AUDIT REPORT

Tennessee Board of Regents
Dyersburg State Community College

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

STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY

Department of Audit

Division of State Audit

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STATE OF TENNESSEE

COMPTROLLER OF THE TREASURY

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

John G. Morgan
Comptroller

September 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. Karen A. Bowyer, President
Dyersburg State Community College
1510 Lake Road
Dyersburg, Tennessee 38024

Ladies and Gentlemen:

Transmitted herewith is the financial and compliance audit of the Tennessee Board of Regents, Dyersburg 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
05/054

State of Tennessee

Audit Highlights

Comptroller of the Treasury   Division of State Audit

Financial and Compliance Audit
Dyersburg State Community College
For the Years Ended June 30, 2004, and June 30, 2003

AUDIT OBJECTIVES

The objectives of the audit were to consider the college's internal control over financial reporting; to determine compliance with certain provisions of laws, regulations, contracts, and grant agreements; to determine the fairness of the presentation of the financial statements; and to recommend appropriate actions to correct any deficiencies.

AUDIT FINDINGS

The audit report contains no findings.

OPINIONS ON THE FINANCIAL STATEMENTS

The opinions on the financial statements are unqualified.

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

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Tennessee Board of Regents
Dyersburg 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, Dyersburg State Community College. The audit was conducted pursuant to Section 4-3-304, *Tennessee Code Annotated*, which authorizes the Department of Audit to "perform currently a post-audit of all accounts and other financial records of the state government, and of any department, institution, office, or agency thereof in accordance with generally accepted auditing standards and in accordance with such procedures as may be established by the comptroller."

Section 8-4-109, *Tennessee Code Annotated*, authorizes the Comptroller of the Treasury to audit any books and records of any governmental entity that handles public funds when the Comptroller considers an audit to be necessary or appropriate.

BACKGROUND

Tennessee's community college system was conceived in 1957 when the state legislature ordered a study of community college programs known as 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. On June 13, 1967, the State Board of Education announced Dyersburg as the site of the second community college in west Tennessee. On July 1, 1972, the General Assembly transferred the governance of the community college system to the Tennessee Board of Regents.

ORGANIZATION

The governance of Dyersburg 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. Dyersburg 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

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

RESULTS OF THE AUDIT

AUDIT CONCLUSIONS

Internal Control

As part of the audit of the college's financial statements for the years ended June 30, 2004, and June 30, 2003, we considered internal control over financial reporting to determine auditing procedures for the purpose of expressing opinions on the financial statements, as required by auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Consideration of internal control over financial reporting disclosed no material weaknesses.

Compliance

The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Fairness of Financial Statement Presentation

The Division of State Audit has rendered unqualified opinions on the college's financial statements.

STATE OF TENNESSEE
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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*

July 14, 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 Dyersburg 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, and have issued our report thereon dated July 14, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. During the year ended June 30, 2004, the college implemented GASB Statement 39, *Determining Whether Certain Organizations Are Component Units*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the college's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low 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.

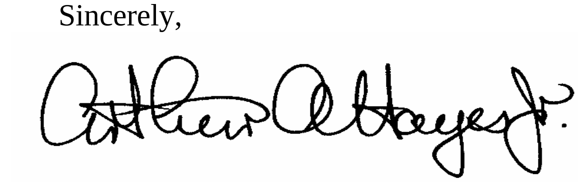
However, we noted certain matters involving the internal control over financial reporting, which we have reported to the college's management in a separate letter.

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., CPA
Director

AAH/sah

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Independent Auditor's Report

July 14, 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 Dyersburg 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.

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, Dyersburg 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 25 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. The college has not presented the component unit information for the year ended June 30, 2002, that accounting principles generally accepted in the United States of America require to supplement, although not to be part of, the basic financial statements.

Our audit was conducted for the purpose of forming opinions on the basic financial statements. The accompanying financial information on page 47 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 July 14, 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

AAH/sah

DYERSBURG STATE COMMUNITY COLLEGE
Management's Discussion and Analysis

This section of Dyersburg State Community College's 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 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 Dyersburg 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.

Statement of Net Assets
(in thousands of dollars)

	Institution			Component Unit	
	2004	**2003**	**2002**	**2004**	**2003**
Assets:					
Current assets	$ 3,624	$ 3,547	$ 3,764	$ 141	$ 289
Capital assets, net	7,797	8,141	8,485	225	268
Other assets	5,055	4,245	3,970	3,625	3,156
Total assets	**16,476**	**15,933**	**16,219**	**3,991**	**3,713**
Liabilities:					
Current liabilities	5,861	5,545	5,827	316	321
Noncurrent liabilities	389	383	295	40	45
Total liabilities	**6,250**	**5,928**	**6,122**	**356**	**366**
Net assets:					
Invested in capital assets, net of related debt	7,797	8,141	8,485	(75)	(32)
Restricted - nonexpendable	158	159	160	2,614	2,341
Restricted - expendable	545	634	456	772	721
Unrestricted	1,726	1,071	996	324	317
Total net assets	**$ 10,226**	**$ 10,005**	**$ 10,097**	**$ 3,635**	**$ 3,347**

College

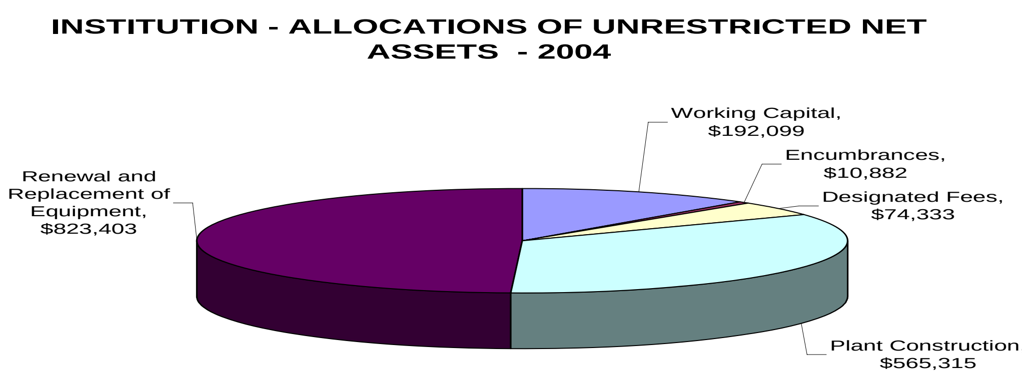
- The institution’s current assets increased $77,000 (2%) during FY 2004 due to an increase in cash and cash equivalents. Current assets decreased $217,000 (6%) from June 30, 2002, to June 30, 2003, primarily due to a drop in cash and cash equivalents related to the completion of a project with Goodyear Tire to renovate a facility that was used to provide training for their employees in 2003.
- Capital assets of the institution decreased $344,000 (4%) during FY 2004 due to depreciation of $479,000 less equipment and library additions during the year.
- Other assets of the institution increased $810,000 (19%) in FY 2004 in part because of an increase in investments of $517,000 and an increase in cash in renewal and replacement funds of $260,700.
- The institution’s current liabilities increased $316,000 at June 30, 2004, compared to June 30, 2003, primarily due to an increase in deposits held in custody for others especially from the foundation. Current liabilities decreased $282,000 (5%) from June 30, 2002, to June 30, 2003, because of a drop in deposits held in custody for others which is also related to the completion of the Goodyear project.

- Unrestricted net assets of the institution increased $655,000 during FY 2004 primarily because of increases in net assets allocated for renewals and replacements and plant construction.
- Restricted expendable net assets increased $178,000 (39%) from June 30, 2002, to June 30, 2003, because of increases in funding from the Tennessee Early Childhood Training Alliance.

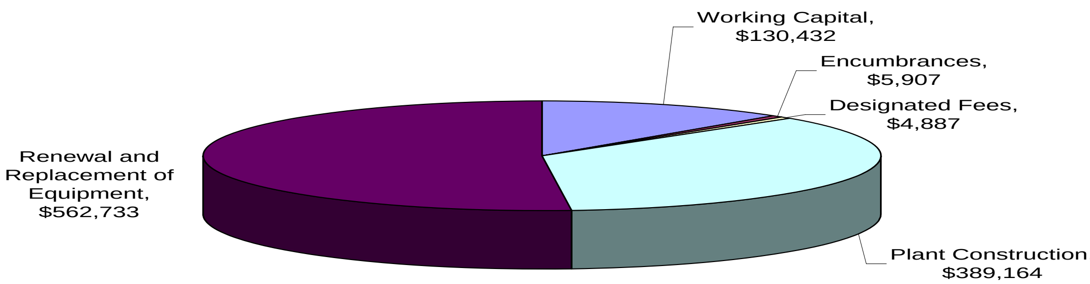
Component Unit

- The assets of the component unit increased by $278,000 during FY 2004 due to an increase in the deposits with college as a result of additional funds being invested.
- Restricted nonexpendable net assets of the component unit increased $273,000 during FY 2004 for endowed funds for scholarships. The increases are related to the market value increase in investments held by the institution for the component unit.

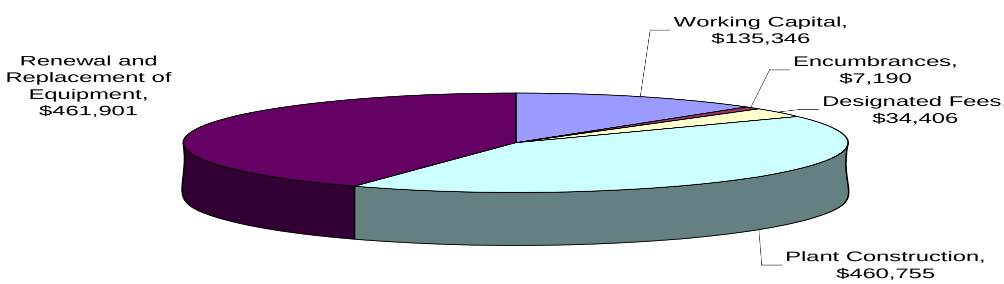
Many of the college's unrestricted net assets have been designated or reserved for specific purposes such as: repairs and replacement of equipment and capital projects. The following graphs show the allocations:



INSTITUTION - ALLOCATIONS OF UNRESTRICTED NET ASSETS - 2003



ALLOCATIONS OF UNRESTRICTED NET ASSETS - 2002



- During FY 2004, the allocation for renewal and replacement increased $260,000 (46%) primarily due to the anticipated cost of a new administrative software system. During FY 2003, the allocation for renewal and replacement increased $101,000 (22%) primarily due to the anticipated cost of the new administrative software system.
- The allocation for plant construction increased $176,000 (45%) during FY 2004 primarily due to expected campus projects. The allocation for plant construction decreased $71,600 (16%) during FY 2003 based on the difference in the estimated need from the prior year.
- The allocation for designated fees increased $69,400 during FY 2004 for the carryover of technology access fee (TAF) revenue to meet expected TAF expenditure needs in *2004-05*. The allocation for designated fees decreased $29,500 (86%) during FY 2003 because the college was able to utilize carry-over technology access fees in 2003 to fund TAF needs.

- The allocation for working capital increased $61,700 during FY 2004 due primarily to an increase in unrestricted accounts receivable.
- The allocation for encumbrances increased $4,975 during FY 2004 due to an increase in the purchase orders outstanding at June 30, 2004. The allocation for encumbrances decreased $1,300 (18%) during FY 2003 because the college carried over fewer open purchase orders than in the previous year.

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

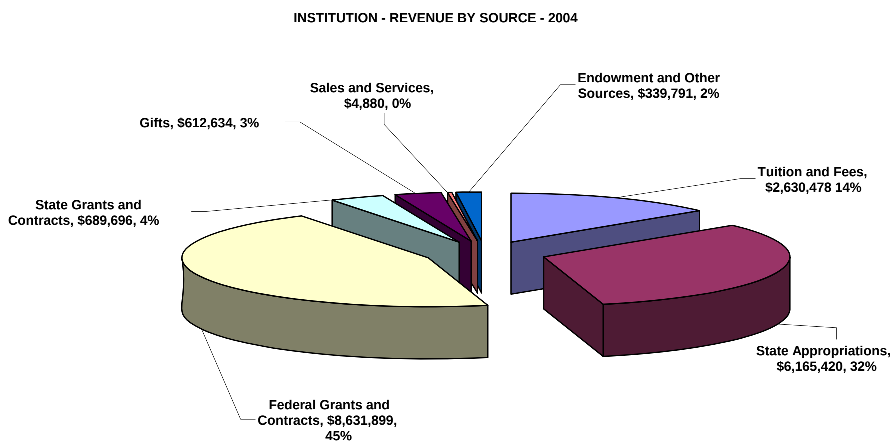
The Statement of Revenues, Expenses, and Changes in Net Assets presents the operating results of the college and its component unit, as well as the nonoperating revenues and expenses. Annual state appropriations, while budgeted for operations, are considered nonoperating revenues according to accounting principles generally accepted in the United States of America.

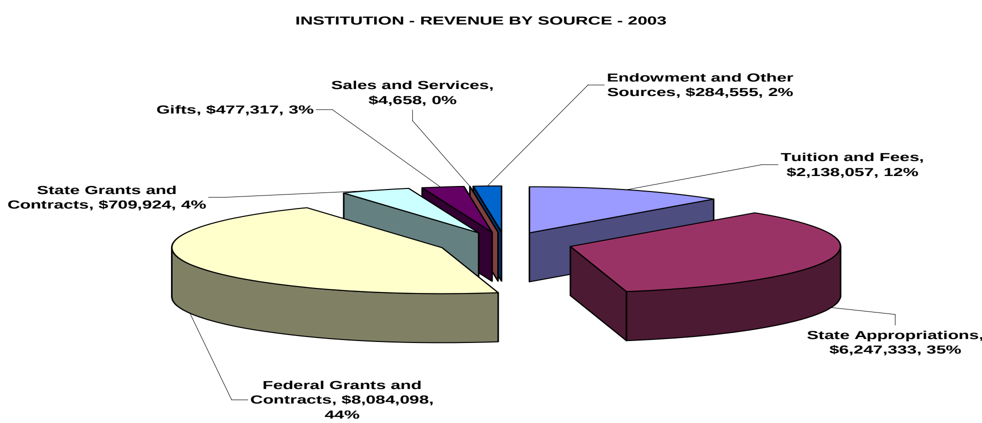
Statement of Revenues, Expenses, and Changes in Net Assets
(in thousands of dollars)

	Institution			Component Unit	
	2004	**2003**	**2002**	**2004**	**2003**
Operating revenues:					
Net tuition and fees	$ 2,630	$ 2,138	$ 1,835	$ -	$ -
Grants and contracts	6,039	8,794	8,215	-	-
Auxiliary	94	65	66	-	-
Other	133	127	132	79	82
Total operating revenues	**8,896**	**11,124**	**10,248**	**79**	**82**
Operating expenses	18,852	18,036	17,063	91	95
Operating loss	**(9,956)**	**(6,912)**	**(6,815)**	**(12)**	**(13)**
Nonoperating revenues and expenses:					
State appropriations	6,162	6,239	6,110	-	-
Gifts	613	477	429	-	-
Grants and contracts	3,288	-	10	-	-
Investment income	40	53	66	289	32
Interest on capital asset-related debt	-	-	-	(14)	(10)
Other nonoperating revenues and expenses	(2)	(3)	(3)	(27)	(72)
Total nonoperating revenues and expenses	**10,101**	**6,766**	**6,612**	**248**	**(50)**
Income (loss) before other revenues, expenses, gains, or losses	**145**	**(146)**	**(203)**	**236**	**(63)**
Other revenues, expenses, gains, or losses:					
Capital appropriations	3	9	54	-	-
Capital grants and gifts	-	-	192	-	-
Additions to permanent endowments	-	-	-	52	(3)
Other	73	45	-	-	-
Total other revenues, expenses, gains, or losses	**76**	**54**	**246**	**52**	**(3)**
Increase (decrease) in net assets	**221**	**(92)**	**43**	**288**	**(66)**
Net assets at beginning of year, as originally reported	10,005	10,097	17,524	3,347	3,413
Cumulative effect of change in accounting principle	-	-	(7,470)	-	-
Net assets at beginning of year, as restated	**10,005**	**10,097**	**10,054**	**3,347**	**3,413**
Net assets at end of year	**$ 10,226**	**$ 10,005**	**$ 10,097**	**$ 3,635**	**$ 3,347**

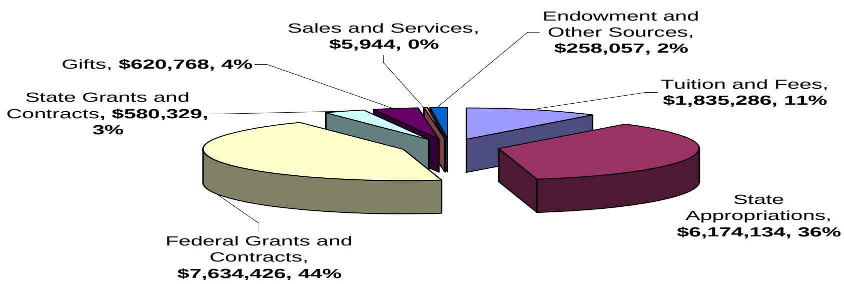
Revenues

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

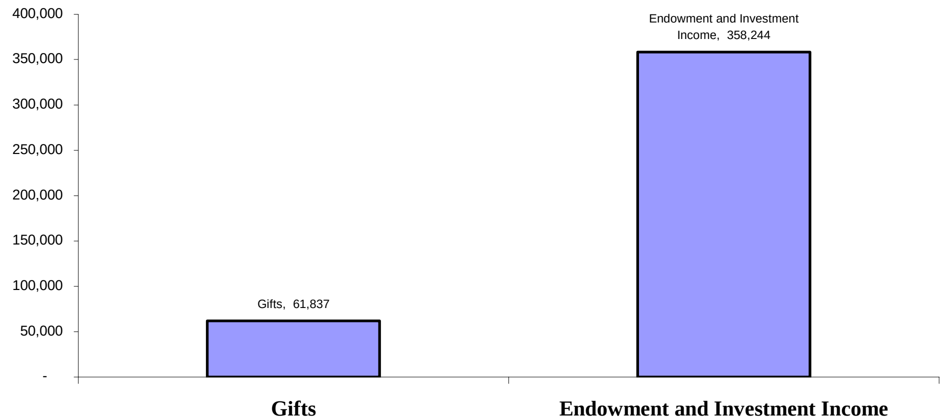




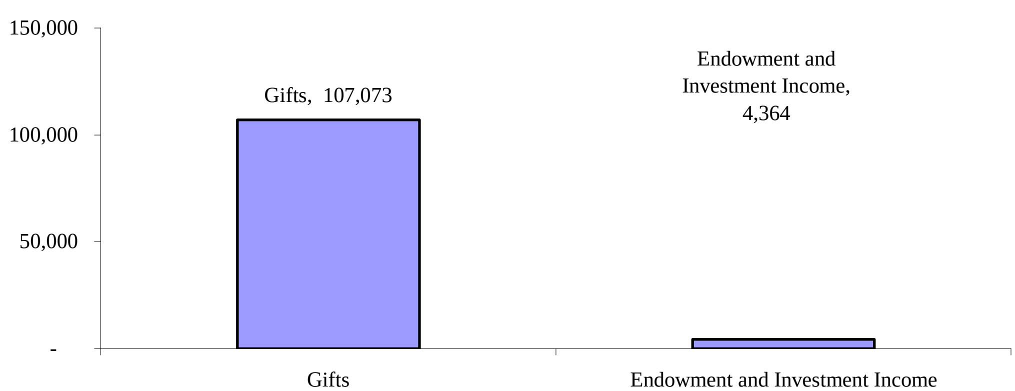
REVENUE BY SOURCE - 2002



COMPONENT UNIT - REVENUE BY SOURCE - 2004



COMPONENT UNIT - REVENUE BY SOURCE - 2003



The revenue increase for the institution and component unit are explained in the narrative following the table.

(Amounts are presented in thousands of dollars.)

	Institution			Component Unit	
	2004	2003	2002	2004	2003
Federal grants and contracts	$ 8,632	$ 8,084	$ 7,635	$ -	$ -
State appropriations	6,165	6,247	6,174	-	-
Tuition and fees	2,630	2,138	1,835	-	-
State grants and contracts	690	710	580	-	-
Gifts	613	477	621	62	107
Endowment and other sources	340	285	258	358	4
Sales and services	5	5	6	-	-
Total revenues	$19,075	$17,946	$17,109	$420	$111

Revenue of the institution increased approximately 6% ($1,129,000) in FY 2004 and 5% ($837,000) in FY 2003. The net increases are the result of the following:

- Federal grants and contract revenue increased $548,000 in FY 2004 and $449,000 in FY 2003, much of which is new or additional funding for Federal Pell Grants, displaced workers, and surgical technology.
- State appropriations in FY 2003 reflect an increase from higher enrollment, which is offset by a 5% budget impoundment in 2003.
- Tuition and fees increased $492,000 in FY 2004 primarily due to a 14% rate increase. Tuition and fees increased $303,000 in FY 2003 primarily due to a 7.5% rate increase.
- State grants and contracts increased $130,000 in FY 2003 primarily because of additional funding for TECTA and Basic Adult Education.
- Gifts to restricted programs, primarily for scholarships, increased $136,000 in FY 2004. Gifts decreased $144,000 in FY 2003 because of a one-time donation of land in Tipton County in FY 2002.

Component unit revenue changed during FY 2004 as follows:

- The component unit had a significant increase of $354,000 in endowment and investment income during the period due to the foundation selling several less profitable investments and purchasing new investments.
- Gift income decreased $45,000 during the period.

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

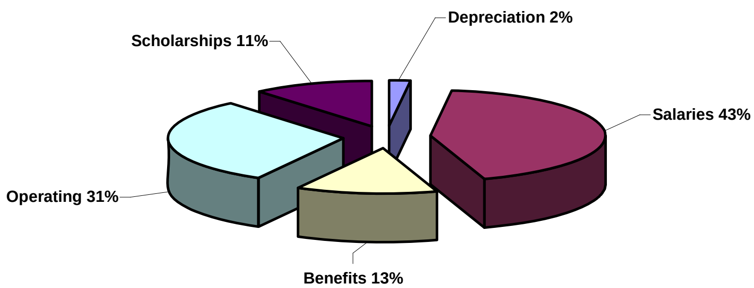
	Institution		Component Unit		
	2004	2003	2002	2004	2003
Salaries	**$ 8,121**	**$ 7,940**	**$ 7,504**	**$ -**	**$ -**
Benefits	**2,419**	**2,341**	**2,108**	**-**	**-**
Operating	**5,765**	**5,353**	**5,204**	**48**	**63**
Scholarships	**2,068**	**1,919**	**1,763**	**-**	**-**
Depreciation	**479**	**483**	**484**	**43**	**32**
Total	**$18,852**	**$18,036**	**$17,063**	**$91**	**$95**

- In FY 2004, operating expenses increased 4.5% ($816,000) in total compared to FY 2003.
- There were no material changes of the % by natural classification to the total operating expenses in FY 2004 compared to FY 2003.

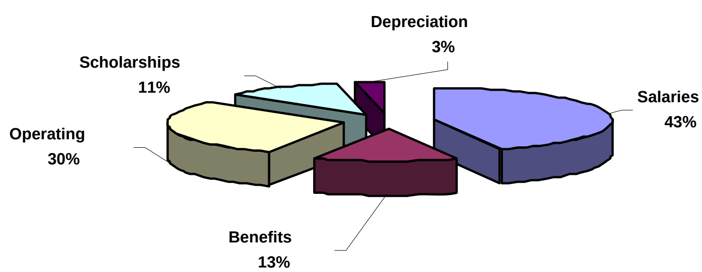
In FY 2003, operating expenses increased 5.7% ($972,018) compared to FY 2002.

- The salaries and benefits increase reflects partial implementation of the salary study, across-the-board salary adjustments, and higher insurance cost.
- Operating expense increased slightly as a result of higher professional, administrative, and other service expenses in FY 2003.
- Scholarships increased because of higher tuition and fees in FY 2003.

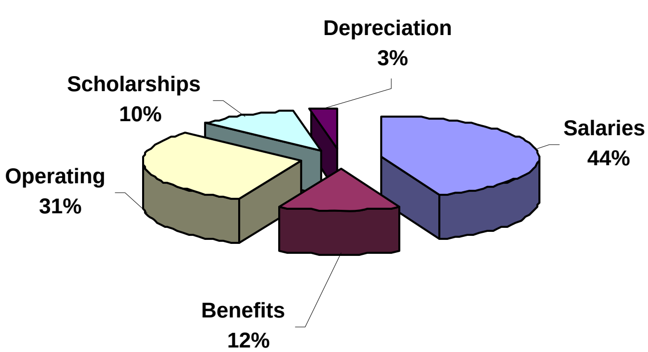
INSTITUTION - OPERATING EXPENSES BY NATURAL CLASSIFICATION - 2004



INSTITUTION - OPERATING EXPENSES BY NATURAL CLASSIFICATION - 2003



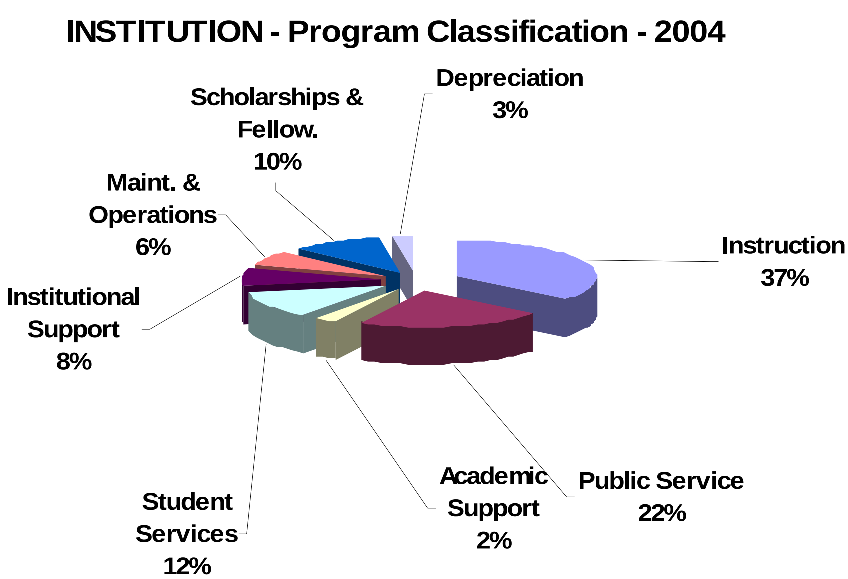
OPERATING EXPENSES BY NATURAL CLASSIFICATION - 2002



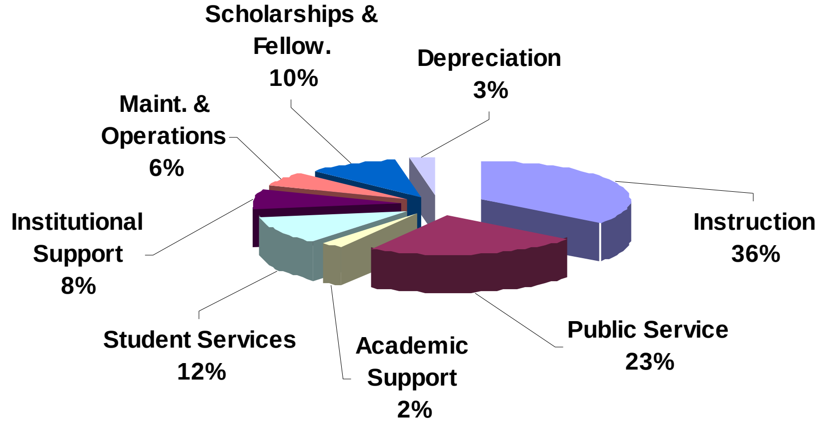
Program Classification

	Institution			Component Unit	
	2004	2003	2002	2004	2003
Instruction	$6,735	$6,340	$5,959	$ -	$ -
Public service	4,123	4,214	3,963	1	1
Academic support	458	407	392	-	-
Student services	2,294	2,178	2,050	-	-
Institutional support	1,596	1,470	1,508	4	19
Maintenance and operations	1,203	1,118	1,039	-	-
Scholarships	1,965	1,826	1,668	43	43
Depreciation	478	483	484	43	32
Total	$18,852	$18,036	$17,063	$91	$95

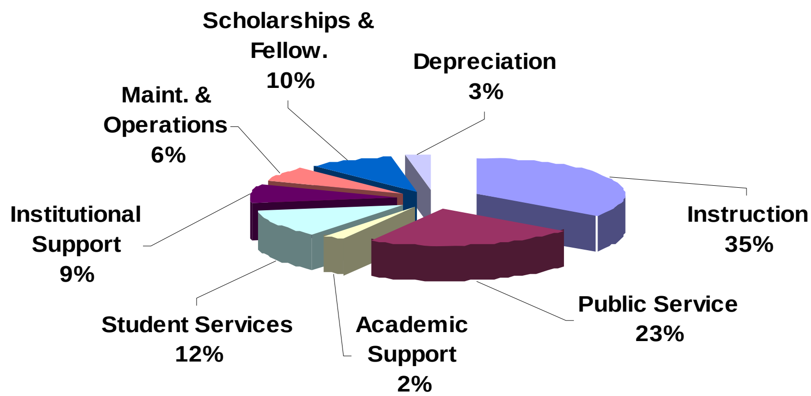
- In FY 2004, academic support expenses increased 13% primarily due to an increase in salaries, benefits, and staff development costs as compared to FY 2003.
- There were no material changes of the % by program classification to the total operating expenses in FY 2004 compared to FY 2003.
- Instructional, public service, academic support, and student services expenses increased in FY 2003 because of higher personnel and benefit costs.
- Institutional support absorbed more of the 5% FY 2003 appropriation impoundment to reduce the impact on instruction, academic support, and student services.

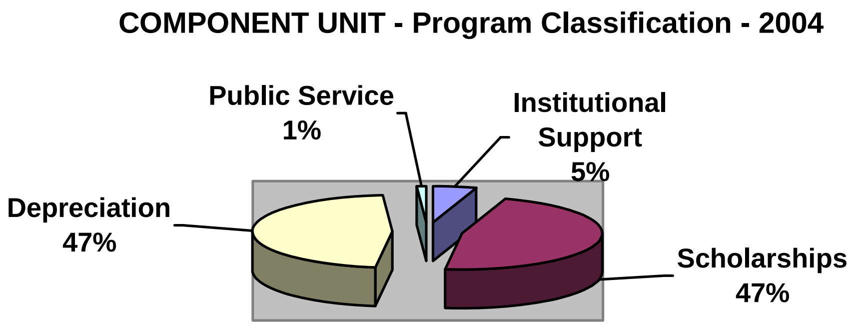


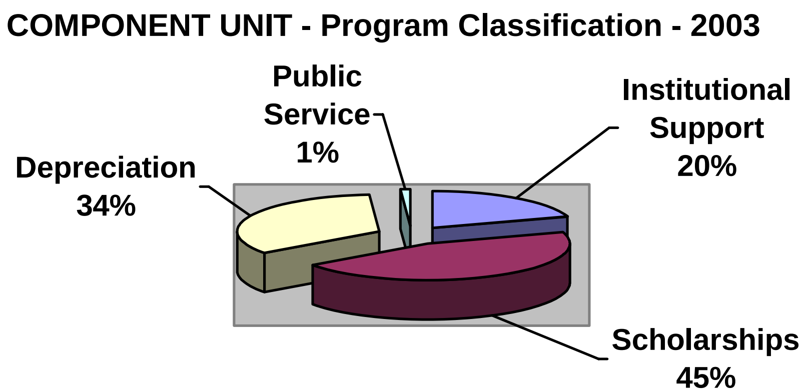
Program Classification - 2003



Program Classification - 2002







- The total operating expense decreased $15,000 due to discontinuing the consulting services prior to FY 2004.
- Scholarship expenses remained consistent at $43,000.

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 and its component unit'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)

	Institution			Component Unit	
	2004	**2003**	**2002**	**2004**	**2003**
Cash provided (used) by:					
Operating activities	$ (9,279)	$ (6,527)	$ (6,320)	$ (2)	$ 74
Noncapital financing activities	9,902	6,273	7,212	65	87
Capital and related financing activities	(133)	(132)	3	(42)	(72)
Investing activities	(5)	84	66	(170)	(185)
Net increase (decrease) in cash	**485**	**(302)**	**961**	**(149)**	**(96)**
Cash, beginning of year	3,486	3,788	2,827	264	360
Cash, end of year	**$ 3,971**	**$ 3,486**	**$ 3,788**	**$ 115**	**$ 264**

College

- Material sources of cash for FY 2004 include tuition and fees, grants and contracts, and state appropriations. Tuition and fees increased $535,000 due to a 14% increase in tuition and a full-time enrollment increase of 9.7%.
- Material sources of cash for FY 2003 include tuition and fees, grants and contracts, and state appropriations. Tuition and fees increased $271,000 because of a 7.5% tuition increase; grants and contacts increased $363,000 as a result of additional Pell grant awards; and state appropriations increased $259,000 because of additional funding for construction projects.
- Material uses of cash during FY 2004 were for payments to employees, suppliers, vendors, and scholarships. Payments to employees including benefits increased $283,000 because of increased instructional cost and higher insurance rates.
- Material uses of cash during the FY 2003 were for payments to employees, suppliers, vendors, and scholarships. Payments to employees including benefits increased $723,000 because of funding for the salary study, across-the-board salary adjustments, and higher insurance cost.
- The increase in cash used by operating activities during FY 2004 of $2,752,000 is due primarily to the reclassification of grant revenue from Federal Pell and SEOG awards.
- The increase in cash provided by noncapital financing activities of $3,629,000 during FY 2004 is due primarily to the reclassification of grant revenue from Federal Pell and SEOG awards.
- The college's liquidity improved during FY 2004 and declined during FY 2003.

Component Unit

- Though investment activities improved slightly, the proceeds from gifts were reduced, for a decrease in net cash at the end of FY 2004.
- The foundation's liquidity declined during both years.

Capital Assets and Debt Administration

Capital Assets

At June 30, 2004, the college had $7,797,286.49 invested in capital assets, net of accumulated depreciation of $6,234,918.27. At June 30, 2003, the college had $8,141,032.70 invested in capital assets, net of accumulated depreciation of $5,975,214.86. At June 30, 2002, the college had $8,485,489.92 invested in capital assets, net of accumulated depreciation of $5,605,993.37. Depreciation charges totaled $478,565.61 for the year ended June 30, 2004; $483,045.23 for the year ended June 30, 2003; and $483,826.52 for the year ended June 30, 2002. Details of these assets are shown below.

At June 30, 2004, the component unit had $224,750 invested in capital assets, net of accumulated depreciation of $75,250. At June 30, 2003, the component unit had $267,750 invested in capital assets, net of accumulated depreciation of $32,250. Depreciation charges totaled $43,000 for the year ended June 30, 2004, and $32,250 for the year ended June 30, 2003. Details of these assets are shown below.

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

	Institution			Component Unit	
	2004	**2003**	**2002**	**2004**	**2003**
Land	$ 749	$ 749	$ 749	$ 85	$ 85
Land improvements and infrastructure	312	339	366	-	-
Buildings	5,846	6,101	6,356	140	183
Equipment	446	475	511	-	-
Library holdings	237	269	295	-	-
Projects in progress	208	208	208	-	-
Total	**$ 7,798**	**$ 8,141**	**$ 8,485**	**$ 225**	**$ 268**

In the 2003-2004 fiscal year, the gym roof replacement/repair project was completed. Insurance proceeds from that project less the $25,000 deductible were not finalized as of June 30, 2004. The boiler replacement project for the student center which began in 2003-2004 will be completed in the 2004-2005 fiscal year.

Planned capital expenditures for the fiscal year 2004-2005 consist of planning for a new instructional facility at the Tipton County Center and construction of the Learning Resource Center, renovation of the Eller administration/classroom building and Glover classroom building, and planning for the renovation of the chemistry laboratory on the Dyersburg campus. These projects are funded as capital outlay and capital maintenance projects. Acquisition of adjacent property to construct an additional parking lot is also planned for fiscal year 2004-2005. An increase in the access fee charged to students, faculty and staff is to provide funding for the acquisition and construction of the parking lot. Construction funding for the instructional facility at the Tipton County Center and the chemistry laboratory on the Dyersburg campus are expected to be funded as capital outlay and maintenance projects for fiscal year 2005-2006. More detailed information about the college's capital assets is presented in Note 7 to the financial statements.

<u>Debt</u>

At June 30, 2004, and June 30, 2003, the college had no debt outstanding and the component unit had $300,000 in debt outstanding. The component unit borrowed funds to purchase real estate adjacent to the college property in October 2002. Only interest has been paid on the note as of June 30, 2004, and the outstanding principal balance remains at $300,000. More detailed information about the component unit's long-term liabilities is presented in Note 16 to the financial statements.

Economic Factors That Will Affect the Future

Dyersburg State Community College had 114 qualified applicants for the college's nursing program that were not accepted in the fall 2004 program due to limited funding to hire instructors and provide facilities for training. There is a need for the college to add a paramedic program, but without additional funding new programs cannot be implemented. A certificate program in surgical technology began January 2003 with funding provided by the Delta Regional Authority and can only continue if external funding continues. State funds are not readily available to start programs such as the paramedic program or to assume the support of the certificate programs that are needed in our communities.

We continue to seek support from the community in providing scholarships to our students. But in the current economic recession, raising funds becomes more difficult.

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 Velma Travis, Vice President for Finance and Administrative Services, Dyersburg State Community College, 1510 Lake Road, Dyersburg, Tennessee 38024.

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

	Dyersburg State Community College		Component Unit - Dyersburg State Community College Foundation	
	June 30, 2004	June 30, 2003	June 30, 2004	June 30, 2003
ASSETS				
Current assets:				
Cash and cash equivalents (Notes 2 and 3)	$ 2,635,220.33	$ 2,448,850.31	$ -	$ -
Deposits with college (Note 16)	-	-	137,995.64	288,636.87
Accounts and grants receivable (net) (Note 5)	934,336.03	1,031,395.84	2,921.28	-
Pledges receivable (Note 6)	18,785.00	34,612.00	-	-
Prepaid expenses and deferred charges	27,118.28	21,983.85	-	-
Accrued interest receivable	8,740.86	10,596.86	-	-
Total current assets	3,624,200.50	3,547,438.86	140,916.92	288,636.87
Noncurrent assets:				
Cash and cash equivalents (Notes 2 and 3)	1,335,905.13	1,037,197.32	-	-
Investments (Note 4)	3,676,938.79	3,159,788.40	-	-
Deposits with college (Note 16)	-	-	3,625,031.44	3,156,518.57
Pledges receivable (Note 6)	42,000.00	47,115.81	-	-
Capital assets (net) (Notes 7 and 16)	7,797,286.49	8,141,032.70	224,750.00	267,750.00
Total noncurrent assets	12,852,130.41	12,385,134.23	3,849,781.44	3,424,268.57
Total assets	16,476,330.91	15,932,573.09	3,990,698.36	3,712,905.44
LIABILITIES				
Current liabilities:				
Accounts payable	569,842.06	565,616.21	125.57	4,926.12
Accrued liabilities	347,408.06	345,746.32	-	-
Deferred revenue	120,499.99	77,909.80	-	-
Compensated absences (Note 8)	109,320.29	121,715.38	-	-
Accrued interest payable	-	-	10,237.50	10,125.00
Long-term liabilities, current portion (Note 16)	-	-	300,000.00	300,000.00
Deposits held in custody for others	4,714,578.24	4,433,958.78	-	-
Other liabilities (Note 16)	-	-	5,600.00	5,600.00
Total current liabilities	5,861,648.64	5,544,946.49	315,963.07	320,651.12
Noncurrent liabilities:				
Compensated absences (Note 8)	388,312.33	382,574.15	-	-
Due to grantors (Note 8)	445.19	440.53	-	-
Other liabilities (Note 16)	-	-	40,360.80	45,389.55
Total noncurrent liabilities	388,757.52	383,014.68	40,360.80	45,389.55
Total liabilities	6,250,406.16	5,927,961.17	356,323.87	366,040.67
NET ASSETS				
Invested in capital assets, net of related debt	7,797,286.49	8,141,032.70	(75,250.00)	(32,250.00)
Restricted for:				
Nonexpendable:				
Scholarships and fellowships	157,407.55	158,860.64	2,613,743.93	2,340,661.02
Expendable:				
Scholarships and fellowships (Note 9)	269,518.44	225,401.90	772,372.49	721,246.54
Instructional department uses	209,449.78	344,955.32	-	-
Loans	16,804.16	16,778.64	-	-
Other	49,519.46	46,253.99	-	-
Unrestricted (Note 10)	1,725,938.87	1,071,328.73	323,508.07	317,207.21
Total net assets	$ 10,225,924.75	$ 10,004,611.92	$ 3,634,374.49	$ 3,346,864.77

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

Exhibit B

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

	Dyersburg State Community College		Component Unit - Dyersburg 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 $2,162,213.20 for the year ended June 30, 2004, and $1,496,139.02 for the year ended June 30, 2003)	$ 2,630,478.36	$ 2,138,057.12	$ -	$ -
Gifts and contributions	-	-	9,870.00	110,196.62
Endowment income	-	-	68,979.36	(27,933.60)
Governmental grants and contracts	6,033,461.80	8,794,022.73	-	-
Nongovernmental grants and contracts	5,124.89	-	-	-
Sales and services of educational departments	4,880.28	4,657.74	-	-
Auxiliary enterprises:				
Bookstore	94,348.24	64,658.00	-	-
Other operating revenues	127,619.11	122,418.71	-	-
Total operating revenues	8,895,912.68	11,123,814.30	78,849.36	82,263.02
EXPENSES				
Operating expenses (Note 15):				
Salaries and wages	8,120,876.60	7,940,361.80	-	-
Benefits	2,419,369.70	2,341,435.66	-	-
Utilities, supplies, and other services	5,765,419.56	5,351,789.15	4,806.00	19,923.64
Scholarships and fellowships	2,067,802.56	1,919,148.81	-	-
Depreciation expense	478,565.61	483,045.23	43,000.00	32,250.00
Payments to or on behalf of Dyersburg State Community College (Note 16)	-	-	43,163.00	43,005.50
Total operating expenses	18,852,034.03	18,035,780.65	90,969.00	95,179.14
Operating income (loss)	(9,956,121.35)	(6,911,966.35)	(12,119.64)	(12,916.12)
NONOPERATING REVENUES (EXPENSES)				
State appropriations	6,162,100.00	6,238,570.00	-	-
Gifts, including $43,163.00 from component unit for the year ended June 30, 2004, and $43,005.50 from component unit for the year ended June 30, 2003 (Note 16)	612,634.19	477,317.31	-	-
Grants and contracts	3,288,133.46	-	-	-
Investment income (net of investment expense for the component unit of $14,023.26 for the year ended June 30, 2004, and $13,086.10 for the year ended June 30, 2003)	40,139.64	52,996.06	289,264.65	32,297.68
Interest on capital asset-related debt	-	-	(14,400.00)	(10,125.00)
Other nonoperating revenues (expenses)	(1,453.09)	(2,589.41)	(27,202.46)	(72,292.90)
Net nonoperating revenues	10,101,554.20	6,766,293.96	247,662.19	(50,120.22)
Income (loss) before other revenues, expenses, gains, or losses	145,432.85	(145,672.39)	235,542.55	(63,036.34)
Capital appropriations	3,320.43	8,762.90	-	-
Additions to (reductions from) permanent endowments	-	-	51,967.17	(3,123.36)
Other capital	72,559.55	44,481.92	-	-
Total other revenues	75,879.98	53,244.82	51,967.17	(3,123.36)
Increase (decrease) in net assets	221,312.83	(92,427.57)	287,509.72	(66,159.70)
NET ASSETS				
Net assets - beginning of year	10,004,611.92	10,097,039.49	3,346,864.77	3,413,024.47
Net assets - end of year	$ 10,225,924.75	$ 10,004,611.92	$ 3,634,374.49	$ 3,346,864.77

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

Exhibit C

TENNESSEE BOARD OF REGENTS
DYERSBURG 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	$ 2,615,523.78	$ 2,080,397.84
Grants and contracts	6,283,436.94	8,735,222.32
Sales and services of educational activities	4,880.28	4,657.74
Payments to suppliers and vendors	(5,789,097.75)	(5,352,127.37)
Payments to employees	(8,134,596.74)	(7,925,182.84)
Payments for benefits	(2,410,964.33)	(2,337,373.86)
Payments for scholarships and fellowships	(2,067,802.56)	(1,919,148.81)
Collection of loans from students and employees	-	71.87
Interest earned on loans to students	4.66	2.67
Auxiliary enterprise charges:		
Bookstore	93,053.68	64,746.41
Other receipts (payments)	126,565.77	121,889.99
Net cash used by operating activities	(9,278,996.27)	(6,526,844.04)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State appropriations	6,160,900.00	6,295,170.00
Gifts and grants received for other than capital purposes, including $43,163.00 from Dyersburg State Community College Foundation for the year ended June 30, 2004, and $43,005.50 for the year ended June 30, 2003	3,900,767.65	470,817.31
Federal student loan receipts	1,207,661.54	1,117,342.54
Federal student loan disbursements	(1,183,098.60)	(1,116,997.66)
Changes in deposits held for others	(184,060.91)	(493,204.88)
Net cash provided by noncapital financing activities	9,902,169.68	6,273,127.31
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital appropriations	3,320.43	8,762.90
Purchases of capital assets and construction	(136,534.38)	(141,177.42)
Other capital and related financing receipts (payments)	(46.47)	-
Net cash used by capital and related financing activities	(133,260.42)	(132,414.52)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of investments	60,000.00	115,739.90
Income on investments	40,139.64	52,996.06
Purchases of investments	(104,974.80)	(85,078.12)
Net cash provided (used) by investing activities	(4,835.16)	83,657.84
Net increase (decrease) in cash and cash equivalents	485,077.83	(302,473.41)
Cash and cash equivalents - beginning of year	3,486,047.63	3,788,521.04
Cash and cash equivalents - end of year	$ 3,971,125.46	$ 3,486,047.63

Exhibit C (Cont.)

TENNESSEE BOARD OF REGENTS
DYERSBURG 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	$ (9,956,121.35)	$ (6,911,966.35)
Adjustments to reconcile operating loss to net cash used by operating activities:		
Depreciation expense	478,565.61	483,045.23
Change in assets and liabilities:		
Receivables, net	186,426.31	(107,779.53)
Prepaid/deferred items	(5,134.43)	(12,501.56)
Accounts payable	(20,332.09)	13,831.60
Accrued liabilities	1,661.74	(4,149.36)
Deferred revenue	42,590.19	(12,593.50)
Compensated absences	(6,656.91)	25,170.88
Due to grantors	-	24.01
Loans to students and employees	4.66	74.54
Net cash used by operating activities	$ (9,278,996.27)	$ (6,526,844.04)

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

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

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

Basis of Presentation

The financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB). In June 1999, the GASB issued Statement 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*. This was followed in November 1999 by GASB Statement 35, *Basic Financial Statements—and Management's Discussion and Analysis—for Public Colleges and Universities* and in May 2002, by GASB Statement 39, *Determining Whether Certain Organizations Are Component Units*. The financial statement presentation required by those statements provides a comprehensive, entity-wide perspective of the college's, including 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; (3) interest on capital asset-related debt; and (4) gifts.

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

Under a contract with the Tennessee Department of Labor and Workforce Development, the college is the administrative entity and grant recipient for the Local Workforce Investment Area in workforce investment area 12 of the State of Tennessee. The title to all the equipment purchased by the college under the provisions of the Workforce Investment Act resides with the U.S. government. Therefore, this equipment is not included in the college's capital assets.

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 AND CASH EQUIVALENTS

In addition to demand deposits and petty cash on hand, this classification includes instruments which are readily convertible to known amounts of cash and which have original maturities of three months or less. At June 30, 2004, cash and cash equivalents consisted of $1,418,361.16 in bank accounts, $2,074.35 of petty cash on hand, $2,424,729.45 in the State of Tennessee Local Government Investment Pool administered by the State Treasurer, and $125,960.50 in money market funds. At June 30, 2003, cash and cash equivalents consisted of $805,632.44 in bank accounts, $2,749.35 of petty cash on hand, $115,000.00 in certificates of deposit, $2,351,829.26 in the State of Tennessee Local Government Investment Pool administered by the State Treasurer, and $210,836.58 in money market funds.

NOTE 3. DEPOSITS

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

At June 30, 2004, the carrying amount of the college's deposits in financial institutions participating in the collateral pool was $1,416,280.28, and the bank balance including accrued interest was $1,779,832.63. 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 $808,767.29, and the bank balance including accrued interest was $1,025,507.82. The bank balance was insured.

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

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

At June 30, 2004, the carrying amount of the college's deposits was $1,738,378.17, and the bank balance including accrued interest was $2,110,671.38. Of the bank balance, $1,879,832.63 was category 1, and $230,838.75 was category 3.

At June 30, 2003, the carrying amount of the college's deposits was $1,314,221.99, and the bank balance including accrued interest was $1,522,921.33. Of the bank balance, $1,125,507.82 was category 1, and $397,413.51 was category 3.

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 Dyersburg 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. Certificates of deposit have been included with other deposits in Note 3 to determine the adequacy of collateral security pledged.

The college's/foundation's investments are categorized below to indicate the level of risk assumed by the college/foundation at year-end. Category 2 consists of uninsured and unregistered investments for which the securities are held by the counterparties' trust department or agent in the college's/foundation's name.

	June 30, 2004	June 30, 2003
Category 2:		
U.S. government securities	$1,159,919.52	$1,123,295.66
Corporate stocks	464,725.66	249,594.60
Investments not susceptible to credit risk categorization:		
Mutual funds	1,858,237.10	1,604,145.17
Certificates of deposit classified as investments	194,056.51	182,752.97
Total	$3,676,938.79	$3,159,788.40

NOTE 5. RECEIVABLES

Receivables included the following:

	June 30, 2004	June 30, 2003
Student accounts receivable	$215,275.46	$ 141,515.21
Grants receivable	590,552.24	821,575.49
State appropriation receivable	18,300.00	17,100.00

Other receivables	148,945.91	76,346.58
Subtotal	973,073.61	1,056,537.28
Less allowance for doubtful accounts	(38,737.58)	(25,141.44)
Total receivables	$934,336.03	$1,031,395.84

NOTE 6. PLEDGES RECEIVABLE

Pledges receivable are promises of private donations that are reported as a receivable and revenue. At June 30, 2004, and June 30, 2003, 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	$ 749,025.00	$ -	$ -	$ -	$ 749,025.00
Land improvements and infrastructure	676,935.00	-	-	-	676,935.00
Buildings	10,245,953.39	-	-	-	10,245,953.39
Equipment	1,619,502.34	104,286.30	-	146,701.58	1,577,087.06
Library holdings	616,240.42	32,248.08	-	73,875.60	574,612.90
Projects in progress	208,591.41	-	-	-	208,591.41
Total	14,116,247.56	136,534.38	-	220,577.18	14,032,204.76
Less accum. depreciation:					
Land improvements and infrastructure	338,026.74	26,912.06	-	-	364,938.80
Buildings	4,145,338.98	255,108.34	-	-	4,400,447.32
Equipment	1,144,744.73	131,696.37	-	144,986.60	1,131,454.50
Library holdings	347,104.41	64,848.84	-	73,875.60	338,077.65
Total accum. depreciation	5,975,214.86	478,565.61	-	218,862.20	6,234,918.27
Capital assets, net	$ 8,141,032.70	$(342,031.23)	$ -	$ 1,714.98	$ 7,797,286.49

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

	Beginning Balance	Additions	Transfers	Reductions	Ending Balance
Land	$ 749,025.00	$ -	$ -	$ -	$ 749,025.00
Land improvements and infrastructure	676,935.00	-	-	-	676,935.00
Buildings	10,245,953.39	-	-	-	10,245,953.39
Equipment	1,573,579.95	98,858.95	-	52,936.56	1,619,502.34
Library holdings	637,398.54	42,318.47	-	63,476.59	616,240.42
Projects in progress	208,591.41	-	-	-	208,591.41
Total	14,091,483.29	141,177.42	-	116,413.15	14,116,247.56
Less accum. depreciation:					
Land improvements and infrastructure	311,114.68	26,912.06	-	-	338,026.74
Buildings	3,890,230.63	255,108.35	-	-	4,145,338.98
Equipment	1,062,038.76	133,053.12	-	50,347.15	1,144,744.73
Library holdings	342,609.30	67,971.70	-	63,476.59	347,104.41
Total accum. depreciation	5,605,993.37	483,045.23	-	113,823.74	5,975,214.86
Capital assets, net	$ 8,485,489.92	$(341,867.81)	$ -	$ 2,589.41	$ 8,141,032.70

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	$504,289.53	$295,034.65	$301,691.56	$497,632.62	$109,320.29
Due to grantors	440.53	4.66	-	445.19	-
Total long-term liabilities	$504,730.06	$295,039.31	$301,691.56	$498,077.81	$109,320.29

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	$479,118.65	$339,311.47	$314,140.59	$504,289.53	$121,715.38
Due to grantors	1,258.02	-	817.49	440.53	-
Total long-term liabilities	$480,376.67	$339,311.47	$314,958.08	$504,730.06	$121,715.38

NOTE 9. ENDOWMENTS

If a donor has not provided specific instructions to the college, state law permits the college 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 college is required to consider the college'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.

The college chooses to spend only a portion of the investment income (including changes in the value of investments) each year. Under the spending plan established by the college, the accumulated realized income (excluding unrealized gains and losses) has been authorized for expenditure. The remaining amount, if any, is retained to be used in future years when the amount computed using the spending plan exceeds the investment income. At June 30, 2004, net appreciation of $6,407.85 is available to be spent, which is included in restricted net assets expendable for scholarships and fellowships. At June 30, 2003, net appreciation of $7,761.40 is available to be spent, which is included in restricted net assets expendable for scholarships and fellowships.

NOTE 10. 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	$ 192,098.62	$ 130,431.82
Encumbrances	10,882.00	5,907.12
Designated fees	74,333.28	4,886.68
Plant construction	565,315.13	389,164.29
Renewal and replacement of equipment	823,402.70	562,733.00
Unreserved/undesignated	59,907.14	(21,794.18)
Total	$1,725,938.87	$1,071,328.73

NOTE 11. 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 $235,905.00, $226,765.07, and $195,524.05. 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 $380,221.01 for the year ended June 30, 2004, and $380,832.27 for the year ended June 30, 2003. Contributions met the requirements for each year.

NOTE 12. 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 13. 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 $17,143,000 for buildings and $5,024,200 for contents. At June 30, 2003, the scheduled coverage for the college was $16,643,800 for buildings and $4,847,400 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 14. 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 $2,414,775.91 at June 30, 2004, and $2,434,939.54 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 $111,403.68 and for personal property were $38,828.54 for the year ended June 30, 2004. Amounts for the year ended June 30, 2003, were $123,183.20 and $36,037.78. All operating leases are cancelable at the lessee’s option.

Construction in Progress - At June 30, 2004, outstanding commitments under construction contracts totaled $5,053.73 for the Learning Resource Center addition and renovation, $1,116.50 for the Student Center addition and renovation, $994.34 for ADA improvements, and $73,981.22 for the boiler replacement project, all of which will be funded by future state capital outlay appropriations.

Litigation - The college is involved in one lawsuit, which is not expected to have a material effect on the accompanying financial statements.

NOTE 15. 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	$4,112,486.05	$1,094,053.58	$1,450,593.64	$ 77,767.62	$ -	$ 6,734,900.89
Public service	1,092,624.61	374,971.19	2,620,008.95	35,154.40	-	4,122,759.15
Academic support	526,780.80	171,696.47	(244,180.97)	3,769..94	-	458,066.24
Student services	1,003,863.82	311,571.50	913,253.78	65,849.38	-	2,294,538.48
Institutional support	1,026,707.63	317,882.30	245,490.05	5,596.38	-	1,595,676.36
Operation & maintenance	358,413.69	149,194.66	695,195.33	-	-	1,202,803.68
Scholar. & fellow.	-	-	85,058.78	1,879,664.84	-	1,964,723.62
Depreciation	-	-	-	-	478,565.61	478,565.61
Total	$8,120,876.60	$2,419,369.70	$5,765,419.56	$2,067,802.56	$478,565.61	$18,852,034.03

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	$4,072,075.83	$1,107,247.14	$1,103,568.74	$ 57,297.53	$ -	$ 6,340,189.24
Public service	1,051,796.72	364,742.59	2,797,496.86	-	-	4,214,036.17
Academic support	495,701.54	163,171.98	(252,052.44)	660.00	-	407,481.08
Student services	982,556.85	279,366.68	860,013.71	55,637.10	-	2,177,574.34
Institutional support	1,011,601.49	292,580.32	153,860.86	11,470.26	-	1,469,512.93
Operation & maintenance	326,629.37	134,326.95	656,870.95	-	-	1,117,827.27
Scholar. & fellow.	-	-	32,030.47	1,794,083.92	-	1,826,114.39
Depreciation	-	-	-	-	483,045.23	483,045.23
Total	$7,940,361.80	$2,341,435.66	$5,351,789.15	$1,919,148.81	$483,045.23	$18,035,780.65

NOTE 16. COMPONENT UNIT

The Dyersburg State Community College Foundation is a legally separate, tax-exempt organization supporting Dyersburg 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 41-member board of the foundation is self-perpetuating and consists of local business professionals, community leaders, 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 $43,163.00 to or on behalf of the college for restricted scholarship purposes. During the year ended June 30, 2003, the foundation made distributions of $43,005.50 to or on behalf of the college for restricted scholarship purposes. Complete financial statements for the foundation can be obtained from Ms. Velma Travis, Vice President for Finance and Administrative Services, Dyersburg State Community College, 1510 Lake Road, Dyersburg, Tennessee 38024.

<u>Deposits with college</u> - 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 $115,254.78 in cash and cash equivalents, $3,583,031.44 in investments, and $64,740.86 in receivables. At June 30, 2003, these assets include $263,941.93 in cash and cash equivalents, $3,107,500.84 in investments, and $73,712.67 in receivables. These assets have been reported by the college and included in the college's applicable note disclosures above.

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

	June 30, 2004	June 30, 2003
Land	$ 85,000.00	$ 85,000.00
Buildings	215,000.00	215,000.00
Total	300,000.00	300,000.00
Less accumulated depreciation:		
Buildings	75,250.00	32,250.00
Capital assets, net	$224,750.00	$267,750.00

Long-term liabilities - Long-term liabilities at June 30, 2004, consisted of the following:

	Ending Balance	Current Portion
Payable:		
Note	$300,000.00	$300,000.00
Other liabilities:		
Charitable gift annuities	45,960.80	5,600.00
Total long-term liabilities	$345,960.80	$305,600.00

Long-term liabilities at June 30, 2003, consisted of the following:

	Ending Balance	Current Portion
Payable:		
Note	$300,000.00	$300,000.00
Other liabilities:		
Charitable gift annuities	50,989.55	5,600.00
Total long-term liabilities	$350,989.55	$305,600.00

Note Payable

The foundation borrowed funds to purchase real estate adjacent to the college property. The note bears an interest rate of 4.5% with payment due upon demand, but if no demand is made, then October 1, 2004. The balance owed by the foundation was $300,000 at June 30, 2004, and June 30, 2003.

TENNESSEE BOARD OF REGENTS
DYERSBURG 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	$ 9,870.00	$ 114,439.89
Endowment income	35,996.65	22,531.12
Payments to suppliers and vendors	(4,806.00)	(19,923.64)
Payments to Dyersburg State Community College	(43,163.00)	(43,005.50)
Net cash provided (used) by operating activities	(2,102.35)	74,041.87
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Private gifts for endowment purposes	64,687.31	87,482.68
Net cash provided by noncapital financing activities	64,687.31	87,482.68
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Rental income	20,070.00	11,175.00
Proceeds from capital debt	-	300,000.00
Purchase of capital assets	-	(300,000.00)
Other capital and related financing receipts (payments)	(61,672.46)	(83,467.90)
Net cash used by capital and related financing activities	(41,602.46)	(72,292.90)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of investments	1,065,247.13	694,613.85
Purchases of investments	(1,211,566.34)	(866,533.57)
Other investing receipts (payments)	(23,350.44)	(13,759.98)
Net cash used by investing activities	(169,669.65)	(185,679.70)
Net decrease in cash and cash equivalents	(148,687.15)	(96,448.05)
Cash and cash equivalents - beginning of year	263,941.93	360,389.98
Cash and cash equivalents - end of year	$ 115,254.78	$ 263,941.93
Reconciliation of operating loss to net cash provided (used) by operating activities:		
Operating loss	$ (12,119.64)	$ (12,916.12)
Adjustments to reconcile operating loss to net cash provided (used) by operating activities:		
Depreciation expense	43,000.00	32,250.00
Gifts in-kind	-	(37,923.54)
Other adjustment	(18,102.58)	89,487.68
Change in assets and liabilities:		
Receivables, net	(14,880.13)	3,143.85
Net cash provided (used) by operating activities	$ (2,102.35)	$ 74,041.87