

AUDIT REPORT

Tennessee Board of Regents
Dyersburg State Community College

For the Years Ended
June 30, 2010, and June 30, 2009



STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY

Department of Audit
Division of State Audit



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

Edward Burr, CPA
Assistant Director

Donna L. Jewell, CPA, CFE
Audit Manager

Adrian R. Davis
In-Charge Auditor

Brandi Boles
Angela Courtney
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 online at
www.comptroller1.state.tn.us/sa/AuditReportCategories.asp.
For more information about the Comptroller of the Treasury, please visit our website at
www.comptroller1.state.tn.us/.



**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**

November 28, 2011

The Honorable Bill Haslam, Governor
and

Members of the General Assembly
State Capitol
Nashville, Tennessee 37243

and

The Honorable John G. Morgan, Chancellor
Tennessee Board of Regents
1415 Murfreesboro Road, Suite 340
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, 2010, and June 30, 2009. 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 finding; the response is included following the finding. The Division of State Audit will follow up the audit to examine the application of the procedures instituted because of the audit finding.

Sincerely,

Arthur A. Hayes, Jr., CPA
Director

AAH/dlj
11/037

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, 2010, and June 30, 2009

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 FINDING

As Noted in the Prior Audit, the College Did Not Ensure That Amounts Were Properly Reported in the College's and Foundation's Financial Statements and the Accompanying Notes to the Financial Statements *

Our audit of the financial statements of Dyersburg State Community College—including its foundation, which is a discretely presented component unit of the college—discovered various reporting errors.

The deficiency described above was considered a material weakness. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the college's financial statements will not be prevented, or detected and corrected on a timely basis (page 9).

* This finding is repeated from the prior audit.

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, 2010, and June 30, 2009

TABLE OF CONTENTS

	<u>Exhibit</u>	<u>Page</u>
INTRODUCTION		1
Post-Audit Authority		1
Background		1
Organization		1
AUDIT SCOPE		2
OBJECTIVES OF THE AUDIT		2
PRIOR AUDIT FINDINGS		2
Resolved Audit Finding		3
Repeated Audit Finding		3
OBSERVATIONS AND COMMENTS		3
Management's Responsibility for Risk Assessment		3
Fraud Considerations		4
RESULTS OF THE AUDIT		4
Audit Conclusions		4
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i>		6
Finding and Recommendation		9
Finding - As noted in the prior audit, the college did not ensure that amounts were properly reported in the college's and foundation's financial statements and the accompanying notes to the financial statements		9

TABLE OF CONTENTS (CONT.)

	<u>Exhibit</u>	<u>Page</u>
FINANCIAL SECTION		
Independent Auditor's Report		12
Management's Discussion and Analysis		15
Financial Statements		
Statements of Net Assets	A	35
Statements of Revenues, Expenses, and Changes in Net Assets	B	36
Statements of Cash Flows	C	37
Notes to the Financial Statements		39
Required Supplementary Information		
OPEB Schedule of Funding Progress		67
Supplementary Information		
Schedules of Cash Flows - Component Unit		68

**Tennessee Board of Regents
Dyersburg State Community College
For the Years Ended June 30, 2010, and June 30, 2009**

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, 2008, through June 30, 2010, 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, 2010, and June 30, 2009. Dyersburg State Community College is an institution of the Tennessee Board of Regents, which is an integral part of state government. As such, the Tennessee Board of Regents has been included as a component unit in the *Tennessee Comprehensive Annual Financial Report*.

OBJECTIVES OF THE AUDIT

The objectives of the audit were

1. to consider the college's internal control over financial reporting to determine auditing procedures for the purpose of expressing opinions on the financial statements;
2. to determine compliance with certain provisions of laws, regulations, contracts, and grant agreements;
3. to determine the fairness of the presentation of the financial statements; and
4. to recommend appropriate actions to correct any deficiencies.

PRIOR AUDIT FINDINGS

Section 8-4-109, *Tennessee Code Annotated*, requires that each state department, agency, or institution report to the Comptroller of the Treasury the action taken to implement the recommendations in the prior audit report. The college filed its report with the Department of Audit on June 8, 2010. A follow-up of the prior audit findings was conducted as part of the current audit.

RESOLVED AUDIT FINDING

The current audit disclosed that the college has corrected the previous audit finding concerning controls over the bank reconciliation process.

REPEATED AUDIT FINDING

The prior audit report also contained a finding concerning the preparation of the college and foundation's financial statements and notes to the financial statements. This finding has not been resolved and is repeated in this 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.

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, 2010, and June 30, 2009, 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. A material weakness, along with the recommendation and management's response, is detailed in the Finding and Recommendation section.

Compliance and Other Matters

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.

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***

September 1, 2011

The Honorable Bill Haslam, Governor
and

Members of the General Assembly
State Capitol
Nashville, Tennessee 37243

and

The Honorable John G. Morgan, Chancellor
Tennessee Board of Regents
1415 Murfreesboro Road, Suite 340
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, 2010, and June 30, 2009, and have issued our report thereon dated September 1, 2011. 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 was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses, and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified a deficiency in internal control over financial reporting that we consider to be a material weakness.

A deficiency in internal control 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 and correct misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the financial statements will not be prevented, or detected and corrected on a timely basis. We consider the following deficiency to be a material weakness:

As noted in the prior audit, the college did not ensure that amounts were properly reported in the college's and foundation's financial statements and the accompanying notes to the financial statements.

This deficiency is described in the Finding and Recommendation section of this report.

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 its 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.

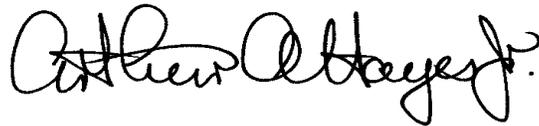
September 1, 2011
Page Three

We noted certain matters that we have reported to the management of Dyersburg State Community College in a separate letter.

The college's response to the finding identified in our audit is included in the Finding and Recommendation section of this report. We did not audit the college's response and, accordingly, we express no opinion on it.

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,

A handwritten signature in black ink that reads "Arthur A. Hayes, Jr." with a stylized flourish at the end.

Arthur A. Hayes, Jr., CPA
Director

AAH/dlj

FINDING AND RECOMMENDATION

As noted in the prior audit, the college did not ensure that amounts were properly reported in the college's and foundation's financial statements and the accompanying notes to the financial statements

Finding

Our audit of the financial statements of Dyersburg State Community College (DSCC)—including its foundation, which is a discretely presented component unit of the college—discovered various reporting errors.

As stated in the prior audit report, top management 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. We noted several reporting errors in the financial statements and notes to the financial statements in the 2009 and 2010 financial reports. The former Vice President of Finance and Administrative Services was responsible for financial reporting for both the college and foundation in fiscal year 2009. In fiscal year 2010, the Finance Manager was responsible for the college's financial reporting, and the Director of Administrative Services was responsible for the foundation's financial reporting.

ERRORS IN THE PREPARATION OF THE COLLEGE'S FINANCIAL STATEMENTS AND NOTES

Financial Statement Errors

Based on our review of DSCC's statements of net assets, we noted that top management made errors when preparing the college's statements for both fiscal years under audit.

Certain accrued payroll benefits were classified as accounts payable rather than accrued liabilities. As a result, in fiscal year 2010 and fiscal year 2009, the amount for accounts payable was overstated and the amount for accrued liabilities was understated by \$278,788.25 and \$260,982.10, respectively. The statement was corrected for both years.

The correct expense amounts for "utilities, supplies, and other services" and "scholarships and fellowships" from the statement of revenue, expenses, and changes in net assets were not used to calculate the various components in the fiscal year 2009 statement of cash flows. The spreadsheet created by management to calculate amounts for the statement of cash flows was not updated to reflect changes made by management to those components. Because this inaccurate spreadsheet was used to prepare the cash flows statement, the amount for payments to suppliers was understated and the amount for payments for scholarships was overstated by \$265,196.88. During fiscal year 2009, the Finance Manager assisted the former Vice President of Finance and Administrative Services in preparing the financial statements.

The Finance Manager stated that this error was likely due to a lack of communication from two people working on the same thing. The statement was corrected.

Errors in the Notes to the Financial Statements

In the fiscal year 2010 cash note (Note 2), cash in bank accounts was overstated and cash held in the Local Government Investment Pool (LGIP) was understated by \$22,012. As a result, the Local Government Investment Pool (LGIP) balance was understated by \$22,012 in the credit rating schedule in the investment note (Note 4). The note was corrected.

In the fiscal year 2009 investment note (Note 4), funds totaling \$25,739.92 were classified as U.S. Treasury securities maturing in less than one year. However, the funds were actually money market funds with no maturity date. As a result, the money market funds also were not included in the fiscal year 2009 credit rating schedule. The note was corrected.

Lack of an adequate review of the statements prepared by the former Vice President of Finance and Administrative Services caused the errors in fiscal year 2009 to go undetected. The Finance Manager stated that because fiscal year 2010 was the first time she was responsible for the preparation of the college's statements, and the time available to prepare financial statements was limited, she followed the closing procedures of the former Vice President of Finance and Administrative Services during the previous year. This caused the same errors to occur on the statement of net assets for both fiscal years under audit.

ERRORS IN THE PREPARATION OF THE FOUNDATION'S NOTES

We also noted errors within the foundation's notes to the financial statements. These errors could have been detected if appropriate reviews of the notes to the financial statements had been performed.

In the foundation's investment note (Note 20) for both fiscal years, the amounts held in U.S. agencies were overstated. In fiscal year 2010, the fair value was overstated by \$710,569.81. Of this overstatement, \$91,623.10 was related to corporate bonds and \$618,946.71 was related to taxable bonds. In fiscal year 2009, the fair value was overstated by \$256,076.82, all of which was reclassified as taxable bonds. As a result of these misclassifications, the costs of these investments were also misstated. In fiscal year 2010, the cost was overstated by \$687,171.01. Of this overstatement, \$91,032.62 was related to corporate bonds and \$596,138.38 was related to taxable bonds. In fiscal year 2009, the cost was overstated by \$251,118.77, all of which was related to taxable bonds.

According to the Director of Administrative Services, she classified these investments based on information received from the investment manager at year-end. However, when we confirmed these investments with the investments manager directly, we noted that some of these holdings that were classified as U.S. agency investments were recognizable corporations and taxable bonds from state and local governments and school districts.

The schedules of changes in endowment net assets for both years under audit contained several errors. These errors were mainly due to the misclassification of activity between permanently restricted net assets, temporarily restricted net assets and unrestricted net assets. The total of net assets did not change due to the correction of these errors for the audit report.

CONCLUSION

These control deficiencies resulted in significant misstatements in the foundation's note disclosures and in the college's financial statements and notes to the financial statements. Management's failure to improve the financial reporting process increases the risk that material errors could occur and critical financial decisions for the college and affiliated foundation could be based on inaccurate information.

Recommendation

The Vice President of Finance and Administrative Services, Finance Manager, and Director of Administrative Services should ensure that the financial report is fairly stated. Existing procedures including year-end checklists should be followed to ensure that all information contained in the report is accurate. Additional training for those responsible for financial statement preparation could be beneficial. Adequate reviews should be performed on the statements and the notes by someone independent of the report preparation process to mitigate the risk of errors.

Management should ensure that staffs who are responsible for the design and implementation of internal controls to adequately prevent and detect financial reporting exceptions in a timely manner are continually evaluating those controls. Management should ensure that staffs that are responsible for ongoing monitoring for compliance with all requirements are indeed monitoring and taking prompt action when exceptions occur. All controls and control activities, including monitoring, should be adequately documented.

Management's Comment

We concur that management did not ensure that the college and the foundation's financial statements and accompanying notes were properly reported. Arrangements have been made for the Finance Manager and Director of Administrative Services to attend financial statement training. Spreadsheets used in the statement preparation process were reviewed and corrected by changing the links from account totals to lines on the financial statements. The Director of Administrative Services has been made aware of the updated FASB requirements for reporting changes in net asset classes and corrections have been made. The investment managers have improved fiscal year-end statements to be able to classify assets properly. The Vice President of Finance and Administration will review the financial statements, notes, and other financial reporting documents for accuracy. The financial statement preparation timeline will be adjusted to allow for additional review time to ensure errors are not made in the preparation process.



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

September 1, 2011

The Honorable Bill Haslam, Governor
and
Members of the General Assembly
State Capitol
Nashville, Tennessee 37243
and

The Honorable John G. Morgan, Chancellor
Tennessee Board of Regents
1415 Murfreesboro Road, Suite 340
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, 2010, and June 30, 2009, 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, 2010, and June 30, 2009, 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 Dyersburg State Community College, and its discretely presented component unit as of June 30, 2010, and June 30, 2009, 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.

The management's discussion and analysis on pages 15 through 34 and the schedule of funding progress on page 67 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 68 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.

September 1, 2011

Page Three

In accordance with generally accepted government auditing standards, we have also issued our report dated September 1, 2011, 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 considered in assessing the results of our audit.

Sincerely,

A handwritten signature in black ink, appearing to read "Arthur A. Hayes, Jr." with a stylized flourish at the end.

Arthur A. Hayes, Jr., CPA
Director

AAH/dlj

**Tennessee Board of Regents
Dyersburg State Community College
Management's Discussion and Analysis**

This section of Dyersburg State Community College's report presents a discussion and analysis of the financial performance of the college during the fiscal years ended June 30, 2010, and June 30, 2009, with comparative information presented for the fiscal year ended June 30, 2008. 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.

**Tennessee Board of Regents
Dyersburg State Community College
Management's Discussion and Analysis (Cont.)**

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

	2010	2009	2008
Assets:			
Current assets	\$ 4,328	\$ 4,738	\$ 3,503
Capital assets, net	23,388	24,112	24,340
Other assets	5,605	2,818	3,431
Total assets	33,321	31,668	31,274
Liabilities:			
Current liabilities	1,674	2,207	1,404
Noncurrent liabilities	1,519	1,277	1,119
Total liabilities	3,193	3,484	2,523
Net assets:			
Invested in capital assets, net of related debt	23,388	24,001	24,122
Restricted – nonexpendable	135	133	134
Restricted – expendable	1,415	1,131	1,164
Unrestricted	5,190	2,919	3,331
Total net assets	\$ 30,128	\$ 28,184	\$ 28,751

Comparison of Fiscal Year 2010 to Fiscal Year 2009

- Unrestricted current cash balances for the college declined from the prior fiscal year because of additional cash needed at June 30, 2009, to pay the \$399,600.00 Due to Primary Government payable. These were State Fiscal Stabilization Fund (SFSF) funds drawn down in FY 2009 that had to be returned in FY 2010. There was no government payable at June 30, 2010. The decrease in current cash was partially offset by a Due from Primary Government receivable of \$98,886.40 for SFSF funds spent in FY 2010 and not received until the following fiscal year.
- Capital assets were down from the prior fiscal year as depreciation reduced the net amount by \$1,076,049.38 and capital purchases partially offset the decline.

**Tennessee Board of Regents
Dyersburg State Community College
Management's Discussion and Analysis (Cont.)**

- Other assets increased due to transfers of \$2,455,900.00 from unrestricted funds and \$135,000.00 from auxiliary funds to plant funds to fund future campus projects. The transfers result in an increase in noncurrent cash.
- Current liabilities declined due the elimination of the \$399,600.00 Due to Primary Government described above as well as the final payment of \$111,273.50 on the TSSBA bond payable.
- An increase in the Other Post Employment Benefit accrued liability of \$216,429.97 for retiree medical expenses caused an increase in noncurrent liabilities.
- Restricted-expendable net assets increased from FY 2009 due to an expansion of the Workforce Investment Act programs to respond to the poor economic conditions in the service area.
- Unrestricted net assets increased due to a \$2,451,774.46 increase in unexpended plant funds. Transfers to plant funds resulted from higher revenue associated with the record enrollment increase for FY 2010.

Comparison of Fiscal Year 2009 to Fiscal Year 2008

- The Workforce Investment Act (WIA) Program received stimulus funding for a summer youth program for the months of June and July 2009. Reimbursement for the payroll for more than 600 participants was a major part of the increase in accounts, notes and grants receivable as of June 30, 2009. The total receivable, including pledged receivables, increased from \$1,082,652.91 at June 30, 2008, to \$1,808,373.74 at June 30, 2009. Of the 2009 amount, \$917,594.86 was for WIA programs.
- As of June 30, 2009, the conversion of the fixed asset module which is a part of the administrative software (Banner) was completed. Capital assets were increased by \$109,580.58 as a result of prior-period adjustments in relation to capitalization of fixed assets and the related recording of accumulated depreciation found during fixed asset inventory. This increase net of equipment disposals and depreciation expense resulted in a decrease of \$118,282.52 for the year.
- Other assets decreased by 18% as of June 30, 2009, due to a decrease in net cash for restricted funds and the increase in receivables for the WIA programs.
- Current liabilities increased 57% at June 30, 2009, compared to June 30, 2008, due to the following factors:

**Tennessee Board of Regents
Dyersburg State Community College
Management's Discussion and Analysis (Cont.)**

- Based upon guidance provided by the Tennessee Recovery Act Management Office, the total allotment of FY 2008-09 State Fiscal Stabilization Funds (\$399,600.00) were drawn down and receipted as of June 30, 2009. It was subsequently determined that institutions would not lose the availability of funds not drawn down at June 30, 2009, and SFSF of \$399,600.00 were returned on July 13, 2009, and are included on the Statement of Net Assets as Due to Primary Government Funds.
- An increase of \$465,000 in accrued payroll liabilities was mainly due to the WIA arrears payroll for the summer program.
- The current portion of compensated absences increased from \$84,683.60 as of June 30, 2008, to \$166,078.85 at June 30, 2009. The compensated absences are calculated on an average of three years' activity of leave accrued and taken. Some long-term employees with maximum or near-maximum accrued leave retired, which impacted the calculation for the current portion of the leave liability.

**Foundation
Net Assets (in thousands of dollars)**

	2010	2009	2008
Assets:			
Current assets	\$ 56	\$ 157	\$ 160
Other assets	4,473	4,127	4,017
Total assets	4,529	4,284	4,177
Liabilities:			
Current liabilities	6	6	5
Noncurrent liabilities	16	26	29
Total liabilities	22	32	34
Net assets:			
Restricted – nonexpendable	2,871	2,799	2,820
Restricted – expendable	1,576	1,421	847
Unrestricted	60	32	476
Total net assets	\$4,507	\$4,252	\$4,143

**Tennessee Board of Regents
Dyersburg State Community College
Management's Discussion and Analysis (Cont.)**

Comparison of Fiscal Year 2010 to Fiscal Year 2009

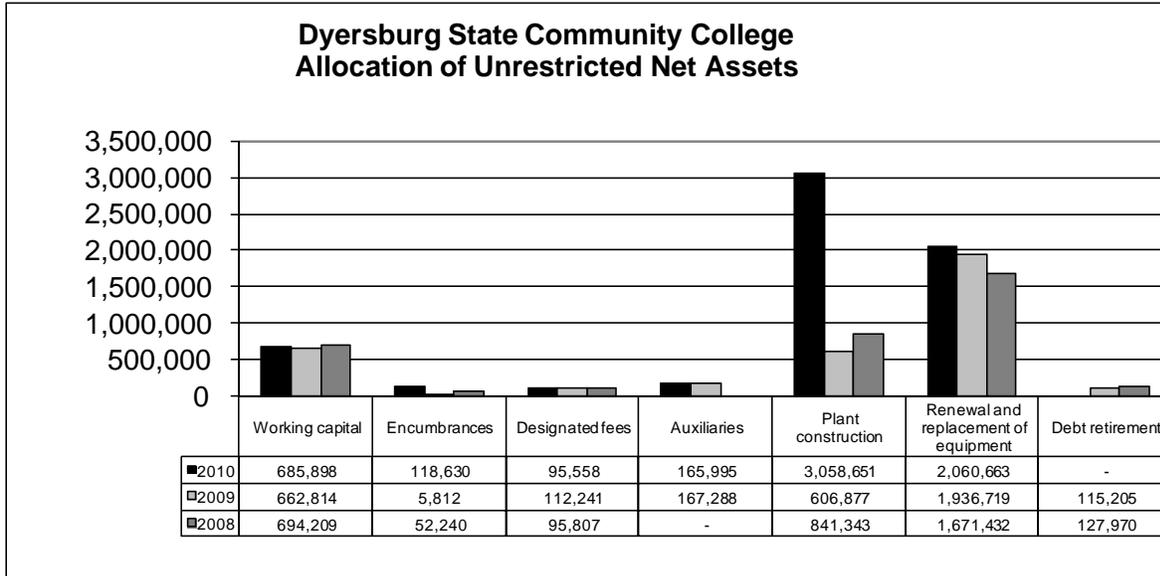
- In July 2008, the foundation board contracted with two new investment managers and divided the foundation's investments between the two agencies. The majority of assets were converted to cash. A money market account was established to cover the current-year budget, and the remaining funds were managed by First Citizens Financial Plus and Legacy Wealth Management. The cash to cover budgeted expenses and accrued interest make up the current assets of \$56,264.36.
- Other assets increased as cash and net income were used to purchase investments, which increased by \$627,914.77 from the prior fiscal year.
- Unrestricted net assets increased due to higher investment revenue as more cash was invested.

Comparison of Fiscal Year 2009 to Fiscal Year 2008

- In July 2008, the foundation board contracted with two new investment managers and divided the foundation's investments between the two agencies. The majority of assets were converted to cash. A money market account was established to cover the current-year budget, and the remaining funds were managed by First Citizens Financial Plus and Legacy Wealth Management. The cash to cover the approved budget and accrued interest make up the current assets of \$156,711.05. The majority of Financial Plus managed funds are in cash and cash equivalents which results in an increase in the accrued interest receivable at June 30, 2009.
- Other assets consist of non-current cash and non-expendable gifts. The non-current cash increased by \$698,451.84, and the non-current investments decreased by \$588,403.04 due to the liquidated investments in July 2008 that were not reinvested in equities and an increase of \$46,488.29 in gifts to permanently restricted funds.

Many of the college's unrestricted net assets have been designated 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:

**Tennessee Board of Regents
Dyersburg State Community College
Management's Discussion and Analysis (Cont.)**



Comparison of Fiscal Year 2010 to Fiscal Year 2009

- Net assets allocated to encumbrances increased by \$112,817.82 for open commitments for various equipment and supplies at the end of the fiscal year. There was only a small amount of open commitments as of June 30, 2009.
- The designated fee allocations are for the Technology Access Fees (TAF) and International Studies Fees. The net of fees collected and designated expense is allocated to be spent in FY 2010-11. The TAF allocation decreased by \$16,499.74 and the International Studies Fee allocation decreased by \$183.71 due to increased spending on equipment over FY 2009.
- Net assets allocated to plant construction and campus projects increased by \$2,451,774.46 due to a transfer of \$2,455,900.00 from unrestricted funds and \$135,000.00 from auxiliary funds. These assets will provide for future campus projects and a new facility master plan.
- Usage charges for computer, print shop, and vehicles were credited to the renewal and replacement funds for FY 2010. These funds will be used for replacement of equipment.
- The debt retirement allocation declined to zero since the final TSSBA bond payment occurred in FY 2010.

**Tennessee Board of Regents
Dyersburg State Community College
Management's Discussion and Analysis (Cont.)**

Comparison of Fiscal Year 2009 to Fiscal Year 2008

- Prior-year encumbrances were due to computer equipment ordered in June for the new Student Center building. There were no special project purchases at June 30, 2009.
- The designated fee allocations are for the Technology Access Fees (TAF) and International Studies Fees. The amount remaining, net of fees collected and designated expense, is allocated to be spent in FY 2009-10. The TAF allocation increased by \$2,279.80 and the International Studies Fee allocation increased by \$14,154.43 to be budgeted in FY 2009-10.
- The \$234,466.53 decrease in plant construction funds were expensed in FY 2008-09 for construction costs for the new Student Center that were not covered by appropriations.
- Usage charges for computer, print shop, and vehicles were credited to the renewal and replacement funds for FY 2008-09. These funds will be used for purchase of equipment and the fifth and final payment to TSSBA for the Banner software purchase.

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

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

**Tennessee Board of Regents
Dyersburg State Community College
Management's Discussion and Analysis (Cont.)**

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

	2010	2009	2008
Operating revenues:			
Net tuition and fees	\$ 4,023	\$ 3,684	\$ 3,007
Grants and contracts	8,817	5,572	5,008
Auxiliary	133	100	87
Other	72	107	95
Total operating revenues	13,045	9,463	8,197
Operating expenses	29,175	23,957	22,500
Operating loss	(16,130)	(14,494)	(14,303)
Nonoperating revenues and expenses:			
State appropriations	6,869	7,374	7,716
Gifts	943	1,070	982
Grants & contracts	10,150	4,756	3,843
Investment income	38	114	274
Other revenues and expenses	(4)	(14)	(12)
Total nonoperating revenues and expenses	17,996	13,300	12,803
Income (loss) before other revenues, expenses, gains, or losses	1,866	(1,194)	(1,500)
Other revenues, expenses, gains, or losses:			
Capital appropriations	78	517	5,838
Capital grants and gifts	-	-	55
Other	-	-	(7)
Total other revenues, expenses, gains, or losses	78	517	5,886

**Tennessee Board of Regents
Dyersburg State Community College
Management's Discussion and Analysis (Cont.)**

Increase (decrease) in net assets	1,944	(677)	4,386
Net assets beginning of year	28,184	28,751	24,365
Prior period adjustment	-	110	-
Net assets beginning of year (restated)	28,184	28,861	24,365
Net assets at end of year	\$ 30,128	\$ 28,184	\$ 28,751

**Foundation
Changes in Net Assets (in thousands of dollars)**

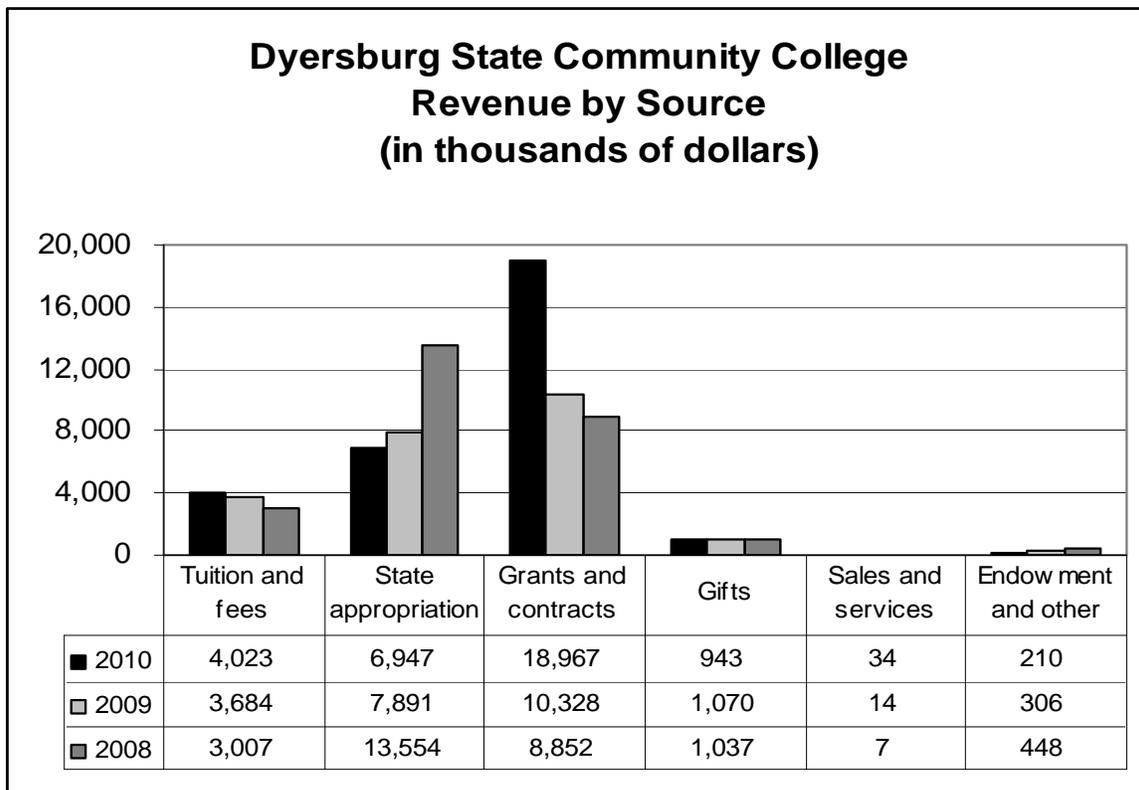
	2010	2009	2008
Operating revenues:			
Gifts	\$ 12	\$ 39	\$ 98
Other	176	74	209
Total operating revenues	188	113	307
Operating expenses	61	101	283
Operating gain	127	12	24
Nonoperating revenues and expenses:			
Investment income	55	51	(259)
Total nonoperating revenues and expenses	55	51	(259)
Income (loss) before other revenues, expenses, gains, or losses	182	63	(235)
Other revenues, expenses, gains, or losses:			
Additions to permanent endowments	73	46	16
Total other revenues, expenses, gains, or losses	73	46	16

**Tennessee Board of Regents
Dyersburg State Community College
Management's Discussion and Analysis (Cont.)**

Increase (decrease) in net assets	255	109	(219)
Net assets at beginning of year	4,252	4,143	4,362
Net assets at end of year	\$4,507	\$4,252	\$4,143

Revenues

The following is a graphic illustration of revenues by source (both operating and nonoperating), which are used to fund the college's operating activities for the years ended June 30, 2010, and June 30, 2009 (amounts are presented in thousands of dollars).



Comparison of Fiscal Year 2010 to Fiscal Year 2009

- Operating revenues for the college increased \$3,582,190.24. The major increases were in tuition and fees and grants and contract revenues. The Board of Regents approved a tuition increase of 5%, and there was a record enrollment increase for the fall semester.

**Tennessee Board of Regents
Dyersburg State Community College
Management's Discussion and Analysis (Cont.)**

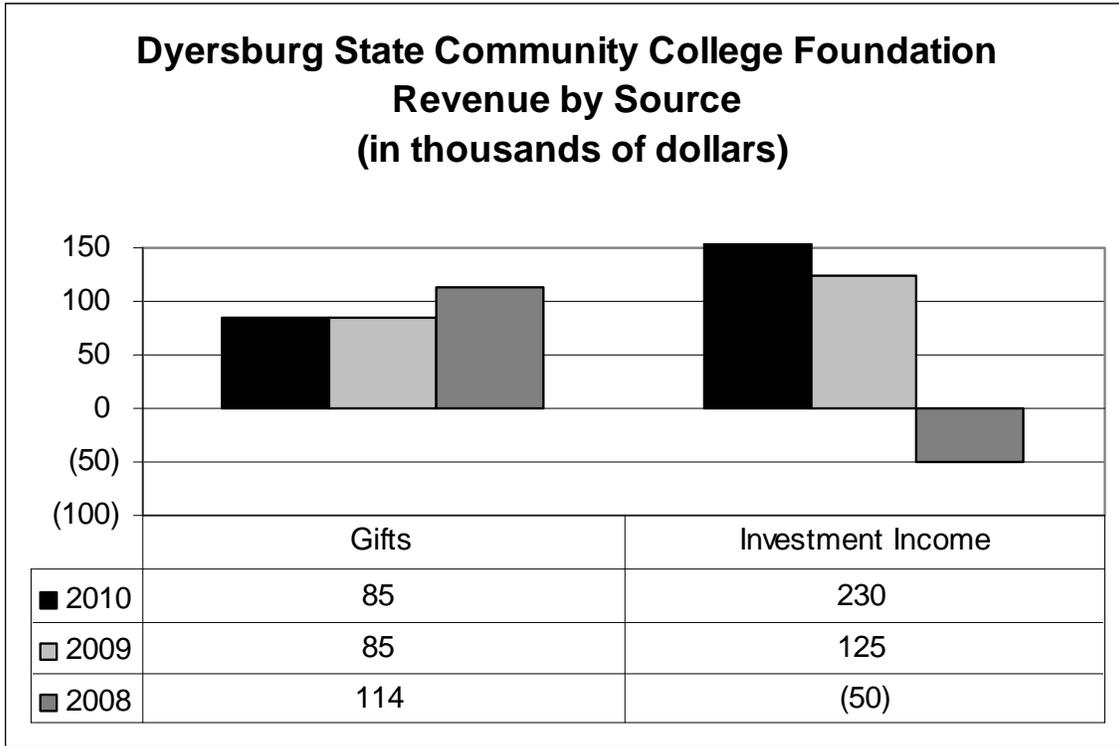
FTE increased by 28.3% over the previous fall. The grants and contracts revenue increased by \$3,244,885.38 due to additional funding for the Workforce Investment Act programs.

- The non-operating revenue net increase was \$4,696,199.16. State appropriations were reduced by \$505,100.00 due to low statewide tax revenue collections, and investment income decreased by \$75,739.57 due to lower interest rates. Gifts also decreased by \$127,560.22 due to economic conditions. These reductions were offset by an increase in grants and contracts of \$5,394,368.71. The grants and contracts increase is due to the additional Pell, TSAC, and Lottery scholarships, which are a result of the record enrollment increase. Grant revenue also increased as a result of the \$995,902.85 in State Fiscal Stabilization Funds (stimulus) received in FY 2010.

Comparison of Fiscal Year 2009 to Fiscal Year 2008

- Operating revenues increased \$1,265,782.44. The major increases were in tuition and fees and grants and contract revenues. The Board of Regents approved a tuition increase of 6%, and there was an enrollment increase for both fall and spring semesters. Enrollment for fall 2008 was the largest in the college's history. Head count (2,749) increased by 7% over fall 2007, and FTE (1,740.87) increased by 4.3% over the previous fall. Like the fall enrollment, the enrollment for spring 2009 was the largest spring enrollment in DSCC history. Headcount (2,354) increased by 12.3% over spring 2008 and FTE (1,472.5) increased by 14.1%. Tuition and fee revenue increased by \$676,966.41, which is net of scholarship allowances due to these factors. The grants and contracts revenue increased by \$568,764.77 due to the additional funding for the Workforce Investment Act programs.
- The non-operating revenue net increase was \$496,262.94. State appropriations were reduced by \$342,043.00 due to low statewide tax revenue collections, and investment income decreased by \$160,746.03 due to current economic downturns. These reductions were offset by an increase in grants and contracts of \$912,506.94 and an increase in gifts of \$88,623.43. The grants and contracts increase is due to the additional Pell, TSAC, and Lottery scholarships, which are a result of the enrollment increase.

**Tennessee Board of Regents
Dyersburg State Community College
Management's Discussion and Analysis (Cont.)**



Comparison of Fiscal Year 2010 to Fiscal Year 2009

- In July 2008, the foundation board contracted with two new investment managers and divided the foundation's investments between the two agencies. The majority of assets were converted to cash. As more cash was invested in FY 2010, investment revenue increased compared to the prior fiscal year.

Comparison of Fiscal Year 2009 to Fiscal Year 2008

- Operating revenues consist of spendable gifts and endowment income (per spending plan). In 2008, spendable gifts were \$59,063.46 above the 2009 gifts of \$39,296.54. The 2008 amount included gifts to complete a feasibility study to change the name of the college. The study was completed in the spring of 2008. The spendable gifts for 2009 were for scholarships to be awarded within the year.
- The non-operating revenues consist of gifts to permanent endowments and investment income net of investment expense. A majority of the foundation investments were converted to cash in July 2009 to divide between two new investment managers. This

**Tennessee Board of Regents
Dyersburg State Community College
Management's Discussion and Analysis (Cont.)**

limited the loss due to market downturns in 2009 and ended with \$51,004.32 in investment income net of investment expense.

- Endowment income decreased by 65%, or (\$135,683.51), in 2009 due to market downturns and realized losses due to liquidating investments to distribute to new investment managers.
- Additions to permanent endowments increased by 194%, or \$30,698.29, due to gifts establishing a new endowed fund, the Brian Burrow Endowed Scholarship Fund.

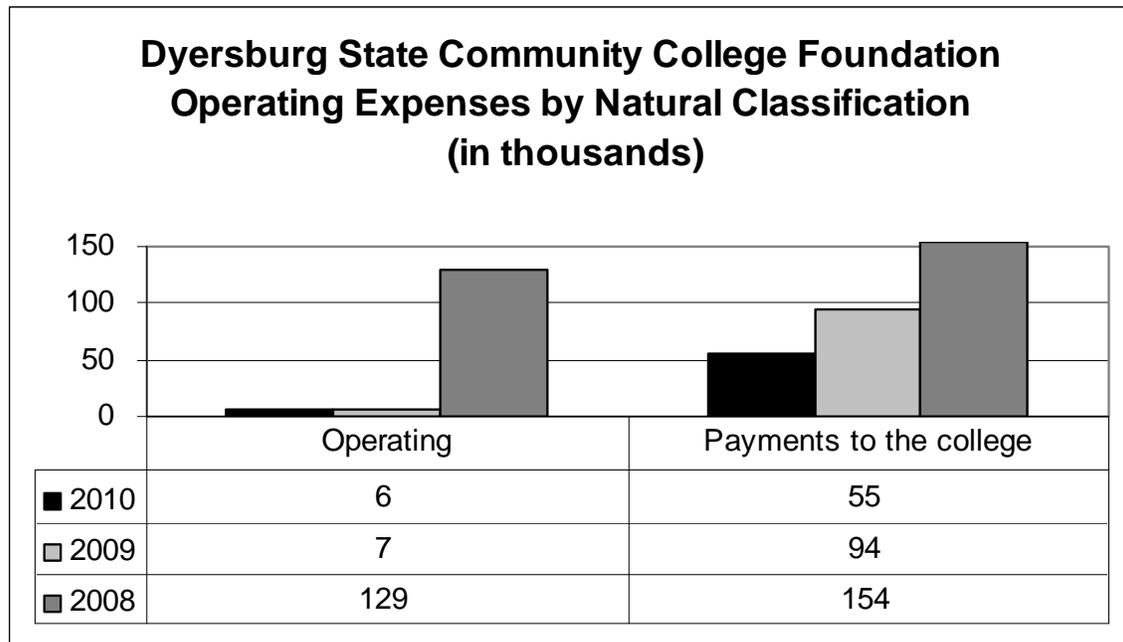
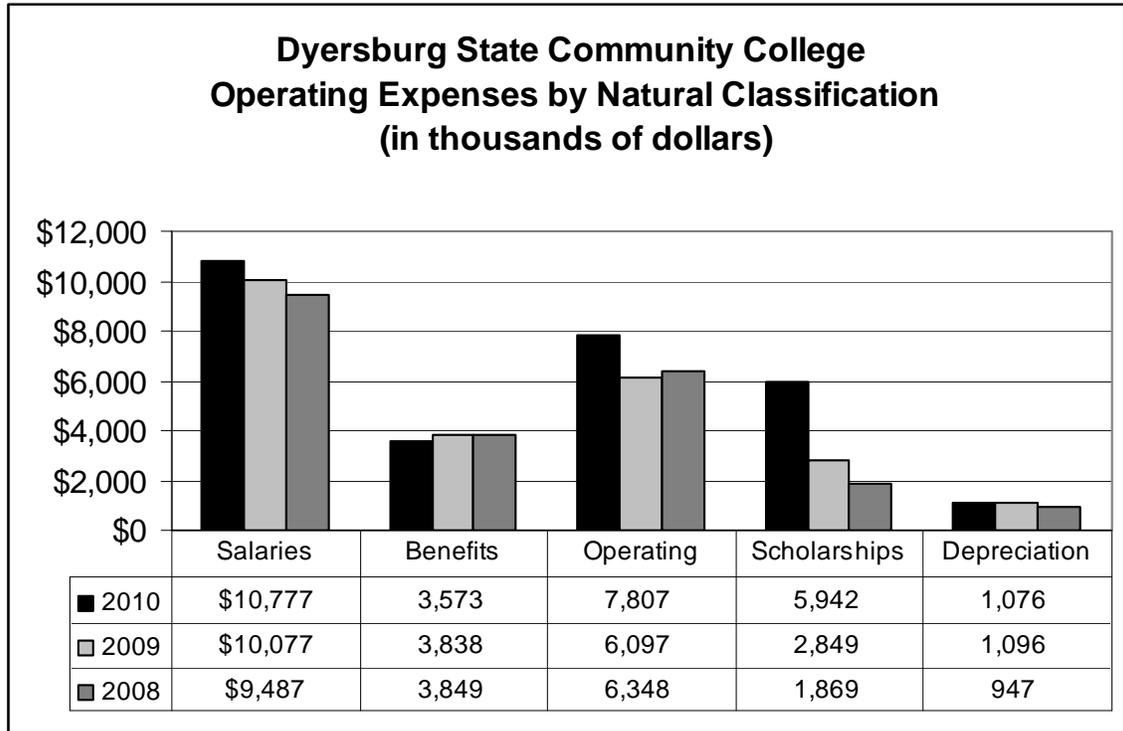
Expenses

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		
	2010	2009	2008	2010	2009	2008
Salaries	\$ 10,777	\$ 10,077	\$ 9,487	\$ -	\$ -	\$ -
Benefits	3,573	3,838	3,849	-	-	-
Operating	7,807	6,097	6,348	6	7	129
Scholarships	5,942	2,849	1,869	-	-	-
Depreciation	1,076	1,096	947	-	-	-
Payments to the College	-	-	-	55	94	154
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total	\$ 29,175	\$ 23,957	\$ 22,500	\$ 61	\$ 101	\$ 283

**Tennessee Board of Regents
Dyersburg State Community College
Management's Discussion and Analysis (Cont.)**



**Tennessee Board of Regents
Dyersburg State Community College
Management's Discussion and Analysis (Cont.)**

Comparison of Fiscal Year 2010 to Fiscal Year 2009

College

- Salaries for the college rose in FY 2010 by \$699,310.66 due to increases in WIA grant programs and salaries funded by the SFSF stimulus grant.
- A medical insurance premium holiday for two months and lower other post employment benefit (retiree medical) costs reduced benefits by \$265,306.91 compared to FY 2009.
- Operating costs increased because of higher WIA grants that resulted from the weak economy in the service area.
- Scholarship expenses for the college are higher in FY 2010 due to the additional Pell, TSAC, and Lottery scholarships, which are a result of the record enrollment increase.

Foundation

- Foundation payments to the college declined in FY 2010 as a result of lower scholarship awards.

Comparison of Fiscal Year 2009 to Fiscal Year 2008

College

- Total salaries for the college increased by \$590,281.69 in 2009. The WIA programs added more than 600 temporary workers for the summer work program. These workers were placed in businesses and manufacturing plants in the five counties served by the college and WIA 12.
- Operating costs for the college decreased by \$251,758.78 in 2009 compared to 2008. In 2008, the college had costs related to construction and furnishing the new Student Center and renovation of the Campus Activities Building. These projects were completed in September 2008.
- Scholarship awards increased due to the increase in number of student awards. Enrollment increases were 7% in fall 2008 and 12.3% in spring 2009. Approximately 61% of students receive some type of financial aid at the college.

**Tennessee Board of Regents
Dyersburg State Community College
Management's Discussion and Analysis (Cont.)**

- Depreciation expense increased by \$148,835.08. Depreciation began on the Student Center, which had a cost value of \$4,713,459.98.

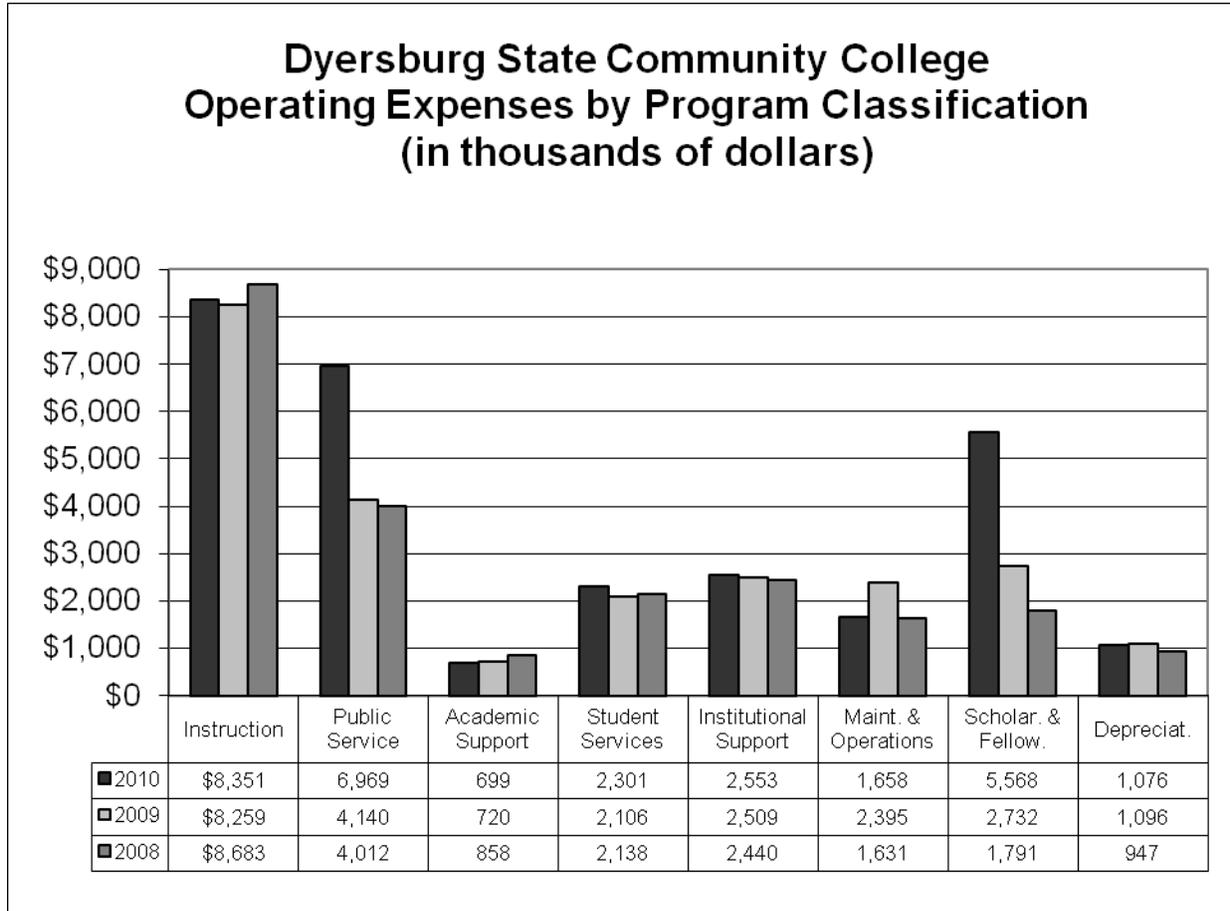
Foundation

- Operating expense decreased from \$129,394.61 in 2008 to \$6,483.60 in 2009, which is the normal recurring operating expense. The 2008 expense included the cost for contracted services to conduct a feasibility study to change the name of the college.
- Payments to the college include funding for scholarships and other programs to support the college. Scholarship funding was \$89,380.00 in 2009 and \$94,714.03 in 2008. Other program support was \$5,000 in 2009 and \$59,000 in 2008, which included \$55,000 for the Student Center building project.

**PROGRAM CLASSIFICATION
(in thousands of dollars)**

	Institution			Component Unit		
	2010	2009	2008	2010	2009	2008
Instruction	\$ 8,351	\$ 8,259	\$ 8,683	\$ -	\$ -	\$ -
Public service	6,969	4,140	4,012	-	-	-
Academic support	699	720	858	-	-	-
Student services	2,301	2,106	2,138	-	-	-
Institutional support	2,553	2,509	2,440	6	7	129
Maintenance & operations	1,658	2,395	1,631	-	-	-
Scholarships & fellowships	5,568	2,732	1,791	-	-	-
Depreciation	1,076	1,096	947	-	-	-
Payments to the college	-	-	-	55	94	154
Total	\$29,175	\$23,957	\$ 22,500	\$ 61	\$ 101	\$283

**Tennessee Board of Regents
Dyersburg State Community College
Management's Discussion and Analysis (Cont.)**



Comparison of Fiscal Year 2010 to Fiscal Year 2009

- Public service increased by \$2,828,666.73 in FY 2010 due to an expanded WIA program to help the weak economy in the service area.
- Maintenance and operations expenses declined because of lower spending on maintenance and utilities compared to FY 2009.
- Scholarship expenses for the college are higher in FY 2010 due to the additional Pell, TSAC, and Lottery scholarships, which are a result of the record enrollment increase.

**Tennessee Board of Regents
Dyersburg State Community College
Management's Discussion and Analysis (Cont.)**

Comparison of Fiscal Year 2009 to Fiscal Year 2008

- The instruction program expense decreased in 2009 by 5%. In 2008, the lab equipment was replaced in several classrooms, and operating budgets were reduced in 2009 due to the reduction in appropriations.
- The academic support program expense decreased as costs for Banner implementation decreased. Banner Student went “live” in the fall of 2008; this was the final module of the Banner system to be implemented.
- Maintenance and operations program expense increased in 2009 as more buildings came online and additional custodial help was added.
- The scholarships and fellowships expense increased due to additional awards paid. The highest enrollment in the history of the college occurred in the fall 2008 and spring 2009 semesters.
- Depreciation expense increased 16% in 2009 due to buildings coming online and additions to other capitalized equipment and software.

Capital Assets and Debt Administration

Capital Assets

Dyersburg State Community College had \$23,387,874 invested in capital assets, net of accumulated depreciation of \$9,900,727 at June 30, 2010; \$24,112,182 invested in capital assets, net of accumulated depreciation of \$8,951,003 at June 30, 2009; and \$24,515,898 invested in capital assets, net of accumulated depreciation of \$8,192,884 at June 30, 2008. Depreciation charges totaled \$1,076,049, \$1,096,062, and \$875,801 for the years ended June 30, 2010; June 30, 2009; and June 30, 2008, respectively. Details of these assets are shown below.

**Tennessee Board of Regents
Dyersburg State Community College
Management's Discussion and Analysis (Cont.)**

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

	2010	2009	2008
Land	\$ 866	\$ 866	\$ 866
Land improvements & infrastructure	151	177	205
Buildings	20,806	21,558	17,605
Equipment	418	413	444
Intangible assets	773	867	752
Library holdings	245	213	188
Projects in progress	129	18	4,280
Total	\$ 23,388	\$ 24,112	\$ 24,340

In FY 2010, depreciation expense reduced net capital assets by \$1,076,049.38, and capital additions to equipment and construction in progress increased it by \$351,741.06. Funding came from appropriations, the college's unexpended plant funds, and unrestricted funds. In September 2009, the new Student Center at a value of \$4,713,459.98 came online. During FY 2009 there were additions totaling \$782,652.80 added to capitalized assets offset by reductions of \$428,250.74 and net of depreciation expense, which results in a net decrease in capital assets of \$227,863.10. Funding for the Student Center was a combination of appropriations, the college's unexpended plant funds, and gifts. Other additions were funded by the college's designated funds for renewal and replacements.

Currently the college is in the planning stage to construct a Learning Resource Center and Student Services building at the Jimmy Naifeh Center in Tipton County. Appropriations of \$450,000 were approved for the planning of the building. Funding for \$12 million will be from appropriations. Tipton county officials have indicated their commitment for the construction cost will be approximately \$3,000,000. More detailed information about the college's capital assets is presented in Note 7 to the financial statements.

Debt

The college had no debt and \$111,274 in debt outstanding at June 30, 2010, and June 30, 2009, respectively. The table below summarizes these amounts by type of debt instrument.

**Tennessee Board of Regents
Dyersburg State Community College
Management's Discussion and Analysis (Cont.)**

Dyersburg State Community College

	2010	2009	2008
TSSBA Bonds	\$ -	\$111,274	\$218,062

The final installment of five annual payments on TSSBA bonds was made in FY 2010.

The ratings on debt issued by the Tennessee State School Bond Authority at June 30, 2010, were as follows:

Fitch	AA
Moody's Investor Service	Aa2
Standard & Poor's	AA

More information about the college's long-term liabilities is presented in Note 9 to the financial statements.

Economic Factors That Will Affect the Future

Several factors regarding funding in 2010 will impact the college in years to come. The state appropriations have declined in recent years and will be affected by future sales tax revenue. In February 2009, the American Recovery and Reinvestment Act (ARRA) were signed, providing funding for State Fiscal Stabilization Funds (SFSF) through 2010-11 for public higher education institutions. These funds are unlikely to continue beyond FY 2011. Enrollment increased significantly in FY 2010 and has increased in the fall 2010 semester. It is unknown if those levels will be sustained in the future. The tuition increase for FY 2011 is approximately 5%.

Requests for Information

This financial report is designed to provide a general overview of the institution's finances for all those with an interest in the college's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be directed to Lowell Hoffmann, 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, 2010, AND JUNE 30, 2009**

	Dyersburg State Community College		Component Unit - Dyersburg State Community College Foundation	
	June 30, 2010	June 30, 2009	June 30, 2010	June 30, 2009
ASSETS				
Current assets				
Cash and cash equivalents (Notes 2, 3, and 20)	\$ 2,454,075.20	\$ 2,925,330.19	\$ 43,910.59	\$ 118,921.99
Accounts, notes, and grants receivable (net) (Note 5)	1,760,487.49	1,791,892.74	-	-
Due from primary government	98,886.40	-	-	-
Pledges receivable (net) (Note 6)	12,660.28	16,481.00	-	-
Prepaid expenses and deferred charges	2,220.75	4,499.27	-	-
Accrued interest receivable	-	-	12,353.77	37,789.06
Total current assets	<u>4,328,330.12</u>	<u>4,738,203.20</u>	<u>56,264.36</u>	<u>156,711.05</u>
Noncurrent assets				
Cash and cash equivalents (Note 2, 3, and 20)	5,528,458.80	2,757,604.46	953,110.50	1,235,395.99
Investments (Notes 4 and 20)	76,741.80	59,885.70	3,519,719.05	2,891,804.28
Capital assets (net) (Note 7)	23,387,873.98	24,112,182.30	-	-
Total noncurrent assets	<u>28,993,074.58</u>	<u>26,929,672.46</u>	<u>4,472,829.55</u>	<u>4,127,200.27</u>
Total assets	<u>33,321,404.70</u>	<u>31,667,875.66</u>	<u>4,529,093.91</u>	<u>4,283,911.32</u>
LIABILITIES				
Current liabilities				
Accounts payable (Note 8)	586,944.83	459,881.45	-	-
Accrued liabilities	514,173.16	769,657.31	-	-
Due to primary government	-	399,600.00	-	-
Deferred revenue	214,976.50	151,224.00	-	-
Compensated absences (Note 9)	185,634.23	166,078.85	-	-
Accrued interest payable	-	741.82	-	-
Long-term liabilities, current portion (Notes 9 and 20)	-	111,273.50	5,600.00	5,600.00
Due to grantor	24,884.46	8,697.87	-	-
Deposits held in custody for others	147,654.41	139,749.59	-	-
Total current liabilities	<u>1,674,267.59</u>	<u>2,206,904.39</u>	<u>5,600.00</u>	<u>5,600.00</u>
Noncurrent liabilities				
Net OPEB obligation (Notes 9 and 14)	964,648.17	748,218.20	-	-
Compensated absences (Note 9)	554,232.08	528,758.76	-	-
Long-term liabilities (Notes 9 and 20)	-	-	16,700.88	25,914.43
Total noncurrent liabilities	<u>1,518,880.25</u>	<u>1,276,976.96</u>	<u>16,700.88</u>	<u>25,914.43</u>
Total liabilities	<u>3,193,147.84</u>	<u>3,483,881.35</u>	<u>22,300.88</u>	<u>31,514.43</u>
NET ASSETS				
Invested in capital assets, net of related debt	23,387,873.98	24,000,908.80	-	-
Restricted for				
Nonexpendable				
Scholarships and fellowships	135,047.30	133,441.95	2,871,421.61	2,798,593.27
Expendable				
Scholarships and fellowships (Note 10)	318,036.38	375,376.46	1,575,760.55	1,421,038.53
Instructional department uses	682,488.89	475,599.86	-	-
Loans	-	14,256.70	-	-
Other	414,452.61	265,563.64	-	-
Unrestricted (Note 11)	<u>5,190,357.70</u>	<u>2,918,846.90</u>	<u>59,610.87</u>	<u>32,765.09</u>
Total net assets	<u>\$ 30,128,256.86</u>	<u>\$ 28,183,994.31</u>	<u>\$ 4,506,793.03</u>	<u>\$ 4,252,396.89</u>

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

**TENNESSEE BOARD OF REGENTS
DYERSBURG STATE COMMUNITY COLLEGE
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2010, AND JUNE 30, 2009**

	Dyersburg State Community College		Component Unit - Dyersburg State Community College Foundation	
	Year Ended	Year Ended	Year Ended	Year Ended
	<u>June 30, 2010</u>	<u>June 30, 2009</u>	<u>June 30, 2010</u>	<u>June 30, 2009</u>
REVENUES				
Operating revenues				
Student tuition and fees (net of scholarship allowances of \$4,609,250.75 for the year ended June 30, 2010 and \$2,789,383.27 for the year ended June 30, 2009)	\$ 4,022,759.33	\$ 3,684,424.91	-	-
Gifts and contributions	-	-	12,060.00	39,296.54
Endowment income (per spending plan)	-	-	175,385.20	73,562.66
Governmental grants and contracts	8,816,816.86	5,571,931.48	-	-
Sales and services of educational departments	33,683.64	13,843.57	-	-
Auxiliary enterprises:				
Bookstore	133,707.46	99,639.09	-	-
Other operating revenues	38,437.68	93,375.68	-	-
Total operating revenues	<u>13,045,404.97</u>	<u>9,463,214.73</u>	<u>187,445.20</u>	<u>112,859.20</u>
EXPENSES				
Operating expenses (Note 17):				
Salaries and wages	10,776,686.45	10,077,375.79	-	-
Benefits	3,572,667.85	3,837,974.76	-	-
Utilities, supplies, and other services	7,807,583.45	6,096,528.29	5,878.79	6,483.60
Scholarships and fellowships	5,942,104.64	2,848,635.48	-	-
Depreciation expense	1,076,049.38	1,096,061.54	-	-
Payments to or on behalf of Dyersburg State Community College (Note 20)	-	-	55,000.00	94,380.00
Total operating expenses	<u>29,175,091.77</u>	<u>23,956,575.86</u>	<u>60,878.79</u>	<u>100,863.60</u>
Operating income (loss)	<u>(16,129,686.80)</u>	<u>(14,493,361.13)</u>	<u>126,566.41</u>	<u>11,995.60</u>
NONOPERATING REVENUES (EXPENSES)				
State appropriations	6,868,957.00	7,374,057.00	-	-
Gifts, including \$55,000.00 from component unit for the year ended June 30, 2010, and \$94,380.00 from component unit for the year ended June 30, 2009 (Note 20)	942,644.75	1,070,204.97	-	-
Grants and contracts	10,150,323.25	4,755,954.54	-	-
Investment income (net of investment expense)	37,618.32	113,357.89	55,001.39	51,004.32
Interest on capital asset-related debt	(3,709.12)	(8,010.55)	-	-
Other non-operating revenues/(expenses)	-	(5,928.81)	-	-
Net nonoperating revenues/(expenses)	<u>17,995,834.20</u>	<u>13,299,635.04</u>	<u>55,001.39</u>	<u>51,004.32</u>
Income (loss) before other revenues, expenses, gains, other losses	<u>1,866,147.40</u>	<u>(1,193,726.09)</u>	<u>181,567.80</u>	<u>62,999.92</u>
Capital appropriations	78,115.15	516,709.98	-	-
Additions to permanent endowments	-	-	72,828.34	46,488.29
Total other revenues	<u>78,115.15</u>	<u>516,709.98</u>	<u>72,828.34</u>	<u>46,488.29</u>
Increase (decrease) in net assets	<u>1,944,262.55</u>	<u>(677,016.11)</u>	<u>254,396.14</u>	<u>109,488.21</u>
NET ASSETS				
Net assets - beginning of year	28,183,994.31	28,751,429.84	4,252,396.89	4,142,908.68
Prior period adjustment (Note 18)	-	109,580.58	-	-
Net assets (restated) - beginning of year	<u>28,183,994.31</u>	<u>28,861,010.42</u>	<u>4,252,396.89</u>	<u>4,142,908.68</u>
Net assets - end of year	<u>\$ 30,128,256.86</u>	<u>\$ 28,183,994.31</u>	<u>\$ 4,506,793.03</u>	<u>\$ 4,252,396.89</u>

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

**TENNESSEE BOARD OF REGENTS
DYERSBURG STATE COMMUNITY COLLEGE
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2010, AND JUNE 30, 2009**

	Year Ended June 30, 2010	Year Ended July 1, 2009
CASH FLOWS FROM OPERATING ACTIVITIES		
Tuition and fees	\$ 4,070,370.69	\$ 3,522,804.67
Grants and contracts	8,785,466.93	4,979,485.38
Sales and services of educational activities	33,683.64	13,843.57
Payments to suppliers and vendors	(8,006,190.71)	(5,853,312.16)
Payments to employees	(11,002,530.74)	(9,883,278.16)
Payments for benefits	(3,333,392.04)	(3,201,208.03)
Payments for scholarships and fellowships	(5,942,104.64)	(2,846,352.97)
Auxiliary enterprises:		
Bookstore	131,351.08	103,557.27
Other receipts (payments)	50,391.29	130,772.96
Net cash flows used by operating activities	<u>(15,212,954.50)</u>	<u>(13,033,687.47)</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
State appropriations	6,859,900.00	7,369,900.00
Gifts and grants received for other than capital or endowment purposes, including \$55,000.00 from component unit for the year ending June 30, 2010, and \$94,380.00 for the year ending June 30, 2009	11,021,317.16	5,775,374.51
Federal student loan receipts	4,676,780.53	2,914,709.30
Federal student loan disbursements	(4,684,360.93)	(2,902,389.42)
Changes in deposits held for others	15,485.22	30,826.95
Net cash flows provided by non-capital financing activities	<u>17,889,121.98</u>	<u>13,188,421.34</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital - state appropriation	78,115.15	516,709.98
Purchase of capital assets and construction	(351,741.06)	(776,866.55)
Principal paid on capital debt and lease	(111,273.50)	(106,788.50)
Interest paid on capital debt and lease	(4,450.94)	(8,722.48)
Other capital and related financing receipts (payments)	(7,980.00)	-
Net cash flows used by capital and related financing activities	<u>(397,330.35)</u>	<u>(375,667.55)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of investments	49,918.75	30,000.00
Income on investments	36,012.97	113,685.69
Purchase on investments	(65,169.50)	(24,918.75)
Net cash provided by investing activities	<u>20,762.22</u>	<u>118,766.94</u>
Net increase (decrease) in cash and cash equivalents	2,299,599.35	(102,166.74)
Cash and cash equivalents - beginning of year	5,682,934.65	5,785,101.39
Cash and cash equivalents - end of year	<u>\$ 7,982,534.00</u>	<u>\$ 5,682,934.65</u>

**TENNESSEE BOARD OF REGENTS
DYERSBURG STATE COMMUNITY COLLEGE
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2010, AND JUNE 30, 2009**

Reconciliation of operating loss to net cash used by operating activities:

Operating loss	\$ (16,129,686.80)	\$ (14,493,361.13)
Adjustments to reconcile operating loss to net cash used by operating activities:		
Depreciation expense	1,076,049.38	1,096,061.54
Gifts in-kind	71,650.84	50,785.00
Other adjustments	7,457.00	7,457.00
Change in assets and liabilities		
Receivables, net	(54,080.43)	(729,020.83)
Prepaid/deferred items	2,278.52	(3,005.80)
Accounts payable	(272,536.62)	194,923.82
Accrued liabilities	(39,054.18)	830,344.98
Deferred revenues	63,752.50	18,232.65
Compensated absences	45,028.70	(14,802.57)
Due to grantors	16,186.59	8,697.87
Net cash used by operating activities	<u>\$ (15,212,954.50)</u>	<u>\$ (13,033,687.47)</u>

Noncash investing, capital, or financing transactions

Gifts in-kind - capital	-	7,111.00
Unrealized gains/(losses) on investments	1,605.35	(327.80)
Loss on disposal of capital assets	-	(5,928.81)

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

**Tennessee Board of Regents
Dyersburg State Community College
Notes to the Financial Statements
June 30, 2010, and June 30, 2009**

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 significant 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 20 for more detailed information about the component unit and how to obtain the report.

Basis of Presentation

The college's 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.

Tennessee Board of Regents
Dyersburg State Community College
Notes to the Financial Statements (Cont.)
June 30, 2010, and June 30, 2009

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

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

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

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

Cash Equivalents

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

Compensated Absences

The college's employees accrue annual leave at varying rates, depending on length of service or classification. Some employees also earn compensatory time. The amount of these liabilities and their related benefits are reported in the statement of net assets.

Capital Assets

Capital assets, which include property, plant, equipment, library holdings, and intangible assets, are reported in the statement of net assets at historical cost or at fair value at date of donation, less accumulated depreciation/amortization. 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.

**Tennessee Board of Regents
Dyersburg State Community College
Notes to the Financial Statements (Cont.)
June 30, 2010, and June 30, 2009**

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 intangible assets 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 Dyersburg State Community 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

**Tennessee Board of Regents
Dyersburg State Community College
Notes to the Financial Statements (Cont.)
June 30, 2010, and June 30, 2009**

enterprises are substantially self-supporting activities that provide services for students, faculty, and staff.

Scholarship Discounts and Allowances

Student tuition and fee revenues, and certain other revenues from students, are reported net of scholarship discounts and allowances in the statement of revenues, expenses, and changes in net assets. Scholarship discounts and allowances are the difference between the stated charge for goods and services provided by the college and the amount that is paid by the student and/or third parties making payments on the student's behalf. Certain governmental grants, such as Pell grants, and other federal, state, or nongovernmental programs are recorded as either operating or nonoperating revenues in the college's financial statements. To the extent that revenues from such programs are used to satisfy tuition and fees and other student charges, the college has recorded a scholarship discount and allowance.

NOTE 2. CASH AND CASH EQUIVALENTS

In addition to demand deposits and petty cash on hand, this classification includes instruments which are readily convertible to known amounts of cash and which have original maturities of three months or less. At June 30, 2010, cash and cash equivalents consisted of \$138,818.67 in bank accounts, \$3,666.55 of petty cash on hand, \$7,833,206.26 in the State of Tennessee Local Government Investment Pool (LGIP) administered by the State Treasurer, and \$6,842.52 in money market funds. At June 30, 2009, cash and cash equivalents consisted of \$1,639,189.37 in bank accounts, \$3,548.65 of petty cash on hand, \$4,014,816.71 in LGIP administered by the State Treasurer, and \$25,379.92 in money market 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% or 100% of the uninsured deposits. The pledge level is based on financial criteria set by the Collateral Pool Board with the financially strongest institutions

**Tennessee Board of Regents
Dyersburg State Community College
Notes to the Financial Statements (Cont.)
June 30, 2010, and June 30, 2009**

being eligible for the lower 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, 2010, \$6,842.52 of the college's bank balance of \$434,184.51 was exposed to custodial credit risk as follows:

Uninsured and uncollateralized	\$ <u>6,842.52</u>
Total	\$ <u>6,842.52</u>

At June 30, 2009, \$25,379.92 of the college's bank balance of \$1,980,654.54 was exposed to custodial credit risk as follows:

Uninsured and uncollateralized	\$ <u>25,379.92</u>
Total	\$ <u>25,379.92</u>

The college also has deposits in the Local Government Investment Pool (LGIP) administered by the State Treasurer. The LGIP is part of the State Pooled Investment Fund. The fund's required risks disclosures are presented in the *State of Tennessee's Treasurer's Report*. That report is available on the state's website at <http://www.tn.gov/treasury> or by calling (615) 741-2956.

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.

**Tennessee Board of Regents
Dyersburg State Community College
Notes to the Financial Statements (Cont.)
June 30, 2010, and June 30, 2009**

At June 30, 2010, the college had the following investments and maturities.

Investment Maturities (in Years)

<u>Investment Type</u>	<u>Fair Value</u>	<u>Less than 1</u>	<u>1 to 5</u>	<u>6 to 10</u>	<u>More than 10</u>	<u>No Maturity Date</u>
U.S. agencies	\$ 30,328.10	\$ -	\$ 20,300.00	\$ 10,028.10	\$ -	\$ -
Corporate bonds	20,343.20	-	9,797.90	10,545.30	-	-
Money market	6,842.52	-	-	-	-	6,842.52
Municipal bonds and notes	26,070.50	-	26,070.50	-	-	-
Less cash and cash equivalents:						
Money market	<u>(6,842.52)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(6,842.52)</u>
Total	<u>\$ 76,741.80</u>	<u>\$ -</u>	<u>\$ 56,168.40</u>	<u>\$ 20,573.40</u>	<u>\$ -</u>	<u>\$ -</u>

At June 30, 2009, the college had the following investments and maturities.

Investment Maturities (in Years)

<u>Investment Type</u>	<u>Fair Value</u>	<u>Less than 1</u>	<u>1 to 5</u>	<u>6 to 10</u>	<u>More than 10</u>	<u>No Maturity Date</u>
Money market	\$ 25,379.92	\$ -	\$ -	\$ -	\$ -	\$ 25,379.92
U.S. agencies	50,056.00	-	50,056.00	-	-	-
Corporate bonds	9,829.70	-	-	9,829.70	-	-
Less cash and cash equivalents:						
Money market	<u>(25,379.92)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(25,379.92)</u>
Total	<u>\$ 59,885.70</u>	<u>\$ -</u>	<u>\$ 50,056.00</u>	<u>\$ 9,829.70</u>	<u>\$ -</u>	<u>\$ -</u>

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

Tennessee Board of Regents
Dyersburg State Community College
Notes to the Financial Statements (Cont.)
June 30, 2010, and June 30, 2009

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. Prime banker's acceptances are required to be eligible for purchase by the Federal Reserve System. To be eligible, the original maturity must not be more than 270 days, and it must 1) arise out of the current shipment of goods between countries or with the United States, or 2) arise out of storage within the United States of goods under contract of sale or expected to move into the channel or trade within a reasonable time and that are secured throughout their life by a warehouse receipt or similar document conveying title to the underlying goods.

The policy requires that prime commercial paper shall be limited to that of corporations that meet the following criteria: 1) Senior long-term debt, if any, should have a minimum rating of A1 or equivalent, and short-term debt should have 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 rating must be A1 by all rating services (minimum of two). 2) The rating should be based on the merits of the issuer or guarantee by a nonbank. 3) A financial review should be made to ascertain the issuer's financial strength to cover the debt. 4) Commercial paper of a banking institution should not be purchased. Prime commercial paper shall not have a maturity that exceeds 270 days.

At June 30, 2010, the college's investments were rated as follows:

**Tennessee Board of Regents
Dyersburg State Community College
Notes to the Financial Statements (Cont.)
June 30, 2010, and June 30, 2009**

<u>Investment Type</u>	<u>Credit Quality Rating</u>				
	<u>Fair Value</u>	<u>AAA</u>	<u>AA</u>	<u>A</u>	<u>Unrated</u>
LGIP	\$ 7,833,206.26	\$ -	\$ -	\$ -	\$ 7,833,206.26
U.S. agencies	30,328.10	30,328.10	-	-	-
Corporate bonds	20,343.20	-	10,545.30	9,797.90	-
Money market	6,842.52	-	-	-	6,842.52
Municipal bonds and notes	<u>26,070.50</u>	<u>-</u>	<u>26,070.50</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 7,916,790.58</u>	<u>\$ 30,328.10</u>	<u>\$ 36,615.80</u>	<u>\$ 9,797.90</u>	<u>\$ 7,840,048.78</u>

At June 30, 2009, the college's investments were rated as follows:

<u>Investment Type</u>	<u>Credit Quality Rating</u>			
	<u>Fair Value</u>	<u>AAA</u>	<u>AA</u>	<u>Unrated</u>
LGIP	\$ 4,014,816.71	\$ -	\$ -	\$ 4,014,816.71
U.S. agencies	50,056.00	50,056.00	-	-
Corporate bonds	9,829.70	-	9,829.70	-
Money market	<u>25,379.92</u>	<u>-</u>	<u>-</u>	<u>25,379.92</u>
Total	<u>\$ 4,100,082.33</u>	<u>\$ 50,056.00</u>	<u>\$ 9,829.70</u>	<u>\$ 4,040,196.63</u>

NOTE 5. RECEIVABLES

Receivables included the following:

	<u>June 30, 2010</u>	<u>June 30, 2009</u>
Student accounts receivable	\$ 952,285.64	\$ 930,644.75
Grants receivable	1,052,159.00	1,091,708.16
State appropriation receivable	13,700.00	12,100.00
Other receivables	<u>20,752.40</u>	<u>31,749.13</u>
Subtotal	2,038,897.04	2,066,202.04
Less allowance for doubtful accounts	<u>(278,409.55)</u>	<u>(274,309.30)</u>
Total receivables	<u>\$ 1,760,487.49</u>	<u>\$ 1,791,892.74</u>

**Tennessee Board of Regents
Dyersburg State Community College
Notes to the Financial Statements (Cont.)
June 30, 2010, and June 30, 2009**

NOTE 6. PLEDGES RECEIVABLE

Pledges receivable are promises of private donations that are reported as a receivable and revenue. At June 30, 2010, and June 30, 2009, all were considered to be collectible.

NOTE 7. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2010, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Transfers</u>	<u>Reductions</u>	<u>Ending Balance</u>
Land	\$ 866,323.50	\$ -	\$ -	\$ -	\$ 866,323.50
Land improvements and infrastructure	676,935.00	-	-	-	676,935.00
Buildings	28,591,851.00	-	-	-	28,591,851.00
Equipment	1,342,206.84	136,313.51	-	50,074.00	1,428,446.35
Library holdings	413,931.44	82,051.90	-	76,251.38	419,731.96
Intangible assets	1,153,937.18	22,320.00	-	-	1,176,257.18
Projects in progress	<u>18,000.00</u>	<u>111,055.65</u>	<u>-</u>	<u>-</u>	<u>129,055.65</u>
 Total	 <u>33,063,184.96</u>	 <u>351,741.06</u>	 <u>-</u>	 <u>126,325.38</u>	 <u>33,288,600.64</u>
 Less accumulated depreciation:					
Land improvements and infrastructure	499,499.10	26,912.04	-	-	526,411.14
Buildings	7,033,940.33	751,675.75	-	-	7,785,616.08
Equipment	929,222.00	131,383.25	-	50,074.00	1,010,531.25
Library holdings	201,494.78	49,598.19	-	76,251.38	174,841.59
Intangible assets	<u>286,846.45</u>	<u>116,480.15</u>	<u>-</u>	<u>-</u>	<u>403,326.60</u>
 Total	 <u>8,951,002.66</u>	 <u>1,076,049.38</u>	 <u>-</u>	 <u>126,325.38</u>	 <u>9,900,726.66</u>
 Capital assets, net	 <u>\$ 24,112,182.30</u>	 <u>\$ (724,308.32)</u>	 <u>\$ -</u>	 <u>\$ -</u>	 <u>\$ 23,387,873.98</u>

**Tennessee Board of Regents
Dyersburg State Community College
Notes to the Financial Statements (Cont.)
June 30, 2010, and June 30, 2009**

Capital asset activity for the year ended June 30, 2009, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Transfers</u>	<u>Reductions</u>	<u>Ending Balance</u>
Land	\$ 866,323.50	\$ -	\$ -	\$ -	\$ 866,323.50
Land improvements and infrastructure	676,935.00	-	-	-	676,935.00
Buildings	23,844,875.02	-	4,746,975.98	-	28,591,851.00
Equipment	1,581,004.69	116,222.54	-	355,020.39	1,342,206.84
Library holdings	407,440.73	72,197.06	-	65,706.35	413,931.44
Intangible assets	1,064,220.13	97,241.05	-	7,524.00	1,153,937.18
Projects in progress	<u>4,267,983.83</u>	<u>496,992.15</u>	<u>(4,746,975.98)</u>	<u>-</u>	<u>18,000.00</u>
Total	<u>32,708,782.90</u>	<u>782,652.80</u>	<u>-</u>	<u>428,250.74</u>	<u>33,063,184.96</u>
Less accumulated depreciation:					
Land improvements and infrastructure	472,587.04	26,912.06	-	-	499,499.10
Buildings	6,239,425.05	794,515.28	-	-	7,033,940.33
Equipment	1,096,136.61	204,833.95	-	371,748.56	929,222.00
Library holdings	205,015.45	49,256.70	-	52,777.37	201,494.78
Intangible assets	<u>179,720.29</u>	<u>109,535.71</u>	<u>-</u>	<u>2,409.55</u>	<u>286,846.45</u>
Total	<u>8,192,884.44</u>	<u>1,185,053.70</u>	<u>-</u>	<u>426,935.48</u>	<u>8,951,002.66</u>
Capital assets, net	<u>\$ 24,515,898.46</u>	<u>\$ (402,400.90)</u>	<u>\$ -</u>	<u>\$ 1,315.26</u>	<u>\$ 24,112,182.30</u>

NOTE 8. ACCOUNTS PAYABLE

Accounts payable included the following:

	<u>June 30, 2010</u>	<u>June 30, 2009</u>
Vendors payable	\$586,944.83	\$458,875.10
Unapplied student payments	<u>-</u>	<u>1,006.35</u>
Total accounts payable	<u>\$586,944.83</u>	<u>\$459,881.45</u>

**Tennessee Board of Regents
Dyersburg State Community College
Notes to the Financial Statements (Cont.)
June 30, 2010, and June 30, 2009**

NOTE 9. LONG-TERM LIABILITIES

Long-term liabilities activity for the year ended June 30, 2010, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Current Portion</u>
Payables:					
TSSBA debt:					
Bonds	\$ 111,273.50	\$ -	\$ 111,273.50	\$ -	\$ -
Other liabilities:					
Compensated absences	694,837.61	516,365.11	471,336.41	739,866.31	185,634.23
Net OPEB obligation	<u>748,218.20</u>	<u>216,429.97</u>	<u>-</u>	<u>964,648.17</u>	<u>-</u>
Subtotal	<u>1,443,055.81</u>	<u>732,795.08</u>	<u>471,336.41</u>	<u>1,704,514.48</u>	<u>185,634.23</u>
Total long-term liabilities	<u>\$ 1,554,329.31</u>	<u>\$ 732,795.08</u>	<u>\$ 582,609.91</u>	<u>\$ 1,704,514.48</u>	<u>\$ 185,634.23</u>

Long-term liabilities activity for the year ended June 30, 2009, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Current Portion</u>
Payables:					
TSSBA debt:					
Bonds	\$ 218,062.00	\$ -	\$ 106,788.50	\$ 111,273.50	\$ 111,273.50
Other liabilities:					
Compensated absences	709,640.18	481,527.88	496,330.45	694,837.61	166,078.85
Net OPEB obligation	<u>382,715.00</u>	<u>365,503.20</u>	<u>-</u>	<u>748,218.20</u>	<u>-</u>
Subtotal	<u>1,092,355.18</u>	<u>847,031.08</u>	<u>496,330.45</u>	<u>1,443,055.81</u>	<u>166,078.85</u>
Total long-term liabilities	<u>\$ 1,310,417.18</u>	<u>\$ 847,031.08</u>	<u>\$ 603,118.95</u>	<u>\$ 1,554,329.31</u>	<u>\$ 277,352.35</u>

NOTE 10. 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

**Tennessee Board of Regents
Dyersburg State Community College
Notes to the Financial Statements (Cont.)
June 30, 2010, and June 30, 2009**

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, 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, 2010, net appreciation of \$4,062.02 is available to be spent, all of which is included in restricted net assets expendable for scholarships and fellowships. At June 30, 2009, net appreciation of \$7,348.67 is available to be spent, all of which is included in restricted net assets expendable for scholarships and fellowships.

NOTE 11. UNRESTRICTED NET ASSETS

Unrestricted net assets include funds that have been designated for specific purposes. The unrestricted net assets are composed of the following:

	<u>June 30, 2010</u>	<u>June 30, 2009</u>
Working capital	\$ 685,897.57	\$ 662,813.67
Encumbrances	118,629.82	5,812.00
Designated fees	95,557.95	112,241.40
Auxiliaries	165,995.13	167,287.67
Plant construction	3,058,651.22	606,876.76
Renewal and replacement of equipment	2,060,663.09	1,936,719.18
Debt retirement	-	115,205.16
Undesignated	<u>(995,037.08)</u>	<u>(688,108.94)</u>
Total	<u>\$ 5,190,357.70</u>	<u>\$ 2,918,846.90</u>

**Tennessee Board of Regents
Dyersburg State Community College
Notes to the Financial Statements (Cont.)
June 30, 2010, and June 30, 2009**

NOTE 12. PLEDGED REVENUES

In 2009, the college pledged certain revenues and fees, including state appropriations, to repay \$111,273.50 in revenue bonds issued from June 2006 to May 2010. Proceeds from the bonds provided financing for the purchase of administrative computing equipment and associated software. The bonds were payable through 2010. Annual principal and interest payments on the bonds were expected to require 0.8% of available revenues. At June 30, 2009, the total principal and interest remaining to be paid on the bonds was \$115,724.44. Principal and interest paid for 2009 and total available revenues in that year were \$114,799.05 and \$14,220,733.23, respectively.

NOTE 13. 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 is available on the state's website at <http://www.state.tn.us/treasury/tcrs/index.html>.

Funding Policy - Plan members are noncontributory. The college is required to contribute an actuarially determined rate. The current rate is 13.02% 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, 2010, 2009, and 2008 were \$627,827.46, \$635,260.42 and \$605,896.98. Contributions met the requirements for each year.

**Tennessee Board of Regents
Dyersburg State Community College
Notes to the Financial Statements (Cont.)
June 30, 2010, and June 30, 2009**

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), ING 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 \$348,783.85 for the year ended June 30, 2010, and \$362,764.19 for the year ended June 30, 2009. Contributions met the requirements for each year.

NOTE 14. 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 postemployment 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. For accounting purposes, the plans are agent multiple-employer defined benefit OPEB plans. Benefits are established and amended by an insurance committee created by Section 8-27-101, *Tennessee Code Annotated*. Prior to reaching age 65, retirees may participate in the State Employee Group Plan. Members of this plan have the option of choosing a preferred provider organization (PPO), point of service (POS), or health maintenance organization (HMO) plan for healthcare benefits. The POS and HMO options will no longer be available to members after January 1, 2011. Subsequent to age 65, retirees who are also in the state's retirement system may participate in a state-administered

**Tennessee Board of Regents
Dyersburg State Community College
Notes to the Financial Statements (Cont.)
June 30, 2010, and June 30, 2009**

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 19. The plans are reported in the state of Tennessee's *Comprehensive Annual Financial Report* (CAFR). The CAFR is available on the state's website at <http://tennessee.gov/finance/act/cafr.html>.

Special Funding Situation

The State of Tennessee is legally responsible for contributions to the Medicare Supplement Plan that covers the retirees of other governmental entities, including Dyersburg State Community College. The state is the sole contributor for the college retirees that participate in the Medicare Supplement Plan and, therefore, is acting as the employer.

Funding Policy

The premium requirements of members of the State Employee Group Plan are established and may be amended by the insurance committee. The plan is 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. Administrative costs of the plan are allocated to plan participants. In accordance with Section 8-27-205(b), *Tennessee Code Annotated*, retirees in the State Employee Group Plan pay the same base premium as active employees in the plan adjusted for years of service. Retirees with 30 years of service pay 20% of the total premium. Retirees with 20 years but less than 30 years of service pay 30% of the total premium. Retirees with less than 20 years of service pay 40% of the total premium.

College's Annual OPEB Cost and Net OPEB Obligation
State Employee Group Plan

	<u>2010</u>	<u>2009</u>
Annual required contribution (ARC)	\$ 380,000.00	\$ 548,000.00
Interest on the net OPEB obligation	33,669.82	17,222.18
Adjustment to the ARC	<u>(31,892.00)</u>	<u>(16,762.22)</u>

**Tennessee Board of Regents
Dyersburg State Community College
Notes to the Financial Statements (Cont.)
June 30, 2010, and June 30, 2009**

Annual OPEB cost	381,777.82	548,459.96
Amount of contribution	<u>(165,347.85)</u>	<u>(182,956.76)</u>
Increase in net OPEB obligation	216,429.97	365,503.20
Net OPEB obligation – beginning of year	<u>748,218.20</u>	<u>382,715.00</u>
Net OPEB obligation – end of year	<u>\$ 964,648.17</u>	<u>\$ 748,218.20</u>

Year-end	Plan	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation at Year-end
June 30, 2010	State Employee Group Plan	\$381,777.82	43.3%	\$964,648.17
June 30, 2009	State Employee Group Plan	\$548,459.96	33.4%	\$748,218.20
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 college's portion of the State Employee Group Plan was as follows:

State Employee Group Plan

Actuarial valuation date	July 1, 2009	July 1, 2007
Actuarial accrued liability (AAL)	\$3,557,000.00	\$4,690,000.00
Actuarial value of plan assets	-	-
Unfunded actuarial accrued liability (UAAL)	\$3,557,000.00	\$4,690,000.00
Actuarial value of assets as a percentage of the AAL	0.00%	0.00%
Covered payroll (active plan members)	\$12,649,302.29	\$12,918,807.09
UAAL as percentage of covered payroll	28.1%	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

**Tennessee Board of Regents
Dyersburg State Community College
Notes to the Financial Statements (Cont.)
June 30, 2010, and June 30, 2009**

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, 2009, 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 6 percent initially, increased to 10 percent in the second year and then reduced by decrements to an ultimate rate of 5 percent in fiscal year 2021. All 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 15. INSURANCE-RELATED ACTIVITIES

It is the policy of the state not to purchase commercial insurance for the risks of losses for general liability, automobile liability, professional malpractice, and workers' compensation. The state's management believes it is more economical to manage these risks internally and set aside assets for claim settlement in its internal service fund, the Risk Management Fund. The state purchases commercial insurance for real property, flood, earthquake, and builder's risk losses and surety bond coverage on the state's officials and employees. The amounts of settlements have not exceeded insurance coverage for each 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

**Tennessee Board of Regents
Dyersburg State Community College
Notes to the Financial Statements (Cont.)
June 30, 2010, and June 30, 2009**

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, 2010, and June 30, 2009, are presented in the *Tennessee Comprehensive Annual Financial Report*. The CAFR is available on the state's website at <http://tennessee.gov/finance/act/cafr.html>. 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*, and 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, 2010, the Risk Management Fund held \$114.5 million in cash and cash equivalents designated for payment of claims. At June 30, 2009, the Risk Management fund held \$127.0 million in cash and cash equivalents designated for payment of claims.

At June 30, 2010, the scheduled coverage for the college was \$39,114,500.00 for buildings and \$5,612,700.00 for contents. At June 30, 2009, the scheduled coverage for the college was \$35,514,500.00 for buildings and \$5,612,700.00 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.

**Tennessee Board of Regents
Dyersburg State Community College
Notes to the Financial Statements (Cont.)
June 30, 2010, and June 30, 2009**

NOTE 16. COMMITMENTS AND CONTINGENCIES

Sick Leave

The college records the cost of sick leave when paid. Generally, since sick leave (earned one day per month with unlimited accumulation) is paid only when an employee dies or is absent because of illness, injury, or related family death, there is no liability for sick leave at June 30. The dollar amount of unused sick leave was \$2,762,128.09 at June 30, 2010, and \$3,151,818.35 at June 30, 2009.

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 \$105,561.03 and for personal property were \$89,217.35 for the year ended June 30, 2010. The amounts for the year ended June 30, 2009, were \$120,761.34 and \$72,111.54. All operating leases are cancelable at the lessee's option.

Construction in Progress

At June 30, 2010, outstanding commitments under construction contracts totaled \$324,952.36 for DSCC Jimmy Naifeh Center Learning Resource Center and Student Center, Campus Site Updates and ARRA Mechanical System, of which \$285,187.36 will be funded by future state capital outlay appropriations.

Litigation

The college is not involved in any lawsuits.

**Tennessee Board of Regents
Dyersburg State Community College
Notes to the Financial Statements (Cont.)
June 30, 2010, and June 30, 2009**

NOTE 17. NATURAL CLASSIFICATIONS WITH FUNCTIONAL CLASSIFICATIONS

The college's operating expenses for the year ended June 30, 2010, are as follows:

<u>Functional Classification</u>	<u>Natural Classification</u>					
	<u>Salaries</u>	<u>Benefits</u>	<u>Other Operating</u>	<u>Scholarships</u>	<u>Depreciation</u>	<u>Total</u>
Instruction	\$ 4,829,702.20	\$ 1,537,158.65	\$ 1,751,504.23	\$ 232,534.60	\$ -	\$ 8,350,899.68
Public service	1,968,627.01	556,781.81	4,415,186.32	28,338.37	-	6,968,933.51
Academic support	794,280.15	294,934.12	(390,185.68)	-	-	699,028.59
Student services	1,181,277.36	370,887.54	631,737.98	116,757.40	-	2,300,660.28
Institutional support	1,442,628.40	531,973.14	578,432.69	476.75	-	2,553,510.98
Operation & maintenance	560,171.33	280,932.59	817,175.68	-	-	1,658,279.60
Scholarships & fellowships	-	-	3,732.23	5,563,997.52	-	5,567,729.75
Depreciation	-	-	-	-	1,076,049.38	1,076,049.38
Total	<u>\$ 10,776,686.45</u>	<u>\$ 3,572,667.85</u>	<u>\$ 7,807,583.45</u>	<u>\$ 5,942,104.64</u>	<u>\$ 1,076,049.38</u>	<u>\$ 29,175,091.77</u>

The college's operating expenses for the year ended June 30, 2009, are as follows:

<u>Functional Classification</u>	<u>Natural Classification</u>					
	<u>Salaries</u>	<u>Benefits</u>	<u>Other Operating</u>	<u>Scholarships</u>	<u>Depreciation</u>	<u>Total</u>
Instruction	\$ 4,795,495.24	\$ 1,765,233.63	\$ 1,440,138.74	\$ 258,347.54	\$ -	\$ 8,259,215.15
Public service	1,471,678.85	471,240.10	2,184,834.80	12,513.03	-	4,140,266.78
Academic support	820,540.17	333,367.99	(433,991.49)	61.38	-	719,978.05
Student services	1,018,144.00	406,495.65	673,058.79	7,889.00	-	2,105,587.44
Institutional support	1,435,197.32	571,370.36	500,226.22	1,976.67	-	2,508,770.57
Operation & maintenance	536,320.21	290,267.03	1,567,758.39	120.00	-	2,394,465.63
Scholarships & fellowships	-	-	164,502.84	2,567,727.86	-	2,732,230.70
Depreciation	-	-	-	-	1,096,061.54	1,096,061.54
Total	<u>\$ 10,077,375.79</u>	<u>\$ 3,837,974.76</u>	<u>\$ 6,096,528.29</u>	<u>\$ 2,848,635.48</u>	<u>\$ 1,096,061.54</u>	<u>\$ 23,956,575.86</u>

NOTE 18. PRIOR-YEAR ADJUSTMENT

Net assets were increased by \$109,580.58 as a result of prior period adjustments in relation to capitalization of capital assets and the related recording of accumulated

**Tennessee Board of Regents
Dyersburg State Community College
Notes to the Financial Statements (Cont.)
June 30, 2010, and June 30, 2009**

depreciation found during capital asset inventory and conversion of capital assets to the Banner information system.

NOTE 19. ON-BEHALF PAYMENTS

During the year ended June 30, 2010, the State of Tennessee made payments of \$7,457.00 on behalf of the college for retirees participating in the Medicare Supplement Plan. The amount for the year ended June 30, 2009, was also \$7,457.00. The Medicare Supplement Plan is a postemployment benefit healthcare plan and is discussed further in Note 14. 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 20. 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 46-member board of the foundation is self-perpetuating and consists of graduates and friends of the college. Although the college does not control the timing or amount of receipts from the foundation, the majority of resources, or income thereon, which the foundation holds and invests, is 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. 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 adjustments, 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, 2010, the foundation made distributions of \$55,000.00 to or on behalf of the college for both restricted and unrestricted purposes. During the year ended June 30, 2009, the foundation made distributions of

**Tennessee Board of Regents
Dyersburg State Community College
Notes to the Financial Statements (Cont.)
June 30, 2010, and June 30, 2009**

\$94,380.00 to or on behalf of the college for both restricted and unrestricted purposes. Complete financial statements for the foundation can be obtained from Lowell Hoffman, Vice President for Finance and Administrative Services, Dyersburg State Community College, 1510 Lake Road, Dyersburg, TN 38024.

Fair Value Measurements

The foundation reports certain assets and liabilities at fair value. Fair value has been determined using quoted prices in active markets for identical assets and liabilities that are accessible at the measurement date (Level 1), inputs other than quoted market prices included in Level 1 that are directly or indirectly observable for the asset or liability (Level 2), or significant unobservable inputs (Level 3). The following tables categorize the recurring fair value measurements for assets and liabilities at June 30, 2010, and at June 30, 2009.

	Total Fair Value at <u>June 30, 2010</u>	Quoted Prices <u>Level 1</u>	Significant Other Inputs <u>Level 2</u>	Significant Unobservable Inputs <u>Level 3</u>
Assets:				
Cash equivalents	\$ 997,021.09	\$ 997,021.09	\$ -	\$ -
Investments	<u>3,519,719.05</u>	<u>3,175,422.12</u>	<u>344,296.93</u>	<u>-</u>
Total assets	<u>\$ 4,516,740.14</u>	<u>\$ 4,172,443.21</u>	<u>\$ 344,296.93</u>	<u>\$ -</u>

	Total Fair Value at <u>June 30, 2009</u>	Quoted Prices <u>Level 1</u>	Significant Other Inputs <u>Level 2</u>	Significant Unobservable Inputs <u>Level 3</u>
Assets:				
Cash equivalents	\$ 1,354,317.98	\$ 1,354,317.98	\$ -	\$ -
Investments	<u>2,891,804.28</u>	<u>2,448,370.59</u>	<u>443,433.69</u>	<u>-</u>
Total assets	<u>\$ 4,246,122.26</u>	<u>\$ 3,802,688.57</u>	<u>\$ 443,433.69</u>	<u>\$ -</u>

All gains and losses, both realized and unrealized, have been reported on the statement of revenues, expenses, and changes in net assets as investment income. Of this total, \$17,911.89 is attributable to the change in unrealized gains or losses relating to those assets and liabilities still held at June 30, 2010, and \$71,111.20 is

**Tennessee Board of Regents
Dyersburg State Community College
Notes to the Financial Statements (Cont.)
June 30, 2010, and June 30, 2009**

attributable to the change in unrealized gains or losses relating to those assets and liabilities still held at June 30, 2009.

Cash and Cash Equivalents

Cash and cash equivalents consists of money market funds and federal prime obligations. Uninsured bank balances at June 30, 2010, and at June 30, 2009, were \$997,021.09 and \$1,354,317.98, respectively.

Investments

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

Investments held at June 30, 2010, were as follows:

	<u>Cost</u>	<u>Fair Value</u>
U.S. agencies	\$ 276,169.32	\$ 288,270.87
Certificates of deposit	343,692.93	344,296.93
Corporate stocks	762,806.62	713,761.43
Corporate bonds	322,684.12	340,877.55
Taxable bonds	596,138.39	618,946.71
Mutual bond funds	255,965.83	284,503.56
Mutual equity funds	<u>817,155.23</u>	<u>929,062.00</u>
 Total investments	 <u>\$ 3,374,612.44</u>	 <u>\$ 3,519,719.05</u>

Investments held at June 30, 2009, were as follows:

	<u>Cost</u>	<u>Fair Value</u>
U.S. agencies	\$ 619,513.22	\$ 637,722.95
Certificates of deposit	434,818.69	443,433.69
Corporate bonds	221,192.09	233,524.72
Taxable bonds	251,118.77	256,076.82
Mutual equity funds	1,092,023.29	1,158,371.15
Other – high yield bonds	<u>145,943.50</u>	<u>162,674.95</u>

**Tennessee Board of Regents
Dyersburg State Community College
Notes to the Financial Statements (Cont.)
June 30, 2010, and June 30, 2009**

Total investments	\$ <u>2,764,609.56</u>	\$ <u>2,891,804.28</u>
-------------------	------------------------	------------------------

Long-term Liabilities

Long-term liabilities at June 30, 2010, consisted of the following:

	<u>Ending Balance</u>	<u>Current Portion</u>
Charitable gift annuities	\$ 22,300.88	\$ 5,600.00

Long-term liabilities at June 30, 2009, consisted of the following:

	<u>Ending Balance</u>	<u>Current Portion</u>
Charitable gift annuities	\$ 31,514.43	\$ 5,600.00

Endowments

The Dyersburg State Community College Foundation's endowment consists of approximately 90 individual funds established for a variety of purposes. Its endowment includes both donor-restricted endowment funds and funds designated by the Board of Trustees to function as endowments. As required by GAAP, net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of relevant law - The Board of Trustees of the Dyersburg State Community College Foundation has interpreted the Uniform Prudent Management of Institutional Funds Act (the Act) as adopted by Tennessee as requiring the preservation of the fair value of the original gift, as of the gift date, of the endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Dyersburg State Community College Foundation classifies as permanently restricted net assets (1) the original value of gifts donated to the permanent endowment; (2) the original value of subsequent gifts to the permanent endowment; and (3) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the

**Tennessee Board of Regents
Dyersburg State Community College
Notes to the Financial Statements (Cont.)
June 30, 2010, and June 30, 2009**

foundation in a manner consistent with the standard of prudence prescribed by the Act. In accordance with the Act, the foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the fund; (2) the purposes of the foundation and the endowment fund; (3) general economic conditions; (4) the possible effect of inflation or deflation; (5) the expected total return from income and the appreciation of investments; (6) other resources of the foundation; and (7) the investment policies of the foundation.

Composition of Endowment by Net Asset Class
As of June 30, 2010

	<u>Permanently Restricted</u>	<u>Temporarily Restricted</u>	<u>Unrestricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ 2,871,421.61	\$ -	\$ -	\$ 2,871,421.61
Board-designated endowment funds	-	<u>1,575,760.55</u>	<u>59,610.87</u>	<u>1,635,371.42</u>
Total funds	<u>\$ 2,871,421.61</u>	<u>\$ 1,575,760.55</u>	<u>\$ 59,610.87</u>	<u>\$ 4,506,793.03</u>

Composition of Endowment by Net Asset Class
As of June 30, 2009

	<u>Permanently Restricted</u>	<u>Temporarily Restricted</u>	<u>Unrestricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ 2,798,593.27	\$ -	\$ -	\$ 2,798,593.27
Board-designated endowment funds	-	<u>1,421,038.53</u>	<u>32,765.09</u>	<u>1,453,803.62</u>
Total funds	<u>\$ 2,798,593.27</u>	<u>\$ 1,421,038.53</u>	<u>\$ 32,765.09</u>	<u>\$ 4,252,396.89</u>

**Tennessee Board of Regents
Dyersburg State Community College
Notes to the Financial Statements (Cont.)
June 30, 2010, and June 30, 2009**

Changes in Endowment Net Assets
for the Fiscal Year Ended June 30, 2010

	<u>Permanently Restricted</u>	<u>Temporarily Restricted</u>	<u>Unrestricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 2,798,593.27	\$ 1,421,038.53	\$ 32,765.09	\$ 4,252,396.89
Investment return:				
Investment income	-	86,826.92	7,276.99	94,103.91
Net appreciation (realized and unrealized)	-	<u>119,371.15</u>	<u>10,004.54</u>	<u>129,375.69</u>
Total investment return	-	206,198.07	17,281.53	223,479.60
Contributions	72,828.34	2,180.00	9,880.00	84,888.34
Appropriations of endowment assets for expenditure	-	(481.05)	(60,919.10)	(61,400.15)
Other changes:				
Adjustment to charitable gift annuity	-	-	7,428.35	7,428.35
Transfers	-	<u>(53,175.00)</u>	<u>53,175.00</u>	-
Endowment net assets, end of year	<u>\$ 2,871,421.61</u>	<u>\$ 1,575,760.55</u>	<u>\$ 59,610.87</u>	<u>\$ 4,506,793.03</u>

Changes in Endowment Net Assets
for the Fiscal Year Ended June 30, 2009

	<u>Permanently Restricted</u>	<u>Temporarily Restricted</u>	<u>Unrestricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 2,819,838.88	\$ 846,944.96	\$ 476,124.84	\$ 4,142,908.68
Prior period restatement	(67,733.90)	537,976.03	(470,242.13)	-
Investment return:				
Investment income	-	154,364.34	7,125.19	161,489.53
Net depreciation (realized and unrealized)	-	<u>(16,213.57)</u>	<u>(602.10)</u>	<u>(16,815.67)</u>
Total investment return	-	138,150.77	6,523.09	144,673.86
Contributions	46,488.29	8,665.00	30,631.54	85,784.83
Appropriations of endowment assets for expenditure	-	(17,788.23)	(101,413.75)	(119,201.98)
Other changes:				

**Tennessee Board of Regents
Dyersburg State Community College
Notes to the Financial Statements (Cont.)
June 30, 2010, and June 30, 2009**

Adjustment to charitable gift annuity	-	-	(1,768.50)	(1,768.50)
Transfers	-	(92,910.00)	92,910.00	-
<hr/>				
Endowment net assets, end of year	\$ 2,798,593.27	\$ 1,421,038.53	\$ 32,765.09	\$ 4,252,396.89

Return objectives and risk parameters - The foundation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the organization must hold in perpetuity or for a donor-specified period(s). Under this policy, as approved by the Board of Trustees, the endowment assets are invested in a manner that is expected to outpace inflation as measured by the Consumer Price Index (CPI). The foundation expects its endowment funds, over time, to provide an average rate of return after fees and expenses of approximately the CPI plus 1.0% – 3.0% percent annually. Actual returns in any given year may vary from this amount.

Strategies employed for achieving objectives - To satisfy its long-term rate-of-return objectives, the foundation relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The foundation targets a diversified asset allocation that places an emphasis on both debt and equity-based investments to achieve its long-term return objectives within prudent risk restraints.

Spending policy and how the investment objectives relate - The foundation has a policy of appropriating for distribution each year no more than 4.5% of the fair value of the endowment investments. Annual spending is expected to be determined by averaging the quarterly returns based on the trailing 12-quarter end market values. Notwithstanding this calculation, the annual distribution policy will not exceed 4.5% and shall not exceed directives agreed upon with the donors at the time of the acceptance of a gift or donation. Also, this distribution policy will strive to comply with all applicable state laws and directives in addition to the guidelines set forth under the Uniform Prudent Management of Institutional Funds Act (UPMIFA).

**Tennessee Board of Regents
Dyersburg State Community College
Notes to the Financial Statements (Cont.)
June 30, 2010, and June 30, 2009**

Prior Period Restatement

On the college's June 30, 2008, statement of net assets, \$537,976.03 of the discretely presented foundation's endowment net assets were misclassified. Nonexpendable restricted net assets were overstated by \$67,733.90, expendable restricted net assets were understated by \$537,976.03, and unrestricted net assets were overstated by \$470,242.13.

**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]
July 1, 2009	State Employee Group Plan	\$ -	\$3,557,000	\$3,557,000	0.00%	\$12,649,302	28.12%
July 1, 2007	State Employee Group Plan	-	\$4,690,000	\$4,690,000	0.00%	\$ 12,918,807	36.30%

**TENNESSEE BOARD OF REGENTS
DYERSBURG STATE COMMUNITY COLLEGE
SUPPLEMENTARY SCHEDULES OF CASH FLOWS - COMPONENT UNIT
FOR THE YEARS ENDED JUNE 30, 2010, AND JUNE 30, 2009**

	Year Ended June 30, 2010	Year Ended June 30, 2009
CASH FLOWS FROM OPERATING ACTIVITIES		
Gift and contributions	\$ 12,060.00	\$ 39,296.54
Payments to suppliers and vendors	(5,878.79)	(6,483.60)
Payments to Dyersburg State Community College	(55,000.00)	(94,380.00)
Net cash flows used by operating activities	<u>(48,818.79)</u>	<u>(61,567.06)</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
Private gifts for endowment purposes	72,828.34	46,488.29
Other non-capital financing receipts (payments)	(9,213.55)	(2,917.26)
Net cash flows provided by non-capital financing activities	<u>63,614.79</u>	<u>43,571.03</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of investments	1,629,394.38	3,018,162.28
Income on investments	64,096.31	-
Purchase of investments	(2,240,968.78)	(2,393,209.97)
Endowment income per spending plan	175,385.20	73,562.66
Net cash provided (used) by investing activities	<u>(372,092.89)</u>	<u>698,514.97</u>
Net increase (decrease) in cash and cash equivalents	(357,296.89)	680,518.94
Cash and cash equivalents - beginning of year	1,354,317.98	673,799.04
Cash and cash equivalents - end of year	<u>\$ 997,021.09</u>	<u>\$ 1,354,317.98</u>
Reconciliation of operating loss to net cash provided by operating activities:		
Operating income	\$ 126,566.41	\$ 11,995.60
Adjustment to reconcile operating income to net cash used by operating activities:		
Endowment income per spending plan	(175,385.20)	(73,562.66)
Net cash used by operating activities	<u>\$ (48,818.79)</u>	<u>\$ (61,567.06)</u>
Noncash investing, capital, and financing transactions		
Unrealized gains/losses on investments	\$ 17,911.89	\$ 71,111.20

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