Tennessee Board of Regents
Jackson State Community College

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

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STATE OF TENNESSEE

COMPTROLLER OF THE TREASURY

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

John G. Morgan
Comptroller

March 15, 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. Bruce Blanding, President
Jackson State Community College
2046 North Parkway
Jackson, Tennessee 38301

Ladies and Gentlemen:

Transmitted herewith is the financial and compliance audit of the Tennessee Board of Regents, Jackson State Community College, for the years ended June 30, 2004, and June 30, 2003. 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/sah
05/038

State of Tennessee

Audit Highlights

Comptroller of the Treasury Division of State Audit

Financial and Compliance Audit
Jackson 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.

OPINION ON THE FINANCIAL STATEMENTS

The opinion on the financial statements is unqualified.

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

TABLE OF CONTENTS

	Exhibit	Page
INTRODUCTION		1
Post-Audit Authority		1
Background		1
Organization		1
AUDIT SCOPE		2
OBJECTIVES OF THE AUDIT		2
PRIOR AUDIT FINDINGS		2
OBSERVATIONS AND COMMENTS		3
Fraud Considerations		3
Technology Centers		3
RESULTS OF THE AUDIT		4
Audit Conclusions		4
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*		5
FINANCIAL SECTION		
Independent Auditor's Report		7
Management's Discussion and Analysis		9
Financial Statements		

TABLE OF CONTENTS (CONT.)

	Exhibit	Page
Statements of Net Assets	A	27
Statements of Revenues, Expenses, and Changes in Net Assets	B	28
Statements of Cash Flows	C	29
Notes to the Financial Statements		31
Supplementary Information		
Statements of Cash Flows - Component Unit		45

Tennessee Board of Regents
Jackson 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, Jackson 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

The idea for Tennessee's community college system was conceived in 1957, when the state legislature ordered a study of community college programs, resulting in the Pierce-Albright Report. Acting on the recommendation of the Governor and the state's Department of Education, the General Assembly authorized the Department of Education to establish several community colleges throughout Tennessee. Jackson State Community College was established in 1965 and held its first classes in the fall of 1967. The General Assembly vested the governance of the college in the Tennessee Board of Regents on July 1, 1972.

The comprehensive higher education program at the college includes curricula to meet the needs of full-time students seeking to transfer to other colleges, students following an occupationally oriented program for immediate employment, and part-time students earning credits to apply at a later time toward an associate's degree.

ORGANIZATION

The governance of Jackson 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. Jackson 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

Jackson State Community College serves as the lead institution under agreements with the Tennessee Technology Center at Crump, the Tennessee Technology Center at Jackson, the Tennessee Technology Center at McKenzie, the Tennessee Technology Center at Paris, and the Tennessee Technology Center at Whiteville. Under these agreements, Jackson 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 an unqualified opinion on the college's financial statements.

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

March 2, 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 Jackson 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 March 2, 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 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 level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

However, we noted certain matters involving the internal control over financial reporting, which we have reported to the 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,

Arthur A. Hayes, Jr.

Arthur A. Hayes, Jr., CPA,
Director

AAH/sah

STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
DEPARTMENT OF AUDIT
DIVISION OF STATE AUDIT
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Independent Auditor's Report

March 2, 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 Jackson 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 of which the Comptroller of the Treasury serves as a member per state statutes include the State Building Commission and the Tennessee Higher Education Commission.

The Honorable John G. Morgan
March 2, 2005
Page Two

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

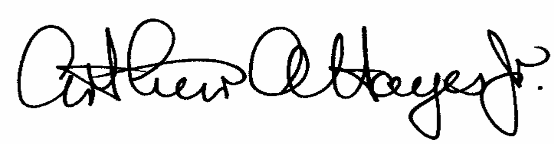
During the year ended June 30, 2004, the college implemented GASB Statement 39, *Determining Whether Certain Organizations Are Component Units.*

The management's discussion and analysis on pages 9 through 26 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.

Our audit was conducted for the purpose of forming opinions on the basic financial statements taken as a whole. The accompanying financial information on page 45 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 March 2, 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,



Arthur A. Hayes, Jr., CPA,
Director

Jackson State Community College
Management's Discussion and Analysis
For the Years Ended June 30, 2004, and June 30, 2003

This section of Jackson State Community College's annual financial report presents a discussion and analysis of the financial performance of the college during the fiscal years ended June 30, 2004, and 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.

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 Jackson State Community 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 corpus of nonexpendable restricted resources is only available for investment purposes. 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.

Statement of Net Assets (in thousands of dollars)

	College			Component Unit		
	2004	2003	2002	2004	2003	2002
Assets:						
Current assets	7,130	5,641	5,553	1,943	1,555	1,118
Capital assets, net	9,113	9,487	9,722	-	-	-
Other assets	3,394	3,527	2,589	530	812	1,121
Total assets	**19,637**	**18,655**	**17,864**	**2,473**	**2,367**	**2,239**
Liabilities:						
Current liabilities	6,055	5,079	4,673	-	-	16
Noncurrent liabilities	554	633	603	-	-	-
Total liabilities	**6,609**	**5,712**	**5,276**	-	-	**16**
Net assets:						
Invested in capital assets	9,113	9,487	9,722	-	-	-
Restricted – nonexpendable	-	-	-	638	615	594
Restricted – expendable	215	171	137	1,766	1,709	1,583
Unrestricted	3,700	3,285	2,729	69	43	46
Total net assets	**13,028**	**12,943**	**12,588**	**2,473**	**2,367**	**2,223**

- The college's current assets increased from 2003 due to a $1,280,000 increase in current cash and a $149,000 increase in current pledges receivable. Unrestricted general cash is higher by $390,000 in 2004 due to greater receipts from tuition and grants. Also, foundation cash held by the college increased by $238,000 in 2004. In 2003, an increase in cash caused current assets to increase by 2% primarily due to an increase of $246,000 in cash for unrestricted general funds.

- The college's net capital assets decreased by approximately $374,000 in 2004. Capital purchases amounted to $157,000 for office equipment, $15,000 for educational equipment, $68,000 for vehicles, and $63,000 for library holdings. Retirement of vehicles reduced net capital assets by $15,000. Depreciation for 2004 reduced capital assets by $663,000. Net capital assets decreased by approximately $235,000 in 2003. Depreciation for 2003 reduced net capital assets by approximately $742,000. Net capital assets in 2003 were increased by the installation of a new chiller for $210,000 and the purchase of equipment and library holdings for approximately $249,000.

- The college's other assets decreased in 2004 as a result of a $280,000 decline in noncurrent pledges receivable. In 2003, other assets increased by 36%, or $938,000, from the prior year. The college made transfers which reduced unexpended plant by approximately $646,000 and increased renewals and replacements by $1,276,000 resulting in a net increase to other assets of approximately $630,000.

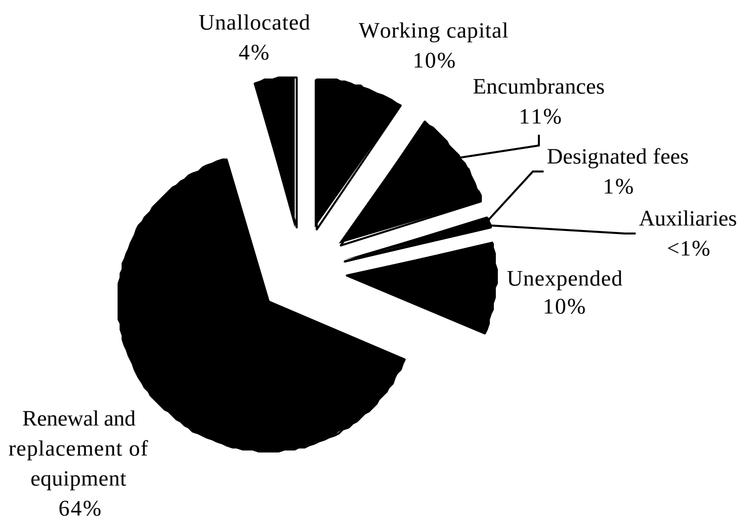
- The college's current liabilities increased from 2003 because of a $140,000 increase in accounts payable and a $101,000 increase in deferred revenue. Deferred revenue increased by 27% in 2004 due to an increase in tuition and fees for the 2004 summer terms. Current compensated absences also increased by $75,000 from 2003. In 2003, the college's current liabilities increased by 9% due to increases in accrued liabilities of $75,000, deferred revenue of $53,000, and deposits held in custody for others of $296,000.

- The college's noncurrent liabilities declined in 2004 due to an $87,000 decrease in noncurrent compensated absences.

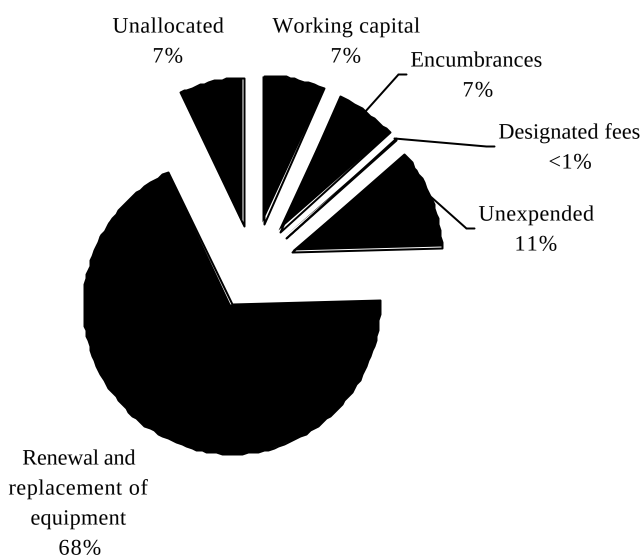
- The Jackson State Community College Foundation's (component unit) current assets increased in 2004 while its other assets decreased due to an increase of $149,000 in current pledges receivable and a decrease of $280,000 in noncurrent pledges receivable.

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

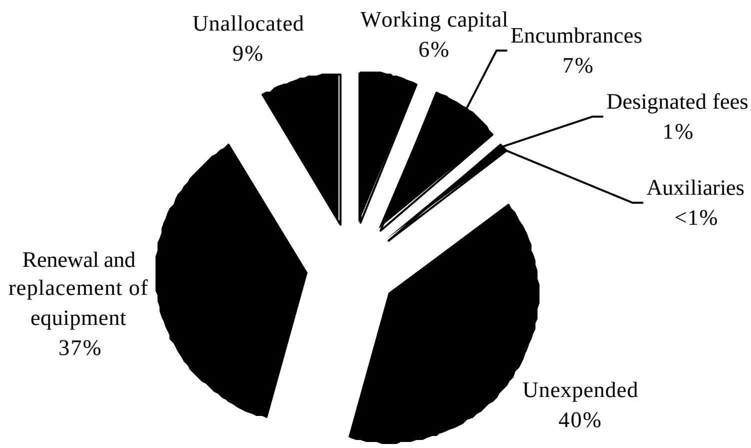
Unrestricted Net Assets JSCC FY 2004



Unrestricted Net Assets JSCC FY 2003



Unrestricted Net Assets JSCC FY 2002



- The college's unrestricted general net assets increased from 21% to 26% in 2004 due to $332,000 excess of unrestricted revenues over expenses and transfers.

- The college's renewals and replacements increased from 37% to 68% in 2003 and unexpended plant decreased from 40% to 11%. Transfers were made from unrestricted current funds to renewals and replacements for $515,000 and to unexpended plant funds for $115,000. In addition, $768,500 of unexpended plant funds was transferred to renewals and replacements in 2003.

- All of the Jackson State Community College Foundation's unrestricted net assets are unreserved/undesignated.

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.

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

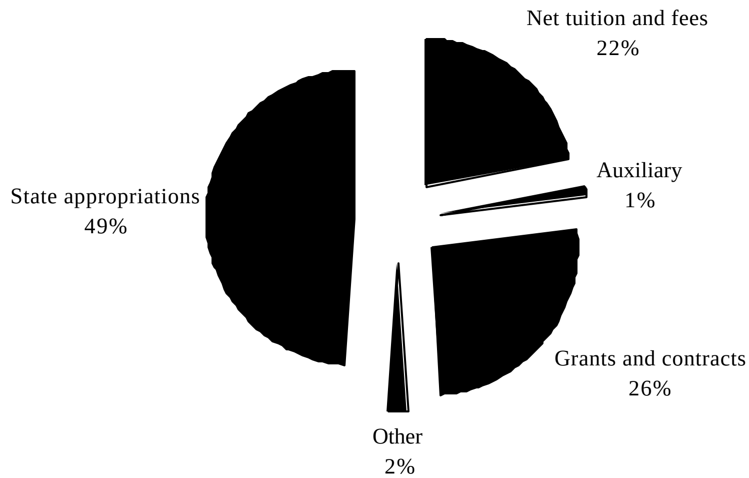
	College			Component Unit		
	2004	2003	2002	2004	2003	2002
Operating revenues:						
Net tuition and fees	5,091	4,313	3,941	-	-	-
Gifts	-	-	-	160	196	255
Grants and contracts	1,929	5,598	4,510	-	-	-
Auxiliary	120	128	122	-	-	-
Other	298	322	298	-	-	-
Total operating revenues	**7,438**	**10,361**	**8,871**	**160**	**196**	**255**
Operating expenses	22,663	21,297	19,130	123	137	132
Operating income (loss)	**(15,225)**	**(10,936)**	**(10,259)**	**37**	**59**	**123**
Nonoperating revenues and expenses:						
State appropriations	10,768	10,929	10,639	-	-	-
Gifts and grants	4,079	65	-	-	-	-
Investment income	58	78	94	65	72	47
Other revenues and expenses	(15)	(18)	(264)	-	-	-
Total nonoperating revenues and expenses	**14,890**	**11,054**	**10,469**	**65**	**72**	**47**
Income (loss) before other revenues, expenses, gains, or losses	**(335)**	**118**	**210**	**102**	**131**	**170**

Other revenues, expenses, gains, or losses:						
Capital appropriations	420	237	181	-	-	-
Additions to permanent endowments	-	-	-	4	13	13
Other	-	-	260	-	-	-
Total other revenues, expenses, gains, or losses	**420**	**237**	**441**	**4**	**13**	**13**
Increase in net assets	**85**	**355**	**651**	**106**	**144**	**183**
Net assets at beginning of year, as originally reported	12,943	12,588	24,594	2,367	2,223	2,040
Cumulative effect of changes in accounting principle	-	-	(12,657)	-	-	-
Net assets at beginning of year, as restated	**12,943**	**12,588**	**11,937**	**2,367**	**2,223**	**2,040**
Net assets at end of year	**13,028**	**12,943**	**12,588**	**2,473**	**2,367**	**2,223**

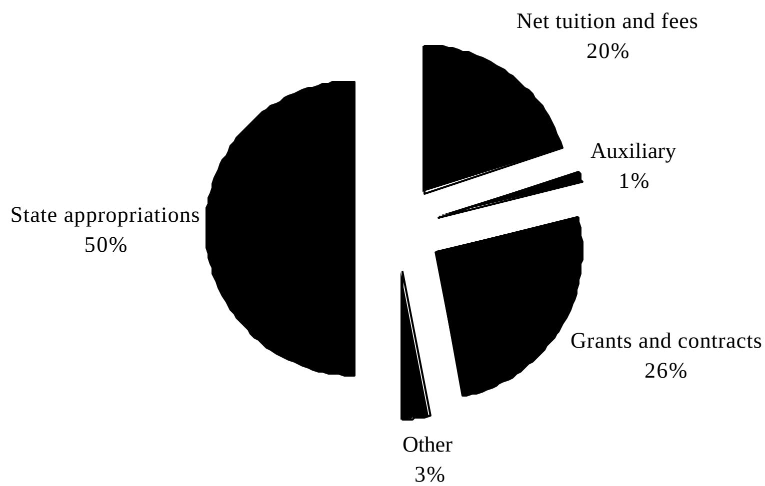
Revenues

The following are graphic illustrations of revenues by source (both operating and non-operating), which were used to fund the college's and its component unit's operating activities for the years ended June 30, 2004; June 30, 2003; and June 30, 2002.

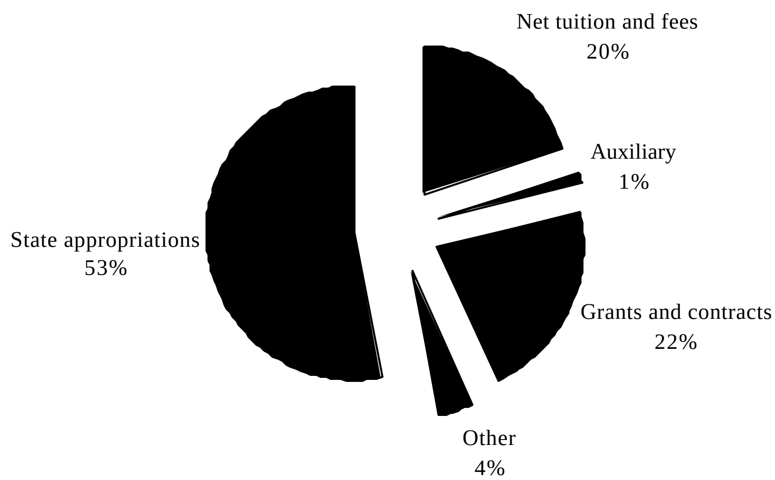
Revenues By Source JSCC FY 2004



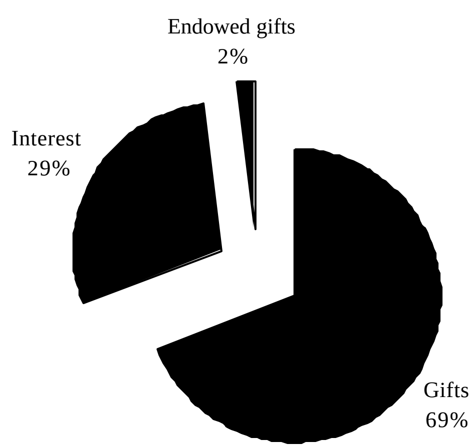
Revenues By Source JSCC FY 2003



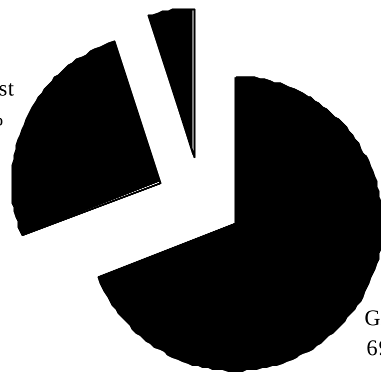
Revenues By Source JSCC FY 2002



Revenues By Source JSCCF FY 2004



Revenues By Source JSCCF FY 2003



- The college's largest source of revenue is in the form of state appropriations, which was 49% of revenues in 2004, and 50% in 2003. The 2003 percent decreased from 53% for the previous year. Although actual appropriations increased by approximately $260,000, net tuition and fees increased by approximately $371,000, and grants and contracts increased by approximately $1,088,000.

- The college's net tuition and fees represents 22% of revenues for 2004 and increased 18% from 2003 due to a 14% increase in tuition and an increase in the number of students. In 2003, tuition and fees increased by approximately $371,000 because the college experienced a fee increase as well as an increase in enrollment. In 2003, the college's net tuition and fees represent 20% of revenues. Although the percent of tuition and fees did not change, the effect of them on revenues was an increase in revenues of approximately $371,000, which represented a 9% increase. The college experienced a fee increase as well as an increase in enrollment.

- The college's operating grants and contracts in 2004 decreased 66% as a result of a reclassification of $4,016,000 of Pell grants and SEOG from operating revenue to nonoperating revenue. In 2003, the college's grants and contracts are composed of federal financial aid programs and other grants to the college. The percentage of grants and contract revenues increased from 22% to 26%. Pell grants increased by $714,000, which contributed greatly to the grants and contracts increase. The Youth Build grant and National Science Foundation Precision Agriculture grants increased by $170,000 and $120,000, respectively.

- In 2003, the college's investment income reflects a decrease from $94,000 to $78,000.

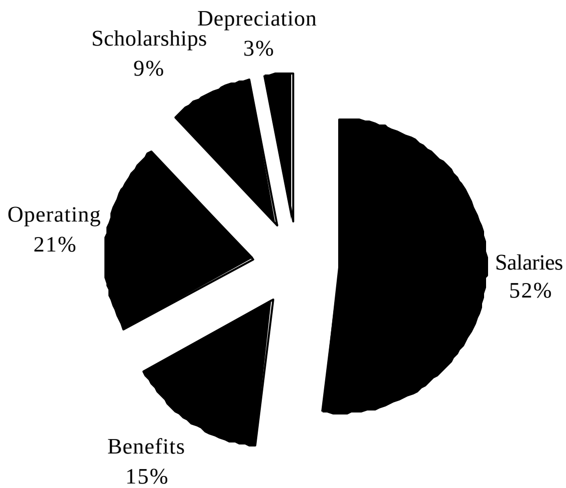
Expenses

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

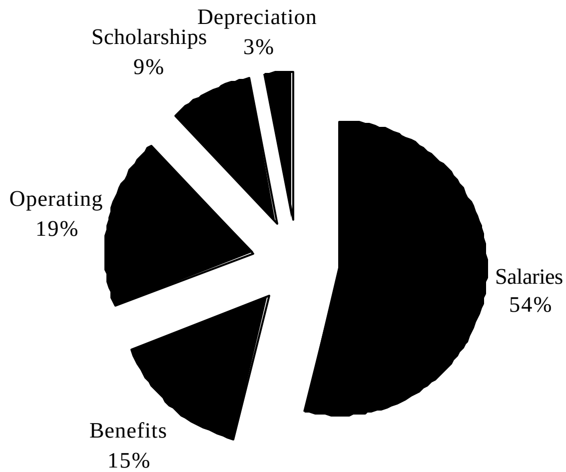
Natural Classification

	College			Component Unit		
	2004	2003	2002	2004	2003	2002
Salaries	11,812	11,297	10,606	1	-	2
Benefits	3,461	3,147	2,717	-	-	-
Operating	4,772	4,093	3,503	60	72	73
Scholarships	1,955	2,018	1,554	-	-	-
Depreciation	663	742	750	-	-	-
Payments to or on behalf of JSCC	-	-	-	62	65	57
Total	22,663	21,297	19,130	123	137	132

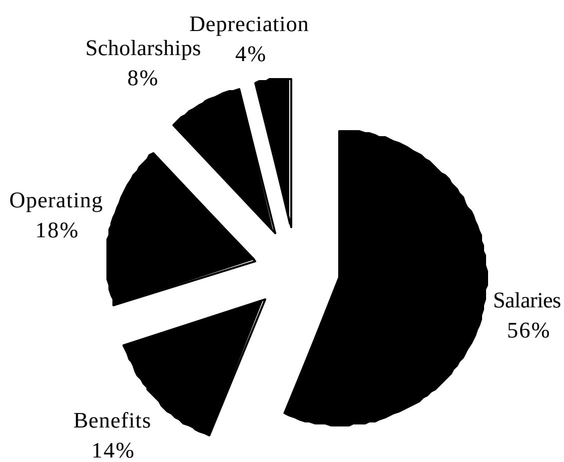
Expenses by Natural Classification JSCC FY 2004



Expenses by Natural Classification JSCC FY 2003



Expenses by Natural Classification JSCC FY 2002



- Salaries increased 5% in 2004 as a result of additional instructors needed for the increase in students. Benefits increased 16% from 2002 to 2003 due to increases in retirement and insurance. Retirement costs increased by $113,000, and insurance costs increased by $255,000.

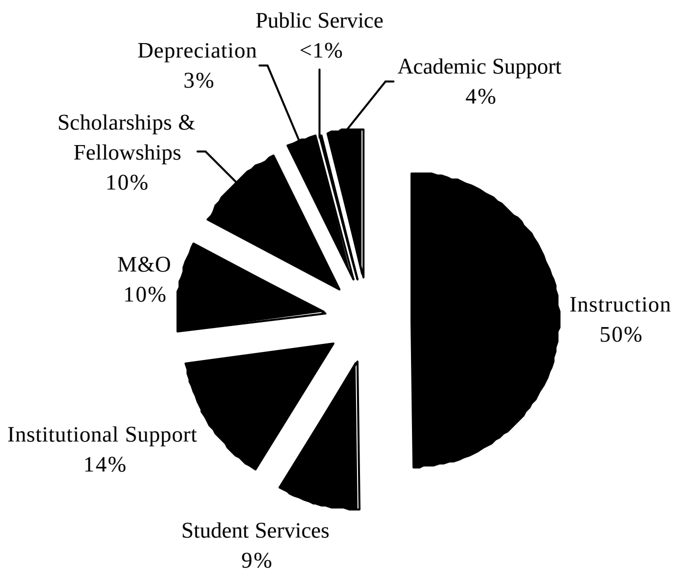
- Operating costs increased from 2003 due to noncapitalized equipment and improvement purchases. Operating costs increased in 2003 because the college spent approximately $425,000 more in supplies, which contributed to a 17% increase in operations cost.

- Scholarships increased by 30% in 2003 due largely to an increase in Pell funds.

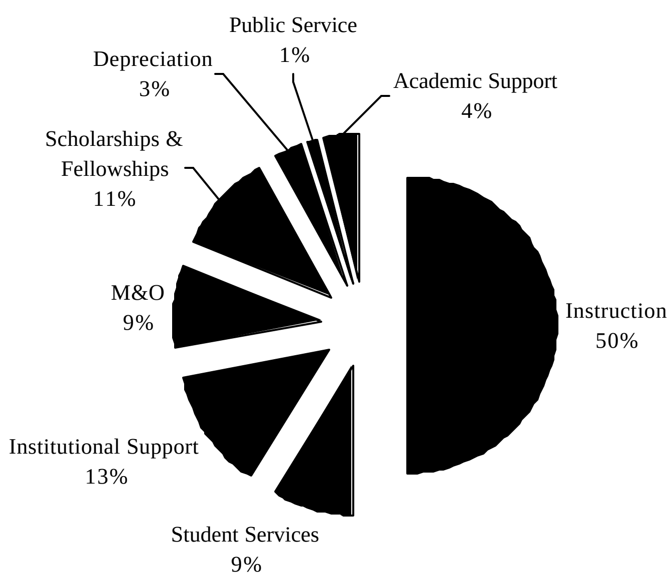
Program Classification

		College	
	2004	2003	2002
Instruction	11,249	10,568	9,633
Public service	99	115	109
Academic support	854	846	685
Student services	2,042	1,853	1,801
Institutional support	3,089	2,844	2,729
Maintenance & operation	2,357	1,976	1,635
Scholarships & fellowships	2,310	2,353	1,787
Auxiliary	-	-	1
Depreciation	663	742	750
Total	22,663	21,297	19,130

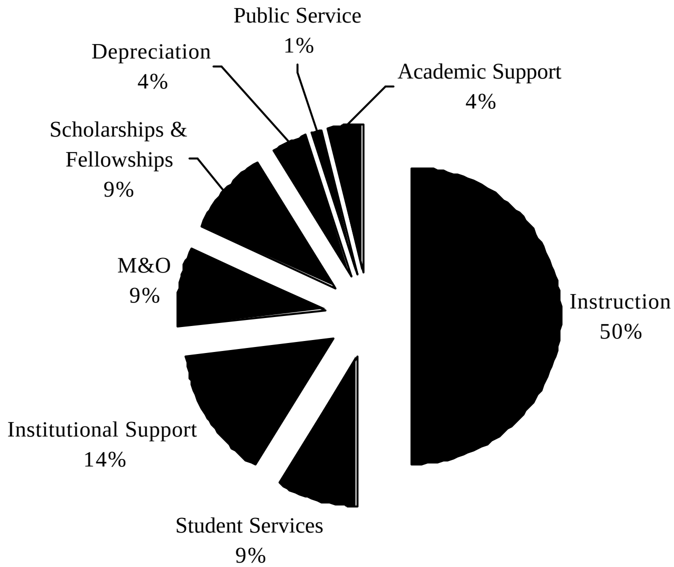
Expenses by Program Classification JSCC FY 2004



Expenses by Program Classification JSCC FY 2003



Expenses by Program Classification JSCC FY 2002



- Instructional expenses increased 6% from 2003 primarily due to higher salaries and benefits for additional instructors.

- Student services increased 10% in 2004 due to increased salaries and wages from the addition of a Vice President of Student Services.

- Institutional support increased by 9% in 2004 from a $245,000 increase in operating expenses primarily for office supplies, equipment, and improved security. Tennessee Board of Regents meeting expenses were an additional $32,000 from 2003.

- Maintenance and operation (M&O) increased 19% from 2003 as a result of $381,000 in additional operating expenses to improve campus facilities. M&O increased by 21% in 2003. M&O operating expenses increased by $341,000.

- Scholarships and fellowships increased by 32% in 2003 due to an increase in Pell funds.

- Academic support increased by 24% in 2003. This increase was a result of salaries and benefits increasing by $111,000.

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.

Statement of Cash Flows (in thousands of dollars)

	College			Component Unit		
	2004	2003	2002	2004	2003	2002
Cash provided (used) by:						
Operating activities	(14,377)	(10,202)	(9,754)	168	370	380
Noncapital financing activities	15,623	11,401	10,972	4	13	13
Capital and related financing activities	117	(216)	(245)	-	-	-
Investing activities	58	79	123	66	72	178
Net increase in cash	**1,421**	**1,062**	**1,096**	**238**	**455**	**571**
Cash, beginning of year	**7,487**	**6,425**	**5,329**	**1,335**	**880**	**309**
Cash, end of year	**8,908**	**7,487**	**6,425**	**1,573**	**1,335**	**880**

- The college's cash flows from operating activities in 2004 decreased 41% as a result of the reclassification of $4,016,000 in Pell grants and SEOG from operating to nonoperating revenue. The cash flows from noncapital financing activities increased for the same reason.

- The change in the college's cash flows from noncapital financing activities in 2003 is primarily due to an increase in deposits held in custody for others.

- The college's cash flows from capital and related financing activities increased in 2004 due to a $183,000 increase in state appropriations for capital and a $150,000 decrease in the purchase of capital assets.

- In 2003, the change in the college's cash flows from investing activities is due to a reduction in interest of $12,000 and 2002 proceeds from sales and maturities of investments of $32,000.

- The college's liquidity increased by approximately 19% in 2004 and 17% in 2003 (change in cash/cash at beginning of year).

Capital Assets

At June 30, 2004, the college had $9,112,892.90 invested in capital assets, net of accumulated depreciation of $10,696,684.32. Depreciation charges totaled $662,556.83 for the fiscal year 2004. At June 30, 2003, the college had $9,487,290.11 invested in capital assets, net of accumulated depreciation of $10,129,928.48. Depreciation charges totaled $742,181.95 for the fiscal year 2003. At June 30, 2002, the college had $9,722,274.63 invested in capital assets, net of accumulated depreciation of $9,716,710.31. Depreciation charges totaled $749,880.22 for the fiscal year 2002. Details of these assets are shown below.

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

	2004	2003	2002
Land	129	129	129
Land improvements & infrastructure	280	84	-
Buildings	7,704	8,081	7,775
Equipment	604	559	696
Library holdings	396	424	343
Projects in progress	-	210	779
Total	9,113	9,487	9,722

- The college's chiller amounting to $210,000 was transferred from projects in progress to improvements in 2004. The college recorded depreciation of $663,000 in 2004, $742,000 in 2003, and $750,000 in 2002, which reduced net capital assets. In 2003, the college transferred $685,000 for the Science Lab Renovation project from projects in progress to buildings. Also, $89,000 for the Fire Hydrant project was transferred from projects in progress to land improvements and infrastructure, and a chiller was added to projects in progress in the amount of $205,000.

- The college is planning to expend $722,000 in capital projects in 2005 including gymnasium HVAC of $330,000, moisture interdiction of $130,000, parking improvements of $105,000, and a pavilion for $60,000. State appropriations will provide $460,000 in funding, and campus plant funds will provide the remainder. 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

Tuition increased by 7% for the 2004-2005 fiscal year. Prior years have indicated that the increase has not deterred the majority of students from continuing to attend the college. Students are paying more for their education as tuition increases and state appropriations decrease.

Requests for Information

This financial report is designed to provide a general overview of the college'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 Horace Chase, Vice President for Financial & Administrative Affairs, Jackson State Community College, 2046 North Parkway, Jackson, Tennessee, 38301.

Exhibit A

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

	Jackson State Community College		Component Unit - Jackson State Community College Foundation	
	June 30, 2004	June 30, 2003	June 30, 2004	June 30, 2003
ASSETS				
Current assets:				
Cash (Notes 2 and 3)	$ 6,137,796.24	$ 4,857,342.15	$ -	$ -
Deposits with college (Note 15)	-	-	1,942,778.56	1,554,945.13
Accounts, notes, and grants receivable (net) (Note 5)	610,428.09	548,678.74	-	-
Pledges receivable (net) (Note 6)	369,663.25	220,337.10	-	-
Prepaid expenses and deferred charges	4,190.96	6,692.04	-	-
Accrued interest receivable	7,938.74	7,462.80	-	-
Total current assets	7,130,017.28	5,640,512.83	1,942,778.56	1,554,945.13
Noncurrent assets:				
Cash (Notes 2 and 3)	2,770,511.71	2,629,626.84	-	-
Investments (Note 4)	209,934.34	211,549.48	-	-
Deposits with college (Note 15)	-	-	530,088.68	812,147.63
Accounts, notes, and grants receivable (net) (Note 5)	93,497.19	84,826.02	-	-
Pledges receivable (net) (Note 6)	320,154.34	600,598.15	-	-
Capital assets (net) (Note 7)	9,112,892.90	9,487,290.11	-	-
Total noncurrent assets	12,506,990.48	13,013,890.60	530,088.68	812,147.63
Total assets	19,637,007.76	18,654,403.43	2,472,867.24	2,367,092.76
LIABILITIES				
Current liabilities:				
Accounts payable	367,987.73	227,734.01	-	-
Accrued liabilities	674,376.73	657,359.69	-	-
Deferred revenue	470,925.98	370,314.39	-	-
Compensated absences (Note 8)	176,351.48	101,262.28	-	-
Deposits held in custody for others	4,365,219.97	3,721,972.10	-	-
Total current liabilities	6,054,861.89	5,078,642.47	-	-
Noncurrent liabilities:				
Compensated absences (Note 8)	457,856.70	545,268.19	-	-
Due to grantor (Note 8)	96,214.25	87,290.08	-	-
Total noncurrent liabilities	554,070.95	632,558.27	-	-
Total liabilities	6,608,932.84	5,711,200.74	-	-
NET ASSETS				
Invested in capital assets	9,112,892.90	9,487,290.11	-	-
Restricted for:				
Nonexpendable:				
Scholarships and fellowships	-	-	469,864.64	475,119.29
Other	-	-	168,247.65	139,715.98
Expendable:				
Scholarships and fellowships	43,730.37	46,098.00	170,002.44	140,759.70
Instructional department uses	90,140.43	48,272.76	-	-
Loans	32,071.42	29,096.70	11,515.30	8,774.36
Capital projects	-	-	1,484,715.80	1,459,994.46
Other	49,585.03	47,061.12	99,968.95	99,777.19
Unrestricted (Note 9)	3,699,654.77	3,285,384.00	68,552.46	42,951.78
Total net assets	$ 13,028,074.92	$ 12,943,202.69	$ 2,472,867.24	$ 2,367,092.76

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

Exhibit B

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

	Jackson State Community College		Component Unit - Jackson State Community 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 $2,641,094.18 for the year ended June 30, 2004, and $2,193,305.14 for the year ended June 30, 2003)	$ 5,090,721.74	$ 4,312,485.42	$ -	$ -
Gifts and contributions	-	-	159,952.57	196,595.17
Governmental grants and contracts	1,768,456.09	5,396,139.71	-	-
Nongovernmental grants and contracts	160,685.72	201,993.76	-	-
Sales and services of educational departments	29,851.01	25,847.29	-	-
Auxiliary enterprises:				
Bookstore	119,597.99	127,845.68	-	-
Interest earned on loans to students	2,968.00	2,501.70	-	-
Other operating revenues	265,114.46	293,736.96	-	-
Total operating revenues	7,437,395.01	10,360,550.52	159,952.57	196,595.17
EXPENSES				
Operating expenses (Note 14):				
Salaries and wages	11,811,826.75	11,296,789.30	1,009.22	-
Benefits	3,461,488.46	3,146,911.58	-	-
Utilities, supplies, and other services	4,772,288.88	4,093,429.45	59,753.26	72,197.62
Scholarships and fellowships	1,954,599.26	2,017,620.15	-	-
Depreciation expense	662,556.83	742,181.95	-	-
Payments to or on behalf of Jackson State Community College	-	-	62,652.60	64,949.85
Total operating expenses	22,662,760.18	21,296,932.43	123,415.08	137,147.47
Operating income (loss)	(15,225,365.17)	(10,936,381.91)	36,537.49	59,447.70
NONOPERATING REVENUES (EXPENSES)				
State appropriations	10,768,000.00	10,929,270.00	-	-
Gifts from component unit (Note 15)	62,652.60	64,949.85	-	-
Grants and contracts	4,016,428.07	-	-	-
Investment income	58,143.50	78,321.31	64,772.65	71,833.24
Other nonoperating revenues (expenses)	(14,788.16)	(18,376.37)	-	-
Net nonoperating revenues	14,890,436.01	11,054,164.79	64,772.65	71,833.24
Income (loss) before other revenues, expenses, gains, or losses	(334,929.16)	117,782.88	101,310.14	131,280.94
Capital appropriations	419,801.39	237,439.11	-	-
Additions to permanent endowments	-	-	4,464.34	12,543.26
Total other revenues	419,801.39	237,439.11	4,464.34	12,543.26
Increase in net assets	84,872.23	355,221.99	105,774.48	143,824.20
NET ASSETS				
Net assets - beginning of year	12,943,202.69	12,587,980.70	2,367,092.76	2,223,268.56
Net assets - end of year	$ 13,028,074.92	$ 12,943,202.69	$ 2,472,867.24	$ 2,367,092.76

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

Exhibit C

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

	Year Ended June 30, 2004	Year Ended June 30, 2003
CASH FLOWS FROM OPERATING ACTIVITIES		
Tuition and fees	$ 5,092,605.86	$ 4,418,001.87
Grants and contracts	1,930,254.37	5,495,008.49
Sales and services of educational activities	30,033.26	24,147.53
Payments to suppliers and vendors	(4,685,138.07)	(4,094,499.55)
Payments to employees	(11,814,459.56)	(11,237,123.09)
Payments for benefits	(3,368,975.79)	(3,173,429.22)
Payments for scholarships and fellowships	(1,954,599.26)	(2,056,796.36)
Loans issued to students and employees	(8,671.17)	153.51
Interest earned on loans to students	2,714.73	2,626.54
Auxiliary enterprise charges:		
Bookstore	119,846.38	123,977.31
Other receipts (payments)	279,892.43	295,574.50
Net cash used by operating activities	(14,376,496.82)	(10,202,358.47)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State appropriations	10,768,000.00	11,044,470.00
Gifts and grants received for other than capital purposes, including $62,652.60 from Jackson State Community College Foundation for the year ended June 30, 2004, and $64,949.85 for the year ended June 30, 2003	4,079,080.67	64,949.85
Changes in deposits held for others	775,980.67	292,051.04
Net cash provided by noncapital financing activities	15,623,061.34	11,401,470.89
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital appropriations	419,801.39	237,439.11
Purchases of capital assets and construction	(302,947.78)	(453,073.90)
Net cash provided (used) by capital and related financing activities	116,853.61	(215,634.79)
CASH FLOWS FROM INVESTING ACTIVITIES		
Income on investments	57,920.83	78,855.59
Net cash provided by investing activities	57,920.83	78,855.59
Net increase in cash	1,421,338.96	1,062,333.22
Cash - beginning of year	7,486,968.99	6,424,635.77
Cash - end of year	$ 8,908,307.95	$ 7,486,968.99

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

	Year Ended June 30, 2004	Year Ended June 30, 2003
Reconciliation of operating loss to net cash used by operating activities:		
Operating loss	$ (15,225,365.17)	$ (10,936,381.91)
Adjustments to reconcile operating loss to net cash used by operating activities:		
Depreciation expense	662,556.83	742,181.95
Other adjustment	-	(33,970.94)
Change in assets and liabilities:		
Receivables, net	(61,749.35)	(74,304.58)
Prepaid/deferred items	2,501.08	(1,038.58)
Accounts payable	140,253.72	(18,412.67)
Accrued liabilities	17,017.04	75,003.91
Deferred revenue	100,611.59	52,668.29
Due to grantor	8,924.17	7,290.57
Compensated absences	(12,322.29)	22,856.10
Loans to students and employees	(8,924.44)	278.35
Other	-	(38,528.96)
Net cash used by operating activities	$ (14,376,496.82)	$ (10,202,358.47)

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

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 component units, 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 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, state, local, and private 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) gifts.

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

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.

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.

Nonexpendable restricted net assets – Nonexpendable restricted net assets consist of endowment and similar type funds in which donors or other outside sources have stipulated, as a condition of the gift instrument, that the principal is to be maintained inviolate and in perpetuity, and invested for the purpose of producing present and future income, which may be expendable or added to principal.

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

This classification includes demand deposits and petty cash on hand. At June 30, 2004, cash consisted of $3,472,832.74 in bank accounts, $5,304.45 of petty cash on hand, and $5,430,170.76 in the State of Tennessee Local Government Investment Pool administered by the State Treasurer. At June 30, 2003, cash consisted of $2,331,733.38 in bank accounts, $5,303.80 of petty cash on hand, and $5,149,931.81 in the State of Tennessee Local Government Investment Pool administered by the State Treasurer.

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 $3,468,805.52, and the bank balance was $4,172,847.44. 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 $2,327,692.98, and the bank balance was $3,104,090.75. 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.

At June 30, 2004, the carrying amount of the college's deposits was $3,472,832.74, and the bank balance was $4,176,874.66. The bank balance was category 1. At June 30, 2003, the carrying amount of the college's deposits was $2,331,733.38, and the bank balance was $3,108,131.15. The bank balance 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 Jackson State Community 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.

The investments are annuities which are not subject to credit risk categorization.

NOTE 5. RECEIVABLES

Receivables included the following:

	June 30, 2004	June 30, 2003
Student accounts receivable	$498,547.70	$337,717.88
Grants receivable	149,272.36	224,335.64
State appropriation receivable	28,200.00	30,600.00
Other receivables	54,593.94	27,201.89
Subtotal	730,614.00	619,855.41
Less allowance for doubtful accounts	(120,185.91)	(71,176.67)
Total receivables	$610,428.09	$548,678.74

Federal Perkins Loan Program funds included the following:

	June 30, 2004	June 30, 2003
Perkins loans receivable	$147,932.15	$137,484.70
Less allowance for doubtful accounts	(54,434.96)	(52,658.68)
Total	$ 93,497.19	$ 84,826.02

NOTE 6. PLEDGES RECEIVABLE

Pledges receivable are promises of private donations that are reported as a receivable and revenue, net of the estimated uncollectible allowance of $25,389.75 at June 30, 2003. At June 30, 2004, all were considered to be collectible.

NOTE 7. CAPITAL ASSETS

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

	Beginning Balance	Additions	Transfers	Reductions	Ending Balance
Land	$ 128,645.20	$ -	$ -	$ -	$ 128,645.20
Land improvements and infrastructure	88,906.32	-	210,305.42	-	299,211.74
Buildings	13,443,725.01	-	-	-	13,443,725.01
Equipment	4,910,731.44	240,386.08	-	25,322.20	5,125,795.32
Library holdings	834,905.20	62,561.70	-	85,266.95	812,199.95
Projects in progress	210,305.42	-	(210,305.42)	-	-
Total	19,617,218.59	302,947.78	-	110,589.15	19,809,577.22
Less accum. depreciation:					
Land improvements and infrastructure	4,445.32	14,960.59	-	-	19,405.91
Buildings	5,362,324.02	377,844.88	-	-	5,740,168.90
Equipment	4,351,822.49	180,004.67	-	10,534.04	4,521,293.12
Library holdings	411,336.65	89,746.69	-	85,266.95	415,816.39
Total accum. depreciation	10,129,928.48	662,556.83	-	95,800.99	10,696,684.32
Capital assets, net	$ 9,487,290.11	$(359,609.05)	$ -	$ 14,788.16	$ 9,112,892.90

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

	Beginning Balance	Additions	Transfers	Reductions	Ending Balance
Land	$ 128,645.20	$ -	$ -	$ -	$ 128,645.20
Land improvements and infrastructure	-	-	88,906.32	-	88,906.32
Buildings	12,759,121.05	-	684,605.01	1.05	13,443,725.01
Equipment	4,974,971.41	143,327.23	-	207,567.20	4,910,731.44
Library holdings	796,965.22	105,211.98	-	67,272.00	834,905.20
Projects in progress	779,282.06	204,534.69	(773,511.33)	-	210,305.42
Total	19,438,984.94	453,073.90	-	274,840.25	19,617,218.59

Less accum. depreciation:					
Land improvements and infrastructure	-	4,445.32	-	-	4,445.32
Buildings	4,984,479.15	377,844.87	-	-	5,362,324.02
Equipment	4,278,178.08	269,674.04	-	196,029.63	4,351,822.49
Library holdings	454,053.08	90,217.72	-	132,934.15	411,336.65
Total accum. depreciation	9,716,710.31	742,181.95	-	328,963.78	10,129,928.48
Capital assets, net	$ 9,722,274.63	$(289,108.05)	$ -	$ (54,123.53)	$ 9,487,290.11

NOTE 8. LONG-TERM LIABILITIES

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

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Other liabilities:					
Compensated absences	$646,530.47	$477,546.45	$489,868.74	$634,208.18	$176,351.48
Due to grantor	87,290.08	15,903.75	6,979.58	96,214.25	-
Total long-term liabilities	$733,820.55	$493,450.20	$496,848.32	$730,422.43	$176,351.48

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

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Other liabilities:					
Compensated absences	$623,674.37	$502,719.62	$479,863.52	$646,530.47	$101,262.28
Due to grantor	79,999.51	14,478.52	7,187.95	87,290.08	-
Total long-term liabilities	$703,673.88	$517,198.14	$487,051.47	$733,820.55	$101,262.28

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:

	June 30, 2004	June 30, 2003
Working capital	$ 356,307.33	$ 217,528.54
Encumbrances	390,035.48	217,799.36
Designated fees	34,784.80	-
Auxiliaries	10,091.38	10,752.15
Plant construction	366,116.89	378,520.05
Renewal and replacement of equipment	2,377,322.41	2,227,008.83
Unreserved/undesignated	164,996.48	233,775.07
Total	$3,699,654.77	$3,285,384.00

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 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 $509,745.57, $497,527.66, and $389,538.20. 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 $363,550.28 for the year ended June 30, 2004, and $340,564.44 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 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.

At June 30, 2004, the scheduled coverage for the college was $33,478,700 for buildings and $15,141,412 for contents. At June 30, 2003, the scheduled coverage for the college was $32,125,400 for buildings and $13,994,325 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 daims 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 $3,182,153.31 at June 30, 2004, and $3,210,464.81 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 real property were $1,150.00 and for personal property were $63,231.60 for the year ended June 30, 2004. Amounts for the year ended June 30, 2003, were $1,490.00 and $66,813.04. All operating leases are cancelable at the lessee's option.

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:

	Natural Classification					
Functional Classification	Salaries	Benefits	Other Operating	Scholarships	Depreciation	Total
Instruction	$7,319,090.35	$2,005,267.33	$1,925,037.49	$ -	$ -	$11,249,395.17
Public service	73,059.14	9,706.55	15,990.92	-	-	98,756.61
Academic support	1,036,054.80	337,013.95	(518,705.75)	-	-	854,363.00
Student services	867,221.90	310,678.55	863,980.89	-	-	2,041,881.34
Institutional support	1,795,727.03	522,678.20	770,814.56	-	-	3,089,219.79
Operation & maintenance	642,209.89	276,143.88	1,438,278.62	-	-	2,356,632.39

Scholar. & fellowships	78,463.64	-	276,892.15	1,954,599.26	-	2,309,955.05
Depreciation	-	-	-	-	662,556.83	662,556.83
Total	$11,811,826.75	$3,461,488.46	$4,772,288.88	$1,954,599.26	$662,556.83	$22,662,760.18

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

	Natural Classification					
Functional Classification	Salaries	Benefits	Other Operating	Scholarships	Depreciation	Total
Instruction	$ 7,013,192.11	$1,766,297.12	$1,788,316.79	$ -	$ -	$10,567,806.02
Public service	68,760.13	16,317.39	29,549.59	-	-	114,627.11
Academic support	971,936.85	320,555.86	(446,259.40)	-	-	846,233.31
Student services	792,955.03	266,932.92	792,856.75	-	-	1,852,744.70
Institutional support	1,736,191.91	532,613.66	575,669.31	-	-	2,844.474.88
Operation & maintenance	649,836.46	244,194.63	1,081,767.51	-	-	1,975,798.60
Scholar. & fellowships	63,916.81	-	271,528.90	2,017,620.15	-	2,353,065.86
Depreciation	-	-	-	-	742,181.95	742,181.95
Total	$11,296,789.30	$3,146,911.58	$4,093,429.45	$2,017,620.15	$742,181.95	$21,296,932.43

NOTE 15. COMPONENT UNIT

The Jackson State Community College Foundation is a legally separate, tax-exempt organization supporting Jackson 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 24-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 $62,652.60 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 $64,949.85 to or on behalf of the college for both restricted and unrestricted purposes. Complete financial statements for the foundation can be obtained from Horace Chase at 2046 North Parkway, Jackson, Tennessee 38301.

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 $1,573,115.31 in cash, $209,934.34 in investments, and $689,817.59 in receivables. At June 30, 2003, these assets include $1,334,608.03 in cash, $211,549.48 in investments, and $820,935.25 in receivables. These assets have been reported by the college and included in the college's applicable note disclosures above.

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

	Year Ended June 30, 2004	Year Ended June 30, 2003
CASH FLOWS FROM OPERATING ACTIVITIES		
Gifts and contributions	$ 294,376.52	$ 523,854.52
Payments to suppliers and vendors	(59,753.26)	(88,197.62)
Payments to employees	(1,009.22)	-
Payments to Jackson State Community College	(62,652.60)	(64,949.85)
Loans issued to students and employees	(8,345.02)	(4,547.84)
Collection of loans from students and employees	5,038.73	4,212.53
Net cash provided by operating activities	167,655.15	370,371.74
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Private gifts for endowment purposes	4,464.34	12,543.26
Net cash provided by noncapital financing activities	4,464.34	12,543.26
CASH FLOWS FROM INVESTING ACTIVITIES		
Income on investments	66,387.79	71,549.32
Net cash provided by investing activities	66,387.79	71,549.32
Net increase in cash	238,507.28	454,464.32
Cash - beginning of year	1,334,608.03	880,143.71
Cash - end of year (Note 15)	$ 1,573,115.31	$ 1,334,608.03
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	$ 36,537.49	$ 59,447.70
Adjustments to reconcile operating income to net cash provided by operating activities:		
Other adjustment	(3,087.97)	-
Change in assets and liabilities:		
Receivables, net	137,511.92	327,259.35
Accounts payble	-	(16,000.00)
Loans to students and employees	(3,306.29)	(335.31)
Net cash provided by operating activities	$ 167,655.15	$ 370,371.74
Noncash transactions		
Unrealized gain (loss) on investments	$ (1,615.14)	$ 283.92