STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY

TENNESSEE BOARD OF REGENTS
DYERSBURG STATE COMMUNITY COLLEGE

Financial and Compliance Audit Report

For the Years Ended June 30, 2014, and June 30, 2013

Justin P. Wilson, Comptroller

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STATE OF TENNESSEE
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August 20, 2015

The Honorable Bill Haslam, Governor
Members of the General Assembly
The Honorable John G. Morgan, Chancellor
Dr. Karen A. Bowyer, President

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, 2014, and June 30, 2013. You will note from the independent auditor's report that unmodified opinions were given on the fairness of the presentation of the financial statements.

Consideration of the internal control over financial reporting and tests of compliance disclosed certain deficiencies, which are detailed in the Findings and Recommendations section of this report. The college's management has responded to the audit findings; the responses are included following each finding. The Division of State Audit will follow up the audit to examine the application of the procedures instituted because of the audit findings.

Sincerely,

Deborah V. Loveless

Deborah V. Loveless, CPA
Director

15/031

Audit Report
Tennessee Board of Regents
DYERSBURG STATE COMMUNITY COLLEGE
For the Years Ended June 30, 2014, and June 30, 2013

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For the Years Ended June 30, 2014, and June 30, 2013

Opinions on the Financial Statements

The opinions on the financial statements are unmodified.

Audit Findings

Dyersburg State Community College did not provide adequate internal controls in two specific areas

The college did not design and monitor proper internal controls in specific areas. We observed two conditions in violation of college policies and/or industry-accepted best practices (page 46).

Dyersburg State Community College, the Tennessee Board of Regents, and the Tennessee Department of Finance and Administration did not provide adequate internal controls in one specific area

The college, the Tennessee Board of Regents (TBR), and the Tennessee Department of Finance and Administration (F&A) did not collaborate to design and monitor effective internal controls. We observed a condition that was a departure from industry-accepted best practices and was in violation of college, TBR, and/or F&A policies (page 46).

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Independent Auditor's Report

The Honorable Bill Haslam, Governor
Members of the General Assembly
The Honorable John G. Morgan, Chancellor
Dr. Karen A. Bowyer, President

Report on the Financial Statements

We have audited the accompanying 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, 2014, and June 30, 2013, and the related notes to the financial statements, which collectively comprise the basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements, based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

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, 2014, and June 30, 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

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, 2014, and June 30, 2013, and the changes in financial position and cash flows thereof for the years then ended, in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

As discussed in Note 1, the college implemented GASB Statement 65, *Items Previously Reported as Assets and Liabilities*, during the year ended June 30, 2013. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 through 15 and the schedule of funding progress on page 42 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, which 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.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the college's basic financial statements. The schedules of cash flows – component unit on page 43 are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The schedules of cash flows – component unit are the responsibility of the college's management and were derived from, and relate directly to, the underlying accounting and other records used to prepare the basic 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 basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedules of cash flows – component unit are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 28, 2015, on our consideration of the college's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the college's internal control over financial reporting and compliance.

Deborah V. Loveless

Deborah V. Loveless, CPA
Director
May 28, 2015

Tennessee Board of Regents
DYERSBURG STATE COMMUNITY COLLEGE
Management's Discussion and Analysis

Introduction

This section of Dyersburg State Community College's financial report presents a discussion and analysis of the financial performance of the college during the fiscal years ended June 30, 2014, and June 30, 2013, with comparative information presented for the fiscal year ended June 30, 2012. This discussion has been prepared by management along with the financial statements and related note disclosures and should be read in conjunction with the independent auditor's report, the audited financial statements, and the accompanying notes. The financial statements, notes, and this discussion are the responsibility of management.

The college has one discretely presented component unit, the Dyersburg State Community College Foundation. More detailed information about the foundation is presented in Note 16 to the financial statements. This discussion and analysis focuses on the college and does not include the foundation.

Overview of the Financial Statements

The financial statements have been prepared in accordance with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB), which establishes standards for external financial reporting for public colleges and universities. The financial statements are presented on a consolidated basis to focus on the college as a whole. The full scope of the college's activities is considered to be a single business-type activity, and accordingly, is reported within a single column in the basic financial statements.

The college's financial report includes the statement of net position; the statement of revenues, expenses, and changes in net position; and the statement of cash flows. Notes to the financial statements are also presented to provide additional information that is essential to a full understanding of the financial statements.

The Statement of Net Position

The statement of net position is a point-in-time financial statement. The statement of net position presents the financial position of the college at the end of the fiscal year. To aid the reader in determining the college's ability to meet immediate and future obligations, the statement includes all assets, liabilities, deferred outflows/inflows of resources, and net position of the college and segregates the assets and liabilities into current and noncurrent components. Current assets are those that are available to satisfy current liabilities, inclusive of assets that will be converted to cash within one year. Current liabilities are those that will be paid within one year. The statement of net position is prepared under the accrual basis of accounting; assets and liabilities are recognized when goods or services are provided or received despite when cash is actually exchanged.

From the data presented, readers of the statement are able to determine the assets available to continue the operations of the college. They are also able to determine how much the college owes vendors, lenders, and others. Net position represents the difference between the college's assets and liabilities, along with the difference between deferred outflows and deferred inflows of resources, and is one indicator of the college's current financial condition.

The statement of net position also indicates the availability of net position for expenses by the college. Net position is divided into three major categories. The first category, net investment in capital assets, represents the college's total investment in property, plant, and equipment related to these capital assets. To the extent debt or deferred inflows of resources have been incurred but not yet expended for capital assets, such amounts are not included. The next category is restricted net position, which is sub-divided into two categories, nonexpendable and expendable. Nonexpendable restricted net position includes endowment and similar resources whose use is limited by donors or other outside sources and, as a condition of the gift, the principal is to be maintained in perpetuity. Expendable restricted net position is available for expenses 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 resources. The final category is unrestricted net position. Unrestricted net position is available to the college for any lawful purpose of the college.

The following table summarizes the college's assets, liabilities, deferred outflows/inflows of resources, and net position at June 30, 2014; June 30, 2013; and June 30, 2012.

Summary of Net Position
(in thousands of dollars)

	2014	2013	2012
Assets:			
Current assets	$ 7,295	$ 6,005	$ 6,384
Capital assets, net	30,571	24,130	22,385
Other assets	7,655	9,078	5,847
Total Assets	45,521	39,213	34,616
Liabilities:			
Current liabilities	2,818	2,028	2,128
Noncurrent liabilities	1,833	1,794	1,765
Total Liabilities	4,651	3,822	3,893
Net Position:			
Net investment in capital assets	30,571	24,130	22,385
Restricted – nonexpendable	138	131	134

Restricted – expendable	3,912	4,360	1,624
Unrestricted	6,249	6,770	6,580
Total Net Position	$40,870	$35,391	$30,723

Comparison of Fiscal Year 2014 to Fiscal Year 2013

- Current assets increased from FY 2013 to FY 2014 as current cash was higher to support $881,943.69 in current payables for plant expenses. There was also $248,102.98 in current assets that were due from the state to reimburse expenses on the Jimmy Naifeh Center building project for a Learning Resources Center/Student Center.

- Net capital assets increased as the institution spent $8 million toward the construction of the new Jimmy Naifeh Center building. Depreciation reduced net capital by $1.2 million.

- Other assets decreased from FY 2013 as noncurrent cash held by plant funds was expended on plant projects.

- Current liabilities increased due to increased accounts payable for plant projects and the Jimmy Naifeh Center building project.

- Net investment in capital assets net position increased primarily due to $8 million expended on the Jimmy Naifeh Center building project, offset by $1.2 million in depreciation.

- Restricted-expendable net position decreased in FY 2014 due to a decrease in the Workforce Investment Act grant and the West TN Consortium grant.

- Unrestricted net position decreased as a result of expenses reducing plant funds and retirement and replacement funds.

Comparison of Fiscal Year 2013 to Fiscal Year 2012

- Current assets decreased from FY 2012 to FY 2013 as receivables were lower due to the $343,319.06 payment from the United States Department of Agriculture for the Rural Utility Services grant receivable.

- Capital assets increased from the prior fiscal year from capital purchases as the institution spent $1.7 million toward the construction of the new Learning Resource Center/Student Center building at the Jimmy Naifeh Center in FY 2013. Depreciation reduced capital assets by $1.1 million.

- The increase in other assets includes an increase in noncurrent cash due to transfers from unrestricted net position to plant fund net position and a $3 million capital gift from Tipton County for the new Learning Resource Center/Student Center building.

- Current liabilities decreased modestly due to payment of the payable of the computer hosting charge from OIR in FY 2013.

- Net investment in capital assets net position increased due to capital purchases offset by depreciation.

- The restricted expendable net position increase includes the $3 million capital gift for the new Learning Resource Center/Student Center building, offset by a decrease in the balance of the Goodyear training funds used for nursing and emergency medical technician classes.

- Unrestricted net position increased modestly due to higher state appropriations.

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

The statement of revenues, expenses, and changes in net position presents the results of operations for the fiscal year. Revenues and expenses are recognized when earned or incurred, regardless of when cash is received. The statement indicates whether the college's financial condition has improved or deteriorated during the fiscal year. The statement presents the revenues received by the college, both operating and nonoperating; the expenses paid by the college, operating and nonoperating; and any other revenues, expenses, gains, or losses received or spent by the college.

Generally speaking, operating revenues are received for providing goods and services to the various customers and constituencies of the college. Operating expenses are those expenses paid to acquire or produce the goods and services provided in return for the operating revenues, and to carry out the mission of the college. Nonoperating revenues are revenues received for which goods and services are not provided directly to the payor. Although Dyersburg State Community College is dependent upon state appropriations and gifts to fund educational and general operations, under GASB standards these funding sources are reported as nonoperating revenues, as is investment income. As a result, the college has historically reported an excess of operating expenses over operating revenues, resulting in an operating loss. Therefore, the "increase in net position" is more indicative of overall financial results for the year.

A summary of the college's revenues, expenses, and changes in net position for the years ended June 30, 2014; June 30, 2013; and June 30, 2012, follows.

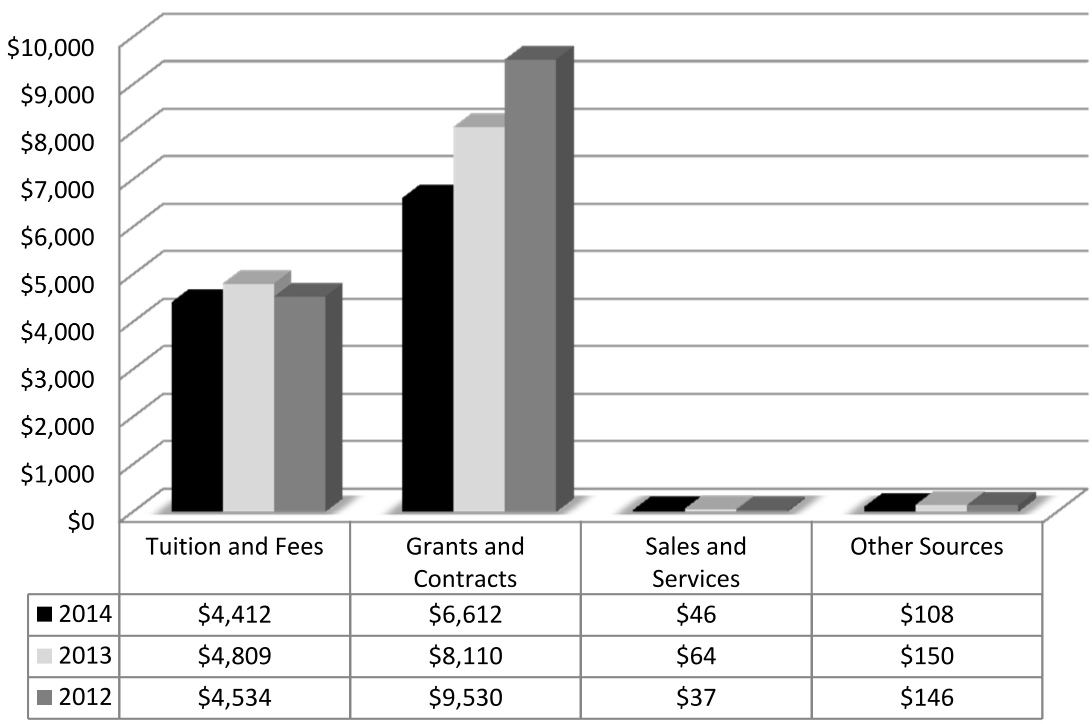
Summary of Revenues, Expenses, and Changes in Net Position
(in thousands of dollars)

	2014	2013	2012
Operating revenues	$11,178	$13,132	$14,247
Operating expenses	28,487	31,069	31,787
Operating loss	(17,309)	(17,937)	(17,540)
Nonoperating revenues and expenses	15,931	16,777	17,006
Loss before other revenues, expenses, gains, or losses	(1,378)	(1,160)	(534)
Other revenues, expenses, gains, or losses	6,857	5,828	292
Increase (decrease) in net position	5,479	4,668	(242)
Net position at beginning of year	35,391	30,723	30,965
Net position at end of year	$40,870	$35,391	$30,723

Operating Revenues

The following summarizes the operating revenues by source that were used to fund operating activities for the last two fiscal years:

Operating Revenue by Source
(in thousands of dollars)



Comparison of Fiscal Year 2014 to Fiscal Year 2013

- Student tuition and fees decreased due to a decline in enrollment. An increase in tuition rates was not sufficient to overcome the enrollment decrease.

- Grants and contracts operating revenue decreased as a result of a decrease in funding for the Workforce Investment Act (WIA), offset by funds received for the Governor's equipment grant.

- Other sources of operating revenue decreased due to a decline in bookstore revenue. The bookstore was affected by the decline in enrollment.

Comparison of Fiscal Year 2013 to Fiscal Year 2012

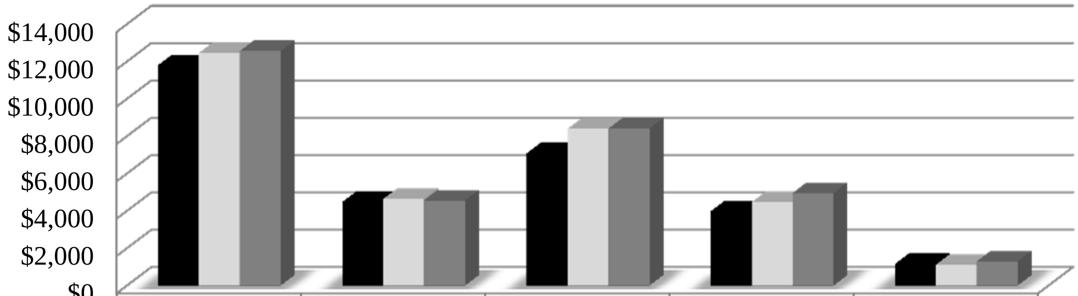
- Tuition and fees increased $274,423 due to a 4.7% increase in the base in-state tuition rate.

- Grants and contracts operating revenue decreased $1.4 million as a result of a $537 thousand decrease in the Goodyear nursing and EMT training grants as the training was completed; a $346 thousand reduction in the United States Department of Agriculture for the Rural Utility Services grant for interactive television classrooms that were built; a $126 thousand decline in the Department of Agriculture SETC grant that ended; and a $299 thousand decrease in revenue from WIA grants due to federal budget cuts in the program.

Operating Expenses

Operating expenses may be reported by nature or function. The college has chosen to report the expenses in their natural classification on the statement of revenues, expenses, and changes in net position and has displayed the functional classification in the notes to the financial statements. The following summarizes the operating expenses by natural classifications for the last three fiscal years:

Operating Expense by Natural Classification
(in thousands of dollars)



	Salaries	Benefits	Operating	Scholarships	Depreciation
2014	$11,790	$4,473	$7,081	$3,985	$1,159
2013	$12,452	$4,635	$8,395	$4,474	$1,113
2012	$12,555	$4,559	$8,413	$4,962	$1,298

<u>Comparison of Fiscal Year 2014 to Fiscal Year 2013</u>

- Salaries and benefits decreased as positions were eliminated through attrition to respond to the decrease in student enrollment.

- Operating expenses decreased as Workforce Investment Act (WIA) grants and subsidies decreased by $1.2 million as federal funding decreased.

- Scholarships decreased from a reduction in Pell awards as enrollment decreased from FY 2013 to FY 2014.

<u>Comparison of Fiscal Year 2013 to Fiscal Year 2012</u>

- Salaries decreased $102,553 from FY 2012 due to a reduction in force at WIA, partially offset by a 2.5% salary increase.

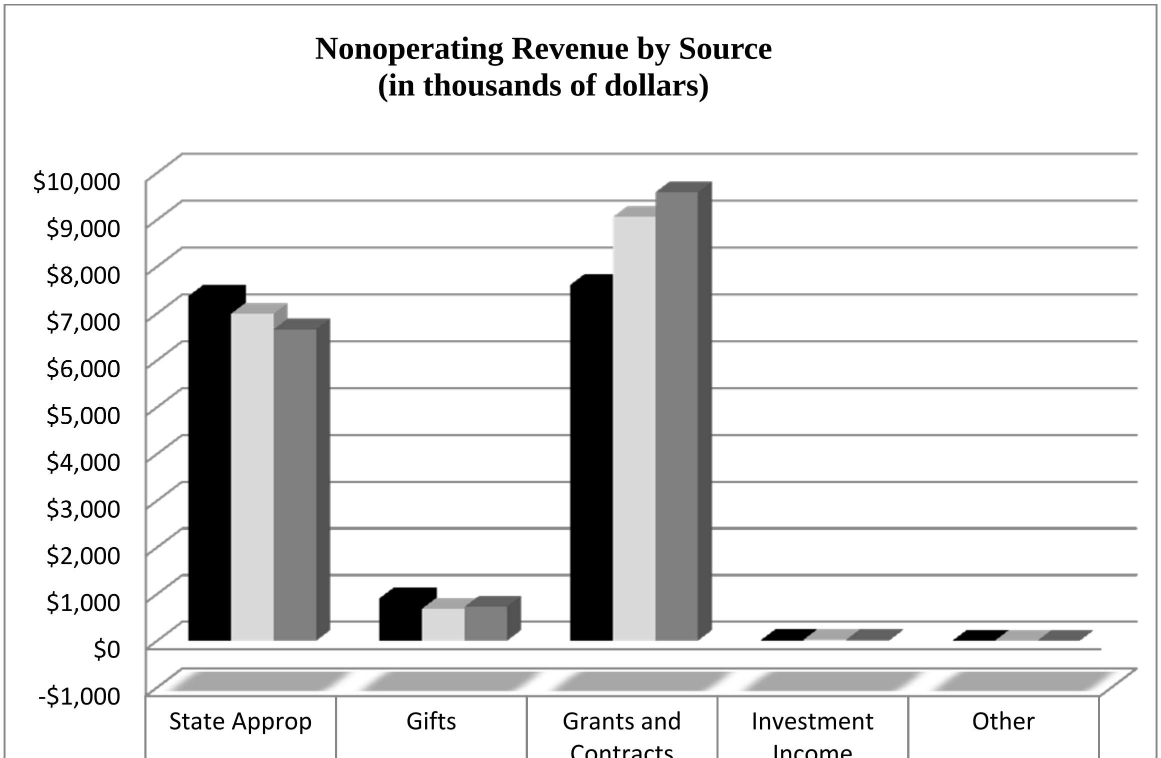
- Benefits increased $75,997 as insurance premiums rose in December 2012, and the salary rate increased.

- Scholarships decreased $488 thousand from a reduction in Pell awards as enrollment decreased in FY 2013 compared to FY 2012.

- Depreciation expense decreased because a change in accounting estimate in depreciation of library holdings in FY 2012 resulted in a $200 thousand adjustment in depreciation in that year.

Nonoperating Revenues and Expenses

Certain revenue sources that the college relies on to provide funding for operations, including state noncapital appropriations, certain gifts and grants, and investment income, are defined by the GASB as nonoperating. Nonoperating expenses include capital financing costs and other costs related to capital assets. The following summarizes the college's nonoperating revenues and expenses for the last two fiscal years:



	State Approp	Gifts	Grants and Contracts	Investment Income	Other
2014	$7,379	$914	$7,615	$23	$0
2013	$6,997	$689	$9,064	$29	-$1
2012	$6,664	$729	$9,588	$25	$0

Comparison of Fiscal Year 2014 to Fiscal Year 2013

- State appropriations increased $382 thousand due to increases from the hold harmless elimination and formula outcomes.

- Nonoperating gifts increased $226 thousand due to an $80 thousand gift from Baptist Memorial Healthcare, $46 thousand in gifts to support the new building operating costs at the Jimmy Naifeh Center, and a $29 thousand increase in gifts from Jackson Madison County General Hospital.

- Grants and contracts decreased $1.4 million due to a $1.3 million decrease in Title IV Pell revenue and smaller decreases in state lottery and TSAC grant revenue.

Comparison of Fiscal Year 2013 to Fiscal Year 2012

- State appropriations increased $333 thousand due to increases from the hold harmless elimination, formula outcomes, and state funding for the salary rate increase.

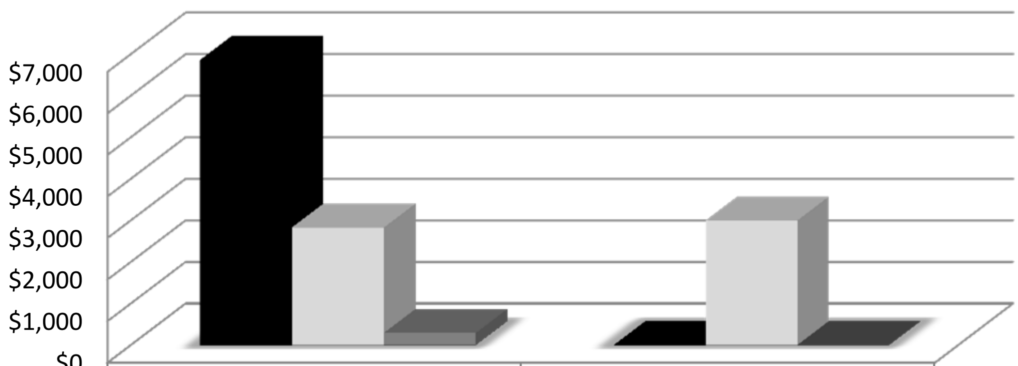
- Nonoperating gifts decreased $40 thousand as Methodist Healthcare no longer financially supports the college's nursing program.

- Grants and contracts decreased $524 thousand as a $626 thousand decrease in Title IV Pell revenue was partially offset by increases in state lottery and TSAC grant revenue.

Other Revenues

This category is composed of state appropriations for capital purposes, capital grants and gifts, and additions to permanent endowments. These amounts were as follows for the last two fiscal years:

Other Revenue by Source
(in thousands of dollars)



	Capital Appropriations	Capital Grants & Gifts
2014	$6,857	$0
2013	$2,828	$3,000
2012	$292	$0

Comparison of Fiscal Year 2014 to Fiscal Year 2013

- The increase in capital appropriations in FY 2014 is largely attributable to the Jimmy Naifeh Center Learning Resources Center/Student Center building project.

- In FY 2013 the college received a $3 million capital gift from Tipton County for the new Learning Resource Center/Student Center building. This level of gifts was not sustained in FY 2014.

Comparison of Fiscal Year 2013 to Fiscal Year 2012

- Capital appropriations increased $1.7 million due to state capital outlay spending on the new Learning Resource Center/Student Center building.

- The increase in capital gifts is the result of a $3 million capital gift from Tipton County for the new Learning Resource Center/Student Center building.

Capital Assets and Debt Administration

Capital Assets

Dyersburg State Community College had $30,570,731.21 invested in capital assets, net of accumulated depreciation of $13,791,590.36 at June 30, 2014; $24,129,397.49 invested in capital assets, net of accumulated depreciation of $12,645,498.93 at June 30, 2013; and $22,385,033.59 invested in capital assets, net of accumulated depreciation of $11,661,180.63 at June 30, 2012. Depreciation charges totaled $1,158,526.23; $1,112,734.12; and $1,298,238.65 for the years ended June 30, 2014; June 30, 2013; and June 30, 2012, respectively.

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

	2014	2013	2012
Land	$ 895	$ 866	$ 866
Land improvements & infrastructure	523	568	526
Buildings	17,984	18,599	19,359
Equipment	707	700	698
Library holdings	114	84	76
Intangible assets	303	421	538
Projects in progress	10,043	2,892	322
Total	**$30,569**	**$24,130**	**$22,385**

Significant additions to capital assets occurred in fiscal year 2014. These additions were from the $8 million added to construction in progress for the new Learning Resource Center/Student Center building.

At June 30, 2014, outstanding commitments under construction contracts totaled $1,099,167.29 for various renovations and repairs of buildings and infrastructure. Future state capital outlay appropriations are $15,450.00.

Significant additions to capital assets occurred in fiscal year 2013. These include $1.7 million toward the construction of the new Learning Resource Center/Student Center building at the Jimmy Naifeh Center and a marquee sign for $86 thousand.

At June 30, 2013, outstanding commitments under construction contracts totaled $8,014,591.01 for various renovations and repairs of buildings and infrastructure. Future state capital outlay appropriations will fund $7,427,112.72 of these costs.

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, 2014, or June 30, 2013.

More information about the college's long-term liabilities is presented in Note 8 to the financial statements.

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 decreased modestly in FY 2012 and FY 2013, and decreased significantly in FY 2014. It is unknown what enrollment levels will be in the future. The new Tennessee Promise Program, which offers two years of community or technical college tuition-free, may have an impact on the number of students enrolling in the future. The capital markets remain unpredictable and will affect the college's investment income.

Tennessee Board of Regents
DYERSBURG STATE COMMUNITY COLLEGE
Statements of Net Position
June 30, 2014, and June 30, 2013

	Dyersburg State Community College		Component Unit - Dyersburg State Community College Foundation	
	June 30, 2014	June 30, 2013	June 30, 2014	June 30, 2013
Assets				
Current assets:				
Cash and cash equivalents (Notes 2, 3, and 16)	$ 5,095,953.12	$ 4,018,631.06	$ 117,217.37	$ 15,014.07
Accounts, notes, and grants receivable (net) (Note 5)	1,822,749.78	1,840,837.21	-	-
Pledges receivable (net) (Note 6)	1,800.00	26,033.00	-	-
Due from primary government	263,702.98	-	-	-
Prepaid expenses	110,953.09	119,792.47	-	-
Accrued interest receivable	-	-	1,608.82	1,575.80
Total current assets	7,295,158.97	6,005,293.74	118,826.19	16,589.87
Noncurrent assets:				
Cash and cash equivalents (Notes 2, 3, and 16)	7,592,934.88	9,002,343.35	421,254.24	393,862.46
Investments (Notes 4 and 16)	61,803.54	75,201.57	6,363,054.45	5,616,024.21
Capital assets (net) (Note 7)	30,570,731.21	24,129,397.49	-	-
Total noncurrent assets	38,225,469.63	33,206,942.41	6,784,308.69	6,009,886.67
Total assets	45,520,628.60	39,212,236.15	6,903,134.88	6,026,476.54
Liabilities				
Current liabilities:				
Accounts payable	1,257,712.31	531,164.49	-	-
Accrued liabilities	894,613.98	915,902.10	-	-
Unearned revenue	235,066.30	196,532.98	-	-
Compensated absences (Note 8)	226,177.11	218,374.84	-	-
Long-term liabilities, current portion (Note 16)	-	-	5,600.00	5,600.00
Deposits held in custody for others	204,264.98	165,943.49	-	-
Total current liabilities	2,817,834.68	2,027,917.90	5,600.00	5,600.00
Noncurrent liabilities:				
Net OPEB obligation (Note 11)	1,199,747.93	1,164,250.65	-	-
Compensated absences (Note 8)	633,212.52	629,442.88	-	-
Long-term liabilities (Note 16)	-	-	4,583.04	8,525.82
Total noncurrent liabilities	1,832,960.45	1,793,693.53	4,583.04	8,525.82
Total liabilities	4,650,795.13	3,821,611.43	10,183.04	14,125.82
Net position				
Net investment in capital assets	30,570,731.21	24,129,397.49	-	-
Restricted for:				
Nonexpendable:				
Scholarships and fellowships	138,278.54	131,150.63	3,617,820.31	3,374,193.69
Other	-	-	282,914.86	247,210.32
Expendable:				
Scholarships and fellowships (Note 9)	334,657.65	328,798.99	2,815,621.89	2,284,042.86
Instructional department uses	1,076,131.33	617,989.47	-	-
Capital projects	2,158,695.49	3,000,000.00	-	-
Other	342,435.49	413,174.03	24,908.60	16,034.97
Unrestricted	6,248,903.76	6,770,114.11	151,686.18	90,868.88
Total net position	$ 40,869,833.47	$ 35,390,624.72	$ 6,892,951.84	$ 6,012,350.72

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 Position
For the Years Ended June 30, 2014, and June 30, 2013

	Dyersburg State Community College		Component Unit - Dyersburg State Community College Foundation	
	Year Ended June 30, 2014	Year Ended June 30, 2013	Year Ended June 30, 2014	Year Ended June 30, 2013
Revenues				
Operating revenues:				
Student tuition and fees (net of scholarship allowances of $4,866,776.32 for the year ended June 30, 2014, and $5,496,742.15 for the year ended June 30, 2013)	$ 4,412,253.64	$ 4,808,546.04	$ -	$ -
Gifts and contributions	-	-	3,160.00	7,010.00
Endowment income (per spending plan)	-	-	292,111.05	268,615.79
Governmental grants and contracts	6,612,339.89	8,109,521.64	-	-
Sales and services of educational activities	10,760.31	11,955.36	-	-
Sales and services of other activities	34,958.82	52,060.21	-	-
Auxiliary enterprises:				
Bookstore	92,233.74	129,367.32	-	-
Other operating revenues	15,566.73	20,209.04	-	-
Total operating revenues	11,178,113.13	13,131,659.61	295,271.05	275,625.79
Expenses				
Operating expenses (Note 14):				
Salaries and wages	11,789,695.53	12,452,417.84	21,529.11	16,166.63
Benefits	4,472,868.38	4,634,902.62	4,459.04	3,238.39
Utilities, supplies, and other services	7,080,626.10	8,395,086.87	11,442.14	13,394.89
Scholarships and fellowships	3,985,590.65	4,474,002.14	-	-
Depreciation expense	1,158,526.23	1,112,734.12	-	-
Payments to or on behalf of Dyersburg State Community College (Note 16)	-	-	148,211.50	125,970.00
Total operating expenses	28,487,306.89	31,069,143.59	185,641.79	158,769.91
Operating income (loss)	(17,309,193.76)	(17,937,483.98)	109,629.26	116,855.88
Nonoperating revenues (expenses)				
State appropriations	7,378,794.50	6,996,984.00	-	-
Gifts (including $148,211.50 from component unit for the year ended June 30, 2014, and $125,970.00 for the year ended June 30, 2013)	914,376.72	688,650.04	-	-
Grants and contracts	7,615,198.40	9,064,027.14	-	-
Investment income (expense) (net of investment expense of $29,487.27 for the component unit for the year ended June 30, 2014, and $25,757.50 for the year ended June 30, 2013)	22,619.38	29,250.16	465,652.55	157,186.93
College support (Note 16)	-	-	25,988.15	19,405.02
Other nonoperating expenses	-	(1,379.30)	-	-
Net nonoperating revenues (expenses)	15,930,989.00	16,777,532.04	491,640.70	176,591.95
Income (loss) before other revenues, expenses, gains, or losses	(1,378,204.76)	(1,159,951.94)	601,269.96	293,447.83
Capital appropriations	6,857,413.51	2,827,555.96	-	-
Capital grants and gifts	-	3,000,000.00	-	-
Additions to permanent endowments	-	-	279,331.16	284,319.88
Total other revenues	6,857,413.51	5,827,555.96	279,331.16	284,319.88
Increase in net position	5,479,208.75	4,667,604.02	880,601.12	577,767.71
Net position - beginning of year	35,390,624.72	30,723,020.70	6,012,350.72	5,434,583.01
Net position - end of year	$ 40,869,833.47	$ 35,390,624.72	$ 6,892,951.84	$ 6,012,350.72

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, 2014, and June 30, 2013

	Year Ended June 30, 2014	Year Ended June 30, 2013
Cash flows from operating activities		
Tuition and fees	$ 4,565,614.30	$ 4,808,782.07
Grants and contracts	6,620,258.32	8,555,072.39
Sales and services of educational activities	10,760.31	11,955.36
Sales and services of other activities	34,958.82	52,060.21
Payments to suppliers and vendors	(6,264,778.35)	(8,564,864.89)
Payments to employees	(11,795,652.97)	(12,438,262.78)
Payments for benefits	(4,431,735.37)	(4,588,234.81)
Payments for scholarships and fellowships	(3,985,590.65)	(4,474,002.14)
Auxiliary enterprise charges:		
Bookstore	90,921.11	131,270.99
Other receipts	15,536.73	20,209.04
Net cash used by operating activities	(15,139,707.75)	(16,486,014.56)
Cash flows from noncapital financing activities		
State appropriations	7,353,700.00	7,005,400.00
Gifts and grants received for other than capital or endowment purposes, including $148,211.50 from Dyersburg State Community College Foundation for the year ended June 30, 2014, and $125,970.00 for the year ended June 30, 2013	8,487,283.86	9,694,949.86
Federal student loan receipts	2,599,423.00	3,327,715.00
Federal student loan disbursements	(2,686,563.00)	(3,255,379.00)
Changes in deposits held for others	8,309.49	16,857.99
Net cash provided by noncapital financing activities	15,762,153.35	16,789,543.85
Cash flows from capital and related financing activities		
Capital appropriations	6,857,413.51	2,827,555.96
Capital grants and gifts received	-	3,000,000.00
Purchase of capital assets and construction	(7,847,962.93)	(2,858,477.32)
Net cash provided (used) by capital and related financing activities	(990,549.42)	2,969,078.64
Cash flows from investing activities		
Proceeds from sales and maturities of investments	42,525.94	10,000.00
Income on investments	15,491.47	31,850.60
Purchase of investments	(22,000.00)	(25,000.02)
Net cash provided by investing activities	36,017.41	16,850.58
Net increase (decrease) in cash and cash equivalents	(332,086.41)	3,289,458.51
Cash and cash equivalents - beginning of year	13,020,974.41	9,731,515.90
Cash and cash equivalents - end of year	$ 12,688,888.00	$ 13,020,974.41

Tennessee Board of Regents
DYERSBURG STATE COMMUNITY COLLEGE
Statements of Cash Flows (Continued)
For the Years Ended June 30, 2014, and June 30, 2013

	Year Ended June 30, 2014	Year Ended June 30, 2013
Reconciliation of operating loss to net cash used by operating activities:		
Operating loss	$ (17,309,193.76)	$ (17,937,483.98)
Adjustments to reconcile operating loss to net cash used by operating activities:		
Depreciation expense	1,158,526.23	1,112,734.12
Gifts in-kind	65,024.26	34,694.32
Other adjustments (Note 15)	9,494.50	5,984.00
Change in assets and liabilities:		
Receivables, net	106,727.43	460,787.69
Prepaid expenses	8,839.38	(72,152.34)
Accounts payable	756,559.82	(132,628.71)
Accrued liabilities	14,209.16	47,581.03
Unearned revenue	38,533.32	(10,899.52)
Compensated absences	11,571.91	6,320.30
Due to grantors	-	(951.47)
Net cash used by operating activities	$ (15,139,707.75)	$ (16,486,014.56)
Noncash investing, capital, or financing transactions		
Unrealized gains (losses) on investments	$ (7,127.91)	$ 2,600.44
Gain (loss) on disposal of capital assets	$ -	$ (1,379.30)

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 its donors. Because these restricted resources held by the foundation can only be used by, or for the benefit of, the college, the foundation is considered a component unit of the college and is discretely presented in the college's financial statements. See Note 16 for more detailed information about the component unit and how to obtain the report.

Basis of Presentation

The college's financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America 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 of the provider's eligibility requirements have been met. All significant interfund transactions have been eliminated.

The college has classified its revenues and expenses as either operating or nonoperating according to the following criteria: Operating revenues and expenses are those that have the characteristics of exchange transactions. Operating revenues include (1) tuition and fees, net of scholarship discounts and allowances; (2) certain federal, state, local, and private grants and contracts; (3) sales and services of auxiliary enterprises; and (4) interest on institutional loans. Operating expenses include (1) salaries and wages; (2) employee benefits; (3) utilities, supplies, and other services; (4) scholarships and fellowships; and (5) depreciation.

Nonoperating revenues and expenses include activities that have the characteristics of nonexchange transactions, such as gifts and contributions, and other activities that are defined as nonoperating by GASB Statement 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities that Use Proprietary Fund Accounting*, and GASB Statement 34, such as state appropriations and investment income.

When both restricted and unrestricted resources are available for use, it is the college's policy to determine which to use first, depending upon existing facts and circumstances.

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 position. There is no liability for unpaid accumulated sick leave since the college'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, works of art, historical treasures/collections, and intangible assets, are reported in the statement of net position 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. The capitalization threshold for art, historical treasures/collections, and similar assets is set at $5,000.

These assets, with the exception of works of art and historical treasures/collections deemed inexhaustible and land, are depreciated/amortized using the straight-line method over the estimated useful lives, which range from 5 to 40 years.

Net Position

The college's net position is classified as follows:

Net investment in capital assets – This represents the college's total investment in capital assets, net of accumulated depreciation.

Nonexpendable restricted net position – Nonexpendable restricted net position consists 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 position – Expendable restricted net position includes resources that the college is legally or contractually obligated to spend in accordance with restrictions imposed by external third parties.

Unrestricted net position – Unrestricted net position represents 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 college's discretion 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, as well as certain other revenues from students, are reported net of scholarship discounts and allowances in the statement of revenues, expenses, and changes in net position. 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.

Accounting Change

The college implemented GASB Statement 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position,* during the year ended June 30, 2013. The effect on the college was the renaming of the residual of all other elements in the statement of financial position as net position, rather than net assets.

Early Implementation of Accounting Pronouncement

In March 2012, GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities; it also recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. The provisions of this statement are effective for financial statements for periods beginning after December 15, 2012. However, the college has elected to implement the provisions of this statement for fiscal year 2013.

Note 2. Cash

This classification includes demand deposits and petty cash on hand. At June 30, 2014, cash consisted of $435,723.25 in bank accounts, $3,708.45 of petty cash on hand, $7,925,848.63 in the Local Government Investment Pool (LGIP) administered by the State Treasurer, $4,306,683.60 in LGIP deposits for capital projects, and $16,924.07 in money market funds. At June 30, 2013, cash consisted of $514,475.26 in bank accounts, $3,708.45 of petty cash on hand, $8,046,520.68 in the LGIP, $4,450,604.96 in LGIP deposits for capital projects, and $5,665.06 in money market funds.

The LGIP is part of the State Pooled Investment Fund. The fund's required risk disclosures are presented in the *State of Tennessee Treasurer's Report*. That report is available on the state's website at www.treasury.tn.gov.

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, the Tennessee Board of Regents withdraws funds from the LGIP account and transfers them 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, 2014, $16,924.07 of the college's bank balance of $603,020.08 was uninsured and uncollateralized.

At June 30, 2013, $5,665.06 of the college's bank balance of $694,989.87 was uninsured and uncollateralized.

Note 4. Investments

At June 30, 2014, 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	$ 19,712.20	$ -	$ -	$19,712.20	$ -	$ -
Corporate bonds	10,054.90	-	-	10,054.90	-	-
Mutual equity funds	32,036.44	-	-	-	-	32,036.44
Money market	16,924.07	-	-	-	-	16,924.07
Total investments and cash equivalents	78,727.61	-	-	29,767.10	-	48,960.51
Less cash equivalents	(16,924.07)	-	-	-	-	(16,924.07)
Total investments	$ 61,803.54	$ -	$ -	$29,767.10	$ -	$ 32,036.44

At June 30, 2013, 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	$ 9,505.20	$ -	$ -	$9,505.20	$ -	$ -
Corporate bonds	9,674.70	-	-	9,674.70	-	-
Mutual equity funds	16,733.51	-	-	-	-	16,733.51
Money market	5,665.06	-	-	-	-	5,665.06
Partnerships	39,288.16	-	-	-	-	39,288.16
Total investments and cash equivalents	80,866.63	-	-	19,179.90	-	61,686.73
Less cash equivalents	(5,665.06)	-	-	-	-	(5,665.06)
Total investments	$75,201.57	$ -	$ -	$19,179.90	$ -	$56,021.67

Interest Rate Risk

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

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The college is authorized by statute to invest funds in accordance with Tennessee Board of Regents policies. Under the current policy, funds other than endowments may be invested only in obligations of the United States or its agencies backed by the full faith and credit of the United States; repurchase agreements for United States securities; certificates of deposit in banks and savings and loan associations; bankers' acceptances; commercial paper; money market mutual funds; and the State of Tennessee Local Government Investment Pool. 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 by Standard and Poor's, Moody's Investors Service, and/or Fitch Ratings and are presented below using the Standard and Poor's rating scale.

Tennessee Board of Regents policy restricts investments in bankers' acceptances and commercial paper. The policy requires that prime bankers' 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 bankers' 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 that are under contract of sale or are 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, 2014, the college's investments were rated as follows:

		Credit Quality Rating		
Investment Type	Fair Value	AAA	AA	Unrated
LGIP	$12,232,532.23	$ -	$ -	$12,232,532.23
U.S. agencies	19,712.20	19,712.20	-	-
Corporate bonds	10,054.90	-	10,054.90	-

Money market	16,924.07	-	-	16,924.07
Total	$12,279,223.40	$19,712.20	$10,054.90	$12,249,456.30

At June 30, 2013, the college's investments were rated as follows:

		Credit Quality Rating		
Investment Type	Fair Value	AAA	AA	Unrated
LGIP	$12,497,125.64	$ -	$ -	$12,497,125.64
U.S. agencies	9,505.20	-	9,505.20	-
Corporate bonds	9,674.70	-	9,674.70	-
Money market	5,665.06	-	-	5,665.06
Total	$12,521,970.60	$ -	$19,179.90	$12,502,790.70

Note 5. Receivables

Receivables included the following:

	June 30, 2014	June 30, 2013
Student accounts receivable	$ 911,883.96	$1,075,009.48
Grants receivable	1,135,976.52	1,056,754.95
Other receivables	24,048.31	6,529.97
Subtotal	2,071,908.79	2,138,294.40
Less allowance for doubtful accounts	(249,159.01)	(297,457.19)
Total receivables	$1,822,749.78	$1,840,837.21

Note 6. Pledges Receivable

Pledges receivable are promises of private donations that are reported as a receivable and revenue. At June 30, 2014, and June 30, 2013, all were considered to be collectible.

Note 7. Capital Assets

Capital asset activity for the year ended June 30, 2014, was as follows:

	Beginning Balance	Additions	Transfers	Reductions	Ending Balance
Land	$ 866,323.50	$ 29,007.00	$ -	$ -	$ 895,330.50
Land improvements and infrastructure	1,214,660.72	-	-	-	1,214,660.72
Buildings	28,653,949.00	148,700.00	-	-	28,802,649.00
Equipment	1,816,222.33	221,977.68	-	-	2,038,200.01
Library holdings	155,297.88	49,159.55	-	12,434.80	192,022.63
Intangible assets	1,176,257.18	-	-	-	1,176,257.18
Projects in progress	2,892,185.81	7,151,015.72	-	-	10,043,201.53
Total	36,774,896.42	7,599,859.95	-	12,434.80	44,362,321.57
Less accumulated depreciation/amortization:					
Land improvements and infrastructure	647,081.25	44,239.47	-	-	691,320.72
Buildings	10,054,837.14	763,377.28	-	-	10,818,214.42
Equipment	1,116,434.07	214,305.15	-	-	1,330,739.22
Library holdings	71,613.69	19,202.27	-	12,434.80	78,381.16
Intangible assets	755,532.78	117,402.06	-	-	872,934.84
Total	12,645,498.93	1,158,526.23	-	12,434.80	13,791,590.36
Capital assets, net	$ 24,129,397.49	$6,441,333.72	$ -	$ -	$30,570,731.21

Capital asset activity for the year ended June 30, 2013, was as follows:

	Beginning Balance	Additions	Transfers	Reductions	Ending Balance
Land	$ 866,323.50	$ -	$ -	$ -	$ 866,323.50
Land improvements and infrastructure	1,129,065.45	-	85,595.27	-	1,214,660.72
Buildings	28,653,949.00	-	-	-	28,653,949.00
Equipment	1,736,069.30	193,063.05	-	112,910.02	1,816,222.33
Library holdings	162,835.48	9,347.50	-	16,885.10	155,297.88
Intangible assets	1,176,257.18	-	-	-	1,176,257.18
Projects in progress	321,714.31	2,656,066.77	(85,595.27)	-	2,892,185.81
Total	34,046,214.22	2,858,477.32	-	129,795.12	36,774,896.42
Less accumulated depreciation/amortization:					
Land improvements and infrastructure	602,841.78	44,239.47	-	-	647,081.25
Buildings	9,295,177.37	759,659.77	-	-	10,054,837.14
Equipment	1,037,967.34	189,997.45	-	111,530.72	1,116,434.07
Library holdings	87,063.42	1,435.37	-	16,885.10	71,613.69
Intangible assets	638,130.72	117,402.06	-	-	755,532.78

Total	11,661,180.63	1,112,734.12	-	128,415.82	12,645,498.93
Capital assets, net	$22,385,033.59	$1,745,743.20	$ -	$ 1,379.30	$24,129,397.49

Note 8. Long-term Liabilities

Long-term liabilities activity for the year ended June 30, 2014, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Compensated absences	$847,817.72	$623,186.44	$611,614.53	$859,389.63	$226,177.11

Long-term liabilities activity for the year ended June 30, 2013, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Compensated absences	$841,497.42	$623,686.16	$617,365.86	$847,817.72	$218,374.84

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, 2014, no amounts were available to be spent. At June 30, 2013, net appreciation of $5,241.00 is available to be spent, all of which is included in restricted net position expendable for scholarships and fellowships.

Note 10. Pension Plans

<u>Defined Benefit Plans</u>

Tennessee Consolidated Retirement System

<u>Plan description</u> – The State of Tennessee provides a pension plan that covers state and higher education employees. That plan is a part of the Public Employee Retirement Plan, an agent 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.

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

<u>Funding policy</u> – Plan members are noncontributory. The college is required to contribute an actuarially determined rate. The current rate is 15.03% of annual covered payroll. Contribution requirements for the college are established and may be amended by TCRS' Board of Trustees.

<u>Annual pension cost</u> – For the years ended June 30, 2014, and June 30, 2013, the college's contributions equaled the annual pension cost of $968,762.12 and $987,689.43, respectively.

Trend Information

Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
June 30, 2014	$986,762.12	100%	$0
June 30, 2013	$987,689.43	100%	$0
June 30, 2012	$914,952.15	100%	$0

<u>Additional information</u> - Information about the funded status of the plan as of the most recent valuation date, information about the actuarial methods and assumptions used in the valuations, and required supplementary information are available in the *Tennessee Comprehensive Annual Financial Report*. A copy of that report is available on the state's website at www.tn.gov/finance/act/cafr.shtml.

<u>Defined Contribution Plans</u>

Optional Retirement Plans

<u>Plan description</u> – The college contributes to three defined contribution plans: Teachers Insurance and Annuity Association–College Retirement Equities Fund, ING Life Insurance and Annuity Company, and Variable Annuity Life Insurance Company. 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 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 $368,912.69 for the year ended June 30, 2014, and $411,833.39 for the year ended June 30, 2013. Contributions met the requirements for each year.

Note 11. Other Postemployment Benefits

Healthcare is the only "other postemployment benefit" (OPEB) provided to employees. The State of Tennessee administers a group health insurance program that 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*, for the State Employee Group Plan and Section 8-27-701, *Tennessee Code Annotated*, for the Medicare Supplement Plan. Prior to reaching age 65, all members have the option of choosing between the standard or partnership preferred provider organization plan for health care 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 15. The plans are reported in the *Tennessee 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, which covers the retirees of other governmental entities, including Dyersburg State Community College. The state is the sole contributor for the college retirees who 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. The plan's claims liabilities are periodically computed using actuarial and statistical techniques to establish premium rates. The plan's administrative costs are allocated to plan participants. Retirees in the State Employee Group Plan pay the same base premium, adjusted for years of service, as active employees. 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

	2014	2013
Annual required contribution (ARC)	$ 268,000.00	$ 296,000.00
Interest on the net OPEB obligation	46,570.04	44,937.37
Adjustment to the ARC	(45,370.43)	(47,700.16)
Annual OPEB cost	269,199.61	293,237.21
Amount of contribution	(233,702.33)	(252,420.82)
Increase in net OPEB obligation	35,497.28	40,816.39
Net OPEB obligation – beginning of year	1,164,250.65	1,123,434.26
Net OPEB obligation – end of year	$1,199,747.93	$1,164,250.65

Year-end	Plan	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation at Year-end
June 30, 2014	State Employee Group Plan	$269,199.61	86.8%	$1,199,747.93
June 30, 2013	State Employee Group Plan	$293,237.21	86.1%	$1,164,250.65
June 30, 2012	State Employee Group Plan	$290,300.05	91.2%	$1,123,434.26

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, 2013
Actuarial accrued liability (AAL)	$2,120,000.00
Actuarial value of plan assets	-
Unfunded actuarial accrued liability (UAAL)	$2,120,000.00
Actuarial value of assets as a percentage of the AAL	0.00%
Covered payroll (active plan members)	$16,883,138.44
UAAL as percentage of covered payroll	12.6%

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 Required Supplementary Information 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, 2013, actuarial valuation, the Projected Unit Credit actuarial cost method was used. The actuarial assumptions included a 4% investment rate of return (net of administrative expenses) and an annual healthcare cost trend rate of 7.5% initially. The rate decreased to 7.0% in fiscal year 2015 and then reduces by decrements to an ultimate rate of 4.19% in fiscal year 2044. All rates include a 2.5% 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. Payroll is assumed to grow at a rate of 3.0%.

Note 12. 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 year ended June 30, 2014, is presented in the *Tennessee Comprehensive Annual Financial Report* (CAFR). 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, Section 9-8-101 et seq., *Tennessee Code Annotated*. 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 Section 50-6-101 et seq., *Tennessee Code Annotated*. Claims are paid through the state's Risk Management Fund. At June 30, 2014, the Risk Management Fund held $116.3 million in cash designated for payment of claims. At June 30, 2013, the Risk Management Fund held $108.5 million in cash designated for payment of claims.

At June 30, 2014, the scheduled coverage for the college was $53,902,900.00 for buildings and $8,069,800.00 for contents. At June 30, 2013, the scheduled coverage for the college was $53,902,900.00 for buildings and $7,504,400.00 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 13. Commitments and Contingencies

Sick Leave

The college records the cost of sick leave when paid. The dollar amount of unused sick leave was $3,357,619.58 at June 30, 2014, and $3,388,345.36 at June 30, 2013.

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 $123,892.94 and expenses for personal property were $82,765.86 for the year ended June 30, 2014. The amounts for the year ended June 30, 2013, were $201,497.10 and $85,268.17. All operating leases are cancelable at the lessee's option.

Construction in Progress

At June 30, 2014, outstanding commitments under construction contracts totaled $1,099,167.29 for the Jimmy Naifeh Center Learning Resource Center and Student Center and the Building Mechanical System Modernization, of which $15,450.00 will be funded by future state capital outlay appropriations.

In relation to the Governor's Equipment grant, the future spending committed is $552,503.07.

Note 14. Natural Classification With Functional Classifications

The college's operating expenses for the year ended June 30, 2014, are as follows:

	Natural Classification					
Functional Classification	Salaries	Benefits	Other Operating	Scholarships	Depreciation	Total
Instruction	$ 6,009,775.22	$2,055,278.72	$1,832,023.63	$ -	$ -	$ 9,897,077.57
Public service	1,853,496.35	788,851.46	2,401,772.83	-	-	5,044,120.64
Academic support	652,912.82	251,763.68	(109,007.76)	-	-	795,668.74
Student services	1,123,668.22	449,503.02	680,107.67	-	-	2,253,278.91
Institutional support	1,541,170.87	599,691.00	944,464.02	-	-	3,085,325.89
Maintenance & operation	608,672.05	327,780.50	1,331,265.71	-	-	2,267,718.26
Scholarships & fellowships	-	-	-	3,985,590.65	-	3,985,590.65
Depreciation	-	-	-	-	1,158,526.23	1,158,526.23
Total	$11,789,695.53	$4,472,868.38	$7,080,626.10	$3,985,590.65	$1,158,526.23	$ 28,487,306.89

The college's operating expenses for the year ended June 30, 2013, are as follows:

Functional Classification	Natural Classification Salaries	Benefits	Other Operating	Scholarships	Depreciation	Total
Instruction	$ 6,313,698.61	$2,056,160.31	$1,783,390.89	$ -	$ -	$10,153,249.81
Public service	2,046,564.59	882,701.50	3,720,454.28	-	-	6,649,720.37
Academic support	813,095.81	318,979.17	(26,705.70)	-	-	1,105,369.28
Student services	1,097,565.03	406,929.16	738,977.77	-	-	2,243,471.96
Institutional support	1,558,833.89	639,051.92	1,006,012.18	-	-	3,203,897.99
Maintenance & operation	622,659.91	331,080.56	1,172,957.45	-	-	2,126,697.92
Scholarships & fellowships	-	-	-	4,474,002.14	-	4,474,002.14
Depreciation	-	-	-	-	1,112,734.12	1,112,734.12
Total	$12,452,417.84	$4,634,902.62	$8,395,086.87	$4,474,002.14	$1,112,734.12	$31,069,143.59

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 $1,033,766.53 for the year ended June 30, 2014, and $977,652.64 for the year ended June 30, 2013, 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 15. On-behalf Payments

During the year ended June 30, 2014, the State of Tennessee made payments of $9,494.50 on behalf of the college for retirees participating in the Medicare Supplement Plan. The amount for the year ended June 30, 2013, was $5,984.00. The Medicare Supplement Plan is a postemployment benefit healthcare plan and is discussed further in Note 11. The plan is reported in the *Tennessee Comprehensive Annual Financial Report*. That report is available on the state's website at www.tn.gov/finance/act/cafr.shtml.

Note 16. Component Unit

The Dyersburg State Community College Foundation is a legally separate, tax-exempt organization supporting Dyersburg State Community College. The foundation acts primarily as a fund-raising organization to supplement the resources that are available to the college in support of its programs. The 40-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, 2014, the foundation made distributions of $148,211.50 to or on behalf of the college for both restricted and unrestricted purposes. During the year ended June 30, 2013, the foundation made distributions of $125,970.00 to or on behalf of the college for both restricted and unrestricted purposes. Complete financial statements for the foundation can be obtained from Lowell Hoffman, Vice-President for Finance & 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 table categorizes the recurring fair-value measurements for assets and liabilities at June 30, 2014, and at June 30, 2013.

	Total Fair Value at June 30, 2014	Quoted Prices Level 1	Significant Other Inputs Level 2	Significant Unobservable Inputs Level 3
Assets:				
Cash equivalents	$ 538,471.61	$ 538,471.61	$ -	$ -
Investments	6,363,054.45	6,085,129.74	277,924.71	-
Total assets	$6,901,526.06	$6,623,601.35	$277,924.71	$ -

	Total Fair Value at June 30, 2013	Quoted Prices Level 1	Significant Other Inputs Level 2	Significant Unobservable Inputs Level 3
Assets:				
Cash equivalents	$ 408,876.53	$ 408,876.53	$ -	$ -
Investments	5,616,024.21	5,344,555.85	271,468.36	-
Total assets	$6,024,900.74	$5,753,432.38	$271,468.36	$ -

Cash and Cash Equivalents

Cash and cash equivalents consist of cash, money market funds, and federal prime obligations. Uninsured bank balances at June 30, 2014, totaled $421,254.24. Uninsured bank balances at June 30, 2013, totaled $393,862.46.

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, 2014, were as follows*:*

	Cost	Fair Value
Certificates of deposit	$ 277,924.71	$ 277,924.71
Corporate bonds	83,825.00	96,153.50
Mutual bond funds	1,790,446.40	1,831,495.97
Mutual equity funds	2,894,935.44	3,999,013.75
Closed-end mutual funds	162,700.37	158,466.52
Total investments	$5,209,831.92	$6,363,054.45

Investments held at June 30, 2013, were as follows*:*

	Cost	Fair Value
Certificates of deposit	$ 271,468.36	$ 271,468.36
Corporate bonds	83,825.00	97,257.00
Mutual bond funds	2,009,437.83	1,974,759.81
Mutual equity funds	2,522,788.92	3,098,198.51
Closed-end mutual funds	162,700.37	174,340.53
Total investments	$5,050,220.48	$5,616,024.21

Long-term Liabilities

Long-term liabilities at June 30, 2014, consisted of the following:

	Ending Balance	Current Portion
Charitable gift annuities	$10,183.04	$5,600.00

Long-term liabilities at June 30, 2013, consisted of the following:

	Ending Balance	Current Portion
Charitable gift annuities	$14,125.82	$5,600.00

Endowments

The Dyersburg State Community College Foundation's endowments consist of approximately 147 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 accounting principles generally accepted in the United States of America, net position associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, is 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 position (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 position is classified as temporarily restricted net position until the foundation appropriates those amounts for expenditure 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 Position Class
as of June 30, 2014

	Permanently Restricted	Temporarily Restricted	Unrestricted	Total
Donor-restricted endowment funds	$3,900,735.17	$ -	$ -	$3,900,735.17
Board-designated endowment funds	-	2,840,530.49	151,686.18	2,992,216.67
Total funds	$3,900,735.17	$2,840,530.49	$151,686.18	$6,892,951.84

Composition of Endowment by Net Position Class
as of June 30, 2013

	Permanently Restricted	Temporarily Restricted	Unrestricted	Total
Donor-restricted endowment funds	$3,621,404.01	$ -	$ -	$3,621,404.01
Board-designated endowment funds	-	2,300,077.83	90,868.88	2,390,946.71
Total funds	$3,621,404.01	$2,300,077.83	$90,868.88	$6,012,350.72

Changes in Endowment Net Position
for the Fiscal Year Ended June 30, 2014

	Permanently Restricted	Temporarily Restricted	Unrestricted	Total
Endowment net position, beginning of year	$3,621,404.01	$2,300,077.83	$ 90,868.88	$6,012,350.72
Investment return:				
Investment income	-	126,895.47	34,247.23	161,142.70
Net appreciation (realized and unrealized)	-	561,246.69	62,589.17	623,835.86
Total investment return	-	688,142.16	96,836.40	784,978.56
Contributions	279,331.16	500.00	2,660.00	282,491.16
Appropriations of endowment assets for expenditure	-	-	(189,140.91)	(189,140.91)
Other changes:				
Transfers	-	(148,189.50)	148,189.50	-
Investment manager statement adjustment	-	-	.01	.01
Adjustment to charitable gift annuity	-	-	2,272.30	2,272.30
Endowment net position, end of year	$3,900,735.17	$2,840,530.49	$ 151,686.18	$6,892,951.84

Changes in Endowment Net Position
for the Fiscal Year Ended June 30, 2013

	Permanently Restricted	Temporarily Restricted	Unrestricted	Total
Endowment net position, beginning of year	$3,337,084.13	$2,030,925.63	$ 66,573.25	$5,434,583.01
Investment return:				
Investment income	-	131,564.97	23,096.12	154,661.09

Net appreciation (realized and unrealized)	-	258,511.48	38,711.67	297,223.15
Total investment return	-	390,076.45	61,807.79	451,884.24
Contributions	284,319.88	1,950.00	5,060.00	291,329.88
Appropriations of endowment assets for expenditure	-	-	(165,122.39)	(165,122.39)
Other changes				
Transfers	-	(122,874.25)	122,874.25	-
Adjustment to charitable gift annuity	-	-	(324.02)	(324.02)
Endowment net position, end of year	$3,621,404.01	$2,300,077.83	$ 90,868.88	$6,012,350.72

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 produce results that is expected to outpace inflation as measured by the Consumer Price Index (CPI). The foundation expects its endowment funds, over time, to provide an average rate of return of approximately the CPI plus 1.0% -3.0%. Actual returns in any given year may vary from this amount.

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

Spending policy and how the investment objectives relate – 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% 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.

Support From Dyersburg State Community College

The college paid certain payroll costs amounting to $25,988.15 during fiscal year 2014 and $19,405.02 during fiscal year 2013 for college personnel who also performed services supporting the foundation. These supporting costs paid by the college are reflected in the statement of revenues, expenses, and changes in net position as college support, with a like amount included in expenses. The college provides office space and the use of certain common facilities and services to the foundation at no cost. These costs have not been recorded as college support because they are not considered to be significant to the operations of the foundation.

Tennessee Board of Regents
DYERSBURG STATE COMMUNITY COLLEGE
Required Supplementary Information
OPEB Schedule of Funding Progress

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, 2013	State Employee Group Plan	$ -	$2,120,000.00	$2,120,000.00	0%	$16,883,138.44	12.56%
July 1, 2011	State Employee Group Plan	$ -	$2,232,000.00	$2,232,000.00	0%	$14,664,541.00	15.22%
July 1, 2010	State Employee Group Plan	$ -	$3,236,000.00	$3,236,000.00	0%	$14,298,353.00	22.63%

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

Supplementary Information
DYERSBURG STATE COMMUNITY COLLEGE FOUNDATION
Supplementary Schedules of Cash Flows - Component Unit
For the Years Ended June 30, 2014, and June 30, 2013

	Year Ended June 30, 2014	Year Ended June 30, 2013
Cash flows from operating activities		
Gifts and contributions	$ 3,160.00	$ 7,010.00
Payments to suppliers and vendors	(11,442.14)	(13,394.89)
Payments to Dyerburg State Community College	(148,211.50)	(125,970.00)
Net cash used by operating activities	(156,493.64)	(132,354.89)
Cash flows from noncapital financing activities		
Private gifts for endowment purposes	279,331.16	284,319.88
Other non-capital financing payments	(3,942.78)	(566.73)
Net cash provided by noncapital financing activities	275,388.38	283,753.15
Cash flows from investing activities		
Proceeds from sales and maturities of investments	1,470,886.51	1,691,824.87
Income on investments	170,311.78	302,930.97
Purchases of investments	(1,630,497.95)	(2,262,803.92)
Net cash provided (used) by investing activities	10,700.34	(268,048.08)
Net increase (decrease) in cash and cash equivalents	129,595.08	(116,649.82)
Cash and cash equivalents - beginning of year	408,876.53	525,526.35
Cash and cash equivalents - end of year	$ 538,471.61	$ 408,876.53
Reconciliation of operating loss to net cash used by operating activities:		
Operating income	$ 109,629.26	$ 116,855.88
Adjustments to reconcile operating gain to net cash used by operating activities		
Gifts in-kind	25,988.15	19,405.02
Endowment income per spending plan	(292,111.05)	(268,615.79)
Net cash used by operating activities	$ (156,493.64)	$ (132,354.89)
Noncash investing, capital, and financing activities		
Unrealized gain on investments	$ 587,418.80	$ 135,732.42

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

The Honorable Bill Haslam, Governor
Members of the General Assembly
The Honorable John G. Morgan, Chancellor
Dr. Karen A. Bowyer, President

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, 2014, and June 30, 2013, and the related notes to the financial statements, which collectively comprise the college's basic financial statements, and have issued our report thereon dated May 28, 2015. We conducted our audit in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the college's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of the college's internal control.

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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies that we consider to be material weaknesses. We did identify certain deficiencies in internal control, as described below, that we consider to be significant deficiencies:

- Dyersburg State Community College did not provide adequate internal controls in two specific areas.
- Dyersburg State Community College, the Tennessee Board of Regents, and the Tennessee Department of Finance and Administration did not provide adequate internal controls in one specific area.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the college's financial statements are free from 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 *Government Auditing Standards*.

Responses to Findings

The responses to the findings identified in our audit are included in the Findings and Recommendations section of this report. The responses were not subjected to the auditing procedures applied in the audit of the financial statements, and, accordingly, we express no opinion on them.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Deborah V. Loveless

Deborah V. Loveless, CPA
Director
May 28, 2015

Findings and Recommendations

1. <u>Dyersburg State Community College did not provide adequate internal controls in two specific areas</u>

Finding

The college did not design and monitor internal controls in specific areas. We observed two conditions in violation of college policies and/or industry-accepted best practices. Inconsistent implementation of internal controls increases the risk of fraud or error.

The details of these findings are confidential pursuant to Section 10-7-504(i), *Tennessee Code Annotated.* We provided the college with detailed information regarding the specific conditions we identified, as well as our recommendations for improvement.

Recommendation

Management should ensure that these conditions are remedied by the prompt development and consistent implementation of internal controls. Management should implement effective controls to ensure compliance with applicable requirements; assign staff to be responsible for ongoing monitoring of the risks and mitigating controls; and take action if deficiencies occur.

Management's Comment

Management concurs with the finding and recommendation. Management has modified procedures and controls to ensure proper internal controls are in place for these specified areas. Risk assessment will be modified to specifically include these areas to be monitored on an on-going basis within the next 30 days.

2. <u>Dyersburg State Community College, the Tennessee Board of Regents, and the Tennessee Department of Finance and Administration did not provide adequate internal controls in one specific area</u>

Finding

The college, the Tennessee Board of Regents (TBR), and the Tennessee Department of Finance and Administration (F&A) did not collaborate to design and monitor effective internal controls. We observed a condition that was a departure from industry-accepted best practices and was in violation of college, TBR, and/or F&A policies. Inconsistent implementation of internal controls increases the risk of fraud or error.

The details of this finding are confidential pursuant to Section 10-7-504(i), *Tennessee Code Annotated.* We provided the college, TBR, and F&A with detailed information regarding the specific condition we identified, as well as our recommendations for improvement.

Recommendation

Management of the college, TBR, and F&A should ensure that this condition is remedied by the prompt development and consistent implementation of internal controls. Management should implement effective controls to ensure compliance with applicable requirements; assign staff to be responsible for ongoing monitoring of the risks and mitigating controls; and take action if deficiencies occur.

Management's Comment

Dyersburg State Community College

We concur that Dyersburg State Community College, the Tennessee Board of Regents, and the Tennessee Department of Finance and Administration jointly did not provide adequate internal controls in one specific area. Management will modify guidelines, procedures, and controls to ensure proper internal controls are in place for this specified area. Risk assessment will be modified to specifically include this area to be monitored on an ongoing basis.

Tennessee Board of Regents

We concur. The Tennessee Board of Regents will develop policies and procedures to appropriately address the circumstances noted in the finding. TBR will do so in collaboration with its institutions and the Department of Finance and Administration.

Tennessee Department of Finance and Administration

We concur. The Tennessee Department of Finance and Administration is working with TBR to increase internal controls.