TENNESSEE BOARD OF REGENTS
PELLISSIPPI STATE TECHNICAL COMMUNITY COLLEGE

FOR THE YEARS ENDED
JUNE 30, 1995, AND JUNE 30, 1994

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Editor

September 18, 1996

The Honorable Don Sundquist, Governor
and
Members of the General Assembly
State Capitol
Nashville, Tennessee 37243
and
The Honorable Charles E. Smith, Chancellor
Tennessee Board of Regents
1415 Murfreesboro Road, Suite 350
Nashville, Tennessee 37217
and
Dr. Allen G. Edwards, President
Pellissippi State Technical Community College
10915 Hardin Valley Road
P. O. Box 22990
Knoxville, Tennessee 37933-0990

Ladies and Gentlemen:

Transmitted herewith is the financial and compliance audit of the Tennessee Board of Regents, Pellissippi State Technical Community College, for the years ended June 30, 1995, and June 30, 1994. You will note from the independent auditor's report that a qualified opinion was given on the fairness of the presentation of the financial statements. The college has elected not to record the liability for accrued compensated absences in its financial statements. In our opinion, accrued compensated absences should be recorded to conform with generally accepted accounting principles.

Consideration of the internal control structure 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.

Very truly yours,

W. R. Snodgrass
Comptroller of the Treasury

WRS/sdr
96/085

State of Tennessee

Audit Highlights

Comptroller of the Treasury — Division of State Audit

Financial and Compliance Audit
Pellissippi State Technical Community College
For the Years Ended June 30, 1995, and June 30, 1994

AUDIT OBJECTIVES

The objectives of the audit were to consider the college'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.

INTERNAL CONTROL FINDING

Inadequate Controls Over Cash Receipts Contributed to the Loss of Registration Funds
A bank bag containing $8,054 in registration funds was stolen from an unlocked and unattended mail van on August 22, 1995. The employees had not followed proper procedures over the control and handling of mail and cash receipts (page 9).

COMPLIANCE FINDING

Public Relations Services Acquired Improperly
The college did not properly execute its contracts or related amendments with a local public relations firm as stipulated by Tennessee Board of Regents Guideline G-030 (page 7).

OPINION ON THE FINANCIAL STATEMENTS

The opinion on the financial statements is qualified because of the omission of the liability for accrued compensated absences from the financial statements.

"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 BOARD OF REGENTS
PELLISSIPPI STATE TECHNICAL COMMUNITY COLLEGE
FOR THE YEARS ENDED JUNE 30, 1995, AND JUNE 30, 1994

TABLE OF CONTENTS

TABLE OF CONTENTS (CONT.)

TENNESSEE BOARD OF REGENTS
PELLISSIPPI STATE TECHNICAL COMMUNITY COLLEGE
FOR THE YEARS ENDED JUNE 30, 1995, AND JUNE 30, 1994

INTRODUCTION

POST-AUDIT AUTHORITY

This is a report on the financial and compliance audit of the Tennessee Board of Regents, Pellissippi State Technical 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.

OBJECTIVES OF THE AUDIT

The objectives of the audit were

1. to consider the college'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.

SCOPE OF THE AUDIT

The audit was limited to the period July 1, 1993, through June 30, 1995, and was conducted in accordance with generally accepted government auditing standards. Financial statements are presented for the years ended June 30, 1995, and June 30, 1994. Pellissippi State Technical 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*.

BACKGROUND AND ORGANIZATION

BACKGROUND

Pellissippi State Technical Community College began operation as State Technical Institute at Knoxville. The institute was established by the General Assembly in 1963. In 1988, the General Assembly combined the campuses of State Technical Institute at Knoxville and the Oak Ridge branch of Roane State Community College in Knoxville to form Pellissippi State Technical Community College

The college awards the Associate of Applied Science, the Associate of Arts, and the Associate of Science degrees and certain certificates.

ORGANIZATION

The governance of Pellissippi State Technical 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.

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 February 8, 1995. A follow-up of all prior audit findings was conducted as part of the current audit. It disclosed that the college has corrected previous audit findings concerning controls over access to assets, operating system security, and the transfer of college funds to the Pellissippi State Community College Foundation.

RESULTS OF THE AUDIT

AUDIT CONCLUSIONS

Internal Control Structure

As part of the audit of the college's financial statements for the years ended June 30, 1995, and June 30, 1994, 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. A reportable condition, along with the recommendation and management's response, is detailed in the findings and recommendations, which follow the report on the internal control structure. Consideration of the internal control structure disclosed no material weaknesses.

Compliance with Laws and Regulations

With respect to the items tested, the college complied with the provisions of laws, regulations, contracts, and grants that may have a material effect on the college's financial statements. An immaterial instance of noncompliance, along with the recommendation and management's response, is included in the findings and recommendations. The compliance report follows the findings and recommendations.

Fairness of Financial Statement Presentation

The college has elected not to accrue the liability for compensated absences. Since this accounting practice is contrary to generally accepted accounting principles, the Division of State Audit has rendered a qualified opinion on the college'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

May 3, 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 Pellissippi State Technical 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, 1995, and June 30, 1994, and have issued our report thereon dated May 3, 1996. Our report was qualified because the college excluded the liability for accrued compensated absences from the balance sheets.

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 college'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.

In planning and performing our audit of the college's financial statements for the years ended June 30, 1995, and June 30, 1994, 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.

We noted one matter involving the internal control structure and its operation that we consider to be a reportable condition under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the college's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

The following reportable condition was noted: Inadequate controls over cash receipts contributed to the loss of registration funds. This condition is described in the Findings and Recommendations section of this report.

A material weakness is a reportable condition in which the design or operation of one or more of the specific 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.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we believe the reportable condition described above is not a material weakness.

We also noted one other matter involving the internal control structure and its operation that we have reported to the college'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/sdr

FINDINGS AND RECOMMENDATIONS

THE COLLEGE DID NOT FOLLOW PROPER PROCEDURES WHEN ACQUIRING PUBLIC RELATIONS SERVICES

1. FINDING:

An analysis of expenditures by functional area revealed a contract for which payments substantially exceed the original spending plan. This contract did not have the required Tennessee Board of Regents (TBR) approval.

Pellissippi State Technical Community College entered into a contract for public relations services with a local public relations firm. The college awarded the contract in accordance with standard Request for Proposal procedures for the year ended June 30, 1993, and the contract is annually renewable for an additional four years.

However, there was no documentation that the TBR Central Office approved the contract as required by TBR guidelines. The expenditures for public relations services significantly exceeded the limit set by the contract. Also, the college sometimes obtained public relations services without issuing approved purchase orders as required by the college's own policies.

TBR Guideline G-030 states:

> . . .all contracts for personal services, professional services or consultant service contracts concerning management services of all types, management studies, planning services, public relations, evaluations, systems designs, data processing, auditing or accounting services shall be subject to approval by the Chancellor.

This guideline further requires that four copies of this type of contract be prepared (each with original approval signatures) and distributed to all parties to the contract. However, the college, the TBR Central Office, nor the public relations firm could locate a copy of the TBR-approved contract.

The contract for the year ended June 30, 1995, limited the college's liability to $75,000. However, actual expenditures were $245,579.29. The contract limit for the year ended June 30, 1994, was $40,000, but actual expenditures were $46,306.18. These additional expenditures were approved internally by upper management, but they were not approved by the TBR.

The contract states that it may only be modified “by written amendment executed by all parties hereto.” Neither the college nor the public relations firm could locate any written amendments to the contract.

Both the contract and the college’s purchasing procedures require that a purchase order be issued before a service is performed. However, for six of 20 related purchase orders, the purchase order was not issued until after the invoices for the completed services were received.

RECOMMENDATION:

The Vice President for Business and Finance should obtain approval from the TBR for all current and future public relations contracts. Any deviation from the terms of the contract, including increases in spending limits, should be approved in writing by all parties to the contract. The President of the college should inform all department heads, and any other employees responsible for requesting public relations services, that purchase orders must be approved and issued before services are provided. The Vice President for Business and Finance should not permit payments on contracts unless the appropriate approvals and any applicable amendments are in place.

MANAGEMENT’S COMMENT:

Management concurs with the finding and recommendation.

All contracts and amendments requiring TBR approval will be submitted to TBR as per TBR policies and guidelines. A data-tracking program for contracts has been implemented to ensure proper approvals are obtained on all contracts

The President will inform all budgetary officials of the College policy requiring proper purchase order approvals before obtaining goods and services for the College. This letter will be issued by September 1, 1996.

The purchasing office will ensure all purchase orders have proper contractual approval before being issued.

INADEQUATE CONTROLS OVER CASH RECEIPTS CONTRIBUTED TO THE LOSS OF REGISTRATION FUNDS.

2. FINDING:

A bank bag containing $8,054 in registration funds was stolen from a campus mail service van on August 22, 1995. The unmarked bank bag contained $1,488 in cash, $5,175 in checks, and $1,391 in credit card slips, according to officials at the college. The funds were apparently stolen from the mail van while it was left unlocked and unat-tended.

On the date of the theft, the mail van was operated by a utility worker who would, as needed, substitute for the mail van driver. The substitute driver first stopped at the Blount County area school to pick up mail and a bank bag. The driver had one large mail bag to hold all other mail and bank bags. He then stopped at the Division Street campus to load another bank bag, mail, and boxes from the print shop. The Division Street campus bank bag was placed inside the Division Street campus mail bag by the cashier and then placed in the mail van by the substitute driver. The mail van was then left unlocked while the driver loaded approximately 30 boxes from the print shop into the van and while he unloaded these boxes upon arriving at the main campus. The bank bag from the Division Street campus was apparently stolen from the mail bag when the driver was loading or unloading boxes. The bank bag from the Blount County area school was not taken.

The Division Street bank bag was discovered missing after the driver unloaded the mail and the mailroom staff delivered the receipts from the Blount County area school to the Business Office. After noting that the Division Street bank bag was not delivered, the office director immediately notified the Vice President of Business and Finance of the college. The college's Coordinator of Safety and Security and the Internal Auditor interviewed the substitute driver and other college employees about the theft. The Division of State Audit was notified on August 29, 1995, and state auditors con-ducted interviews with college employees. All employees interviewed denied taking the money or having any knowledge about the theft. We found no evidence to indicate that any employees were involved. The following actions were not in compliance with exist-ing written procedures:

1. the bank bag was left unattended in an unlocked mail van at two campus locations while the substitute driver was loading or unloading the van, and

2. the mail bag, which contained the bank bag, was not promptly delivered to the campus mailroom or cashier's office immediately upon arrival at the main campus.

Although written procedures had been established, the substitute driver was not adequately informed of his job duties and responsibilities. In addition, there was no requirement to log and document the delivery and receipt of bank bags.

According to the college's officials, the business office has received tuition payments from students to replace the fees paid with checks and credit cards. Therefore, the net loss to the college was $1,488 of cash collections.

RECOMMENDATION:

The Vice President for Business and Finance should ensure employees comply with existing procedures over cash and that all employees who handle mail and cash receipts are adequately informed of proper procedures. The driver should lock the mail van when it is unattended and promptly deliver any cash receipts to the mailroom or to the cashier upon arriving at the main campus. Due to the sensitive nature of cash and the significant amounts collected during registration, stronger controls should also be considered. The Vice President for Business and Finance should consider instituting a log in/out system to document the transfers of bank bags.

MANAGEMENT'S COMMENT:

Management concurs with the finding and recommendation.

The Director of Facilities Management will revise the written procedures for the operation of the mail van delivery system. The revised procedures will address locking the van and prompt delivery of bags to the cashier's office. All employees involved in the delivery system will be properly informed of the procedures. The revised procedures and all employee reviews will be completed by September 1, 1996.

During registration, the delivery mail van is staffed by a security guard at all times. The school has purchased lockable money transport bags, and a log in/out system will be implemented by September 1, 1996.

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

May 3, 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 Pellissippi State Technical 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, 1995, and June 30, 1994, and have issued our report thereon dated May 3, 1996. Our report was qualified because the college excluded the liability for accrued compensated absences from the balance sheets.

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 college is the responsibility of the college's management. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the college'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 one immaterial instance of noncompliance that we have included in the Findings and Recommendations section of this report.

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/sdr

Independent Auditor's Report

May 3, 1996

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

Dear Mr. Snodgrass:

We have audited the accompanying balance sheets of Pellissippi State Technical Community College, an institution of the Tennessee Board of Regents, which is a component unit of the State of Tennessee, as of June 30, 1995, and June 30, 1994, 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.

As described in Note 2 to the financial statements, the college has excluded the liability for accrued compensated absences from the accompanying balance sheets. In our opinion, accrued compensated absences should be included to conform with generally accepted account-ing principles.

In our opinion, except for the effects of not including the liability for accrued compensated absences in the accompanying balance sheets, as discussed in the preceding para-graph, the financial statements referred to above present fairly, in all material respects, the financial position of the Tennessee Board of Regents, Pellissippi State Technical Community College, as of June 30, 1995, and June 30, 1994, and the changes in fund balances and the cur-rent funds revenues, expenditures, and other changes for the years then ended in conformity with generally accepted accounting principles.

In accordance with generally accepted government auditing standards, we have also issued reports dated May 3, 1996, on our consideration of the college's internal control structure and on its compliance with laws and regulations.

Sincerely,

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

AAH/sdr

TENNESSEE BOARD OF REGENTS
PELLISSIPPI STATE TECHNICAL COMMUNITY COLLEGE
BALANCE SHEETS
JUNE 30, 1995, AND JUNE 30, 1994

ASSETS

	June 30, 1995	June 30, 1994
Current funds:		
Unrestricted:		
General:		
Cash (Notes 3 and 4)	$ 2,585,739.61	$ 2,065,441.40
Accounts receivable (net of allowance of $13,954.00 at June 30, 1995, and $13,007.65 at June 30, 1994)	205,794.61	190,630.02
Inventories (Note 7)	12,964.37	12,474.67
Due from restricted current funds	390,779.70	397,157.36
Prepaid expenses and deferred charges	189,640.83	191,182.80
Total general	3,384,919.12	2,856,886.25
Auxiliary enterprises:		
Cash (Notes 3 and 4)	755,932.05	670,944.35
Accounts receivable	25,000.82	17,315.30
Total auxiliary enterprises	780,932.87	688,259.65
Total unrestricted	4,165,851.99	3,545,145.90
Restricted:		
Accounts and grants receivable	462,901.58	451,831.92
Total restricted	462,901.58	451,831.92
Total current funds	$ 4,628,753.57	$ 3,996,977.82
Loan funds:		
Cash (Notes 3 and 4)	$ 1,005.61	$ -
Total loan funds	$ 1,005.61	$ -

LIABILITIES AND FUND BALANCES

	June 30, 1995	June 30, 1994
Current funds:		
Unrestricted:		
General:		
Liabilities:		
Accounts payable	$ 451,516.77	$ 146,068.81
Accrued liabilities	678,462.09	606,923.89
Deferred revenue	714,888.33	634,315.82
Other liabilities	18,925.42	13,053.17
Total liabilities	1,863,792.61	1,400,361.69
Fund balances:		
Nondiscretionary allocations:		
Allocation for working capital (Note 8)	37,679.58	28,093.01
Allocation for encumbrances	775,325.45	490,960.16
Unallocated	708,121.48	937,471.39
Total fund balances	1,521,126.51	1,456,524.56
Total general	3,384,919.12	2,856,886.25
Auxiliary enterprises:		
Liabilities:		
Accounts payable	-	618.63
Fund balances:		
Nondiscretionary allocations:		
Allocation for working capital (Note 8)	25,000.82	17,315.30
Allocation for encumbrances	1,105.00	910.00
Discretionary allocation:		
Allocation for subsequent budget	12,093.91	11,501.73
Unallocated	742,733.14	657,913.99
Total fund balances	780,932.87	687,641.02
Total auxiliary enterprises	780,932.87	688,259.65
Total unrestricted	4,165,851.99	3,545,145.90
Restricted:		
Liabilities:		
Accounts payable	27,145.51	11,050.98
Accrued liabilities	13,969.73	16,285.47
Due to unrestricted current funds	390,779.70	397,157.36
Total liabilities	431,894.94	424,493.81
Fund balances	31,006.64	27,338.11
Total restricted	462,901.58	451,831.92
Total current funds	$ 4,628,753.57	$ 3,996,977.82
Loan funds:		
Fund balances:		
Institutional funds:		
Restricted	$ 1,005.61	$ -
Total loan funds	$ 1,005.61	$ -

TENNESSEE BOARD OF REGENTS
PELLISSIPPI STATE TECHNICAL COMMUNITY COLLEGE
BALANCE SHEETS
JUNE 30, 1995, AND JUNE 30, 1994

	June 30, 1995	June 30, 1994		June 30, 1995	June 30, 1994
ASSETS			LIABILITIES AND FUND BALANCES		
Plant funds:			Plant funds:		
Unexpended plant:			Unexpended plant:		
Cash (Notes 3 and 4)	$ 1,756,074.75	$ 1,141,769.93	Liabilities:		
LGIP deposit - capital projects (Note 6)	-	6,184.25	Accounts payable	$ 769.69	$ -
			Fund balance:		
			Unrestricted (Note 10)	1,755,305.06	1,147,954.18
Total unexpended plant	1,756,074.75	1,147,954.18	Total unexpended plant	1,756,074.75	1,147,954.18
Renewals and replacements:			Renewals and replacements:		
Cash (Notes 3 and 4)	1,380,784.05	1,094,919.32	Liabilities:		
			Accounts payable	124,818.00	14,730.00
			Fund balance:		
			Unrestricted (Note 10)	1,255,966.05	1,080,189.32
Total renewals and replacements	1,380,784.05	1,094,919.32	Total renewals and replacements	1,380,784.05	1,094,919.32
Retirement of indebtedness:			Retirement of indebtedness:		
Cash (Notes 3 and 4)	12,627.84	15,067.84	Liabilities:		
			Accrued interest payable	12,627.84	15,067.84
Total retirement of indebtedness	12,627.84	15,067.84	Total retirement of indebtedness	12,627.84	15,067.84
Investment in plant (Note 9):			Investment in plant:		
Land	1,943,164.46	1,943,164.46	Liabilities:		
Buildings	31,389,705.55	25,163,233.73	Notes payable (Note 11)	525,000.00	625,000.00
Improvements other than buildings	753,985.46	731,742.91			
Equipment	12,161,646.15	10,224,939.38	Fund balance:		
Library holdings	1,282,097.00	1,231,046.00	Net investment in plant	51,836,117.24	41,699,954.95
Construction in progress	4,830,518.62	3,030,828.47			
Total investment in plant	52,361,117.24	42,324,954.95	Total investment in plant	52,361,117.24	42,324,954.95
Total plant funds	$ 55,510,603.88	$ 44,582,896.29	Total plant funds	$ 55,510,603.88	$ 44,582,896.29
Agency funds:			Agency funds:		
Nonfoundation funds:			Nonfoundation funds:		
Cash (Notes 3 and 4)	$ 743,748.98	$ 620,429.87	Accounts payable	$ 4,691.49	$ 2,129.07
			Deposits held in custody for others	739,057.49	618,300.80
Total nonfoundation funds	743,748.98	620,429.87	Total nonfoundation funds	743,748.98	620,429.87
Foundation funds (Note 12):			Foundation funds:		
Cash (Notes 3 and 4)	185,875.24	177,889.98	Accounts payable	103.44	-
Investments (Note 5)	778,406.35	663,056.88	Deposits held in custody for foundation	965,965.59	844,453.13
Accounts receivable	1,787.44	3,506.27			
Total foundation funds	966,069.03	844,453.13	Total foundation funds	966,069.03	844,453.13
Total agency funds	$ 1,709,818.01	$ 1,464,883.00	Total agency funds	$ 1,709,818.01	$ 1,464,883.00

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

Exhibit B

TENNESSEE BOARD OF REGENTS
PELLISSIPPI STATE TECHNICAL COMMUNITY COLLEGE
STATEMENT OF CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 1995

	Current Funds			Plant Funds			
	Unrestricted	Restricted	Loan Funds	Unexpended	Renewals and Replacements	Retirement of Indebtedness	Investment In Plant
REVENUES AND OTHER ADDITIONS							
Current fund revenues	$ 22,462,542.56	$ 48,496.80	$ -	$ -	$ -	$ -	$ -
Auxiliary enterprise revenues	241,878.12	-	-	-	-	-	-
State appropriations	-	89,800.00	-	8,769,108.89	-	-	-
Federal grants and contracts	-	3,749,041.70	-	-	-	-	-
State grants and contracts	-	160,292.64	-	-	-	-	-
Private gifts, grants, and contracts	-	1,802,471.94	-	-	-	-	-
Expended for plant facilities (including $1,660,335.91 charged to current fund expenditures)	-	-	-	-	-	-	10,534,104.36
Student debt service fees	-	-	-	43,934.85	-	142,022.50	-
Investment income	-	-	-	69,718.57	69,626.77	-	-
Equipment use charges (Note 9)	-	-	-	-	121,000.00	-	-
Retirement of indebtedness	-	-	-	-	-	-	100,000.00
Other	-	-	1,005.61	-	-	-	-
Total revenues and other additions	22,704,420.68	5,850,103.08	1,005.61	8,882,762.31	190,626.77	142,022.50	10,634,104.36
EXPENDITURES AND OTHER DEDUCTIONS							
Educational and general expenditures	21,814,378.47	5,441,137.39	-	-	-	-	-
Auxiliary enterprise expenditures	61,492.36	-	-	-	-	-	-
Indirect costs recovered	-	405,297.16	-	-	-	-	-
Expended for plant facilities	-	-	-	8,697,024.50	176,743.95	-	-
Expended for noncapital items	-	-	-	87,149.07	-	-	-
Disposal of plant facilities	-	-	-	-	-	-	435,959.95
Library holdings revaluation (Note 9)	-	-	-	-	-	-	53,167.12
Retirement of indebtedness	-	-	-	-	-	100,000.00	-
Interest on indebtedness	-	-	-	-	-	42,022.50	-
Other	-	-	-	-	-	-	8,815.00
Total expenditures and other deductions	21,875,870.83	5,846,434.55	-	8,784,173.57	176,743.95	142,022.50	497,942.07
TRANSFERS AMONG FUNDS-ADDITIONS (DEDUCTIONS)							
Nonmandatory:							
Unexpended plant	(508,762.14)	-	-	508,762.14	-	-	-
Renewals and replacements	(161,893.91)	-	-	-	161,893.91	-	-
Total transfers	(670,656.05)	-	-	508,762.14	161,893.91	-	-
Net increase for the year	157,893.80	3,668.53	1,005.61	607,350.88	175,776.73	-	10,136,162.29
Fund balances at beginning of year	2,144,165.58	27,338.11	-	1,147,954.18	1,080,189.32	-	41,699,954.95
Fund balances at end of year	$ 2,302,059.38	$ 31,006.64	$ 1,005.61	$ 1,755,305.06	$ 1,255,966.05	$ -	$ 51,836,117.24

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

Exhibit C

TENNESSEE BOARD OF REGENTS
PELLISSIPPI STATE TECHNICAL COMMUNITY COLLEGE
STATEMENT OF CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 1994

	Current Funds			Plant Funds			
	Unrestricted	Restricted	Loan Funds	Unexpended	Renewals and Replacements	Retirement of Indebtedness	Investment In Plant
REVENUES AND OTHER ADDITIONS							
Current fund revenues	$ 21,023,061.26	$ 50,632.11	$ -	$ -	$ -	$ -	$ -
Auxiliary enterprise revenues	231,384.17	-	-	-	-	-	-
State appropriations	-	90,000.00	-	2,632,145.99	-	-	-
Federal grants and contracts	-	4,265,469.21	-	-	-	-	-
State grants and contracts	-	90,951.85	-	-	-	-	-
Private gifts, grants, and contracts	-	942,687.57	-	-	-	-	-
Expended for plant facilities (including $985,217.40 charged to current fund expenditures)	-	-	-	-	-	-	3,943,161.14
Student debt service fees	-	-	-	175,695.95	-	44,462.50	-
Investment income	-	-	-	17,046.56	30,837.29	-	-
Equipment use charges (Note 9)	-	-	-	-	131,000.00	-	-
Other	-	-	-	-	-	-	1,548.00
Total revenues and other additions	21,254,445.43	5,439,740.74	-	2,824,888.50	161,837.29	44,462.50	3,944,709.14
EXPENDITURES AND OTHER DEDUCTIONS							
Educational and general expenditures	19,598,229.03	5,108,211.94	-	-	-	-	-
Auxiliary enterprise expenditures	63,128.19	-	-	-	-	-	-
Indirect costs recovered	-	393,261.40	-	-	-	-	-
Expended for plant facilities	-	-	-	2,897,856.48	60,087.26	-	-
Expended for noncapital items	-	-	-	8,932.63	-	-	-
Disposal of plant facilities	-	-	-	-	-	-	102,491.47
Library holdings revaluation (Note 9)	-	-	-	-	-	-	98,136.25
Interest on indebtedness	-	-	-	-	-	44,462.50	-
Total expenditures and other deductions	19,661,357.22	5,501,473.34	-	2,906,789.11	60,087.26	44,462.50	200,627.72
TRANSFERS AMONG FUNDS-ADDITIONS (DEDUCTIONS)							
Nonmandatory:							
Unexpended plant	(750,668.11)	-	-	765,701.11	(15,033.00)	-	-
Renewals and replacements	(193,301.73)	-	-	-	193,301.73	-	-
Total transfers	(943,969.84)	-	-	765,701.11	178,268.73	-	-
Net increase (decrease) for the year	649,118.37	(61,732.60)	-	683,800.50	280,018.76	-	3,744,081.42
Fund balances at beginning of year	1,495,047.21	89,070.71	-	464,153.68	800,170.56	-	37,955,873.53
Fund balances at end of year	$ 2,144,165.58	$ 27,338.11	$ -	$ 1,147,954.18	$ 1,080,189.32	$ -	$ 41,699,954.95

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

Exhibit D

TENNESSEE BOARD OF REGENTS
PELLISSIPPI STATE TECHNICAL COMMUNITY COLLEGE
STATEMENT OF CURRENT FUNDS REVENUES, EXPENDITURES, AND OTHER CHANGES
FOR THE YEAR ENDED JUNE 30, 1995

	Unrestricted	Restricted	Total
REVENUES			
Tuition and fees	$ 7,002,074.52	$ 56,512.97	$ 7,058,587.49
State appropriations	14,735,400.00	83,935.94	14,819,335.94
Federal grants and contracts	75,151.40	3,671,005.19	3,746,156.59
State grants and contracts	39,663.88	124,379.94	164,043.82
Private gifts, grants, and contracts	348,928.06	1,505,303.35	1,854,231.41
Sales and services of auxiliary enterprises	241,878.12	-	241,878.12
Other sources	261,324.70	-	261,324.70
Total current revenues	22,704,420.68	5,441,137.39	28,145,558.07
EXPENDITURES AND TRANSFERS			
Educational and general expenditures:			
Instruction	12,751,741.07	1,728,913.56	14,480,654.63
Public service	162,903.34	246,713.82	409,617.16
Academic support	2,261,436.82	315,224.27	2,576,661.09
Student services	2,441,807.18	345,756.92	2,787,564.10
Institutional support	2,483,784.26	1,364.27	2,485,148.53
Operation and maintenance of plant	1,519,360.19	-	1,519,360.19
Scholarships and fellowships	193,345.61	2,803,164.55	2,996,510.16
Total educational and general expenditures	21,814,378.47	5,441,137.39	27,255,515.86
Nonmandatory transfers:			
Unexpended plant	508,762.14	-	508,762.14
Renewals and replacements	74,800.00	-	74,800.00
Total educational and general expenditures and transfers	22,397,940.61	5,441,137.39	27,839,078.00
Auxiliary enterprises:			
Expenditures	61,492.36	-	61,492.36
Nonmandatory transfers:			
Renewals and replacements	87,093.91	-	87,093.91
Total auxiliary enterprises	148,586.27	-	148,586.27
Total expenditures and transfers	22,546,526.88	5,441,137.39	27,987,664.27
OTHER ADDITION (DEDUCTION)			
Excess of restricted receipts over transfers to revenues	-	408,965.69	408,965.69
Indirect costs recovered	-	(405,297.16)	(405,297.16)
Net increase in fund balances	$ 157,893.80	$ 3,668.53	$ 161,562.33

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

Exhibit E

TENNESSEE BOARD OF REGENTS
PELLISSIPPI STATE TECHNICAL COMMUNITY COLLEGE
STATEMENT OF CURRENT FUNDS REVENUES, EXPENDITURES, AND OTHER CHANGES
FOR THE YEAR ENDED JUNE 30, 1994

	Unrestricted	Restricted	Total
REVENUES			
Tuition and fees	$ 6,859,560.06	$ 46,091.67	$ 6,905,651.73
State appropriations	13,188,200.00	160,290.50	13,348,490.50
Federal grants and contracts	260,507.20	4,009,078.59	4,269,585.79
State grants and contracts	34,951.95	55,999.90	90,951.85
Private gifts, grants, and contracts	477,684.83	836,751.28	1,314,436.11
Sales and services of auxiliary enterprises	231,384.17	-	231,384.17
Other sources	202,157.22	-	202,157.22
Total current revenues	21,254,445.43	5,108,211.94	26,362,657.37
EXPENDITURES AND TRANSFERS			
Educational and general expenditures:			
Instruction	11,790,338.74	1,252,827.48	13,043,166.22
Public service	183,126.94	304,319.82	487,446.76
Academic support	1,680,757.05	180,524.72	1,861,281.77
Student services	2,196,444.50	336,415.08	2,532,859.58
Institutional support	2,034,600.63	4,510.99	2,039,111.62
Operation and maintenance of plant	1,509,776.43	1,594.72	1,511,371.15
Scholarships and fellowships	203,184.74	3,028,019.13	3,231,203.87
Total educational and general expenditures	19,598,229.03	5,108,211.94	24,706,440.97
Nonmandatory transfers:			
Unexpended plant	750,668.11	-	750,668.11
Renewals and replacements	106,800.00	-	106,800.00
Total educational and general expenditures and transfers	20,455,697.14	5,108,211.94	25,563,909.08
Auxiliary enterprises:			
Expenditures	63,128.19	-	63,128.19
Nonmandatory transfers:			
Renewals and replacements	86,501.73	-	86,501.73
Total auxiliary enterprises	149,629.92	-	149,629.92
Total expenditures and transfers	20,605,327.06	5,108,211.94	25,713,539.00
OTHER ADDITION (DEDUCTION)			
Excess of restricted receipts over transfers to revenues	-	331,528.80	331,528.80
Indirect costs recovered	-	(393,261.40)	(393,261.40)
Net increase (decrease) in fund balances	$ 649,118.37	$ (61,732.60)	$ 587,385.77

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

REPORTING ENTITY

The college is 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 its 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. 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 re-stricted 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, expen-ditures, 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 expenditures, for normal replacement of movable equipment and library holdings, and 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.

All other unrestricted revenue is accounted for in the unrestricted current funds. Restricted gifts, grants, appropriations, 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, food service, and vending activities. 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.

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, (3) funds set aside for debt service charges and for the retirement of the indebtedness on institutional properties, and (4) 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.

NOTE 2. 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. Generally accepted accounting principles require that certain accrued compensated absences, the effects of which are material to the financial statements, be recorded as earned. The college's policy is to record such benefits as paid. The recognition of this liability for accrued compensated absences and related benefits would have increased the liabilities of the unrestricted current fund by $605,486.34 at June 30, 1995, and $580,485.18 at June 30, 1994; increased the unrestricted current fund expenditures by $25,001.16 for the year ended June 30, 1995; and increased the unrestricted current fund expenditures by $67,430.85 for the year ended June 30, 1994.

NOTE 3. CASH

This classification includes demand deposits and petty cash on hand. At June 30, 1995, cash consisted of $2,368,545.94 in bank accounts, $2,800.00 of petty cash on hand, and $5,050,442.19 in the State of Tennessee Local Government Investment Pool administered by the State Treasurer. At June 30, 1994, cash consisted of

$2,747,309.94 in bank accounts, $2,800.00 of petty cash on hand, and $3,036,352.75 in the State of Tennessee Local Government Investment Pool.

NOTE 4. DEPOSITS

Deposits with financial institutions are required to be categorized to indicate the level of risk assumed by the college. Category 1 consists of deposits that are insured or collateralized with securities held by the college or by its agent in the college's name. Category 2 consists of deposits collateralized with securities held by the pledging financial institution's trust department or agent in the college's name. Category 3 deposits are uncollateralized. This category includes any bank balance that is collateralized with securities held by the pledging financial institution or by its trust department or agent but not in the college's name.

The bank balances of deposits including accrued interest as of June 30, 1995, were all category 1.

The bank balances of deposits including accrued interest as of June 30, 1994, were all category 1. From July 1, 1993, through November 5, 1993, the college had uncollateralized amounts sometimes exceeding $1,000,000. The uncollateralized amounts were related to a court decision by the U.S. Court of Appeals for the Eighth Circuit which raised a question about the enforceability of security interests in collateral pledged to secure deposits held in financial institutions. The court deci-sion was based on Section 1823 (e) of the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA). Because some of the college's security agreements did not meet the requirements outlined in Section 1823(e) of the act, it is uncertain whether the college had any priority claim to the collateral pledged to secure deposits in excess of FDIC insurance coverage. The college's security agreements were revised or deposits were transferred as of November 5, 1993, to meet these new requirements.

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.

NOTE 5. 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 invest-ments 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 Pellissippi State Technical Community College Foundation is authorized to invest funds in accordance with its board of directors' policies. Investments are valued at cost, or in the case of gifts, at fair value on the date of receipt.

The college's investments at June 30, 1995, and June 30, 1994, consisted solely of funds in the State of Tennessee Local Government Investment Pool which have been recorded as cash in Note 3.

The investments of the Pellissippi State Technical Community College Foundation are included in the agency funds on the institution's balance sheet. The founda-tion's investments are listed below and are not susceptible to credit risk categoriza-tion.

June 30, 1995	Carrying Amount	Market Value
Common Fund, Inc.:		
Domestic corporate stocks	$ 375,233.87	$ 423,011.63
International corporate stocks	34,141.14	36,793.64
Bond fund	207,284.19	216,360.14
Intermediate cash fund	161,254.67	162,151.54
Short term fund	492.48	492.48
Total investments	$ 778,406.35	$ 838,809.43

June 30, 1994	Carrying Amount	Market Value

Common Fund, Inc.:		
Domestic corporate stocks	$ 323,787.09	$ 331,563.87
International corporate stocks	29,352.65	32,825.19
Bond fund	183,713.25	176,376.18
Intermediate cash fund	125,737.42	124,432.26
Short term fund	466.47	466.47
Total investments	$ 663,056.88	$ 665,663.97

NOTE 6. LGIP DEPOSIT–CAPITAL PROJECTS

The college's capital projects are administered by the State of Tennessee's Department of Finance and Administration. The college's estimated share of the cost of each project is held in a separate Local Government Investment Pool (LGIP) account. Funds are withdrawn by the Department of Finance and Administration to cover the expenditures as they are incurred. 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 Department of Finance and Administration.

NOTE 7. INVENTORIES

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

NOTE 8. 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.

NOTE 9. 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 $20 per volume, and other library holdings are valued at various standardized values. Depreciation on the physical plant and equipment is not recorded.

In the case of service departments, the college charges renewal and replacement of plant assets to current expenditures; these charges are also reported as additions to funds for renewals and replacements.

NOTE 10. PLANT FUND ENCUMBRANCES

Plant fund encumbrances outstanding at June 30, 1995, amounted to $67,821.86 for unexpended plant and $11,732.45 for renewals and replacements. Plant fund encumbrances outstanding at June 30, 1994, amounted to $11,764.95 for renewals and replacements.

NOTE 11. NOTES PAYABLE

The Tennessee Board of Regents, on behalf of the college, borrowed funds to provide financing for a student recreation center. The notes bear interest at rates ranging from 6.9% to 7.25%, have face amounts ranging from $100,000 to $125,000, and mature from March 1, 1995, through March 1, 2000. The balance owed by the college was $525,000 at June 30, 1995, and $625,000 at June 30, 1994.

The college's debt service requirements to maturity for all notes payable at June 30, 1995, are as follows:

Year Ending June 30	Principal	Interest	Total
1996	$ 100,000.00	$ 37,262.50	$ 137,262.50
1997	100,000.00	30,362.50	130,362.50

1998	100,000.00	23,362.50	123,362.50
1999	100,000.00	16,262.50	116,262.50
2000	125,000.00	9,062.50	134,062.50
	$ 525,000.00	$ 116,312.50	$ 641,312.50

NOTE 12. PELLISSIPPI STATE TECHNICAL COMMUNITY COLLEGE FOUNDATION

The college is the sole beneficiary of the Pellissippi State Technical 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 13. PENSION PLANS

Defined Benefit Plan

All the college's regular employees may 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 was $5,394,778.11 for the year ended June 30, 1995, and $5,215,074.41 for the year ended June 30, 1994. The college's total payroll was $14,902,562.29 for the year ended June 30, 1995, and $13,575,101.39 for the year ended June 30, 1994.

TCRS members may retire at age 60 with five years of service or at any age with 30 years' service. Early retirement with reduced benefits is available to vested mem-bers who are at least age 55 or have 25 years of service. TCRS benefits are based on the number of years of creditable service and highest average salary for five con-secutive years. Members attain vesting rights after five years of service. The TCRS also provides death and disability benefits. Benefits are established by state statute.

The college 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 college are eligible for a refund of their contributions, along with contributions made after July 1, 1981, on the employees' behalf by the college. The actuarially required contribution made for the year ended June 30, 1995, was $341,157.57, which represented 6.32% of the covered payroll, and for the year ended June 30, 1994, was $349,072.92, which represented 6.69% 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 funding status of the TCRS 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, 1995, and at June 30, 1994, determined through an actuarial valuation performed as of June 30, 1995, was $10,697.4 million and through an actuarial update performed as of June 30, 1994, was $9,344.5 million. The net assets, at cost or amortized cost, available for benefits were $11,566.8 million at June 30, 1995, and $10,772.4 million at June 30, 1994, leaving assets in excess of pension benefit obligation of $869.4 million at June 30, 1995, and $1,427.9 million at June 30, 1994. The market value of the net assets available for benefits was $12,552.1 million at June 30, 1995, and $11,106.5 million at June 30, 1994. The college's 1995 and 1994 contributions represented .12% and .13% of total contributions required of all participating entities.

Ten-year historical trend information showing the progress of the TCRS in accumulating sufficient assets to pay benefits when due is presented in the June 30, 1995, *Tennessee Consolidated Retirement System Comprehensive Annual Financial Report.*

Defined Contribution Plans

The college has three defined contribution plans offered through the 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 available only to eligible faculty and staff exempt from the overtime provision of the Fair Labor Standards Act. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. State statute requires the college to contribute an amount equal to 10% of the employee's base salary below the social security wage base and 11% above the social security wage base. Members are fully vested upon entry into the plans.

The payroll for employees covered by the defined contribution plans was \$6,687,075.16 for the year ended June 30, 1995, and \$5,362,309.96 for the year ended June 30, 1994. The college's total payroll was \$14,902,562.29 for the year ended June 30, 1995, and \$13,575,101.39 for the year ended June 30, 1994. The required contribution made by the college for the year ended June 30, 1995, was \$669,102.74, which represented 10.01% of the covered payroll, and for the year ended June 30, 1994, was \$538,041.43, which represented 10.03% of the covered payroll.

NOTE 14. 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 as-sumes 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 15. 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. 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 other than the commercial insurance coverage.

At June 30, 1995, the scheduled coverage for the college was \$43,726,700 for buildings and \$11,459,100 for contents. At June 30, 1994, the scheduled coverage was \$38,295,800 for buildings and \$9,371,600 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 malprac-tice, 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 ex-pected loss costs, which include both experience and exposures. This charge con-siders 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 16. 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 $2,865,976.84 at June 30, 1995, and $2,535,547.12 at June 30, 1994.

Construction in Progress - At June 30, 1995, outstanding commitments under construction contracts totaled $2,144,577.78 for the Educational Resource Center, Building C expansion, Building D/F expansion, and Blount County renovations, all of which will be funded by future state capital outlay appropriations.

Litigation - The college is involved in one lawsuit which is not expected to have a material effect on the accompanying financial statements.

NOTE 17. RESTATEMENT OF NET INVESTMENT IN PLANT

The July 1, 1993, net investment in plant was increased by $233,778.52 because the college capitalized equipment purchased in prior years which had been previously omitted in error.