AUDIT REPORT

Tennessee Board of Regents
Dyersburg State Community College

For the Years Ended
June 30, 2012, and June 30, 2011

STATE OF TENNESSEE

COMPTROLLER OF THE TREASURY

Department of Audit

Division of State Audit

Deborah V. Loveless, CPA
Director

Edward Burr, CPA
Assistant Director

Donna L. Jewell, CPA, CFE
Audit Manager

Keith L. Isbell, CPA
In-Charge Auditor

Angela M. Courtney
Adrian R. Davis
Chris T. Varkey, CPA
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.comptroller.tn.gov/sa/AuditReportCategories.asp.
For more information about the Comptroller of the Treasury, please visit our website at
www.comptroller.tn.gov.

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

April 25, 2013

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, 2012, and June 30, 2011. You will note from the independent auditor's report that unqualified opinions were given on the fairness of the presentation of the financial statements.

Consideration of internal control over financial reporting and tests of compliance resulted in no audit findings.

Sincerely,

Deborah V. Loveless

Deborah V. Loveless, CPA
Director

DVL/dlj
13/034

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, 2012, and June 30, 2011

AUDIT OBJECTIVES

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

AUDIT FINDINGS

The audit report contains no findings.

OPINIONS ON THE FINANCIAL STATEMENTS

The opinions on the financial statements are unqualified.

Audit Report
Tennessee Board of Regents
Dyersburg State Community College
For the Years Ended June 30, 2012, and June 30, 2011

TABLE OF CONTENTS

TABLE OF CONTENTS (CONT.)

Tennessee Board of Regents
Dyersburg State Community College
For the Years Ended June 30, 2012, and June 30, 2011

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 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, 2010, through June 30, 2012, 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, 2012, and June 30, 2011. 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 discretely presented 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 FINDING

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 February 21, 2012. A follow-up of the prior audit finding was conducted as part of the current audit. The current audit disclosed that the college has corrected previous audit findings concerning properly reporting in the college's and foundation's financial statements and the accompanying notes to the financial statements.

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 controls 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, 2012, and June 30, 2011, 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. Consideration of internal control over financial reporting disclosed no material weaknesses.

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*

April 1, 2013

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, 2012, and June 30, 2011, and have issued our report thereon dated April 1, 2013. 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

Management of the college is responsible for establishing and maintaining effective 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.

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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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.

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

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,

Deborah V. Loveless

Deborah V. Loveless, CPA
Director

DVL/dlj

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

Independent Auditor's Report

April 1, 2013

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, 2012, and June 30, 2011, 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, 2012, and June 30, 2011, 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, 2012, and June 30, 2011, 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.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 11 through 27 and the schedule of funding progress on page 58 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during the audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the basic financial statements as a whole. The accompanying financial information on page 59 is presented for purposes of additional analysis and is not a required part of the basic financial statements. This information is the responsibility of the university's management and was derived from, and relates directly to, the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves and other additional procedures, in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with generally accepted government auditing standards, we have also issued our report dated April 1, 2013, 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,

Deborah V. Loveless

Deborah V. Loveless, CPA
Director

DVL/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, 2012, and June 30, 2011, with comparative information presented for the fiscal year ended June 30, 2010. This discussion has been prepared by management along with the basic financial statements and related note disclosures and should be read in conjunction with the independent auditor's report, the audited basic financial statements, and the accompanying notes. The basic 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, provides the college's equity in property, plant, and equipment owned by the college. The next asset category is restricted net assets, which is divided into two categories, nonexpendable and expendable. The corpus of nonexpendable restricted resources is only available for investment purposes. Expendable restricted net assets are available for expenditure by the college but must be spent for purposes as determined by donors and/or external entities that have placed time or purpose restrictions on the use of the assets. The final category is unrestricted net assets. Unrestricted net assets are available to the institution for any lawful purpose of the college.

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

	2012	2011	2010
Assets:			
Current assets	$ 6,384	$ 5,252	$ 4,328
Capital assets, net	22,385	23,080	23,388
Other assets	5,847	6,015	5,605
Total assets	**34,616**	**34,347**	**33,321**
Liabilities:			
Current liabilities	2,128	1,722	1,674
Noncurrent liabilities	1,765	1,660	1,519
Total liabilities	**3,893**	**3,382**	**3,193**
Net assets:			
Invested in capital assets	22,385	23,080	23,388
Restricted - nonexpendable	134	136	135
Restricted - expendable	1,624	1,318	1,415
Unrestricted	6,580	6,431	5,190
Total net assets	**$ 30,723**	**$ 30,965**	**$ 30,128**

Comparison of Fiscal Year 2012 to Fiscal Year 2011

- Current assets increased from FY 2011 to FY 2012 due to higher unrestricted current cash balances as tuition rate increases resulted in greater fee income and also due to higher plant fund cash balances from transfers from unrestricted net assets. Current assets also increased as student receivables were higher from the increased tuition rate.

- Capital assets were down from the prior fiscal year as depreciation reduced the net amount by $1,298,238.65 and capital purchases partially offset the decline.

- Current liabilities increased due to higher payables on the workforce grant, the energy-efficient lighting project, and Banner software hosting. Also, an increase in compensated absences liability resulted in higher current liabilities as salaries increased from FY 2011.

- Restricted - expendable net assets increased from FY 2011 due to work force funds supplied for contract courses in nursing and emergency medical technician for dislocated workers laid off by Goodyear.

Comparison of Fiscal Year 2011 to Fiscal Year 2010

- Current assets are higher because unrestricted current cash balances increased from FY 2010 as unrestricted revenues exceeded unrestricted expenses because tuition rate increases and higher enrollment resulted in greater fee income.

- Capital assets were down from the prior fiscal year as depreciation reduced the net amount by $1,085,070.00 and capital purchases partially offset the decline.

- An increase in the Other Post-Employment Benefit accrued liability of $133,232.24 for retiree medical expenses caused an increase in noncurrent liabilities.

- Unrestricted net assets increased from FY 2010 as unrestricted revenues exceeded unrestricted expenses because tuition rate increases and higher enrollment resulted in greater fee income.

Foundation
Net Assets (in thousands of dollars)

	2012	2011	2010
Assets:			
Current assets	$ 15	$ 63	$ 56
Other assets	5,435	5,114	4,473
Total assets	**5,450**	**5,177**	**4,529**
Liabilities:			
Current liabilities	6	6	6
Noncurrent liabilities	9	14	16
Total liabilities	**15**	**20**	**22**
Net assets:			
Restricted - nonexpendable	3,337	2,989	2,871
Restricted - expendable	2,031	2,100	1,576
Unrestricted	67	68	60
Total net assets	**$ 5,435**	**$ 5,157**	**$ 4,507**

<u>Comparison of Fiscal Year 2012 to Fiscal Year 2011</u>

- Other assets increased as income was used to purchase investments.

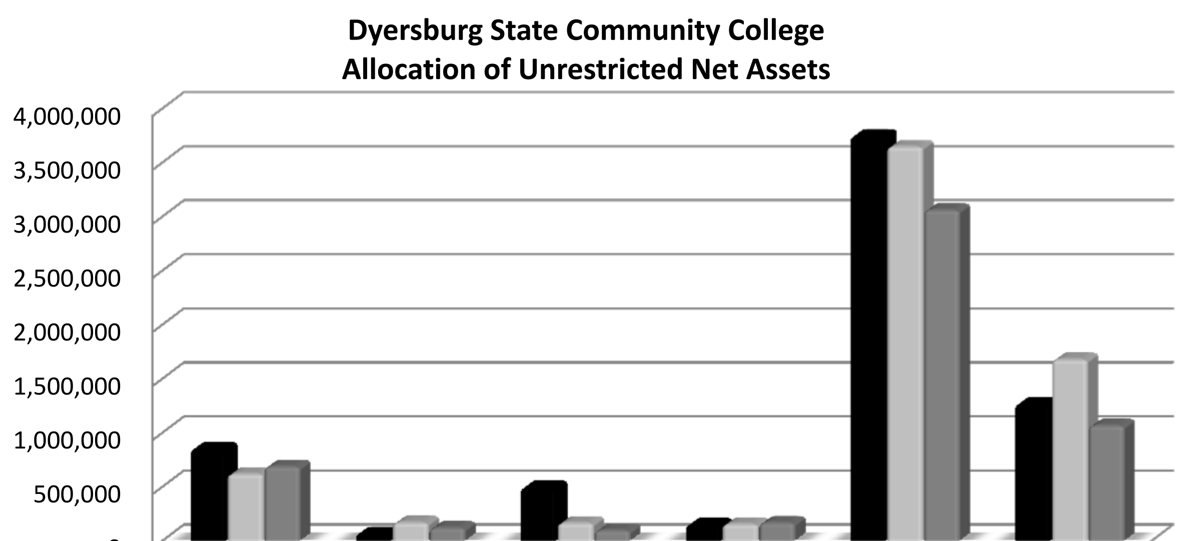
- A gift from the estate of Percy Smith for $167,000 and a gift of $115,000 from Doris Karlgaard increased restricted nonexpendable net assets.

<u>Comparison of Fiscal Year 2011 to Fiscal Year 2010</u>

- Other assets increased as cash and net income were used to purchase investments which increased by $1,230,684.27 from the prior fiscal year.

- Net assets increased overall due to higher investment income and endowment gifts.

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.



	Working Capital	Encumbrances	Designated Fees	Auxiliaries	Plant Construction	Renewal & Replacement of equipment
2012	854,365	63,441	496,003	150,988	3,746,403	1,269,031
2011	618,679	168,644	165,081	154,850	3,646,846	1,677,403
2010	685,898	118,630	95,558	165,995	3,058,651	1,065,626

<u>Comparison of Fiscal Year 2012 to Fiscal Year 2011</u>

- Net assets allocated to working capital rose due to an increase in the allocation to accounts receivable because student receivable balances were higher.

- A decrease in open purchase orders for items funded by technology fees from students resulted in a decline in the encumbrance allocation of net assets.

- The allocation of net assets to designated fees increased from FY 2011 due to a $335,797.24 increase in the allocation to technology fees carried forward to FY 2013 and intended to be spent on equipment at the Jimmy Naifeh Center.

- Net assets allocated to plant construction increased due to transfers from other funds that exceeded expenses. These assets will provide for future campus projects.

- The allocation of net assets to renewal and replacements decreased due to purchases of data processing equipment.

<u>Comparison of Fiscal Year 2011 to Fiscal Year 2010</u>

- Net assets allocated to working capital declined due to a decrease in the allocation to accounts receivable because student receivable balances were lower.

- An increase in open purchase orders for items funded by technology fees from students resulted in an increase in the encumbrance allocation of net assets.

- The designated fee allocations are for the Technology Access Fees (TAF) and International Studies Fees. The allocation of net assets to designated fees increased from FY 2010 due to an increase in the allocation to technology fees carried forward to FY 2012 intended to be spent on distance learning equipment.

- Net assets allocated to plant projects increased due to transfers from other funds that exceeded expenses. These assets will provide for future campus projects and a new facility master plan.

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 nonoperating revenues according to accounting principles generally accepted in the United States of America.

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

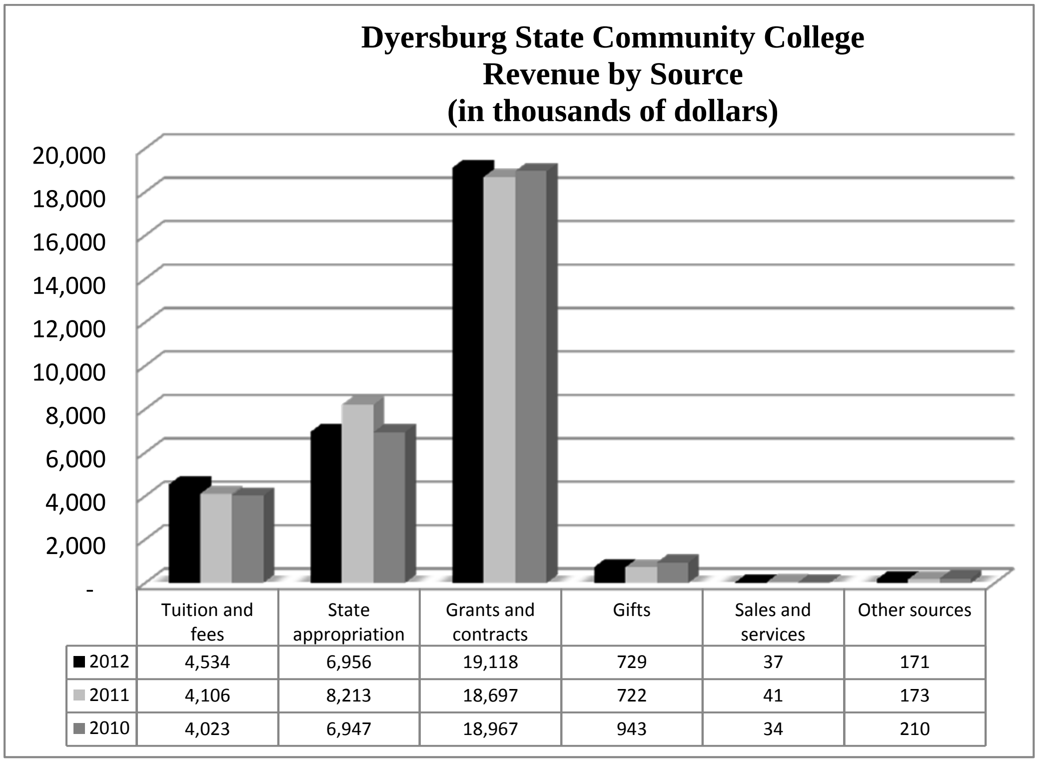
	2012	2011	2010
Operating revenues:			
Net tuition and fees	$ 4,534	$ 4,106	$ 4,023
Grants and contracts	9,530	8,234	8,817
Auxiliary	121	124	133
Other	62	58	72
Total operating revenues	**14,247**	**12,522**	**13,045**
Operating expenses	31,787	31,097	29,175
Operating loss	**(17,540)**	**(18,575)**	**(16,130)**
Nonoperating revenues and expenses:			
State appropriations	6,664	7,787	6,869
Gifts	729	722	943
Grants & contracts	9,588	10,463	10,150
Investment income	25	33	38
Other revenues and expenses	-	(19)	(4)
Total nonoperating revenues and expenses	**17,006**	**18,986**	**17,996**
Income (loss) before other revenues, expenses, gains, or losses	**(534)**	**411**	**1,866**
Other revenues, expenses, gains, or losses:			
Capital appropriations	292	426	78
Total other revenues, expenses, gains, or losses	**292**	**426**	**78**
Increase (decrease) in net assets	**(242)**	**837**	**1,944**
Net assets at beginning of year	**30,965**	**30,128**	**28,184**
Net assets at end of year	**$ 30,723**	**$ 30,965**	**$ 30,128**

Foundation
Changes in Net Assets (in thousands of dollars)

	2012	2011	2010
Operating revenues:			
Gifts	$ 7	$ 6	$ 12
Other	171	138	176
Total operating revenues	**178**	**144**	**188**
Operating expenses	83	72	61
Operating income	**95**	**72**	**127**
Nonoperating revenues and expenses:			
Investment income (loss)	(165)	461	55
Total nonoperating revenues and expenses	**(165)**	**461**	**55**
Income (loss) before other revenues, expenses, gains, or losses	**(70)**	**533**	**182**
Other revenues, expenses, gains, or losses:			
Additions to permanent endowments	348	117	73
Total other revenues, expenses, gains, or losses	**348**	**117**	**73**
Increase in net assets	**278**	**650**	**255**
Net assets at beginning of year	**5,157**	**4,507**	**4,252**
Net assets at end of year	**$ 5,435**	**$ 5,157**	**$ 4,507**

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, 2012, and June 30, 2011 (amounts are presented in thousands of dollars).



<u>Comparison of Fiscal Year 2012 to Fiscal Year 2011</u>

- Operating revenues for the college increased due to a rise in funding for the Workforce Investment Act (WIA) programs particularly related to dislocated workers, and for the Rural Utility Services grant for distance education between DSCC and several high schools. Rate increases resulted in higher revenues from tuition and fees.

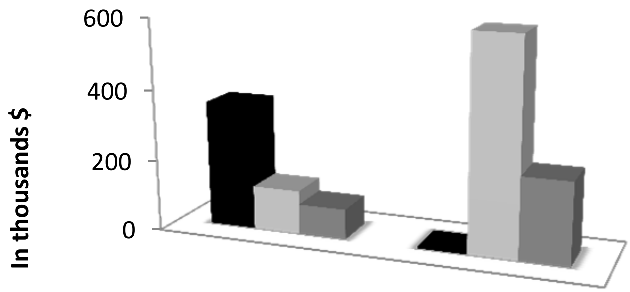
- The nonoperating revenue declined as the end of the stimulus program reduced appropriations. The end of the summer Pell program caused a decrease in Pell awards which reduced nonoperating grants.

<u>Comparison of Fiscal Year 2011 to Fiscal Year 2010</u>

- Operating revenues for the college decreased $523,565.90 due to a decline in funding for the Workforce Investment Act programs and the Student Support Services grant. These declines were offset in part by increases in the Title III grant and the Department of Health and Human Services Health Information Technology (HHS HIT) grant.

- The nonoperating revenue net increase was $989,891.05. State appropriations increased $917,711.00. The increase was due to the inclusion of non-recurring fiscal stimulus funds. Pell grants increased, while gifts and State Fiscal Stabilization Funds (stimulus) decreased. Pell grants increased due to a one-time summer Pell program in FY 2011.

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



	Gifts	Investment Income
2012	355	6
2011	123	598
2010	85	230

<u>Comparison of Fiscal Year 2012 to Fiscal Year 2011</u>

- Gift income increased for the component unit in FY 2012 due to a gift from the estate of Percy Smith for $167,000 and a gift of $115,000 from Doris Karlgaard.

- Investment income declined as portfolios significantly underperformed the prior year.

<u>Comparison of Fiscal Year 2011 to Fiscal Year 2010</u>

- Gifts increased 45% from FY 2010 due to an increase of $35,000 in gifts by a donor to the Karlgaard fund.

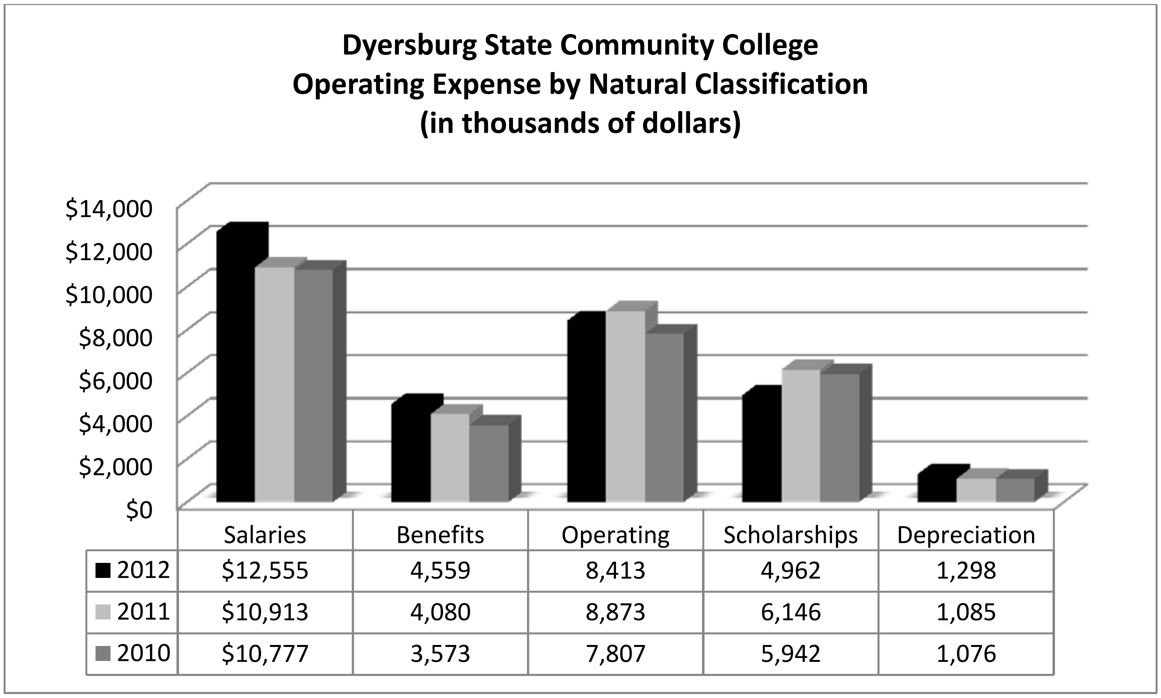
- In July 2008, the foundation board contracted with two new investment managers and divided the foundations investments between the two agencies. The majority of assets were converted to cash. As more cash was invested in FY 2011, investment revenue increased compared to the prior fiscal year.

Expenses

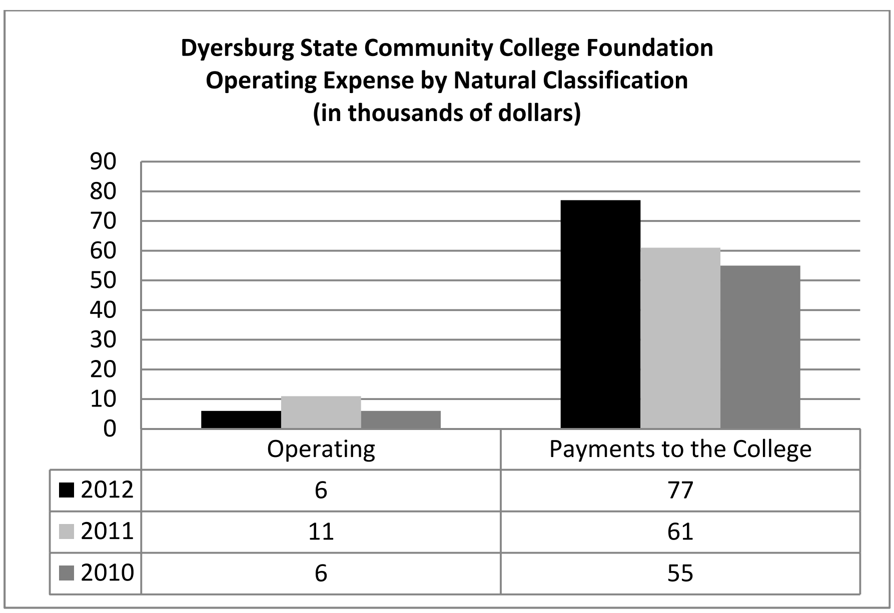
Operating expenses can be displayed in two formats, natural classification and program classification. Both formats are displayed below.

NATURAL CLASSIFICATION
(in thousands of dollars)

	Institution			Component Unit		
	2012	**2011**	**2010**	**2012**	**2011**	**2010**
Salaries	$ 12,555	$ 10,913	$ 10,777	$ -	$ -	$ -
Benefits	4,559	4,080	3,573	-	-	-
Operating	8,413	8,873	7,807	6	11	6
Scholarships	4,962	6,146	5,942	-	-	-
Depreciation	1,298	1,085	1,076	-	-	-
Payments to the college	-	-	-	77	61	55
Total	**$ 31,787**	**$ 31,097**	**$ 29,175**	**$ 83**	**$ 72**	**$ 61**



	Salaries	Benefits	Operating	Scholarships	Depreciation
2012	$12,555	4,559	8,413	4,962	1,298
2011	$10,913	4,080	8,873	6,146	1,085
2010	$10,777	3,573	7,807	5,942	1,076



	Operating	Payments to the College
2012	6	77
2011	11	61
2010	6	55

Comparison of Fiscal Year 2012 to Fiscal Year 2011

- Salaries increased as faculty and staff received a 3% across-the-board raise, a $1,000 bonus for full-time employees, and a salary plan equity increase of $164,787 in total.

- Benefits increased as FICA, Medicare, and retirement costs rose with the increased salaries.

- Operating expenses decreased primarily due to the end of WIA stimulus-related grants.

- Scholarships declined from FY 2011 from a reduction in Pell and Tennessee Early Childhood Training Alliance (TECTA) grants. Pell was impacted by the end of the summer Pell program.

- Depreciation increased from FY 2011 due to a change in accounting estimate for depreciating periodicals and online databases that increased FY 2012 depreciation.

<u>Comparison of Fiscal Year 2011 to Fiscal Year 2010</u>

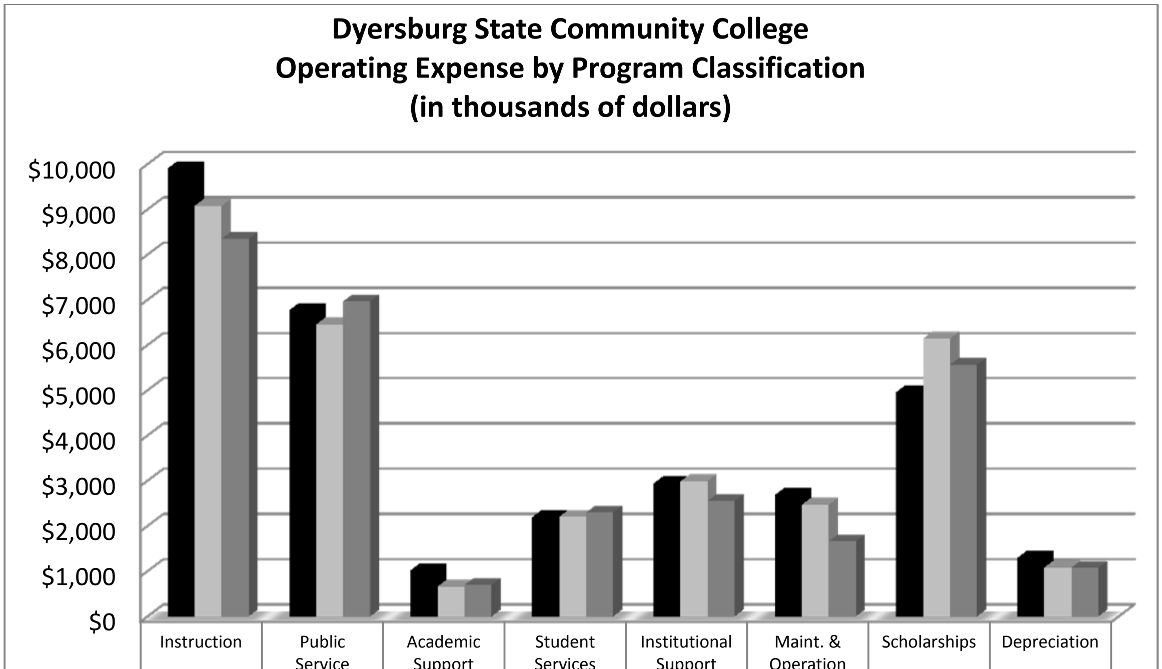
- Benefit expenses have increased in FY 2011 from FY 2010 by $507,158.58. In FY 2010, there was a medical insurance premium holiday for two months which reduced benefit expenses. In FY 2011, medical premiums were paid for the full 12 months.

- Operating expenses rose by $1,065,101.12 primarily due to increased spending on locally funded campus projects partially offset by an increase in bad debt expenses.

- Scholarship expenses increased due to additional financial aid to high school students enrolled in college courses offered by DSCC.

PROGRAM CLASSIFICATION
(in thousands of dollars)

	Institution			Component Unit		
	2012	**2011**	**2010**	**2012**	**2011**	**2010**
Instruction	$ 9,908	$ 9,081	$ 8,351	$ -	$ -	$ -
Public service	6,770	6,457	6,969	-	-	-
Academic support	1,024	664	699	-	-	-
Student services	2,196	2,203	2,301	-	-	-
Institutional support	2,942	2,991	2,553	6	11	6
Maintenance & operation	2,687	2,470	1,658	-	-	-
Scholarships	4,962	6,146	5,568	-	-	-
Depreciation	1,298	1,085	1,076	-	-	-
Payments to the college	-	-	-	77	61	55
Total	**$31,787**	**$31,097**	**$29,175**	**$83**	**$72**	**$61**



	Instruction	Public Service	Academic Support	Student Services	Institutional Support	Maint. & Operation	Scholarships	Depreciation
2012	$9,908	6,770	1,024	2,196	2,942	2,687	4,962	1,298
2011	$9,081	6,457	664	2,203	2,991	2,470	6,146	1,085
2010	$8,351	6,969	699	2,301	2,553	1,658	5,568	1,076

Comparison of Fiscal Year 2012 to Fiscal Year 2011

- Instructional expenses increased as result of higher salaries as faculty and staff received a 3% across-the-board raise, a $1,000 bonus for full-time employees, and a salary plan equity increase.

- Public service increased as the previously described salary and benefit increases offset a reduction in stimulus related grants awarded by WIA.

- Academic support increased due to purchases of computer services, equipment, and library services online databases.

- Scholarships declined from FY 2011 from a reduction in Pell and Tennessee Early Childhood Training Alliance (TECTA) grants. Pell was affected by the end of the summer Pell program.

- Depreciation increased from FY 2011 due to a change in accounting estimate for depreciating periodicals and online databases that increased FY 2012 depreciation.

Comparison of Fiscal Year 2011 to Fiscal Year 2010

- Instructional expenses increased from FY 2010 to FY 2011 due to a medical insurance premium holiday for two months in FY 2010 which reduced benefit expenses in that fiscal year. In FY 2011, medical premiums were paid for the full 12 months.

- Public service expenses declined because of a decrease in Workforce Industrial Act programs resulting from an improving economy.

- Institutional support expenses were higher due to a $248,606.77 increase in bad debt expenses and higher benefit costs.

- Increased expenses on the Campus Site Upgrade project funded by state appropriations and local campus projects resulted in an increase in maintenance and operations for FY 2011.

Capital Assets and Debt Administration

Capital Assets

Dyersburg State Community College had $22,385,033.59 invested in capital assets, net of accumulated depreciation of $11,661,180.63 at June 30, 2012; $23,079,929.45 invested in capital assets, net of accumulated depreciation of $10,863,651.32 at June 30, 2011; and $23,387,873.98 invested in capital assets, net of accumulated depreciation of $9,900,726.66 at June 30, 2010. Depreciation charges totaled $1,298,238.65, $1,085,070.00, and $1,076,049.38 for the years ended June 30, 2012; June 30, 2011; and June 30, 2010, respectively. Details of these assets are shown below.

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

	2012	2011	2010
Land	$ 866	$ 866	$ 866
Land improvements & infrastructure	526	124	151
Buildings	19,359	20,114	20,806
Equipment	698	570	418
Library holdings	76	269	245
Intangible assets	538	655	773
Projects in progress	322	482	129
Total	**$ 22,385**	**$ 23,080**	**$ 23,388**

In FY 2012, depreciation expense reduced net capital assets by $1,298,238.65, and capital additions increased net capital assets by $617,850.69. The mechanical systems upgrade, phase one, was transferred from projects in progress to land improvements and infrastructure for $452,130.45. Initial costs for the Learning Resource Center and Student Services building at the Jimmy Naifeh Center in Tipton County were added to projects in progress.

In FY 2011, depreciation expense reduced net capital assets by $1,085,070.00, and capital additions increased net capital assets by $796,044.60. The most significant item is the mechanical systems upgrade, phase one, expenditure of $413,206.90. Funding came from appropriations, the college's unexpended plant funds, and unrestricted funds.

In FY 2010, depreciation expense reduced net capital assets by $1,076,049.38, and capital additions to equipment and construction in progress increased net capital assets by $351,741.06.

Currently the college is in the planning stage to construct the Learning Resource Center and Student Services building at the Jimmy Naifeh Center in Tipton County. Funding for $9,000,000 for construction will be from state appropriations. Tipton County officials have committed $3,000,000 for construction. The college will contribute approximately $1,300,000 for construction and will purchase the furniture and movable equipment estimated at $3,000,000. The college will fund its commitments from plant funds, renewal and replacement funds, and technology fee revenues. More detailed information about the college's capital assets is presented in Note 7 to the financial statements.

Debt

The college had no debt outstanding at June 30, 2012; June 30, 2011; or June 30, 2010.

Economic Factors That Will Affect the Future

The amount of state appropriations depends on future sales tax revenue and action by the state legislature. The Tennessee Higher Education Commission has implemented a new outcomes-based funding formula for higher education appropriations to comply with state law. It is anticipated that the new funding formula will have a positive funding impact for the college over the long term. Enrollment increased significantly in FY 2010, increased modestly in FY 2011, and decreased modestly in FY 2012. It is unknown what enrollment levels will be in the future.

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.

EXHIBIT A

TENNESSEE BOARD OF REGENTS
DYERSBURG STATE COMMUNITY COLLEGE
STATEMENTS OF NET ASSETS
JUNE 30, 2012, AND JUNE 30, 2011

	Dyersburg State Community College		Component Unit - Dyersburg State Community College Foundation	
	June 30, 2012	June 30, 2011	June 30, 2012	June 30, 2011
ASSETS				
Current assets				
Cash and cash equivalents (Notes 2, 3, and 18)	$ 3,945,259.47	$ 3,422,495.45	$ -	$ 51,229.65
Accounts, notes, and grants receivable (net) (Note 5)	2,373,960.90	1,801,402.22	-	-
Due from primary government	14,400.00	10,800.00	-	-
Pledges receivable (net) (Note 6)	3,000.00	6,150.00	-	-
Prepaid expenses and deferred charges	47,640.13	10,704.33	-	-
Accrued interest receivable	-	-	14,436.47	12,435.60
Total current assets	6,384,260.50	5,251,552.00	14,436.47	63,665.25
Noncurrent assets				
Cash and cash equivalents (Notes 2, 3, and 18)	5,786,256.43	5,947,992.92	525,526.35	363,215.99
Investments (Notes 4 and 18)	60,276.09	67,387.60	4,909,312.74	4,750,403.32
Capital assets (net) (Note 7)	22,385,033.59	23,079,929.45	-	-
Total noncurrent assets	28,231,566.11	29,095,309.97	5,434,839.09	5,113,619.31
Total assets	34,615,826.61	34,346,861.97	5,449,275.56	5,177,284.56
LIABILITIES				
Current liabilities				
Accounts payable	632,493.20	320,242.98	-	-
Accrued liabilities	909,137.46	847,171.11	-	-
Deferred revenue	207,432.50	209,188.00	-	-
Compensated absences (Note 8)	200,433.52	183,908.33	-	-
Long-term liabilities, current portion (Note 18)	-	-	5,600.00	5,600.00
Due to grantor	951.47	8,968.80	-	-
Deposits held in custody for others	177,859.60	152,296.44	-	-
Total current liabilities	2,128,307.75	1,721,775.66	5,600.00	5,600.00
Noncurrent liabilities				
Net OPEB obligation (Note 12)	1,123,434.26	1,097,880.41	-	-
Compensated absences (Note 8)	641,063.90	562,329.73	-	-
Long-term liabilities (Note 18)	-	-	9,092.55	14,717.56
Total noncurrent liabilities	1,764,498.16	1,660,210.14	9,092.55	14,717.56
Total liabilities	3,892,805.91	3,381,985.80	14,692.55	20,317.56
NET ASSETS				
Invested in capital assets	22,385,033.59	23,079,929.45	-	-
Restricted for				
Nonexpendable				
Scholarships and fellowships	133,751.07	135,693.10	3,132,734.13	2,989,127.58
Other	-	-	204,350.00	-
Expendable				
Scholarships and fellowships (Note 9)	309,777.44	367,744.52	2,029,214.76	2,100,039.34
Instructional department uses	927,899.41	617,069.26	-	-
Other	386,327.53	332,936.55	1,710.87	-
Unrestricted (Note 10)	6,580,231.66	6,431,503.29	66,573.25	67,800.08
Total net assets	$ 30,723,020.70	$ 30,964,876.17	$ 5,434,583.01	$ 5,156,967.00

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, 2012, AND JUNE 30, 2011

	Dyersburg State Community College		Component Unit - Dyersburg State Community College Foundation	
	Year Ended June 30, 2012	Year Ended June 30, 2011	Year Ended June 30, 2012	Year Ended June 30, 2011
REVENUES				
Operating revenues				
Student tuition and fees (net of scholarship allowances of $5,680,136.61 for the year ended June 30, 2012, and $5,539,969.58 for the year ended June 30, 2011)	$ 4,534,123.48	$ 4,106,208.02	$ -	$ -
Gifts and contributions	-	-	6,775.00	5,535.00
Endowment income (per spending plan)	-	-	170,576.44	137,633.00
Governmental grants and contracts	9,529,945.01	8,234,104.93	-	-
Sales and services of educational departments	13,077.48	14,144.30	-	-
Sales and services of other activities	24,190.92	27,029.94	-	-
Auxiliary enterprises:				
Bookstore	121,137.62	123,855.09	-	-
Other operating revenues	24,959.54	16,496.79	-	-
Total operating revenues	14,247,434.05	12,521,839.07	177,351.44	143,168.00
EXPENSES				
Operating expenses (Note 15):				
Salaries and wages	12,554,970.84	10,912,915.26	-	-
Benefits	4,558,905.92	4,079,826.43	-	-
Utilities, supplies, and other services	8,413,306.57	8,872,684.57	5,567.69	11,271.36
Scholarships and fellowships	4,961,937.62	6,146,289.44	-	-
Depreciation expense	1,298,238.65	1,085,070.00	-	-
Payments to or on behalf of Dyersburg State Community College (Note 18)	-	-	77,500.00	60,150.50
Total operating expenses	31,787,359.60	31,096,785.70	83,067.69	71,421.86
Operating income (loss)	(17,539,925.55)	(18,574,946.63)	94,283.75	71,746.14
NONOPERATING REVENUES (EXPENSES)				
State appropriations	6,663,684.46	7,786,668.00	-	-
Gifts, including $77,500.00 from component unit for the year ended June 30, 2012, and $60,150.50 from component unit for the year ended June 30, 2011 (Note 18)	729,132.01	722,177.82	-	-
Grants and contracts	9,588,001.61	10,463,124.47	-	-
Investment income (loss) (net of investment expense of $23,108.20 for the component unit for the year ended June 30, 2012, and $21,639.99 for the component unit for the year ended June 30, 2011)	24,984.83	32,674.09	(164,624.29)	460,721.86
Other nonoperating revenues/(expenses)	-	(18,919.13)	-	-
Net nonoperating revenues/(expenses)	17,005,802.91	18,985,725.25	(164,624.29)	460,721.86
Income (loss) before other revenues, expenses, gains, other losses	(534,122.64)	410,778.62	(70,340.54)	532,468.00
Capital appropriations	292,267.17	425,840.69	-	-
Additions to permanent endowments	-	-	347,956.55	117,705.97
Total other revenues	292,267.17	425,840.69	347,956.55	117,705.97
Increase (decrease) in net assets	(241,855.47)	836,619.31	277,616.01	650,173.97
NET ASSETS				
Net assets - beginning of year	30,964,876.17	30,128,256.86	5,156,967.00	4,506,793.03
Net assets - end of year	$ 30,723,020.70	$ 30,964,876.17	$ 5,434,583.01	$ 5,156,967.00

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, 2012, AND JUNE 30, 2011

	Year Ended June 30, 2012	Year Ended June 30, 2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Tuition and fees	$ 4,368,119.07	$ 4,149,308.68
Grants and contracts	9,139,044.41	8,257,025.77
Sales and services of educational activities	13,077.48	14,144.30
Sales and services of other activities	24,190.92	27,029.94
Payments to suppliers and vendors	(8,080,448.67)	(9,101,499.45)
Payments to employees	(12,593,555.69)	(10,855,342.14)
Payments for benefits	(4,329,294.59)	(3,657,629.61)
Payments for scholarships and fellowships	(4,961,937.62)	(6,146,289.44)
Auxiliary enterprises:		
Bookstore	121,292.33	123,343.51
Other receipts (payments)	24,989.54	17,034.79
Net cash flows used by operating activities	(16,274,522.82)	(17,172,873.65)
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
State appropriations	6,650,900.00	7,782,400.00
Gifts and grants received for other than capital or endowment purposes, including $77,500.00 from component unit for the year ended June 30, 2012, and $60,150.50 for the year ended June 30, 2011	10,267,821.47	11,152,707.61
Federal student loan receipts	3,650,557.75	3,659,118.33
Federal student loan disbursements	(3,678,870.00)	(3,720,225.78)
Changes in deposits held for others	24,120.41	7,023.48
Net cash flows provided by non-capital financing activities	16,914,529.63	18,881,023.64
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital - state appropriation	292,267.17	425,840.69
Purchase of capital assets and construction	(603,342.79)	(796,044.60)
Other capital and related financing receipts (payments)	-	7,980.00
Net cash flows used by capital and related financing activities	(311,075.62)	(362,223.91)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of investments	80,169.50	10,000.00
Income on investments	26,926.86	32,028.29
Purchase of investments	(75,000.02)	-
Net cash provided by investing activities	32,096.34	42,028.29
Net increase in cash and cash equivalents	361,027.53	1,387,954.37
Cash and cash equivalents - beginning of year	9,370,488.37	7,982,534.00
Cash and cash equivalents - end of year	$ 9,731,515.90	$ 9,370,488.37

TENNESSEE BOARD OF REGENTS
DYERSBURG STATE COMMUNITY COLLEGE
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2012, AND JUNE 30, 2011

Reconciliation of operating loss to net cash used by operating activities:				
Operating loss	$	(17,539,925.55)	$	(18,574,946.63)
Adjustments to reconcile operating loss to net cash used by operating activities:				
Depreciation expense		1,298,238.65		1,085,070.00
Gifts in-kind		52,462.15		41,504.96
Other adjustments (Note 16)		9,184.46		7,168.00
Changes in assets and liabilities:				
Receivables, net		(542,803.68)		92,617.67
Prepaid/deferred items		(36,935.80)		(8,483.58)
Accounts payable		312,250.22		(266,701.85)
Accrued liabilities		87,520.20		466,230.19
Deferred revenues		(1,755.50)		(5,788.50)
Compensated absences		95,259.36		6,371.75
Due to grantors		(8,017.33)		(15,915.66)
Net cash used by operating activities	$	(16,274,522.82)	$	(17,172,873.65)
Noncash investing, capital, or financing transactions				
Unrealized gains/(losses) on investments	$	(1,942.03)	$	645.80
Loss on disposal of capital assets	$	-	$	(18,919.13)
Trade-in allowance	$	14,507.90	$	-

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The college is a part of the State University and Community College System of Tennessee (Tennessee Board of Regents). This system is a component unit of the State of Tennessee because the state appoints a majority of the system's governing body and provides 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 18 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.

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) certain grants and contracts; and (4) gifts and nonexchange transactions.

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

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 and sick leave at varying rates, depending on length of service or classification. Some employees also earn compensatory time. The amount of the liabilities for annual leave and compensatory time and their related benefits are reported in the statement of net assets. There is no liability for unpaid accumulated sick leave since the university's policy is to pay this only if the employee dies or is absent because of illness, injury, or related family death.

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.

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 - This represents the college's total investment in capital assets.

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, sales and services of educational departments and other activities, and auxiliary enterprises. These resources are used for transactions relating to the educational and general operations of the college, and may be used at the discretion of the college to meet current expenses for any purpose.

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

Scholarship Discounts and Allowances

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

NOTE 2. CASH

This classification includes demand deposits and petty cash on hand. At June 30, 2012, cash consisted of $328,347.22 in bank accounts, $3,700.28 of petty cash on hand, $9,065,479.37 in the State of Tennessee Local Government Investment Pool (LGIP) administered by the State Treasurer, $313,362.48 in LGIP deposits for capital projects, and $20,626.55 in money market funds. At June 30, 2011, cash consisted of $194,228.12 in bank accounts, $3,696.20 of petty cash on hand, $8,719,769.63 in LGIP, $439,165.61 in LGIP deposits for capital projects, and $13,628.81 in money market funds.

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

NOTE 3. DEPOSITS

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 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, 2012, $20,626.55 of the college's bank balance of $550,752.38 was uninsured and uncollateralized.

At June 30, 2011, $13,628.81 of the college's bank balance of $511,700.19 was uninsured and uncollateralized.

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 www.treasury.tn.gov.

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,* as amended, are reported at fair value, including those with a maturity date of one year or less at the time of purchase.

At June 30, 2012, the college had the following investments and maturities.

		Investment Maturities (in Years)				
Investment Type	Fair Value	Less than 1	1 to 5	6 to 10	More than 10	No Maturity Date
U.S. agenices	$ 10,097.00	$ -	$ -	$ -	$ 10,097.00	$ -
Corporate bonds	10,119.30	-	-	10,119.30	-	-
Mutual equity funds	9,850.39	-	-	-	-	9,850.39
Money market	20,626.55	-	-	-	-	20,626.55
Partnerships	30,209.40	-	-	-	-	30,209.40
Less cash and cash equivalents:						
Money market	(20,626.55)	-	-	-	-	(20,626.55)
Total	$ 60,276.09	$ -	$ -	$ 10,119.30	$ 10,097.00	$ 40,059.79

At June 30, 2011, the college had the following investments and maturities.

		Investment Maturities (in Years)				
Investment Type	Fair Value	Less than 1	1 to 5	6 to 10	More than 10	No Maturity Date
U.S. agencies	$ 20,126.80	$ -	$ 20,126.80	$ -	$ -	$ -
Corporate bonds	21,069.80	-	21,069.80	-	-	-
Money market	13,628.81	-	-	-	-	13,628.81
Municipal bonds and notes	26,191.00	-	26,191.00	-	-	-
Less cash and cash equivalents:						
Money market	(13,628.81)	-	-	-	-	(13,628.81)
Total	$ 67,387.60	$ -	$ 67,387.60	$ -	$ -	$ -

Interest Rate Risk

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

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The college is authorized by statute to invest funds in accordance with Tennessee Board of Regents policies. Under the current policy, funds other than endowments may be invested only in obligations of the United States or its agencies backed by the full faith and credit of the United States; repurchase agreements for United States securities; certificates of deposit in banks and savings and loan associations; banker's acceptances; commercial paper; money market mutual funds; and the State of Tennessee Local Government Investment Pool. 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 of 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, 2012, the college's investments were rated as follows:

		Credit Quality Rating		
Investment Type	Fair Value	AAA	AA	Unrated
LGIP	$ 9,378,841.85	-	$ -	$ 9,378,841.85
U.S. agencies	10,097.00	10,097.00	-	-
Corporate bonds	10,119.30	-	10,119.30	-
Money market	20,626.55	-	-	20,626.55
Total	$ 9,419,684.70	$ 10,097.00	$ 10,119.30	$ 9,399,468.40

At June 30, 2011, the college's investments were rated as follows:

		Credit Quality Rating			
Investment Type	Fair Value	AAA	AA	A	Unrated
LGIP	$ 9,158,935.24	$ -	$ -	$ -	$ 9,158,935.24
U.S. agencies	20,126.80	20,126.80	-	-	-
Corporate bonds	21,069.80	-	10,930.90	10,138.90	-
Money market	13,628.81	-	-	-	13,628.81
Municipal bonds and notes	26,191.00	-	26,191.00	-	-
Total	$ 9,239,951.65	$ 20,126.80	$ 37,121.90	$ 10,138.90	$ 9,172,564.05

NOTE 5. RECEIVABLES

Receivables included the following:

	June 30, 2012	June 30, 2011
Student accounts receivable	$ 1,093,958.47	$ 869,728.34
Grants receivable	1,575,593.17	1,162,954.90
Other receivables	9,662.81	14,008.39
Subtotal	2,679,214.45	2,046,691.63
Less allowance for doubtful accounts	(305,253.55)	(245,289.41)
Total receivables	$ 2,373,960.90	$ 1,801,402.22

NOTE 6. PLEDGES RECEIVABLE

Pledges receivable are promises of private donations that are reported as a receivable and revenue. At June 30, 2012, and June 30, 2011, all were considered to be collectible.

NOTE 7. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2012, was as follows:

	Beginning Balance	Additions	Transfers	Reductions	Ending Balance
Land	$ 866,323.50	$ -	$ -	$ -	$ 866,323.50
Land improvements and infrastructure	676,935.00	-	452,130.45	-	1,129,065.45
Buildings	28,653,949.00	-	-	-	28,653,949.00
Equipment	1,594,812.63	303,166.98	-	161,910.31	1,736,069.30
Library holdings	492,828.91	23,313.50	-	353,306.93	162,835.48
Intangible assets	1,176,257.18	-	-	-	1,176,257.18
Projects in progress	482,474.55	291,370.21	(452,130.45)	-	321,714.31
Total	33,943,580.77	617,850.69	-	515,217.24	34,046,214.22
Less accumulated depreciation/ amortization:					
Land improvements and infrastructure	553,323.18	49,518.60	-	-	602,841.78
Buildings	8,540,396.72	754,780.65	-	-	9,295,177.37
Equipment	1,025,078.23	160,291.52	-	147,402.41	1,037,967.34
Library holdings	224,124.53	216,245.82	-	353,306.93	87,063.42
Intangible assets	520,728.66	117,402.06	-	-	638,130.72
Total	10,863,651.32	1,298,238.65	-	500,709.34	11,661,180.63
Capital assets, net	$ 23,079,929.45	$ (680,387.96)	$ -	$ 14,507.90	$ 22,385,033.59

Capital asset activity for the year ended June 30, 2011, was as follows:

	Beginning Balance	Additions	Transfers	Reductions	Ending Balance
Land	$ 866,323.50	$ -	$ -	$ -	$ 866,323.50
Land improvements and infrastructure	676,935.00	-	-	-	676,935.00
Buildings	28,591,851.00	-	62,098.00	-	28,653,949.00
Equipment	1,428,446.35	307,430.75	-	141,064.47	1,594,812.63
Library holdings	419,731.96	73,096.95	-	-	492,828.91
Intangible assets	1,176,257.18	-	-	-	1,176,257.18
Projects in progress	129,055.65	415,516.90	(62,098.00)	-	482,474.55
Total	33,288,600.64	796,044.60	-	141,064.47	33,943,580.77
Less accumulated depreciation/ amortization:					
Land improvements and infrastructure	526,411.14	26,912.04	-	-	553,323.18
Buildings	7,785,616.08	754,780.64	-	-	8,540,396.72
Equipment	1,010,531.25	136,692.32	-	122,145.34	1,025,078.23
Library holdings	174,841.59	49,282.94	-	-	224,124.53
Intangible assets	403,326.60	117,402.06	-	-	520,728.66
Total	9,900,726.66	1,085,070.00	-	122,145.34	10,863,651.32
Capital assets, net	$ 23,387,873.98	$ (289,025.40)	$ -	$ 18,919.13	$ 23,079,929.45

The increase in accumulated depreciation for library holdings is due to a change in accounting estimate. During fiscal year 2012, it was determined that periodicals are more appropriately expensed. The estimated useful life of periodicals was decreased from 10 years to 0 years, resulting in a current-year adjustment of $199,962.27.

NOTE 8. LONG-TERM LIABILITIES

Long-term liabilities activity for the year ended June 30, 2012, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Compensated absences	$ 746,238.06	$ 632,670.76	$ 537,411.40	$ 841,497.42	$ 200,433.52

Long-term liabilities activity for the year ended June 30, 2011, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Compensated absences	$ 739,866.31	$ 535,023.18	$ 528,651.43	$ 746,238.06	$ 183,908.33

NOTE 9. ENDOWMENTS

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

The college chooses to spend only a portion of the investment income (including changes in the value of investments) each year. Under the spending plan established by the college, the accumulated realized income (excluding unrealized gains and losses) has been authorized for expenditure. The remaining amount, if any, is retained to be used in future years when the amount computed using the spending plan exceeds the investment income. At June 30, 2012, net appreciation of $2,926.57 is available to be spent, all of which is included in restricted net assets expendable for scholarships and fellowships. At June 30, 2011, net appreciation of $848.31 is available to be spent, all of which is included in restricted net assets expendable for scholarships and fellowships.

NOTE 10. UNRESTRICTED NET ASSETS

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

	June 30, 2012	June 30, 2011
Working capital	$ 854,365.30	$ 618,679.05
Encumbrances	63,441.35	168,644.08
Designated fees	496,002.87	165,081.34
Auxiliaries	150,987.84	154,850.22
Plant construction	3,746,403.44	3,646,845.96
Renewal and replacement of equipment	1,269,030.86	1,677,402.64
Total	$ 6,580,231.66	$ 6,431,503.29

NOTE 11. PENSION PLANS

A. Defined Benefit Plan

Tennessee Consolidated Retirement System

Plan Description - The college contributes to the State Employees, Teachers, and Higher Education Employees Pension Plan (SETHEEPP), a cost-sharing, multiple-employer, defined benefit pension plan administered by the Tennessee Consolidated Retirement System (TCRS). TCRS provides retirement, death, and disability benefits as well as annual cost-of-living adjustments to plan members and their beneficiaries. Title 8, Chapters 34-37, *Tennessee Code Annotated*, establishes benefit provisions. State statutes are amended by the Tennessee General Assembly.

The TCRS issues a publicly available financial report that includes financial statements and required supplementary information for SETHEEPP. That report is available on the state's website at www.treasury.tn.gov/tcrs.

Funding Policy - Plan members are noncontributory. The college is required to contribute an actuarially determined rate. The current rate is 14.91% 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, 2012, 2011, and 2010 were $914,952.15, $772,217.70, and $627,827.46. Contributions met the requirements for each year.

B. Defined Contribution Plans

Optional Retirement Plans

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 contributions made by the college to the plans were $409,726.36 for the year ended June 30, 2012, and $399,568.30 for the year ended June 30, 2011. Contributions met the requirements for each year.

NOTE 12. OTHER POSTEMPLOYMENT 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, all members have the option of choosing between the standard or partnership preferred provider organization (PPO) plan for healthcare benefits. Subsequent to age 65, members who are also in the state's retirement system may participate in a state-administered Medicare supplement that does not include pharmacy. The state makes on-behalf payments to the Medicare supplement plan for the college's eligible retirees; see Note 16. 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 www.tn.gov/finance/act/cafr.shtml.

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 are subsidized 80%; retirees with 20 years of service but less than 30 years of service, 70%; and retirees with less than 20 years of service, 60%. Retirees in the Medicare Supplement Plan have flat-rate premium subsidies based on years of service. Retirees with 30 years of service receive $50 per month; retirees with 20 years of service but less than 30 years of service, $37.50; and retirees with 15 years of service but less than 20 years of service, $25.

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

	2012	2011
Annual required contribution (ARC)	$ 293,000.00	$ 344,000.00
Interest on the net OPEB obligation	43,915.22	43,409.17
Adjustment to the ARC	(46,615.17)	(41,117.10)
Annual OPEB cost	290,300.05	346,292.07
Amount of contribution	(264,746.20)	(213,059.83)
Increase in net OPEB obligation	25,553.85	133,232.24
Net OPEB obligation – beginning of year	1,097,880.41	964,648.17
Net OPEB obligation – end of year	$ 1,123,434.26	$ 1,097,880.41

Year-end	Plan	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation at Year-end
June 30, 2012	State Employee Group Plan	$290,300.05	91.2%	$1,123,434.26
June 30, 2011	State Employee Group Plan	$346,292.07	61.5%	$1,097,880.41
June 30, 2010	State Employee Group Plan	$381,777.82	43.3%	$964,648.17

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, 2011	July 1, 2010
Actuarial accrued liability (AAL)	$ 2,232,000.00	$ 3,236,000.00
Actuarial value of plan assets	-	-
Unfunded actuarial accrued liability (UAAL)	$ 2,232,000.00	$ 3,236,000.00
Actuarial value of assets as a percentage of the AAL	0.00%	0.00%
Covered payroll (active plan members)	$14,664,540.78	$14,298,352.92
UAAL as percentage of covered payroll	15.2%	22.6%

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

Actuarial Methods and Assumptions

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

In the July 1, 2011, actuarial valuation, the Projected Unit Credit actuarial cost method was used. The actuarial assumptions included a 4 percent investment rate of return (net of administrative expenses) and an annual healthcare cost trend rate of 9.25 percent in fiscal year 2012. The rate decreases to 8.75 percent in fiscal year 2013, and then reduces by decrements to an ultimate rate of 5 percent in fiscal year 2021. All rates include a 2.5 percent inflation assumption. The unfunded actuarial accrued liability is being amortized as a level percentage of payroll on a closed basis over a 30-year period beginning with July 1, 2007.

NOTE 13. INSURANCE-RELATED ACTIVITIES

It is the policy of the state not to purchase commercial insurance for the risks associated with casualty losses for general liability, automobile liability, professional medical 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, builder's risk (for construction projects starting prior to July 1, 2012) and crime and fidelity coverage on the state's officials and employees. The contractor is responsible for acquiring builder's risk insurance for all construction projects after June 30, 2012, thus builder's risk is no longer covered by the Risk Management Fund. For property coverage, the deductible for an individual state agency is the first $25,000 of losses. The Risk Management Fund is responsible for property losses for the annual aggregate deductible of $10 million for perils other than earthquakes and flood. Purchased insurance coverage is responsible for losses exceeding the $10 million annual aggregate deductible. For earthquake and flood, there is a deductible of $10 million per occurrence. The maximum insurance coverage is $750 million per year for perils other than earthquake and flood. The maximum flood insurance coverage is $50 million per occurrence, except there is only $25 million of coverage in flood zones A and V. The maximum earthquake insurance coverage is $50 million per occurrence. The amounts of settlements have not exceeded insurance coverage for each of the three past fiscal years.

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, 2012, and June 30, 2011, are presented in the *Tennessee Comprehensive Annual Financial Report*. The CAFR is available on the state's website at www.tn.gov/finance/act/cafr.shtml. Since the college participates in the Risk Management Fund, it is subject to the liability limitations under the provisions of the Tennessee Claims Commission Act, *Tennessee Code Annotated*, Section 9-8-101 et seq. Liability for negligence of the college for bodily injury and property damage is limited to $300,000 per person and $1,000,000 per occurrence. The limits of liability under workers' compensation are set forth in *Tennessee Code Annotated*, Section 50-6-101 et seq. Claims are paid through the state's Risk Management Fund. At June 30, 2012, the Risk Management Fund held $97.2 million in cash and cash equivalents designated for payment of claims. At June 30, 2011, the Risk Management Fund held $107.6 million in cash and cash equivalents designated for payment of claims.

At June 30, 2012, the scheduled coverage for the college was $54,538,100.00 for buildings and $7,423,800.00 for contents. At June 30, 2011, the scheduled coverage for the college was $48,135,300.00 for buildings and $7,095,600.00 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, including the cost of claims that have been reported but not settled and of claims that have been incurred but not reported. Employees and providers have 13 months to file medical claims.

NOTE 14. COMMITMENTS AND CONTINGENCIES

Sick Leave

The college records the cost of sick leave when paid. The dollar amount of unused sick leave was $3,320,891.52 at June 30, 2012, and $3,004,698.21 at June 30, 2011.

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 $180,411.51 and for personal property were $132,556.78 for the year ended June 30, 2012. The amounts for the year ended June 30, 2011, were $122,885.08 and $74,900.01. All operating leases are cancelable at the lessee's option.

Construction in Progress

At June 30, 2012, outstanding commitments under construction contracts totaled $928,626.52 for DSCC Jimmy Naifeh Center Learning Resource Center and Student Center, Mechanical System Modernization, ADA Adaptions, Glover Roof Replacement, Lighting Upgrades, and Master Plan Update, of which $190,012.77 will be funded by future state capital outlay appropriations.

Future Commitments

In relation to the Jimmy Naifeh Center Learning Resource Center and Student Center capital project, the future spending committed is $13,428,291.46.

NOTE 15. NATURAL CLASSIFICATIONS WITH FUNCTIONAL CLASSIFICATIONS

The college's operating expenses for the year ended June 30, 2012, are as follows:

Functional Classification	Natural Classification Salaries	Benefits	Other Operating	Scholarships	Depreciation	Total
Instruction	$ 5,957,691.72	$ 1,997,134.54	$ 1,953,130.00	$ -	$ -	$ 9,907,956.26
Public service	2,511,682.85	896,623.49	3,361,533.64	-	-	6,769,839.98
Academic support	837,804.01	346,456.79	(159,663.88)	-	-	1,024,596.92
Student services	1,108,238.14	382,988.90	704,402.37	-	-	2,195,629.41
Institutional support	1,530,925.48	631,632.64	779,309.20	-	-	2,941,867.32
Maintenance & operation	608,628.64	304,069.56	1,774,595.24	-	-	2,687,293.44
Scholarships & fellowships	-	-	-	4,961,937.62	-	4,961,937.62
Depreciation	-	-	-	-	1,298,238.65	1,298,238.65
Total	$ 12,554,970.84	$ 4,558,905.92	$ 8,413,306.57	$ 4,961,937.62	$ 1,298,238.65	$ 31,787,359.60

The college's operating expenses for the year ended June 30, 2011, are as follows:

Functional Classification	Natural Classification Salaries	Benefits	Other Operating	Scholarships	Depreciation	Total
Instruction	$ 5,326,945.24	$ 1,857,269.49	$ 1,896,634.27	$ -	$ -	$ 9,080,849.00
Public service	1,581,776.49	622,883.94	4,252,551.03	-	-	6,457,211.46
Academic support	778,569.12	334,188.97	(449,320.83)	-	-	663,437.26
Student services	1,163,022.05	372,717.40	667,371.22	-	-	2,203,110.67
Institutional support	1,507,070.75	599,710.31	884,163.22	-	-	2,990,944.28
Maintenance & operation	555,531.61	293,056.32	1,621,285.66	-	-	2,469,873.59
Scholarships & fellowships	-	-	-	6,146,289.44	-	6,146,289.44
Depreciation	-	-	-	-	1,085,070.00	1,085,070.00
Total	$ 10,912,915.26	$ 4,079,826.43	$ 8,872,684.57	$ 6,146,289.44	$ 1,085,070.00	$ 31,096,785.70

Expenses initially incurred by the academic support function as a result of providing internal services to the other functional classifications were allocated to the other functional areas by reducing the academic support function's operating expenses by the total amount of salaries, benefits, and operating expenses incurred in the provision of these services, and allocating this amount to the other functional areas' operating expenses on the basis of usage. As a result of this process, expenses totaling $939,244.69 for the year ended June 30, 2012, and $958,477.51 for the year ended June 30, 2011, were reallocated from academic support to the other functional areas and caused academic support operating expenses to appear as a negative amount in the schedule above.

NOTE 16. ON-BEHALF PAYMENTS

During the year ended June 30, 2012, the State of Tennessee made payments of $9,184.46 on behalf of the college for retirees participating in the Medicare Supplement Plan. The amount for the year ended June 30, 2011, was $7,168.00. The Medicare Supplement Plan is a postemployment benefit healthcare plan and is discussed further in Note 12. That report is available on the state's website at www.tn.gov/finance/act/cafr.shtml.

NOTE 17. SUBSEQUENT EVENTS

Tipton County has committed $3,000,000.00 to the funding of the Jimmy Naifeh Center Learning Resource Center and Student Center of which $1,500,000.00 was received on August 6, 2012, and $1,500,000.00 was received on October 17, 2012.

NOTE 18. COMPONENT UNIT

The Dyersburg State Community College Foundation is a legally separate, tax-exempt organization supporting Dyersburg State Community College. The foundation acts primarily as a fund-raising organization to supplement the resources that are available to the college in support of its programs. The 48-member board of the foundation is self-perpetuating and consists of graduates and friends of the college. Although the college does not control the timing or amount of receipts from the foundation, the majority of resources, or income thereon, that the foundation holds and invests are restricted to the activities of the college by the donors. Because these restricted resources held by the foundation can only be used by, or for the benefit of, the college, the foundation is considered a component unit of the college and is discretely presented in the college's financial statements.

The foundation is a nonprofit organization that reports under Financial Accounting Standards Board (FASB) standards. 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, 2012, the foundation made distributions of $77,500.00 to or on behalf of the college for both restricted and unrestricted purposes. During the year ended June 30, 2011, the foundation made distributions of $60,150.50 to or on behalf of the college for both restricted and unrestricted purposes. Complete financial statements for the foundation can be obtained from Lowell Hoffmann, 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, 2012, and at June 30, 2011.

	Total Fair Value at June 30, 2012	Quoted Prices Level 1	Significant Other Inputs Level 2	Significant Unobservable Inputs Level 3
Assets:				
Cash equivalents	$ 525,526.35	$ 525,526.35	$ -	$ -
Investments	4,909,312.74	4,647,429.30	261,883.44	-
Total assets	$ 5,434,839.09	$ 5,172,955.65	$ 261,883.44	$ -

	Total Fair Value at June 30, 2011	Quoted Prices Level 1	Significant Other Inputs Level 2	Significant Unobservable Inputs Level 3
Assets:				
Cash equivalents	$ 414,445.64	$ 414,445.64	$ -	$ -
Investments	4,750,403.32	4,497,791.24	252,612.08	-
Total assets	$ 5,164,848.96	$ 4,912,236.88	$ 252,612.08	$ -

Cash and Cash Equivalents

Cash and cash equivalents consist of money market funds and federal prime obligations. Uninsured bank balances at June 30, 2012, totaled $525,526.35. Uninsured bank balances at June 30, 2011, totaled $414,445.64.

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, 2012, were as follows:

	Cost	Market Value
U.S. agencies	$ 152,160.82	$ 161,026.32
Certificates of deposit	261,883.44	261,883.44
Municipal bonds	749,830.76	829,690.65
Corporate bonds	178,901.02	196,261.35
Mutual bond funds	902,073.91	928,390.73
Mutual equity funds	2,126,592.66	2,423,440.00
Closed-end mutual funds	107,798.81	108,620.25
Total investments	$ 4,479,241.42	$ 4,909,312.74

Investments held at June 30, 2011, were as follows:

	Cost	Market Value
U.S. agencies	$ 152,160.82	$ 160,363.47
Certificates of deposit	252,612.08	252,612.08
Corporate bonds	224,170.12	239,358.29
Mutual bond funds	650,027.79	660,834.01
Mutual equity funds	2,233,057.95	2,707,683.78
Municipal bonds	699,076.18	729,551.69
Total investments	$ 4,211,104.94	$ 4,750,403.32

Long-term Liabilities

Long-term liabilities at June 30, 2012, consisted of the following:

	Ending Balance	Current Portion
Charitable gift annuities	$ 14,692.55	$ 5,600.00

Long-term liabilities at June 30, 2011, consisted of the following:

	Ending Balance	Current Portion
Charitable gift annuities	$ 20,317.56	$ 5,600.00

Endowments

The Dyersburg State Community College Foundation's endowment consists of 142 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 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, 2012

	Permanently Restricted	Temporarily Restricted	Unrestricted	Total
Donor-restricted endowment funds	$ 3,337,084.13	$ 2,030,925.63	$ -	$ 5,368,009.76
Board-designated endowment funds	-	-	66,573.25	66,573.25
Total funds	$ 3,337,084.13	$ 2,030,925.63	$ 66,573.25	$ 5,434,583.01

Composition of Endowment by Net Asset Class
As of June 30, 2011

	Permanently Restricted	Temporarily Restricted	Unrestricted	Total
Donor-restricted endowment funds	$ 2,989,127.58	$ 2,100,039.34	$ -	$ 5,089,166.92
Board-designated endowment funds	-	-	67,800.08	67,800.08
Total funds	$ 2,989,127.58	$ 2,100,039.34	$ 67,800.08	$ 5,156,967.00

Changes in Endowment Net Assets
for the Fiscal Year Ended June 30, 2012

	Permanently Restricted	Temporarily Restricted	Unrestricted	Total
Endowment net assets, beginning of year	$ 2,989,127.58	$ 2,100,039.34	$ 67,800.08	$ 5,156,967.00
Investment return:				
Investment income	-	114,461.25	35,268.67	149,729.92
Net appreciation/depreciation (realized and unrealized)	-	(108,523.96)	(14,031.56)	(122,555.52)
Total investment return	-	5,937.29	21,237.11	27,174.40
Contributions	347,956.55	1,715.00	5,060.00	354,731.55
Appropriations of endowment assets for expenditure	-	-	(106,175.89)	(106,175.89)

Other changes:				
Transfers	-	(76,766.00)	76,766.00	-
Adjustment to charitable gift annuity	-	-	1,885.95	1,885.95
Endowment net assets, end of year	$ 3,337,084.13	$ 2,030,925.63	$ 66,573.25	$ 5,434,583.01

Changes in Endowment Net Assets
for the Fiscal Year Ended June 30, 2011

	Permanently Restricted	Temporarily Restricted	Unrestricted	Total
Endowment net assets, beginning of year	$ 2,871,421.61	$ 1,575,760.55	$ 59,610.87	$ 4,506,793.03
Investment return:				
Investment income	-	120,572.50	9,683.79	130,256.29
Net appreciation/depreciation (realized and unrealized)	-	87,873.58	7,621.35	95,494.93
Total investment return	-	208,446.08	17,305.14	225,751.22
Contributions	117,705.97	280.00	5,255.00	123,240.97
Appropriations of endowment assets for expenditure	-	-	(93,061.85)	(93,061.85)
Other changes:				
Transfers	-	(78,481.40)	78,481.40	-
Adjustment to charitable gift annuity and increase in fair market value	-	394,034.11	209.52	394,243.63
Endowment net assets, end of year	$ 2,989,127.58	$ 2,100,039.34	$ 67,800.08	$ 5,156,967.00

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) as well as board-designated funds. Under this policy, as approved by the Board of Trustees, the endowment assets are invested in a manner that is intended 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.

<u>Strategies employed for achieving objectives</u> - 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 a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk restraints.

<u>Spending policy and how the investment objectives relate</u> – 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 7 percent 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
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, 2011	State Employee Group Plan	$ -	$2,232,000	$2,232,000	0.00%	$14,664,541	15.22%
July 1, 2010	State Employee Group Plan	$ -	$3,236,000	$3,236,000	0.00%	$14,298,353	22.63%
July 1, 2009	State Employee Group Plan	$ -	$3,557,000	$3,557,000	0.00%	$12,649,302	28.12%

The amount reported here for covered payroll relates to the fiscal year in which the valuations were performed.

TENNESSEE BOARD OF REGENTS
DYERSBURG STATE COMMUNITY COLLEGE
SUPPLEMENTARY SCHEDULES OF CASH FLOWS - COMPONENT UNIT
FOR THE YEARS ENDED JUNE 30, 2012, AND JUNE 30, 2011

	Year Ended June 30, 2012	Year Ended June 30, 2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Gift and contributions	$ 6,775.00	$ 5,535.00
Payments to suppliers and vendors	(5,567.69)	(11,271.36)
Payments to Dyersburg State Community College	(77,500.00)	(60,150.50)
Net cash flows used by operating activities	(76,292.69)	(65,886.86)
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
Private gifts for endowment purposes	347,956.55	117,705.97
Other non-capital financing receipts (payments)	(5,625.01)	(1,983.32)
Net cash flows provided by non-capital financing activities	342,331.54	115,722.65
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of investments	567,234.73	1,074,620.98
Income on investments	113,178.36	204,081.25
Purchase of investments	(835,371.23)	(1,911,113.47)
Net cash used by investing activities	(154,958.14)	(632,411.24)
Net increase (decrease) in cash and cash equivalents	111,080.71	(582,575.45)
Cash and cash equivalents - beginning of year	414,445.64	997,021.09
Cash and cash equivalents - end of year	$ 525,526.35	$ 414,445.64
Reconciliation of operating loss to net cash provided by operating activities:		
Operating income	$ 94,283.75	$ 71,746.14
Adjustment to reconcile operating income to net cash used by operating activities:		
Endowment income per spending plan	(170,576.44)	(137,633.00)
Net cash used by operating activities	$ (76,292.69)	$ (65,886.86)
Noncash investing, capital, and financing transactions		
Unrealized gains/losses on investments	$ (109,227.07)	$ 394,191.78