AUDIT REPORT

Tennessee Board of Regents
Jackson State Community College

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

STATE OF TENNESSEE

COMPTROLLER OF THE TREASURY

Department of Audit

Division of State Audit

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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

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STATE OF TENNESSEE

COMPTROLLER OF THE TREASURY

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

John G. Morgan
Comptroller

July 26, 2007

The Honorable Phil Bredesen, Governor
and
Members of the General Assembly
State Capitol
Nashville, Tennessee 37243
and
The Honorable Charles W. Manning, Chancellor
Tennessee Board of Regents
1415 Murfreesboro Road, Suite 350
Nashville, Tennessee 37217
and
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, 2006, and June 30, 2005. 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/dlj
07/051

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, 2006, and June 30, 2005

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
Jackson State Community College
For the Years Ended June 30, 2006, and June 30, 2005

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Tennessee Board of Regents
Jackson State Community College
For the Years Ended June 30, 2006, and June 30, 2005

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, a study which resulted in the Pierce-Albright Report. Acting on the recommendation of the Governor and the 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, 2004, through June 30, 2006, and was conducted in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Financial statements are presented for the years ended June 30, 2006, and June 30, 2005. 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

MANAGEMENT'S RESPONSIBILITY FOR RISK ASSESSMENT

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

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

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

FRAUD CONSIDERATIONS

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

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

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.

As of July 1, 2007, Jackson State Community College will begin to serve as the lead institution for three additional technology centers: the Tennessee Technology Center at Covington, the Tennessee Technology Center at Newbern, and the Tennessee Technology Center at Ripley.

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, 2006, and June 30, 2005, 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*

April 19, 2007

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

Dear Mr. Morgan:

We have audited the financial statements of 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, 2006, and June 30, 2005, and have issued our report thereon dated April 19, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. During the year ended June 30, 2005, the college implemented GASB Statement 40, *Deposit and Investment Risk Disclosures*.

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 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, the Tennessee Board of Regents, 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/dlj

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

April 19, 2007

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, 2006, and June 30, 2005, 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.

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, 2006, and June 30, 2005, 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.

As discussed in Note 3 to the financial statements, during the year ended June 30, 2005, the college implemented GASB Statement 40, *Deposit and Investment Risk Disclosures*.

The management's discussion and analysis on pages 10 through 33 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. The accompanying financial information on page 55 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 April 19, 2007, 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

AAH/dlj

Jackson State Community College
Management's Discussion and Analysis
For the Years Ended June 30, 2006, and June 30, 2005

This section of Jackson State Community College's report presents a discussion and analysis of the financial performance of the college during the fiscal year ended June 30, 2006, with comparative information presented for the fiscal years ended June 30, 2005, and June 30, 2004. 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 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, net of related debt, 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.

College's Net Assets (in thousands of dollars)

	2006	2005	2004
Assets:			
Current assets	5,996	5,762	5,187
Capital assets, net	9,828	9,793	9,113
Other assets	3,292	3,028	2,864
Total Assets	**19,116**	**18,583**	**17,164**
Liabilities:			
Current liabilities	4,401	3,898	3,582
Noncurrent liabilities	1,087	1,209	554
Total Liabilities	**5,488**	**5,107**	**4,136**
Net Assets:			
Invested in capital assets, net of related debt	9,222	9,039	9,113
Restricted – expendable	295	555	215
Unrestricted	4,111	3,882	3,700
Total Net Assets	**13,628**	**13,476**	**13,028**

Comparison of FY 2006 to FY 2005

- Current assets increased in FY 2006 due to a $366,132.61 increase in TTC cash balances held by the college. This increase is largely due to the technology centers setting aside funds for the renewal of the centers' physical facilities.
- Net capital assets increased by $34,799.88 from FY 2005. Capital purchases of $677,542.68 were made. However, this increase is offset by $9,397.67 in capital asset retirements and $633,345.13 in additions to accumulated depreciation. Major expenditures in FY 2006 include $218,387.94 on the Gym HVAC, $70,450.19 for a pavilion, $46,318.11 on the McWherter Center renovation, and $41,738.46 on ERP software.
- Other noncurrent assets increased in FY 2006 by $263,854.41 because cash held for plant purchases, and renewals and replacements, increased by $268,786.73.
- Current liabilities increased in FY 2006 due to a $366,132.61 increase in the liability for TTC cash deposits held by JSCC and a $68,349.23 increase in deferred revenue.
- Noncurrent liabilities declined in FY 2006 by $121,477.44 due to a $150,951.00 principal payment on commercial paper. The remaining commercial paper was replaced by bonds on June 29, 2006.

- Restricted expendable net assets declined 47% in FY 2006 because of a drop in contribution revenue which also caused the net assets in the restricted nursing program to drop $228,836.40.

Comparison of FY 2005 to FY 2004

- Current assets increased in FY 2005 due to a $472,034.66 increase in TTC cash balances held by the college. This increase is largely due to the technology centers setting aside funds for the renewal of the centers' physical facilities.
- Net capital assets in FY 2005 increased 7%. Hardware and software purchased for the Banner ERP project cost $1,110,396.35. Depreciation for the year reduced capital assets by $638,832.60.
- Current liabilities increased 8% in FY 2005. The current portion of TSSBA debt liability increased current liabilities $161,900.00 from FY 2004.
- Noncurrent liabilities increased 118% in FY 2005 due to the Noncurrent portion of new TSSBA debt amounting to $592,857.35.
- Restricted expendable net assets increased $339,420.20 in FY 2005 due to a $309,044.36 increase in the restricted nursing program net assets because contributions increased from FY 2004.

Component Unit's Net Assets (in thousands of dollars)

	2006	2005	2004
Assets:			
Current assets	1,736	1,997	1,943
Other assets	222	214	530
Total Assets	**1,958**	**2,211**	**2,473**
Liabilities:			
Current liabilities	25	1	-
Total Liabilities	**25**	**1**	**-**

Net Assets:			
Restricted – nonexpendable	708	673	638
Restricted – expendable	1,176	1,488	1,766
Unrestricted	49	49	69
Total Net Assets	**1,933**	**2,210**	**2,473**

Comparison of FY 2006 to FY 2005

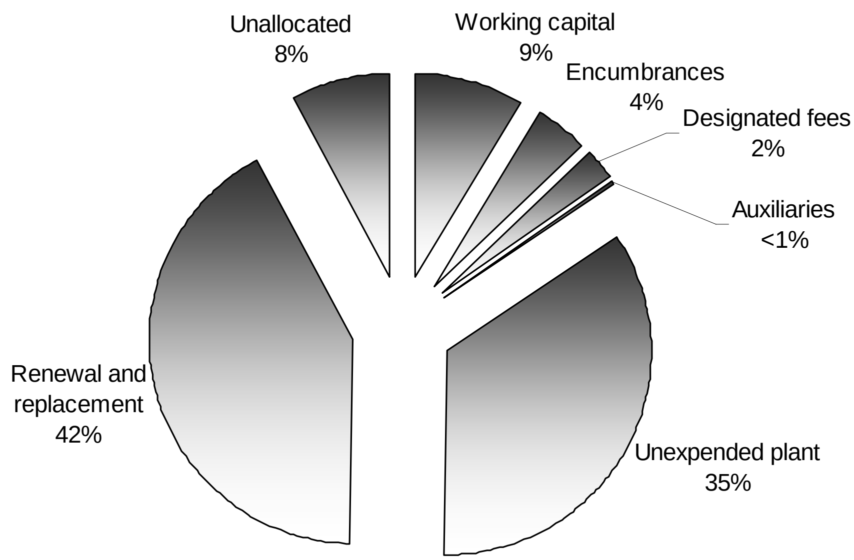
- Current assets declined for the component unit (Jackson State Community College Foundation) by $261,134.77 in FY 2006 as pledge payments reduced the current portion of pledge receivables by $468,632.49. This was offset by a $208,377.52 increase in cash.
- Current liabilities increased in FY 2006 due to a payable for the physical therapy program.
- Restricted expendable net assets declined 21% from FY 2005 because a $450,000 capital gift was awarded to JSCC that reduced the net assets.

Comparison of FY 2005 to FY 2004

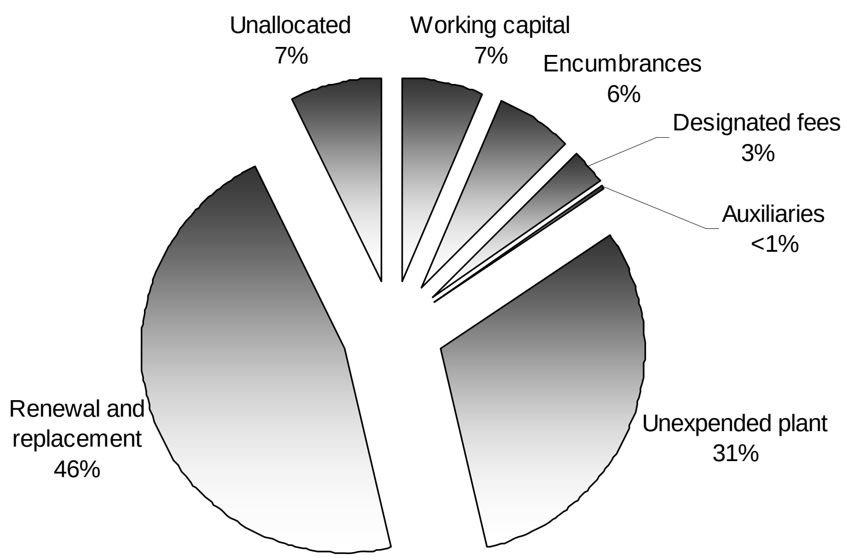
- Other assets declined 60% in FY 2005 due to a $314,407.29 shift of noncurrent pledges to current assets.
- Restricted expendable net assets declined 16% in FY 2005 because a $300,000 capital gift was awarded to JSCC that reduced the net assets.
- Unrestricted net assets decreased 28% in FY 2005 because expenses and transfers to other funds exceeded revenues.

Many of the college's unrestricted net assets have been designated or reserved for specific purposes such as repairs and replacement of equipment, future debt service, quasi-endowments, capital projects, and student loans. The following graph shows the allocations:

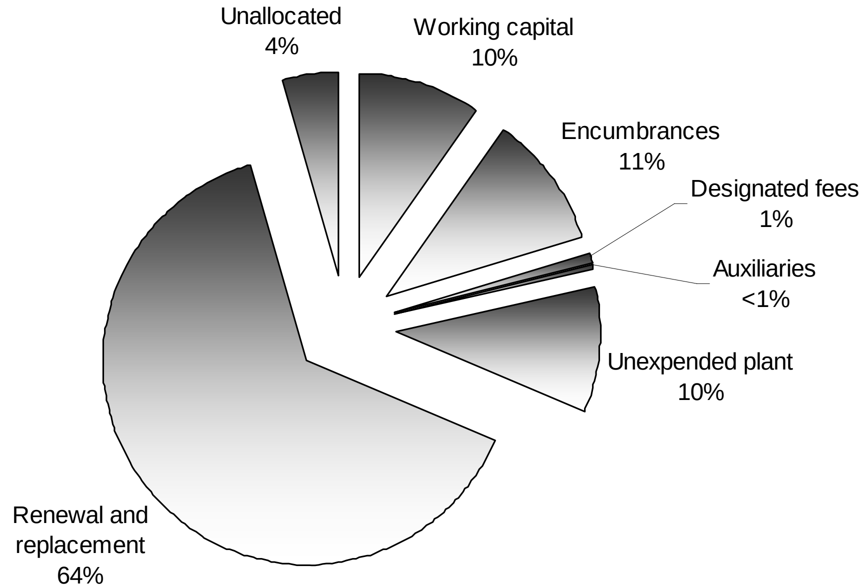
JSCC Unrestricted Net Assets FY 2006



JSCC Unrestricted Net Assets FY 2005



JSCC Unrestricted Net Assets FY 2004



All of Jackson State Community College Foundation’s unrestricted net assets are unallocated.

Comparison of FY 2006 to FY 2005

- Renewals and replacements decreased from 46% in FY 2005 to 42% in FY 2006 of unrestricted net assets due to $170,195.62 in expenditures. Of this amount, more than $150,000 was spent in replacing computers.
- The allocation for unexpended plant increased from 31% in FY 2005 to 35% in FY 2006 as a result of a $450,000.00 capital gift from Jackson-Madison County General Hospital through the foundation.

Comparison of FY 2005 to FY 2004

- Renewals and replacements decreased from 64% in FY 2004 to 46% of unrestricted assets in FY 2005 because $177,400.00 was transferred to unexpended plant to fund local projects.
- Unexpended plant increased from 10% in FY 2004 to 31% in FY 2005 due to the $177,400.00 transfer from renewals and replacements and a $308,000.00 transfer from the current fund.

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 non-operating revenues according to accounting principles generally accepted in the United States of America.

College's Changes in Net Assets (in thousands of dollars)

	2006	2005	2004
Operating revenues:			
Net tuition and fees	5,349	5,053	5,091
Grants and contracts	1,325	1,909	1,929
Auxiliary	106	142	120
Other	301	374	298
Total operating revenues	**7,081**	**7,478**	**7,438**
Operating expenses	24,566	24,204	22,663
Operating loss	**(17,485)**	**(16,726)**	**(15,225)**
Nonoperating revenues and expenses:			
State appropriations	11,645	11,446	10,768
Gifts	83	77	63
Grants and contracts	4,731	5,098	4,016
Investment income	303	144	58
Other nonoperating revenues and expenses	(16)	(13)	(15)
Total nonoperating revenues and expenses	**16,746**	**16,752**	**14,890**
Income (loss) before other revenues, expenses, gains, or losses	**(739)**	**26**	**(335)**
Other revenues, expenses, gains, or losses:			
Capital appropriations	450	122	420
Capital grants and gifts	450	300	-
Other	(9)	-	-
Total other revenues, expenses, gains, or losses	**891**	**422**	**420**
Increase (decrease) in net assets	**152**	**448**	**85**
Net asset at beginning of period	**13,476**	**13,028**	**12,943**
Net assets at end of year	**13,628**	**13,476**	**13,028**

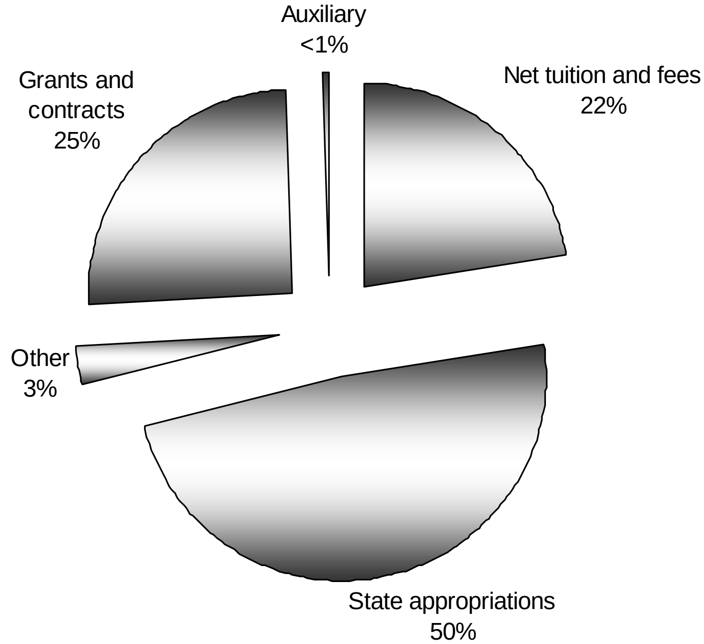
Component Unit's Changes in Net Assets (in thousands of dollars)

	2006	2005	2004
Operating revenues:			
Gifts	213	426	160
Total operating revenues	**213**	**426**	**160**
Operating expenses	615	742	123
Operating income (loss)	**(402)**	**(316)**	**37**
Nonoperating revenues and expenses:			
Investment income	87	45	65
Other nonoperating revenues and expenses	8	(8)	-
Total nonoperating revenues and expenses	**95**	**37**	**65**
Income (loss) before other revenues, expenses, gains, or losses	**(307)**	**(279)**	**102**
Other revenues, expenses, gains, or losses:			
Additions to permanent endowments	30	16	4
Total other revenues, expenses, gains, or losses	**30**	**16**	**4**
Increase (decrease) in net assets	**(277)**	**(263)**	**106**
Net asset at beginning of period	**2,210**	**2,473**	**2,367**
Net assets at end of year	**1,933**	**2,210**	**2,473**

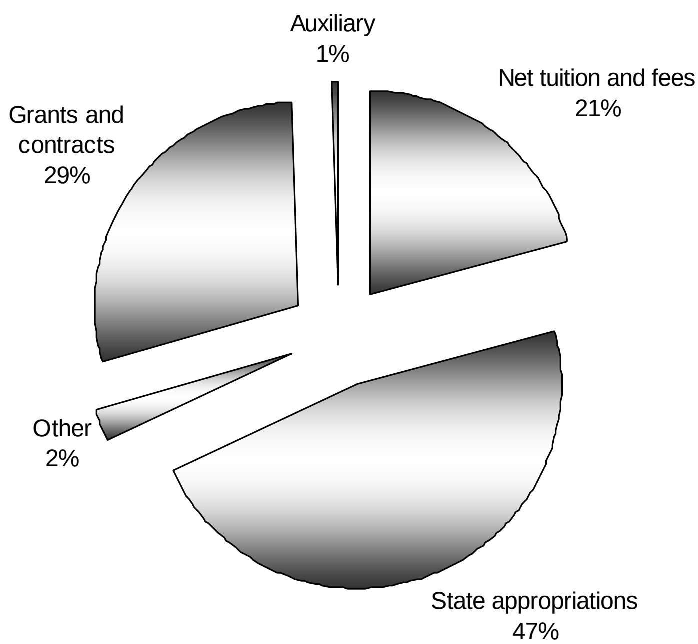
Revenues

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 years ended June 30, 2006; June 30, 2005; and June 30, 2004 (amounts are presented in thousands of dollars).

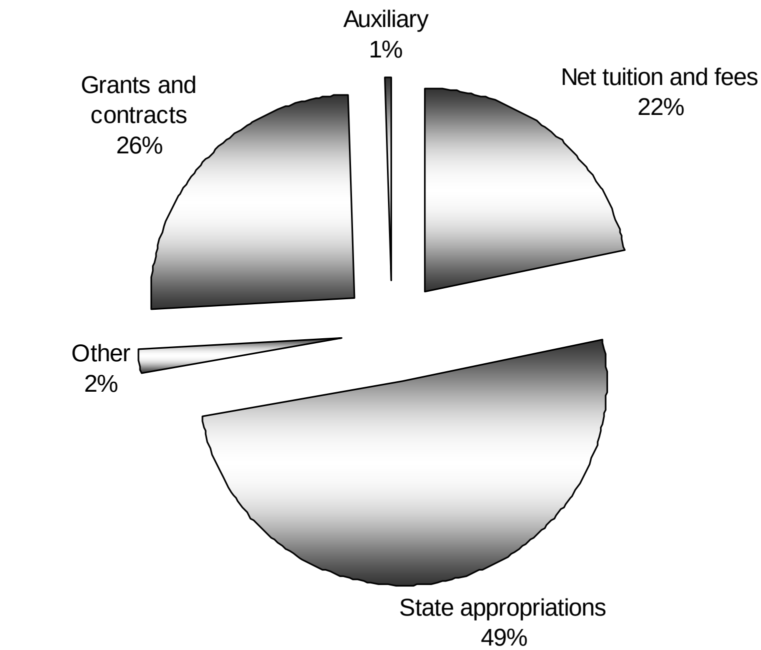
JSCC Revenues by Source FY 2006



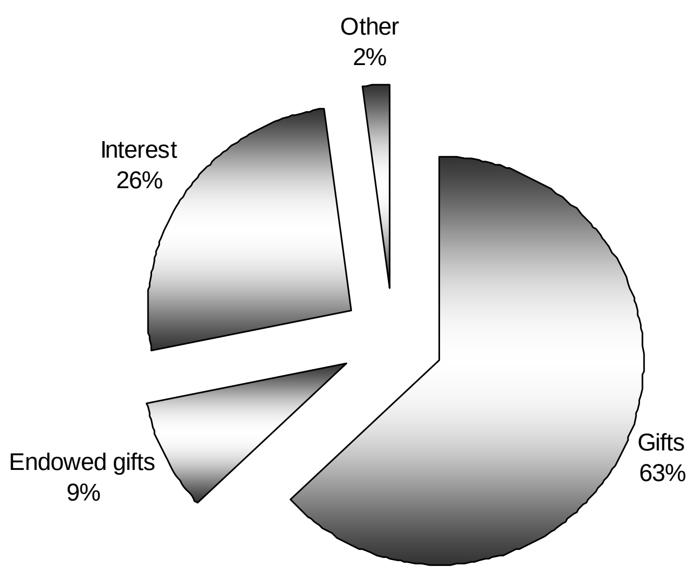
JSCC Revenues by Source FY 2005



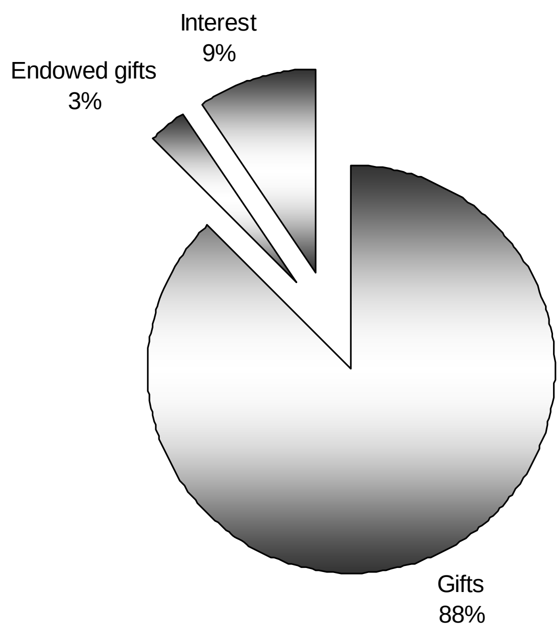
JSCC Revenues by Source FY 2004



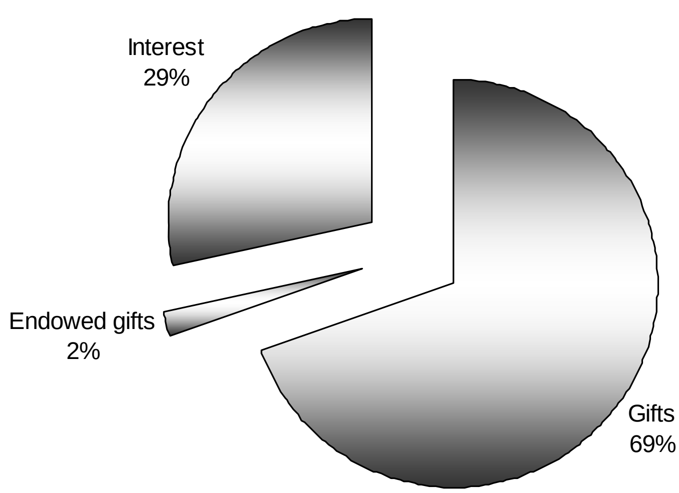
JSCCF Revenues by Source FY 2006



JSCCF Revenues by Source FY 2005



JSCCF Revenues by Source FY 2004



Comparison of FY 2006 to FY 2005

- Tuition and fees increased $296,585.27 in FY 2006 because the fee rate rose by 10%.
- Operating grants and contracts declined in FY 2006 due to a reduction of $531,282.00 in gifts and grants mainly to the nursing program from the local Auxiliary revenue decreased $35,914.82 in FY 2006 as a result of a change in the bookstore vendor from Barnes & Noble to Nebraska Books.
- Other operating revenue decreased 20% in FY 2006 due to a $26,583.00 reduction in seminar fees, a $19,046.20 reduction in educational sales and services, and an $11,700.70 reduction in sale of salvage.
- Nonoperating grants and contracts decreased by $383,558.52 in FY 2006 because PELL revenue declined $448,174.55. A net increase in other federal grant programs partially offset the decline in PELL.
- Investment income increased $158,612.87 in FY 2006 due to higher interest rates on investments.
- Capital appropriations increased $327,261.47 in FY 2006 due to expenditures on the Gym HVAC project.
- Capital gifts from the foundation increased $150,000 in FY 2006 for the McWherter renovation project.
- Component unit operating gifts and contributions decreased by $212,656.27 in FY 2006 due to a decline in gifts for capital projects.
- Component unit investment income increased by 92% in FY 2006 as a result of higher interest rates on investments.
- Component unit additions to permanent endowments increased in FY 2006 due to a $12,000 endowment gift to establish the McIntosh Radiology Endowment.

Comparison of FY 2005 to FY 2004

- Tuition increased 7% in FY 2005 from FY 2004. However, the increase was more than offset by a $408,879.15 increase in the scholarship allowance due to the impact of $718,478.10 in Tennessee Lottery awards. This resulted in a slight overall decrease of $38,093.22.
- Auxiliary revenue increased from FY 2004 due to higher bookstore commissions from Barnes & Noble.
- Other operating revenues changed in FY 2005 from FY 2004 due to Tennessee Student Assistance Corporation (TSAC) grants of $352,037.00 recorded as nonoperating revenue in FY 2005, while TSAC in FY 2004, amounting to $411,552.00, was recorded as operating revenue. Seminar registration fees rose by $26,583.00 and sale of salvage equipment increased by $22,316.30.

- Gifts increased by $14,369.07 in FY 2005 as a result of higher scholarship payments from the foundation.
- Capital appropriations declined $297,599.71 in FY 2005 due to the completion of the state roofing project in FY 2004.
- Grants and contracts increased from 26% of revenue in FY 2004 to 29% of revenue in FY 2005 due to $718,478.10 in Tennessee lottery funds and $571,282.00 in grants to the nursing program.
- Investment income increased in FY 2005 as a result of higher interest rates on investments.
- Other revenues and expenses increased from FY 2004 due to a $200,000 sale of equipment.
- Component unit gifts increased in FY 2005 due to $231,000.00 in gifts from West Tennessee Healthcare.
- Component unit operating expenses increased $618,533.79 from FY 2004 due to $281,400.00 in grants and a $300,000.00 capital gift made to the college in FY 2005.
- Component unit investment income decreased $19,256.35 in FY 2005 because the fixed investment return of 5.64% expired in February 2004 and was replaced by a lower money market rate of return.
- Component unit additions to permanent endowment increased $11,339.62 in FY 2005 due to a $10,000.00 endowment gift from the Tennessee Society of CPAs.

Expenses

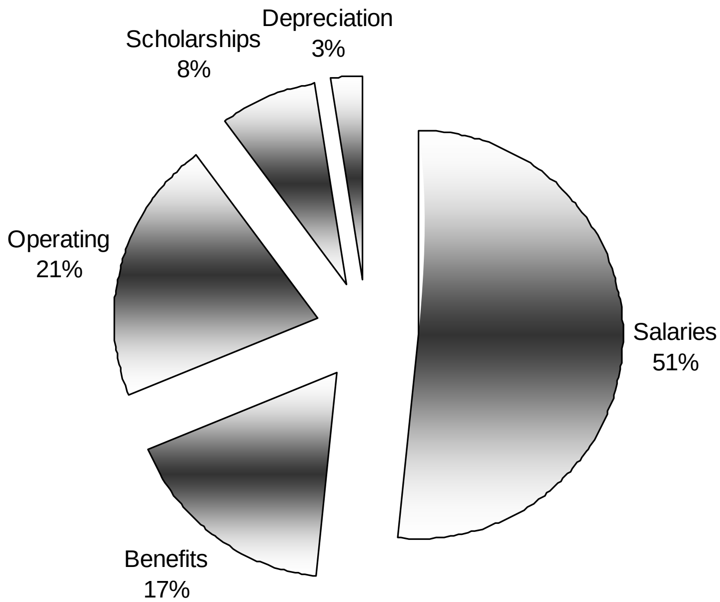
Operating expenses can be displayed in two formats, natural classification and program classification. Both formats are displayed below (in thousands of dollars).

Natural Classification

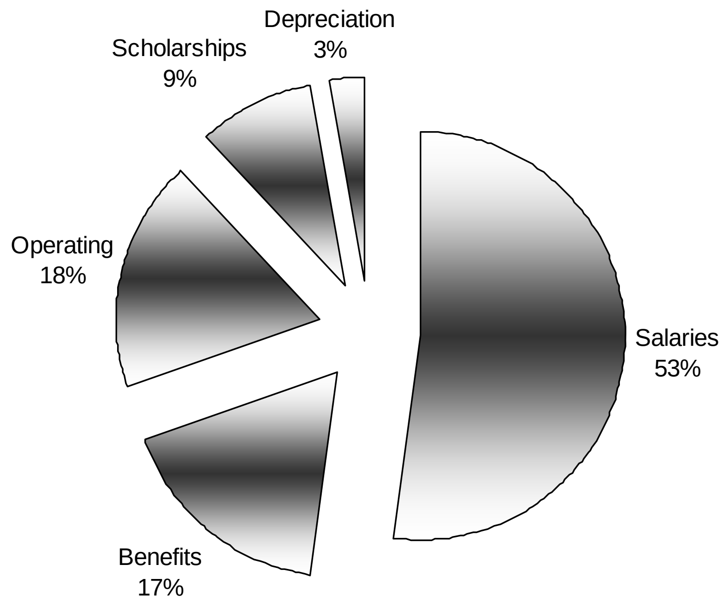
College	2006	2005	2004
Salaries	12,683	12,639	11,812
Benefits	4,259	4,224	3,461
Operating	5,082	4,450	4,772
Scholarships	1,909	2,252	1,955
Depreciation	633	639	663
Total	24,566	24,204	22,663

Component Unit	2006	2005	2004
Salaries	-	1	1
Operating	82	364	60
Payments for JSCC	533	377	62
Total	615	742	123

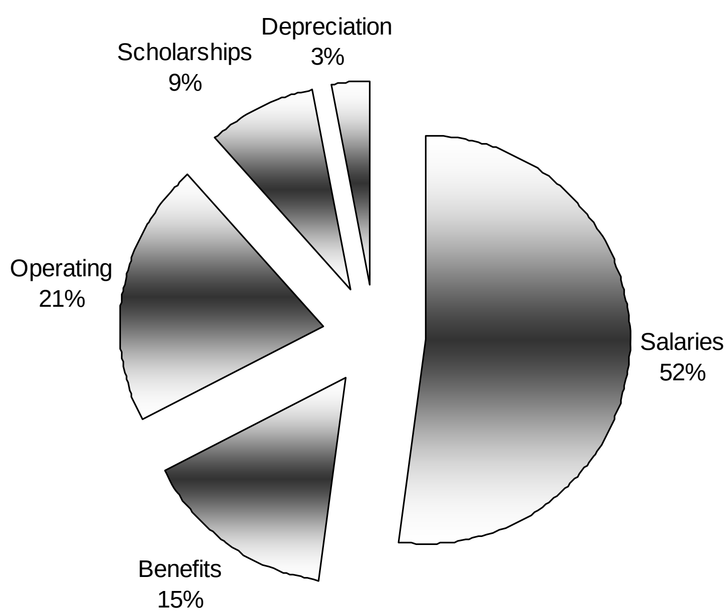
JSCC Expenses by Natural Classification FY 2006



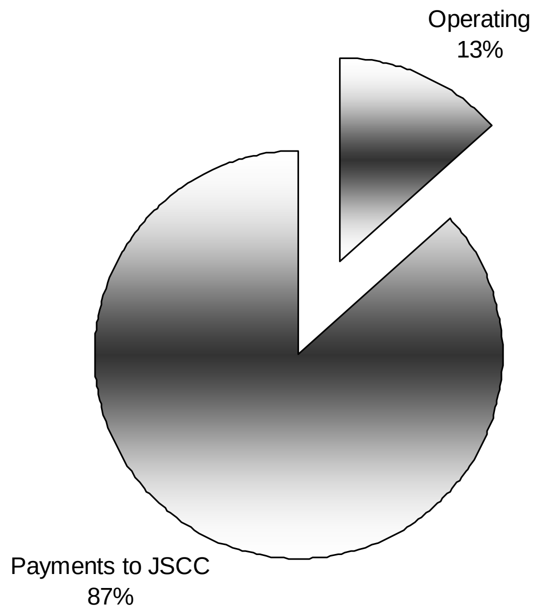
JSCC Expenses by Natural Classification FY 2005



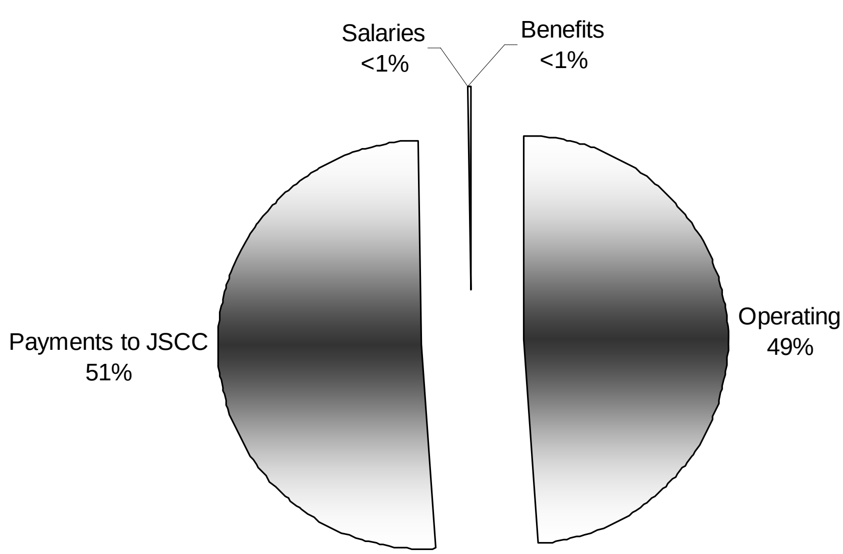
JSCC Expenses by Natural Classification FY 2004



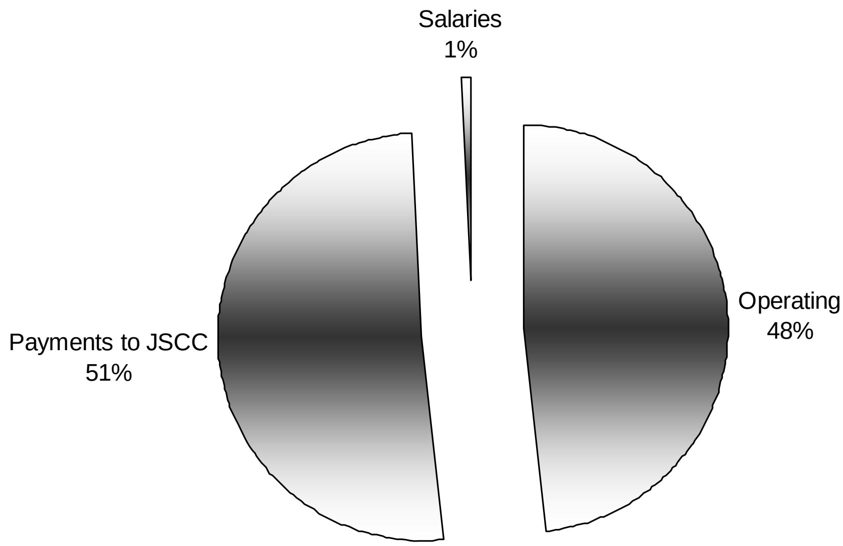
JSCCF Expenses by Natural Classification FY 2006



JSCCF Expenses by Natural Classification FY 2005



JSCCF Expenses by Natural Classification FY 2004



Comparison of FY 2006 to FY 2005

- Utilities, supplies, and other services expenses increased $632,777.73 in FY 2006 due to an additional $535,033.45 spent on facility projects and other improvements which included $150,420.86 in Banner implementation costs.
- Scholarship expenses decreased in FY 2006 because of a $430,391.03 decline in PELL awards.
- Component unit operating expenses declined in FY 2006 because of a $231,000.00 reduction in awards to the JSCC nursing program.
- Component unit payments to JSCC increased in FY 2006 due to a $150,000.00 increase in capital gifts.

Comparison of FY 2005 to FY 2004

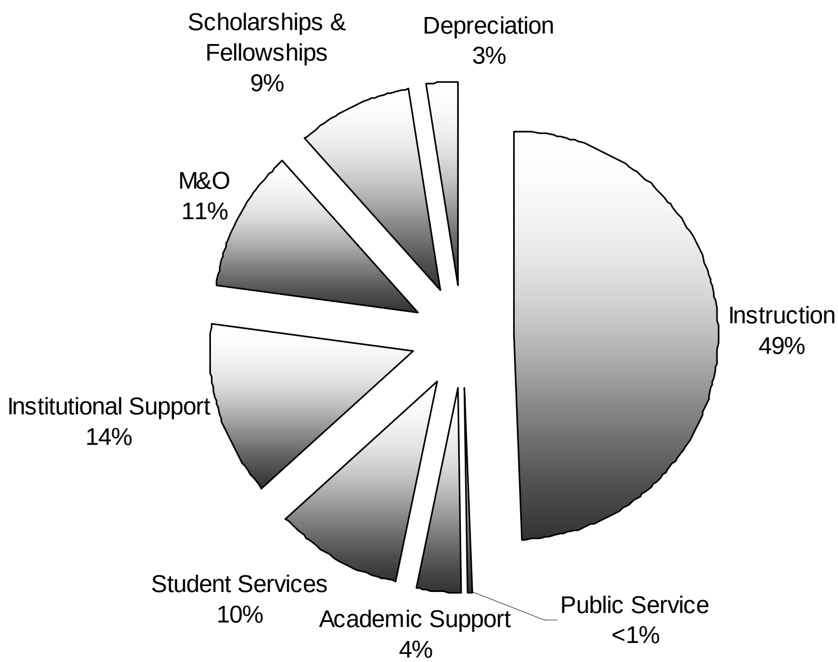
- Salaries increased 7% in FY 2005 because additional faculty were added and there was an across the board 3% raise.
- Benefits increased from FY 2004 due to additional salaries and an increase in medical insurance premiums.

- Utilities, supplies, and other services expenses decreased in FY 2005 due to a reduction in purchases of noncapitalized equipment and improvements.
- Scholarships increased in FY 2005 because of funds received from the Tennessee Lottery.
- The component unit increased operating expenses in FY 2005 as a result of $581,475.00 in grants awarded to the college. These grants included an award of $231,000 to the JSCC nursing program and an award of $300,000 to the McWherter Center Renovation Project.
- Component unit payments to JSCC increased in FY 2005 due to a $300,000.00 capital gift.

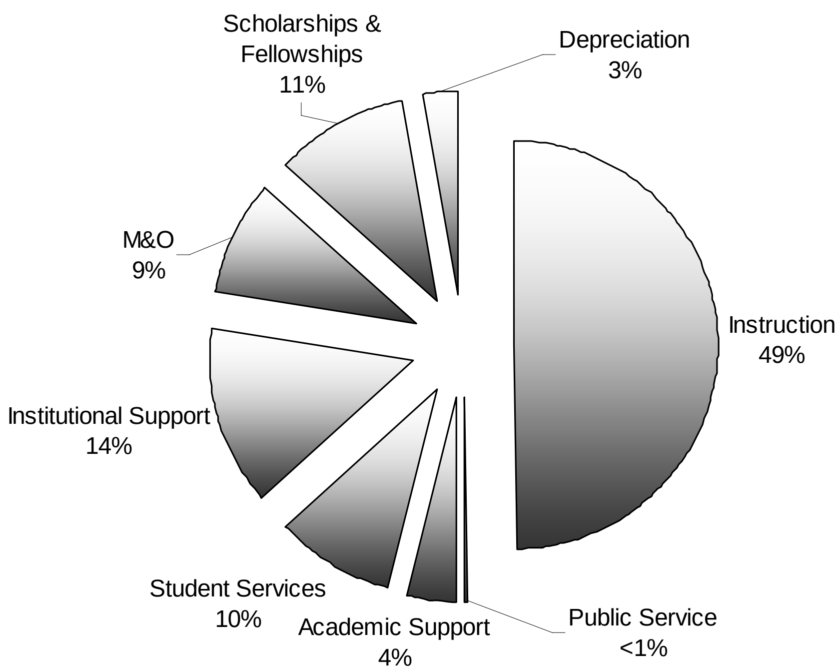
Program Classification

College	2006	2005	2004
Instruction	12,136	12,022	11,249
Public service	109	109	99
Academic support	887	923	854
Student services	2,445	2,299	2,042
Institutional Support	3,407	3,384	3,089
Maintenance & operation	2,698	2,228	2,357
Scholarships & fellowships	2,251	2,600	2,310
Depreciation	633	639	663
Total	24,566	24,204	22,663

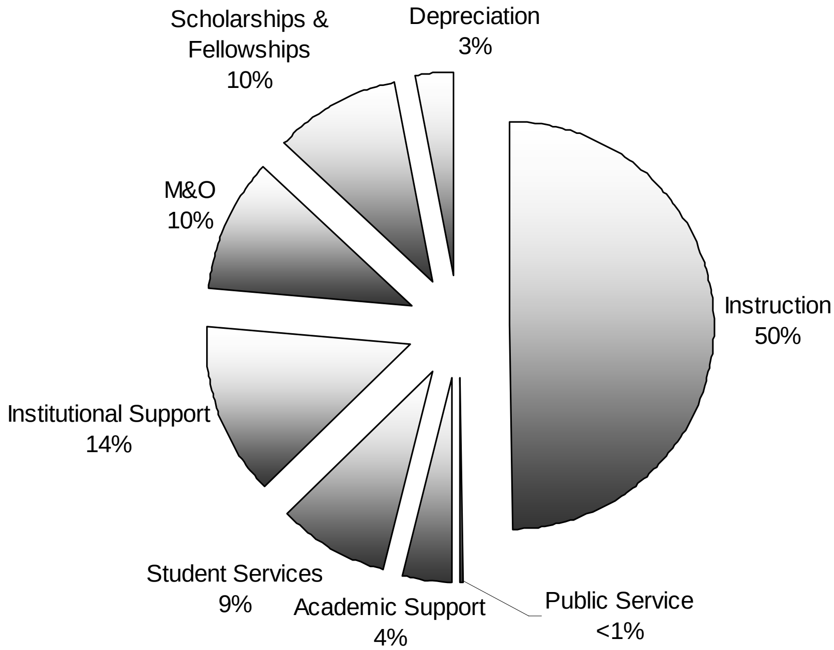
JSCC Expenses by Program Classification FY 2006



JSCC Expenses by Program Classification FY 2005



JSCC Expenses by Program Classification FY 2004



<u>Comparison of FY 2006 to FY 2005</u>

- Maintenance and operation (M&O) expenses increased in FY 2006 due to an additional $535,033.45 spent on facility projects and other improvements which included $150,420.45 in Banner implementation costs.
- Scholarship expenses decreased in FY 2006 because of a $430,391.03 decline in PELL awards.

<u>Comparison of FY 2005 to FY 2004</u>

- Instructional expenses in FY 2005 increased due to higher salaries and benefits.
- Student services increased in FY 2005 due to increased salaries, benefits, and operating expenses in the records office, the admissions office, and the financial aid office.
- Scholarships and fellowships increased in 2005 because of funds received from the Tennessee lottery.

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.

College's Cash Flows (in thousands of dollars)

	2006	2005	2004
Cash provided (used) by:			
Operating activities	(16,839)	(16,529)	(14,377)
Noncapital financing activities	16,837	17,146	15,385
Capital and related financing activities	150	(80)	117
Investing activities	301	140	58
Net increase (decrease) in cash	**449**	**677**	**1,183**
Cash, beginning of year	**8,012**	**7,335**	**6,152**
Cash, end of year	**8,461**	**8,012**	**7,335**

Comparison of FY 2006 to FY 2005

- Net cash used by operating activities increased $309,322.51 in FY 2006 due to a reduction of $531,282.00 in gifts and grants mainly to the nursing program from the local medical community partially offset by an $186,657.80 increase in cash received from tuition and fees.
- Noncapital financing activities decreased in FY 2006 because a decline in PELL revenue was partially offset by an increase in state appropriations.
- Cash provided by capital and related financing activities increased $229,663.29 in FY 2006. Capital appropriations increased $327,261.47. Capital gifts increased $150,000.00. Purchases of capital assets and construction decreased $670,920.92. These increases in cash offset a decline due the commercial paper financing of $754,757.35 in FY 2005 and the $150,951.00 principal payment on commercial paper in FY 2006.
- Cash provided by investing activities increased in FY 2006 due to higher interest rates on investments.
- The college's liquidity in FY 2006 increased 5.6%.

Comparison of FY 2005 to FY 2004

- Cash flow from operating activities from FY 2004 to FY 2005 decreased 15% due to $1,946,416.03 in additional payments on salaries and benefits to employees. TSAC grants of $352,037.00 were classified as nonoperating in FY 2005 and $411,552.00 of TSAC was classified as operating in FY 2004.
- Noncapital financing activities increased in FY 2005 because cash from state appropriations increased by $681,300.00.
- Cash flow from capital and related financing declined $197,000.25 in FY 2005. Capital equipment purchased in FY 2005 increased $1,045,015.82. This was funded by $754,757.35 in commercial paper and a $300,000.00 gift from the Jackson State Community College Foundation. Capital appropriations declined $297,599.71 in FY 2005 due to the completion of the state roofing project in FY 2004. Proceeds from the sale of capital assets contributed $100,000.00 in cash flow.
- Cash flow from investing activities increased $82,562.11 in FY 2005 because of higher interest rates on investments.
- The college's liquidity in FY 2005 increased by approximately 9.2%.

Capital Assets and Debt Administration

Capital Assets

Jackson State Community College had $9,828,273.23 invested in capital assets, net of accumulated depreciation of $9,493,345.63 at June 30, 2006; $9,793,473.35 invested in capital assets, net of accumulated depreciation of $9,071,912.84 at June 30, 2005; and $9,112,892.90 invested in capital assets, net of accumulated depreciation of $10,696,684.32 at June 30, 2004. Depreciation charges totaled $633,345.13, $638,832.60, and $662,556.83 for the years ended June 30, 2006; June 30, 2005; and June 30, 2004, respectively. Details of these assets are shown below.

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

	2006	2005	2004
Land	129	129	129
Land improvements & infrastructure	250	264	280
Buildings	7,001	7,326	7,704
Equipment	837	826	604
Library holdings	360	374	396
Projects in progress	1,251	874	-
Total	9,828	9,793	9,113

- Major expenditures in FY 2006 include $218,387.94 on the Gym HVAC, $70,450.19 for a pavilion, $46,318.11 on the McWherter Center renovation, and $41,738.46 on ERP software.
- Purchases amounting to $395,040.12 increased equipment in FY 2005. ERP software purchases increased projects in progress by $807,839.00. Depreciation reduced net capital assets by $638,832.60.

The major project planned for the 2006-2007 fiscal year is the $750,000 renovation of the McWherter Center classroom building to be funded by private gifts. More detailed information about the college's capital assets is presented in Note 5 to the financial statements.

Debt

The college had $606,351.00 and $754,757.35 in debt outstanding at June 30, 2006, and June 30, 2005, respectively, and no debt outstanding at June 30, 2004. The component unit had no debt outstanding at June 30, 2006; June 30, 2005; and June 30, 2004, respectively. The table below summarizes these amounts by type of debt instrument.

College
Schedule of Debt (in thousands of dollars)

	2006	2005	2004
TSSBA commercial paper	-	755	-
TSSBA bonds	606	-	-

In FY 2006, the Tennessee State School Bond Authority replaced the remaining $603,806.35 in commercial paper with $606,351.00 from the issuance of bonds. The Tennessee State School Bond Authority had authorized the issuance of commercial paper to finance costs of various capital projects. In FY 2005, $754,757.35 in commercial paper was issued for projects at Jackson State Community College. No debt existed prior to FY 2005. The Tennessee State School Bond Authority's long-term debt is rated Aa3 by Moody's and AA- by Standard and Poor. More detailed information about the college's long-term liabilities is presented in Note 6 to the financial statements.

Economic Factors That Will Affect the Future

Tuition increased by 4.1% for the 2006-2007 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 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 ***Horace Chase, Vice President for Financial & Administrative Affairs, Jackson State Community College, 2046 North Parkway, Jackson, Tennessee, 38301***.

TENNESSEE BOARD OF REGENTS
JACKSON STATE COMMUNITY COLLEGE
STATEMENTS OF NET ASSETS
JUNE 30, 2006, AND JUNE 30, 2005

	Jackson State Community College		Component Unit - Jackson State Community College Foundation	
	June 30, 2006	June 30, 2005	June 30, 2006	June 30, 2005
ASSETS				
Current assets:				
Cash (Notes 2, 3, 13 and 14)	$ 5,278,821.48	$ 5,087,181.81	$ 1,699,054.65	$ 1,490,677.13
Accounts, notes, and grants receivable (net) (Note 4)	696,100.31	653,678.75	60.00	939.80
Pledges receivable (net) (Note 14)	-	-	37,112.67	505,745.16
Prepaid expenses and deferred charges	6,109.81	8,370.95	-	-
Accrued interest receivable	14,902.18	12,579.02	-	-
Total current assets	5,995,933.78	5,761,810.53	1,736,227.32	1,997,362.09
Noncurrent assets:				
Cash (Notes 2, 3, and 14)	3,182,003.94	2,924,503.68	-	-
Investments (Notes 13 and 14)	-	-	206,182.14	208,085.96
Accounts, notes, and grants receivable (net) (Note 4)	109,803.33	103,449.18	-	-
Pledges receivable (net) (Notes 13 and 14)	-	-	15,723.15	5,747.05
Capital assets (net) (Note 5)	9,828,273.23	9,793,473.35	-	-
Total noncurrent assets	13,120,080.50	12,821,426.21	221,905.29	213,833.01
Total assets	19,116,014.28	18,583,236.74	1,958,132.61	2,211,195.10
LIABILITIES				
Current liabilities:				
Accounts payable	295,569.04	272,694.22	24,876.64	987.42
Accrued liabilities	448,976.17	375,754.95	-	-
Deferred revenue	554,259.84	485,910.61	-	-
Compensated absences (Note 6)	177,538.39	188,250.60	-	-
Long-term liabilities, current portion (Note 6)	145,378.00	161,900.00	-	-
Deposits held in custody for others (Note 13)	2,779,212.19	2,413,512.65	-	-
Total current liabilities	4,400,933.63	3,898,023.03	24,876.64	987.42
Noncurrent liabilities:				
Compensated absences (Note 6)	513,888.62	511,142.65	-	-
Long-term liabilities (Note 6)	460,973.00	592,857.35	-	-
Due to grantor (Note 6)	112,392.94	104,732.00	-	-
Total noncurrent liabilities	1,087,254.56	1,208,732.00	-	-
Total liabilities	5,488,188.19	5,106,755.03	24,876.64	987.42
NET ASSETS				
Invested in capital assets, net of related debt	9,221,922.23	9,038,716.00	-	-
Restricted for:				
Nonexpendable:				
Scholarships and fellowships	-	-	539,433.60	508,148.43
Other	-	-	168,921.79	164,776.74
Expendable:				
Scholarships and fellowships (Note 14)	49,520.51	47,675.10	291,167.93	226,508.31
Instructional department uses	181,162.61	414,584.46	-	-
Loans (Note 14)	37,464.32	34,910.66	15,798.37	13,202.83
Capital projects (Note 14)	-	-	728,950.66	1,146,602.81
Debt service	2,692.98	3,366.22	-	-
Other (Note 14)	24,253.20	54,411.01	139,902.35	101,481.37
Unrestricted (Notes 7 and 14)	4,110,810.24	3,882,818.26	49,081.27	49,487.19
Total net assets	$ 13,627,826.09	$ 13,476,481.71	$ 1,933,255.97	$ 2,210,207.68

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

TENNESSEE BOARD OF REGENTS
JACKSON STATE COMMUNITY COLLEGE
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2006, AND JUNE 30, 2005

	Jackson State Community College		Component Unit - Jackson State Community College Foundation	
	Year Ended June 30, 2006	Year Ended June 30, 2005	Year Ended June 30, 2006	Year Ended June 30, 2005
REVENUES				
Operating revenues:				
Student tuition and fees (net of scholarship allowances of $3,055,384.00 for the year ended June 30, 2006, and $3,049,973.33 for the year ended June 30, 2005)	$ 5,349,213.79	$ 5,052,628.52	$ -	$ -
Gifts and contributions	-	-	212,839.71	425,495.98
Governmental grants and contracts	1,230,246.79	1,266,360.81	-	-
Nongovernmental grants and contracts	94,773.32	643,055.51	-	-
Sales and services of educational departments	24,253.85	43,300.05	-	-
Auxiliary enterprises:				
Bookstore	105,648.86	141,563.68	-	-
Interest earned on loans to students	4,230.90	3,617.30	-	-
Other operating revenues	272,498.30	327,238.06	-	-
Total operating revenues	7,080,865.81	7,477,763.93	212,839.71	425,495.98
EXPENSES				
Operating expenses (Note 12):				
Salaries and wages	12,683,214.63	12,639,139.01	-	843.75
Benefits	4,258,474.91	4,224,080.46	-	64.55
Utilities, supplies, and other services	5,082,242.83	4,449,465.10	82,283.02	364,018.90
Scholarships and fellowships	1,909,131.46	2,252,379.81	-	-
Depreciation expense	633,345.13	638,832.60	-	-
Payments to or on behalf of Jackson State Community College (Note 14)	-	-	532,554.97	377,021.67
Total operating expenses	24,566,408.96	24,203,896.98	614,837.99	741,948.87
Operating loss	(17,485,543.15)	(16,726,133.05)	(401,998.28)	(316,452.89)
NONOPERATING REVENUES (EXPENSES)				
State appropriations	11,645,400.00	11,445,500.00	-	-
Gifts from component unit (Note 13)	82,554.97	77,021.67	-	-
Grants and contracts	4,731,098.91	5,097,977.43	-	-
Investment income	302,934.47	144,321.60	87,150.72	45,516.30
Interest on capital asset-related debt	(22,626.06)	(5,775.85)	-	-
Bond issuance costs	(2,544.65)	-	-	-
Other nonoperating revenues (expenses)	9,504.41	(6,706.69)	7,435.00	(7,526.93)
Net nonoperating revenues	16,746,322.05	16,752,338.16	94,585.72	37,989.37
Income (loss) before other revenues, expenses, gains, or losses	(739,221.10)	26,205.11	(307,412.56)	(278,463.52)
Capital appropriations	449,463.15	122,201.68	-	-
Capital grants and gifts from component unit (Note 14)	450,000.00	300,000.00	-	-
Additions to permanent endowments	-	-	30,460.85	15,803.96
Other capital	(8,897.67)	-	-	-
Total other revenues	890,565.48	422,201.68	30,460.85	15,803.96
Increase (decrease) in net assets	151,344.38	448,406.79	(276,951.71)	(262,659.56)
NET ASSETS				
Net assets - beginning of year	13,476,481.71	13,028,074.92	2,210,207.68	2,472,867.24
Net assets - end of year	$ 13,627,826.09	$ 13,476,481.71	$ 1,933,255.97	$ 2,210,207.68

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

TENNESSEE BOARD OF REGENTS
JACKSON STATE COMMUNITY COLLEGE
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2006, AND JUNE 30, 2005

	Year Ended June 30, 2006	Year Ended June 30, 2005
CASH FLOWS FROM OPERATING ACTIVITIES		
Tuition and fees	$ 5,271,161.02	$ 5,084,503.22
Grants and contracts	1,304,618.14	1,725,565.07
Sales and services of educational activities	32,621.27	38,986.96
Payments to suppliers and vendors	(5,050,326.50)	(4,464,236.84)
Payments to employees	(12,628,951.36)	(12,833,414.45)
Payments for benefits	(4,254,580.06)	(4,296,436.93)
Payments for scholarships and fellowships	(1,909,131.46)	(2,252,379.81)
Loans issued to students and employees	(6,354.15)	(9,951.99)
Interest earned on loans to students	3,349.49	2,815.68
Auxiliary enterprise charges:		
Bookstore	113,037.44	138,286.58
Other receipts	285,931.19	336,960.04
Net cash used by operating activities	(16,838,624.98)	(16,529,302.47)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State appropriations	11,646,200.00	11,449,300.00
Gifts and grants received for other than capital purposes, including $82,554.97 from Jackson State Community College Foundation for the year ended June 30, 2006, and $77,021.67 for the year ended June 30, 2005	4,824,856.00	5,174,999.10
Changes in deposits held for others	365,699.54	521,159.92
Net cash provided by noncapital financing activities	16,836,755.54	17,145,459.02
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from capital debt	606,351.00	754,757.35
Capital appropriations	449,463.15	122,201.68
Capital grants and gifts received from component unit	450,000.00	300,000.00
Proceeds from sale of capital assets	100,000.00	100,000.00
Purchases of capital assets and construction	(677,042.68)	(1,347,963.60)
Principal paid on capital debt	(754,757.35)	-
Interest paid on capital debt	(21,952.82)	(9,142.07)
Bond issue costs paid on new debt issue	(2,544.65)	-
Net cash provided (used) by capital and related financing activities	149,516.65	(80,146.64)
CASH FLOWS FROM INVESTING ACTIVITIES		
Income on investments	301,492.72	140,482.94
Net cash provided by investing activities	301,492.72	140,482.94
Net increase in cash	449,139.93	676,492.85
Cash - beginning of year (Note 13)	8,011,685.49	7,335,192.64
Cash - end of year	$ 8,460,825.42	$ 8,011,685.49

TENNESSEE BOARD OF REGENTS
JACKSON STATE COMMUNITY COLLEGE
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2006, AND JUNE 30, 2005

	Year Ended June 30, 2006	Year Ended June 30, 2005
Reconciliation of operating loss to net cash used by operating activities:		
Operating loss	$ (17,485,543.15)	$ (16,726,133.05)
Adjustments to reconcile operating loss to net cash used by operating activities:		
Depreciation expense	633,345.13	638,832.60
Change in assets and liabilities:		
Receivables, net	(141,773.55)	52,949.34
Prepaid/deferred items	1,587.90	(813.77)
Accounts payable	24,353.69	(95,293.51)
Accrued liabilities	73,221.22	(290,285.67)
Deferred revenue	68,349.23	14,984.63
Due to grantor	7,660.94	8,517.75
Compensated absences	(7,966.24)	65,185.07
Loans to students and employees	(7,235.56)	(10,753.61)
Other	(4,624.59)	(186,492.25)
Net cash used by operating activities	$ (16,838,624.98)	$ (16,529,302.47)
Noncash transactions		
Gifts in-kind	$ -	$ 31,950.00

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

Tennessee Board of Regents
Jackson State Community College
Notes to the Financial Statements
June 30, 2006, and June 30, 2005

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*.

The Jackson State Community College Foundation is considered a component unit 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. See Note 13 for more detailed information about the component unit and how to obtain the report.

Basis of Presentation

The financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) applicable to governmental colleges and universities engaged in business-type activities as prescribed by the Governmental Accounting Standards Board (GASB).

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) certain 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) utilities, supplies, and other services; (4) scholarships and fellowships; and (5) depreciation.

All other activity is nonoperating in nature and includes (1) state appropriations for operations; (2) investment income; (3) bond issuance costs; (4) interest on capital asset-related debt; (5) certain grants and contracts; and (6) gifts and nonexchange transactions.

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, library holdings, and software, 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. The capitalization threshold for software is set at $100,000.

These assets, with the exception of land, are depreciated/amortized 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, net of related debt - This represents the college's total investment in capital assets, net of outstanding debt obligations related to those capital assets. To the extent debt has been incurred but not yet expended for capital assets, such amounts are not included as a component of invested in capital assets, net of related debt.

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

At June 30, 2006, cash consisted of $2,084,981.17 in bank accounts, $5,338.90 of petty cash on hand, $5,639,058.43 in the State of Tennessee Local Government Investment Pool administered by the State Treasurer, and $731,446.92 in LGIP deposits for capital projects. At June 30, 2005, cash consisted of $1,648,443.11 in bank accounts, $5,304.45 of petty cash on hand, $5,803,326.54 in the State of Tennessee Local Government Investment Pool administered by the State Treasurer, and $554,611.39 in LGIP deposits for capital projects.

LGIP deposits for capital projects - Payments related to the college's capital projects are made by the State of Tennessee's Department of Finance and Administration. The college's estimated local share of the cost of each project is held in a separate Local Government Investment Pool (LGIP) account. As expenses are incurred, funds are withdrawn from the LGIP account by the Tennessee Board of Regents and transferred to the Department of Finance and Administration. The funds in the account are not available to the college for any other purpose until the project is completed and the Tennessee Board of Regents releases any remaining funds.

NOTE 3. DEPOSITS

During the year ended June 30, 2005, the college implemented GASB Statement 40, *Deposit and Investment Risk Disclosures*. That statement modified the custodial credit risk disclosures of GASB Statement 3 to limit required disclosures to deposits that are not covered by depository insurance and are (a) uncollateralized, (b) collateralized with securities held by the pledging financial institution, or (c) collateralized with securities held by the pledging financial institution's trust department or agency but not in the college's name.

In accordance with the laws of the State of Tennessee, financial institutions have pledged securities as collateral for college funds on deposit. Financial institutions may participate in the bank collateral pool administered by the State Treasurer. For those financial institutions participating in the bank collateral pool, the required collateral accepted as security for deposits shall be collateral whose fair value is equal to 115%, 100%, or 90% of the uninsured deposits. The pledge level is based on financial criteria set by the Collateral Pool Board with the financially strongest institutions being eligible for the lowest pledge level. For all other financial institutions, the required collateral accepted as security for deposits shall be collateral whose value is equal to 105% of the uninsured deposits.

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 required risks disclosures 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. RECEIVABLES

Receivables included the following:

	June 30, 2006	June 30, 2005
Student accounts receivable	$500,998.14	$459,414.59
Grants receivable	269,811.73	230,899.43
State appropriation receivable	23,600.00	24,400.00
Other receivables	25,978.26	141,659.09
Subtotal	820,388.13	856,373.11
Less allowance for doubtful accounts	(124,287.82)	(202,694.36)
Total receivables	$696,100.31	$653,678.75

Federal Perkins Loan Program funds included the following:

	June 30, 2006	June 30, 2005
Perkins loans receivable	$168,041.89	$159,786.34
Less allowance for doubtful accounts	(58,238.56)	(56,337.16)
Total	$109,803.33	$103,449.18

NOTE 5. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2006, was as follows:

	Beginning Balance	Additions	Transfers	Reductions	Ending Balance
Land	$ 128,645.20	$ -	$ -	$ -	$ 128,645.20
Land improvements and infrastructure	299,211.74	-	-	-	299,211.74
Buildings	13,443,725.01	-	-	-	13,443,725.01
Equipment	3,345,164.66	229,727.35	-	130,408.88	3,444,483.13
Library holdings	774,450.46	70,920.63	-	90,901.13	754,469.96
Projects in progress	874,189.12	376,894.70	-	-	1,251,083.82
Total	18,865,386.19	677,542.68	-	221,310.01	19,321,618.86
Less accum. depreciation:					
Land improvements and infrastructure	34,366.50	14,960.59	-	-	49,327.09
Buildings	6,118,013.77	324,726.27	-	-	6,442,740.04
Equipment	2,518,956.60	209,121.16	-	121,011.21	2,607,066.55
Library holdings	400,575.97	84,537.11	-	90,901.13	394,211.95
Total accum. depreciation	9,071,912.84	633,345.13	-	211,912.34	9,493,345.63
Capital assets, net	$ 9,793,473.35	$ 44,197.55	$ -	$ 9,397.67	$ 9,828,273.23

Capital asset activity for the year ended June 30, 2005, was as follows:

	Beginning Balance	Additions	Transfers	Reductions	Ending Balance
Land	$ 128,645.20	$ -	$ -	$ -	$ 128,645.20
Land improvements and infrastructure	299,211.74	-	-	-	299,211.74
Buildings	13,443,725.01	-	-	-	13,443,725.01
Equipment	5,125,795.32	408,540.12	-	2,189,170.78	3,345,164.66
Library holdings	812,199.95	65,234.36	-	102,983.85	774,450.46
Projects in progress	-	874,189.12	-	-	874,189.12
Total	19,809,577.22	1,347,963.60	-	2,292,154.63	18,865,386.19

Less accum. depreciation:					
Land improvements and infrastructure	19,405.91	14,960.59	-	-	34,366.50
Buildings	5,740,168.90	377,844.87	-	-	6,118,013.77
Equipment	4,521,293.12	158,283.71	-	2,160,620.23	2,518,956.60
Library holdings	415,816.39	87,743.43	-	102,983.85	400,575.97
Total accum. depreciation	10,696,684.32	638,832.60	-	2,263,604.08	9,071,912.84
Capital assets, net	$ 9,112,892.90	$ 709,131.00	$ -	$ 28,550.55	$ 9,793,473.35

NOTE 6. LONG-TERM LIABILITIES

Long-term liabilities activity for the year ended June 30, 2006, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Payables:					
TSSBA debt:					
Bonds	$	$ 606,351.00	$ -	$ 606,351.00	$145,378.00
Commercial paper	754,757.35	-	754,757.35	-	-
Subtotal	754,757.35	606,351.00	754,757.35	606,351.00	145,378.00
Other liabilities:					
Compensated absences	699,393.25	637,186.95	645,153.19	691,427.01	177,538.39
Due to grantor	104,732.00	15,329.18	7,668.24	112,392.94	-
Subtotal	804,125.25	652,516.13	652,821.43	803,819.95	177,538.39
Total long-term liabilities	$1,558,882.60	$1,258,867.13	$1,407,578.78	$1,410,170.95	$322,916.39

Long-term liabilities activity for the year ended June 30, 2005, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Payables:					
TSSBA debt:					
Commercial paper	$ -	$ 754,757.35	$ -	$ 754,757.35	$161,900.00
Other liabilities:					
Compensated absences	634,208.18	657,985.82	592,800.75	699,393.25	188,250.60
Due to grantor	96,214.25	16,791.98	8,274.23	104,732.00	-
Subtotal	730,422.43	674,777.80	601,074.98	804,125.25	188,250.60
Total long-term liabilities	$730,422.43	$1,429,535.15	$601,074.98	$1,558,882.60	$350,150.60

TSSBA Debt - Bonds

Bonds, with an interest rate of 4% were issued by the Tennessee State School Bond Authority (TSSBA). The bonds are due serially to May 1, 2010, and are secured by pledges of the facilities' revenues to which they relate and certain other revenues and fees of the college, including state appropriations.

Debt service requirements to maturity for the college's portion of TSSBA bonds at June 30, 2006, are as follows:

Year Ending June 30	Principal	Interest	Total
2007	$145,378.00	$22,232.87	$167,610.87
2008	147,381.00	18,438.92	165,819.92
2009	153,571.00	12,543.68	166,114.68
2010	160,021.00	6,400.84	166,421.84
	$606,351.00	$59,616.31	$665,967.31

TSSBA Debt - Commercial Paper

The Tennessee State School Bond Authority issues commercial paper to finance the costs of various capital projects during their construction phase. When projects are placed in service, long-term, fixed-rate debt is issued by TSSBA to finance the project over its useful payback period and the commercial paper is redeemed. The amount issued for projects at the college was $754,757.35 at June 30, 2005.

For the commercial paper program, the Tennessee State School Bond Authority maintains an interest rate reserve fund. The college contributes amounts to the reserve fund based on the amounts drawn. The principal of the reserve will be contributed to pay off notes or credited back to the college when the notes are converted to bonds. The interest earned on the reserve is used to pay interest due during the month.

More detailed information regarding the bonds and commercial paper can be found in the notes to the financial statements in the financial report for the Tennessee State School Bond Authority. That report may be obtained by writing to the Director of Bond Finance, Suite 1600, James K. Polk Building, Nashville, Tennessee 37243-0273, or by calling (615) 401-7872.

NOTE 7. 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, 2006	June 30, 2005
Working capital	$ 349,889.85	$ 252,810.18
Encumbrances	180,420.62	235,904.69
Designated fees	101,647.03	99,788.17
Auxiliaries	5,282.44	14,466.76
Plant construction	1,426,733.73	1,193,784.62
Renewal and replacement of equipment	1,724,615.18	1,802,543.77
Unreserved/undesignated	322,221.39	283,520.07
Total	$4,110,810.24	$3,882,818.26

NOTE 8. 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 10.31% 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, 2006, 2005, and 2004 were $794,202.27, $831,632.23, and $509,745.57. 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 $392,058.12 for the year ended June 30, 2006, and $408,422.80 for the year ended June 30, 2005. Contributions met the requirements for each year.

NOTE 9. 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 10. 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 damages 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. Information regarding the determination of the claims liabilities and the changes in the balances of the claims liabilities for the years ended June 30, 2006, and June 30, 2005, 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. 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, 2006, the Risk Management Fund held $133.2 million in cash and cash equivalents designated for payment of claims. At June 30, 2005, the Risk Management fund held $114.4 million in cash and cash equivalents designated for payment of claims.

At June 30, 2006, the scheduled coverage for the college was $34,839,100 for buildings and $12,951,400 for contents. At June 30, 2005, the scheduled coverage for the college was $33,166,900 for buildings and $14,840,664 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 11. 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 $3,595,116.77 at June 30, 2006, and $3,472,806.13 at June 30, 2005.

Operating Leases - The college has entered into various operating leases for buildings and equipment. Such leases will probably continue to be required. There were no expenses under operating leases for real property, and expenses under operating leases for personal property were $65,280.05 for the year ended June 30, 2006. Amounts for the year ended June 30, 2005, were $1,598.83 and $57,278.07. All operating leases are cancelable at the lessee's option.

Construction in Progress - At June 30, 2006, outstanding commitments under construction contracts totaled $106,444.78 for roofing and plumbing projects, of which $53,009.77 will be funded by future state capital outlay appropriations.

Contract - In December 2004, the Tennessee Board of Regents system entered into a contract with SungardSCT for the purchase of a comprehensive enterprise resource planning system. The contract includes a multi-year phase-in of administrative software for financial, human resource, and student systems. The college's outstanding liability for this contract is estimated as $337,077.09 at June 30, 2006.

NOTE 12. NATURAL CLASSIFICATIONS WITH FUNCTIONAL CLASSIFICATIONS

The college's operating expenses by functional classification for the year ended June 30, 2006, are as follows:

			Natural Classification			
Functional Classification	Salaries	Benefits	Other Operating	Scholarships	Depreciation	Total
Instruction	$ 7,818,136.58	$2,496,685.69	$1,821,256.92	$ -	$ -	$12,136,079.19
Public service	79,238.40	1,327.37	28,297.27	-	-	108,863.04
Academic support	1,080,031.24	383,319.78	(576,633.62)	-	-	886,717.40
Student services	1,046,405.79	385,605.40	1,013,383.56	-	-	2,445,394.75
Institutional support	1,911,944.79	672,524.65	822,663.82	-	-	3,407,133.26
Operation & maintenance	670,318.34	319,012.02	1,708,774.85	-	-	2,698,105.21

Scholar. & fellowships	77,139.49	-	264,500.03	1,909,131.46	-	2,250,770.98
Depreciation	-	-	-	-	633,345.13	633,345.13
Total	$12,683,214.63	$4,258,474.91	$5,082,242.83	$1,909,131.46	$633,345.13	$24,566,408.96

The college's operating expenses by functional classification for the year ended June 30, 2005, are as follows:

	Natural Classification					
Functional Classification	Salaries	Benefits	Other Operating	Scholarships	Depreciation	Total
Instruction	$ 7,642,715.82	$2,394,369.17	$1,984,551.82	$ -	$ -	$12,021,636.81
Public service	73,992.27	-	35,596.89	-	-	109,589.16
Academic support	1,134.243.06	374,924.11	(585,975.93)	-	-	923,191.24
Student services	1,016,381.92	381,133.05	901,982.27	-	-	2,299,497.24
Institutional support	2,000,398.36	745,805.28	637,374.09	-	-	3,383,577.73
Operation & maintenance	702,718.82	319,540.62	1,205,309.60	-	-	2,227,569.04
Scholar. & fellowships	68,688.76	8,308.23	270,626.36	2,252,379.81	-	2,600,003.16
Depreciation	-	-	-	-	638,832.60	638,832.60
Total	$12,639,139.01	$4,224,080.46	$4,449,465.10	$2,252,379.81	$638,832.60	$24,203,896.98

NOTE 13. PRIOR YEAR RESTATEMENT

In the June 30, 2004, statement of net assets, the college included certain foundation assets in the applicable line items in the college column, and those assets were shown as deposits with college in the component unit column. Related amounts on the college's statement of cash flows for the year ended June 30, 2004, were also affected. Due to steps taken to segregate the foundation's assets from the college's assets, the following fiscal year 2004 amounts have been restated.

	Original Amount	Increase (Decrease)	Restated Amount
Statement of net assets - college			
Current assets:			
Cash and cash equivalents	$6,137,796.24	$ (1,573,115.31)	$4,564,680.93
Pledges receivable	369,663.25	(369,663.25)	-

Noncurrent assets:			
Investments	209,934.34	(209,934.34)	-
Pledges receivable	320,154.34	(320,154.34)	-
Current liabilities:			
Deposits held in custody for others	4,365,219.97	(2,472,867.24)	1,892,352.73
Statement of cash flows – college			
Cash flows from noncapital financing activities:			
Changes in deposits for others	775,980.67	(238,507.28)	537,473.39
Cash and cash equivalents, beginning	7,486,968.99	(1,334,608.03)	6,152,360.96
Statement of net assets – component unit			
Current assets:			
Cash and cash equivalents	$ -	$ 1,573,115.31	$ 1,573,115.31
Pledges receivable	-	369,663.25	369,663.25
Deposits with college	1,942,778.56	(1,942,778.56)	-
Noncurrent assets:			
Investments	-	209,934.34	209,934.34
Pledges receivable	-	320,154.34	320,154.34
Deposits with college	530,088.68	(530,088.68)	-

NOTE 14. 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 21-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, 2006, the foundation made distributions of $532,554.97 to or on behalf of the college for both restricted and unrestricted purposes. During the year ended June 30, 2005, the foundation made distributions of $377,021.67 to or on behalf of the college for both restricted and unrestricted purposes. Complete financial statements for the foundation can be obtained from Mr. Horace Chase at 2046 North Parkway, Jackson, Tennessee 38301.

Cash - Cash consists of demand deposit accounts. The bank balances of deposits at June 30, 2006, were entirely insured. The bank balances of deposits at June 30, 2005, were entirely insured.

Investments - Investments are recorded on the date of contribution and are stated at market value. Unrealized gains and losses are determined by the difference between market values at the beginning and end of the year.

Investments held at June 30, 2006, were as follows:

	Cost	Market Value
Annuities	$180,000.00	$206,182.14

Investments held at June 30, 2005, were as follows:

	Cost	Market Value
Annuities	$180,000.00	$208,085.96

Pledges Receivable - Pledges receivable are summarized below net of the allowance for doubtful accounts.

	June 30, 2006	June 30, 2005
Current pledges	$37,112.67	$505,745.16
Pledges due in one to five years	17,200.00	8,421.48
Subtotal	54,312.67	514,166.64
Less discount to net present value	(1,476.85)	(2,674.43)
Total pledges receivable, net	$52,835.82	$511,492.21

Endowments - If a donor has not provided specific instructions to the foundation, the foundation's policies and procedures permit it to authorize for expenditure the net appreciation (realized and unrealized) of the investments of endowment funds. When administering its power to spend net appreciation, the foundation is required to consider the foundation's long-term and short-term needs, present and anticipated financial requirements, expected total return on its investments, price-level trends, and general economic conditions. Any net appreciation spent is required to be spent for the purposes for which the endowment was established.

Under the spending plan established by the foundation, all realized income is available to spend in accordance with instructions from the donors. No unrealized income has been recorded to date. The remaining amount, if any, is retained to be used in future years. At June 30, 2006, net appreciation of $1,224,900.58 is available to be spent, of which $291,167.93 is included in restricted net assets expendable for scholarships and fellowships, $15,798.37 is included in restricted net assets expendable for loans, $728,950.66 is included in restricted net assets expendable for capital projects, $139,902.35 is included in restricted net assets expendable for other, and $49,081.27 is included in unrestricted net assets. At June 30, 2005, net appreciation of $1,537,282.51 is available to be spent, of which $226,508.31 is included in restricted net assets expendable for scholarships and fellowships, $13,202.83 is included in restricted net assets expendable for loans, $1,146,602.81 is included in restricted net assets expendable for capital projects, $101,481.37 is included in restricted net assets expendable for other, and $49,487.19 is included in unrestricted net assets.

TENNESSEE BOARD OF REGENTS
JACKSON STATE COMMUNITY COLLEGE
SUPPLEMENTARY INFORMATION
STATEMENTS OF CASH FLOWS - COMPONENT UNIT
FOR THE YEARS ENDED JUNE 30, 2006, AND JUNE 30, 2005

	Year Ended June 30, 2006	Year Ended June 30, 2005
CASH FLOWS FROM OPERATING ACTIVITIES		
Gifts and contributions	$ 673,692.13	$ 567,334.34
Payments to suppliers and vendors	(53,129.00)	(330,821.28)
Payments to employees	-	(843.75)
Payments for benefits	-	(64.55)
Payments to Jackson State Community College	(532,554.97)	(377,021.67)
Loans issued to students and employees	(10,218.90)	(13,543.08)
Collection of loans from students and employees	11,072.87	9,353.17
Net cash provided by operating activities	88,862.13	(145,606.82)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Private gifts for endowment purposes	30,460.85	15,803.96
Net cash provided by noncapital financing activities	30,460.85	15,803.96
CASH FLOWS FROM INVESTING ACTIVITIES		
Income on investments	89,054.54	47,364.68
Net cash provided by investing activities	89,054.54	47,364.68
Net increase (decrease) in cash	208,377.52	(82,438.18)
Cash - beginning of year	1,490,677.13	1,573,115.31
Cash - end of year	$ 1,699,054.65	$ 1,490,677.13
Reconciliation of operating loss to net cash provided by operating activities:		
Operating loss	$ (401,998.28)	$ (316,452.89)
Adjustments to reconcile operating income to net cash provided by operating activities:		
Change in assets and liabilities:		
Receivables, net	465,932.22	174,048.56
Accounts payable	23,889.22	987.42
Loans to students and employees	1,038.97	(4,189.91)
Net cash provided by operating activities	$ 88,862.13	$ (145,606.82)
Noncash transactions		
Gifts in-kind	$ 4,200.00	$ 33,150.00