Tennessee Board of Regents
Jackson State Community College

For the Years Ended
June 30, 1996, and June 30, 1995

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Director

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Leslie Bethea
Editor

August 22, 1997

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. Charlie Roberts, President
Jackson State Community College
2046 North Parkway
Jackson, Tennessee 38301

Ladies and Gentlemen:

Transmitted herewith is the financial and compliance audit of the Tennessee Board of Regents, Jackson State Community College, for the years ended June 30, 1996, and June 30, 1995. 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/cr
97/045

State of Tennessee

Audit Highlights

Comptroller of the Treasury — Division of State Audit

Financial and Compliance Audit
Jackson State Community College
For the Years Ended June 30, 1996, and June 30, 1995

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 FINDINGS

Plant Fund Transactions Not Reported Accurately**
The supporting plant fund schedules in the financial reports and in the financial statements of the college and the technology centers contained numerous reporting errors (page 8).

JTPA Management Failed to Change an Employee's Official Station and Monitor Employee Leave
Failure to change an employee's official station resulted in travel claims totaling $11,110.46 for mileage to and from the JTPA office. Failure to monitor employee leave allowed an employee to misuse sick leave and compensatory time (page 13).

** This finding is repeated from prior audits.

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
Jackson State Community College
For the Years Ended June 30, 1996, and June 30, 1995

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For the Years Ended June 30, 1996, and June 30, 1995

INTRODUCTION

POST-AUDIT AUTHORITY

This is a report on the financial and compliance audit of the Tennessee Board of Regents, Jackson 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

The idea for Tennessee's community college system was conceived in 1957 when the state legislature ordered a study of community college programs, resulting in the Pierce-Albright Report. Acting on the recommendation of the Governor and the state's Department of Education, the General Assembly authorized the Department of Education to establish several community colleges throughout Tennessee. Jackson State Community College was established in 1965 and held its first classes in the fall of 1967. The General Assembly vested the governance of the college in the Tennessee Board of Regents on July 1, 1972.

The comprehensive higher education program at the college includes curricula to meet the needs of full-time students seeking transfer to other colleges, students following an occupationally oriented program for immediate employment, and part-time students earning credits to apply at a later time toward an associate degree.

ORGANIZATION

The governance of Jackson 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, 1994, through June 30, 1996, and was conducted in accordance with generally accepted government auditing standards. Financial statements are presented for the years ended June 30, 1996, and June 30, 1995. Jackson 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 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.

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 March 4, 1996. 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 the internal control structure, controls over JTPA disbursements, compliance with the conflict-of-interest policy, reporting procedures for JTPA grants, cash management procedures, status of federal funds reports, and reporting procedures.

REPEATED AUDIT FINDING

The prior audit report also contained a finding concerning the reporting of plant fund transactions. This finding has not been resolved and is repeated in this report.

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, 1996, and June 30, 1995, 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. Reportable conditions, along with recommendations and management's responses, are 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

The results of our tests disclosed no instances of noncompliance that are required to be reported herein under generally accepted government auditing standards. The compliance report follows the 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 5, 1997

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

Dear Mr. Snodgrass:

We have audited the financial statements of Jackson 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, 1996, and June 30, 1995, and have issued our report thereon dated May 5, 1997. 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, 1996, and June 30, 1995, 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 certain matters involving the internal control structure and its operation that we consider to be reportable conditions 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 conditions were noted:

- Plant fund transactions were not reported accurately
- Management of the JTPA office failed to change an employee's official station and failed to monitor employee leave

These conditions are 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 none of the reportable conditions described above are material weaknesses.

We also noted other matters 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/cr

FINDINGS AND RECOMMENDATIONS

1. <u>Plant fund transactions were not reported accurately</u>

Finding

As noted in the two prior audits, plant fund transactions were not always reported accurately. Management concurred and stated that efforts were being made so that the institution's local accounting system would more properly balance with the state's STARS report. However, numerous reporting errors were discovered in the supporting plant fund schedules in the financial reports and in the financial statements of the college and the five technology centers (Crump, McKenzie, Jackson, Paris, and Whiteville) for the current audit period. It appears that the individual who is responsible for preparing the plant funds schedules has not been given adequate instructions regarding proper preparation, and her work has not been adequately reviewed. The errors, by schedule, were as follows:

Schedule of Changes in Fund Balances - Unexpended Plant

a. For the college and two technology centers, the fiscal year 1996 schedule did not include June's capital outlay expenditures as reported on the year-end STARS report. Therefore, for the college, revenue from state appropriations was understated by \$182,118.26, expenditures for plant facilities were understated by \$170,980.78, and expenditures for noncapital items were understated by \$11,137.48 on the statement of changes in fund balances. For Jackson, revenue from state appropriations and expenditures for plant facilities were both understated by \$324,616.13. For Whiteville, revenue from state appropriations and expenditures for plant facilities were both understated by \$87,024.34.

b. The completion of the little Technology Building and a roof repairs project were shown on the college's fiscal year 1996 schedule as an appropriation and an "other deduction." Therefore, revenue from state appropriations and other deductions were both overstated by \$45,827.04 on the statement of changes in fund balances.

c. For the college and four technology centers, the fiscal year 1996 schedule had expenditures for plant facilities which were incorrectly reported as expended for noncapital items on the statement of changes in fund balances. (college - \$21,835.99; Jackson - \$203,223.13; McKenzie - \$26,687.90; Paris - \$33,760.16; Whiteville - \$8,675.43)

d. For all the institutions, the fiscal year 1996 schedule did not include equipment and noncapital expenditures made by the Tennessee Board of Regents. Therefore, for the college, revenue from state appropriations and expenditures for plant facilities were both understated by $6,004.00 on the statement of changes in fund balances. For Crump, revenue from state appropriations was understated by $221,103.03, expenditures for plant facilities were understated by $212,073.00, and expenditures for noncapital items were understated by $9,030.03. For Jackson, revenue from state appropriations was understated by $853,080.15, expenditures for plant facilities were understated by $824,457.31, and expenditures for noncapital items were understated by $28,622.84. For McKenzie, revenue from state appropriations was understated by $138,458.38, expenditures for plant facilities were understated by $130,325.94, and expenditures for noncapital items were understated by $8,132.44. For Paris, revenue from state appropriations and expenditures for plant facilities were both understated by $260,537.61. For Whiteville, revenue from state appropriations was understated by $183,841.02, expenditures for plant facilities were understated by $174,821.01, and expenditures for noncapital items were understated by $9,020.01.

e. The college's fiscal year 1995 schedule had expenditures for noncapital items of $60,557.89 which were incorrectly reported as expended for plant facilities on the statement of changes in fund balances.

f. For all the institutions, the ending balances for state appropriations and adjustments for unexpended state appropriations were not carried forward as beginning balances on the next year's schedule. Therefore, additions for state appropriations were overstated, and the adjustments for unexpended state appropriations were understated.

g. Jackson's fiscal year 1996 schedule incorrectly included an other addition and other deduction to reflect the completion of a project. Therefore, other additions and other deductions were overstated by $11,758.47 on the statement of changes in fund balances.

h. Jackson's fiscal year 1995 schedule did not include the noncapital expenditures reported on the year-end STARS report for a reroofing project. Therefore, revenue from state appropriations and expenditures for noncapital items were both understated by $41,403.09 on the statement of changes in fund balances.

i. Paris's fiscal year 1995 schedule had expenditures for plant facilities of $42,638.00 which were incorrectly reported as a state appropriation under expenditures and other deductions on the statement of changes in fund balances.

j. Whiteville's fiscal year 1996 schedule had revenue from a federal grant reported as revenue from state appropriations. Therefore, state appropriations were overstated by $144,435.53, and federal grants and contracts were understated by the same amount on the statement of changes in fund balances.

k. Whiteville's fiscal year 1995 schedule included $9,040.00 as expenditures for plant facilities when it was actually a check that was sent to the state to cover part of the project cost. Therefore, revenue from state appropriations and expenditures for plant facilities were both overstated by $9,040.00 on the statement of changes in fund balances.

l. The amount shown as funds available for a construction project was understated by $99,745.36 on Whiteville's fiscal year 1996 schedule.

Schedule of Changes in Fund Balances - Renewals and Replacements

a. The college's fiscal year 1995 schedule had expenditures for noncapital items of $3,142.50 which were incorrectly reported as expended for plant facilities on the statement of changes in fund balances.

b. Crump's fiscal year 1995 schedule had expenditures for noncapital items of $14,030.20 which were incorrectly reported as other deductions on the statement of changes in fund balances.

c. Jackson's fiscal year 1996 schedule had funds designated for the line item other improvements shown on the line item operating supplies.

d. Whiteville's fiscal year 1995 schedule included an improper line item for transfers to unexpended plant when the transfer had already been correctly reflected on the appropriate line item, instructional equipment.

Schedule of Changes in Investment in Plant

a. For all the institutions, the fiscal year 1996 schedule contained a prior year adjustment to reduce the construction in progress amount for costs which should have been capitalized. Therefore, the prior year adjustment was unnecessary and understated construction in progress. (college - $89,012.82; Crump - $49,893.75; Jackson - $107,951.51; McKenzie - $18,474.10; Paris - $42,638.00; Whiteville - $59,398.75)

b. For the college and three technology centers, the fiscal year 1996 schedule included equipment expenditures made by the Tennessee Board of Regents as an "other addition." Therefore, expenditures for plant facilities were understated, and other additions were overstated on the statement of changes in fund balances. (college - $6,004.00; Jackson - $809,538.31; McKenzie - $130,325.94; Whiteville - $142,360.01)

c. Because the June capital expenditures had not been reported on the schedule of changes in unexpended plant on the college's fiscal year 1996 schedule, the equipment amount was understated by $123,183.00, the construction in progress amount was understated by $47,797.78, and the expended for plant facilities amount was understated by $170,980.78. On Jackson's schedule, the construction in progress amount and the expended for plant facilities amount were both understated by $324,616.13. On McKenzie's schedule, the construction in progress amount and the expended for plant facilities amount were understated by $26,687.90. On Whiteville's schedule, the construction in progress amount and the expended for plant facilities amount were both understated by $87,024.34.

d. The college's statements of changes in fund balances included improper line items under expenditures and other deductions. The amounts of $3,022,405.03 and $475,837.53 were shown as expended for plant facilities, and the amounts of $655,092.24 and $43,913.09 were shown as expended for noncapital items. This caused the expended for plant facilities addition to investment in plant to be overstated by $3,677,497.27 in fiscal year 1996 and by $519,750.62 in fiscal year 1995.

e. The college's fiscal year 1996 schedule incorrectly showed a deduction of $254,456.55 of construction costs from construction in progress. Therefore, construction in progress and expended for plant facilities were understated on the balance sheet and on the statement of changes in fund balances.

f. Because consulting costs were not properly capitalized on the schedule of changes in unexpended plant on the college's fiscal year 1996 schedule, the construction in progress amount and the expended for plant facilities amount were understated by $21,835.99. On Jackson's schedule, the construction in progress amount and the expended for plant facilities amount were understated by $95,271.62.

g. For all the institutions, restricted current funds additions to investment in plant were shown under other additions rather than in the current funds column.

h. Crump's fiscal year 1996 schedule showed unrestricted current fund additions of $6,114.50 as renewals and replacements additions.

i. For two technology centers, the fiscal year 1996 schedule did not include June equipment expenditures made by the Tennessee Board of Regents. Therefore, for Jackson, equipment and expenditures for plant facilities were understated by $14,919.00 on the balance sheet and on the statement of changes in fund balances. For Whiteville, equipment and expenditures for plant facilities were understated by $32,461.00.

j. On Jackson's fiscal year 1996 schedule, the prior period adjustment of $107,951.51 was subtracted from the construction in progress twice. Therefore, construction in progress and expended for plant facilities were understated by that amount on the balance sheet and on the statement of changes in fund balances.

k. Paris's fiscal year 1996 statement of changes in fund balances contained a deduction called expended for noncapital items which contained $33,760.16 which should have been an increase to construction in progress, and $258.70 which represented noncapital expenditures. Therefore, construction in progress was understated by $33,760.16, and expended for plant facilities was overstated by $258.70.

l. Whiteville's fiscal year 1996 statement of changes in fund balances contained a deduction of $8,675.43 called expended for noncapital items which should have been an increase to construction in progress. Therefore, construction in progress was understated by that amount.

m. On Whiteville's fiscal year 1995 schedule, the construction in progress amount and the expended for plant facilities amount were overstated by $9,040.00 because a transfer of funds to the state was improperly capitalized on the schedule of changes in unexpended plant.

n. Private gifts of $6,500.00 were shown on Whiteville's fiscal year 1996 statement of changes in fund balances as other additions.

The financial statements may be materially misstated if plant fund transactions are not reported accurately. Audit adjustments and reclassifications were made as necessary to correct the financial statements.

Recommendation

The Vice President for Financial and Administrative Affairs should ensure that plant fund transactions are reported accurately in the financial statements and supporting schedules. This responsibility includes providing adequate instructions regarding preparation and also reviewing the statements and schedules for accuracy.

Management's Comment

We concur. Effective June 30, 1997, during the process of preparing the fiscal year 1996-1997 financial statements, the preparer of the plant fund schedules was given adequate instructions, and the schedules were reviewed by the Vice President for Financial and Administrative Affairs. The TBR Financial Analyst and the State Audit Manager were contacted with any questions prior to the final reporting of financial statements to assure accuracy in interpretation for the recording of plant funds.

2. Management of the JTPA office failed to change an employee's official station and failed to monitor employee leave

Finding

As noted in two special reports issued on March 26 and June 20, 1996, by the college's internal auditor (based on work performed in conjunction with the Division of State Audit), Job Training Partnership Act (JTPA) management did not ensure that two employees' activities were appropriate. In one instance, management did not change the designation of a JTPA counselor's official station after she was moved from the office in Huntingdon, Tennessee, to the Dresden office on August 21, 1991. Although the move was initially considered temporary, the employee continued to work at the Dresden office between September 1, 1991, and February 29, 1996. Management approved her travel claims totaling $11,110.46 during this period for mileage to and from the Dresden office. If management had appropriately designated Dresden as the counselor's official station, she would not have been paid for this mileage.

According to Tennessee Board of Regents (TBR) Policy 4:03:03:00, travel may not include, and no reimbursement for expenses may be made for, transportation in connection with an employee's official station of employment. The employee's official station is his or her regular area of employment activity. Furthermore, the official station of an employee is to be designated by the appointing authority and is normally expected to be that location where the employee spends the major portion of working time.

In the second instance, management was lax in monitoring leave taken by a technical clerk at the JTPA office in Jackson, Tennessee. From November 1, 1991, to October 31, 1995, the technical clerk took sick leave in order to work a second job on 19 occasions. This leave totaled 45 hours and paid wages of $386.23. Apparently, the employee informed the office secretary when she took leave. However, she did not indicate whether the leave was annual or sick, and she would wait until the end of the month to enter the type of leave on her time sheet. The clerk stated that she would indiscriminately choose between annual or sick leave depending upon the accumulated balances. The clerk said that she considered the two to be virtually the same and was not aware that sick leave should only be taken for doctors' appointments and illnesses. Discussion with the clerk and management revealed that both had apparently misunderstood the proper use of sick leave. The clerk's leave records were corrected on June 19, 1996, to reflect 45 hours of annual leave taken.

On seven occasions the clerk took lunch at 3:30 p.m. so she could arrive at her second job by 4:00 p.m. In addition, she stated that on several occasions she took unofficial compensatory time for the same reason. She stated that management told her to keep track of her compensatory time earned and taken, although she never recorded compensatory time on her time sheets. The clerk apparently violated TBR policy which requires compensatory time to be recorded.

Because the JTPA office has 36 staff members, many of whom travel to support county offices, the organizational structure appears to need stronger controls to monitor employees' travel and leave.

The JTPA Director received a written reprimand as a result of the March 26 report regarding travel.

Recommendation

The college's fiscal officer and internal auditor should review the internal controls of the JTPA office and determine whether additional controls over travel and leave are necessary and whether any changes in the organizational structure need to be made. Management of the JTPA office should ensure that any additional controls developed are implemented and monitored.

Management's Comment

We concur. The two items addressed in the finding were previously reported by our internal auditor, and corrective measures have been taken.

a) Effective April 9, 1996, all JTPA employees' official stations were reevaluated and written notifications of their official stations were communicated to them. In addition, each employee has signed a statement acknowledging his/her official station.

b) Effective August 18, 1997, JTPA management will establish procedures that require each supervisor to document the type of leave requested by their employees. Supervisors will review the aforementioned document with the employees' timesheet, prior to approval. Furthermore, the president will review the organizational structure, and any necessary changes will be made by December 31, 1997.

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

May 5, 1997

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

Dear Mr. Snodgrass:

We have audited the financial statements of Jackson 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, 1996, and June 30, 1995, and have issued our report thereon dated May 5, 1997. 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 certain immaterial instances of noncompliance 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/cr

Independent Auditor's Report

May 5, 1997

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 Jackson 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, 1996, and June 30, 1995, 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 accounting 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 paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of the Tennessee Board of Regents, Jackson State Community College, as of June 30, 1996, and June 30, 1995, 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.

In accordance with generally accepted government auditing standards, we have also issued reports dated May 5, 1997, 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/cr

Exhibit A

TENNESSEE BOARD OF REGENTS
JACKSON STATE COMMUNITY COLLEGE
BALANCE SHEETS
JUNE 30, 1996, AND JUNE 30, 1995

ASSETS

ASSETS	June 30, 1996	June 30, 1995
Current funds:		
Unrestricted:		
General:		
Cash and cash equivalents (Notes 3 and 4)	$ 1,736,575.01	$ 1,715,376.26
Accounts receivable (net of allowance of $6,096.19 at June 30, 1996, and $3,590.09 at June 30, 1995)	71,390.60	90,239.50
Prepaid expenses	5,230.94	3,880.72
Total general	1,813,196.55	1,809,496.48
Auxiliary enterprises:		
Cash and cash equivalents (Notes 3 and 4)	43,579.92	39,313.72
Accounts receivable (net of allowance of $13.47 at June 30, 1995)	7,751.86	4,869.57
Inventories	137,151.83	138,233.49
Total auxiliary enterprises	188,483.61	182,416.78
Total unrestricted	2,001,680.16	1,991,913.26
Restricted:		
Cash and cash equivalents (Notes 3 and 4)	400,444.25	253,733.52
Grants receivable	743,262.27	840,818.84
Total restricted	1,143,706.52	1,094,552.36
Total current funds	$ 3,145,386.68	$ 3,086,465.62
Loan funds:		
Cash and cash equivalents (Notes 3 and 4)	$ 3,087.14	$ 3,611.61
Notes receivable (net of allowance of $46,253.43 at June 30, 1996, and $45,564.63 at June 30, 1995)	43,585.43	35,923.74
Accrued interest receivable	3,456.73	2,662.55
Total loan funds	$ 50,129.30	$ 42,197.90
Plant funds:		
Unexpended plant:		
Cash and cash equivalents (Notes 3 and 4)	$ 182,938.77	$ 133,391.39
Total unexpended plant	182,938.77	133,391.39
Renewals and replacements:		
Cash and cash equivalents (Notes 3 and 4)	1,051,288.06	1,248,403.55
Total renewals and replacements	1,051,288.06	1,248,403.55

LIABILITIES AND FUND BALANCES

LIABILITIES AND FUND BALANCES	June 30, 1996	June 30, 1995
Current funds:		
Unrestricted:		
General:		
Liabilities:		
Accounts payable	$ 90,031.85	$ 16,415.92
Accrued salaries	453,912.88	456,754.62
Taxes and benefits payable	99,357.33	69,807.17
Deferred revenue	422,263.50	361,092.20
Total liabilities	1,065,565.56	904,069.91
Fund balances:		
Nondiscretionary allocations:		
Allocation for working capital	10,778.75	-
Allocation for encumbrances	222,596.47	341,224.09
Allocation for desegregation	16,556.01	12,622.09
Discretionary allocations:		
Allocation for subsequent budget	233,560.00	196,070.00
Allocation for athletics	2,450.00	2,410.00
Unallocated	261,689.76	353,100.39
Total fund balances	747,630.99	905,426.57
Total general	1,813,196.55	1,809,496.48
Auxiliary enterprises:		
Liabilities:		
Accounts payable	419.92	213.72
Fund balances:		
Nondiscretionary allocation:		
Allocation for working capital	145,403.69	143,403.06
Discretionary allocation:		
Allocation for contingencies	42,660.00	38,800.00
Total fund balances	188,063.69	182,203.06
Total auxiliary enterprises	188,483.61	182,416.78
Total unrestricted	2,001,680.16	1,991,913.26
Restricted:		
Liabilities:		
Accounts payable	72,347.55	45,596.47
Accrued salaries	129,380.85	172,370.76
Total liabilities	201,728.40	217,967.23
Fund balance	941,978.12	876,585.13
Total restricted	1,143,706.52	1,094,552.36
Total current funds	$ 3,145,386.68	$ 3,086,465.62
Loan funds:		
Fund balances:		
U.S. government grants refundable	$ 37,596.98	$ 37,186.39
Institutional:		
Restricted - matching	12,532.32	4,131.82
Unrestricted	-	879.69
Total loan funds	$ 50,129.30	$ 42,197.90
Plant funds:		
Unexpended plant:		
Fund balance:		
Unrestricted (Note 5)	$ 182,938.77	$ 133,391.39
Total unexpended plant	182,938.77	133,391.39
Renewals and replacements:		
Fund balance:		
Unrestricted (Note 5)	1,051,288.06	1,248,403.55
Total renewals and replacements	1,051,288.06	1,248,403.55

TENNESSEE BOARD OF REGENTS
JACKSON STATE COMMUNITY COLLEGE
BALANCE SHEETS
JUNE 30, 1996, AND JUNE 30, 1995

ASSETS	June 30, 1996	June 30, 1995	LIABILITIES AND FUND BALANCES	June 30, 1996	June 30, 1995
Investment in plant:			Investment in plant:		
Land	128,645.20	128,645.20	Fund balance:		
Buildings	6,994,619.47	6,994,619.47	Net investment in plant	23,128,850.43	19,264,061.19
Improvements other than buildings	454,277.75	434,637.77			
Equipment	8,260,622.95	4,767,811.01			
Library holdings	1,547,130.00	1,518,883.00			
Construction in progress	5,743,555.06	5,419,464.74			
Total investment in plant	23,128,850.43	19,264,061.19	Total investment in plant	23,128,850.43	19,264,061.19
Total plant funds	$ 24,363,077.26	$ 20,645,856.13	Total plant funds	$ 24,363,077.26	$ 20,645,856.13
Agency funds:			Agency funds:		
Nonfoundation funds:			Nonfoundation funds:		
Cash and cash equivalents (Notes 3 and 4)	$ 990,686.84	$ 820,521.81	Liabilities:		
			Deposits held in custody for others	$ 990,686.84	$ 820,521.81
Total nonfoundation funds	990,686.84	820,521.81	Total nonfoundation funds	990,686.84	820,521.81
Foundation funds:			Foundation funds:		
Cash and cash equivalents (Notes 3 and 4)	517,662.41	296,178.98	Liabilities:		
			Deposits held in custody for foundation	517,662.41	296,178.98
Total foundation funds	517,662.41	296,178.98	Total foundation funds	517,662.41	296,178.98
Total agency funds	$ 1,508,349.25	$ 1,116,700.79	Total agency funds	$ 1,508,349.25	$ 1,116,700.79

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

Exhibit B

TENNESSEE BOARD OF REGENTS
JACKSON STATE COMMUNITY COLLEGE
STATEMENT OF CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 1996

	Current Funds			Plant Funds		
	Unrestricted	Restricted	Loan Funds	Unexpended	Renewals and Replacements	Investment In Plant
REVENUES AND OTHER ADDITIONS						
Unrestricted current fund revenues	$ 11,614,354.12	$ -	$ -	$ -	$ -	$ -
Auxiliary enterprise revenues	853,040.65	-	-	-	-	-
Tuition and fees	-	22,498.17	-	-	-	-
State appropriations	-	92,300.00	-	3,865,619.53	-	-
Federal grants and contracts	-	4,980,647.21	5,691.00	-	-	-
State grants and contracts	-	158,334.48	-	-	-	-
Local grants and contracts	-	80,523.00	-	-	-	-
Investment income	-	758.78	131.79	8,442.90	65,420.66	-
Interest on loans receivable	-	-	1,817.10	-	-	-
Equipment use charges	-	-	-	-	30,292.58	-
Expended for plant facilities (including $425,715.13 charged to current fund expenditures)	-	-	-	-	-	3,939,526.09
Other	-	-	1,789.81	-	-	-
Total revenues and other additions	12,467,394.77	5,335,061.64	9,429.70	3,874,062.43	95,713.24	3,939,526.09
EXPENDITURES AND OTHER DEDUCTIONS						
Educational and general expenditures	11,771,253.12	5,094,018.62	-	-	-	-
Auxiliary enterprise expenditures	742,182.16	-	-	-	-	-
Indirect costs recovered	-	175,650.03	-	-	-	-
Loan cancellations and write-offs	-	-	627.94	-	-	-
Administrative and collection costs	-	-	301.87	-	-	-
Provision for doubtful accounts	-	-	688.80	-	-	-
Expended for plant facilities	-	-	-	3,259,928.04	253,882.92	-
Expended for noncapital items	-	-	-	689,587.01	18,840.25	-
Disposal of plant facilities	-	-	-	-	-	7,068.00
Library holdings revaluation	-	-	-	-	-	67,668.85
Other	-	-	879.69	-	-	-
Total expenditures and other deductions	12,513,435.28	5,269,668.65	2,498.30	3,949,515.05	272,723.17	74,736.85

TENNESSEE BOARD OF REGENTS
JACKSON STATE COMMUNITY COLLEGE
STATEMENT OF CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 1996

	Current Funds			Plant Funds		
	Unrestricted	Restricted	Loan Funds	Unexpended	Renewals and Replacements	Investment In Plant
TRANSFERS AMONG FUNDS - ADDITIONS (DEDUCTIONS)						
Nonmandatory:						
Loan funds	(1,000.00)	-	1,000.00	-	-	-
Unexpended plant	(25,000.00)	-	-	125,000.00	(100,000.00)	-
Renewals and replacements	(79,894.44)	-	-	-	79,894.44	-
Total transfers	(105,894.44)	-	1,000.00	125,000.00	(20,105.56)	-
Net increases (decreases) for the year	(151,934.95)	65,392.99	7,931.40	49,547.38	(197,115.49)	3,864,789.24
Fund balances at beginning of year	1,087,629.63	876,585.13	42,197.90	133,391.39	1,248,403.55	19,264,061.19
Fund balances at end of year	$ 935,694.68	$ 941,978.12	$ 50,129.30	$ 182,938.77	$ 1,051,288.06	$ 23,128,850.43

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

Exhibit C

TENNESSEE BOARD OF REGENTS
JACKSON STATE 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	Investment in Plant
REVENUES AND OTHER ADDITIONS						
Unrestricted current fund revenues	$ 11,255,088.81	$ -	$ -	$ -	$ -	$ -
Auxiliary enterprise revenues	775,863.17	-	-	-	-	-
Tuition and fees	-	21,976.18	-	-	-	-
State appropriations	-	101,100.00	-	4,508,177.13	-	-
Federal grants and contracts	-	6,080,132.97	-	-	-	-
State grants and contracts	-	162,951.14	-	-	-	-
Local grants and contracts	-	19,076.94	-	-	-	-
Private gifts, grants, and contracts	-	-	-	-	-	3,000.00
Investment income	-	-	559.53	6,550.80	63,142.36	-
Interest on loans receivable	-	-	1,309.63	-	-	-
Equipment use charges	-	-	-	-	43,447.32	-
Expended for plant facilities (including $615,146.12 charged to current fund expenditures)	-	-	-	-	-	5,427,123.66
Other	-	-	-	-	-	9,580.00
Total revenues and other additions	12,030,951.98	6,385,237.23	1,869.16	4,514,727.93	106,589.68	5,439,703.66
EXPENDITURES AND OTHER DEDUCTIONS						
Educational and general expenditures	11,236,959.76	6,519,889.61	-	-	-	-
Auxiliary enterprise expenditures	669,194.58	-	-	-	-	-
Indirect costs recovered	-	219,786.89	-	-	-	-
Refunded to grantor	-	17,960.05	-	-	-	-
Loan cancellations and write-offs	-	-	13,666.45	-	-	-
Administrative and collection costs	-	-	1,177.22	-	-	-
Provision for doubtful accounts	-	-	1,644.64	-	-	-
Expended for plant facilities	-	-	-	4,665,962.60	146,014.94	-
Expended for noncapital items	-	-	-	60,557.89	3,142.50	-
Disposal of plant facilities	-	-	-	-	-	161,361.73
Total expenditures and other deductions	11,906,154.34	6,757,636.55	16,488.31	4,726,520.49	149,157.44	161,361.73

TENNESSEE BOARD OF REGENTS
JACKSON STATE 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	Investment in Plant
TRANSFERS AMONG FUNDS - ADDITIONS (DEDUCTIONS)						
Nonmandatory:						
Restricted current funds	(10,000.00)	10,000.00	-	-	-	-
Unexpended plant	(25,000.00)	-	-	25,000.00	-	-
Renewals and replacements	(70,690.00)	-	-	-	70,690.00	-
Total transfers	(105,690.00)	10,000.00	-	25,000.00	70,690.00	-
Net increases (decreases) for the year	19,107.64	(362,399.32)	(14,619.15)	(186,792.56)	28,122.24	5,278,341.93
Fund balances at beginning of year	1,068,521.99	1,238,984.45	56,817.05	320,183.95	1,220,281.31	13,985,719.26
Fund balances at end of year	$ 1,087,629.63	$ 876,585.13	$ 42,197.90	$ 133,391.39	$ 1,248,403.55	$ 19,264,061.19

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

Exhibit D

TENNESSEE BOARD OF REGENTS
JACKSON STATE COMMUNITY COLLEGE
STATEMENT OF CURRENT FUNDS REVENUES, EXPENDITURES, AND OTHER CHANGES
FOR THE YEAR ENDED JUNE 30, 1996

	Unrestricted	Restricted	Total
REVENUES			
Tuition and fees	$ 2,803,646.88	$ 16,099.64	$ 2,819,746.52
State appropriations	8,167,900.00	92,300.00	8,260,200.00
Federal grants and contracts	192,447.77	4,798,096.42	4,990,544.19
State grants and contracts	-	133,289.77	133,289.77
Local grants and contracts	178,941.00	54,232.79	233,173.79
Investment income	121,302.81	-	121,302.81
Sales and services of educational activities	135,431.85	-	135,431.85
Sales and services of auxiliary enterprises	853,040.65	-	853,040.65
Other sources	14,683.81	-	14,683.81
Total current revenues	12,467,394.77	5,094,018.62	17,561,413.39
EXPENDITURES AND TRANSFERS			
Educational and general:			
Expenditures:			
Instruction	6,450,114.34	252,684.96	6,702,799.30
Public service	54,644.14	3,669,723.79	3,724,367.93
Academic support	738,087.44	-	738,087.44
Student services	1,551,110.38	16,099.64	1,567,210.02
Institutional support	1,650,400.82	-	1,650,400.82
Operation and maintenance of plant	1,190,076.03	-	1,190,076.03
Scholarships and fellowships	136,819.97	1,155,510.23	1,292,330.20
Total educational and general expenditures	11,771,253.12	5,094,018.62	16,865,271.74
Nonmandatory transfers for:			
Loan funds	1,000.00	-	1,000.00
Unexpended plant	25,000.00	-	25,000.00
Renewals and replacements	67,794.44	-	67,794.44
Total educational and general	11,865,047.56	5,094,018.62	16,959,066.18
Auxiliary enterprises:			
Expenditures	742,182.16	-	742,182.16
Nonmandatory transfer for:			
Renewals and replacements	12,100.00	-	12,100.00
Total auxiliary enterprises	754,282.16	-	754,282.16
Total expenditures and transfers	12,619,329.72	5,094,018.62	17,713,348.34
OTHER ADDITION (DEDUCTION)			
Excess of restricted receipts over transfers to revenues	-	241,043.02	241,043.02
Indirect costs recovered	-	(175,650.03)	(175,650.03)
Net increase (decrease) in fund balances	$ (151,934.95)	$ 65,392.99	$ (86,541.96)

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

Exhibit E

TENNESSEE BOARD OF REGENTS
JACKSON STATE 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	$ 2,667,776.31	$ 37,441.44	$ 2,705,217.75
State appropriations	7,961,500.00	101,100.00	8,062,600.00
Federal grants and contracts	219,786.89	6,102,367.39	6,322,154.28
State grants and contracts	-	167,150.63	167,150.63
Local grants and contracts	142,829.12	111,830.15	254,659.27
Investment income	115,673.25	-	115,673.25
Sales and services of educational activities	133,422.15	-	133,422.15
Sales and services of auxiliary enterprises	775,863.17	-	775,863.17
Other sources	14,101.09	-	14,101.09
Total current revenues	12,030,951.98	6,519,889.61	18,550,841.59
EXPENDITURES AND TRANSFERS			
Educational and general:			
Expenditures:			
Instruction	6,025,496.05	356,068.33	6,381,564.38
Public service	51,921.64	4,939,075.39	4,990,997.03
Academic support	908,533.87	4,198.46	912,732.33
Student services	1,488,263.03	37,441.44	1,525,704.47
Institutional support	1,635,759.67	-	1,635,759.67
Operation and maintenance of plant	986,145.12	-	986,145.12
Scholarships and fellowships	140,840.38	1,183,105.99	1,323,946.37
Total educational and general expenditures	11,236,959.76	6,519,889.61	17,756,849.37
Nonmandatory transfers for:			
Restricted current funds	10,000.00	-	10,000.00
Unexpended plant	25,000.00	-	25,000.00
Renewals and replacements	59,710.00	-	59,710.00
Total educational and general	11,331,669.76	6,519,889.61	17,851,559.37
Auxiliary enterprises:			
Expenditures	669,194.58	-	669,194.58
Nonmandatory transfer for:			
Renewals and replacements	10,980.00	-	10,980.00
Total auxiliary enterprises	680,174.58	-	680,174.58
Total expenditures and transfers	12,011,844.34	6,519,889.61	18,531,733.95
OTHER TRANSFER AND DEDUCTIONS			
Excess of transfers to revenues over restricted receipts	-	(134,652.38)	(134,652.38)
Indirect costs recovered	-	(219,786.89)	(219,786.89)
Refunded to grantor	-	(17,960.05)	(17,960.05)
Transfer from unrestricted current funds	-	10,000.00	10,000.00
Net increase (decrease) in fund balances	$ 19,107.64	$ (362,399.32)	$ (343,291.68)

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 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. 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 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.

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 consist of the bookstore. 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, 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.

INVENTORIES

Inventories are valued at the lower of cost or market. Textbooks included in the inventory are recorded on an average-cost basis at June 30, 1996, and on a first-in, first-out basis at June 30, 1995. All other items are maintained on an average-cost or first-in, first-out basis.

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 $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.

Under a contract with the Tennessee Department of Labor, the college is the administrative entity and grant recipient for the Job Training Partnership Act in service delivery area 12 of the State of Tennessee. The title to all the equipment purchased by the college under the provisions of the act resides with the U. S. Department of Labor. Therefore, this equipment is not included in the college's plant fund assets.

F. E. WRIGHT MEMORIAL FOUNDATION, INC.

The college is the sole beneficiary of the F. E. Wright Memorial Foundation, Inc. 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. 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 and related benefits, 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 $557,312.11 at June 30, 1996, and $558,867.48 at June 30, 1995, decreased the unrestricted current fund expenditures by $1,555.37 for the year ended June 30, 1996, and increased the unrestricted current fund expenditures by $51,823.42 for the year ended June 30, 1995.

NOTE 3. CASH AND CASH EQUIVALENTS

In addition to demand deposits and petty cash on hand, this classification includes instruments which are readily convertible to known amounts of cash and which have original maturities of three months or less. At June 30, 1996, cash and cash equivalents consisted of $947,754.92 in bank accounts, $4,470.00 of petty cash on hand, $180,000.00 in an annuity, and $3,794,037.48 in the State of Tennessee Local Government Investment Pool administered by the State Treasurer. At June 30, 1995, cash and cash equivalents consisted of $1,133,382.65 in bank accounts, $2,950.00 of petty cash on hand, and $3,374,198.19 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.

At June 30, 1996, the carrying amount of the college's deposits was $947,754.92, and the bank balance including accrued interest was $1,615,717.51. Of the bank balance, $1,370,609.15 was category 1, and $245,108.36 was category 3. During the year ended June 30, 1996, the foundation had uncollateralized deposits ranging from $196,178.98 to $245,108.36.

At June 30, 1995, the carrying amount of the college's deposits was $1,133,382.65, and the bank balance including accrued interest was $1,922,573.60. Of the bank balance, $1,725,519.82 was category 1, and $197,053.78 was category 3. During the year ended June 30, 1995, the foundation had uncollateralized deposits ranging from $144,257.36 to $197,053.78.

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. PLANT FUND ENCUMBRANCES

Plant fund encumbrances outstanding at June 30, 1996, amounted to $22,000.00 for unexpended plant and $85,329.76 for renewals and replacements. Plant fund encumbrances outstanding at June 30, 1995, amounted to $21,991.00 for unexpended plant and $170,542.98 for renewals and replacements.

NOTE 6. 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 $6,337,879.38 for the year ended June 30, 1996, and $6,230,002.68 for the year ended June 30, 1995. The college's total payroll was $9,719,567.21 for the year ended June 30, 1996, and $10,067,263.38 for the year ended June 30, 1995.

TCRS members may retire at age 60 with five years of service or at any age with 30 years of service. Early retirement with reduced benefits is available to vested members who are at least age 55 or have 25 years of service. Benefits are based on the number of years of creditable service and highest average salary for five consecutive years. Members are vested after five years of service. The TCRS also provides death and disability benefits. Disability benefits are available to members with five years of service who become disabled and cannot engage in gainful employment. There is no service requirement for disability that is the result of an accident or injury occurring while the member performed duties. 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, 1996, was $401,504.36, and for the year ended June 30, 1995, was $394,359.22, which both represented 6.33% of the covered payroll.

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

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

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 up to 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 $1,844,947.28 for the year ended June 30, 1996, and $1,528,789.98 for the year ended June 30, 1995. The college's total payroll was $9,719,567.21 for the year ended June 30, 1996, and $10,067,263.38 for the year ended June 30, 1995. The required contribution made by the college for the year ended June 30, 1996, was $184,513.12, and for the year ended June 30, 1995, was $152,897.06, which both represented 10% of the covered payroll.

Deferred Compensation

Effective January 1996, the college, through the State of Tennessee, offers its employees a deferred compensation plan established pursuant to *Internal Revenue Code*, Section 401(k). Excluding the $20 college match discussed below, all costs of administering the plan are the responsibility of plan participants.

Since Section 401(k) plan assets remain the property of contributing employees, they are not presented in the State of Tennessee financial statements. *Internal Revenue Code*, Section 401(k), establishes participation, contribution, and withdrawal provisions for the plan. Effective for the six-month period January through June 1996, the college provided a $20 monthly Section 401(k) match from unrestricted current funds for employees making a minimum monthly contribution of $20 to the plan. During the year ended June 30, 1996, contributions totaling $38,410.86 were made by employees participating in the plan with a related match of $15,560.00 made by the college. The current covered payroll for participating employees was $1,945,900.42, while the total payroll for all eligible college employees during the year was $3,891,800.84.

NOTE 7. OTHER POST-EMPLOYMENT BENEFITS

The State of Tennessee administers a group health insurance program which provides post-employment health insurance benefits to eligible 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 8. 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 not covered by the commercial insurance.

At June 30, 1996, the scheduled coverage for the college was $22,654,300 for buildings and $3,281,400 for contents. At June 30, 1995, the scheduled coverage was $21,817,100 for buildings and $1,081,400 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 9. 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 $2,609,807.16 at June 30, 1996, and $2,478,118.68 at June 30, 1995.

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 $33,283.81 and for personal property were $10,305.29 for the year ended June 30, 1996. The amounts for the year ended June 30, 1995, were $37,799.08 and $10,279.92. All operating leases are cancelable at the lessee’s option.

Construction in Progress - At June 30, 1996, outstanding commitments under construction contracts totaled $182,777.38 for a new technical education building, which will be funded by future state capital outlay appropriations.

NOTE 10. PLEDGES

At June 30, 1996, unrecorded pledges totaled $382.50 and were restricted to foundation uses. These pledges are due to be collected during the next fiscal year. It is not practicable to estimate the net realizable value of such pledges; therefore, they are not reflected in the accompanying financial statements.