

**Tennessee Student Assistance Corporation**

**For the Year Ended  
June 30, 1999**

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

**Charles K. Bridges, CPA**  
Assistant Director

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STATE OF TENNESSEE  
**COMPTROLLER OF THE TREASURY**

State Capitol  
Nashville, Tennessee 37243-0260  
(615) 741-2501

**John G. Morgan**  
Comptroller

April 17, 2000

The Honorable Don Sundquist, Governor  
and

Members of the General Assembly  
State Capitol  
Nashville, Tennessee 37243

and

Mr. Ron Gambill, Executive Director  
Tennessee Student Assistance Corporation  
1950 Parkway Towers  
404 James Robertson Parkway  
Nashville, Tennessee 37243

Ladies and Gentlemen:

Transmitted herewith is the financial and compliance audit of the Tennessee Student Assistance Corporation for the year ended June 30, 1999. You will note from the independent auditor's report that an unqualified opinion was given on the fairness of the presentation of the financial statements.

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

Sincerely,

John G. Morgan  
Comptroller of the Treasury

JGM/cj  
00/016

State of Tennessee

# Audit Highlights

Comptroller of the Treasury

Division of State Audit

Financial and Compliance Audit  
**Tennessee Student Assistance Corporation**  
For the Year Ended June 30, 1999

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## AUDIT OBJECTIVES

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

## AUDIT FINDINGS

The audit report contains no findings.

## OPINION ON THE FINANCIAL STATEMENTS

The opinion on the financial statements is unqualified.

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"Audit Highlights" is a summary of the audit report. To obtain the complete audit report which contains all findings, recommendations, and management comments, please contact

Comptroller of the Treasury, Division of State Audit  
1500 James K. Polk Building, Nashville, TN 37243-0264  
(615) 741-3697

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**Audit Report**  
**Tennessee Student Assistance Corporation**  
**For the Year Ended June 30, 1999**

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# **Tennessee Student Assistance Corporation For the Year Ended June 30, 1999**

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## **INTRODUCTION**

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### **POST-AUDIT AUTHORITY**

This is a report on the financial and compliance audit of the Tennessee Student Assistance Corporation. The audit was conducted pursuant to Section 4-3-304, *Tennessee Code Annotated*, which authorizes the Department of Audit to “perform currently a post-audit of all accounts and other financial records of the state government, and of any department, institution, office, or agency thereof in accordance with generally accepted auditing standards and in accordance with such procedures as may be established by the comptroller.”

Section 8-4-109, *Tennessee Code Annotated*, authorizes the Comptroller of the Treasury to audit any books and records of any governmental entity that handles public funds when the Comptroller considers an audit to be necessary or appropriate.

### **LEGISLATIVE HISTORY**

The Tennessee Student Assistance Corporation was chartered by the General Assembly in 1974 to aid residents of the state who desire to further their education beyond high school. The corporation is responsible for administering several student assistance programs supported by federal and state funds. These programs include the Federal Stafford Loan Program, Federal Parents Loans for Undergraduate Students (FPLUS) Program, Robert C. Byrd Honors Scholarship Program, Tennessee Student Assistance Award Program, Teacher Loan-Scholarship Program, Nursing Loan-Scholarship Program, Medical Loan-Scholarship Program, Paul Douglas Teacher Scholarship Program, Christa McAuliffe Scholarship Program, Ned McWherter Scholars Program, Teacher Loan Program for Disadvantaged Areas of Tennessee, Minority Teaching Fellows Program, High School Counselor Internship Program, Peer Counseling Internship Program, Tennessee Teaching Scholars Program, and Dependent Student Scholarship Program.

### **ORGANIZATION**

The corporation is governed by a board of directors, and the executive director is responsible for implementing the board’s policy. The board includes the Governor, the State Treasurer, the Comptroller of the Treasury, the Commissioner of Finance and Administration, the Commissioner of Education, the Executive Director of the Tennessee Higher Education Commission, the Chancellor of the Tennessee Board of Regents, and the President of the University of Tennessee.

The corporation contracted with Guarantec, LLP, of Jacksonville, Florida, to service its Federal Stafford Loan, FPLUS, and Consolidated Loan programs. The loan servicer is

responsible for processing and approving new loans and default claims from lenders. The loan servicer also collects payments on defaulted loans from borrowers and insurance premiums from lenders and is responsible for processing and collecting bankruptcy claims from borrowers.

An organization chart of the corporation is on the following page.

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## AUDIT SCOPE

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The audit was limited to the period July 1, 1998, through June 30, 1999, and was conducted in accordance with generally accepted government auditing standards. Financial statements are presented for the year ended June 30, 1999, and for comparative purposes, the year ended June 30, 1998. The Tennessee Student Assistance Corporation has been included as a component unit in the *Tennessee Comprehensive Annual Financial Report*.

The audit covered allotment codes 332.03, 332.04, 332.05, and 332.07.

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## OBJECTIVES OF THE AUDIT

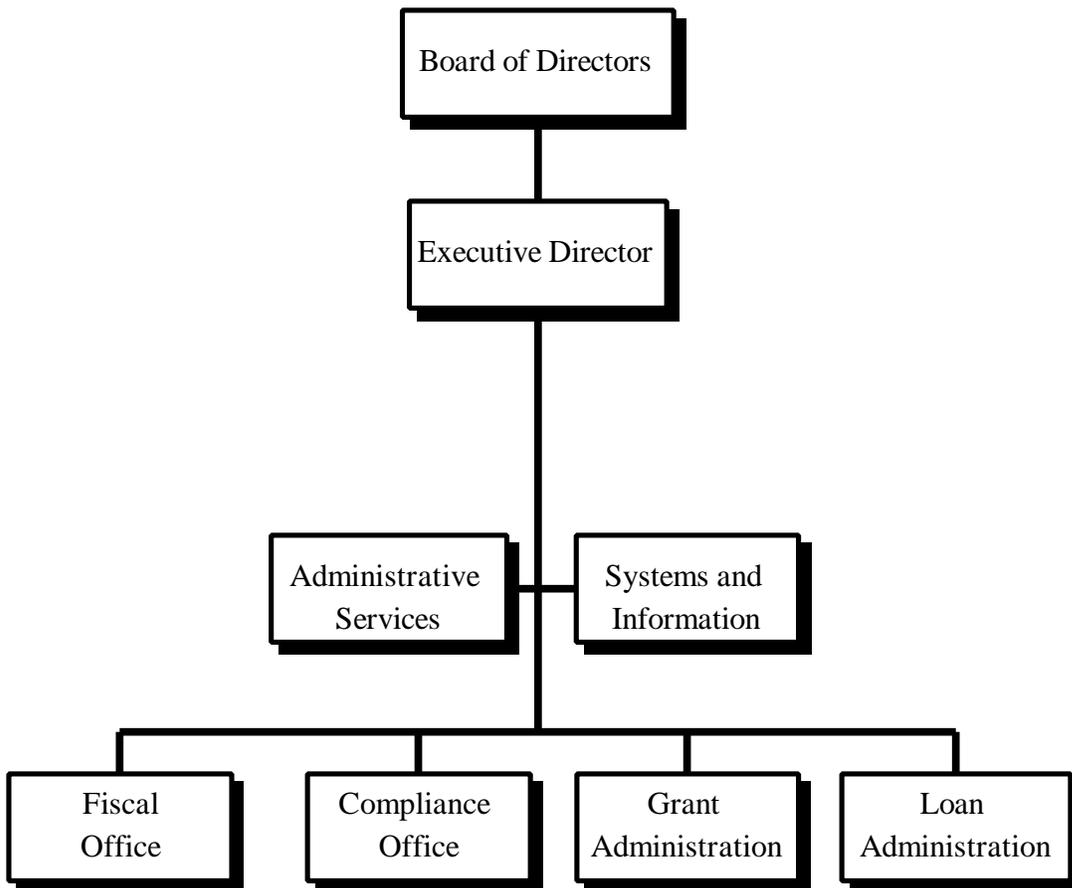
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The objectives of the audit were

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

**Although this audit was not intended to serve as an organization-wide audit as described in the Single Audit Act, as amended by the Single Audit Act Amendments of 1996, and Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, it included tests of compliance with applicable federal laws and regulations and consideration of internal control used in administering federal financial assistance programs. This audit is a segment of the organization-wide audit of the State of Tennessee, which is conducted in accordance with the Single Audit Act.**

**TENNESSEE STUDENT ASSISTANCE CORPORATION  
ORGANIZATION CHART**



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## PRIOR AUDIT FINDINGS

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There were no findings in the prior audit report.

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## OBSERVATIONS AND COMMENTS

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### **TITLE VI OF THE CIVIL RIGHTS ACT OF 1964**

*Tennessee Code Annotated*, Section 4-21-901, requires each state governmental entity subject to the requirements of Title VI of the Civil Rights Act of 1964 to submit an annual Title VI compliance report and implementation plan to the Department of Audit by June 30, 1994, and each June 30 thereafter. The Tennessee Student Assistance Corporation filed its compliance report and implementation plan on July 1, 1999.

Title VI of the Civil Rights Act of 1964 is a federal law. The act requires all state agencies receiving federal money to develop and implement plans to ensure that no person shall, on the grounds of race, color, or national origin, be excluded from participation in, be denied the benefits of, or be subjected to discrimination under any program or activity receiving federal funds.

On October 15, 1998, the Commissioner of the Department of Finance and Administration notified all cabinet officers and agency heads that the Human Rights Commission is the coordinating state agency for the monitoring and enforcement of Title VI.

A summary of the dates state agencies filed their annual Title VI compliance reports and implementation plans is presented in the special report *Submission of Title VI Implementation Plans*, issued annually by the Comptroller of the Treasury.

### **TITLE IX OF THE EDUCATION AMENDMENTS OF 1972**

*Tennessee Code Annotated*, Section 4-4-123, requires each state governmental entity subject to the requirements of Title IX of the Education Amendments of 1972 to submit an annual Title IX compliance report and implementation plan to the Department of Audit by June 30, 1999, and each June 30 thereafter. The corporation did not file its compliance report and implementation plan by June 30, 1999, in violation of this statutory requirement.

Title IX of the Education Amendments of 1972 is a federal law. The act requires all state agencies receiving federal money to develop and implement plans to ensure that no one receiving

benefits under a federally funded education program and activity is discriminated against on the basis of gender. The untimely filing of the compliance report and implementation plan required by state law does not necessarily mean that the corporation is not in compliance with the federal law.

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## RESULTS OF THE AUDIT

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### AUDIT CONCLUSIONS

#### Internal Control

As part of the audit of the corporation's financial statements for the year ended June 30, 1999, we considered internal control over financial reporting to determine auditing procedures for the purpose of expressing an opinion on the financial statements, as required by generally accepted government auditing standards. Consideration of internal control over financial reporting disclosed no material weaknesses.

#### Compliance

The results of our audit tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

#### Fairness of Financial Statement Presentation

The Division of State Audit has rendered an unqualified opinion on the corporation's financial statements.



STATE OF TENNESSEE  
**COMPTROLLER OF THE TREASURY**  
DEPARTMENT OF AUDIT  
DIVISION OF STATE AUDIT

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NASHVILLE, TENNESSEE 37243-0264  
PHONE (615) 741-3697  
FAX (615) 532-2765

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

December 6, 1999

The Honorable John G. Morgan  
Comptroller of the Treasury  
State Capitol  
Nashville, Tennessee 37243

Dear Mr. Morgan:

We have audited the financial statements of the Tennessee Student Assistance Corporation, a component unit of the State of Tennessee, as of and for the year ended June 30, 1999, and have issued our report thereon dated December 6, 1999. We conducted our audit in accordance with generally accepted government auditing standards.

Compliance

As part of obtaining reasonable assurance about whether the corporation's financial statements are free of material misstatement, we performed tests of the corporation's compliance with certain provisions of laws, regulations, contracts, and grants, 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 that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the corporation's internal control over financial reporting in order to determine our auditing procedures for the purpose of express-

The Honorable John G. Morgan  
December 6, 1999  
Page Two

ing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

However, we noted certain matters involving the internal control over financial reporting, which we have reported to the corporation's management in a separate letter.

This report is intended solely for the information and use of the General Assembly of the State of Tennessee and management, and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record.

Sincerely,

A handwritten signature in black ink, reading "Arthur A. Hayes, Jr." in a cursive script.

Arthur A. Hayes, Jr., CPA, Director  
Division of State Audit

AAH/cj



STATE OF TENNESSEE  
**COMPTROLLER OF THE TREASURY**  
DEPARTMENT OF AUDIT  
DIVISION OF STATE AUDIT

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**Independent Auditor's Report**

December 6, 1999

The Honorable John G. Morgan  
Comptroller of the Treasury  
State Capitol  
Nashville, Tennessee 37243

Dear Mr. Morgan:

We have audited the accompanying combined balance sheets of the Tennessee Student Assistance Corporation, a component unit of the State of Tennessee, as of June 30, 1999, and June 30, 1998, and the related combined statements of revenues, expenditures, and changes in fund balances for the years then ended. These financial statements are the responsibility of the corporation's management. Our responsibility is to express an opinion on these financial statements, based on our audits.

We conducted our audits in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our report dated November 20, 1998, we qualified our opinion on the 1998 financial statements because insufficient audit evidence existed to support the corporation's disclosures required by Governmental Accounting Standards Board (GASB) Technical Bulletin 98-1, *Disclosures about Year 2000 Issues*. The corporation's year 2000 disclosures are now reported as required supplementary information as permitted by GASB Technical Bulletin 99-1, *Disclosures about Year 2000 Issues—an amendment of Technical Bulletin 98-1*.

The Honorable John G. Morgan  
December 6, 1999  
Page Two

Accordingly, our present opinion on the 1998 financial statements, as expressed herein, is different from our prior report on the 1998 financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Tennessee Student Assistance Corporation, as of June 30, 1999, and June 30, 1998, and the results of its operations for the years then ended in conformity with generally accepted accounting principles.

The Year 2000 Disclosures on page 19 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and do not express an opinion on it. In addition, we do not provide assurance that the corporation is or will become year 2000 compliant, that the corporation's year 2000 remediation efforts will be successful in whole or in part, or that parties with which the corporation does business are or will become year 2000 compliant.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 6, 1999, on our consideration of the corporation's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants.

Sincerely,

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

Arthur A. Hayes, Jr., CPA, Director  
Division of State Audit

AAH/cj

TENNESSEE STUDENT ASSISTANCE CORPORATION  
COMBINED BALANCE SHEETS  
ALL FUND TYPES AND ACCOUNT GROUPS  
JUNE 30, 1999, AND JUNE 30, 1998

	June 30, 1999					June 30, 1998				
	Governmental Fund Type	Fiduciary Fund Type	Account Groups			Governmental Fund Type	Fiduciary Fund Type	Account Groups		
	General	Expendable Trust	General Fixed Assets	General Long-Term Obligation	Totals (Memorandum Only)	General	Expendable Trust	General Fixed Assets	General Long-Term Obligation	Totals (Memorandum Only)
Assets and other debit:										
Assets:										
Cash (Note 2)	\$ 817,326.40	\$ 61,030,877.16	\$ -	\$ -	\$ 61,848,203.56	\$ 1,577,080.85	\$ 52,921,603.01	\$ -	\$ -	\$ 54,498,683.86
Receivables:										
Due from the federal government	-	1,166,400.79	-	-	1,166,400.79	-	1,659,784.74	-	-	1,659,784.74
Claims receivable	-	20,737,106.33	-	-	20,737,106.33	-	18,324,616.99	-	-	18,324,616.99
Notes receivable	5,879,673.64	21,053.66	-	-	5,900,727.30	5,822,472.75	22,219.79	-	-	5,844,692.54
Interest receivable	270,520.68	67,939.17	-	-	338,459.85	235,038.28	61,148.28	-	-	296,186.56
Accounts receivable	44.55	-	-	-	44.55	93.35	-	-	-	93.35
General fixed assets:										
Furniture and equipment (Note 3)	-	-	144,532.49	-	144,532.49	-	-	208,725.08	-	208,725.08
Other debit:										
Amount to be provided for retirement of general long-term obligation (Note 4)	-	-	-	85,205.59	85,205.59	-	-	-	82,860.71	82,860.71
<b>Total assets and other debit</b>	<b>\$ 6,967,565.27</b>	<b>\$ 83,023,377.11</b>	<b>\$ 144,532.49</b>	<b>\$ 85,205.59</b>	<b>\$ 90,220,680.46</b>	<b>\$ 7,634,685.23</b>	<b>\$ 72,989,372.81</b>	<b>\$ 208,725.08</b>	<b>\$ 82,860.71</b>	<b>\$ 80,915,643.83</b>
Liabilities, fund balances, and other credit:										
Liabilities:										
Warrants payable	\$ 40,199.02	\$ 283,677.16	\$ -	\$ -	\$ 323,876.18	\$ 23,707.38	\$ 484,128.90	\$ -	\$ -	\$ 507,836.28
Accounts payable	3,657.52	1,118,680.43	-	-	1,122,337.95	861,275.44	1,470,213.79	-	-	2,331,489.23
Accrued liabilities	513,181.44	-	-	-	513,181.44	614,379.15	-	-	-	614,379.15
Income tax withholdings and payroll deduction liabilities	27,979.35	-	-	-	27,979.35	30,246.99	-	-	-	30,246.99
Accrued leave (Note 4)	-	-	-	85,205.59	85,205.59	-	-	-	82,860.71	82,860.71
Deferred revenue	44,475.99	3,957,785.00	-	-	4,002,260.99	24,819.99	-	-	-	24,819.99
Due to the federal government	249,961.03	-	-	-	249,961.03	212,229.70	-	-	-	212,229.70
Advance from the federal government	1,489,018.90	-	-	-	1,489,018.90	1,720,828.38	-	-	-	1,720,828.38
Due to the primary government	6,412.85	-	-	-	6,412.85	6,212.42	-	-	-	6,212.42
<b>Total liabilities</b>	<b>2,374,886.10</b>	<b>5,360,142.59</b>	<b>-</b>	<b>85,205.59</b>	<b>7,820,234.28</b>	<b>3,493,699.45</b>	<b>1,954,342.69</b>	<b>-</b>	<b>82,860.71</b>	<b>5,530,902.85</b>
Fund balances and other credit:										
Investment in general fixed assets (Note 3)	-	-	144,532.49	-	144,532.49	-	-	208,725.08	-	208,725.08
Fund balances (Note 5):										
Reserved for related assets	5,879,673.64	-	-	-	5,879,673.64	5,822,472.75	-	-	-	5,822,472.75
Reserved for encumbrances	-	-	-	-	-	16,532.83	-	-	-	16,532.83
Reserved for other specific purposes	(1,286,994.47)	77,663,234.52	-	-	76,376,240.05	(1,698,019.80)	71,035,030.12	-	-	69,337,010.32
<b>Total fund balances and other credit</b>	<b>4,592,679.17</b>	<b>77,663,234.52</b>	<b>144,532.49</b>	<b>-</b>	<b>82,400,446.18</b>	<b>4,140,985.78</b>	<b>71,035,030.12</b>	<b>208,725.08</b>	<b>-</b>	<b>75,384,740.98</b>
<b>Total liabilities, fund balances, and other credit</b>	<b>\$ 6,967,565.27</b>	<b>\$ 83,023,377.11</b>	<b>\$ 144,532.49</b>	<b>\$ 85,205.59</b>	<b>\$ 90,220,680.46</b>	<b>\$ 7,634,685.23</b>	<b>\$ 72,989,372.81</b>	<b>\$ 208,725.08</b>	<b>\$ 82,860.71</b>	<b>\$ 80,915,643.83</b>

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

TENNESSEE STUDENT ASSISTANCE CORPORATION  
 COMBINED STATEMENTS OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
 GENERAL AND EXPENDABLE TRUST FUNDS  
 FOR THE YEARS ENDED JUNE 30, 1999, AND JUNE 30, 1998

	Year Ended June 30, 1999			Year Ended June 30, 1998		
	Governmental Fund Type	Fiduciary Fund Type	Totals (Memorandum Only)	Governmental Fund Type	Fiduciary Fund Type	Totals (Memorandum Only)
	General	Expendable Trust		General	Expendable Trust	
Revenues:						
Departmental services revenue	\$ 687,373.77	\$ -	\$ 687,373.77	\$ 542,121.66	\$ -	\$ 542,121.66
Federal revenue	446,611.12	13,621,016.58	14,067,627.70	827,104.78	17,420,014.20	18,247,118.98
Interest income	116,523.24	2,641,420.49	2,757,943.73	124,936.92	2,519,453.66	2,644,390.58
Miscellaneous	-	496,526.29	496,526.29	-	19,922.54	19,922.54
Total revenues	<u>1,250,508.13</u>	<u>16,758,963.36</u>	<u>18,009,471.49</u>	<u>1,494,163.36</u>	<u>19,959,390.40</u>	<u>21,453,553.76</u>
Expenditures:						
Grants expenditures	21,371,519.25	-	21,371,519.25	20,983,314.42	-	20,983,314.42
Administrative expenditures	855,470.05	10,403,696.71	11,259,166.76	866,616.98	9,835,746.44	10,702,363.42
Loan cancellations	563,063.80	-	563,063.80	491,885.61	-	491,885.61
Total expenditures	<u>22,790,053.10</u>	<u>10,403,696.71</u>	<u>33,193,749.81</u>	<u>22,341,817.01</u>	<u>9,835,746.44</u>	<u>32,177,563.45</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(21,539,544.97)</u>	<u>6,355,266.65</u>	<u>(15,184,278.32)</u>	<u>(20,847,653.65)</u>	<u>10,123,643.96</u>	<u>(10,724,009.69)</u>
Other financing source (use):						
Operating transfer from the primary government	21,991,238.36	272,937.75	22,264,176.11	21,069,476.12	-	21,069,476.12
Operating transfer to the primary government	-	-	-	-	(349,414.42)	(349,414.42)
Total financing source (use)	<u>21,991,238.36</u>	<u>272,937.75</u>	<u>22,264,176.11</u>	<u>21,069,476.12</u>	<u>(349,414.42)</u>	<u>20,720,061.70</u>
Excess of revenues and other financing source over expenditures and other financing use	451,693.39	6,628,204.40	7,079,897.79	221,822.47	9,774,229.54	9,996,052.01
Fund balances, July 1	<u>4,140,985.78</u>	<u>71,035,030.12</u>	<u>75,176,015.90</u>	<u>3,919,163.31</u>	<u>61,260,800.58</u>	<u>65,179,963.89</u>
Fund balances, June 30	<u>\$ 4,592,679.17</u>	<u>\$ 77,663,234.52</u>	<u>\$ 82,255,913.69</u>	<u>\$ 4,140,985.78</u>	<u>\$ 71,035,030.12</u>	<u>\$ 75,176,015.90</u>

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

**Tennessee Student Assistance Corporation**  
**Notes to the Financial Statements**  
**June 30, 1999, and June 30, 1998**

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**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Reporting Entity**

The Tennessee Student Assistance Corporation is responsible for guaranteeing student loans under federal programs and administering federal and state grants/loans to students. The corporation is a component unit of the State of Tennessee. Although it is a separate legal entity, the majority of its board members are either appointed by the Governor or are state officials, and the corporation's budget is approved by the state. The corporation is discretely presented in the *Tennessee Comprehensive Annual Financial Report*.

**Basis of Presentation**

The accompanying financial statements have been prepared in conformity with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

**Fund Structure, Basis of Accounting, and Measurement Focus**

The accounts of the corporation are organized and operated on the basis of funds and account groups. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds are maintained consistent with legal and managerial requirements. Account groups are a reporting device to account for certain assets and liabilities of the governmental fund not recorded directly in that fund.

The corporation's financial activities reported in the accompanying statements are classified into two fund types and two account groups:

Governmental Fund Type—The General Fund is used to account for all financial transactions not required to be accounted for in another fund.

Fiduciary Fund Type—The Expendable Trust Fund is used to account for the activities of a trust whose principal and income may be used for the purpose of the trust.

**Tennessee Student Assistance Corporation**  
**Notes to the Financial Statements (Cont.)**  
**June 30, 1999, and June 30, 1998**

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Account Groups—The General Fixed Assets Account Group is used to account for all the corporation's fixed assets. The General Long-Term Obligation Account Group is used to account for accrued annual and compensatory leave.

Both funds are accounted for on the modified accrual basis of accounting except that (1) interest is not accrued on notes purchased under the provisions of the Federal Family Education Loan (FFEL) Program, as explained below, and (2) student loan guaranty fees are recorded as income in the year received rather than being amortized over the life of the student loans guaranteed. Under this basis, revenues are recognized when they become susceptible to accrual, that is, when they become both measurable and available to finance expenditures of the current period. Expenditures are recognized at the time fund liabilities are incurred.

Encumbrance accounting is utilized for budgetary control purposes in the general fund. Encumbrances outstanding at year-end are reported as a reservation of fund balance for subsequent year expenditure.

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. Both funds are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities are generally included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

**Totals (Memorandum Only)**

The total columns of the financial statements are captioned "Memorandum Only" to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position or results of operations in conformity with generally accepted accounting principles. Such data are not comparable to a consolidation.

**Accrual of Interest**

Since the beginning of the federal loan program in 1963, the corporation has purchased insured loans whenever the student has defaulted, been declared bankrupt, died, or become totally and permanently disabled. Subsequent transactions with the U.S. Department of Education reduce the corporation's equity in these loans. Since it is anticipated that a large number of these loans are uncollectible, the corporation

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does not accrue interest on them but does attempt to collect interest on each one if repayment terms can be established with the borrower.

**NOTE 2. CASH**

This classification includes demand deposits and \$100.00 of petty cash on hand. The demand deposits are in the State Treasurer's Pooled Investment Fund. The Pooled Investment Fund's investment policy and custodial credit risk are presented in the *Tennessee Comprehensive Annual Financial Report*.

**NOTE 3. GENERAL FIXED ASSETS**

General fixed assets are recorded at cost and are not depreciated. The following changes in general fixed assets occurred during the year ended June 30, 1999:

	<u>Balance</u> <u>July 1, 1998</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>June 30, 1999</u>
Furniture and equipment	\$208,725.08	\$11,372.15	\$75,564.74	\$144,532.49

The following changes in general fixed assets occurred during the year ended June 30, 1998:

	<u>Balance</u> <u>July 1, 1997</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>June 30, 1998</u>
Furniture and equipment	\$139,163.59	\$113,442.42	\$43, 880.93	\$208,725.08

The deductions include \$12,459.43 resulting from the increase in the capitalization threshold from \$500 to \$1,000.

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**NOTE 4. GENERAL LONG-TERM OBLIGATION**

The following change in the general long-term obligation occurred during the year ended June 30, 1999:

	<u>Balance</u> <u>July 1, 1998</u>	<u>Increase</u>	<u>Balance</u> <u>June 30, 1999</u>
Accrued annual and compensatory leave	\$82,860.71	\$2,344.88	\$85,205.59

The following change in the general long-term obligation occurred during the year ended June 30, 1998:

	<u>Balance</u> <u>July 1, 1997</u>	<u>Increase</u>	<u>Balance</u> <u>June 30, 1998</u>
Accrued annual and compensatory leave	\$80,011.81	\$2,848.90	\$82,860.71

**NOTE 5. FUND BALANCE RESERVES**

The fund balance reserves represent those portions of fund balance (1) not appropriate for expenditure—reserved for related assets—or (2) legally segregated for a specific future use—reserved for encumbrances and reserved for other specific purposes.

The corporation is required by state law to maintain a reserve equal to 10 percent of all outstanding loans which it has insured. The corporation has an agreement with the U. S. Department of Education whereby the federal government reinsures all loans insured by the corporation for at least 80 percent of the principal amount for loans made prior to October 1, 1993, and 78 percent for loans made after October 1, 1993. Therefore, the corporation maintains a cash reserve equal to at least 2 percent of the outstanding loans which it has insured. The statutory reserve is invested by the Treasurer of Tennessee along with idle cash of the state, and a pro rata share of the monthly interest is paid to the corporation. By agreement, the corporation is free to withdraw from this investment pool such amounts as may be needed to honor its commitments under loan insurance agreements with commercial lenders. At

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June 30, 1999, the corporation had insured loans outstanding of \$1,983,320,717.42, and the Treasurer of Tennessee held short-term investments of cash belonging to the loan program reserve in the amount of \$56,842,092.13. At June 30, 1998, the corporation had insured loans outstanding of 1,809,898,152.96, and the Treasurer of Tennessee held short-term investments of cash belonging to the loan program reserve in the amount of \$52,277,045.06.

**NOTE 6. DEFINED BENEFIT PENSION PLAN**

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

The TCRS issues a publicly available financial report that includes financial statements and required supplementary information for SETHEEPP. That report may be obtained by writing to the Tennessee Department of the Treasury, Consolidated Retirement System, 10th Floor Andrew Jackson Building, Nashville, Tennessee 37243-0230, or by calling (615) 741-8202.

Funding Policy - Plan members are noncontributory. The corporation is required to contribute an actuarially determined rate. The current rate is 5.43% of annual covered payroll. Contribution requirements for the corporation are established and may be amended by the TCRS' Board of Trustees. The corporation's contributions to TCRS for the years ended June 30, 1999, 1998, and 1997, were \$45,278.18, \$30,624.94, and \$55,775.82. Contributions met the requirements for each year.

**NOTE 7. OTHER POST-EMPLOYMENT BENEFITS**

The State of Tennessee administers a group health insurance program which provides post-employment health insurance benefits to eligible corporation retirees. This benefit is provided and administered by the State of Tennessee. The corporation assumes no liability for retiree health care programs. Information related to this

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plan is available at the statewide level in the *Tennessee Comprehensive Annual Financial Report*.

**NOTE 8. RISK MANAGEMENT**

The state purchases commercial insurance for real property losses above \$5 million per year and surety bond coverage on the state's officials and employees. During the year ended June 30, 1999, the state incurred losses in Clarksville and Jackson due to damage from tornadoes. Final settlement has not been made but is expected to be approximately \$6 million. In the prior two fiscal years, the state had not had any claims filed with the commercial insurer. A designation for casualty losses in the amount of \$8.219 million has been established in the state's general fund to provide for any property losses not covered by the commercial insurance.

The state has set aside assets for claim settlement in an internal service fund, the Claims Award Fund. This fund services all claims for risk of loss to which the state is exposed, including general liability, automotive liability, professional malpractice, and workers' compensation. The corporation participates in the Claims Award Fund. The fund allocates the cost of providing claims servicing and claims payment by charging a premium to the corporation based on a percentage of the corporation'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 the fiscal year-end to determine the fund liability and premium allocation. Since the corporation participates in the Claims Award Fund, it is subject to the liability limitations under the provisions of the Tennessee Claims Commission Act, *Tennessee Code Annotated*, Section 9-8-101 et seq. Liability for negligence of the corporation for bodily injury and property damage is limited to \$300,000 per person and \$1,000,000 per occurrence. The limits of liability under workers' compensation are set forth in *Tennessee Code Annotated*, Section 50-6-101 et seq. Claims are paid through the state's Claims Award Fund.

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 corporation 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 corporation based on estimates of the ultimate cost of claims that have been reported but not

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settled and of claims that have been incurred but not reported. Employees and providers have 13 months to file medical claims.

**NOTE 9. COMMITMENTS AND CONTINGENCIES**

Sick Leave - The corporation records the cost of sick leave when paid. Generally, since sick leave (earned one day per month with unlimited accumulation) is paid only when an employee dies or is absent because of illness, injury, or related family death, there is no liability for sick leave at June 30. The dollar amount of unused sick leave was \$277,067.89 at June 30, 1999, and \$272,367.72 at June 30, 1998.

Operating Lease - The corporation has entered into an operating lease for office space. This lease will probably continue to be required. Expenditures under the operating lease were \$114,957.12 for the year ended June 30, 1999, and \$114,957.12 for the year ended June 30, 1998. The operating lease is cancelable at the lessee's option.

**NOTE 10. PRIOR-YEAR RESTATEMENT**

On the Combined Statement of Revenues, Expenditures, and Changes in Fund Balances for the year ended June 30, 1998, under the General Fund, miscellaneous revenue was reclassified as departmental services revenue, and under the Expendable Trust Fund, departmental services revenue was reclassified as federal revenue to be comparative with the classifications for the year ended June 30, 1999.

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The Year 2000 Issue (Y2K) arises because most computer software programs allocate two digits to the data field for year on the assumption that the first two digits will be 19. Such programs will thus interpret the year 2000 as the year 1900, the year 2001 as 1901, etc., absent reprogramming. Y2K affects both computer hardware (i.e., the embedded logic of computer chips) and the computer software, and could affect both the ability to enter data into the computer programs and the ability of such programs to correctly process data.

The corporation has established a Y2K Coordinator to facilitate Y2K remediation efforts. The corporation has assessed the impact of Y2K on its computer systems and other electronic equipment. Computer systems are defined as both (1) programmed application systems that provide fiscal and administrative services and (2) supporting hardware and software computer systems infrastructure upon which the application systems reside and are processed. Other electronic equipment includes systems and devices other than traditional computer information systems that may utilize embedded chips in their operations.

The corporation has determined that certain computer systems are critical and certain are supportive. Critical computer systems are those for which there are manual alternatives, but the corporation would unlikely be able to fully or efficiently perform the functions manually, because of the volume of manual activity that would be required. Supportive computer systems are those for which there are manual alternatives, and the corporation expects to be able to perform such functions manually, if necessary.

The corporation has identified two critical computer application systems—the Federal Family Education Loan and Maintenance System and the Grant Online System. Both systems have completed the validation/testing stage. This stage is defined as validating and testing the changes that were made during the remediation stage.

The corporation identified other electronic equipment items as critical to conducting operations. The corporation determined that these items have completed the validation/testing stage.

The completion of all stages identified as necessary to address the Y2K issue is not a guarantee that systems and equipment will be year 2000 compliant.

The corporation's Y2K initiatives did not result in the commitment of significant financial resources as of the end of the reporting period.

The corporation has begun soliciting information from other organizations regarding the status of their assessment, remediation, and testing of their computer systems whose Y2K compliance could affect the corporation's operations. Of the organizations that have responded to date, all expect to achieve compliance in a manner that will not have a materially negative effect on the

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corporation's operations or financial status, although no assurances can be given that circumstances will not change. The corporation does not have full and complete information, however, from these other organizations regarding the status of implementing Y2K compliance. Any failure by some or all of these organizations to be in Y2K compliance may have a materially negative impact on the corporation's operations or financial status.