

TENNESSEE STUDENT ASSISTANCE CORPORATION

**FOR THE YEAR ENDED
JUNE 30, 1996**

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Editor

January 15, 1997

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, 1996. 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 the internal control structure and tests of compliance resulted in no audit findings.

Very truly yours,

W. R. Snodgrass
Comptroller of the Treasury

WRS/cr
97/025

State of Tennessee

A u d i t H i g h l i g h t s

Comptroller of the Treasury

Division of State Audit

Financial and Compliance Audit
Tennessee Student Assistance Corporation
For the Year Ended June 30, 1996

AUDIT OBJECTIVES

The objectives of the audit were to consider the corporation's internal control structure; to determine compliance with 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

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

AUDIT REPORT
TENNESSEE STUDENT ASSISTANCE CORPORATION
FOR THE YEAR ENDED JUNE 30, 1996

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TENNESSEE STUDENT ASSISTANCE CORPORATION
FOR THE YEAR ENDED JUNE 30, 1996

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.

OBJECTIVES OF THE AUDIT

The objectives of the audit were

1. to consider the corporation’s internal control structure to determine auditing procedures for the purpose of expressing an opinion on the financial statements;
2. to determine compliance with 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 of 1984 and Office of Management and Budget (OMB) Circular A-128, “Audits of State and Local Governments,” it included tests of compliance with applicable federal laws and regulations and consideration of the internal control structure 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 of 1984 and OMB Circular A-128.

SCOPE OF THE AUDIT

The audit was limited to the period July 1, 1995, through June 30, 1996, and was conducted in accordance with generally accepted government auditing standards. Financial statements are presented for the year ended June 30, 1996, and for comparative purposes, the year ended June 30, 1995. 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.

BACKGROUND AND ORGANIZATION

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 Supplemental Loans for Students (FSLs) 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, Community College Education Recruitment Scholarship for Minorities 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. An organization chart of the corporation is on the following page.

The corporation contracted with BTI Services, Inc., of Jacksonville, Florida, to service its Federal Stafford Loan, FSLs, and FPLUS 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.

The corporation contracted with PAYCO of Wisconsin, Inc., to provide supplemental preclaims assistance for its Federal Stafford Loan, FSLS, and FPLUS programs. The contractor is to provide assistance, in addition to the lender's efforts, in collecting the loans (120 days after the borrower's default).

PRIOR AUDIT FINDINGS

There were no findings in the prior audit report.

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 June 30, 1994, and each June 30 thereafter. For the year ending June 30, 1996, the Tennessee Student Assistance Corporation filed its compliance report and implementation plan on June 28, 1996.

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 ground 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 State Planning Office in the Executive Department was assigned the responsibility of serving as the monitoring agency for Title VI compliance, and copies of the required reports were filed with the State Planning Office for evaluation and comment. However, the State Planning Office has been abolished. The Office of the Governor is currently evaluating which office in the executive branch will be the new monitoring agency.

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 Structure

As part of the audit of the corporation's financial statements for the year ended June 30, 1996, we considered the internal control structure to determine auditing procedures for the purpose of expressing an opinion on the financial statements, as required by generally accepted government auditing standards. The report on the internal control structure is on the following pages. Consideration of the internal control structure disclosed no material weaknesses.

Compliance with Laws and Regulations

The results of our tests disclosed no instances of noncompliance that are required to be reported herein under generally accepted government auditing standards. The compliance report follows the report on the internal control structure.

Fairness of Financial Statement Presentation

The Division of State Audit has rendered an unqualified opinion on the corporation's financial statements. The independent auditor's report follows the compliance report.

**Report on the Internal Control Structure Based on an
Audit of the Financial Statements Performed in Accordance With
*Government Auditing Standards***

December 6, 1996

The Honorable W. R. Snodgrass
Comptroller of the Treasury
State Capitol
Nashville, Tennessee 37243

Dear Mr. Snodgrass:

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, 1996, and have issued our report thereon dated December 6, 1996.

We conducted our audit 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.

The corporation's management is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

The Honorable W. R. Snodgrass
December 6, 1996
Page Two

In planning and performing our audit of the corporation's financial statements for the year ended June 30, 1996, we obtained an understanding of the internal control structure. With respect to the internal control structure, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control structure. Accordingly, we do not express such an opinion.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a condition in which the design or operation of one or more of the internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities 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 structure and its operation that we consider to be material weaknesses as defined above.

However, we noted certain matters involving the internal control structure and its operation that we have reported to the corporation's management in a separate letter.

This report is intended for the information of the General Assembly of the State of Tennessee and management. However, this report is a matter of public record, and its distribution is not limited.

Sincerely,

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

AAH/cr

**Compliance Report Based on an Audit of the
Financial Statements Performed in Accordance
With *Government Auditing Standards***

December 6, 1996

The Honorable W. R. Snodgrass
Comptroller of the Treasury
State Capitol
Nashville, Tennessee 37243

Dear Mr. Snodgrass:

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, 1996, and have issued our report thereon dated December 6, 1996.

We conducted our audit 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.

Compliance with laws, regulations, contracts, and grants applicable to the corporation is the responsibility of the corporation's management. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the corporation's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our audit of the financial statements was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance that are required to be reported herein under generally accepted government auditing standards.

We did, however, note two immaterial instances of noncompliance that we have reported to the corporation's management in a separate letter.

The Honorable W. R. Snodgrass
December 6, 1996
Page Two

This report is intended for the information of the General Assembly of the State of Tennessee and management. However, this report is a matter of public record, and its distribution is not limited.

Sincerely,

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

AAH/cr

Independent Auditor's Report

December 6, 1996

The Honorable W. R. Snodgrass
Comptroller of the Treasury
State Capitol
Nashville, Tennessee 37243

Dear Mr. Snodgrass:

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, 1996, and June 30, 1995, 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 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, 1996, and June 30, 1995, and the results of its operations for the years then ended in conformity with generally accepted accounting principles.

The Honorable W. R. Snodgrass
December 6, 1996
Page Two

In accordance with generally accepted government auditing standards, we have also issued reports dated December 6, 1996, regarding our consideration of the corporation's internal control structure and its compliance with laws and regulations.

Sincerely,

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

AAH/cr

TENNESSEE STUDENT ASSISTANCE CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 1996, AND JUNE 30, 1995

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.

TENNESSEE STUDENT ASSISTANCE CORPORATION
NOTES TO THE FINANCIAL STATEMENTS (CONT.)
JUNE 30, 1996, AND JUNE 30, 1995

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.

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.

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.

TENNESSEE STUDENT ASSISTANCE CORPORATION
 NOTES TO THE FINANCIAL STATEMENTS (CONT.)
 JUNE 30, 1996, AND JUNE 30, 1995

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 petty cash on hand. At June 30, 1996, cash consisted of \$100.00 of petty cash on hand and \$43,247,707.05 in the State Treasurer's Pooled Investment Fund. At June 30, 1995, cash consisted of \$100.00 of petty cash on hand and \$41,469,405.96 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, 1996:

	Balance July 1, 1995	<u>Additions</u>	<u>Deductions</u>	Balance June 30, 1996
Furniture and equipment	\$64,382.53	\$46,778.45	\$1,042.50	\$110,118.48

TENNESSEE STUDENT ASSISTANCE CORPORATION
 NOTES TO THE FINANCIAL STATEMENTS (CONT.)
 JUNE 30, 1996, AND JUNE 30, 1995

The following changes in general fixed assets occurred during the year ended June 30, 1995:

	<u>Balance July 1, 1994</u>	<u>Additions</u>	<u>Balance June 30, 1995</u>
Furniture and equipment	\$50,273.55	\$14,108.98	\$64,382.53

NOTE 4. GENERAL LONG-TERM OBLIGATION

The following change in the general long-term obligation occurred during the year ended June 30, 1996:

	<u>Balance July 1, 1995</u>	<u>Decrease</u>	<u>Balance June 30, 1996</u>
Accrued annual and compensatory leave	\$85,738.33	\$6,228.61	\$79,509.72

The following change in the general long-term obligation occurred during the year ended June 30, 1995:

	<u>Balance July 1, 1994</u>	<u>Increase</u>	<u>Balance June 30, 1995</u>
Accrued annual and compensatory leave	\$84,317.73	\$1,420.60	\$85,738.33

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

TENNESSEE STUDENT ASSISTANCE CORPORATION
NOTES TO THE FINANCIAL STATEMENTS (CONT.)
JUNE 30, 1996, AND JUNE 30, 1995

specific future use—reserved for guaranteed student loans, reserved for continuing appropriations, 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 June 30, 1996, the corporation had insured loans outstanding of \$1,529,171,701.12, and the Treasurer of Tennessee held short-term investments of cash belonging to the loan program reserve in the amount of \$45,000,928.00. At June 30, 1995, the corporation had insured loans outstanding of \$1,365,121,764.50, and the Treasurer of Tennessee held short-term investments of cash belonging to the loan program reserve in the amount of \$40,731,384.18.

NOTE 6. DEFINED BENEFIT PENSION PLAN

All the corporation's full-time employees are required to participate in a cost-sharing multiple employer pension plan administered by the Tennessee Consolidated Retirement System (TCRS). The payroll for employees covered by the TCRS plan, which was also the corporation's total payroll, was \$704,267.92 for the year ended June 30, 1996, and \$702,152.98 for the year ended June 30, 1995.

TCRS members may retire at age 60 with five years of service or at any age with 30 years of service. Early retirement with reduced benefits is available to vested members who are at least age 55 or have 25 years of service. Benefits are based on the number of years of creditable service and highest average salary for five consecutive years. Members are vested after five years of service. The TCRS also provides death and disability benefits. Disability benefits are available to members with five years of service who become disabled and cannot engage in gainful employment. There is no service requirement for disability that is the result of an accident or injury

TENNESSEE STUDENT ASSISTANCE CORPORATION
NOTES TO THE FINANCIAL STATEMENTS (CONT.)
JUNE 30, 1996, AND JUNE 30, 1995

occurring while the member performed duties. Benefits are established by state statute.

The corporation is required by state statute, effective July 1, 1981, to contribute the amounts necessary to pay benefits when due. Prior to that date, the employee bore a portion of the contribution. Members with contributory service who leave the corporation are eligible for a refund of their contributions, along with contributions made after July 1, 1981, on the employees' behalf by the corporation. The actuarially required contribution made for the year ended June 30, 1996, was \$44,235.46, which represented 6.28% of the covered payroll, and for the year ended June 30, 1995, was \$44,257.71, which represented 6.30% of the covered payroll.

The pension benefit obligation is a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases and step-rate benefits, estimated to be payable in the future as a result of employee service to date. The measure, which is the actuarial present value of credited projected benefits, is intended to help users assess the TCRS' funding status on a going-concern basis, assess progress in accumulating sufficient assets to pay benefits when due, and make comparisons among public employee retirement systems and among employers. The TCRS does not make separate measurements of assets and pension benefit obligation for individual state employers. Therefore, the following information is provided for the entire state employee portion of the TCRS. The pension benefit obligation at June 30, 1996, and at June 30, 1995, determined through an actuarial update performed as of June 30, 1996, was \$11,610.6 million and through an actuarial valuation performed as of June 30, 1995, was \$10,697.4 million. The net assets, at cost or amortized cost, available for benefits were \$12,925.0 million at June 30, 1996, and \$11,566.8 million at June 30, 1995, leaving assets in excess of pension benefit obligation of \$1,314.4 million at June 30, 1996, and \$869.4 million at June 30, 1995. The market value of the net assets available for benefits was \$14,100.9 million at June 30, 1996, and \$12,552.1 million at June 30, 1995. The corporation's 1996 and 1995 contributions represented .02% of total contributions required of all participating entities.

Ten-year historical trend information showing the TCRS' progress in accumulating sufficient assets to pay benefits when due is presented in the June 30, 1996, *Tennessee Consolidated Retirement System Comprehensive Annual Financial Report*.

TENNESSEE STUDENT ASSISTANCE CORPORATION
NOTES TO THE FINANCIAL STATEMENTS (CONT.)
JUNE 30, 1996, AND JUNE 30, 1995

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 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. In the past three fiscal years, the state has not had any claims filed with the commercial insurer. A designation for casualty losses in the amount of \$5 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 partici-

TENNESSEE STUDENT ASSISTANCE CORPORATION
NOTES TO THE FINANCIAL STATEMENTS (CONT.)
JUNE 30, 1996, AND JUNE 30, 1995

pates 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 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 \$274,780.60 at June 30, 1996, and \$270,863.55 at June 30, 1995.

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 \$113,839.62 for the year ended June 30, 1996, and \$102,846.96 for the year ended June 30, 1995. The operating lease is cancelable at the lessee's option.

NOTE 10. PRIOR-YEAR RESTATEMENT

For the year ended June 30, 1995, Combined Statement of Revenues, Expenditures, and Changes in Fund Balances, under the General Fund, departmental services revenue, was decreased by \$4,288,259.45, federal revenue was decreased by \$2,540,479.00, and administrative expenditures were decreased by \$6,828,738.45. The changes were made to eliminate revenues and expenditures which were also recognized in the Expendable Trust Fund. The restatement did not affect the June 30, 1995, fund balance.