AUDIT REPORT

Tennessee Board of Regents
Dyersburg State Community College

For the Years Ended
June 30, 2008, and June 30, 2007

STATE OF TENNESSEE

COMPTROLLER OF THE TREASURY

Department of Audit

Division of State Audit

Tennessee
Comptroller
of the Treasury

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

Kandi B. Thomas, CPA, CFE
Assistant Director

Donna L. Jewell, CPA, CFE
Audit Manager

Angela Courtney
In-Charge Auditor

Brandi Boles
Paula Keown
Chadwick Sit, CFE
Staff Auditors

Gerry Boaz, CPA
Technical Manager

Amy Brack
Editor

Comptroller of the Treasury, Division of State Audit
1500 James K. Polk Building, Nashville, TN 37243-1402
(615) 401-7897

Financial/compliance audits of colleges and universities are available on-line at
www.comptroller1.state.tn.us/RA_SA/.
For more information about the Comptroller of the Treasury, please visit our website at
www.tn.gov/comptroller/.

STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
DEPARTMENT OF AUDIT
DIVISION OF STATE AUDIT
SUITE 1500
JAMES K. POLK STATE OFFICE BUILDING
NASHVILLE, TENNESSEE 37243-1402
PHONE (615) 401-7897
FAX (615) 532-2765

December 29, 2009

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, 2008, and June 30, 2007. 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 disclosed certain deficiencies, which are detailed in the Results of the Audit section of this report. The college's administration has responded to the audit findings; the responses are included following each finding. The Division of State Audit will follow up the audit to examine the application of the procedures instituted because of the audit findings.

Sincerely,

Arthur A. Hayes, Jr., CPA
Director

AAH/ajm
09/041

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, 2008, and June 30, 2007

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.

INTERNAL CONTROL FINDINGS

The Vice President of Finance and Administrative Services Did Not Ensure That the College's and Foundation's Financial Statements and Notes to the Financial Statements Were Accurately Prepared, Which Increased the Risk That Amounts Could Have Been Materially Misstated and That Critical Financial Decisions Could Have Been Made Based on Inaccurate Information
Top management of Dyersburg State Community College (DSCC) is responsible for the fair presentation of financial position in conformity with accounting principles generally accepted in the United States of America. However, the Vice President of Finance and Administrative Services did not ensure that the college's and foundation's financial statements and the accompanying notes to the financial statements were free of material misstatement. As a result, we noted several reporting errors in the financial statements, notes, and management's discussion and analysis (page 9).

The President, the Vice President of Finance and Administrative Services, and the Foundation's Board of Directors Have Not Established Adequate Controls or Mitigated the Risks Associated With the Bank Reconciliation Process for the College's and the Foundation's Bank Accounts
Neither the college nor the foundation has a formal policy regarding the preparation of bank reconciliations. As a result, bank

reconciliations were not always prepared timely and did not always provide accountability in regard to those employees with the responsibility for the preparation and review of the reconciliations (page 13).

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, 2008, and June 30, 2007

TABLE OF CONTENTS

TABLE OF CONTENTS (CONT.)

Tennessee Board of Regents
Dyersburg State Community College
For the Years Ended June 30, 2008, and June 30, 2007

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

The idea for Tennessee's community college system was conceived in 1957 when the state legislature ordered a study of community college programs, a study which resulted in the Pierce-Albright Report. Acting on the recommendation of the Governor and the Department of Education, the General Assembly authorized the Department of Education to establish several community colleges throughout Tennessee. 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 Executive 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, 2006, through June 30, 2008, 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 generally accepted government auditing standards. Financial statements are presented for the years ended June 30, 2008, and June 30, 2007. 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* (CAFR). The CAFR is available on the state's website at http://tennessee.gov/finance/act/cafr.html.

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

During the fiscal year ending June 30, 2007, Dyersburg State Community College served 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 performed 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. However, as of July 1, 2007, Jackson State Community College began to serve as the lead institution for these centers.

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, 2008, and June 30, 2007, we considered internal control over financial reporting as a basis for designing 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 generally accepted government auditing standards. Significant deficiencies, along with recommendations and management's responses, are detailed in the Findings and Recommendations section. Consideration of internal control over financial reporting disclosed one material weakness.

Compliance

The results of our tests disclosed no instances of noncompliance that are required to be reported under generally accepted government auditing standards.

Fairness of Financial Statement Presentation

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

STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
DEPARTMENT OF AUDIT
DIVISION OF STATE AUDIT
SUITE 1500
JAMES K. POLK STATE OFFICE BUILDING
NASHVILLE, TENNESSEE 37243-1402
PHONE (615) 401-7897
FAX (615) 532-2765

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

August 19, 2009

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:

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, 2008, and June 30, 2007, and have issued our report thereon dated August 19, 2009. During the year ended June 30, 2008, the college implemented GASB Statement 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions.*

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 generally accepted government auditing standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the college's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the college's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the college's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the college's ability to initiate, authorize, record, process, or report financial data reliably in accordance with accounting principles generally accepted in the United States of America such that there is more than a remote likelihood that a misstatement of the college's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

The following significant deficiencies were noted:

- The Vice President of Finance and Administrative Services did not ensure that the college's and foundation's financial statements and notes to the financial statements were accurately prepared, which increased the risk that amounts could have been materially misstated and that critical financial decisions could have been made based on inaccurate information

- The President, the Vice President of Finance and Administratve Services, and the foundation's board of directors have not established adequate controls or mitigated the risks associated with the bank reconciliation process for the college's and foundation's bank accounts

These deficiencies are described in the Findings and Recommendations section of this report.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider the following to be a material weakness:

- The Vice President of Finance and Administrative Services did not ensure that the college's and foundation's financial statements and notes to the financial statements were accurately prepared, which increased the risk that amounts could have been materially misstated and that critical financial decisions could have been made based on inaccurate information

We also 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 generally accepted 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., CPA
Director

AAH/ajm

FINDINGS AND RECOMMENDATIONS

1. <u>The Vice President of Finance and Administrative Services did not ensure that the college's and foundation's financial statements and notes to the financial statements were accurately prepared, which increased the risk that amounts could have been materially misstated and that critical financial decisions could have been made based on inaccurate information</u>

Finding

Top management of Dyersburg State Community College (DSCC) is responsible for the fair presentation of financial position in conformity with accounting principles generally accepted in the United States of America. However, the Vice President of Finance and Administrative Services did not ensure that the college's and foundation's financial statements and the accompanying notes to the financial statements were free of material misstatement. According to the Vice President, she prepared the financial statements, notes to the financial statements, and the management's discussion and analysis (MD&A); however, no other knowledgeable person reviewed the financial statements, notes, and the MD&A for accuracy or cohesiveness. As a result, we noted several reporting errors in the financial statements, notes, and MD&A.

<u>Problems Noted With the Foundation's Statements of Cash Flows</u>

Based on our review of DSCC's statements of cash flows, we noted that the Vice President made several errors when preparing the foundation's Statements of Cash Flows for both fiscal years under audit.

In the foundation's statement of cash flows for the fiscal year ended June 30, 2008, the unrealized gains/losses on investments of ($236,736.61) was not included as a non-cash transaction in the published financial report. We corrected the audit report for these errors.

In addition, we found less significant errors in the foundation's statement of cash flows for both fiscal years under audit. We reported the specific details of these errors to DSCC management, and we have corrected the audit report for these errors.

<u>Problems Found in the Notes to the Financial Statements and the Management's Discussion and Analysis</u>

In addition to the problems noted in the statement of cash flows for the foundation, we also noted that the Vice President made several reporting errors within the notes to the financial statements for DSCC. These errors are enumerated below, and we corrected the notes for the audit report:

- In Note 2, no distinction was made between cash held at June 30, 2007, in the Local Government Investment Pool (LGIP) and cash held in LGIP specifically for capital projects. As a result, cash held in LGIP was overstated by $281,786.95, and cash in LGIP Deposits – Capital Projects was understated by that same amount.

- In Note 5, grants receivable was overstated and other receivables was understated by $881,147.32 at June 30, 2007.

- In Note 8, the note incorrectly stated that, at June 30, 2008, the Tennessee State School Bond Authority held $129,426.65 in reserve for the college at June 30, 2008. However, at this time, the Authority did not hold any funds for the college.

- In Note 18, the required disclosures for the foundation's long-term liability for the year ended June 30, 2008, were not included. The foundation had long-term charitable gift annuities of $34,431.69, which should have been disclosed in the notes.

- In reviewing the notes to the financial statements, we noted less significant misclassifications. Cash in banks and cash held in money market funds at June 30, 2007, were not properly classified in Note 2 (cash). In addition, investments and investment maturities at June 30, 2008, were not properly classified in Note 4 (investments).

- We also noted less significant instances of improper calculation methodology within the notes to the financial statements. In Note 3 (deposits), the college's bank balance was not properly calculated for both fiscal years under audit; in Note 7 (capital assets) the reductions of equipment and the associated accumulated depreciation for the year ended June 30, 2008, were not properly calculated; and in Note 8 (long-term liabilities) the additions and reductions for compensated absences were not properly calculated for both fiscal years under audit.

- In addition, we also noted minor typographical and calculation errors in the note disclosures for accounts receivable (Note 5), unrestricted net assets (Note 10), commitments and contingencies (Note 14), and expenses (Note 15).

- Though we do not audit management's discussion and analysis (MD&A), we do review the MD&A for accuracy. We noted numerous typographical errors in the graphs. We also noted a lack of cohesion between the MD&A and the financial statements. We noted several instances in which the information in the MD&A as originally published did not match the appropriate information in the financial statements.

When we discussed these problems with the Vice President of Finance and Administrative Services, she agreed that the financial statements, notes, and MD&A did contain these errors and stated that the college had a few different individuals performing the functions of the Business Office Manager during the audit period. In addition, the Vice President stated that she had been very involved in training for the new information system during the preparation of these financial reports.

Management could have detected and corrected many of these errors if appropriate reviews and comparisons had been made between the financial statements, notes to the financial statements, and the MD&A. We made audit adjustments to correct the financial statements and notes to the financial statements for the audit report and recommended changes to the MD&A.

In May 2007, DSCC management completed the Financial Management section of the college's risk assessment and identified inadequate financial reporting as a risk of poor financial management. DSCC management's intention is to monitor through supervisory controls. However, because DSCC had not implemented an adequate review process for financial reporting, errors made by the Vice President of Finance and Administrative Services went undetected.

Although these reporting errors did not result in a material misstatement of the financial statements, they did result in a material misstatement in the notes to the financial statements. Management's failure to review accounting entries and financial reporting increases the risk that material errors could occur and critical financial decisions for the college and affiliated foundation may not be based on accurate information.

Recommendation

The President should ensure that the financial report is accurately prepared. Someone with adequate accounting knowledge who is independent of the financial report preparation should compare the management's discussion and analysis, financial statements, and the accompanying notes to ensure that corresponding amounts agree and all amounts are adequately supported. If necessary, the task of preparing the financial report should be delegated to the Business Office Manager, or another appropriate individual, to allow the Vice President of Finance and Administrative Services to review the financial reporting package.

The President and Vice President of Finance and Administrative Services should ensure that risks associated with report preparation are adequately identified and assessed in the documented risk assessment activities. The Vice President should also implement effective controls to adequately mitigate those assessed risks, assign personnel to be responsible for ongoing monitoring of the risks and mitigating controls, and take action if deficiencies occur.

Management's Comment

Management concurs with the recommendation. In the past, the Business Manager and the Vice President have had the responsibility for preparing and reviewing the financial report. During the audit period, the Business Manager position was held by three different individuals due to staff moving to other positions or leaving the college for other employment. The Business Manager that had prior experience with preparing the financial report left in August 2006 for other employment. The Internal Auditor at the college moved to the Business Manager position and an Interim Business Manager was hired (September 2006 through June 2007) to supervise the day-to-day Business Office operations while the Vice President and Business Manager attended training for Banner, the new administrative software, and participated in the implementation of Human Resources (live in January 2006), Finance (live in July 2007), and Student Accounts Receivable (live in July 2008) systems. At June 30, 2007, the lead institution administration provided for Covington, Newbern and Ripley Technology Centers moved from Dyersburg State Community College to Jackson State Community College, which required additional closeout procedures for banking and personnel reporting. The new staff was unfamiliar with the previous and new systems and did not have sufficient experience to extract information to prepare the financial report, and there was not adequate time permitted to provide the specific training. In August 2008, the Business Manager accepted another position at the college and a new Business Manager was hired. The Vice President was, as in 2007, the only staff remaining with prior experience in preparing the financial report. Also, the Vice President was on leave intermittently due to a family illness and was unable to have sufficient time to review the notes and management's discussion and analysis as it should have been before the deadline for submission to the Tennessee Board of Regents.

It is unlikely that the combination of these events will occur as they did during the audit period, but management realized there was insufficient staffing in the Finance and Administrative Services area, more importantly, realized there was insufficient trained staff. In December 2008, the Finance Manager position was added. This position is responsible for the preparation of the financial report and coordination of activities for monthly/quarterly/annual closing of the Finance administrative software system. The Finance Manager assisted with the closing activities for FY 2008-09 and in the preparation of the financial report and will be responsible for preparing the financial report for FY 2009-10. Management will make every effort to ensure the corresponding amounts agree in the management's discussion and analysis, financial statements, and the accompanying notes.

Measures taken to reduce the risks of misstatements to the financial report:

<u>November 2008</u>

The Vice President met with staff in the Business Office, Administrative Services, and Payroll and made assignments and set deadlines for monthly closing and reconciling activities for the various offices.

Month-end processing:

- Preliminary reports are generated the last day of the month and the staff assigned review the preliminary reports and enter closing/correcting entries within three working days prior to the archiving of the final month end reports.
- Reconciliations are due to the Business Manager and/or Vice President by the tenth of the month for review and signing.

<u>December 2008</u>

The Finance Manager position was added to coordinate month-end closing activities and prepare financial reports for the President and Vice President to review.

June 2009
A group meeting was held with all staff participating in the year-end closing, which included Business Office, Human Resources, Finance and Budget, Financial Aid, Advancement, Administrative Services, and Internal Audit. The process was reviewed, assignments were made and deadlines were determined to allow a timely completion of the year-end activities.

October 2009
A training room was equipped to provide additional training for current and new staff.

November 2009
A training schedule will be developed beginning November 2009 for a minimum of two training days per month until staff in each Finance and Administrative Services office has completed two training sessions. Directors/Managers are to identify the training needs of their staff and submit those items to the Vice President.

Management will continue to evaluate the risks and look for additional ways to mitigate reporting risks.

2. The President, the Vice President of Finance and Administrative Services, and the foundation's board of directors have not established adequate controls or mitigated the risks associated with the bank reconciliation process for the college's and the foundation's bank accounts

Finding

The President, the Vice President of Finance and Administrative Services, and the foundation's board of directors of Dyersburg State Community College (DSCC) have not established adequate controls or mitigated the risks associated with the bank reconciliation process for the college's and foundation's bank accounts.

Specifically, the following weaknesses were noted:

- The President and the Vice President of Finance and Administrative Services have not created a policy governing the timeliness or approval of bank reconciliations for the college.

- The foundation's board of directors have not developed a formal policy governing the DSCC employees who work on foundation activities and who are responsible for the reconciliation process of the foundation's bank accounts. The foundation's bylaws state that the college's Vice President of Finance and Administrative Services is to serve as the treasurer of the foundation and is responsible for preparation of all foundation reports, as well as maintaining custody of all monies, papers, and securities of the foundation. The college's Business Office maintains the foundation's accounts.

Our testwork found that as a result of the lack of formal policies regarding bank reconciliations, the college's Business Office Manager

- did not ensure that the account clerk or the Financial Analyst prepared the bank reconciliations for the college and the foundation in a timely manner;

- did not ensure that the persons responsible for preparing the reconciliations for the college and foundation provided accountability by always signing and dating them;

- did not provide accountability for the review of the bank reconciliations by always signing and dating the reconciliations after review; and

- did not always review the college's bank reconciliations in a timely manner.

Bank reconciliation processes for Dyersburg State Community College and the Tennessee Technology Centers

For the audit period July 1, 2006, through June 30, 2008, we reviewed DSCC's procedures for reconciling the operating, payroll, insurance, off-campus centers, and the depository accounts for the technology centers, a total of 8 bank accounts. From July to October 2006, an account clerk prepared the reconciliations, a task that was assigned to the Financial Analyst in November 2006. The Business Office Manager was responsible for reviewing the reconciliations.

Since DSCC had no formal written policy governing when bank reconciliations should be completed and approved, we considered reconciliations timely if they were prepared, reviewed, and approved within 60 days after month-end. Our rationale for the 60-day time period was based on the reasonable expectation that banks generally allow clients to pursue adjustments due to banking errors within 60 days.

Dyersburg State Community College

We tested all bank reconciliations for the fiscal years ended June 30, 2008, and June 30, 2007. Since DSCC utilizes five separate bank accounts, our testwork included a review of 120 bank reconciliations (24 months of reconciliations for each of five bank accounts). Based on our review of the preparation of the bank reconciliations, we found the following problems:

- For 46 of 120 reconciliations tested (38%), neither the account clerk nor the Financial Analyst dated the reconciliation. As a result, we were unable to determine if these reconciliations were prepared timely.

- Of the remaining 74 reconciliations that were dated, 12 (16%) were not prepared within 60 days after month-end. For these reconciliations, the preparer dated the reconciliation from 15 to 148 days after the end of the applicable month.

- For 100 of the 120 reconciliations tested (83%), the Business Office Manager did not date the review of the reconciliation. As a result, we were unable to determine if the reconciliation was reviewed timely.

- Of the 20 reconciliations which were dated by the reviewer, one (5%) was not reviewed within the 60-day period. The reconciliation was dated as reviewed 155 days after the end of the applicable month.

We also determined that because management had not performed timely bank reconciliations, an individual was able to make fraudulent charges in the amount of $6,835.59 against the Dyersburg State Community College operating account from August 2006 until December 2006. The college did recover the loss from the bank in this instance. However, preparing timely reconciliations of all bank accounts is a key control in ensuring that management is better able to prevent and/or detect instances such as this in the future.

The Tennessee Technology Centers

During fiscal year 2007, Dyersburg State Community College staff was responsible for preparing the bank reconciliations for the depository accounts for three of the Tennessee Technology Centers. On July 1, 2007, TBR management transferred these responsibilities to Jackson State Community College. For two of these three accounts, college staff received bank statements quarterly instead of monthly. For one of these three accounts, college staff received statements monthly. We found problems with each of the three accounts and have noted those problems by technology center.

- We determined that 12 reconciliations were prepared for the Tennessee Technology Center at Covington. However, 4 of the 12 (33%) were not dated by the preparer and 11 of the 12 (92%) were not dated by the reviewer. As a result, we were unable to determine if these reconciliations were prepared or reviewed timely. Of the 8 reconciliations dated by the preparer, 4 (50%) were not prepared within 60 days of the applicable month-end. For these reconciliations, the preparer dated the reconciliation from 61 to 152 days after the end of the applicable month. In addition, one reconciliation was not signed by the reviewer.

- For the Tennessee Technology Center at Newbern, none of the quarterly reconciliations were dated by either the preparer or the reviewer. As a result, we were unable to determine if these reconciliations were prepared or reviewed timely. In addition, for one of the reconciliations tested (25%), the preparer did not sign the reconciliation.

- For the Tennessee Technology Center at Ripley, college staff only prepared 3 reconciliations for the year. The reconciliation for December 2006 covered transactions for the time period July 1 through December 31. In addition, none of the reconciliations were dated by either the preparer or the reviewer. As a result, we were unable to determine if these reconciliations were prepared or reviewed timely.

Dyersburg State Community College Foundation

During the audit period July 1, 2006, through June 30, 2008, we reviewed the bank reconciliation procedures for the foundation checking account. From July 2006 to June 2007, either the account clerk (July to October 2006) or the financial analyst (November 2006 to June 2007) prepared bank reconciliations for the DSCC Foundation. The DSCC Business Office Manager reviewed all reconciliations.

We tested the 12 reconciliations prepared for the fiscal year ending June 30, 2007. During our review, we noted the following problems:

- For 4 of the 12 reconciliations tested (33%), the Financial Analyst did not date the reconciliation. As a result, we were unable to determine if the reconciliation was prepared timely.

- For 2 of the remaining 8 bank reconciliations (25%), neither the account clerk nor the financial analyst prepared the reconciliation within 60 days after the applicable month-end. For these reconciliations, the preparer dated the reconciliation from 61 to 152 days after the end of the applicable month.

- For one of the 12 reconciliations tested (8%), the Business Office Manager did not sign the reconciliation as reviewer.

- The Business Office Manager did not date the review of any of the 12 reconciliations tested. As a result, we were unable to determine if any of the reconciliations were reviewed timely.

For the period July 1, 2007, to June 30, 2008, DSCC management changed the bank reconciliation process considerably. During this time, the Vice President of Finance and Administrative Services received, reviewed, and initialed the bank statements before forwarding the statements to the college's Financial Analyst, who then prepares the bank reconciliations based on the prior bank statements and current banking activity. Based on our review, we found that the reconciliations were neither dated nor signed. The bank statements were stamped with the date received, but the Vice President of Finance and Administrative Services did not date her review when she initialed each statement. As the foundation's account has very few transactions, we do not consider this process to be a problem; however, we were unable to determine if the bank statements were reviewed in a timely manner.

We discussed the college staff's failure to reconcile the bank accounts timely with the Vice President of Finance and Administrative Services. According to the Vice President, these problems were largely due to employee turnover in the Business Office and the extensive amount of training required for the implementation of a new information system at the college. Based on our review, we noted improvement in the timely preparation of bank reconciliations as the Business Office's staff stabilized and after the new information system was implemented.

In May 2007, the college management submitted to the Tennessee Board of Regents the Risk Assessment over Financial Management. In this assessment, management identified the lack of backup for key personnel as a risk. In addition, management included other risks and identified monthly reconciliations as a mitigating control for those risks. These risks included the lack of adequate operating funds, noncompliance with state and federal regulations, inaccurate financial reporting, and poor cash management. Within the risk assessment over cash management (which was completed as part of financial management), management also identified monthly bank reconciliations as a mitigation control for the risks of noncompliance with state and federal regulations, failure to maximize return on investments, and poor record management. If monthly bank reconciliations serve as a key mitigating control for risks that have been identified by management, it is critical that they are performed timely.

The college staff's failure to perform bank reconciliations timely could prohibit or limit management's ability to prevent or detect errors in financial reporting or theft of funds. The bank may be unwilling or unable to assist the college in correcting any errors if they are not reported timely.

Recommendation

The President and the Vice President of Finance and Administrative Services should develop a formal, written policy related to the timeliness of bank reconciliations for the college. The DSCC staff who work with the foundation should develop a formal, written policy related to the timeliness of bank reconciliations and present that policy to the foundation's board of directors for approval. The Vice President of Finance and Administrative Services should not permit control procedures to lapse because of staffing or other problems, and after these policies are developed, should ensure that bank reconciliations are performed timely in accordance with those policies. The Vice President of Finance and Administrative Services should assign specific staff the responsibility for monitoring the process for preparing and reviewing bank reconciliations to mitigate the risks of errors or fraud and the potential of material misstatement associated with bank reconciliations.

Management should continue to evaluate risks and include them in documented risk assessments. Management should ensure that staff who are responsible for the design and implementation of internal controls to adequately mitigate those risks and to prevent and detect exceptions timely are continually evaluating those controls. Management should ensure that staff who are responsible for ongoing monitoring for compliance with all requirements are indeed monitoring and taking prompt action should exceptions occur. All controls and control activities, including monitoring, should be adequately documented.

Management's Comment

Management concurs with the recommendation and has developed a formal written policy related to the timeliness of bank reconciliations for the college. A formal written policy for the foundation was developed and approved by the Foundation Executive Committee at the October 22, 2009, meeting. A formal written policy for the college was developed and approved by the Administrative Council November 4, 2009.

Management does concur that the documentation of foundation bank reconciliation preparation and review should have been more formal, but feels the review by the Vice President would have detected any discrepancies. The checking account for the foundation had 39 transactions in total for the two-year audit period. There were 14 of the 24 months that had no or only one transaction posted for the month. These bank statements were mailed to the Vice President's office and date stamped on receipt by the Vice President's secretary. The Vice President compared the bank balance to the balance in the accounting system to identify any discrepancies, initialed the statement, and forwarded the statement to the Account Clerk or Financial Analyst to prepare the cover reconciliation for the statement. This account was closed in July 2008, and the foundation no longer has a checking account.

Management concurs that the bank statements for the College were not monitored adequately for the months of August through December 2006 due to changes in staffing and Banner training requirements for staff. Once the Vice President was aware that fraudulent charges had been made by an individual outside the College, the account was closed and a new operating account was opened to prevent any further fraudulent transactions. Management added the Financial Analyst position in November 2006 to monitor bank activity daily and perform cash management duties, which includes the responsibility for completing timely reconciliations. The Financial Analyst was very instrumental in establishing monitoring procedures. Transactions are monitored daily through the online banking services and reconciled with transactions in the accounting system. Bank statements are reconciled within days of receiving the monthly bank statements. The Financial Analyst maintains documentation for the daily review performed and includes it in the file with the reconciliation, but failed to date the cover reconciliation form when she signed the document. Also, the Business Manager did not date the document when she reviewed the reconciliation file. The Financial Analyst now reports to the Finance Manager and in order to document monitoring of monthly bank reconciliations, the Finance Manager will maintain a log of the six bank statements received monthly to verify the reconciliations are completed, reviewed, signed, and dated. The Finance Manager will notify the Vice President of any items that are not in compliance with the bank reconciliation policy.

Management will continue to evaluate internal controls used to mitigate risks to assure existing controls are adequate to prevent and detect exceptions timely and make changes to controls as necessary.

STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
DEPARTMENT OF AUDIT
DIVISION OF STATE AUDIT
SUITE 1500
JAMES K. POLK STATE OFFICE BUILDING
NASHVILLE, TENNESSEE 37243-1402
PHONE (615) 401-7897
FAX (615) 532-2765

Independent Auditor's Report

August 19, 2009

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:

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, 2008, and June 30, 2007, 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 generally accepted government auditing standards. 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.

As discussed in Note 1, the financial statements of Dyersburg State Community College, an institution of the Tennessee Board of Regents, are intended to present the financial position, the changes in financial position, and the cash flows of only Dyersburg State Community College. They do not purport to, and do not, present fairly the financial position of the Tennessee Board of Regents, as of June 30, 2008, and June 30, 2007, and the changes in its financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

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, 2008, and June 30, 2007, and the respective changes in financial position and cash flows thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 16, during the year ended June 30, 2008, the college implemented GASB Statement 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions.*

The management's discussion and analysis on pages 22 through 42 and the schedule of funding progress on page 70 are not a required part of the basic financial statements but are 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 71 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 generally accepted government auditing standards, we have also issued our report dated August 19, 2009, 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 generally accepted government auditing standards and should be read in conjunction with this report in considering the results of our audit.

Sincerely,

Arthur A. Hayes, Jr., CPA
Director

AAH/ajm

Tennessee Board of Regents
Dyersburg State Community College
Management's Discussion and Analysis
For the Years Ended June 30, 2008, and June 30, 2007

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, 2008, and June 30, 2007, with comparative information presented for the fiscal year ended June 30, 2006. This discussion has been prepared by management along with the financial statements and related note disclosures and should be read in conjunction with the independent auditor's report, the audited financial statements, and the accompanying notes. The financial statements, notes, and this discussion are the responsibility of management.

Using This Annual Report

This report consists of three basic financial statements. The Statement of Net Assets; the Statement of Revenues, Expenses, and Changes in Net Assets; and the Statement of Cash Flows provide information on 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
Net Assets (in thousands of dollars)

	2008	2007	2006
Assets:			
Current assets	$3,503	$5,077	$4,419
Capital assets, net	24,340	19,926	14,933
Other assets	3,431	2,194	2,500
Total Assets	**31,274**	**27,197**	**21,852**
Liabilities:			
Current liabilities	1,404	2,123	2,399
Noncurrent liabilities	1,119	709	805
Total Liabilities	**2,523**	**2,832**	**3,204**
Net Assets:			
Invested in capital assets, net of related debt	24,122	19,605	14,512
Restricted – nonexpendable	134	133	132
Restricted – expendable	1,164	1,133	1,207
Unrestricted	3,331	3,494	2,797
Total Net Assets	**$28,751**	**$24,365**	**$18,648**

Comparison of Fiscal Year 2008 to Fiscal Year 2007

- Current assets decreased by 31% due to a decrease in current receivables and cash and cash equivalents transferred to Jackson State Community College as of June 30, 2007, that were held in custody for the TN Technology Centers (Newbern, Covington, and Ripley).

- Other assets increased by 56% due to an increase in cash and cash equivalents in plant and renewal and replacement funds, some of which were reserved for debt retirement, payments for the continued ERP implementation, and for purchases to complete and furnish the new Student Center.

- A 15% increase in assets is the result of continued completion of capital projects funded by state appropriations. The Chemistry Lab Update and Math Building were placed in service during 2007-08.

- Current liabilities decreased by 34% due to a decrease in "deposits held for others." The lead institution fiduciary responsibilities moved from Dyersburg State to Jackson State for Covington, Ripley, and Newbern Technology Centers as of July 1, 2007.

- Noncurrent liabilities increased due to the recognition of the other postemployment benefit increase of $382,715 for 2007-08.

Comparison of Fiscal Year 2007 to Fiscal Year 2006

Net assets of the college have increased 31% between Fiscal Year 2007 and Fiscal Year 2006 due to increases in current and capital assets and a slight decrease in current liabilities as listed below:

- Unrestricted net assets increased by 25% due to auxiliary funds and renewal and replacement usage charges for computer and printing departments.

- Net capital assets, net increased 33% due to the completion of the new academic building at the Jimmy Naifeh Center and Learning Resource Center on the main campus in Dyersburg.

- Liabilities decreased by 12% due to the reduction of the Banner implementation bonds payable.

Foundation
Net Assets (in thousands of dollars)

	2008	**2007**	**2006**
Assets:			
Current assets	$ 160	$ 174	$ 101
Other assets	4,017	4,224	3,959
Total Assets	**4,177**	**4,398**	**4,060**

Liabilities:			
Current liabilities	5	5	6
Noncurrent liabilities	29	31	33
Total Liabilities	**34**	**36**	**39**
Net Assets:			
Restricted – nonexpendable	2,820	2,966	2,772
Restricted – expendable	847	859	806
Unrestricted	476	537	443
Total Net Assets	**$4,143**	**$4,362**	**$4,021**

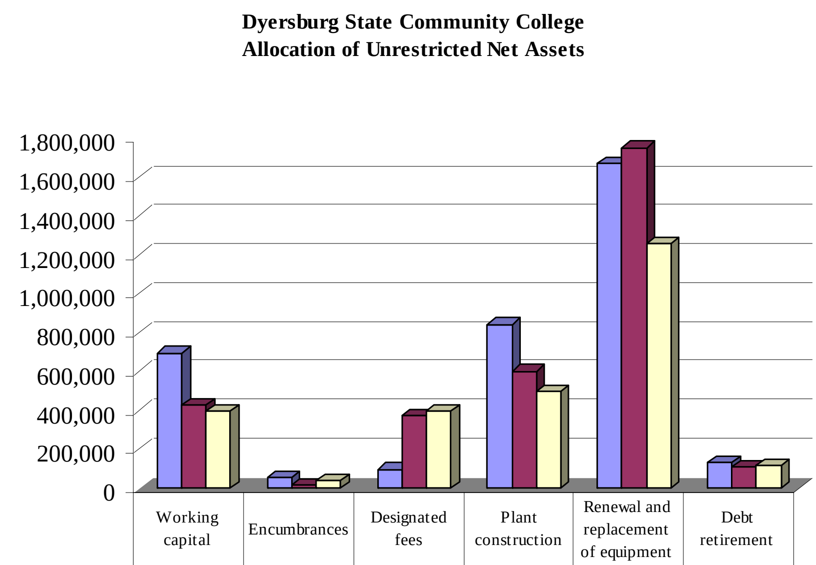
Comparison of Fiscal Year 2008 to Fiscal Year 2007

- Current assets decreased 8%, or $13,321.30, due to market changes and recommendations made by the foundation Investment Committee for distribution of earnings.
- The adjustment to market value for investments at June 30, 2008, was $236,736.31, which is reflected in the 5% decrease in other assets.
- The result of these changes was a decrease of 5% in net assets for the year.

Comparison of Fiscal Year 2007 to Fiscal Year 2006

- Current assets increased by 71% due to an increase of cash and cash equivalents in the investment trust account.
- The foundation board approved a change in the investment portfolio to increase funds available for scholarships. This change resulted in a 21% increase in unrestricted net assets.
- Between FY 2007 and FY 2006, the foundation's net assets increased by $341,000 (8%) due to investment earnings and a change in the foundation investments to increase funds available for scholarships.

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



	Working capital	Encumbrances	Designated fees	Plant construction	Renewal and replacement of equipment	Debt retirement
2008	694,209	52,240	95,807	841,343	1,671,432	127,970
2007	424,621	15,005	374,387	601,061	1,751,980	110,065
2006	394,796	35,693	395,572	498,007	1,257,971	112,154

Comparison of Fiscal Year 2008 to Fiscal Year 2007

- Allocation for accounts receivable increased $289,420.15 due to student accounts balances increasing after the Return to Title IV calculations are applied. Federal rules for refunding require funds to be returned to federal programs based on the percentage of time a student remains in attendance. Return of these funds creates an outstanding balance for the student.

- There were outstanding computer equipment encumbrances at June 30 for computer equipment designated for the new Student Center which is scheduled to open in September 2008. These are reflected in the 248% increase in the encumbrance allocation for 2008.

- Funds designated for debt retirement increased by 16%. A balance of $218,062 remains for debt due to borrowings for the ERP software and equipment. A total of $132,250 was transferred to debt retirement in the current fiscal year: $4,280 was applied to the current year payment, $115,947 is designated for the 2009 payment, and the remaining balance of $12,023 will be applied to the 2010 final payment.

- The Technology Access Fee revenue is normally budgeted and spent within the year it is collected. A portion of the 2007 revenue was carried forward in 2008 to purchase equipment for the math laboratory in the new Math Building, and 25% of fees collected were used to fund the Banner implementation. The balance of $95,807 was carried forward in 2009 to purchase student equipment for the new Student Center that opened in September 2008.

- Plant funds are designated for the completion of the Student Center and renovation of the vacated space now identified as the Campus Activities Building (CAB). These funds were transferred from renewals and replacement funds to supplement appropriation funding and cover increased construction cost.

Comparison of Fiscal Year 2007 to Fiscal Year 2006

- Plant construction and renewal replacement increased due to usage charges to fund the administrative software implementation and the allocation of LGIP interest earnings for unexpended plant and renewal and replacement funds.

- Working capital continued to increase due to student accounts receivable. The required refund to federal programs because of financial aid students dropping or withdrawing continued to be a major factor in the increase.

- Due to the Banner implementation July 1, the deadline for purchases was earlier to allow the receipt and payment of items prior to the June 30 closing, and only one item of $15,005 remained as an outstanding encumbrance.

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

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

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

	2008	2007	2006
Operating revenues:			
Net tuition and fees	$3,007	$3,026	$2,979
Grants and contracts	5,008	3,945	4,934
Auxiliary	87	88	89
Other	95	165	156
Total operating revenues	**8,197**	**7,224**	**8,158**
Operating expenses	22,500	20,649	19,696
Operating loss	**(14,303)**	**(13,425)**	**(11,538)**
Nonoperating revenues and expenses:			
State appropriations	7,716	7,255	6,622
Gifts	982	1,054	1,129
Grants and contracts	3,843	3,745	3,688
Investment income	274	291	197
Other revenues and expenses	(12)	(13)	(22)
Total nonoperating revenues and expenses	**12,803**	**12,332**	**11,614**
Income (loss) before other revenues, expenses, gains, or losses	**(1,500)**	**(1,093)**	**76**
Other revenues, expenses, gains, or losses:			
Capital appropriations	5,838	6,835	6,987
Capital grants and gifts	55	-	-
Other	(7)	(25)	86
Total other revenues, expenses, gains, or losses	**5,886**	**6,810**	**7,073**
Increase in net assets	**4,386**	**5,717**	**7,149**
Net asset at beginning of year	**24,365**	**18,648**	**11,499**
Net assets at end of year	**$28,751**	**$24,365**	**$18,648**

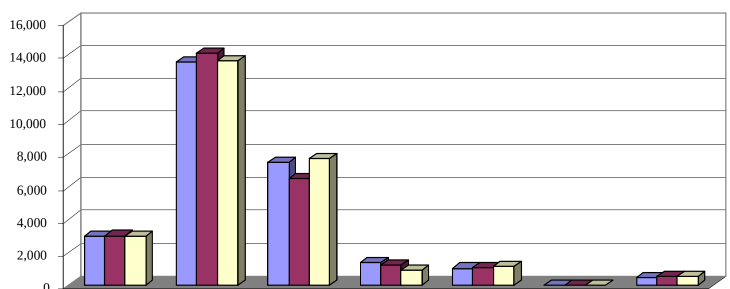
Foundation

Changes in Net Assets (in thousands of dollars)

	2008	**2007**	**2006**
Operating revenues:			
Gifts	$ 98	$ 36	1
Other	209	188	138
Total operating revenues	**307**	**224**	**139**
Operating expenses	283	90	49
Operating gain	**24**	**134**	**90**
Nonoperating revenues and expenses:			
Investment income	(259)	155	(29)
Total nonoperating revenues and expenses	**(259)**	**155**	**(29)**
Income (loss) before other revenues, expenses, gains, or losses	**(235)**	**289**	**61**
Other revenues, expenses, gains, or losses:			
Additions to permanent endowments	16	52	48
Total other revenues, expenses, gains, or losses	**16**	**52**	**48**
Increase (decrease) in net assets	**(219)**	**341**	**109**
Net assets at beginning of year	**4,362**	**4,021**	**3,912**
Net assets at end of year	**$4,143**	**$4,362**	**$4,021**

Revenues

The following is a graphic illustration of revenues by source (both operating and nonoperating), which were used to fund the college's operating activities for the year ended June 30, 2008; the year ended June 30, 2007; and the year ended June 30, 2006 (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
2008	3,007	13,554	7,482	1,370	1,037	7	448
2007	3,026	14,090	6,476	1,214	1,054	9	535
2006	2,979	13,609	7,694	924	1,129	5	538

Comparison of Fiscal Year 2008 to Fiscal Year 2007

- Operating revenues increased by 13% due to restricted revenue from grants and contracts. Revenues increased $945,991.49 in 2008 for the Workforce Investment Act (WIA) program.

- Nonoperating state appropriations revenues increased 7%. The additional funding included $256,500 in a salary adjustment and $196,500 in operating improvement.

- Capital appropriations revenues decreased 15% over 2007. In 2007, two new buildings were completed during the year. In 2008, renovations were made to existing buildings; a chemistry laboratory update and continued construction for the new Student Center and renovations of the Campus Activities Building (CAB) are to be completed September 2008.

Comparison of Fiscal Year 2007 to Fiscal Year 2006

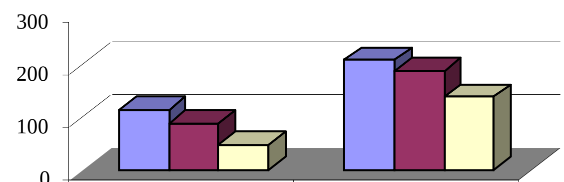
Total revenues decreased by $473,000 (2%). The factors for the decrease are the following:

- Federal grants and contracts revenue decreased during Fiscal Year 2007 by $1.2 million (16%). Workforce Investment Act 2007 revenues were $939,681 less than revenues received in 2006 due to a reduction in federal funding of the program.

- State grants and contracts increased $290,000 (31%). The increase was due to the state funded lottery scholarships and additional state grants for the Tech Prep programs.

- State appropriations increased $481,000 (4%) due to an increase in operating funding for higher education in 2007.

Dyersburg State Community College Foundation
Revenue by Source
(in thousands of dollars)



	Gifts	Endowment income
2008	114	209
2007	88	188
2006	49	139

Comparison of Fiscal Year 2008 to Fiscal Year 2007

- Operating revenues increased 37% in 2008. Gifts totaling $92,850 were designated for the feasibility study to change the name of the college.

- Endowment income increased 11% in 2008.

Comparison of Fiscal Year 2007 to Fiscal Year 2006

- Foundation revenues increased 47% during 2007. The major factor was the change in endowment income.

- Foundation gifts increased by $39,000 (80%) due to a donation to establish the Fyfe Family Endowed Scholarship Fund.

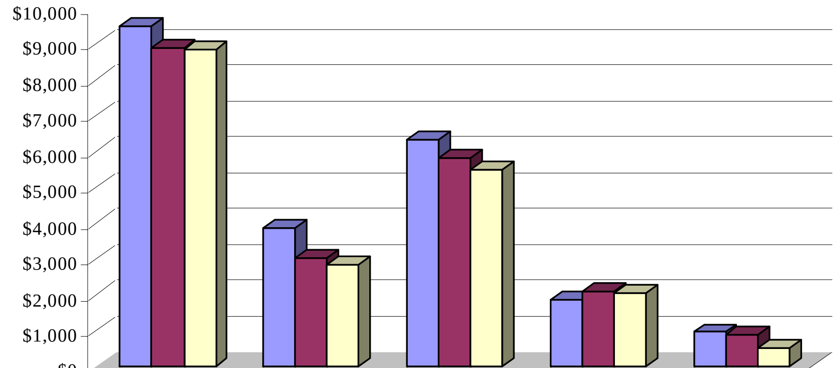
Expenses

Operating expenses can be displayed in two formats, natural classification and program classification. Both formats are displayed below.

NATURAL CLASSIFICATION
(in thousands of dollars)

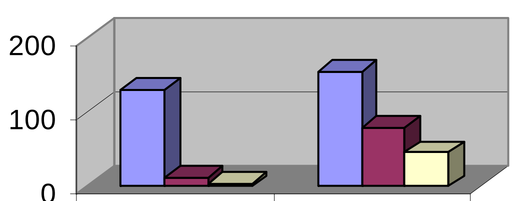
	Institution			Component Unit		
	2008	**2007**	**2006**	**2008**	**2007**	**2006**
Salaries	$ 9,487	$ 8,888	$ 8,835	$ -	$ -	$ -
Benefits	3,849	3,002	2,814	-	-	-
Operating	6,348	5,806	5,510	129	11	4
Scholarships	1,869	2,077	2,021	-	-	-
Depreciation	947	876	516	-	-	-
Payments to the College	-	-	-	154	79	45
Total	**$22,500**	**$20,649**	**$19,696**	**$283**	**$90**	**$49**

Dyersburg State Community College
Operating Expenses by Natural Classification
(in thousands of dollars)



	Salaries	Benefits	Operating	Scholarships	Depreciation
2008	$9,487	3,849	6,348	1,869	947
2007	$8,888	3,002	5,806	2,077	876
2006	$8,835	2,814	5,510	2,021	516

Dyersburg State Community College Foundation
Operating Expenses by Natural Classification
(in thousands)



	Operating	Payments to the college
2008	129	154
2007	11	79
2006	4	45

Comparison of Fiscal Year 2008 to Fiscal Year 2007

College

- Salary expense increased by 7% ($598,630.88) during 2008. There was a 3% across-the-board state funded increase, and faculty and support staff positions were added to staff the new Academic Building at the Jimmy Naifeh Center in Tipton County and other programs. Faculty positions for Nursing, International Studies, HIT, EMT, and Math were added. Other administrative positions added were Information Technology (IT), Student Services, and Business Office.

- Benefit expense increased 28% ($846,947.62) due to the increase in salaries, increased health benefit rates, and recording benefit expense ($382,715.00) for "other postemployment benefits" (OPEB).

- Operating expense increased 9% ($542,188.51) mainly due to grants and subsidies from Workforce Investment Act (WIA) restricted funds. These funds were used to retrain/relocate workers in the State of Tennessee area 12 who were laid off as a result of plant closings.

- Scholarship expense decreased by 10% ($207,949.16) as a result of the change in calculated scholarship discount and allowance.

Foundation

- Operating expense increased due to the contracted services to conduct the feasibility study to change the name of the college.

- An increase in Payments to the College provided additional funding for scholarships ($94,714.03), a contribution for the Student Center project ($55,000), and support for Memphis Symphony performance ($4,000).

Comparison of Fiscal Year 2007 to Fiscal Year 2006

College

- Although salaries increased only $53,000 (1%), benefits increased $188,000 (7%) due to increase in health insurance and higher participation in the Tennessee Consolidated Retirement System (TCRS), which has an employer contribution rate of 13.66%.

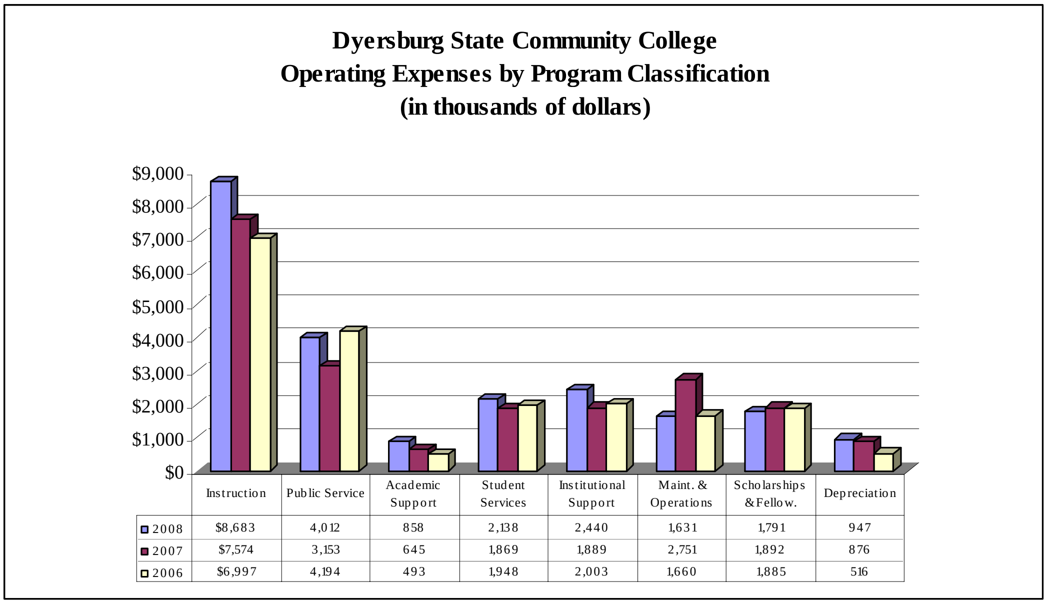
- Depreciation expense increased by $360,000 due to the first year depreciation for buildings added in 2007, and the first year of depreciation of the administrative software.

Foundation

- Awards for foundation scholarships increased from $45,000 in 2006 to $79,000 in 2007, which is included in the Payments to the College.

PROGRAM CLASSIFICATION
(in thousands of dollars)

	Institution			Component Unit		
	2008	**2007**	**2006**	**2008**	**2007**	**2006**
Instruction	$8,683	$7,574	$6,997	$ -	$ -	$ -
Public Service	4,012	3,153	4,194	-	-	-
Academic Support	858	645	493	-	-	-
Student Services	2,138	1,869	1,948	-	-	-
Institutional Support	2,440	1,889	2,003	129	11	4
Maintenance & Operations	1,631	2,751	1,660	-	-	-
Scholarships & Fellowships	1,791	1,892	1,885	-	-	-
Depreciation	947	876	516	-	-	-
Payments to the College	-	-	-	154	79	45
Total	**$22,500**	**$20,649**	**$19,696**	**$283**	**$90**	**$49**



	Instruction	Public Service	Academic Support	Student Services	Institutional Support	Maint. & Operations	Scholarships &Fellow.	Depreciation
2008	$8,683	4,012	858	2,138	2,440	1,631	1,791	947
2007	$7,574	3,153	645	1,869	1,889	2,751	1,892	876
2006	$6,997	4,194	493	1,948	2,003	1,660	1,885	516

<u>Comparison of Fiscal Year 2008 to Fiscal Year 2007</u>

College

- The Instruction program expense increased by 15% ($1,108,679.80) in 2008. Faculty and support staff positions were added to expand the Nursing program at the Jimmy Naifeh Center and the on-line Health Information Technology (HIT) program. A Math position was added as outlined in the Quality Enhancement Plan submitted in spring 2008.

- The Public Service program expense increased by 27% (859,141.34). The increase was due to increased Workforce Investment Act (WIA) awards and contracts.

- The Academic Support program expense increased by 33% (213,552.24) in 2008. A Network Administrator position was added in October 2007, increases were made to salaries for two Library employees, and a 3% across-the-board salary increase resulted in an increase in salary and benefits for the program.

- The Student Services program increased 14% ($269,176.55) in 2008. A Student Life Coordinator position was added, the Director of Student Life received an equity salary adjustment, and a 3% across-the-board salary increase resulted in a salary and benefit increase of $216,670.84 for the program. Operating expenses increased due to additional travel of $36,924.49 and other operating costs.

- The Institutional Support program expense increased 29% ($550,691.93) in 2008. Salary and benefit increases of $250,822.59 were due to across-the-board 3% raises and an additional position added in the Business Office. Other operating cost increases were due to providing additional security for the Jimmy Naifeh Center, service department increases for postage and printing, and an increase in bad debt expense.

- The Maintenance and Operations program expense decreased 41% due to the reduction in the construction projects. In 2007, two buildings were completed adding a total 59,000 square feet of new space. In 2008, two existing buildings and a laboratory were renovated.

- Scholarships and Fellowships had a decrease of 5% due to a higher calculation for discounts and allowances, $2,398,928.07 in 2007and $2,636,305.58 in 2008.

<u>Comparison of Fiscal Year 2007 to Fiscal Year 2006</u>

College

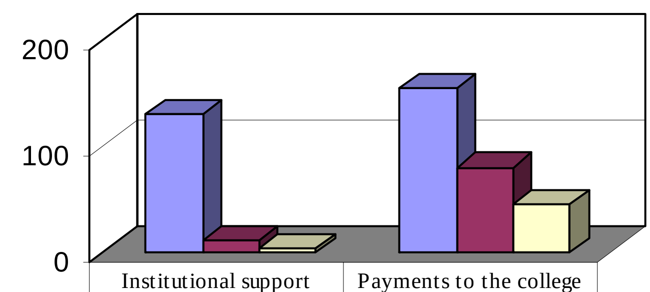
- The Instruction program increased by 8% in 2007 due to additions to the nursing faculty, EMT faculty, and operational costs. This increase is a result of the new building at the Jimmy Naifeh Center in Tipton County.

- Public Services decreased 25% due to a reduction in compensated absences for restricted public service programs—Workforce Investment Act, Upward Bound, and Dyer County Literacy—and a reduction in the Continuing Education program.

- Academic Support increased 31% due to additional implementation cost for the administrative software and additional cost to prepare for the SACS accreditation review.

- M&O also increased operational cost by 66% in 2007 due to the addition of the Academic building at the Jimmy Naifeh Center and the Learning Resource Center on the main campus in Dyersburg.

- Depreciation increased 70% due to the first year depreciation for buildings added in 2007 and the first year of depreciation of the administrative software.



	Institutional support	Payments to the college
2008	129	154
2007	11	79
2006	4	45

Comparison of Fiscal Year 2008 to Fiscal Year 2007

Foundation

- The Institutional Support expense increased due to a contract for services to provide a feasibility study to change the name of the college.
- An increase in Payments to the College provided additional funding for scholarships ($94,714.03), a contribution for the Student Center project ($55,000), and support for Memphis Symphony performance ($4,000).

Comparison of Fiscal Year 2007 to Fiscal Year 2006

Foundation

- Funded scholarships increased by $30,000 and sponsorship for institutional events increased by $7,100 due to an increase in endowment income and the foundation board budgeting for more scholarships.

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
Cash Flows (in thousands of dollars)

	2008	2007	2006
Cash provided (used) by:			
Operating activities	$ (12,682)	$ (12,786)	$ (10,914)
Noncapital financing activities	11,570	11,878	11,467
Capital and related financing activities	1,440	(11)	373
Investing activities	283	289	197
Net increase (decrease) in cash	**611**	**(630)**	**1,123**
Cash, beginning of year	5,174	5,804	4,681
Cash, end of year	**$ 5,785**	**$ 5,174**	**$ 5,804**

Comparison of Fiscal Year 2008 to Fiscal Year 2007

- Noncapital financing activities had an overall decrease of 2% for 2008. State appropriations increased 6% ($461,600), but were offset by the "Changes in Deposits Held for Others" with a $787,407.47 change due to lead institution oversight moving to Jackson State Community College in July 2007.

- The change in capital and related financing is due to a change in construction cash requirements in 2007 and 2008. Capital appropriations decreased in 2008 by 15% ($990,068.28). At June 30, 2007, there was an outstanding receivable balance of $828,622.76 for purchases made by the college. This receivable balance was paid July 13, 2008, which is reflected in the use of cash amount for Other Capital and Related Financing Receipts at June 30, 2008.

- The college's liquidity improved during the year.

Comparison of Fiscal Year 2007 to Fiscal Year 2006

- Though tuition and fee revenue and state appropriations increased by $753,000, payments to vendors, payments to employees, and payments for benefits had a net use of cash increase of $565,000.
- The major decrease in cash receipts in 2007 was the decline in federal grant and contract revenues specifically in the Workforce Investment Act (WIA) program. The net reduction in grant and contracts was $1,379,000 for the year.
- Capital projects for the Jimmy Naifeh Center at Covington and the Learning Resource Center in Dyersburg were completed in 2007 with funding received in 2006. There is a 103% decrease in available cash for capital and related financing activities for 2007.
- Investing activities increased 47% due to an additional $100,000 in interest earnings for 2007.
- The college's liquidity declined during the year.

Capital Assets and Debt Administration

Capital Assets

Dyersburg State Community College had $23,340,045 invested in capital assets, net of accumulated depreciation of $8,266,021 at June 30, 2008; $19,926,032 invested in capital assets, net of accumulated depreciation of $7,445,773 at June 30, 2007; and $14,933,185 invested in capital assets, net of accumulated depreciation of $6,797,600 at June 30, 2006. Depreciation charges totaled $947,226, $875,801, and $516,220 for the years ended June 30, 2008; June 30, 2007; and June 30, 2006, respectively. Details of these assets are shown below.

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

	2008	2007	2006
Land	866	866	866
Land improvements and infrastructure	205	231	258
Buildings	17,605	16,607	6,921
Equipment	444	446	1,078
Software	752	806	-

Library holdings	188	176	195
Projects in progress	4,280	793	5,615
Capital assets, net	**24,340**	**19,925**	**14,933**

In 2008, capital projects included renovation of the vacated space for the Learning Resource Center (LRC). The new LRC was completed in 2006-07. The existing space was converted to classrooms and laboratories for math instruction. The building was designated as the Math Building. Also, in 2008 the Chemistry Laboratory project in a section of the Glover classroom building was completed. These two projects added $1,671,265.15 to the accumulated building assets. State capital appropriations were used for these projects.

The Student Center construction and the renovation of the existing space designated as the Campus Activities Building (CAB) continued in 2008. A balance of $4,279,860.57 remains in Projects in Progress at June 30, 2008, for these construction costs. Funding was provided by state capital appropriations, campus plant funds, and donor gifts. The buildings were completed in September 2008.

Planning is in progress for the Jimmy Naifeh Center Student Services and LRC building. Of the $13,600,000 project, $450,000 in state appropriations is approved for the planning stage of the project. More detailed information about the college capital assets is presented in Note 7 to the financial statements.

Debt

The table below summarizes the debt outstanding by type of debt instrument at June 30, 2008; at June 30, 2007; and at June 30, 2006, respectively.

Dyersburg State Community College
Outstanding Debt by Type of Debt Instrument

	2008	**2007**	**2006**
TSSBA bonds	218,062	320,546	421,638

As of June 30, 2008, the college owes bonds of $218,062. The third of five annual installments of $102,484.00 was made in April 2008 for the administrative software and equipment to replace the 1970s existing system. The original software purchase was $393,000.00, and equipment was $133,637.00. 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

Fiscal Year 2008-09 began with the reduction of state appropriations of $184,000 and an indication there will be another reduction during the year. A fee increase of 6% was approved, which if enrollment stays flat will be an increase of $278,000 in revenues. The net balance will be needed for the operational cost of the new buildings and to cover an increase in utilities. A 6% tuition increase for Fiscal Year 2008-09 has increased the full-time per semester cost to the student to $1,388.50 (tuition and fees). The college's enrollment trends indicate that as fees increase, fewer students are able to enroll full-time. An attempt to recover the reduction of appropriations through fee increases will negatively affect enrollment and equate to a greater reduction in revenues. With these economic conditions, the college is taking steps to conserve where possible by maintaining a cost-effective class size, reducing budgets for temporary help and limiting travel where possible.

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, TN 38024.

TENNESSEE BOARD OF REGENTS
DYERSBURG STATE COMMUNITY COLLEGE
STATEMENTS OF NET ASSETS
JUNE 30, 2008, AND JUNE 30, 2007

	Dyersburg State Community College		Component Unit - Dyersburg State Community College Foundation	
	June 30, 2008	June 30, 2007	June 30, 2008	June 30, 2007
ASSETS				
Current assets:				
Cash and cash equivalents (Notes 2, 3, and 18)	$ 2,418,981.13	$ 3,053,644.83	$ 136,854.89	$ 147,622.46
Accounts and grants receivable (net) (Note 5)	1,076,652.91	1,997,810.25	-	-
Pledges receivable (Note 6)	6,000.00	4,775.00	-	-
Prepaid expenses and deferred charges	1,493.47	20,447.03	-	-
Accrued interest receivable	-	-	23,334.01	25,887.74
Total current assets	3,503,127.51	5,076,677.11	160,188.90	173,510.20
Noncurrent assets:				
Cash and cash equivalents (Notes 2, 3, and 18)	3,366,120.26	2,120,168.78	536,944.15	-
Investments (Notes 4 and 18)	65,294.75	74,292.20	3,480,207.32	4,224,538.14
Capital assets (net) (Note 7)	24,340,045.40	19,926,031.65	-	-
Total noncurrent assets	27,771,460.41	22,120,492.63	4,017,151.47	4,224,538.14
Total assets	31,274,587.92	27,197,169.74	4,177,340.37	4,398,048.34
LIABILITIES				
Current liabilities:				
Accounts payable	664,557.63	423,233.51	-	10.00
Accrued liabilities	304,815.53	246,270.41	-	-
Deferred revenue	132,991.35	199,252.45	-	-
Compensated absences (Note 8)	84,683.60	121,837.09	-	-
Accrued interest payable	1,453.75	2,136.97	-	-
Long-term liabilities, current portion (Note 8)	106,788.50	102,484.00	-	-
Deposits held in custody for others	108,922.64	1,027,588.05	-	-
Other liabilities (Note 18)	-	-	5,600.00	5,600.00
Total current liabilities	1,404,213.00	2,122,802.48	5,600.00	5,610.00
Noncurrent liabilities:				
Net OPEB obligation (Notes 8 and 12)	382,715.00	-	-	-
Compensated absences (Note 8)	624,956.58	491,214.81	-	-
Long-term liabilities (Note 8)	111,273.50	218,062.00	-	-
Other liabilities (Note 18)	-	-	28,831.69	30,868.40
Total noncurrent liabilities	1,118,945.08	709,276.81	28,831.69	30,868.40
Total liabilities	2,523,158.08	2,832,079.29	34,431.69	36,478.40
NET ASSETS				
Invested in capital assets, net of related debt	24,121,983.40	19,605,485.65	-	-
Restricted for:				
Nonexpendable:				
Scholarships and fellowships	133,769.75	132,848.69	2,819,838.88	2,965,049.97
Expendable:				
Scholarships and fellowships (Notes 9 and 18)	382,006.60	319,363.69	846,944.96	859,283.22
Instructional department uses	591,056.70	712,343.50	-	-
Loans	14,256.70	14,256.70	-	-
Other	176,625.21	86,694.05	-	-
Unrestricted (Notes 10 and 18)	3,331,731.48	3,494,098.17	476,124.84	537,236.75
Total net assets	$ 28,751,429.84	$ 24,365,090.45	$ 4,142,908.68	$ 4,361,569.94

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, 2008, AND JUNE 30, 2007

	Dyersburg State Community College		Component Unit - Dyersburg State Community College Foundation	
	Year Ended June 30, 2008	Year Ended June 30, 2007	Year Ended June 30, 2008	Year Ended June 30, 2007
REVENUES				
Operating revenues:				
Student tuition and fees (net of scholarship allowances of $2,636,305.58 for the year ended June 30, 2008, and $2,398,928.07 for the year ended June 30, 2007)	$ 3,007,458.50	$ 3,025,986.94	$ -	$ -
Gifts and contributions	-	-	98,360.00	36,411.00
Endowment income	-	-	209,246.17	188,267.30
Governmental grants and contracts	5,003,166.71	3,939,877.84	-	-
Nongovernmental grants and contracts	5,000.00	5,000.00	-	-
Sales and services of educational departments	7,283.42	8,655.57	-	-
Auxiliary enterprises:				
Bookstore	86,571.00	87,845.33	-	-
Other operating revenues	87,952.66	156,230.61	-	-
Total operating revenues	8,197,432.29	7,223,596.29	307,606.17	224,678.30
EXPENSES				
Operating expenses (Note 15):				
Salaries and wages	9,487,094.10	8,888,463.22	-	-
Benefits	3,848,664.98	3,001,717.36	-	-
Utilities, supplies, and other services	6,348,287.07	5,806,098.56	129,394.61	10,937.28
Scholarships and fellowships	1,868,660.55	2,076,609.71	-	-
Depreciation expense	947,226.46	875,801.63	-	-
Payments to or on behalf of Dyersburg State Community College (Note 18)	-	-	153,714.03	79,313.00
Total operating expenses	22,499,933.16	20,648,690.48	283,108.64	90,250.28
Operating income (loss)	(14,302,500.87)	(13,425,094.19)	24,497.53	134,428.02
NONOPERATING REVENUES (EXPENSES)				
State appropriations	7,716,100.00	7,255,000.00	-	-
Gifts, including $153,714.03 from component unit for the year ended June 30, 2008, and $79,313.00 from component unit for the year ended June 30, 2007 (Note 18)	981,581.54	1,054,453.61	-	-
Grants and contracts	3,843,447.60	3,744,683.50	-	-
Investment income (net of investment expense)	274,103.92	291,536.18	(258,948.79)	154,771.56
Interest on capital asset-related debt	(11,860.96)	(13,697.95)	-	-
Net nonoperating revenues (expenses)	12,803,372.10	12,331,975.34	(258,948.79)	154,771.56
Income before other revenues, expenses, gains, or losses	(1,499,128.77)	(1,093,118.85)	(234,451.26)	289,199.58
Capital appropriations	5,837,666.45	6,835,108.35	-	-
Capital grants and gifts	55,000.00	-	-	-
Additions to permanent endowments	-	-	15,790.00	51,671.39
Other capital	(7,198.29)	(24,615.57)	-	-
Total other revenues	5,885,468.16	6,810,492.78	15,790.00	51,671.39
Increase (decrease) in net assets	4,386,339.39	5,717,373.93	(218,661.26)	340,870.97
NET ASSETS				
Net assets - beginning of year	24,365,090.45	18,647,716.52	4,361,569.94	4,020,698.97
Net assets - end of year	$ 28,751,429.84	$ 24,365,090.45	$ 4,142,908.68	$ 4,361,569.94

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

Exhibit C

TENNESSEE BOARD OF REGENTS
DYERSBURG STATE COMMUNITY COLLEGE
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2008, AND JUNE 30, 2007

	Year Ended June 30, 2008	Year Ended June 30, 2007
CASH FLOWS FROM OPERATING ACTIVITIES		
Tuition and fees	$ 2,883,537.25	$ 3,046,589.93
Grants and contracts	5,153,325.87	3,844,328.37
Sales and services of educational activities	7,283.42	8,655.57
Payments to suppliers and vendors	(6,029,770.78)	(5,974,659.46)
Payments to employees	(9,481,804.41)	(8,880,361.58)
Payments for benefits	(3,469,604.61)	(3,000,021.14)
Payments for scholarships and fellowships	(1,868,660.55)	(2,076,609.71)
Auxiliary enterprise charges:		
Bookstore	81,871.32	87,566.99
Other receipts	41,823.00	158,660.67
Net cash used by operating activities	(12,681,999.49)	(12,785,850.36)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State appropriations	7,716,900.00	7,255,300.00
Gifts and grants received for other than capital purposes, including $153,714.03 from Dyersburg State Community College Foundation for the year ended June 30, 2008, and $79,313.00 for the year ended June 30, 2007	4,776,567.07	4,741,363.61
Federal student loan receipts	1,681,480.70	1,477,577.53
Federal student loan disbursements	(1,685,190.52)	(1,464,687.89)
Changes in deposits held for others	(919,361.73)	(131,954.26)
Net cash provided by noncapital financing activities	11,570,395.52	11,877,598.99
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital appropriations	5,837,666.45	6,827,734.73
Purchases of capital assets and construction	(4,283,011.32)	(6,721,886.85)
Principal paid on capital debt	(102,484.00)	(101,091.50)
Interest paid on capital debt	(12,544.18)	(14,137.65)
Bond issue costs paid on new debt issue	-	(1,889.56)
Net cash provided (used) by capital and related financing activities	1,439,626.95	(11,270.83)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of investments	30,081.94	81,344.59
Income on investments	273,182.86	290,625.18
Purchases of investments	(20,000.00)	(83,004.03)
Net cash provided by investing activities	283,264.80	288,965.74
Net increase (decrease) in cash and cash equivalents	611,287.78	(630,556.46)
Cash and cash equivalents - beginning of year	5,173,813.61	5,804,370.07
Cash and cash equivalents - end of year	$ 5,785,101.39	$ 5,173,813.61

TENNESSEE BOARD OF REGENTS
DYERSBURG STATE COMMUNITY COLLEGE
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2008, AND JUNE 30, 2007

		Year Ended June 30, 2008		Year Ended June 30, 2007
Reconciliation of operating loss to net cash used by operating activities:				
Operating loss	$	(14,302,500.87)	$	(13,425,094.19)
Adjustments to reconcile operating loss to net cash used by operating activities:				
Depreciation expense		947,226.46		875,801.63
Gifts in-kind		48,462.07		57,773.50
Change in assets and liabilities:				
Receivables, net		(106,014.15)		(148,043.79)
Prepaid/deferred items		18,953.56		(5,101.62)
Accounts payable		240,286.14		(214,210.78)
Accrued liabilities		441,260.12		(7,450.63)
Deferred revenue		(66,261.10)		65,474.78
Compensated absences		96,588.28		15,000.74
Net cash used by operating activities	$	(12,681,999.49)	$	(12,785,850.36)
Noncash transactions				
Gifts in-kind	$	48,462.07	$	57,773.50
Pledges	$	6,000.00	$	4,775.00
Unrealized gains/losses on investments	$	921.06	$	911.00
Loss of disposal of capital assets	$	(7,198.29)	$	24,615.57
Trade-in allowance	$	(8,000.00)	$	-
Bad debt expense	$	109,509.65	$	98,131.38

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 financial statements present only that portion of the Tennessee Board of Regents' activities that is attributable to the transactions of Dyersburg State Community College.

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 18 for more detailed information about the component unit and how to obtain the report.

Basis of Presentation

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

Basis of Accounting

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

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

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

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

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

At June 30, 2008, cash consisted of $1,313,707.00 in bank accounts, $2,673.65 of petty cash on hand, $3,914,895.20 in the State of Tennessee Local Government Investment Pool (LGIP) administered by the State Treasurer, $534,802.32 in LGIP deposits for capital projects, and $19,023.22 in money market funds. At June 30, 2007, cash consisted of $980,980.47 in bank accounts, $4,273.65 of petty cash on hand, $3,898,213.55 in the State of Tennessee Local Government Investment Pool administered by the State Treasurer, $281,786.95 in the LGIP Deposits – Capital Projects account, and $8,558.99 in money market funds.

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

NOTE 3. DEPOSITS

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, 2008, $19,023.22 of the college's bank balance of $1,522,432.91 was exposed to custodial credit risk as follows:

Uninsured and uncollateralized	$ 19,023.22
Total	$ 19,023.22

At June 30, 2007, $8,558.99 of the college's bank balance of $1,373,429.17 was exposed to custodial credit risk as follows:

Uninsured and uncollateralized	$ 8,558.99
Total	$ 8,558.99

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 Rosa L. Parks Avenue, Nashville, Tennessee 37243-1102, or by calling (615) 741-2140.

NOTE 4. INVESTMENTS

All investments permitted to be reported at fair value under GASB Statement 31, *Accounting and Financial Reporting for Certain Investments and External Investment Pools,* are reported at fair value, including those with a maturity date of one year or less at the time of purchase.

At June 30, 2008, 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	$ 55,648.55	$ 15,145.35	$ 40,503.20	$ -	$ -	$ -
Corporate bonds	9,646.20	-	-	9,646.20	-	-
Federated prime obligation fund	19,023.22	-	-	-	-	19,023.22
Less amounts reported as cash and cash equivalents:						
Federated prime obligation fund	(19,023.22)	-	-	-	-	(19,023.22)
Total	$ 65,294.75	$ 15,145.35	$ 40,503.20	$ 9,646.20	$ -	$ -

At June 30, 2007, 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	$ 74,292.20	$ 19,903.10	$ 54,389.10	$ -	$ -	$ -
Federated prime obligation fund	8,558.99	-	-	-	-	8,558.99
Less amounts reported as cash and cash equivalents:						
Federated prime obligation fund	(8,558.99)	-	-	-	-	(8,558.99)
Total	$74,292.20	$19,903.10	$54,389.10	$ -	$ -	$ -

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, banker's 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 college 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. Tennessee Board of Regents policy restricts investments in banker's acceptances and commercial paper. The policy requires that prime banker's acceptances must be issued by domestic banks with a minimum AA rating or foreign banks with a AAA long-term debt rating by a majority of the ratings services that have rated the issuer. The policy further requires that commercial paper must be issued by corporations with a minimum rating of A1 or equivalent as provided by a majority of the rating services that rate the issuer. If there is no long-term debt rating, the short-term debt must be rated A1 by all rating services (minimum of two). Commercial paper of a banking institution must not be purchased.

At June 30, 2008, the college's investments were rated as follows:

	Credit Quality Rating		
Investment Type	Fair Value	AAA	Unrated
LGIP	$ 4,449,697.52	$ -	$ 4,449,697.52
U. S. agencies	55,648.55	55,648.55	-
Corporate bonds	9,646.20	9,646.20	-
Federated prime obligation fund	19,023.22	19,023.22	-
Total	$ 4,534,015.49	$ 84,317.97	$ 4,449,697.52

At June 30, 2007, the college's investments were rated as follows:

		Credit Quality Rating	
Investment Type	Fair Value	AAA	Unrated
LGIP	$ 4,180,000.50	$ -	$ 4,180,000.50
U. S. agencies	74,292.20	74,292.20	-
Federaged prime obligation fund	8,558.99	8,558.99	-
Total	$ 4,262,851.69	$ 82,851.19	$ 4,180,000.50

NOTE 5. RECEIVABLES

Receivables included the following:

	June 30, 2008	June 30, 2007
Student accounts receivable	$ 650,002.99	$ 529,864.92
Grants receivable	507,045.19	648,229.35
State appropriation receivable	15,400.00	16,200.00
Other receivables	70,132.66	898,250.03
Subtotal	1,242,580.84	2,092,544.30
Less allowance for doubtful accounts	(165,927.93)	(94,734.05)
Total receivables	$ 1,076,652.91	$ 1,997,810.25

NOTE 6. PLEDGES RECEIVABLE

Pledges receivable are promises of private donations that are reported as a receivable and revenue. At June 30, 2008, and June 30, 2007, all were considered to be collectible.

NOTE 7. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2008, was as follows:

Tennessee Board of Regents
Dyersburg State Community College
Notes to the Financial Statements (Cont.)
June 30, 2008, and June 30, 2007

	Beginning Balance	Additions	Transfers	Reductions	Ending Balance
Land	$ 866,323.50	$ -	$ -	$ -	$ 866,323.50
Land improvements and infrastructure	676,935.00	-	-	-	676,935.00
Buildings	22,173,609.87	-	1,671,265.15	-	23,844,875.02
Equipment	1,560,710.60	116,634.02	-	105,722.79	1,571,621.83
Library holdings	405,794.11	57,171.68	-	68,454.04	394,511.75
Software	895,194.41	36,744.00	-	-	931,938.41
Projects in progress	793,236.92	5,157,888.80	(1,671,265.15)	-	4,279,860.57
Total	27,371,804.41	5,368,438.50	-	174,176.83	32,566,066.08
Less accumulated depreciation/amortization:					
Land improvements and infrastructure	445,674.98	26,912.06	-	-	472,587.04
Buildings	5,566,562.52	673,576.02	-	-	6,240,138.54
Equipment	1,114,257.12	111,596.54	-	98,524.50	1,127,329.16
Library holdings	229,758.70	45,003.69	-	68,454.04	206,308.35
Software	89,519.44	90,138.15	-	-	179,657.59
Total	7,445,772.76	947,226.46	-	166,978.54	8,226,020.68
Capital assets, net	$19,926,031.65	$4,421,212.04	$ -	$7,198.29	$24,340,045.40

Capital asset activity for the year ended June 30, 2007, was as follows:

	Beginning Balance	Additions	Transfers	Reductions	Ending Balance
Land	$ 866,323.50	$ -	$ -	$ -	$866,323.50
Land improvements and infrastructure	676,935.00	-	-	-	676,935.00
Buildings	11,897,428.59	5,197,799.60	5,078,381.68	-	22,173,609.87
Equipment	2,212,806.65	408,870.48	-	1,060,966.53	1,560,710.60
Library holdings	462,344.07	29,923.00	-	86,472.96	405,794.11
Software	-	895,194.41	-	-	895,194.41
Projects in progress	5,614,947.59	256,671.01	(5,078,381.68)	-	793,236.92
Total	21,730,785.40	6,788,458.50	-	1,147,439.49	27,371,804.41

Less accumulated depreciation/amortization:					
Land improvements and infrastructure	418,762.92	26,912.06	-	-	445,674.98
Buildings	4,976,549.75	590,012.77	-	-	5,566,562.52
Equipment	1,135,283.02	120,130.65	-	141,156.55	1,114,257.12
Library holdings	267,004.95	49,226.71	-	86,472.96	229,758.70
Software	-	89,519.44	-	-	89,519.44
Total	6,797,600.64	875,801.63	-	227,629.51	7,445,772.76
Capital assets, net	$14,933,184.76	$5,912,656.87	$ -	$919,809.98	$19,926,031.65

During fiscal year 2007, the college reduced equipment by $895,194.41 and reclassified these items as capitalized software.

NOTE 8. LONG-TERM LIABILITIES

Long-term liabilities activity for the year ended June 30, 2008, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Payables:					
TSSBA debt:					
Bonds	$320,546.00	$ -	$102,484.00	$218,062.00	$106,788.50
Other liabilities:					
Compensated absences	613,051.90	461,603.63	365,015.35	709,640.18	84,683.60
Net OPEB obligation	-	382,715.00	-	382,715.00	-
Subtotal	613,051.90	844,318.63	365,015.35	1,092,355.18	84,683.60
Total long-term liabilities	$933,597.90	$844,318.63	$467,499.35	$1,310,417.18	$191,472.10

Long-term liabilities activity for the year ended June 30, 2007, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Payables:					
TSSBA debt:					
Bonds	$ 421,637.50	$ -	$101,091.50	$320,546.00	$102,484.00
Other liabilities:					
Compensated absences	598,051.16	326,790.96	311,790.22	613,051.90	121,837.09
Total long-term liabilities	$1,019,688.66	$326,790.96	$412,881.72	$933,597.90	$224,321.09

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 May 1, 2010, and are secured by pledges of the facilities' revenues to which they relate and certain other revenues and fees of the college, including state appropriations.

Debt service requirements to maturity for the college's portion of TSSBA bonds at June 30, 2008, are as follows:

Year Ending June 30	Principal	Interest	Total
2009	$106,788.50	$8,722.48	$115,510.98
2010	111,273.50	4,450.94	115,724.44
Total	$218,062.00	$13,173.42	$231,235.42

More detailed information regarding the bonds 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 37243-1402, 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, 2008, net appreciation of $6,367.97 is available to be spent, of which $6,367.97 is included in restricted net assets expendable for scholarships and fellowships. At June 30, 2007, net appreciation of $7,525.45 is available to be spent, of which $7,525.45 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 for specific purposes. The unrestricted net assets are composed of the following:

	June 30, 2008	June 30, 2007
Working capital	$ 694,208.84	$ 424,620.87
Encumbrances	52,240.09	15,005.00
Designated fees	95,807.17	374,386.99
Plant construction	841,343.29	601,061.35
Renewal and replacement of equipment	1,671,432.05	1,751,979.81
Debt retirement	127,969.90	110,064.86

Undesignated	(151,269.86)	216,979.29
Total	$3,331,731.48	$3,494,098.17

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 13.62% 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, 2008, 2007, and 2006 were $605,896.98, $535,889.23, and $371,550.12. 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 $388,421.96 for the year ended June 30, 2008, and $390,385.63 for the year ended June 30, 2007. Contributions met the requirements for each year.

NOTE 12. OTHER POST-EMPLOYMENT BENEFITS

Healthcare is the only "other postemployment benefit" (OPEB) provided to employees. The State of Tennessee administers a group health insurance program which provides post-employment health insurance benefits to eligible college retirees. This program includes two plans available to higher education employees – the State Employee Group Plan and the Medicare Supplement Plan. Both plans are agent multiple-employer defined benefit OPEB plans. Benefits are established and amended by an insurance committee created by Title 8, Chapter 27, Part 101, *Tennessee Code Annotated*. Prior to reaching age 65, all members have the option of choosing a preferred provider organization (PPO), point of service (POS), or health maintenance organization (HMO) plan for healthcare benefits. Subsequent to age 65, members who are also in the state's retirement system may participate in a state-administered Medicare supplement that does not include pharmacy. The state makes on-behalf payments to the Medicare supplement plan for the college's eligible retirees; see Note 17. The plans are reported in the *Tennessee Comprehensive Annual Financial Report*. That report is available on the state's website at http://tennessee.gov/finance/act/cafr.html.

Funding Policy. The premium requirements of plan members are established and may be amended by the insurance committee. The plans are self-insured and financed on a pay-as-you-go basis with the risk shared equally among the participants. Claims liabilities of the plan are periodically computed using actuarial and statistical techniques to establish premium rates. In accordance with TCA 8-27-205 (b), retirees not eligible for Medicare pay a percentage of the total state premium under the State Employee Group Plan based on years of service, leaving a portion of retiree premiums effectively subsidized by contributions to the State Employee Group Plan for active employees. Retirees with 30 years of service pay 20% of the total premium under the State Employee Group Plan. Retirees with 20 but less than 30 years of service pay 30% of the total premium under the State Employee Group Plan. Retirees 55 and older with less than 20 but more than 10 years of service pay 40% of the total premium under the State Employee Group Plan. Contributions for the State Employee Group Plan for the year ended June 30, 2008, were $1,793,964.00, which consisted of $1,462,672.00 from the college and $331,292.00 from the employees.

Annual OPEB Cost and Net OPEB Obligation

	State Employee Group Plan
Annual Required Contribution (ARC)	$542,000.00
Interest on the Net OPEB Obligation	-
Adjustment to the ARC	-
Annual OPEB Cost	542,000.00
Amount of contribution	(159,285.00)
Increase (decrease) in Net OPEB Obligation	382,715.00
Net OPEB Obligation – beginning of year	-
Net OPEB Obligation – end of year	$382,715.00

Year-end	Plan	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation at Year-end
June 30, 2008	State Employee Group Plan	$542,000.00	29.4%	$382,715.00

Funded Status and Funding Progress. The funded status of the plan as of June 30, 2008, was as follows:

	State Employee Group Plan
Actuarial valuation date	July 1, 2007
Actuarial accrued liability (AAL)	$4,690,000.00
Actuarial value of plan assets	-
Unfunded actuarial accrued liability (UAAL)	$4,690,000.00
Actuarial value of assets as a percentage of the AAL	0.00%
Covered payroll (active plan members)	$12,918,807.09
UAAL as percentage of covered payroll	36.3%

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future, and actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. The schedule of funding progress, presented as RSI following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Actuarial Methods and Assumptions. Calculations are based on the types of benefits provided under the terms of the substantive plan at the time of each valuation and on the pattern of sharing of costs between the employer and plan members to that point. Actuarial calculations reflect a long-term perspective. Consistent with that perspective, actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets.

In the July 1, 2007, actuarial valuation, the Projected Unit Credit actuarial cost method was used. The actuarial assumptions included a 4.5 percent investment rate of return (net of administrative expenses) and an annual healthcare cost trend rate of 7 percent initially, increased to 11 percent in the second year and then reduced by decrements to an ultimate rate of 5 percent after 12 years. Both rates include a 3 percent inflation assumption. The unfunded actuarial accrued liability is being amortized as a level percentage of payroll on a closed basis over a 30-year period beginning with July 1, 2007.

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. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years. The Risk Management Fund is also responsible for claims for damages to state-owned property up to the amount of the property insurance aggregate deductible amount. The insurance policy deductibles vary from $25,000 per occurrence, depending on the type of coverage, to an aggregate of $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, 2008, and June 30, 2007, 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 Rosa L. Parks Avenue, Nashville, Tennessee 37243-1102, 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, 2008, the Risk Management Fund held $123.9 million in cash and cash equivalents designated for payment of claims. At June 30, 2007, the Risk Management fund held $116.7 million in cash and cash equivalents designated for payment of claims.

At June 30, 2008, the scheduled coverage for the college was $35,625,400 for buildings and $5,408,600 for contents. At June 30, 2007, the scheduled coverage for the college was $34,477,834 for buildings and $4,251,500 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 $3,311,504.02 at June 30, 2008, and $2,865,541.57 at June 30, 2007.

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 $129,750.11 and for personal property were

$73,939.51 for the year ended June 30, 2008. The amounts for the year ended June 30, 2007, were $95,049.25 and $52,664.22. All operating leases are cancelable at the lessee's option.

Construction in Progress - At June 30, 2008, outstanding commitments under construction contracts totaled $1,425,672.84 for the Student Center at Dyersburg, the LRC and Student Center at Covington, ADA improvements, and signage at the Jimmy Naifeh Center, of which $1,425,672.84 will be funded by future state capital outlay appropriations.

Litigation - The college is involved in several lawsuits, none of which are 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, 2008, are as follows:

			Natural Classification			
Functional Classification	Salaries	Benefits	Other Operating	Scholarships	Depreciation	Total
Instruction	$4,823,843.40	$1,812,739.92	$2,026,362.93	$ 20,234.36	$ -	$ 8,683,180.61
Public service	1,095,919.80	499,566.45	2,408,512.03	7,730.75	-	4,011,729.03
Academic support	843,075.30	319,218.67	(303,887.61)	-	-	858,406.36
Student services	994,395.49	413,775.56	654,544.78	75,076.23	-	2,137,792.06
Institutional support	1,290,999.78	581,277.40	567,035.90	696.62	-	2,440,009.70
Operation & maintenance	438,860.33	222,086.98	969,942.32	-	-	1,630,889.63
Scholar. & fellow.	-	-	25,776.72	1,764,922.59	-	1,790,699.31
Depreciation	-	-	-	-	947,226.46	947,226.46
Total	$9,487,094.10	$3,848,664.98	$6,348,287.07	$1,868,660.55	$947,226.46	$22,499,933.16

The college's operating expenses by functional classification for the year ended June 30, 2007, are as follows:

			Natural Classification			
Functional Classification	Salaries	Benefits	Other Operating	Scholarships	Depreciation	Total
Instruction	$4,418,797.36	$1,339,125.38	$1,767,803.37	$48,774.70	$ -	$ 7,574,500.81
Public service	1,143,654.71	427,649.22	1,531,232.26	50,051.50	-	3,152,587.69
Academic support	822,454.02	283,380.93	(460,980.83)	-	-	644,854.12

Student services	884,381.10	307,119.11	572,749.50	104,365.80	-	1,868,615.51
Institutional support	1,178,971.64	442,482.95	266,630.74	1,232.44	-	1,889,317.77
Operation & maintenance	440,204.39	201,959.77	2,109,093.80	-	-	2,751,257.96
Scholar. & fellow.	-	-	19,569.72	1,872,185.27	-	1,891,754.99
Depreciation	-	-	-	-	875,801.63	875,801.63
Total	$8,888,463.22	$3,001,717.36	$5,806,098.56	$2,076,609.71	$875,801.63	$20,648,690.48

NOTE 16. CHANGE IN ACCOUNTING PRINCIPLE

During the year ended June 30, 2008, the college implemented Governmental Accounting Standards Board's Statement 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. This statement establishes standards for the measurement, recognition, and display of OPEB expense and related liabilities, note disclosures, and required supplementary information. The statement was implemented prospectively with a zero net OPEB obligation at transition.

NOTE 17. ON-BEHALF PAYMENTS

During the year ended June 30, 2008, the State of Tennessee made payments of $7,313.08 on behalf of the college for retirees participating in the Medicare Supplement Plan. The Medicare Supplement Plan is a postemployment benefit healthcare plan and is discussed further in Note 12. The plan is reported in the *Tennessee Comprehensive Annual Financial Report*. That report is available on the state's website at http://tennessee.gov/finance/act/cafr.html.

NOTE 18. COMPONENT UNIT

The Dyersburg State Community College Foundation is a legally separate, tax-exempt organization supporting Dyersburg State Community College. The foundation acts primarily as a fund-raising organization to supplement the resources that are available to the college in support of its programs. The 41-member board of the foundation is self-perpetuating and consists of local business professionals, community leaders, and friends of the college. Although the college does not control the timing or amount of receipts from the foundation, the majority of resources, or income thereon, that the foundation holds and invests are restricted to the activities of the college by the donors. Because these restricted resources held by the foundation can only be used by, or for the benefit of, the college, the foundation is considered a component unit of the college and is discretely presented in the college's financial statements.

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

During the year ended June 30, 2008, the foundation made distributions of $153,714.03 to or on behalf of the college for both restricted and unrestricted purposes. During the year ended June 30, 2007, the foundation made distributions of $79,313.00 to or on behalf of the college for both restricted and unrestricted purposes. Complete financial statements for the foundation can be obtained from Velma Travis, Vice President for Finance and Administrative Services, Dyersburg State Community College, 1510 Lake Road, Dyersburg, TN 38024.

Cash and cash equivalents - Cash and cash equivalents consists of demand deposit accounts, certificates of deposit, and money market funds. Uninsured bank balances at June 30, 2008, and June 30, 2007, totaled $673,298.56 and 144,581.49, respectively.

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, 2008, were as follows:

	Cost	Market Value
U. S. agencies	$1,988,661.70	$2,004,597.25
Certificates of deposit	226,788.28	226,788.28
Corporate bonds	50,000.00	48,231.00
Mutual equity funds	388,981.78	448,315.63

Money market funds	769,692.04	752,275.16
Total investments	$ 3,424,123.80	$3,480,207.32

Investments held at June 30, 2007, were as follows:

	Cost	Market Value
U. S. agencies	$2,561,855.83	$2,540,524.44
Certificates of deposit	218,759.39	218,759.39
Corporate stocks	401,432.04	528,935.80
Mutual equity funds	749,621.06	936,318.51
Total investments	$3,931,668.32	$4,224,538.14

Long-term liabilities - Long-term liabilities at June 30, 2008, consisted of the following:

	Ending Balance	Current Portion
Other liabilities:		
Charitable gift annuities	$34,431.69	$5,600.00

Long-term liabilities at June 30, 2007, consisted of the following:

	Ending Balance	Current Portion
Other liabilities:		
Charitable gift annuities	$36,468.40	$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, 2008, net appreciation of $1,323,069.80 is available to be spent, of which $846,944.96 is included in restricted net assets expendable for scholarships and fellowships and $476,124.84 is included in unrestricted net assets. At June 30, 2007, net appreciation of $1,396,519.97 is available to be spent, of which $859,283.22 is included in restricted net assets expendable for scholarships and fellowships and $537,236.75 is included in unrestricted net assets.

Tennessee Board of Regents
Dyersburg State Community College
Required Supplementary Information
OPEB Schedule of Funding Progress
Unaudited

Actuarial Valuation Date	Plan	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b-a)/c)]
7/01/2007	State Employee Group Plan	$ -	$4,690,000	$4,690,000	0.0%	$12,918,807.09	36.3%

TENNESSEE BOARD OF REGENTS
DYERSBURG STATE COMMUNITY COLLEGE
SUPPLEMENTARY SCHEDULES OF CASH FLOWS - COMPONENT UNIT
FOR THE YEARS ENDED JUNE 30, 2008, AND JUNE 30, 2007

	Year Ended June 30, 2008	Year Ended June 30, 2007
CASH FLOWS FROM OPERATING ACTIVITIES		
Gifts and contributions	$ 98,360.00	$ 36,411.00
Endowment income	206,692.44	188,904.03
Payments to suppliers and vendors	(129,404.61)	(10,418.95)
Payments to Dyersburg State Community College	(153,714.03)	(79,313.00)
Net cash provided by operating activities	21,933.80	135,583.08
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Private gifts for endowment purposes	15,790.00	51,671.39
Net cash provided by noncapital financing activities	15,790.00	51,671.39
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of investments	1,913,038.26	1,517,045.99
Purchases of investments	(1,424,585.48)	(1,632,654.22)
Net cash provided (used) by investing activities	488,452.78	(115,608.23)
Net increase in cash and cash equivalents	526,176.58	71,646.24
Cash and cash equivalents - beginning of year	147,622.46	75,976.22
Cash and cash equivalents - end of year	$ 673,799.04	$ 147,622.46
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	$ 24,497.53	$ 134,428.02
Adjustments to reconcile operating income to net cash provided by operating activities:		
Change in assets and liabilities:		
Receivables, net	(2,553.73)	570.06
Accounts payable	(10.00)	585.00
Net cash provided by operating activities	$ 21,933.80	$ 135,583.08
Noncash transactions		
Unrealized gains/losses on investments	$ (236,736.31)	$ 181,485.40