Tennessee Board of Regents
Shelby State Community College

For the Years Ended
June 30, 1999, and June 30, 1998

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STATE OF TENNESSEE
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John G. Morgan
Comptroller

April 4, 2000

The Honorable Don Sundquist, Governor
and
Members of the General Assembly
State Capitol
Nashville, Tennessee 37243
and
The Honorable Charles Manning, Chancellor
Tennessee Board of Regents
1415 Murfreesboro Road, Suite 350
Nashville, Tennessee 37217
and
Dr. Floyd Amann, President
Shelby State Community College
737 Union Avenue
Memphis, Tennessee 38174

Ladies and Gentlemen:

Transmitted herewith is the financial and compliance audit of the Tennessee Board of Regents, Shelby State Community College, for the years ended June 30, 1999, and June 30, 1998. 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 disclosed certain deficiencies, which are detailed in the Results of the Audit section of this report. The college's administration has responded to the audit findings; the responses are included following each finding. The Division of State Audit will follow up the audit to examine the application of the procedures instituted because of the audit findings.

Sincerely,

John G. Morgan
Comptroller of the Treasury

JGM/mb
00/029

State of Tennessee

Audit Highlights

Comptroller of the Treasury — Division of State Audit

Financial and Compliance Audit
Shelby State Community College
For the Years Ended June 30, 1999, and June 30, 1998

AUDIT OBJECTIVES

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

INTERNAL CONTROL FINDINGS

Financial Reports Were Not Accurately Prepared
The college's unaudited financial reports for the years ended June 30, 1999, and June 30, 1998, which were submitted to the Tennessee Board of Regents (TBR), were not prepared in accordance with the detailed instructions provided by TBR. The reports contained information that did not agree with the general ledger or supporting documentation, amounts on supporting schedules that did not always agree with amounts reported in the financial statements, and inaccurate note disclosures. College personnel did not follow the TBR instructions, perform comparisons between related schedules, or maintain adequate documentation for the amounts in the report. Several of the noted errors could have been detected and corrected if the TBR instructions had been properly followed and if comparisons had been made between related supporting schedules and the financial statements (page 7).

Bank Reconciliations Were Not Properly Performed
The bank reconciliations were not always properly reconciled with the general ledger. Numerous errors were noted on the operating, payroll, and Tennessee Insurance System (TIS) bank account reconciliations. Considering the errors noted, management cannot be assured that the bank accounts reconcile. If adequate documentation had

been maintained, the reconciling items could have been explained (page 10).

Better Reporting of Equipment Needed**
Equipment reconciliations were not properly performed and reflected in the accounting records. Equipment additions were not properly reconciled to the final expenditures per the subsidiary ledger, and additions and deductions were not properly reflected on the general ledger. Not properly recording equipment transactions could result in a material misstatement of the financial statements. If the reconciliation had been properly performed, these errors would have been discovered and the necessary adjustments could have been made to the general ledger (page 14).

COMPLIANCE FINDING

Property Losses Were Not Reported to the Comptroller of the Treasury*
The college has not complied with Section 8-19-501, *Tennessee Code Annotated*, which requires the reporting of losses to the Comptroller (page 13).

* This finding is repeated from the prior audit.
** This finding is repeated from prior audits.

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
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Audit Report
Tennessee Board of Regents
Shelby State Community College
For the Years Ended June 30, 1999, and June 30, 1998

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INTRODUCTION

POST-AUDIT AUTHORITY

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

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

BACKGROUND

Shelby State Community College was founded in 1970 and held its first classes in the fall of 1972. This multi-campus institution is designed specifically to serve a wide variety of higher educational needs for residents in the Memphis-Shelby County area.

ORGANIZATION

The governance of Shelby State Community College is vested in the Tennessee Board of Regents. The Governor, the Commissioner of Education, the Commissioner of Agriculture, and the Director of the Tennessee Higher Education Commission serve *ex officio* on this board. The chief administrative officer of the college is the president, who is assisted and advised by members of the faculty and administrative staff.

AUDIT SCOPE

The audit was limited to the period July 1, 1997, through June 30, 1999, and was conducted in accordance with generally accepted government auditing standards. Financial statements are presented for the years ended June 30, 1999, and June 30, 1998. Shelby State Community College is an institution of the Tennessee Board of Regents, which is an integral part of state government. As such, the Tennessee Board of Regents has been included as a component unit in the *Tennessee Comprehensive Annual Financial Report.*

OBJECTIVES OF THE AUDIT

The objectives of the audit were

1. to consider the college's internal control over financial reporting to determine auditing procedures for the purpose of expressing 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.

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 college filed its report with the Department of Audit on November 30, 1998. A follow-up of all prior audit findings was conducted as part of the current audit.

RESOLVED AUDIT FINDINGS

The current audit disclosed that the college has corrected previous audit findings concerning misappropriation and abuse of time by maintenance workers, improper actions of a faculty member, inadequate accounts receivable collection efforts, inadequate internal controls over data processing, overcharges to the Families First program, improperly calculated and untimely paid refunds to Financial Assistance programs, inappropriately awarded Financial Assistance, and overcharges to the Tech Prep grant.

REPEATED AUDIT FINDINGS

The prior audit report also contained findings concerning the reporting of property losses to the Comptroller of the Treasury and the following of equipment policies. These findings have not been resolved and are repeated in this report.

OBSERVATIONS AND COMMENTS

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 college 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 college is not in compliance with the federal law.

RESULTS OF THE AUDIT

AUDIT CONCLUSIONS

Internal Control

As part of the audit of the college's financial statements for the years ended June 30, 1999, and June 30, 1998, 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. Reportable conditions, along with recommendations and management's responses, are detailed in the findings and recommendations. 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*. Immaterial instances of noncompliance, along with recommendations and management's responses, are included in the findings and recommendations.

Fairness of Financial Statement Presentation

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

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

March 7, 2000

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

Dear Mr. Morgan:

We have audited the financial statements of Shelby State Community College, an institution of the Tennessee Board of Regents, which is a component unit of the State of Tennessee, as of and for the years ended June 30, 1999, and June 30, 1998, and have issued our report thereon dated March 7, 2000. We conducted our audit in accordance with generally accepted government auditing standards.

Compliance

As part of obtaining reasonable assurance about whether the college's financial statements are free of material misstatement, we performed tests of the college'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*.

We did, however, note certain immaterial instances of noncompliance that we have included in the Findings and Recommendations section of this report.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the college'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. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the college's ability to record, process, summarize, and report financial data consistent with management's assertions in the financial statements.

The following reportable conditions were noted:

- The college's unaudited financial reports for the years ended June 30, 1999, and June 30, 1998, were not prepared in accordance with the detailed instructions provided by the Tennessee Board of Regents.

- Bank reconciliations were not properly performed.

- Equipment reconciliations were not properly performed, and necessary adjustments were not reflected in the accounting records.

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

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. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe none of the reportable conditions described above is a material weakness.

We also noted other matters involving the internal control over financial reporting, which we have reported to the college'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,

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

AAH/mb

FINDINGS AND RECOMMENDATIONS

1. <u>Financial reports were not accurately prepared</u>

Finding

The Shelby State Community College unaudited financial reports for the years ended June 30, 1999, and June 30, 1998, which were submitted to the Tennessee Board of Regents (TBR), were not prepared in accordance with the detailed instructions provided by TBR. The reports contained information that did not agree with the general ledger or supporting documentation, amounts on supporting schedules that did not always agree with amounts reported in the financial statements, and the reports contained inaccurate note disclosures. The following errors were noted:

- Unexpended plant fund encumbrances were disclosed in the notes to the financial statements but were not recorded on the general ledger for both years. The amounts disclosed for the year ended June 30, 1999, did not agree with supporting documentation.

- Renewals and replacements encumbrances were disclosed in the notes to the financial statements but were not recorded on the general ledger for the year ended June 30, 1999.

- The amounts disclosed in the deposits note did not agree with the general ledger or supporting documentation for both years.

- The statement of changes in fund balances for the year ended June 30, 1999, contained prior period adjustments that affected current year activity rather than the beginning balance. The prior period adjustments appear to be “plug” amounts in order for the ending fund balance to agree with the fund balance on the balance sheet.

- The unrestricted cash, prepaid expenditure, accrued liabilities, and accounts payable amounts on the June 30, 1999, balance sheet did not agree with the general ledger.

- The unrestricted accrued liabilities reported on the June 30, 1999, balance sheet did not agree with the general ledger.

- The unrestricted accrued liabilities were understated on the June 30, 1998, balance sheet because of a payroll expenditure that was not properly recorded.

- On the June 30, 1999, balance sheet, restricted compensated absences were not reported although the general ledger indicates a balance. The general ledger balance did not agree with supporting documentation.

- In both years, restricted accrued liabilities did not agree with the general ledger.

- At June 30, 1998, the restricted grants receivable did not agree with the general ledger.

- An allocation of the restricted fund balance was not reported in either year for compensated absences.

- The unrestricted current fund balance allocation for designated state appropriations did not agree with the general ledger at June 30, 1998.

- Amounts on the statement of current fund revenues, expenditures, and other changes for unrestricted public service, student services, institutional support, and operation and maintenance of plant expenditures for the year ended June 30, 1999, did not agree with the general ledger.

- A format from TBR that includes information applicable in different situations is used for the note disclosures included with the financial statements. This format was not amended to exclude information that was not relevant to the college.

- For both fiscal years, the amounts disclosed as accounts and notes receivable allowances for doubtful accounts in the notes to the financial statements were reported as the net receivable balance instead of the allowance balance.

- The scheduled insurance coverage amount in the notes to the financial statements for both fiscal years did not agree with supporting documentation.

- Errors noted in the prior audit were not reflected in the June 30, 1998, notes to the financial statements.

- The disclosed sick leave balance in the June 30, 1998, notes to the financial statements did not agree with supporting documentation.

- For both years, some of the amounts reported in the cash refund reserve note of the notes to the financial statements did not agree with supporting documentation.

- For both years, the expenditures under operating leases in the notes to the financial statements did not agree with the general ledger, nor could they be supported with other documentation.

- The amounts indicated as capital expenditures on the unexpended plant fund schedule of changes in fund balances and the renewals and replacements schedule of changes in fund balances did not agree with the general ledger. The amount of capitalized additions indicated on the schedule of changes in investment in plant did not agree with the subsidiary ledger.

- For both fiscal years, the total expended for plant facilities in unexpended plant, renewals and replacements, and current funds did not agree with the addition recognized in investment in plant.

- For both fiscal years, equipment additions reported on the schedule of changes in investment in plant did not agree with the subsidiary ledger.

- For both years, the fund balance as reported on schedule 4 (schedule of changes in fund balances – current restricted funds) did not agree with the fund balance reported on the balance sheet. In addition, the additions and deductions reported on schedule 4 did not agree with the amounts reported on the schedule of changes in fund balances.

- For the year ended June 30, 1999, the schedule of current funds expenditures and transfers by object indicates expenditures for building of $11,171.16, but these expenditures were not recorded as capital on the general ledger. In addition, the expenditures were not recorded as a current fund addition to investment in plant.

Management is responsible for preparing accurate financial statements, for ensuring that the general ledger supports the financial statements, and for maintaining adequate documentation for all amounts included in the report. The TBR provides detailed instructions for the preparation of the financial report. However, college personnel did not follow the instructions, perform comparisons between related schedules, or maintain adequate documentation for the amounts in the report. Several of the noted errors could have been detected and corrected if the TBR instructions had been properly followed and if comparisons had been made between related supporting schedules and the financial statements. The financial statements in this report reflect audit adjustments that were necessary for fair statement.

Recommendation

Upper management should ensure that the financial report is accurately prepared. The general ledger should support the financial statements, and adequate documentation should be maintained. The standard note disclosure format should be reviewed and only information that relates to the institution should be included.

Management's Comment

We concur with the findings. Many of the discrepancies between the general ledger and the financial statements reflect the changes recommended by the TBR reviewer. Since the general ledger had already been closed for fiscal year 1999, these adjustments were to be made to the general ledger in fiscal year 2000.

Prior to closing fiscal year 2000, the Controller and the Vice President for Business and Finance will jointly review the financial statements in accordance with an internally developed checklist and TBR instructions for compliance.

2. <u>Bank reconciliations were not properly performed</u>

Finding

Shelby State Community College personnel prepared monthly reconciliations for the operating, payroll, and Tennessee Insurance System (TIS) bank accounts. However, the reconciliations were not always properly reconciled with the general ledger. The following errors were noted during a review of the June 1999 and June 1998 reconciliations:

- The June 1999 payroll and TIS account reconciliations were not signed and dated by the preparer.

- The reviewer of the June 1999 operating and TIS account reconciliations did not sign or initial the reconciliations to indicate his review.

- Staledated outstanding checks have not been investigated and removed from the operating or the payroll outstanding checklist. The oldest outstanding payroll check was dated November 1996. The oldest outstanding operating check was dated August 1997.

- The June 1999 payroll account reconciliation included a reconciliation of the May 1999 outstanding check balance to the June 1999 balance. This reconciliation included a $498.72 adjustment to the "checks cleared in June" amount for which supporting documentation was not provided.

- The June 1999 payroll account reconciliation included a reconciling item to the book balance for the interest received in April and May totaling $250.19 that was properly recorded on the general ledger. This reconciling item was not necessary.

- The June 1999 payroll account reconciliation contained an adjustment of $6,549.72 to the bank balance for checks that needed to be removed from the outstanding checklist. This adjustment was for checks that have been voided and replaced by manually prepared checks. However, supporting documentation was only provided for $4,814.90.

- On the June 1999 payroll account reconciliation, a bank clearing discrepancy was deducted from the book balance rather than the bank balance. In addition, the original check amount was included in the outstanding check total; thus, total outstanding checks were overstated by $296.65.

- The June 1999 payroll outstanding check listing did not agree with the amount on the bank reconciliation. The reconciliation amount included $538,501.46 of postdated checks that were not outstanding at June 30 and $498.71 that could not be explained.

- The June 1999 operating account outstanding check listing was $17,317.62 less than the amount on the reconciliation. The difference includes the $17,364.82 explained in the next bullet and ($47.20) that could not be explained.

- The June 1999 operating account reconciliation included a reconciling item labeled "disbursement" for $35,985.29. This amount includes $17,364.82 of voided checks that were still on the outstanding check listing, $8,754.50 of voided financial aid checks that were still on the outstanding check listing, $10,477.15 of deposits in transit, and ($611.18) that could not be explained.

- The TIS account had a balance at June 30, 1999, and June 30, 1998, that could not be explained. This account should have a zero balance. On the bank statement, the deposits did not agree with the withdrawals. On the ledger, the withdrawals were recorded for the same amount as the deposits. Thus, the general ledger had a zero balance, but the bank statement had a balance. No investigation has been conducted to determine why the balance has occurred.

- The June 1999 operating account reconciliation overstated the bank balance by $90.00. This appears to be a transposition error.

- The June 1999 operating account reconciliation included deposits in transit for $174 and $5 from October and November, respectively. These amounts had been adjusted on the general ledger until the items could be further investigated; thus, these items were not proper reconciling items.

- The bank balance on the June 1999 operating account reconciliation was reduced by $5 for a check that had been voided. The check amount should have been deducted from the book balance, since the check had previously been voided.

- The operating, payroll, and TIS reconciled book balances for June 1999 did not agree with the general ledger.

- Supporting documentation could not be provided for a $181.72 "cumulative adjustment" reconciling item shown on the June 1999 payroll reconciliation.

After discussing these errors with management, two revised June 1999 operating account reconciliations were prepared. Some of the previously noted errors were corrected; however, the reconciliations still contained the following errors:

- The transposition error noted on the original reconciliation was not corrected until the second revision.

- The first revision included a deposit in transit of $10,477.15, of which $1,209.50 could not be traced to a subsequent deposit on the July bank statement. The $1,209.50 was later determined to be a deposit that was made prior to June 30 and should not have been included as a deposit in transit.

- The first revision contained a reconciling item of $2.38 that could not be explained. On the second revision, the unexplained amount increased to $178.36.

- The outstanding check amount used on the first revision was $195,899.76, but the amount on the outstanding check listing was $195,607.26. The difference of $292.50 could not be explained. This was corrected on the second revision.

- The second revision contained a reconciling item labeled "income difference" for $537 that could not be supported. This does not appear to be a proper reconciling item.

With the errors noted, management cannot be assured that the bank accounts reconcile. Management indicated that turnover of personnel responsible for the preparation of the reconciliations and others trying to explain work they did not do contributed to several of the unexplained differences. However, if adequate documentation had been maintained, the reconciling items could have been explained. The financial statements in this report reflect audit adjustments that were necessary to fairly state cash.

Recommendation

The Vice President of Business and Finance should ensure that bank reconciliations are performed properly. The preparer and reviewer of the reconciliation should sign and date the reconciliation. Adjustments for staledated and replacement checks, bank charges, and similar items should be made to the general ledger in a timely manner. Bank errors and differences in the TIS account should be investigated and resolved in a timely manner. Adequate documentation should be maintained to support the reconciling items.

Management's Comment

We concur with the finding. The high employee turnover during the audit period contributed to the errors. All discrepancies noted in the audit are being corrected. The bank reconciliations to date for fiscal year 2000 are being reviewed and "signed" by both the Controller and the Vice President for Business and Finance to signify that no questionable reconciling items are shown and that there are no discrepancies between the general ledger and the reconciliation.

3. Property losses were not reported to the Comptroller of the Treasury

Finding

As noted in the prior audit, Shelby State Community College did not keep the Office of the Comptroller of the Treasury informed of property losses. Section 8-19-501, *Tennessee Code Annotated*, states, "It is the duty of any official of any agency of the state having knowledge of shortages of moneys of the state, or unauthorized removal of state property, occasioned either by malfeasance or misfeasance in office of any state employee, to report the same immediately to the comptroller of the treasury."

Management concurred with the prior finding and stated that "the Vice President for Business and Finance will take steps to ensure that all employees are aware of the above-mentioned code and will appoint an employee in his division to be responsible for all reporting." The Vice President of Business and Finance sent a memo to all employees dated March 17, 1999, notifying them of their responsibility to report any shortages of state funds or unauthorized removals of state property to the Director of Campus Police. In addition, the Director of Campus Police was assigned the responsibility for reporting property losses to the Comptroller's Office. However, the equipment deletions listing included 28 lost or stolen items totaling \$51,147.31 during the year ended June 30, 1999, and nine lost or stolen items totaling \$20,693.63 during the year ended June 30, 1998, that were not reported to the Comptroller's Office.

Recommendation

The Director of Campus Police should be provided a copy of the equipment deletions listing so he can determine if all lost or stolen equipment has been reported to him. The Vice President of Business and Finance should monitor the work of the Director of Campus Police. Appropriate administrative action should be taken for any employee who does not report lost or stolen equipment.

Management's Comment

We concur with the finding. The College did report to the Comptroller of the Treasury the majority of missing equipment items for the years ended June 30, 1998, and June 30, 1999. However, we realized that some college employees failed to report missing items to the Campus Police on a timely basis.

The inventory clerk has been directed to forward the proper information to the Director of Campus Police immediately for any missing equipment noted as a result of physical inventory. A monthly reconciliation will also be done between the Campus Police Department and the Inventory Clerk. A memo will be sent to all employees reminding them that missing equipment must be reported to the Campus Police Department and that an appropriate administrative action will be taken for those employees who do not report lost or stolen equipment in a timely manner.

4. **<u>Equipment reconciliations were not properly performed and reflected in the accounting records</u>**

Finding

Shelby State Community College did not perform proper equipment reconciliations that include reconciling additions to the final expenditures per the subsidiary ledger. The prior audit found the following weaknesses: the general ledger was not adjusted to agree with the physical inventories until after the financial statements were prepared, reconciliations between the equipment listings and the general ledger were not accurate or timely, and equipment was not always in the location indicated on the equipment listing. Management concurred with the finding and indicated that they would monitor the reconciliations and the recording of transactions to ensure that transactions were properly recorded.

Improvements have been made in some areas, but deficiencies continue. The following errors were noted concerning the June 1999 and June 1998 equipment reconciliations and the proper recording of equipment transactions.

- The June 1999 equipment reconciliation included an adjustment adding $111,641.17 to the equipment total. The adjustment was for items that had been retagged, including one item that had never been tagged and four items that had been removed from the equipment listing and subsequently located. Rather than showing an "other addition" on the statement of changes in fund balances, the adjustment amount was netted against the deletions to arrive at the amount reported as "disposal of plant assets" on the statement of changes in fund balances.

- Postage charges for several months were recorded on the general ledger as equipment. The postage charges were properly excluded from the June 30, 1999, equipment balance on the schedule of changes in investment in plant. However, the current fund additions on the schedule of changes in investment in plant were not supported by the general ledger.

- In the year ended June 30, 1999, equipment purchases totaling $94,137 were incurred on the library/administration building project. The expenditures were recorded on the general ledger as construction in progress rather than equipment. Thus, construction in progress was overstated and equipment was understated on the general ledger. The expenditures were correctly shown on the statement of changes in fund balances as a current year equipment addition. The equipment was added to the equipment listing based on the purchase order amount rather than the actual amount paid. Therefore, equipment was overstated by $996 on the equipment listing.

- Fifteen computers received before June 30, 1999, were not included on the June 30, 1999, equipment listing.

- In the year ended June 30, 1999, some expenditures for supplies were charged to equipment on the general ledger. However, the charges were not included on the equipment listing or on the schedule of changes in investment in plant.

- Expenditures of $12,728.74 were charged to equipment on the general ledger but should have been charged to improvements. The expenditures were not added to the equipment listing but were correctly shown as an improvement on the schedule of changes in investment in plant. The general ledger does not support the June 30, 1998, schedule of changes in investment in plant.

- In the year ended June 30, 1998, a journal entry to correct miscoded equipment expenditures was recorded twice.

- In the fiscal year ending June 30, 1998, some equipment expenditures were coded as supplies on the general ledger. The expenditures were appropriately included on the equipment listing and on the schedule of changes in investment in plant. However, the general ledger does not support the current fund additions amount on the schedule of changes in investment in plant.

- Thirty computers were added to the equipment listing at the wrong price in the year ended June 30, 1998.

- In the year ended June 30, 1998, freight charges were added to the value of an equipment item, but the freight charges were never paid.

- In the year ended June 30, 1998, an item was added to the equipment listing at the wrong price.

- In the year ended June 30, 1998, computer supply expenditures were properly recorded to supplies on the general ledger. However, the expenditures were added to the value of the computer on the equipment listing and included in "expended for plant facilities" on the schedule of changes in fund balances. Thus, the general ledger did not support the additions to equipment as reported on the schedule of changes in fund balances.

- In the year ended June 30, 1998, an addition of $385 was added to an equipment item on the equipment listing and included in "expended for plant facilities" on the schedule of changes in fund balances. However, the addition could not be supported and was not recorded on the general ledger.

- In the year ended June 30, 1998, three computers were added to the equipment listing under one purchase order, but only one computer was recorded as an expenditure on the general ledger.

- In the year ended June 30, 1998, the equipment additions amount on the schedule of changes in investment in plant did not agree with the subsidiary ledger or the equipment reconciliation.

Not properly recording equipment transactions could result in a material misstatement of the financial statements. If the reconciliation had been properly performed, these errors would have been discovered and the necessary adjustments could have been made to the general ledger. The financial statements in this report reflect audit adjustments that were necessary to fairly state equipment.

Recommendation

The controller should ensure that the general ledger is reconciled with the equipment listing and that necessary adjustments to the general ledger are posted before the financial statements are prepared. Upper management should monitor the reporting of equipment and ensure that it is functioning as intended.

Management's Comment

We concur with the finding. The employees failed to perform the reconciliation on a preliminary year-end closing. Therefore, discrepancies were not reflected in the accounting records. The Controller's office and the Inventory Clerk have subsequently been informed of the mandatory timing of a reconciliation at year-end. The Vice President for Business and Finance will ensure that this is done in the future beginning in fiscal year 2000. Also, the Controller and the Inventory Clerk will conduct a monthly review and analysis of the STARS report in order to ensure the proper recording of the STARS data.

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Independent Auditor's Report

March 7, 2000

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

Dear Mr. Morgan:

We have audited the accompanying balance sheets of Shelby State Community College, an institution of the Tennessee Board of Regents, which is a component unit of the State of Tennessee, as of June 30, 1999, and June 30, 1998, and the related statements of changes in fund balances and current funds revenues, expenditures, and other changes for the years then ended. These financial statements are the responsibility of the college's management. Our responsibility is to express an opinion on these financial statements, based on our audit.

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. 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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Tennessee Board of Regents, Shelby State Community College, as of June 30, 1999, and June 30, 1998, and the changes in fund balances and the current funds revenues, expenditures, and other changes for the years then ended in conformity with generally accepted accounting principles.

The Honorable John G. Morgan
March 7, 2000
Page Two

As discussed in Note 12 to the financial statements, the college implemented GASB 16, *Accounting for Compensated Absences*, in conformity with generally accepted accounting principles. Also, as discussed in Note 10, the college changed the threshold for capitalizing equipment.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 7, 2000, on our consideration of the college's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants.

Sincerely,

Arthur A. Hayes, Jr.

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

AAH/mb

Exhibit A

TENNESSEE BOARD OF REGENTS
SHELBY STATE COMMUNITY COLLEGE
BALANCE SHEETS
JUNE 30, 1999, AND JUNE 30, 1998

ASSETS	June 30, 1999	June 30, 1998
Current funds:		
Unrestricted:		
General:		
Cash (Note 2)	$ 796,431.93	$ 1,323,602.40
Accounts receivable (net of allowance of $433,105.64 at June 30, 1999, and $379,424.00 at June 30, 1998)	381,693.63	343,269.17
Inventories	28,265.81	38,497.46
Prepaid expenses and deferred charges	9,016.10	49,009.53
Due from restricted current funds	2,750,000.00	2,550,000.00
Total general	3,965,407.47	4,304,378.56
Auxiliary enterprises:		
Cash (Note 2)	91,805.44	9,708.37
Accounts receivable	-	15,959.00
Total auxiliary enterprises	91,805.44	25,667.37
Total unrestricted	4,057,212.91	4,330,045.93
Restricted:		
Cash (Note 2)	387,397.85	31,231.44
Grants receivable	2,677,681.50	2,833,468.10
Total restricted	3,065,079.35	2,864,699.54
Total current funds	$ 7,122,292.26	$ 7,194,745.47
Loan funds:		
Cash (Note 2)	$ 35,819.93	$ 25,161.28
Notes receivable (net of allowance of $233,794.15 at June 30, 1999, and $240,090.92 at June 30, 1998)	1,298.50	1,040.53
Accrued interest receivable (net of allowance of $176,008.46 at June 30, 1999, and $169,565.68 at June 30, 1998)	51.57	147.19
Total loan funds	$ 37,170.00	$ 26,349.00
Endowment and similar funds:		
Cash (Note 2)	$ 36,468.20	$ 34,522.13
Cash surrender value life insurance policy	17,174.34	15,259.25
Total endowment and similar funds	$ 53,642.54	$ 49,781.38
Plant funds:		
Unexpended plant:		
Cash (Note 2)	$ 1,973,757.25	$ 536,185.70
Investments (Note 3)	250,000.00	470,000.00
LGIP deposit - capital projects	-	21,985.33
Accrued interest receivable	1,735.79	5,595.56
Total unexpended plant	2,225,493.04	1,033,766.59
Renewals and replacements:		
Cash (Note 2)	2,066,920.82	1,595,190.87
Investments (Note 3)	650,000.00	1,030,000.00
Accrued interest receivable	9,769.15	14,066.55
Total renewals and replacements	2,726,689.97	2,639,257.42

LIABILITIES AND FUND BALANCES	June 30, 1999	June 30, 1998
Current funds:		
Unrestricted:		
General:		
Liabilities:		
Accounts payable	$ 262,502.60	$ 1,161,116.38
Accrued liabilities	1,147,730.75	1,200,791.30
Deferred revenue	943,212.75	817,794.50
Compensated absences	609,379.48	636,814.61
Total liabilities	2,962,825.58	3,816,516.79
Fund balances:		
Nondiscretionary allocations:		
Allocation for working capital	516,503.44	354,458.61
Allocation for encumbrances	355,688.04	327,656.00
Allocation for designated appropriations	30,512.19	38,390.39
Discretionary allocations		
Allocation for atheltics	2,668.80	2,544.00
Allocation for technology fees	199,437.56	38,750.00
Allocation for compensated absences	(609,379.48)	(636,814.61)
Unallocated	507,151.34	362,877.38
Total fund balances	1,002,581.89	487,861.77
Total general	3,965,407.47	4,304,378.56
Auxiliary enterprises:		
Liabilities:		
Accounts payable	55.00	1,499.91
Fund balances:		
Nondiscretionary allocation		
Allocation for working capital	-	15,959.00
Discretionary allocation:		
Allocation for contingencies	6,435.99	4,791.00
Unallocated	85,314.45	3,417.46
Total fund balances	91,750.44	24,167.46
Total auxiliary enterprises	91,805.44	25,667.37
Total unrestricted	4,057,212.91	4,330,045.93
Restricted:		
Liabilities:		
Accounts payable	24,436.41	80,921.24
Accrued liabilities	23,405.66	76,418.95
Deferred revenue	-	6,675.00
Compensated absences	39,634.01	35,802.35
Due to unrestricted current funds	2,750,000.00	2,550,000.00
Total liabilities	2,837,476.08	2,749,817.54
Fund balances:		
Discretionary allocations:		
Allocation for compensated absences	(39,634.01)	(35,802.35)
Unallocated	267,237.28	150,684.35
Total fund balances	227,603.27	114,882.00
Total restricted	3,065,079.35	2,864,699.54
Total current funds	$ 7,122,292.26	$ 7,194,745.47
Loan funds:		
Liabilities:		
Accounts payable	$ 18,075.73	$ 9,973.01
Fund balances:		
U.S. government grants refundable	9,005.53	6,629.63
University funds:		
Restricted - other	10,088.74	9,746.36
Total fund balances	19,094.27	16,375.99
Total loan funds	$ 37,170.00	$ 26,349.00
Endowment and similar funds:		
Fund balance:		
Endowment	$ 53,642.54	$ 49,781.38
Total endowment and similar funds	$ 53,642.54	$ 49,781.38
Plant funds:		
Unexpended plant:		
Liabilities:		
Accounts payable	$ -	$ 14,484.85
Fund balance:		
Unrestricted (Note 4)	2,225,493.04	1,019,281.74
Total unexpended plant	2,225,493.04	1,033,766.59
Renewals and replacements:		
Liabilities:		
Accounts payable	-	1,167.12
Fund balance:		
Unrestricted (Note 4)	2,726,689.97	2,638,090.30
Total renewals and replacements	2,726,689.97	2,639,257.42

Exhibit A (Cont.)

TENNESSEE BOARD OF REGENTS
SHELBY STATE COMMUNITY COLLEGE
BALANCE SHEETS
JUNE 30, 1999, AND JUNE 30, 1998

ASSETS	June 30, 1999	June 30, 1998
Investment in plant		
Land	1,703,702.31	1,703,702.31
Buildings	26,283,572.45	26,222,025.84
Improvements other than buildings	1,800,985.60	1,259,262.65
Equipment	3,884,424.25	4,177,174.22
Library books	2,278,224.00	2,228,112.00
Other library holdings	575,695.43	531,732.00
Construction in progress	-	44,051.56
Total investment in plant	36,526,604.04	36,166,060.58
Total plant funds	$ 41,478,787.05	$ 39,839,084.59
Agency funds:		
Nonfoundation funds		
Cash (Note 2)	$ 31,037.35	$ 31,895.79
Accounts receivable	468.97	114.18
Total nonfoundation funds	31,506.32	32,009.97
Foundation funds:		
Cash (Note 2)	84,255.38	55,757.93
Investments (Note 3)	18,436.51	15,860.04
Accounts receivable	4,396.31	-
Notes receivable	8,745.41	10,913.51
Accrued interest receivable	96.87	222.94
Total foundation funds	115,930.48	82,754.42
Total agency funds	$ 147,436.80	$ 114,764.39

LIABILITIES AND FUND BALANCES	June 30, 1999	June 30, 1998
Investment in plant		
Fund balance:		
Net investment in plant	36,526,604.04	36,166,060.58
Total investment in plant	36,526,604.04	36,166,060.58
Total plant funds	$ 41,478,787.05	$ 39,839,084.59
Agency funds:		
Nonfoundation funds		
Liabilities:		
Accounts payable	$ 270.36	$ 425.00
Deposits held in custody for others	31,235.96	31,584.97
Total nonfoundation funds	31,506.32	32,009.97
Foundation funds:		
Liabilities:		
Accounts payable	410.88	1,335.86
Deposits held in custody for foundation	115,519.60	81,418.56
Total foundation funds	115,930.48	82,754.42
Total agency funds	$ 147,436.80	$ 114,764.39

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

Exhibit B

TENNESSEE BOARD OF REGENTS
SHELBY STATE COMMUNITY COLLEGE
STATEMENT OF CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 1999

	Current Funds				Plant Funds		
	Unrestricted	Restricted	Loan Funds	Endowment and Similar Funds	Unexpended	Renewals and Replacements	Investment In Plant
REVENUES AND OTHER ADDITIONS							
Unrestricted current fund revenues	$ 21,014,473.70	$ -	$ -	$ -	$ -	$ -	$ -
Auxiliary enterprise revenues	128,719.86	-	-	-	-	-	-
State appropriations	-	84,625.00	-	-	927,146.40	-	-
Federal grants and contracts	-	5,216,676.38	-	-	-	-	-
State grants and contracts	-	180,450.75	-	-	-	-	-
Local grants and contracts	-	11,735.72	-	-	-	-	-
Private gifts, grants, and contracts	-	140,929.26	-	1,860.00	-	-	-
Investment income	-	4,674.63	-	1,786.07	49,366.30	131,588.66	-
Interest on loans receivable	-	-	8,818.68	-	-	-	-
Expended for plant facilities (including $565,055.08 charged to current fund expenditures)	-	-	-	-	-	-	1,207,238.92
Other	-	-	-	1,915.09	-	-	8,773.41
Total revenues and other additions	21,143,193.56	5,639,091.74	8,818.68	5,561.16	976,512.70	131,588.66	1,216,012.33
EXPENDITURES AND OTHER DEDUCTIONS							
Educational and general expenditures	19,356,583.08	5,446,072.31	-	-	-	-	-
Auxiliary enterprise expenditures	34,700.89	-	-	-	-	-	-
Indirect costs recovered	-	80,298.16	-	-	-	-	-
Administrative and collection costs	-	-	145.08	-	-	-	-
Provision for doubtful accounts	-	-	7,655.32	-	-	-	-
Expended for plant facilities	-	-	-	-	624,680.86	17,502.98	-
Expended for noncapital items	-	-	-	-	301,354.21	31,922.00	-
Disposal of plant facilities	-	-	-	-	-	-	794,246.80
Library holding revaluation	-	-	-	-	-	-	61,222.07
Other	-	-	-	-	7,436.83	-	-
Total expenditures and other deductions	19,391,283.97	5,526,370.47	7,800.40	-	933,471.90	49,424.98	855,468.87
TRANSFERS AMONG FUNDS - ADDITIONS (DEDUCTIONS)							
Nonmandatory:							
Loan funds	-	-	1,700.00	(1,700.00)	-	-	-
Unexpended plant	(1,163,170.50)	-	-	-	1,163,170.50	-	-
Renewals and replacements	(6,435.99)	-	-	-	-	6,435.99	-
Total transfers	(1,169,606.49)	-	1,700.00	(1,700.00)	1,163,170.50	6,435.99	-
Net increases for the year	582,303.10	112,721.27	2,718.28	3,861.16	1,206,211.30	88,599.67	360,543.46
Fund balances at beginning of year	882,252.17	114,882.00	16,375.99	49,781.38	1,019,281.74	2,638,090.30	36,166,060.58
Fund balances at end of year	$ 1,464,555.27	$ 227,603.27	$ 19,094.27	$ 53,642.54	$ 2,225,493.04	$ 2,726,689.97	$ 36,526,604.04

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

Exhibit C

TENNESSEE BOARD OF REGENTS
SHELBY STATE COMMUNITY COLLEGE
STATEMENT OF CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 1998

	Current Funds				Plant Funds		
	Unrestricted	Restricted	Loan Funds	Endowment and Similar Funds	Unexpended	Renewals and Replacements	Investment In Plant
REVENUES AND OTHER ADDITIONS							
Unrestricted current fund revenues	$ 21,056,838.54	$ -	$ -	$ -	$ -	$ -	$ -
Auxiliary enterprise revenues	95,822.32	-	-	-	-	-	-
State appropriations	-	81,800.00	-	-	594,703.97	-	-
Federal grants and contracts	-	4,788,746.85	-	-	-	-	-
State grants and contracts	-	199,956.00	-	-	-	-	-
Local grants and contracts	-	3,114.01	-	-	-	-	-
Private gifts, grants, and contracts	-	91,256.75	-	245.00	-	-	-
Investment income	-	4,050.04	-	2,023.64	23,108.73	144,347.89	-
Interest on loans receivable	-	-	8,840.77	-	-	-	-
Expended for plant facilities (including $624,187.64 charged to current fund expenditures)	-	-	-	-	-	-	1,311,059.61
Other	-	-	-	-	-	-	2,818.00
Total revenues and other additions	21,152,660.86	5,168,923.65	8,840.77	2,268.64	617,812.70	144,347.89	1,313,877.61
EXPENDITURES AND OTHER DEDUCTIONS							
Educational and general expenditures	19,829,732.62	5,036,068.15	-	-	-	-	-
Auxiliary enterprise expenditures	80,880.54	-	-	-	-	-	-
Indirect costs recovered	-	95,115.99	-	-	-	-	-
Administrative and collection costs	-	-	139.58	-	-	-	-
Provision for doubtful accounts	-	-	5,632.77	-	-	-	-
Expended for plant facilities	-	-	-	-	569,877.60	116,994.37	-
Expended for noncapital items	-	-	-	-	215,314.20	-	-
Disposal of plant facilities	-	-	-	-	-	-	139,723.25
Library holding revaluation	-	-	-	-	-	-	96,171.60
Other	-	25.27	-	-	13,088.11	-	3,426.00
Total expenditures and other deductions	19,910,613.16	5,131,209.41	5,772.35	-	798,279.91	116,994.37	239,320.85
TRANSFERS AMONG FUNDS - ADDITIONS (DEDUCTIONS)							
Nonmandatory:							
Loan funds	-	-	(725.00)	725.00	-	-	-
Unexpended plant	(500,000.00)	-	-	-	500,000.00	-	-
Renewals and replacements	(44,907.00)	-	-	-	-	44,907.00	-
Total transfers	(544,907.00)	-	(725.00)	725.00	500,000.00	44,907.00	-
Net increases for the year	697,140.70	37,714.24	2,343.42	2,993.64	319,532.79	72,260.52	1,074,556.76
Fund balances at beginning of year (Note 12)	185,111.47	77,167.76	14,032.57	46,787.74	699,748.95	2,565,829.78	35,618,134.19
Cumulative effect of change in accounting principle (Note 10)	-	-	-	-	-	-	(526,630.37)
Fund balances at beginning of year as restated	185,111.47	77,167.76	14,032.57	46,787.74	699,748.95	2,565,829.78	35,091,503.82
Fund balances at end of year	$ 882,252.17	$ 114,882.00	$ 16,375.99	$ 49,781.38	$ 1,019,281.74	$ 2,638,090.30	$ 36,166,060.58

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

Exhibit D

TENNESSEE BOARD OF REGENTS
SHELBY STATE COMMUNITY COLLEGE
STATEMENT OF CURRENT FUNDS REVENUES, EXPENDITURES, AND OTHER CHANGES
FOR THE YEAR ENDED JUNE 30, 1999

	Unrestricted	Restricted	Total
REVENUES			
Tuition and fees	$ 4,907,456.17	$ 38,433.30	$ 4,945,889.47
State appropriations	15,508,500.00	67,453.53	15,575,953.53
Federal grants and contracts	85,317.04	4,986,277.97	5,071,595.01
State grants and contracts	25,807.00	288,778.27	314,585.27
Local grants and contracts	-	34,199.51	34,199.51
Private gifts, grants, and contract	-	30,929.73	30,929.73
Sales and services of educational activities	253,585.52	-	253,585.52
Sales and services of auxiliary enterprises	128,719.86	-	128,719.86
Other sources	233,807.97	-	233,807.97
Total current revenues	21,143,193.56	5,446,072.31	26,589,265.87
EXPENDITURES AND TRANSFERS			
Educational and general:			
Expenditures:			
Instruction	8,431,371.56	952,459.54	9,383,831.10
Public service	128,223.47	396,732.89	524,956.36
Academic support	1,576,391.07	83,242.12	1,659,633.19
Student services	2,779,343.76	380,986.18	3,160,329.94
Institutional support	3,580,959.91	15,488.10	3,596,448.01
Operation and maintenance of plant	2,534,123.27	-	2,534,123.27
Scholarships and fellowships	326,170.04	3,617,163.48	3,943,333.52
Total educational and general expenditures	19,356,583.08	5,446,072.31	24,802,655.39
Nonmandatory transfer for Unexpended plant	1,163,170.50	-	1,163,170.50
Total educational and general	20,519,753.58	5,446,072.31	25,965,825.89
Auxiliary enterprises			
Expenditures	34,700.89	-	34,700.89
Nonmandatory transfer for Renewals and replacements	6,435.99	-	6,435.99
Total auxiliary enterprises	41,136.88	-	41,136.88
Total expenditures and transfers	20,560,890.46	5,446,072.31	26,006,962.77
OTHER ADDITION (DEDUCTION)			
Excess of restricted receipts over transfers to revenues	-	193,019.43	193,019.43
Indirect costs recovered	-	(80,298.16)	(80,298.16)
Net increase in fund balances	$ 582,303.10	$ 112,721.27	$ 695,024.37

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

Exhibit E

TENNESSEE BOARD OF REGENTS
SHELBY STATE COMMUNITY COLLEGE
STATEMENT OF CURRENT FUNDS REVENUES, EXPENDITURES, AND OTHER CHANGES
FOR THE YEAR ENDED JUNE 30, 1998

	Unrestricted	Restricted	Total
REVENUES			
Tuition and fees	$ 4,747,385.24	$ 41,059.58	$ 4,788,444.82
State appropriations	15,508,900.00	62,928.00	15,571,828.00
Federal grants and contracts	98,897.72	4,588,425.70	4,687,323.42
State grants and contracts	18,375.00	259,867.28	278,242.28
Local grants and contracts	-	24,264.84	24,264.84
Private gifts, grants, and contracts	21,261.18	59,522.75	80,783.93
Sales and services of educational activities	354,556.07	-	354,556.07
Sales and services of auxiliary enterprises	95,822.32	-	95,822.32
Other sources	307,463.33	-	307,463.33
Total current revenues	21,152,660.86	5,036,068.15	26,188,729.01
EXPENDITURES AND TRANSFERS			
Educational and general:			
Expenditures:			
Instruction	8,717,613.29	1,017,114.15	9,734,727.44
Public service	96,666.01	414,548.92	511,214.93
Academic support	1,563,932.78	46,617.52	1,610,550.30
Student services	3,309,565.47	372,052.35	3,681,617.82
Institutional support	3,587,293.66	12,926.54	3,600,220.20
Operation and maintenance of plant	2,263,972.64	-	2,263,972.64
Scholarships and fellowships	290,688.77	3,172,808.67	3,463,497.44
Total educational and general expenditures	19,829,732.62	5,036,068.15	24,865,800.77
Nonmandatory transfers for:			
Unexpended plant	500,000.00	-	500,000.00
Renewals and replacements	40,116.00		40,116.00
Total educational and general	20,369,848.62	5,036,068.15	25,405,916.77
Auxiliary enterprises:			
Expenditures	80,880.54	-	80,880.54
Nonmandatory transfer for:			
Renewals and replacements	4,791.00	-	4,791.00
Total auxiliary enterprises	85,671.54	-	85,671.54
Total expenditures and transfers	20,455,520.16	5,036,068.15	25,491,588.31
OTHER ADDITION (DEDUCTIONS)			
Excess of restricted receipts over transfers to revenues	-	132,855.50	132,855.50
Indirect costs recovered	-	(95,115.99)	(95,115.99)
Other deductions	-	(25.27)	(25.27)
Net increase in fund balances	$ 697,140.70	$ 37,714.24	$ 734,854.94

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

Tennessee Board of Regents
Shelby State Community College
Notes to the Financial Statements
June 30, 1999, and June 30, 1998

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The college is part of the State University and Community College System of Tennessee (Tennessee Board of Regents). This system is a component unit of the State of Tennessee because the state appoints a majority of the system's governing body and provides financial support; the system is discretely presented in the *Tennessee Comprehensive Annual Financial Report.*

Basis of Presentation

The financial statements of the college have been prepared in conformity with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB). The college uses the AICPA College Guide model for accounting and financial reporting.

Basis of Accounting

The financial statements of the college have been prepared on the accrual basis, except that depreciation on plant assets is not recorded and revenues and expenditures of an academic term encompassing more than one fiscal year are reported solely in the fiscal year in which the term is predominantly conducted. All restricted resources are recorded as additions to the fund balances of the appropriate fund groups. Restricted current resources are then recorded as revenues during the period in which they are expended. The statement of current funds revenues, expenditures, and other changes is a statement of financial activities of current funds related to the current reporting period. It does not purport to present the results of operations or the net income or loss for the period, as would a statement of income or a statement of revenues and expenses.

To the extent that current funds are used to finance plant assets, the funds are accounted for as (1) expenditures, for normal replacement of movable equipment and library holdings and (2) nonmandatory transfers, for all other cases.

Fund Accounting

To ensure observance of limitations and restrictions placed on the use of the resources available, the college maintains accounts in accordance with the principles of fund accounting. With this procedure, resources for various purposes are classified for accounting and reporting purposes into funds for specified activities or objectives. Separate accounts are maintained for each fund; however, in the accompanying financial statements, funds with similar characteristics have been combined into fund groups. Accordingly, all financial transactions have been recorded and reported by fund group.

Within each fund group, fund balances restricted by outside sources are so indicated and are distinguished from unrestricted funds which are allocated to specific purposes by the governing board. Externally restricted funds may be used only in accordance with the purposes established by the source of such funds and contrast with unrestricted funds over which the governing board retains full control to use in achieving any of its institutional purposes.

All gains and losses arising from the sale, collection, or other disposition of investments and other noncash assets are accounted for in the fund that owned such assets. Ordinary income derived from investments, receivables, and the like is accounted for in the fund owning such assets, except for income derived from investments of endowment and similar funds. This income is accounted for in the fund to which it is restricted or, if unrestricted, as revenues in unrestricted current funds. All other unrestricted revenue is accounted for in the unrestricted current funds. Restricted gifts, grants, appropriations, endowment income, and other restricted resources are accounted for in the appropriate restricted funds. Restricted current funds are reported as revenues and expenditures when expended for current operating purposes.

Current Funds

Unrestricted current funds consist of those funds over which the college retains full control for use in achieving any of its authorized institutional purposes. Auxiliary enterprises activities are included in unrestricted current funds and include bookstore and food service operations. Restricted current funds are externally restricted and may be used only in accordance with the purposes established by their source.

Loan Funds

Loan funds consist of resources made available for student loans.

Endowment and Similar Funds

Endowment funds are subject to the restrictions of gift instruments requiring in perpetuity that the principal be invested and only the income be used.

Plant Funds

The plant funds group consists of (1) funds set aside for the acquisition of physical properties for institutional purposes; (2) funds set aside for the renewal and replacement of institutional properties; and (3) funds expended for, and thus invested in, institutional properties.

Agency Funds

In handling these funds, the college acts solely as an agent; consequently, transactions of these funds do not affect the college's operating statements.

LGIP Deposit – Capital Projects

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

Inventories

Inventories are valued at the lower of cost or market. All items are maintained on an average-cost or first-in, first-out basis.

Compensated Absences

The college's employees accrue annual leave at varying rates, depending on length of service or classification. Some employees also earn compensatory time. The amount of these liabilities and their related benefits are recorded in the current funds. Since the liability is expected to be funded primarily from future unrestricted and restricted revenue sources, a related allocation has been made to the current fund balances so that these fund balances reflect current available funds.

Allocation for Working Capital

The unrestricted fund balance is allocated for the amount of working capital. "Working capital" is defined as the total of all petty cash, accounts receivable, inventories, and prepaid expenses in the unrestricted fund at the balance sheet date, except for student receivables credited to deferred revenue, accrued interest, and amounts due on federal letters of credit, less the accrued benefits on accrued faculty salaries.

Plant Assets

The physical plant and equipment are stated at cost at date of purchase or at fair value at date of donation. Library books are valued at $48 per volume, and other library holdings are valued at various standardized values which approximate current costs. Depreciation on the physical plant and equipment is not recorded.

Shelby State Community College Foundation

The college is the sole beneficiary of the Shelby State Community College Foundation. This private, nonprofit foundation is controlled by a board independent of the college. The financial records, investments, and other financial transactions are handled by the college, and the assets and liabilities of the foundation are included in the agency funds on the college's balance sheet.

NOTE 2. DEPOSITS

The bank balances of certain deposits including accrued interest as of the balance sheet dates were entirely insured or collateralized with securities held by the college's agent in the college's name. The laws of the State of Tennessee require that collateral be pledged to secure all uninsured deposits. Tennessee Board of Regents policies require that the market value of collateral pledged equal 105% of the uninsured deposits. The college had uncollateralized deposits of $510,926.67 at NationsBank during July 1997.

The college's remaining deposits are in financial institutions which participate in the bank collateral pool administered by the State Treasurer. The securities pledged to protect these accounts are pledged in the aggregate rather than against each individual account. The members of the pool may be required by agreement to pay an assessment to cover any deficiency. Under this additional assessment agreement, public fund accounts covered by the pool are considered to be insured for purposes of credit risk disclosure.

The college also has deposits in the Local Government Investment Pool (LGIP) administered by the State Treasurer. The LGIP is part of the Pooled Investment

Fund. The fund's investment policy and custodial credit risk are presented in the *Tennessee Comprehensive Annual Financial Report.*

NOTE 3. INVESTMENTS

The college is authorized by statute to invest funds in accordance with Tennessee Board of Regents policies. Under the current policy, funds other than endowments may be invested only in obligations of the United States or its agencies backed by the full faith and credit of the United States; repurchase agreements for United States securities; certificates of deposit in banks and savings and loan associations; bankers' acceptances; commercial paper; money market mutual funds; and the State of Tennessee Local Government Investment Pool. The policy requires that investments of endowments in equity securities be limited to funds from private gifts or other sources external to the college and that endowment investments be prudently diversified. The Shelby State Community College Foundation is authorized to invest funds in accordance with its board of directors' policies. All investments permitted to be reported at fair value under GASB Statement 31 are reported at fair value, including those with a maturity date of one year or less at the time of purchase. Certificates of deposit have been included with other deposits in Note 2 to determine the adequacy of collateral security pledged.

The college's investments at June 30, 1999, and June 30, 1998, consisted of certificates of deposit with original maturities greater than three months. The foundation's investments at June 30, 1999, and June 30, 1998, consisted of mutual funds.

NOTE 4. PLANT FUND ENCUMBRANCES

Plant fund encumbrances outstanding at June 30, 1999, amounted to $89,071.40 for unexpended plant and $495,341.00 for renewals and replacements. Plant fund encumbrances outstanding at June 30, 1998, amounted to $495,560.56 for unexpended plant.

NOTE 5. PENSION PLANS

A. Defined Benefit Plan

Tennessee Consolidated Retirement System

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

The TCRS issues a publicly available financial report that includes financial statements and required supplementary information for SETHEEPP. That report 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 college is required to contribute an actuarially determined rate. The current rate is 5.43% of annual covered payroll. Contribution requirements for the college are established and may be amended by the TCRS' Board of Trustees. The college's contributions to TCRS for the years ended June 30, 1999, 1998, and 1997, were $449,873.38, $490,618.64, and $713,551.43. Contributions met the requirements for each year.

B. Defined Contribution Plans

Optional Retirement Plans (ORP)

Plan Description - The college contributes to three defined contribution plans: Teachers Insurance and Annuity Association–College Retirement Equities Fund (TIAA-CREF), Aetna Life Insurance and Annuity Company, and Variable Annuity Life Insurance Company (VALIC). These plans are administered by the Tennessee Department of the Treasury. Each plan provides retirement benefits to faculty and staff who are exempt from the overtime provisions of the Fair Labor Standards Act and who waive membership in the TCRS. Benefits depend solely on amounts contributed to the plan plus investment earnings. Plan provisions are established by state statute in Title 8, Chapter 35, Part 4, *Tennessee Code Annotated.* State statutes are amended by the Tennessee General Assembly.

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Funding Policy - Plan members are noncontributory. The college contributes an amount equal to 10% of the employee's base salary up to the social security wage base and 11% above the social security wage base. Contribution requirements are established and amended by state statute. The contribution made by the college to the plans for the year ended June 30, 1999, was $253,872.02, and for the year ended June 30, 1998, was $263,108.48. Contributions met the requirements for each year.

NOTE 6. OTHER POST-EMPLOYMENT BENEFITS

The State of Tennessee administers a group health insurance program which provides post-employment health insurance benefits to eligible college retirees. This benefit is provided and administered by the State of Tennessee. The college 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 7. INSURANCE-RELATED ACTIVITIES

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.

At June 30, 1999, the scheduled coverage for the college was $44,038,400 for buildings and $7,615,000 for contents. At June 30, 1998, the scheduled coverage was $41,694,400 for buildings and $7,515,000 for contents.

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 college participates in the Claims Award Fund. The fund allocates the cost of providing claims servicing and claims payment by charging a premium to the college based on a percentage of the college's expected loss costs, which include both experience and exposures. This charge considers recent trends in actual claims experience of the state as a whole. An actuarial valuation is performed as of fiscal year-end to determine the fund liability and premium allocation. Since the college 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 college for bodily injury and property damage is limited to $300,000 per person and $1,000,000 per occurrence. The limits of liability under workers' compensation are set forth in *Tennessee Code Annotated,* Section 50-6-101 et seq. Claims are paid through the state's 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 college participates in the Employee Group Insurance Fund. The fund allocates the cost of providing claims servicing and claims payment by charging a premium to the college based on estimates of the ultimate cost of claims 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 8. COMMITMENTS AND CONTINGENCIES

Sick Leave - The college 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 $4,232,622.32 at June 30, 1999, and $4,284,789.85 at June 30, 1998.

Operating Leases - The college has entered into various operating leases for buildings and equipment. Such leases will probably continue to be required. Expenditures under operating leases for real property were $233,713.58 and for personal property were $68,423.45 for the year ended June 30, 1999. The amounts for the year ended

June 30, 1998, were $273,053.10 and $96,395.26. All operating leases are cancelable at the lessee's option.

Construction in Progress - At June 30, 1999, outstanding commitments under construction contracts totaled $89,071.40 for the library/administration building and Beale Street plaza project, of which $84,071.40 will be funded by future state capital outlay appropriations.

Litigation - The college is involved in several lawsuits, none of which are expected to have a material effect on the accompanying financial statements.

NOTE 9. PLEDGES

At June 30, 1999, unrecorded pledges totaled $100,000 and were to be used for the advancement of the college at the discretion of the President. These pledges are due to be collected over the next four fiscal years in the amounts of $25,000, $25,000, $25,000, and $25,000. It is not practicable to estimate the net realizable value of such pledges; therefore, they are not reflected in the accompanying financial statements.

NOTE 10. CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE

During the year ended June 30, 1998, the threshold for capitalizing equipment increased from $500 to $1,000. As a result of the change, equipment decreased by $526,630.37. The cumulative effect of this change in accounting principle is reported in the accompanying financial statements as a restatement of the beginning fund balance.

NOTE 11. PRIOR-YEAR RESTATEMENT

The college implemented GASB Statement 16, *Accounting for Compensated Absences.* As a result, the beginning fund balance for unrestricted current funds on Exhibit C was decreased by $678,800, and the beginning fund balance for restricted current funds on Exhibit C was decreased by $39,382.

Several adjustments that were not made during the fiscal year ended June 30, 1997, were discovered during the current audit. As a result, the beginning fund balance for unrestricted current funds on Exhibit C was decreased by $393,417.48.

The college is the owner of a life insurance policy that is part of an endowment that has not been previously recorded. As a result, the beginning fund balance for endowment and similar funds on Exhibit C was increased by $15,259.25.

NOTE 12. SUBSEQUENT EVENT

During the 1999 session, the 101st General Assembly amended *Tennessee Code Annotated*, Title 49, Chapter 8, to create a new community college. The legislation abolishes Shelby State Community College and State Technical Institute of Memphis as of July 1, 2000, and transfers their campuses, property, programs, assets, rights, duties, obligations, and debts to the new institution.