

Tennessee Student Assistance Corporation

**For the Year Ended
June 30, 2002**

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

Charles K. Bridges, CPA
Assistant Director

Shirley A. Henry, CPA
Audit Manager

Kimberly D. White
In-Charge Auditor

Sheilah Pride
Staff Auditor

Gerry Boaz, CPA
Technical Analyst

Amy Brack
Editor

Comptroller of the Treasury, Division of State Audit
1500 James K. Polk Building, Nashville, TN 37243-0264
(615) 401-7897

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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 29, 2003

The Honorable Phil Bredesen, Governor
and

Members of the General Assembly
State Capitol
Nashville, Tennessee 37243

and

Mr. Michael C. Roberts, 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, 2002. 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/sah
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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, 2002

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.

"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

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Audit Report
Tennessee Student Assistance Corporation
For the Year Ended June 30, 2002

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Tennessee Student Assistance Corporation For the Year Ended June 30, 2002

INTRODUCTION

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.

BACKGROUND

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 financial 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, Christa McAuliffe Scholarship Program, Ned McWherter Scholars Program, Minority Teaching Fellows Program, Tennessee Teaching Scholars Program, and Dependent Children’s 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 is responsible for processing and collecting bankruptcy claims from borrowers.

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

AUDIT SCOPE

The audit was limited to the period July 1, 2001, through June 30, 2002, and was conducted in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Financial statements are presented for the year ended June 30, 2002. The Tennessee Student Assistance Corporation has been included as a component unit in the *Tennessee Comprehensive Annual Financial Report*.

The audit covered fund 60 of the State of Tennessee Accounting and Reporting System (allotment code 332.04) and a portion of fund 25 (allotment codes 332.03, 332.05, and 332.07).

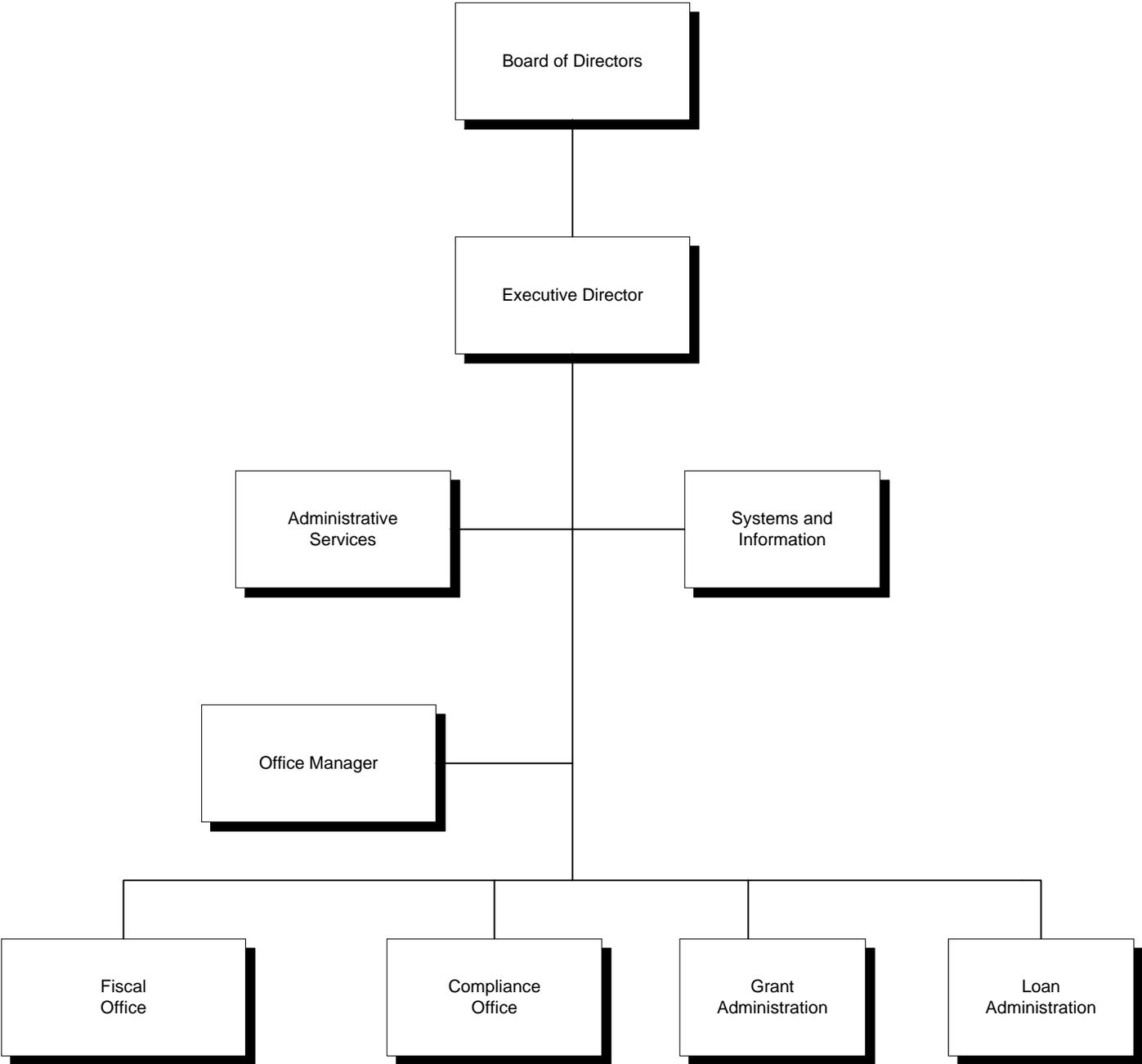
OBJECTIVES OF THE AUDIT

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**



PRIOR AUDIT FINDINGS

Section 8-4-109, *Tennessee Code Annotated*, requires that each state department, agency, or institution report to the Comptroller of the Treasury the action taken to implement the recommendations in the prior audit report. The corporation filed its report with the Department of Audit on August 30, 2002. A follow-up of the prior audit finding was conducted as part of the current audit.

RESOLVED AUDIT FINDING

The current audit disclosed that the corporation has corrected the previous audit finding concerning incorrect student loan information being reflected in the corporation's system.

OBSERVATIONS AND COMMENTS

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 each June 30. The Tennessee Student Assistance Corporation filed its compliance report and implementation plan on June 28, 2002.

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. 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.

RESULTS OF THE AUDIT

AUDIT CONCLUSIONS

Internal Control

As part of the audit of the corporation's financial statements for the year ended June 30, 2002, 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 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. Consideration of internal control over financial reporting disclosed no material weaknesses.

Compliance

The results of our 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**

**SUITE 1500
JAMES K. POLK STATE OFFICE BUILDING
NASHVILLE, TENNESSEE 37243-0264
PHONE (615) 401-7897
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***

January 3, 2003

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, 2002, and have issued our report thereon dated January 3, 2003. 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. As discussed in Note 11, the corporation implemented GASB Statement 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*. The corporation also implemented GASB Statement 37, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments: Omnibus*, and GASB Statement 38, *Certain Financial Statement Note Disclosures*.

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

The Honorable John G. Morgan
January 3, 2003
Page Two

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 expressing 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 that reads "Arthur A. Hayes, Jr." in a cursive style.

Arthur A. Hayes, Jr., CPA,
Director

AAH/sah



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

**SUITE 1500
JAMES K. POLK STATE OFFICE BUILDING
NASHVILLE, TENNESSEE 37243-0264
PHONE (615) 401-7897
FAX (615) 532-2765**

Independent Auditor's Report

January 3, 2003

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

Dear Mr. Morgan:

We have audited the accompanying statement of net assets, balance sheet, and statement of fiduciary net assets of the Tennessee Student Assistance Corporation, a component unit of the State of Tennessee, as of June 30, 2002, and the related statements of activities, revenues, expenditures, and changes in fund balances, and changes in fiduciary net assets for the year 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 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The Honorable John G. Morgan
January 3, 2003
Page Two

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, 2002, and the results of its operations for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 11, the corporation implemented GASB Statement 34, *Basic Financial Statements—and Management’s Discussion and Analysis—for State and Local Governments*. The corporation also implemented GASB Statement 37, *Basic Financial Statements—and Management’s Discussion and Analysis—for State and Local Governments: Omnibus*, and GASB Statement 38, *Certain Financial Statement Note Disclosures*.

The management’s discussion and analysis on pages 10 through 15 and the budgetary comparison information on page 29 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 required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 3, 2003, 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. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Sincerely,

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

Arthur A. Hayes, Jr., CPA,
Director

AAH/sah

Tennessee Student Assistance Corporation
Management's Discussion and Analysis
For the Year Ended June 30, 2002

This section of the Tennessee Student Assistance Corporation's annual financial report presents a discussion and analysis of the financial performance of the corporation during the fiscal year ended June 30, 2002. This discussion has been prepared by management along with the financial statements and related note disclosures and should be read in conjunction with the financial statements and notes. The financial statements, notes, and this discussion are the responsibility of management.

Since this is a transition year for the new financial reporting format required by the Governmental Accounting Standards Board's Statements No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, and No. 37, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments: Omnibus*, only one year of information is presented in the financial statements and this discussion. Comparative information will be presented in future years.

Using This Annual Report

This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities provide information about the activities of the corporation as a whole. The Balance Sheet and the Statement of Revenues, Expenditures, and Changes in Fund Balances provide financial information about the activities of the corporation's general fund. The Statement of Fiduciary Net Assets and the Statement of Changes in Fiduciary Net Assets provide financial information about the activities for which the corporation acts solely as a trustee for the benefit of those outside the corporation.

Statement of Net Assets

The Statement of Net Assets presents the financial position of those programs included in the state's Education Fund as administered by the corporation at the end of the fiscal year. It includes all assets and liabilities, measured in current values, of the corporation. The difference between total assets and total liabilities—net assets—is an indicator of the corporation's current financial condition.

Statement of Net Assets

Total assets	\$ <u>7,586,231</u>
Total liabilities	<u>1,933,960</u>
Total net assets - unrestricted	\$ <u><u>5,652,271</u></u>

Some highlights of material assets and liabilities on the Statement of Net Assets are as follows:

- The notes and interest receivables include notes and interest due the corporation from students having participated in one of the teaching loan/scholarship programs administered by the corporation. Under these programs, students agree to meet certain program conditions upon graduation. If those conditions are met, the loans are forgiven based on a previously agreed upon schedule; at any time the conditions are not met, the loan then becomes due and payable.
- Accrued liabilities include amounts due to the corporation's loan servicer. Due to the federal government and advance from the federal government include funds received for the Paul Douglas Teacher Scholarship Program that are held in trust and administered by the corporation.

Unrestricted net assets are available to the corporation for any lawful purpose of the corporation.

Statement of Activities

The Statement of Activities presents the activities occurring in those programs included in the state's Education Fund as administered by the corporation for the fiscal year.

Statement of Activities

Expenses for education	\$ <u>39,923,314</u>
Program revenues:	
Charges for services	739,163
Operating grants and contributions	<u>1,173,895</u>
Total program revenues	<u>1,913,058</u>
Net program expenses	<u>38,010,256</u>
General revenues:	
Payments from primary government	<u>38,503,401</u>
Increase in net assets	493,145
Net assets, beginning of year	<u>5,159,126</u>
Net assets, end of year	\$ <u>5,652,271</u>

Some highlights of the Statement of Activities are as follows:

- Expenses for education include grants made in the Tennessee Student Assistance Awards and other education programs, costs incurred by the corporation in administering the programs, and loans and interest cancelled for those students participating in the loan/scholarship programs who met the requirement of those programs.
- Revenues include state appropriations for programs administered by the corporation, the collection of loan and interest payments, and refunds from those programs.

The increase in net assets is indicative of the growth in the programs that occurred during the fiscal year.

Balance Sheet – General Fund

The Balance Sheet presents the current financial condition of those programs included in the state's Education Fund as administered by the corporation at the end of the fiscal year. It includes all assets, liabilities, and fund balances, measured in current values, of the corporation.

Some highlights of the Balance Sheet are as follows:

- The notes and interest receivables include notes and interest due the corporation from students having participated in one of the teaching loan/scholarship programs administered by the corporation. Under these programs, students agree to meet certain program conditions upon graduation. If those conditions are met, the loans are forgiven based on a previously agreed upon schedule; at any time the conditions are not met, the loan then becomes due and payable.
- Accrued liabilities include amounts due to the corporation's loan servicer. Due to the federal government and advance from the federal government include funds received for the Paul Douglas Teacher Scholarship Program that are held in trust and administered by the corporation.
- Fund balances include reserves for the loan/scholarship outstanding loans and continuing appropriations for projects begun in this fiscal year but continuing into the next fiscal year.

At June 30, 2002, the general fund had total fund balances of \$5,754,765.41. A reconciliation of the total fund balances with the total net assets presented on the Statement of Net Assets is shown at the bottom of the Balance Sheet.

Statement of Revenues, Expenditures, and Changes in Fund Balances – General Fund

The Statement of Revenues, Expenditures, and Changes in Fund Balances presents the results of operations for those programs included in the state's Education Fund as administered by the corporation for the fiscal year.

Some highlights of the Statement of Revenues, Expenditures, and Changes in Fund Balances are as follows:

- Revenues include state and federal appropriations for programs administered by the corporation, the collection of loan and interest payments, and refunds from those programs.
- Expenditures include grants made in the Tennessee Student Assistance Awards and other education program awards made to students, administrative costs incurred by the corporation, and loans and interest cancelled for those students participating in the loan/scholarship programs.

The general fund had an excess of revenues over expenditures of \$504,858.36 for the fiscal year ended June 30, 2002. A reconciliation of the excess of revenues over expenditures with the increase in net assets presented on the Statement of Activities is shown at the bottom of the Statement of Revenues, Expenditures, and Changes in Fund Balances.

Statement of Fiduciary Net Assets – Federal Family Education Loan Trust Fund

The Statement of Fiduciary Net Assets presents the assets and liabilities of the Federal Family Education Loan (FFEL) Trust Fund as administered by the corporation as the Federal Guaranty Agency for Tennessee.

Some highlights of the Statement of Fiduciary Net Assets are as follows:

- Assets include cash reserves of the corporation for the FFEL Program and receivables consisting of reinsurance claims pending and not yet made.
- Liabilities include cash reserves due to the United States Department of Education under sections 422(h) and 422(i) of the Higher Education Act of 1965, as amended (HEA) and as required by the Balanced Budget Act of 1997 (Pub. L.105-33).

The trust fund had net assets held in trust for student loan activities of \$71,997,352.39 at June 30, 2002.

Statement of Changes in Fiduciary Net Assets – Federal Family Education Loan Trust Fund

The Statement of Changes in Fiduciary Net Assets presents the additions to and deductions from the Federal Family Education Loan Trust Fund for the fiscal year as administered by the corporation as the Federal Guaranty Agency for Tennessee.

Some highlights of the Statement of Changes in Fiduciary Net Assets are as follows:

- Additions include federal revenue in the form of fees and allowances earned by the corporation in the administration of the Federal Family Education Loan Program as the Federal Guaranty Agency, interest earned on program reserves held by the corporation, and contributions from the state into the state sponsored Tennessee Student Loan Program reserves.
- Deductions include expenses incurred by the corporation in the administration of the Federal Family Education Loan Program and the Tennessee Student Loan Program and the return of reserve funds.

The significant decrease in net assets of \$17,111,413.63 was mostly due to the recall of a portion of the reserve funds by the U. S. Department of Education.

General Fund Budgetary Highlights

Grant revenue from primary government: At mid-year, due to anticipated state revenue shortfalls for FY 2002, the corporation was requested by the Commissioner of Finance and Administration to not make further awards in the Tennessee Student Assistance Awards Program. These unexpended state appropriations were returned to the general fund at year-end.

Departmental services revenue: The Tennessee Department of Education received a reduced award amount for the Robert C. Byrd Honors Scholarship Program from the U.S. Department of Education. The corporation administers this federal scholarship program for the Tennessee Department of Education.

Federal revenue: The corporation received a greater than anticipated amount due to supplemental monies being awarded to Tennessee through the United States Department of Education's Special Leveraging Educational Assistance Partnership Program (SLEAP). These funds were in addition to the Leveraging Educational Assistance Partnership Program (LEAP) monies normally received each year.

Interest income: These funds were authorized in FY 2002 primarily for the McWherter Academic Scholars Program and are not normally a budgeted item.

Charges to appropriations: As instructed by the Commissioner of Finance and Administration, due to anticipated state revenue shortfalls, the corporation carefully

monitored expenditures while attempting to still fulfill its mission. As a result, some positions remained vacant, travel was severely cut, and many critical purchases were delayed. As previously mentioned, the corporation's major state grant program experienced cutbacks in awards. Additionally, many professional and administrative services were curtailed or delayed.

Economic Factors Affecting the Corporation's Future Financial Condition

Upcoming changes that will be made to the provisions of the Higher Education Act of 1965, when it is reauthorized, will affect Guarantor Agencies such as the corporation. At this time, it would be premature to speculate what these changes will be, and therefore, their effect on the corporation is unknown at this time. However, as part of the \$250 million recall mandated by provisions of the previous reauthorization, Tennessee has returned a total of \$24.9 million in federal reserve funds. The corporation is scheduled to return an additional \$2.6 million in two payments during the next two years as its remaining share.

Tennessee continues to experience revenue shortfalls. These are expected to continue through FY 2004. Mandated budget cutbacks of up to 7.5% are anticipated for FY 2003 and up to 9% for FY 2004.

Tennessee Student Assistance Corporation
Statement of Net Assets
June 30, 2002

Assets:	
Cash (Note 2)	\$ 1,147,782.31
Receivables:	
Notes receivable	5,934,021.44
Interest receivable	504,382.30
Accounts receivable	<u>44.55</u>
 Total assets	 <u>7,586,230.60</u>
 Liabilities:	
Accounts payable	21,830.91
Accrued liabilities	549,118.30
Payroll related accruals	43,611.34
Due to the primary government	10,114.65
Deferred revenue	107,836.99
Due to the federal government	403,586.44
Advance from the federal government	695,366.56
Compensated absences (Note 4):	
Payable within one year	50,222.27
Payable after one year	<u>52,272.16</u>
 Total liabilities	 <u>1,933,959.62</u>
 Net assets:	
Unrestricted	\$ <u><u>5,652,270.98</u></u>

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

Tennessee Student Assistance Corporation
Statement of Activities
For the Year Ended June 30, 2002

Expenses for education:	
Grants expenses	\$ 38,096,529.13
Administrative expenses	941,290.23
Loan cancelations	<u>885,494.85</u>
Total program expenses	<u>39,923,314.21</u>
Program revenues:	
Charges for services	739,163.00
Operating grants and contributions	<u>1,173,895.27</u>
Total program revenues	<u>1,913,058.27</u>
Net program expenses	<u>38,010,255.94</u>
General revenues:	
Payments from primary government	<u>38,503,401.13</u>
Increase in net assets	493,145.19
Net assets, beginning of year (Note 11)	<u>5,159,125.79</u>
Net assets, end of year	<u>\$ 5,652,270.98</u>

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

Tennessee Student Assistance Corporation
Balance Sheet
General Fund
June 30, 2002

Assets:	
Cash (Note 2)	\$ 1,147,782.31
Receivables:	
Notes receivable	5,934,021.44
Interest receivable	504,382.30
Accounts receivable	<u>44.55</u>
Total assets	\$ <u><u>7,586,230.60</u></u>
Liabilities and fund balances:	
Liabilities:	
Accounts payable	\$ 21,830.91
Accrued liabilities	549,118.30
Payroll related accruals	43,611.34
Due to the primary government	10,114.65
Deferred revenue	107,836.99
Due to the federal government	403,586.44
Advance from the federal government	<u>695,366.56</u>
Total liabilities	<u>1,831,465.19</u>
Fund balances (Note 5):	
Reserved for related assets	5,934,021.44
Reserved for other specific purposes	(295,478.03)
Reserved for continuing appropriations	<u>116,222.00</u>
Total fund balances	<u>5,754,765.41</u>
Total liabilities and fund balances	\$ <u><u>7,586,230.60</u></u>

Reconciliation to Statement of Net Assets

Total fund balances	\$ 5,754,765.41
Compensated absences liability not reported in the fund	<u>(102,494.43)</u>
Total net assets	\$ <u><u>5,652,270.98</u></u>

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

Tennessee Student Assistance Corporation
Statement of Revenues, Expenditures, and
Changes in Fund Balances
General Fund
For the Year Ended June 30, 2002

Revenues:	
Grant revenue from primary government	\$ 38,503,401.13
Departmental services revenue	739,163.00
Federal revenue	1,005,366.07
Interest income	<u>168,529.20</u>
Total revenues	<u>40,416,459.40</u>
Expenditures:	
Grants expenditures	38,096,529.13
Administrative expenditures	929,577.06
Loan cancelations	<u>885,494.85</u>
Total expenditures	<u>39,911,601.04</u>
Excess of revenues over expenditures	504,858.36
Fund balance, beginning of year	<u>5,249,907.05</u>
Fund balance, end of year	<u><u>\$ 5,754,765.41</u></u>

Reconciliation to Statement of Activities

Excess of revenues over expenditures	\$ 504,858.36
Compensated absences expense not reported as an expenditure in the fund	<u>(11,713.17)</u>
Increase in net assets	<u><u>\$ 493,145.19</u></u>

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

Tennessee Student Assistance Corporation
Statement of Fiduciary Net Assets
Federal Family Education Loan Trust Fund
June 30, 2002

Assets:	
Cash (Note 2)	\$ 70,611,667.79
Receivables:	
Due from the federal government	3,989,253.84
Claims receivable	<u>22,350,074.76</u>
Total assets	<u>96,950,996.39</u>
Liabilities:	
Due to the federal government (Note 6)	<u>24,953,644.00</u>
Net assets:	
Held in trust for student loans (Note 6)	<u>\$ 71,997,352.39</u>

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

**Tennessee Student Assistance Corporation
Statement of Changes in Fiduciary Net Assets
Federal Family Education Loan Trust Fund
For the Year Ended June 30, 2002**

Additions:	
Federal revenue	\$ 19,105,290.60
Interest income	1,787,736.92
Contribution from primary government	221,083.00
Miscellaneous	<u>18,950.81</u>
Total additions	<u>21,133,061.33</u>
Deductions:	
Administrative expenses	5,840,520.48
Collection expense	7,355,882.79
Bad debt expense	94,427.69
Return of reserve funds to the federal government (Note 6)	<u>24,953,644.00</u>
Total deductions	<u>38,244,474.96</u>
Decrease in net assets	(17,111,413.63)
Net assets, beginning of year	<u>89,108,766.02</u>
Net assets, end of year	<u><u>\$ 71,997,352.39</u></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, 2002

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The 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 financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB). In June 1999, the GASB issued Statement 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*. The financial statements required by that statement provide a government-wide perspective of the corporation's assets, liabilities, net assets, revenues, expenses, and changes in net assets, in addition to the fund perspective previously required.

Measurement Focus and Basis of Accounting – Government-wide Statements

The government-wide financial statements include the statement of net assets and the statement of activities and report information about the corporation as a whole, except for the fiduciary fund. The government-wide 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.

Measurement Focus and Basis of Accounting – General Fund Statements

The general fund is used to account for all financial transactions not required to be accounted for in another fund. The fund financial statements for the general fund include the balance sheet and the statement of revenues, expenditures, and changes in fund balances. The general fund financial statements have been prepared using the current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, only current assets and current liabilities are generally included on the balance sheet. Under the modified accrual basis, revenues are recognized when they become susceptible to accrual, that is, when they

Tennessee Student Assistance Corporation
Notes to the Financial Statements (Cont.)
June 30, 2002

become both measurable and available to finance expenditures of the current period. The corporation considers receivables collected within 60 days after year-end to be available and recognizes them as revenues of the current year. Expenditures are recorded at the time fund liabilities are incurred.

Measurement Focus and Basis of Accounting – Fiduciary Fund Statements

The Federal Family Education Loan Trust Fund is a private-purpose trust fund, which is used to account for the activities of a trust whose principal and income may be used for the purpose of the trust. The fund financial statements for the Federal Family Education Loan Trust Fund include the statement of fiduciary net assets and the statement of changes in fiduciary net assets. The fiduciary fund financial statements have been prepared using the economic resources measurement focus and the accrual basis of accounting except that (1) interest is not accrued on notes purchased under the provisions of the Federal Family Education Loan 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.

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 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*. That report may be obtained by writing to the Tennessee Department of Finance and Administration, Division of Accounts, 14th Floor William R. Snodgrass Tennessee Tower, 312 Eighth Avenue North, Nashville, Tennessee 37243-0298, or by calling (615) 741-2140.

Tennessee Student Assistance Corporation
Notes to the Financial Statements (Cont.)
June 30, 2002

NOTE 3. CAPITAL ASSETS

Equipment is reported in the statement of net assets at cost less accumulated depreciation. A capitalization threshold of \$5,000 is used for equipment, and equipment is depreciated over five years using the straight-line method.

Capital asset activity for the year ended June 30, 2002, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
<u>Equipment</u>	\$5,290.50	\$ -	\$5,290.50	\$ -

NOTE 4. COMPENSATED ABSENCES

Long-term liability activity for the year ended June 30, 2002, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Amount Due Within One Year</u>
Compensated absences	\$90,781.26	\$97,422.15	\$85,708.98	\$102,494.43	\$50,222.27

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 other specific purposes and reserved for continuing appropriations.

Tennessee Student Assistance Corporation
Notes to the Financial Statements (Cont.)
June 30, 2002

NOTE 6. NET ASSETS HELD IN TRUST FOR STUDENT LOANS

The corporation is required by state law to maintain a reserve equal to 10 percent of all outstanding loans that 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; 78 percent for loans made from October 1, 1993, through September 30, 1998; and 75% for loans made after October 1, 1998. Therefore, the corporation maintains a cash reserve equal to at least 2 percent of the outstanding loans that 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 June 30, 2002, the corporation had insured loans outstanding of \$2,833,889,036.45, and the Treasurer of Tennessee held short-term investments of cash belonging to the loan program reserve in the amount of \$74,379,838.63.

During the year ended June 30, 2002, the U.S. Department of Education determined that the corporation, as a guaranty agency under the Federal Family Education Loan Program, had to return a portion of the reserve funds based on a federal reserve recall requirement in the Higher Education Act of 1965, as amended. A portion of the amount (\$1,356,427) was remitted on September 4, 2002, and the remainder (\$23,597,217) was remitted on September 6.

NOTE 7. 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

Tennessee Student Assistance Corporation
Notes to the Financial Statements (Cont.)
June 30, 2002

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 6.19% 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, 2002, 2001, and 2000, were \$59,512.24, \$51,635.70, and \$39,906.09. Contributions met the requirements for each year.

NOTE 8. 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 plan is available at the statewide level in the *Tennessee Comprehensive Annual Financial Report*. That report may be obtained by writing to the Tennessee Department of Finance and Administration, Division of Accounts, 14th Floor William R. Snodgrass Tennessee Tower, 312 Eighth Avenue North, Nashville, Tennessee 37243-0298, or by calling (615) 741-2140.

NOTE 9. 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. In the past three years, the state has not had any claims filed with the commercial insurer. Designations for casualty losses in the amount of \$5 million for deductibles and \$1.356 million for incurred losses at June 30, 2002, were 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

Tennessee Student Assistance Corporation
Notes to the Financial Statements (Cont.)
June 30, 2002

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

NOTE 10. 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 \$371,146.90 at June 30, 2002.

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 \$158,010.00 for the year ended June 30, 2002. The operating lease is cancelable at the lessee's option.

Litigation - The corporation is involved in two lawsuits, neither of which is expected to have a material effect on the accompanying financial statements.

Tennessee Student Assistance Corporation
Notes to the Financial Statements (Cont.)
June 30, 2002

NOTE 11. PRIOR-YEAR RESTATEMENT

Due to the implementation of GASB Statement 34, the net assets, beginning of year on the statement of activities reflects a decrease of \$90,781.26 from the prior year's ending fund balance to account for the compensated absences liability at June 30, 2001.

TENNESSEE STUDENT ASSISTANCE CORPORATION
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2002

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
Budgetary fund balance, July 1	\$ 5,249,907.05	\$ 5,249,907.05	\$ 5,249,907.05	\$ -
Resources (inflows):				
Grant revenue from primary government	40,906,100.00	40,925,800.00	38,503,401.13	(2,422,398.87)
Departmental services revenue	893,500.00	893,500.00	739,163.00	(154,337.00)
Federal revenue	680,100.00	680,100.00	1,005,366.07	325,266.07
Interest income	-	-	168,529.20	168,529.20
	<u>47,729,607.05</u>	<u>47,749,307.05</u>	<u>45,666,366.45</u>	<u>(2,082,940.60)</u>
Amounts available for appropriation				
Charges to appropriations (outflows):				
Personal services	534,672.00	534,672.00	438,220.82	96,451.18
Employee benefits	128,508.00	128,508.00	111,945.16	16,562.84
Travel	43,000.00	43,000.00	7,530.69	35,469.31
Printing, duplicating, and film processing	16,500.00	16,500.00	16,098.87	401.13
Communication and shipping cost	99,300.00	99,300.00	79,942.78	19,357.22
Maintenance, repairs, and services	1,700.00	1,700.00	93.06	1,606.94
Professional and administrative services	174,020.00	174,020.00	51,893.83	122,126.17
Supplies	44,600.00	44,600.00	14,362.10	30,237.90
Rentals and insurance	66,800.00	66,800.00	70,324.15	(3,524.15)
Awards and indemnities	50.00	50.00	153.80	(103.80)
Grants and subsidies	41,179,750.00	41,179,750.00	38,982,618.04	2,197,131.96
Professional services	210,500.00	210,500.00	138,417.74	72,082.26
	<u>42,499,400.00</u>	<u>42,499,400.00</u>	<u>39,911,601.04</u>	<u>2,587,798.96</u>
Total charges to appropriations				
Budgetary fund balance, June 30	\$ <u>5,230,207.05</u>	\$ <u>5,249,907.05</u>	\$ <u>5,754,765.41</u>	\$ <u>504,858.36</u>