tennessee Board of Regents
Motlow State Community College
Notes to the Financial Statements (Cont.)
June 30, 2004, and June 30, 2003**

At June 30, 2003, cash and cash equivalents consisted of \$266,846.32 in bank accounts, \$900.00 of petty cash on hand, \$4,312,512.99 in the State of Tennessee Local Government Investment Pool administered by the State Treasurer, and \$593,120.53 in money market mutual funds.

NOTE 3. DEPOSITS

Some of the college's deposits are in financial institutions that participate in the bank collateral pool administered by the State Treasurer. The securities pledged to protect these accounts are pledged in the aggregate rather than against each individual account. The members of the pool may be required by agreement to pay an assessment to cover any deficiency. Under this additional assessment agreement, public fund accounts covered by the pool are considered to be insured for purposes of credit risk disclosure.

At June 30, 2004, the carrying amount of the college's deposits in financial institutions participating in the collateral pool was \$370,163.97, and the bank balance including accrued interest was \$677,730.47. The bank balance was insured. At June 30, 2003, the carrying amount of the college's deposits in financial institutions participating in the collateral pool was \$266,846.32, and the bank balance including accrued interest was \$534,137.24. The bank balance was insured.

The laws of the State of Tennessee require that collateral be pledged to secure all uninsured deposits. Tennessee Board of Regents policies require that the market value of collateral pledged equal 115%, 100%, or 90% of the uninsured deposits at financial institutions participating in the collateral pool and 105% of the uninsured deposits at all other financial institutions. The pledge level for financial institutions participating in the collateral pool is based on financial criteria set by the Collateral Pool Board with the financially strongest institutions being eligible for the lowest pledge level.

Deposits with financial institutions are required to be categorized to indicate the level of risk assumed by the college. Category 1 consists of deposits that are insured or collateralized with securities held by the college or by its agent in the college's name. Category 2 consists of deposits collateralized with securities held by the pledging financial institution's trust department or agent in the college's name. Category 3 deposits are uncollateralized. This category includes any bank balance that is

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Motlow State Community College
Notes to the Financial Statements (Cont.)
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collateralized with securities held by the pledging financial institution or by its trust department or agent but not in the college's name.

At June 30, 2004, the carrying amount of the college's deposits was \$1,070,163.97, and the bank balance including accrued interest was \$1,377,730.47. Of the bank balance, \$1,377,730.47 was category 1.

At June 30, 2003, the carrying amount of the college's deposits was \$666,846.32, and the bank balance including accrued interest was \$934,137.24. Of the bank balance, \$934,137.24 was category 1.

The college also has deposits in the Local Government Investment Pool (LGIP) administered by the State Treasurer. The LGIP is part of the Pooled Investment Fund. The fund's investment policy and custodial credit risk are presented in the *Tennessee Comprehensive Annual Financial Report*. That report may be obtained by writing to the Tennessee Department of Finance and Administration, Division of Accounts, 14th Floor William R. Snodgrass Tennessee Tower, 312 Eighth Avenue North, Nashville, Tennessee 37243-0298, or by calling (615) 741-2140.

NOTE 4. INVESTMENTS

The college is authorized by statute to invest funds in accordance with Tennessee Board of Regents policies. Under the current policy, funds other than endowments may be invested only in obligations of the United States or its agencies backed by the full faith and credit of the United States; repurchase agreements for United States securities; certificates of deposit in banks and savings and loan associations; bankers' acceptances; commercial paper; money market mutual funds; and the State of Tennessee Local Government Investment Pool. The policy requires that investments of endowments in equity securities be limited to funds from private gifts or other sources external to the college and that endowment investments be prudently diversified. The Motlow College Foundation is authorized to invest funds in accordance with its board of directors' policies.

All investments permitted to be reported at fair value under GASB Statement 31 are reported at fair value, including those with a maturity date of one year or less at the time of purchase. Certificates of deposit have been included with other deposits in Note 3 to determine the adequacy of collateral security pledged.

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Notes to the Financial Statements (Cont.)
June 30, 2004, and June 30, 2003**

The foundation's investments are categorized below to indicate the level of risk assumed by the foundation at year-end. Category 1 consists of insured or registered investments or investments for which the securities are held by the foundation or its agent in the foundation's name. Category 2 consists of uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the foundation's name. Category 3 consists of uninsured and unregistered investments for which the securities are held by the counterparty or by its trust department or agent but not in the foundation's name.

	<u>June 30, 2004</u>	<u>June 30, 2003</u>
Category 2:		
U.S. government securities	\$ -	\$126,815.78
Investments not susceptible to credit risk categorization:		
Mutual funds	2,213,377.83	2,033,640.82
Certificates of deposit classified as investments	700,000.00	400,000.00
Amount classified as cash equivalents	<u>(103,348.28)</u>	<u>(593,120.53)</u>
Total	<u>\$2,810,029.55</u>	<u>\$1,967,336.07</u>

NOTE 5. RECEIVABLES

Receivables included the following:

	<u>June 30, 2004</u>	<u>June 30, 2003</u>
Student accounts receivable	\$174,761.42	\$155,171.62
Grants receivable	154,595.37	103,054.83
State appropriation receivable	25,287.26	31,334.26
Other receivables	128,034.93	156,418.04
Subtotal	482,678.98	445,978.75
Less allowance for doubtful accounts	<u>57,539.47</u>	<u>56,128.60</u>
Total receivables	<u>\$425,139.51</u>	<u>\$389,850.15</u>

Federal Perkins Loan Program funds included the following:

**Tennessee Board of Regents
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Notes to the Financial Statements (Cont.)
June 30, 2004, and June 30, 2003**

	<u>June 30, 2004</u>	<u>June 30, 2003</u>
Perkins loans receivable	\$49.13	\$10,407.44
Less allowance for doubtful accounts	<u>(49.13)</u>	<u>(10,407.44)</u>
 Total	 <u>\$ -</u>	 <u>\$ -</u>

NOTE 6. PLEDGES RECEIVABLE

Pledges receivable are promises of private donations that are reported as a receivable and revenue, net of an estimated uncollectible allowance of \$5,215.00 at June 30, 2004, and no allowance at June 30, 2003.

NOTE 7. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2004, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Transfers</u>	<u>Reductions</u>	<u>Ending Balance</u>
Land	\$171,100.00	\$ -	\$ -	\$ -	\$171,100.00
Land improvements and infrastructure	1,861,756.25	-	-	-	1,861,756.25
Buildings	18,063,668.06	-	2,931,677.19	-	20,995,345.25
Equipment	1,513,860.55	22,467.00	-	16,800.00	1,519,527.55
Library holdings	646,032.10	38,707.03	-	81,702.06	603,037.07
Projects in progress	<u>2,140,024.54</u>	<u>1,093,311.59</u>	<u>(2,931,677.19)</u>	-	<u>301,658.94</u>
 Total	 <u>24,396,441.50</u>	 <u>1,154,485.62</u>	 <u>-</u>	 <u>98,502.06</u>	 <u>25,452,425.06</u>
 Less accum. depreciation:					
Land improvements and infrastructure	989,807.52	70,071.74	-	-	1,059,879.26
Buildings	4,666,603.89	566,506.40	-	-	5,233,110.29
Equipment	1,025,521.71	116,430.26	-	12,746.66	1,129,205.31
Library holdings	<u>384,954.56</u>	<u>60,303.69</u>	-	<u>81,702.06</u>	<u>363,556.19</u>
 Total accum. depreciation	 <u>7,066,887.68</u>	 <u>813,312.09</u>	 <u>-</u>	 <u>94,448.72</u>	 <u>7,785,751.05</u>
 Capital assets, net	 <u>\$17,329,553.82</u>	 <u>\$341,173.53</u>	 <u>\$ -</u>	 <u>\$ 4,053.34</u>	 <u>\$17,666,674.01</u>

**Tennessee Board of Regents
Motlow State Community College
Notes to the Financial Statements (Cont.)
June 30, 2004, and June 30, 2003**

Capital asset activity for the year ended June 30, 2003, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Transfers</u>	<u>Reductions</u>	<u>Ending Balance</u>
Land	\$171,100.00	\$ -	\$ -	\$ -	\$171,100.00
Land improvements and infrastructure	1,439,037.68	-	422,718.57	-	1,861,756.25
Buildings	18,063,668.06	-	-	-	18,063,668.06
Equipment	1,500,903.83	79,759.52	-	66,802.80	1,513,860.55
Library holdings	723,278.08	40,516.69	-	117,762.67	646,032.10
Projects in progress	<u>655,888.64</u>	<u>1,906,854.47</u>	<u>(422,718.57)</u>	<u>-</u>	<u>2,140,024.54</u>
Total	<u>22,553,876.29</u>	<u>2,027,130.68</u>	<u>-</u>	<u>184,565.47</u>	<u>24,396,441.50</u>
Less accum. depreciation:					
Land improvements and infrastructure	919,735.77	70,071.75	-	-	989,807.52
Buildings	4,210,976.22	454,627.69	-	(999.98)	4,666,603.89
Equipment	938,251.55	134,701.60	-	47,431.44	1,025,521.71
Library holdings	<u>438,114.03</u>	<u>64,603.20</u>	<u>-</u>	<u>117,762.67</u>	<u>384,954.56</u>
Total accum. depreciation	<u>6,507,077.57</u>	<u>724,004.24</u>	<u>-</u>	<u>164,194.13</u>	<u>7,066,887.68</u>
Capital assets, net	<u>\$16,046,798.72</u>	<u>\$1,303,126.44</u>	<u>\$ -</u>	<u>\$20,371.34</u>	<u>\$17,329,553.82</u>

NOTE 8. LONG-TERM LIABILITIES

Long-term liabilities activity for the year ended June 30, 2004, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Current Portion</u>
Compensated absences	\$531,270.14	\$429,984.79	\$390,148.84	\$571,106.09	\$145,856.09

Long-term liabilities activity for the year ended June 30, 2003, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Current Portion</u>
Compensated absences	\$501,719.56	\$399,038.96	\$369,488.38	\$531,270.14	\$68,474.59

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 Notes to the Financial Statements (Cont.)
 June 30, 2004, and June 30, 2003**

NOTE 9. UNRESTRICTED NET ASSETS

Unrestricted net assets include funds that have been designated or reserved for specific purposes. The unrestricted net assets are composed of the following:

	<u>June 30, 2004</u>	<u>June 30, 2003</u>
Working capital	\$137,387.64	\$179,502.97
Encumbrances	3,553.53	16,673.36
Designated fees	4,017.03	16,058.21
Plant construction	428,373.35	459,840.40
Renewal and replacement of equipment	628,434.42	631,935.77
Unreserved/undesignated	<u>182,530.10</u>	<u>(45,270.14)</u>
Total	<u>\$1,384,296.07</u>	<u>\$1,258,740.57</u>

NOTE 10. PENSION PLANS

A. Defined Benefit Plan

Tennessee Consolidated Retirement System

Plan Description - The college contributes to the State Employees, Teachers, and Higher Education Employees Pension Plan (SETHEEPP), a cost-sharing, multiple-employer, defined benefit pension plan administered by the Tennessee Consolidated Retirement System (TCRS). TCRS provides retirement, death, and disability benefits as well as annual cost-of-living adjustments to plan members and their beneficiaries. Title 8, Chapters 34-37, *Tennessee Code Annotated*, establishes benefit provisions. State statutes are amended by the Tennessee General Assembly.

The TCRS issues a publicly available financial report that includes financial statements and required supplementary information for SETHEEPP. That report may be obtained by writing to the Tennessee Department of the Treasury, Consolidated Retirement System, 10th Floor Andrew Jackson Building, Nashville, Tennessee 37243-0230, or by calling (615) 741-8202.

Funding Policy - Plan members are noncontributory. The college is required to contribute an actuarially determined rate. The current rate is 7.3% of annual

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June 30, 2004, and June 30, 2003**

covered payroll. Contribution requirements for the college are established and may be amended by the TCRS' Board of Trustees. The college's contributions to TCRS for the years ended June 30, 2004, 2003, and 2002 were \$439,794.74, \$448,827.09, and \$371,482.99. Contributions met the requirements for each year.

B. Defined Contribution Plans

Optional Retirement Plans (ORP)

Plan Description - The college contributes to three defined contribution plans: Teachers Insurance and Annuity Association-College Retirement Equities Fund (TIAA-CREF), Aetna Life Insurance and Annuity Company, and Variable Annuity Life Insurance Company (VALIC). These plans are administered by the Tennessee Department of the Treasury. Each plan provides retirement benefits to faculty and staff who are exempt from the overtime provisions of the Fair Labor Standards Act and who waive membership in the TCRS. Benefits depend solely on amounts contributed to the plan plus investment earnings. Plan provisions are established by state statute in Title 8, Chapter 35, Part 4, *Tennessee Code Annotated*. State statutes are amended by the Tennessee General Assembly.

Funding Policy - Plan members are noncontributory. The college contributes an amount equal to 10% of the employee's base salary up to the social security wage base and 11% above the social security wage base. Contribution requirements are established and amended by state statute. The contribution made by the college to the plans was \$265,181.08 for the year ended June 30, 2004, and \$259,564.39 for the year ended June 30, 2003. Contributions met the requirements for each year.

NOTE 11. OTHER POST-EMPLOYMENT BENEFITS

The State of Tennessee administers a group health insurance program which provides post-employment health insurance benefits to eligible college retirees. This benefit is provided and administered by the State of Tennessee. The college assumes no liability for retiree health care programs. Information related to this plan is available at the statewide level in the *Tennessee Comprehensive Annual Financial Report*. That report may be obtained by writing to the Tennessee Department of Finance and Administration, Division of Accounts, 14th Floor William R. Snodgrass Tennessee

**Tennessee Board of Regents
Motlow State Community College
Notes to the Financial Statements (Cont.)
June 30, 2004, and June 30, 2003**

Tower, 312 Eighth Avenue North, Nashville, Tennessee 37243-0298, or by calling (615) 741-2140.

NOTE 12. INSURANCE-RELATED ACTIVITIES

It is the policy of the state not to purchase commercial insurance for the risks of losses for general liability, automobile liability, professional malpractice, and workers' compensation. The state's management believes it is more economical to manage these risks internally and set aside assets for claim settlement in its internal service fund, the Risk Management Fund. The state purchases commercial insurance for real property, flood, earthquake, and builder's risk losses and surety bond coverage on the state's officials and employees. The Risk Management Fund is also responsible for claims for damage to state owned property up to the amount of the property insurance aggregate deductible amount. The insurance policy deductibles vary from \$25,000 per occurrence, depending on the type of coverage, to an aggregate of \$7.5 million.

The college participates in the Risk Management Fund. The fund allocates the cost of providing claims servicing and claims payment by charging a premium to the college based on a percentage of the college's expected loss costs, which include both experience and exposures. This charge considers recent trends in actual claims experience of the state as a whole. An actuarial valuation is performed as of fiscal year-end to determine the fund liability and premium allocation. Since the college participates in the Risk Management Fund, it is subject to the liability limitations under the provisions of the Tennessee Claims Commission Act, *Tennessee Code Annotated*, Section 9-8-101 et seq. Liability for negligence of the college for bodily injury and property damage is limited to \$300,000 per person and \$1,000,000 per occurrence. The limits of liability under workers' compensation are set forth in *Tennessee Code Annotated*, Section 50-6-101 et seq. Claims are paid through the state's Risk Management Fund. At June 30, 2004, the Risk Management Fund held \$101.1 million in cash designated for payment of claims.

During the year ended June 30, 2003, the state incurred 13 property claims which exceeded the per occurrence deductible. The gross amount of claims for the period was approximately \$7.2 million, of which the state's property insurance carrier will ultimately assume approximately \$2.2 million.

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Motlow State Community College
Notes to the Financial Statements (Cont.)
June 30, 2004, and June 30, 2003**

At June 30, 2004, the scheduled coverage for the college was \$24,586,200 for buildings and \$10,585,000 for contents. At June 30, 2003, the scheduled coverage for the college was \$24,815,500 for buildings and \$10,595,000 for contents.

The state has also set aside assets in the Employee Group Insurance Fund, an internal service fund, to provide a program of health insurance coverage for the employees of the state with the risk retained by the state. The college participates in the Employee Group Insurance Fund. The fund allocates the cost of providing claims servicing and claims payment by charging a premium to the college based on estimates of the ultimate cost of claims that have been reported but not settled and of claims that have been incurred but not reported. Employees and providers have 13 months to file medical claims.

NOTE 13. COMMITMENTS AND CONTINGENCIES

Sick Leave - The college records the cost of sick leave when paid. Generally, since sick leave (earned one day per month with unlimited accumulation) is paid only when an employee dies or is absent because of illness, injury, or related family death, there is no liability for sick leave at June 30. The dollar amount of unused sick leave was \$3,987,171.50 at June 30, 2004, and \$3,956,065.03 at June 30, 2003.

Operating Leases - The college has entered into various operating leases for buildings and equipment. Such leases will probably continue to be required. Expenses under operating leases for personal property were \$14,682.20 for the year ended June 30, 2004. The college had no operating leases for the year ended June 30, 2003. All operating leases are cancelable at lessee's option.

Construction in Progress - At June 30, 2004, outstanding commitments under construction contracts totaled \$1,983,256.41 for the Rutherford County Teaching Facility project and the Building Systems Equipment Replacement project, of which \$1,983,256.41 will be funded by future state capital outlay appropriations.

NOTE 14. NATURAL CLASSIFICATIONS WITH FUNCTIONAL CLASSIFICATIONS

The college's operating expenses by functional classification for the year ended June 30, 2004, are as follows:

**Tennessee Board of Regents
Motlow State Community College
Notes to the Financial Statements (Cont.)
June 30, 2004, and June 30, 2003**

<u>Functional Classification</u>	<u>Salaries</u>	<u>Benefits</u>	<u>Natural Classification</u>			<u>Total</u>
			<u>Other Operating</u>	<u>Scholarships</u>	<u>Depreciation</u>	
Instruction	\$5,582,491.99	\$1,530,973.25	\$1,141,458.84	\$106,601.52	\$ -	\$8,361,525.60
Public service	165,299.54	53,097.80	45,733.17	2,271.00	-	266,401.51
Academic support	779,689.88	245,707.42	-	7,948.50	-	1,033,345.80
Student services	969,966.88	356,503.58	439,430.44	179,833.90	-	1,945,734.80
Institutional support	1,497,623.61	472,423.24	260,706.65	12,232.88	-	2,242,986.38
Operation & maintenance of plant	523,630.30	213,815.10	732,168.35	2,271.00	-	1,471,884.75
Scholarships & fellowships	-	-	3,345.01	1,521,097.62	-	1,524,442.63
Depreciation	-	-	-	-	813,312.09	813,312.09
Total	<u>\$9,518,702.20</u>	<u>\$2,872,520.39</u>	<u>\$2,622,842.46</u>	<u>\$1,832,256.42</u>	<u>\$813,312.09</u>	<u>\$17,659,633.56</u>

The college's operating expenses by functional classification for the year ended June 30, 2003, are as follows:

<u>Functional Classification</u>	<u>Salaries</u>	<u>Benefits</u>	<u>Natural Classification</u>			<u>Total</u>
			<u>Other Operating</u>	<u>Scholarships</u>	<u>Depreciation</u>	
Instruction	\$5,918,902.58	\$1,504,896.20	\$990,572.63	\$97,536.08	\$ -	\$8,511,907.49
Public service	192,787.27	53,077.88	38,733.27	10,867.25	-	295,465.67
Academic support	721,538.13	209,286.11	-	20,422.15	-	951,246.39
Student services	783,482.68	267,185.39	438,126.95	78,603.90	-	1,567,398.92
Institutional support	1,541,008.04	431,997.36	210,778.22	6,221.00	-	2,190,004.62
Operation & maintenance of plant	538,409.61	258,261.51	749,232.53	2,622.00	-	1,548,525.65
Scholarships & fellowships	2,407.80	119.25	770.81	2,320,372.44	-	2,323,670.30
Auxiliary	-	-	534.13	-	-	534.13
Depreciation	-	-	-	-	724,004.24	724,004.24
Total	<u>\$9,698,536.11</u>	<u>\$2,724,823.70</u>	<u>\$2,428,748.54</u>	<u>\$2,536,644.82</u>	<u>\$724,004.24</u>	<u>\$18,112,757.41</u>

**Tennessee Board of Regents
Motlow State Community College
Notes to the Financial Statements (Cont.)
June 30, 2004, and June 30, 2003**

NOTE 15. COMPONENT UNIT

The Motlow College Foundation is a legally separate, tax-exempt organization supporting Motlow State Community College. The foundation acts primarily as a fund-raising organization to supplement the resources that are available to the college in support of its programs. The 69-member board of the foundation is self-perpetuating and consists of graduates and friends of the college. Although the college does not control the timing or amount of receipts from the foundation, the majority of resources, or income thereon, that the foundation holds and invests are restricted to the activities of the college by the donors. Because these restricted resources held by the foundation can only be used by, or for the benefit of, the college, the foundation is considered a component unit of the college and is discretely presented in the college's financial statements.

The foundation is a nonprofit organization that reports under Financial Accounting Standards Board (FASB) standards, including FASB Statement 117, *Financial Statements of Not-for-Profit Organizations*. As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features. With the exception of necessary presentation reformatting, no modifications have been made to the foundation's financial information in the college's financial statements for these differences.

During the year ended June 30, 2004, the foundation made distributions of \$26,577.76 to or on behalf of the college for both restricted and unrestricted purposes. During the year ended June 30, 2003, the foundation made distributions of \$45,084.99 to or on behalf of the college for both restricted and unrestricted purposes. Complete financial statements for the foundation can be obtained from Mike Posey, Treasurer, Motlow College Foundation, P. O. Box 8500, Lynchburg, TN 37352.

Deposits with college - Deposits with college consists of certain assets of the foundation that are held and managed by the college for the foundation. At June 30, 2004, these assets include \$1,207,578.79 in cash and cash equivalents, \$2,810,029.55 in investments, and \$778,162.41 in receivables. At June 30, 2003, these assets include \$1,470,071.34 in cash and cash equivalents, \$1,967,336.07 in investments, and \$126,230.26 in receivables. These assets have been reported by the college and included in the college's applicable note disclosures above.

**Tennessee Board of Regents
 Motlow State Community College
 Notes to the Financial Statements (Cont.)
 June 30, 2004, and June 30, 2003**

Capital assets - Capital assets at June 30, 2004, and June 30, 2003, were as follows:

	<u>June 30, 2004</u>	<u>June 30, 2003</u>
Buildings	\$128,983.00	\$ -
Projects in progress	_____ -	<u>104,500.00</u>
Total	<u>128,983.00</u>	<u>104,500.00</u>
Less accumulated depreciation:		
Buildings	<u>3,224.58</u>	_____ -
Total accumulated depreciation	<u>3,224.58</u>	_____ -
Capital assets, net	<u>\$125,758.42</u>	<u>\$104,500.00</u>

**TENNESSEE BOARD OF REGENTS
MOTLOW STATE COMMUNITY COLLEGE
SUPPLEMENTARY INFORMATION
STATEMENTS OF CASH FLOWS - COMPONENT UNIT
FOR THE YEARS ENDED JUNE 30, 2004, AND JUNE 30, 2003**

	<u>Year Ended June 30, 2004</u>	<u>Year Ended June 30, 2003</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Gifts and contributions	\$ 502,581.49	\$ 237,908.15
Endowment income per spending plan	39,321.85	80,475.62
Payments to suppliers and vendors	(61,235.05)	(96,332.86)
Payments for scholarships and fellowships	(119,960.70)	(148,513.20)
Payments to Motlow State Community College	-	(45,084.99)
Auxiliary enterprise charges	4,292.70	4,814.76
Other receipts	4,000.00	2,995.00
Net cash provided by operating activities	<u>369,000.29</u>	<u>36,262.48</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Private gifts for endowment purposes	39,965.00	132,800.35
Changes in deposits held for others	(399.98)	(358.58)
Other noncapital financing receipts (payments)	<u>(3,216.60)</u>	<u>3,216.60</u>
Net cash provided by noncapital financing activities	<u>36,348.42</u>	<u>135,658.37</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from sale of capital assets	-	35,000.00
Purchases of capital assets and construction	<u>(21,815.42)</u>	<u>(103,943.00)</u>
Net cash used by capital and related financing activities	<u>(21,815.42)</u>	<u>(68,943.00)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of investments	27,336.85	387,200.40
Income on investments	3,169.97	-
Purchases of investments	<u>(676,532.66)</u>	<u>-</u>
Net cash provided (used) by investing activities	<u>(646,025.84)</u>	<u>387,200.40</u>
Net increase (decrease) in cash and cash equivalents	(262,492.55)	490,178.25
Cash and cash equivalents at beginning of year	1,470,071.34	979,893.09
Cash and cash equivalents at end of year	<u>\$ 1,207,578.79</u>	<u>\$ 1,470,071.34</u>
Reconciliation of operating income (loss) to net cash provided by operating activities:		
Operating income (loss)	\$ 959,732.65	\$ (77,391.43)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
Depreciation expense	3,224.58	-
Change in assets and liabilities:		
Receivables, net	(645,601.23)	113,653.91
Other assets	21,815.42	-
Accounts payable	<u>29,828.87</u>	<u>-</u>
Net cash provided by operating activities	<u>\$ 369,000.29</u>	<u>\$ 36,262.48</u>
Noncash transactions		
Gifts in-kind	\$ 183,787.21	\$ 382,235.24
Unrealized gains on investments	169,906.98	219,575.41
Loss on disposal of capital assets	-	285,000.00