AUDIT REPORT

Tennessee Board of Regents
Dyersburg State Community College

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

STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY

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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

February 27, 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. 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, 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/sah
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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, 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
Dyersburg State Community College
For the Years Ended June 30, 2006, and June 30, 2005

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Tennessee Board of Regents
Dyersburg 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, 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, 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. 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

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

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, 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
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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*

February 13, 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 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, 2006, and June 30, 2005, and have issued our report thereon dated February 13, 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.

The Honorable John G. Morgan
February 13, 2007
Page Two

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/sah

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

February 13, 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 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, 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.

The Honorable John G. Morgan
February 13, 2007
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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, 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.

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 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.

Our audit was conducted for the purpose of forming opinions on the basic financial statements. The accompanying financial information on page 49 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 February 13, 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.

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, 2006, and June 30, 2005, with comparative information presented for the fiscal year ended 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 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 college for any lawful purpose of the college.

Dyersburg State Community College
Statement of Net Assets (in thousands of dollars)

	2006	2005	2004
Assets:			
Current assets	$ 4,419	$ 4,252	$ 3,486
Capital assets, net	14,933	8,759	7,797
Other assets	2,500	1,847	1,430
Total assets	**21,852**	**14,858**	**12,713**
Liabilities:			
Current liabilities	2,399	2,542	2,098
Noncurrent liabilities	805	817	389
Total liabilities	**3,204**	**3,359**	**2,487**
Net assets:			
Invested in capital assets, net of related debt	14,512	8,250	7,797
Restricted - nonexpendable	132	133	158
Restricted - expendable	1,207	650	545
Unrestricted	2,797	2,466	1,726
Total net assets	**$18,648**	**$11,499**	**$10,226**

Net assets of the college increased 62% between FY 2006 and FY 2005 due to increases in current and capital assets and a slight decrease in current liabilities as listed below:

- Current assets increased a net of $167,000, or 4%, due to an increase in restricted cash and cash equivalents from current fundraising efforts of the college for additional funds for the Jimmy Naifeh Center and student scholarships.

- Capital assets increased $6 million, or 69%, due to state appropriations for buildings under construction on the Dyersburg and Covington campuses. The Eller administration/classroom building renovation was completed in January 2006, and construction began on the Learning Resource Center on the Dyersburg campus and the Jimmy Naifeh Center at Covington. Both buildings are to be completed during FY 2006-07.

- Current liabilities decreased 6% due to a decrease in restricted payables to vendors and accrued liabilities for salaries and benefits.

Material increases/decreases in the college's assets and liabilities between FY 2005 and FY 2004 were:

- Current assets increased a net of $766,000, or 22%, due to an increase in cash, cash equivalents and accounts receivable. Renewal and replacement cash increased by $500,000 due to a transfer from E&G and usage charges to fund the implementation of the new software system. Additional grants for 2005 were the Cisco Networking and

Tech-Prep Articulation grants. These two grants combined totaled an additional $170,000.

- Capital and other assets combined increased $1,379,000, or 15%, mainly due to the net change in capital assets of $962,000. Property was purchased adjacent to the campus. One section is for the development of additional parking and land and building. Another property was purchased from the Foundation that is being used for office space while the Eller Classroom/Administration building is being renovated. This is a part of the capital project funded by state appropriations in FY 2004-05 to build the Learning Resource Center (LRC) and renovate the existing LRC and Eller buildings. Cash and cash equivalents in noncurrent assets increased by $552,000, or 45%.

- Liabilities increased $871,000 mainly due to long-term liabilities of $509,000 in commercial paper loans to fund software and equipment cost to implement new administrative software. Accounts payable increased $160,000 and deferred revenue decreased $21,000.

- An overall change in unrestricted net assets resulted in a 43% increase. This is due to the funds designated by the institution to fund the new software system and increase in accounts receivable balances for tuition and fees.

Foundation
Statement of Net Assets (in thousands of dollars)

	2006	**2005**	**2004**
Assets:			
Current assets	$ 101	$ 140	$ 141
Capital assets, net	-	-	225
Other assets	3,959	3,819	3,625
Total assets	**4,060**	**3,959**	**3,991**
Liabilities:			
Current liabilities	6	10	316
Noncurrent liabilities	33	37	40
Total liabilities	**39**	**47**	**356**
Net assets:			
Invested in capital assets, net of related debt	-	-	(75)
Restricted - nonexpendable	2,772	2,731	2,614
Restricted - expendable	806	785	772
Unrestricted	443	396	324
Total net assets	**$4,021**	**$3,912**	**$3,635**

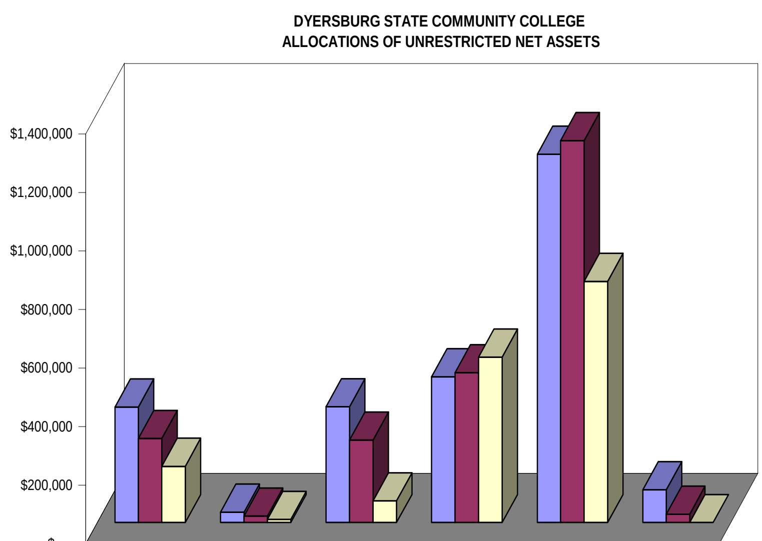
Material increases/decreases in the foundation's assets and liabilities between FY 2006 and FY 2005 were:

- The net assets of the foundation increased by $109,000 due to an increase in gifts and interest earnings.

Material increases/decreases in the foundation's assets and liabilities between FY 2005 and FY 2004 were:

- The foundation capital assets decreased due to the sale of property to the college in October of 2004.
- Liabilities decreased for the foundation due to repayment of loans from proceeds of the sale of property.
- The overall increase in net assets is mainly due to an increase of $277,000 in investments.
- Restricted nonexpendable net assets of the foundation increased $117,000 for endowed funds for scholarships. The increases are related to the market value increase in investments held by the college for the foundation.

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, and capital projects. The following graph shows the allocations:



	Working Capital	Encumbrances	Designated Fees	Plant Construction	Renewal and Replacement of Equipment	Debt Retirement
2006	$394,796	$35,693	$395,572	$498,007	$1,257,971	$112,154
2005	$287,450	$22,151	$281,900	$511,971	$1,304,693	$28,889
2004	$192,099	$10,882	$74,333	$565,315	$823,403	$-

Unrestricted Net Assets – 2006 – College

- Allocations of unrestricted net assets increased by $257,139. Working capital increased due to the increase of student receivables. The receivables are due to return to Title IV refunds for students who received federal funds and withdrew during the semester.

- The allocation for designated fees increased by $113,672. The Technology Access Fees (TAF) carry over from FY 2005-2006 will be used to purchase equipment for classrooms in the new academic building to be completed in FY 2006-2007.

- Funds for debt retirement increased by $83,265. These funds are designated for payments on loans obtained in FY 2004-2005 to fund the purchase of software and equipment.

Unrestricted Net Assets – 2005 – College

- Allocations of unrestricted net assets increased by $771,022. Of that increase, renewal and replacement funds increased $481,290. These funds are designated for implementation of administrative software beginning in FY 2005-2006 and projected to be completed in FY 2007-2008.

- Designated fees increased by $207,567. This is the amount of unspent Technology Access Fees (TAF) collected from students in 2005. The TAF fees are designated for instructional costs that directly benefit students.

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 generally accepted accounting principles.

Dyersburg State Community College
Statement of Revenues, Expenses, and Changes in Net Assets (in thousands of dollars)

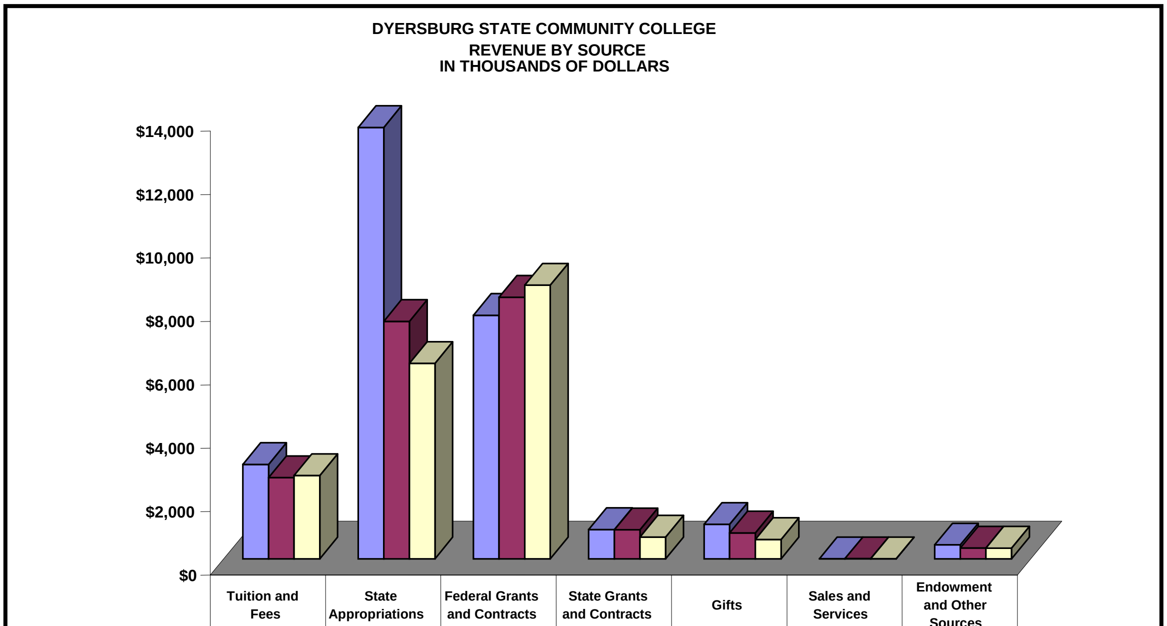
	2006	2005	2004
Operating revenues:			
Net tuition and fees	$ 2,979	$ 2,562	$ 2,630
Grants and contracts	4,934	5,347	6,039
Auxiliary	89	99	94
Other	156	160	133
Total operating revenues	**8,158**	**8,168**	**8,896**
Operating expenses	19,696	19,068	18,852
Operating loss	**(11,538)**	**(10,900)**	**(9,956)**
Nonoperating revenues and expenses:			
State appropriations	6,622	6,516	6,162
Gifts	1,129	807	613
Grants and contracts	3,688	3,826	3,288
Investment income	197	84	40
Other nonoperating revenues and expenses	(22)	(31)	(2)
Total nonoperating revenues and expenses	**11,614**	**11,202**	**10,101**
Income before other revenues, expenses, gains, or losses	**76**	**302**	**145**
Other revenues, expenses, gains, or losses:			
Capital appropriations	6,987	973	3
Capital grants and gifts	-	10	-
Other	86	(12)	73
Total other revenues, expenses, gains, or losses	**7,073**	**971**	**76**
Increase in net assets	**7,149**	**1,273**	**221**
Net assets at beginning of year	**11,499**	**10,226**	**10,005**
Net assets at end of year	**$18,648**	**$11,499**	**$10,226**

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

	2006	**2005**	**2004**
Operating revenues:			
Gifts	$ 1	$ 3	$ 10
Other	138	81	69
Total operating revenues	**139**	**84**	**79**
Operating expenses	49	38	91
Operating income (loss)	**90**	**46**	**(12)**
Nonoperating revenues and expenses:			
Investment income	(29)	47	289
Other nonoperating revenues and expenses	-	18	(41)
Total nonoperating revenues and expenses	**(29)**	**65**	**248**
Income before other revenues, expenses, gains, or losses	**61**	**111**	**236**
Other revenues, expenses, gains, or losses:			
Additions to permanent endowments	48	70	52
Other	-	96	-
Total other revenues, expenses, gains, or losses	**48**	**166**	**52**
Increase in net assets	**109**	**277**	**288**
Net assets at beginning of year	**3,912**	**3,635**	**3,347**
Net assets at end of year	**$4,021**	**$3,912**	**$3,635**

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



	Tuition and Fees	State Appropriations	Federal Grants and Contracts	State Grants and Contracts	Gifts	Sales and Services	Endowment and Other Sources
2006	$2,979	$13,609	$7,694	$924	$1,129	$5	$538
2005	$2,562	$7,489	$8,249	$919	$817	$9	$340
2004	$2,630	$6,165	$8,632	$690	$613	$5	$340

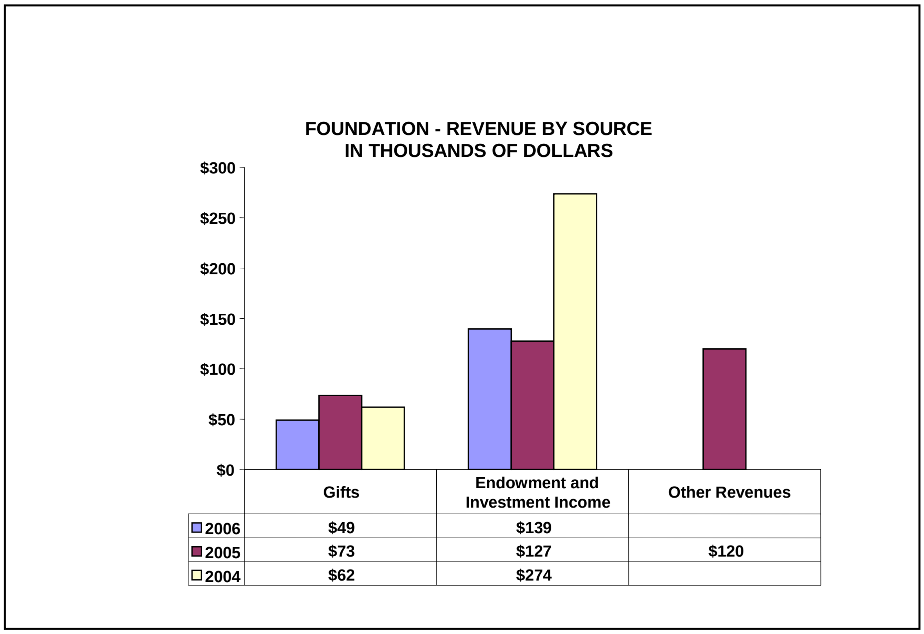
Revenue of the college increased approximately 32% or $6,488,000 in 2006 from 2005. This net increase is a result of the following:

- State appropriations increased $6,120,000, which includes funding for ongoing capital projects—the Eller Administration building renovation, the new construction of the Academic building at the Jimmy Naifeh Center at Tipton County and the Learning Resource Center on the Dyersburg campus.
- Gifts increased by $312,000 as a result of fundraising for the nursing program at the Jimmy Naifeh Center and funding for scholarships.

Revenue of the college increased approximately 7% ($1,310,000) in 2005 from 2004. This net increase is a result of the following:

- State appropriations increased $1,324,000, which includes funding for a 1% of a 3% across-the-board salary increase, a one-time bonus of $70 per year of service for regular employees, and $973,000 in capital appropriations.
- Federal grants and contract revenue decreased $383,000, much of which is due to the college discontinuing the administration of the Families First program.
- State grants and contract revenue increased $229,000 due to lottery scholarships.

- Gifts to restricted programs, primarily for scholarships, increased $204,000 during the year due to additional efforts in the Annual Fund fundraising campaign.



Foundation revenue changed during the 2005-06 as follows:

- Investment income net of investment expense decreased slightly in FY 2005-06, but gifts decreased 33% from FY 2004-05.

Foundation revenue changed during the 2004-05 as follows:

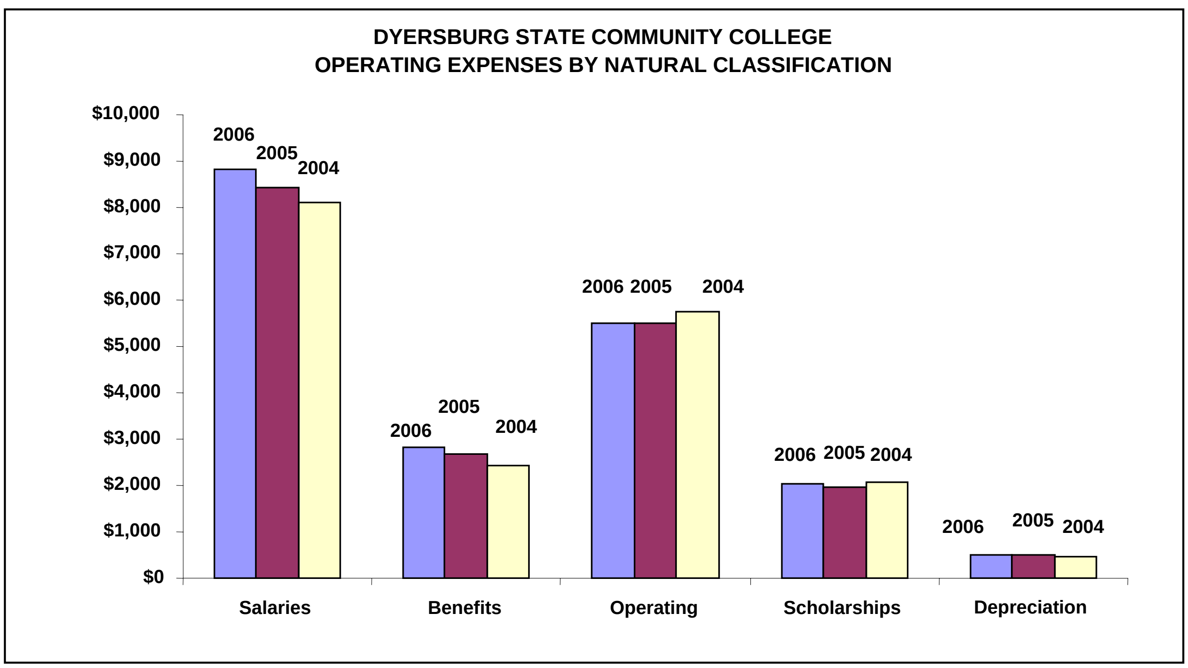
- Revenues decreased $15,000 or 5% in 2005. Gifts increased $12,000 and endowment, investment and other revenues had a decrease of $26,000. In July 2005, an audit adjustment reclassified investment revenue (rental income) as nonoperating revenues for 2004. The chart reflects the original 2004 classification of revenue. The 2005 chart reflects the correct classification of revenues per audit.

<u>Expenses</u>

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

NATURAL CLASSIFICATION
IN THOUSANDS OF DOLLARS

	College			Foundation		
	2006	**2005**	**2004**	**2006**	**2005**	**2004**
Salaries	$ 8,835	$ 8,422	$ 8,121	$ -	$ -	$ -
Benefits	2,814	2,678	2,419	-	-	-
Operating	5,510	5,514	5,765	4	12	5
Scholarships	2,021	1,957	2,068	-	-	-
Depreciation	516	497	479	-	13	43
Payments to the college	-	-	-	45	13	43
Total	**$19,696**	**$19,068**	**$18,852**	**$49**	**$38**	**$91**



Natural Classification – 2006 – College

- Salaries and benefits increased $549,000, or 5%, in 2006 due to a 3% salary increase and increases in benefit cost.

- Depreciation expense increased by 4%.

- Expenses increased 3%, or $628,000, in 2006.

Natural Classification – 2005 – College

- In 2005, salaries and benefits increased $560,000 due to a 3% salary increase and an increase in insurance premiums. Salaries increased 4% and benefits increased 11% when compared to 2004.

- There was no significant increase in the percent of total expenses as reflected in the above charts.

Natural Classification – 2006 – Foundation

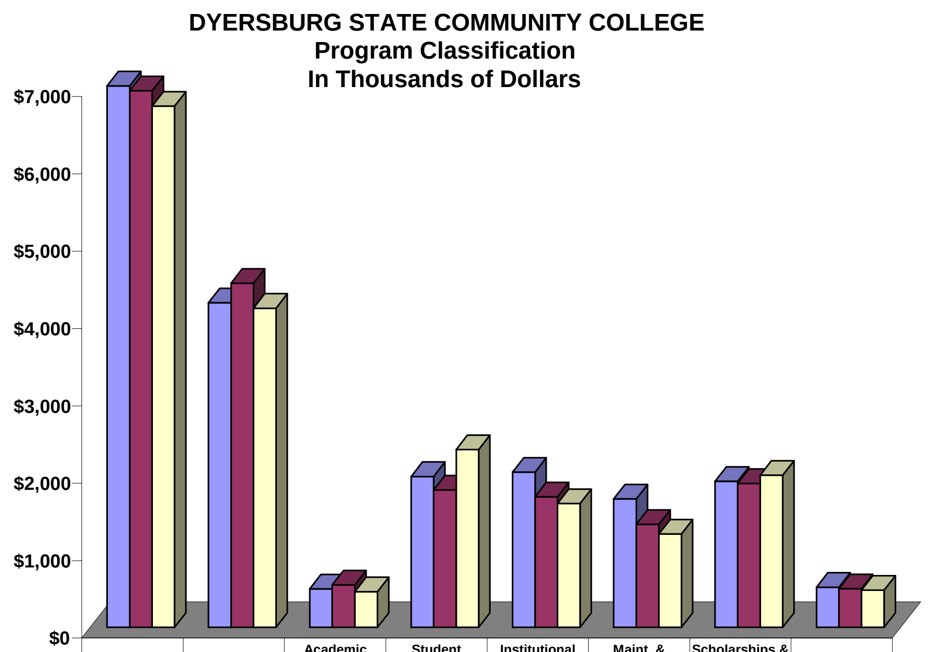
- Operating expenses increased $11,000 due to increase in funded scholarships.

Natural Classification – 2005 – Foundation

- Operating expenses decreased $53,000 due to a reduction in funded scholarships.

PROGRAM CLASSIFICATION
IN THOUSANDS OF DOLLARS

	College			**Foundation**		
	2006	**2005**	**2004**	**2006**	**2005**	**2004**
Instruction	$ 6,997	$ 6,935	$ 6,735	$ -	$ -	$ -
Public service	4,194	4,446	4,123	-	-	-
Academic support	493	545	458	-	-	1
Student services	1,948	1,773	2,294	-	-	-
Institutional support	2,003	1,684	1,596	4	12	4
Maint. & operations	1,660	1,330	1,203	-	-	-
Scholarships & fellow.	1,885	1,858	1,965	45	13	43
Depreciation	516	497	478	-	13	43
Total	**$19,696**	**$19,068**	**$18,852**	**$49**	**$38**	**$91**



	Instruction	Public Service	Academic Support	Student Services	Institutional Support	Maint. & Operations	Scholarships & Fellow.	Depreciation
2006	$6,997	4,194	493	1,948	2,003	1,660	1,885	516
2005	$6,935	4,446	545	1,773	1,684	1,330	1,858	497
2004	$6,735	4,123	458	2,294	1,596	1,203	1,965	478

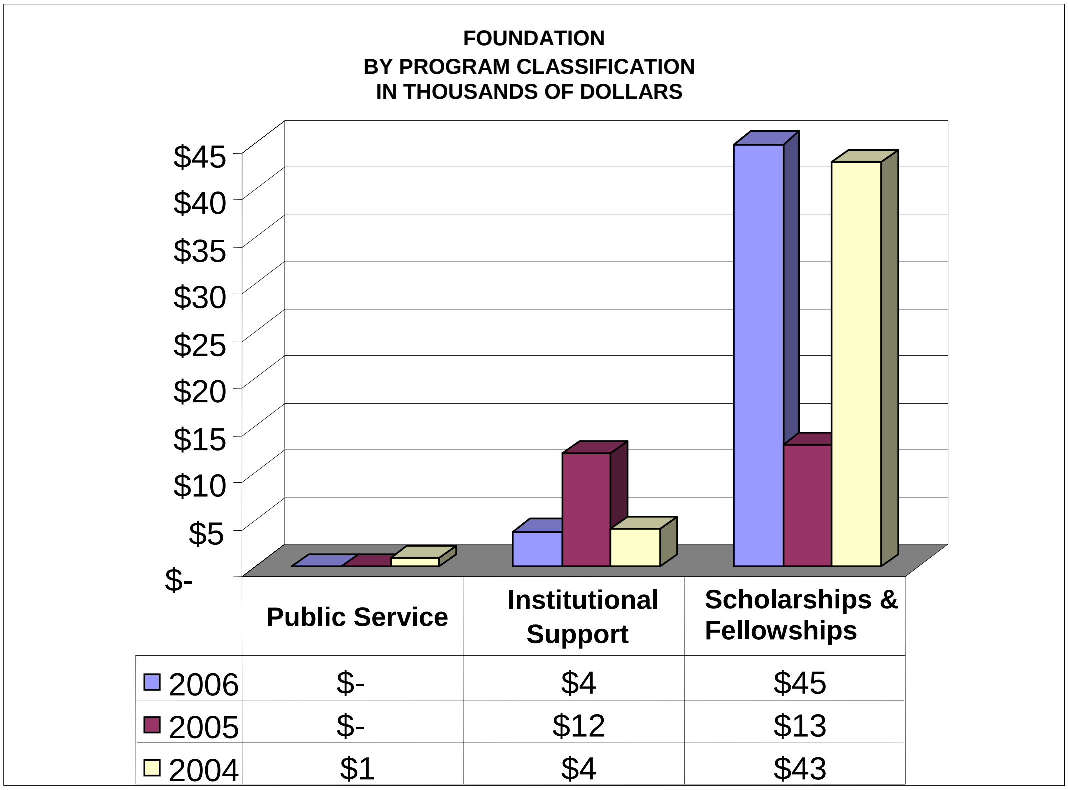
Program Classification – 2006 – College

- Maintenance and Operations (M & O) expenses increased 25% from FY 2004-05 due to increased utility cost. Other program expense increases were due to a 3% salary increase and increased benefit costs.

Program Classification – 2005 – College

- Two grant programs, Gear Up and Upward Bound, were reclassified as public service programs from student services. The net change in the programs was a decrease of $521,000 or 23% and an increase in public service of $323,000 or 8%.

- There was no material change of the % by program classification to the total operating expenses in 2005 compared to 2004.



Program Classification – 2006 – Foundation

- Funded scholarships increased by $32,000 due to increased investment income.

Program Classification – 2005 – Foundation

- Funded scholarships decreased $30,000 due to reduced investment income.

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.

Dyersburg State Community College
Statement of Cash Flows (in thousands of dollars)

	2006	2005	2004
Cash provided (used) by:			
Operating activities	$(10,914)	$(10,538)	$(9,279)
Noncapital financing activities	11,467	11,299	9,787
Capital and related financing activities	373	(14)	(133)
Investing activities	197	78	(5)
Net increase in cash	**1,123**	**825**	**370**
Cash, beginning of year	4,681	3,856	3,486
Cash, end of year	**$ 5,804**	**$ 4,681**	**$ 3,856**

Sources / Uses of Cash – 2006 – College

- Material sources of cash include tuition and fees, grants and contracts. The net increases of these sources are $491,510 (tuition and fees) and $122,428 (grants and contracts).

- Payments to employees and benefits increased 6%, or $692,884. Some of the increase was due to a 3% salary increase in July 2005.

- State appropriations for capital projects increased $6,013,627. These funds are designated for construction of the Learning Resource Center at Dyersburg and the Jimmy Naifeh Academic Building at Covington. These are on going projects to be completed in FY 2006-07.

- Investing activities net increase is $119,322 due to an increase in interest earned.

- The college's liquidity improved during the year (24% increase).

Sources / Uses of Cash – 2005 – College

- Material sources of cash include tuition and fees, grants and contracts, and state appropriations. Tuition and fees net decrease of $179,000 was due to a slight decrease in enrollment of 3% that was offset by a tuition increase of 7%.

- Material uses of cash were payments to employees, suppliers, vendors and scholarships. Payments to employees including benefits increased $479,000 because of increased instructional cost, higher insurance rates, a 3% salary increase, and a 10% equity payment (based on the 2001 salary study).

- Noncapital state appropriations increased $358,000 to fund 1% of a 3% salary increase, a one-time bonus paid to current employees.

- Capital state appropriations increased $970,000 for capital building projects – Learning Resource Center, Jimmy Naifeh Academic Building at Tipton County and the Eller (administration/classroom) building renovation.

- The college's liquidity improved during the year (21% increase).

Capital Assets and Debt Administration

<u>Capital Assets</u>

Dyersburg State Community College had $14,933,185 invested in capital assets, net of accumulated depreciation of $6,797,600 at June 30, 2006; $8,759,365 invested in capital assets, net of accumulated depreciation of $6,612,180 at June 30, 2005; and $7,797,286 invested in capital assets, net of accumulated depreciation of $6,234,918 at June 30, 2004. Depreciation charges totaled $516,220, $497,428, and $478,566 for the years ended June 30, 2006, June 30, 2005, and June 30, 2004, respectively. Details of these assets are shown below.

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

	2006	2005	2004
Land	$ 866	$ 866	$ 749
Land improvements and infrastructure	258	285	312
Buildings	6,921	5,797	5,845
Equipment	1,078	928	446
Library holdings	195	210	237
Projects in progress	5,615	673	208
Total	**$14,933**	**$8,759**	**$7,797**

- In 2006, additional appropriations were approved for the construction of the Jimmy Naifeh Academic Building that added to the approved projects for the college. The Eller Administration building renovation was completed in January of 2006, and construction began on the Learning Resource Center. This will be completed in spring of 2007. The

Jimmy Naifeh Academic Building is under construction and is to be completed by October 2006. The building will be open for nursing classes in spring 2007.

- The chemistry lab planning is in progress, and the laboratory is to begin construction summer of 2007 once the fourth of four appropriation disbursements is approved.

- The Student Center project was funded in 2006, and the planning and design are completed. The original planning began in 1994. As with the Learning Resource Center, a new building will be constructed and the existing building will be renovated.

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

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

	2006	**2005**	**2004**
Land	$ -	$ -	$ 85
Buildings	-	-	140
Total	**$ -**	**$ -**	**$225**

The land and building, Security Bank Community Learning Center, were sold in October 2004 to the college.

<u>Debt</u>

The table below summarizes the debt outstanding by type of debt instrument at June 30, 2006; at June 30, 2005; and at June 30, 2004, respectively.

Outstanding Debt by Type of Debt Instrument

	College			**Foundation**		
	2006	**2005**	**2004**	**2006**	**2005**	**2004**
Bonds	$421,638	$ -	$ -	$ -	$ -	$ -
Commercial paper	-	509,072	-	-	-	-
Note	-	-	-	-	-	300,000
Total	**$421,638**	**$509,072**	**$ -**	**$ -**	**$ -**	**$300,000**

As of June 30, 2006, the college owes bonds of $421,638. The commercial paper was converted to bonds in June 2006. The loan of $29,175 to purchase land adjacent to the Dyersburg campus to develop additional parking was paid in September 2005. The first of five annual installments of $105,000 was made in February 2006 for the administrative software and equipment to replace the 1970's existing system. The original software purchase was $393,000 and equipment was $133,637. More detailed information about the college's long-term liabilities is presented in Note 8 to the financial statements.

Economic Factors That Will Affect the Future

Dyersburg State Community College had a slight decrease in enrollment for fall 2005 and enrollment projections for fall 2006 are flat. The opening of the Jimmy Naifeh Building at Tipton County in spring 2007 is expected to improve enrollment numbers. The expansion of the nursing program is expected to produce an additional 100 students which will include both pre-nursing and nursing students. The additional revenue is expected to cover new costs for operation of the new facility and the program.

The implementation of the administrative software in the Tennessee Board of Regents system that began in January 2005 continues through 2008. Dyersburg State began the implementation of Banner Human Resources in February 2005 and will have the system operational January 2007. The Banner Finance, Student and Financial Aid systems will begin implementation FY 2006-07. The bulk of the implementation cost will be in FY 2006-07. Expected cost for Dyersburg State for this period is approximately $3 million.

Capital building projects that were planned in the 1990s are being constructed through 2007. These new facilities will increase the operating costs for the college. The much needed Nursing and EMT programs will be operational in the new facility in Tipton County beginning January 2007, and the Learning Resource Center is to be completed in February 2007. Fund raising efforts have resulted in funding part of the equipment cost for the new facilities. Grant funds are in place for a nursing faculty for the first three years of operation.

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.

Exhibit A

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

	Dyersburg State Community College		Component Unit - Dyersburg State Community College Foundation	
	June 30, 2006	June 30, 2005	June 30, 2006	June 30, 2005
ASSETS				
Current assets:				
Cash and cash equivalents (Notes 2, 3, and 16)	$ 3,378,044.62	$ 2,908,577.95	$ 75,976.22	$ 115,862.57
Accounts and grants receivable (net) (Note 5)	921,346.18	1,287,687.52	66.67	573.32
Pledges receivable (Notes 6 and 16)	104,550.00	33,055.50	-	9,000.00
Prepaid expenses and deferred charges	15,345.41	22,564.17	-	-
Accrued interest receivable	-	-	25,251.01	13,856.28
Total current assets	4,419,286.21	4,251,885.14	101,293.90	139,292.17
Noncurrent assets:				
Cash and cash equivalents (Notes 2 and 3)	2,426,325.45	1,772,449.54	-	-
Investments (Notes 4 and 16)	73,381.20	74,249.95	3,958,983.84	3,787,248.69
Pledges receivable (Note 16)	-	-	-	32,000.00
Capital assets (net) (Note 7)	14,933,184.76	8,759,364.87	-	-
Total noncurrent assets	17,432,891.41	10,606,064.36	3,958,983.84	3,819,248.69
Total assets	21,852,177.62	14,857,949.50	4,060,277.74	3,958,540.86
LIABILITIES				
Current liabilities:				
Accounts payable	668,696.12	730,070.87	595.00	4,533.33
Accrued liabilities	253,721.04	360,581.77	-	-
Deferred revenue	133,777.67	99,438.51	-	-
Compensated absences (Note 8)	113,336.51	126,722.14	-	-
Accrued interest payable	2,576.67	-	-	-
Long-term liabilities, current portion (Note 8)	101,091.50	125,154.35	-	-
Deposits held in custody for others	1,126,000.94	1,099,764.27	-	-
Other liabilities (Note 16)	-	-	5,600.00	5,600.00
Total current liabilities	2,399,200.45	2,541,731.91	6,195.00	10,133.33
Noncurrent liabilities:				
Compensated absences (Note 8)	484,714.65	432,655.51	-	-
Long-term liabilities (Note 8)	320,546.00	383,917.39	-	-
Due to grantors (Note 8)	-	454.50	-	-
Other liabilities (Note 16)	-	-	33,383.77	36,692.65
Total noncurrent liabilities	805,260.65	817,027.40	33,383.77	36,692.65
Total liabilities	3,204,461.10	3,358,759.31	39,578.77	46,825.98
NET ASSETS				
Invested in capital assets, net of related debt	14,511,547.26	8,250,293.13	-	-
Restricted for:				
Nonexpendable:				
Scholarships and fellowships	131,937.69	132,724.95	2,771,626.54	2,731,214.75
Expendable:				
Scholarships and fellowships (Notes 9 and 16)	321,712.00	315,745.73	805,875.18	784,320.24
Instructional department uses	662,034.37	275,956.70	-	-
Loans	15,141.70	16,805.19	-	-
Other	208,692.06	41,997.05	-	-
Unrestricted (Notes 10 and 16)	2,796,651.44	2,465,667.44	443,197.25	396,179.89
Total net assets	$ 18,647,716.52	$ 11,499,190.19	$ 4,020,698.97	$ 3,911,714.88

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, 2006, AND JUNE 30, 2005

	Dyersburg State Community College		Component Unit - Dyersburg 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 $2,289,579.85 for the year ended June 30, 2006, and $2,402,522.35 for the year ended June 30, 2005)	$ 2,978,946.16	$ 2,562,325.13	$ -	$ -
Gifts and contributions	-	-	1,252.50	3,270.00
Endowment income	-	-	137,958.84	80,093.63
Governmental grants and contracts	4,929,629.81	5,342,248.13	-	-
Nongovernmental grants and contracts	5,000.00	5,000.00	-	-
Sales and services of educational departments	5,487.13	8,630.88	-	-
Auxiliary enterprises:				
Bookstore	88,742.59	99,278.76	-	-
Other operating revenues	150,243.18	150,858.21	-	-
Total operating revenues	8,158,048.87	8,168,341.11	139,211.34	83,363.63
EXPENSES				
Operating expenses (Note 15):				
Salaries and wages	8,835,177.79	8,422,417.79	-	-
Benefits	2,813,972.36	2,677,592.19	-	-
Utilities, supplies, and other services	5,510,346.79	5,513,450.87	3,782.90	11,692.70
Scholarships and fellowships	2,020,783.01	1,957,133.59	-	-
Depreciation expense	516,219.95	497,427.83	-	12,959.10
Payments to or on behalf of Dyersburg State Community College (Note 16)	-	-	44,842.00	13,203.00
Total operating expenses	19,696,499.90	19,068,022.27	48,624.90	37,854.80
Operating income (loss)	(11,538,451.03)	(10,899,681.16)	90,586.44	45,508.83
NONOPERATING REVENUES (EXPENSES)				
State appropriations	6,622,100.00	6,515,600.00	-	-
Gifts, including $44,842.00 from component unit for the year ended June 30, 2006, and $13,203.00 from component unit for the year ended June 30, 2005 (Note 16)	1,128,750.67	806,994.48	-	-
Grants and contracts	3,687,835.15	3,825,697.13	-	-
Investment income (net of investment expense)	196,934.68	84,409.77	(29,337.44)	47,254.80
Interest on capital asset-related debt	(15,719.61)	(4,479.06)	-	(5,062.48)
Bond issuance costs	(5,374.06)	-	-	-
Other nonoperating revenues (expenses)	(315.88)	(26,373.43)	-	23,328.10
Net nonoperating revenues (expenses)	11,614,210.95	11,201,848.89	(29,337.44)	65,520.42
Income before other revenues, expenses, gains, or losses	75,759.92	302,167.73	61,249.00	111,029.25
Capital appropriations	6,986,630.47	973,003.31	-	-
Capital grants and gifts	-	10,000.00	-	-
Additions to permanent endowments	-	-	47,735.09	70,102.04
Other capital	86,135.94	(11,905.60)	-	96,209.10
Total other revenues	7,072,766.41	971,097.71	47,735.09	166,311.14
Increase in net assets	7,148,526.33	1,273,265.44	108,984.09	277,340.39
NET ASSETS				
Net assets - beginning of year	11,499,190.19	10,225,924.75	3,911,714.88	3,634,374.49
Net assets - end of year	$ 18,647,716.52	$ 11,499,190.19	$ 4,020,698.97	$ 3,911,714.88

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

TENNESSEE BOARD OF REGENTS
DYERSBURG 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	$ 2,928,197.91	$ 2,436,687.23
Grants and contracts	5,223,594.53	5,101,165.77
Sales and services of educational activities	5,487.13	8,630.88
Payments to suppliers and vendors	(5,572,026.23)	(5,347,042.73)
Payments to employees	(8,898,890.45)	(8,357,822.34)
Payments for benefits	(2,818,715.55)	(2,666,899.30)
Payments for scholarships and fellowships	(2,020,783.01)	(1,957,133.59)
Interest earned on loans to students	16.88	9.31
Auxiliary enterprise charges:		
Bookstore	88,703.79	99,300.98
Other receipts	150,534.93	145,548.04
Net cash used by operating activities	(10,913,880.07)	(10,537,555.75)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State appropriations	6,620,800.00	6,518,700.00
Gifts and grants received for other than capital purposes, including $48,847.00 from Dyersburg State Community College Foundation for the year ended June 30, 2006, and $5,748.39 for the year ended June 30, 2005	4,816,585.82	4,632,691.61
Federal student loan receipts	1,653,459.68	1,356,122.98
Federal student loan disbursements	(1,649,971.56)	(1,360,609.78)
Changes in deposits held for others	26,227.07	151,964.66
Net cash provided by noncapital financing activities	11,467,101.01	11,298,869.47
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from capital debt	46,740.46	509,071.74
Capital appropriations	6,986,630.47	973,003.31
Purchases of capital assets and construction	(6,700,539.91)	(1,453,886.76)
Principal paid on capital debt	(134,175.00)	-
Interest paid on capital debt	(12,745.09)	(6,749.52)
Bond issue costs paid on new debt issue	(3,484.50)	-
Other capital and related financing payments	190,678.74	(35,289.42)
Net cash provided (used) by capital and related financing activities	373,105.17	(13,850.65)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of investments	10,000.00	15,000.00
Income on investments	196,934.68	84,409.77
Purchases of investments	(9,918.21)	(15,000.00)
Other investing receipts (payments)	-	(6,716.03)
Net cash provided by investing activities	197,016.47	77,693.74
Net increase in cash and cash equivalents	1,123,342.58	825,156.81
Cash and cash equivalents - beginning of year	4,681,027.49	3,855,870.68
Cash and cash equivalents - end of year	$ 5,804,370.07	$ 4,681,027.49

TENNESSEE BOARD OF REGENTS
DYERSBURG 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	$	(11,538,451.03)	$	(10,899,681.16)
Adjustments to reconcile operating loss to net cash used by operating activities:				
Depreciation expense		516,219.95		497,427.83
Change in assets and liabilities:				
Receivables, net		201,533.21		(356,405.22)
Prepaid/deferred items		6,820.91		6,824.57
Accounts payable		(66,171.93)		160,411.66
Accrued liabilities		(106,860.73)		13,173.71
Deferred revenue		34,339.16		(21,061.48)
Compensated absences		38,673.51		61,745.03
Loans to students and employees		16.88		9.31
Net cash used by operating activities	$	(10,913,880.07)	$	(10,537,555.75)
Noncash transactions				
Gifts in-kind	$	-	$	69,870.00
Gifts in-kind - capital	$	-	$	10,000.00
Pledges	$	104,550.00	$	33,055.50
Unrealized gains/losses on investments	$	787.26	$	317.40
Loss of disposal of capital assets	$	10,500.07	$	4,380.55
Bad debt expense	$	60,597.92		53,660.51

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

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

The Dyersburg 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 16 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 university 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) interest on capital asset-related debt; (4) certain grants and contracts; and (5) gifts and nonexchange transactions.

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

Cash Equivalents

This classification includes instruments that are readily convertible to known amounts of cash and have original maturities of three months or less.

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 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

At June 30, 2006, cash and cash equivalents consisted of $1,307,144.25 in bank accounts, $2,373.65 of petty cash on hand, $4,487,952.62 in the State of Tennessee Local Government Investment Pool administered by the State Treasurer, and $6,899.55 in money market funds. At June 30, 2005, cash and cash equivalents consisted of $1,786,236.78 in bank accounts, $2,373.65 of petty cash on hand, $2,885,965.01 in the State of Tennessee Local Government Investment Pool administered by the State Treasurer, and $6,425.05 in money market 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 agent 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 fair value is equal to 105% of the uninsured deposits.

At June 30, 2006, $6,899.55 of the college's bank balance of $1,579,427.83 was exposed to custodial credit risk as follows:

Uninsured and uncollateralized	$6,899.55

At June 30, 2005, $6,452.05 of the college's bank balance of $2,190,223.43 was exposed to custodial credit risk as follows:

Uninsured and uncollateralized	$6,452.05

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. INVESTMENTS

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 investment securities that are uninsured, are not registered in the name of the college, and are held by either (a) the counterparty or (b) the counterparty's trust department or agent but not in the college's name.

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.

At June 30, 2006, the college had the following investments and maturities.

		Investment Maturities (in Years)				
Investment Type	Fair Value	Less than 1	1 to 5	6 to 10	More than 10	No Maturity Date
U.S. agencies	$73,381.20	$49,221.80	$24,159.40	$ -	$ -	$ -

At June 30, 2005, the college had the following investments and maturities.

		Investment Maturities (in Years)				
Investment Type	Fair Value	Less than 1	1 to 5	6 to 10	More than 10	No Maturity Date
U.S. agencies	$74,249.95	$9,950.00	$64,299.95	$ -	$ -	$ -

Interest rate risk - Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of a debt investment. The college does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit risk - Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. 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 (LGIP). The policy requires that investments of endowments in equity securities be limited to funds from private gifts or other sources external to the university and that endowment investments be prudently diversified. Securities are rated using Standard and Poor's, Moody's, and/or Fitch and are presented below using the Standard and Poor's rating scale. The college has no investment policy limiting its investment choices based on ratings issued by nationally recognized statistical rating organizations.

At June 30, 2006, the college's investments were rated as follows:

		Credit Quality Rating	
Investment Type	Fair Value	AAA	Unrated
LGIP	$4,487,952.62	$ -	$4,487,952.62
U.S. agencies	73,381.20	73,381.20	-
Total	$4,561,333.82	$73,381.20	$4,487,952.62

At June 30, 2005, the college's investments were rated as follows:

Investment Type	Fair Value	Credit Quality Rating AAA	Unrated
LGIP	$2,885,965.01	$ -	$2,885,965.01
U.S. agencies	74,249.95	74,249.95	-
Total	$2,960,214.96	$74,249.95	$2,885,965.01

NOTE 5. RECEIVABLES

Receivables included the following:

	June 30, 2006	June 30, 2005
Student accounts receivable	$ 477,491.98	$ 374,912.12
Grants receivable	447,904.88	808,364.10
State appropriation receivable	16,500.00	15,200.00
Other receivables	63,132.17	155,109.95
Subtotal	1,005,029.03	1,353,586.17
Less allowance for doubtful accounts	(83,682.85)	(65,898.65)
Total receivables	$ 921,346.18	$1,287,687.52

NOTE 6. PLEDGES RECEIVABLE

Pledges receivable are promises of private donations that are reported as a receivable and revenue. At June 30, 2006, and June 30, 2005, all were considered to be collectible.

Tennessee Board of Regents
Dyersburg State Community College
Notes to the Financial Statements (Cont.)
June 30, 2006, and June 30, 2005

NOTE 7. CAPITAL ASSETS

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

	Beginning Balance	Additions	Reductions	Ending Balance
Land	$ 866,323.50	$ -	$ -	$ 866,323.50
Land improvements and infrastructure	676,935.00	-	-	676,935.00
Buildings	10,468,953.39	1,428,475.20	-	11,897,428.59
Equipment	2,168,110.91	289,464.91	244,769.17	2,212,806.65
Library holdings	517,762.43	41,112.00	96,530.36	462,344.07
Projects in progress	673,459.79	4,941,487.80	-	5,614,947.59
Total	15,371,545.02	6,700,539.91	341,299.53	21,730,785.40
Less accum. depreciation:				
Land improvements and infrastructure	391,850.86	26,912.06	-	418,762.92
Buildings	4,672,280.66	304,269.09	-	4,976,549.75
Equipment	1,240,400.77	129,151.35	234,269.10	1,135,283.02
Library holdings	307,647.86	55,887.45	96,530.36	267,004.95
Total accum. depreciation	6,612,180.15	516,219.95	330,799.46	6,797,600.64
Capital assets, net	$ 8,759,364.87	$6,184,319.96	$ 10,500.07	$14,933,184.76

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

	Beginning Balance	Additions	Reductions	Ending Balance
Land	$ 749,025.00	$ 117,298.50	$ -	$ 866,323.50
Land improvements and infrastructure	676,935.00	-	-	676,935.00
Buildings	10,245,953.39	223,000.00	-	10,468,953.39
Equipment	1,577,087.06	624,230.30	33,206.45	2,168,110.91
Library holdings	574,612.90	34,489.58	91,340.05	517,762.43
Projects in progress	208,591.41	464,868.38	-	673,459.79
Total	14,032,204.76	1,463,886.76	124,546.50	15,371,545.02
Less accum. depreciation:				
Land improvements and infrastructure	364,938.80	26,912.06	-	391,850.86

Buildings	4,400,447.32	271,833.34	-	4,672,280.66
Equipment	1,131,454.50	137,772.17	28,825.90	1,240,400.77
Library holdings	338,077.65	60,910.26	91,340.05	307,647.86
Total accum. depreciation	6,234,918.27	497,427.83	120,165.95	6,612,180.15
Capital assets, net	$ 7,797,286.49	$ 966,458.93	$ 4,380.55	$ 8,759,364.87

NOTE 8. 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	$ -	$421,637.50	$ -	$ 421,637.50	$101,091.50
Commercial paper	509,071.74	46,740.76	555,812.50	-	-
Subtotal	509,071.74	468,378.26	555,812.50	421,637.50	101,091.50
Other liabilities:					
Compensated absences	559,377.65	333,895.89	295,222.38	598,051.16	113,336.51
Due to grantors	454.50	16.88	471.38	-	-
Subtotal	559,832.15	333,912.77	295,693.76	598,051.16	113,336.51
Total long-term liabilities	$1,068,903.89	$802,291.03	$851,506.26	$1,019,688.86	$214,428.01

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	$ -	$509,071.74	$ -	$ 509,071.74	$125,154.35
Other liabilities:					
Compensated absences	497,632.62	350,738.18	288,993.15	559,377.65	126,722.14
Due to grantors	445.19	9.31	-	454.50	-
Total other liabilities	498,077.81	350,747.49	288,993.15	559,832.15	126,722.14
Total long-term liabilities	$498,077.81	$859,819.23	$288,993.15	$1,068,903.89	$251,876.49

TSSBA Debt - Bonds

Bonds, with interest rates of 4%, were issued by the Tennessee State School Bond Authority (TSSBA). The bonds are due serially to 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	$101,091.50	$15,460.04	$116,551.54
2008	102,484.00	12,821.84	115,305.84
2009	106,788.50	8,722.48	115,510.98
2010	111,273.50	4,450.94	115,724.44
	$421,637.50	$41,455.30	$463,092.80

TSSBA Debt - Commercial Paper

The Tennessee State School Bond Authority (TSSBA) 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 $509,071.74 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 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, 2006, net appreciation of $5,866.01 is available to be spent, which is included in restricted net assets expendable for scholarships and fellowships. At June 30, 2005, net appreciation of $4,523.29 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, 2006	June 30, 2005
Working capital	$ 394,795.50	$ 287,450.02
Encumbrances	35,692.88	22,150.61
Designated fees	395,571.76	281,899.77
Plant construction	498,007.36	511,970.64
Renewal and replacement of equipment	1,257,970.71	1,304,693.04
Debt retirement	112,154.31	28,888.92
Unreserved/undesignated	102,458.92	28,614.44
Total	$2,796,651.44	$2,465,667.44

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 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 $371,550.12, $335,267.61, and $235,905.00. 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 $401,251.97 for the year ended June 30, 2006, and $410,083.42 for the year ended June 30, 2005. 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. 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 designated for payment of claims. At June 30, 2005, the Risk Management Fund held $114.4 million in cash designated for payment of claims.

At June 30, 2006, the scheduled coverage for the college was $23,971,000 for buildings and $4,613,500 for contents. At June 30, 2005, the scheduled coverage for the college was $18,530,015 for buildings and $5,303,700 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 $2,742,294.95 at June 30, 2006, and $2,534,790.49 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. Expenses under operating leases for real property were $102,629.90 and for personal property were $47,190.37 for the year ended June 30, 2006. Amounts for the year ended June 30, 2005, were $96,486.78 and $46,954.70. All operating leases are cancelable at the lessee's option.

Construction in Progress - At June 30, 2006, outstanding commitments under construction contracts totaled $5,479,950.44 for the Learning Resource Center project, $135,844.99 for the Student Center addition and renovation, $3,443.34 for ADA improvements, $1,464,019.99 for the Tipton County Center addition, and $26,437.45 for the chemistry lab update project, all of which 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 $1,191,195 at June 30, 2006.

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, 2006, are as follows:

	Natural Classification					
Functional Classification	Salaries	Benefits	Other Operating	Scholarships	Depreciation	Total
Instruction	$4,406,552.64	$1,257,884.81	$1,310,737.22	$ 22,032.31	$ -	$ 6,997,206.98
Public service	1,299,818.10	456,213.95	2,391,921.10	46,196.90	-	4,194,150.05
Academic support	671,090.72	231,665.00	(409,737.65)	188.17	-	493,206.24
Student services	912,279.46	305,550.23	640,679.75	89,643.50	-	1,948,152.94
Institutional support	1,153,350.67	390,808.52	458,035.56	828.57	-	2,003,023.32
Operation & maintenance	392,086.20	171,849.85	1,095,340.49	79.00	-	1,659,355.54
Scholar. & fellow.	-	-	23,370.32	1,861,814.56	-	1,885,184.88
Depreciation	-	-	-	-	516,219.95	516,219.95
Total	$8,835,177.79	$2,813,972.36	$5,510,346.79	$2,020,783.01	$516,219.95	$19,696,499.90

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

Functional Classification	Natural Classification Salaries	Benefits	Other Operating	Scholarships	Depreciation	Total
Instruction	$4,364,479.35	$1,256,815.44	$1,272,275.92	$ 40,968.89	$ -	$ 6,934,539.60
Public service	1,136,437.66	400,728.65	2,872,969.73	35,502.26	-	4,445,638.30
Academic support	591,744.90	215,930.68	(263,065.56)	94.00	-	544,704.02
Student services	862,126.82	236,316.69	616,360.66	58,678.40	-	1,773,482.57
Institutional support	1,086,613.47	393,624.30	199,559.36	4,089.91	-	1,683,887.04
Operation & maintenance	381,015.59	174,176.43	774,630.57	-	-	1,329,822.59
Scholar. & fellow.	-	-	40,720.19	1,817,800.13	-	1,858,520.32
Depreciation	-	-	-	-	497,427.83	497,427.83
Total	$8,422,417.79	$2,677,592.19	$5,513,450.87	$1,957,133.59	$497,427.83	$19,068,022.27

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 35-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, 2006, the foundation made distributions of $44,842.00 to or on behalf of the college for restricted scholarship purposes. During the year ended June 30, 2005, the foundation made distributions of $13,203.00 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.

Cash and cash equivalents - Cash and cash equivalents consist of demand deposit accounts and money market funds. At June 30, 2006, the bank balances of deposits of $7,615.64 were insured. At June 30, 2005, the bank balances of deposits of $5,844.64 were insured. The remaining cash and cash equivalents as of June 30, 2005, were uninsured.

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
U.S. agencies	$2,700,124.75	$2,645,955.60
Certificates of deposit	211,035.50	211,035.50
Corporate stock	361,838.10	436,213.50
Mutual funds	574,621.06	665,779.24
Total investments	$3,847,619.41	$3,958,983.84

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

	Cost	Market Value
U.S agencies	$1,674,300.43	$1,662,718.75
Certificates of deposit	203,584.32	203,584.32
Corporate stock	373,481.73	470,201.95
Mutual funds	1,414,022.06	1,450,743.67
Total investments	$3,665,388.54	$3,787,248.69

Pledges Receivable - Pledges receivable are summarized below.

	June 30, 2006	June 30, 2005
Current pledges	$ -	$ 9,000.00
Pledges due in one to five years	-	32,000.00
Pledges due after five years	-	-
Subtotal		41,000.00
Less discount to net present value	(-)	(-)
Total pledges receivable	$ -	$41,000.00

Long-term liabilities - Long-term liabilities at June 30, 2006, consisted of the following:

	Ending Balance	Current Portion
Other liabilities:		
Charitable gift annuities	$38,983.77	$5,600.00

Long-term liabilities at June 30, 2005, consisted of the following:

	Ending Balance	Current Portion
Other liabilities:		
Charitable gift annuities	$42,292.65	$5,600.00

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.

The foundation 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 foundation, 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, 2006, net appreciation of $1,249,072.43 is available to be spent, of which $805,875.18 is included in restricted net assets expendable for scholarships and fellowships and $443,197.25 is included in unrestricted net assets. At June 30, 2005, net appreciation of $1,180,500.13 is available to be spent, of which $784,320.24 is included in restricted net assets expendable for scholarships and fellowships and $396,179.89 is included in unrestricted net assets.

TENNESSEE BOARD OF REGENTS
DYERSBURG 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	$ 1,252.50	$ 3,270.00
Endowment income	117,038.24	86,744.39
Payments to suppliers and vendors	(3,209.58)	(12,391.59)
Payments to Dyersburg State Community College	(48,847.00)	(5,748.39)
Net cash provided by operating activities	66,234.16	71,874.41
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Private gifts for endowment purposes	51,052.29	80,080.04
Other noncapital financing receipts (payments)	-	(3,250.48)
Net cash provided by noncapital financing activities	51,052.29	76,829.56
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from sale of capital assets	-	308,000.00
Principal paid on capital debt	-	(300,000.00)
Interest paid on capital debt	-	(15,299.98)
Net cash used by capital and related financing activities	-	(7,299.98)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of investments	1,075,523.59	1,174,135.56
Purchases of investments	(1,168,123.23)	(1,293,681.74)
Other investing receipts (payments)	(64,573.16)	(21,250.02)
Net cash used by investing activities	(157,172.80)	(140,796.20)
Net increase (decrease) in cash and cash equivalents	(39,886.35)	607.79
Cash and cash equivalents - beginning of year	115,862.57	115,254.78
Cash and cash equivalents - end of year	$ 75,976.22	$ 115,862.57
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	$ 90,586.44	$ 45,508.83
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation expense	-	12,959.10
Other adjustments	(9,525.87)	11,766.18
Change in assets and liabilities:		
Receivables, net	(10,888.08)	(2,767.46)
Accounts payable	(3,938.33)	4,407.76
Net cash provided by operating activities	$ 66,234.16	$ 71,874.41
Noncash transactions		
Pledges	$ (41,000.00)	$ -
Unrealized gains/losses on investments	$ (10,495.72)	$ 46,359.39
Loss on disposal of capital assets	$ -	$ 96,209.10