Tennessee Board of Regents
Tennessee State University

For the Year Ended
June 30, 1999

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STATE OF TENNESSEE
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John G. Morgan
Comptroller

March 22, 2000

The Honorable Don Sundquist, Governor
and
Members of the General Assembly
State Capitol
Nashville, Tennessee 37243
and
The Honorable Sidney McPhee, Interim Chancellor
Tennessee Board of Regents
1415 Murfreesboro Road, Suite 350
Nashville, Tennessee 37217
and
Dr. James A. Hefner, President
Tennessee State University
3500 John A. Merritt Boulevard
Nashville, Tennessee 37209

Ladies and Gentlemen:

Transmitted herewith is the financial and compliance audit of the Tennessee Board of Regents, Tennessee State University, for the year ended June 30, 1999. 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 university 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 internal control over financial reporting and tests of compliance disclosed certain deficiencies, which are detailed in the Results of the Audit section of this report. The university's administration has responded to the audit findings; the responses are included following each finding. The Division of State Audit will follow up the audit to examine the application of the procedures instituted because of the audit findings.

Sincerely,

John G. Morgan
Comptroller of the Treasury

JGM/ks
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State of Tennessee

Audit Highlights

Comptroller of the Treasury | Division of State Audit

Financial and Compliance Audit
Tennessee State University
For the Year Ended June 30, 1999

AUDIT OBJECTIVES

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

INTERNAL CONTROL FINDING

University Personnel Did Not Properly Update Equipment Inventory Records
The university's moveable property section did not have an adequate system of follow-up to ensure that equipment changes indicated by individual departments were properly reflected in the fiscal year-end equipment balances. In addition, the location of federal equipment items was not always reflected properly in the university's property records. Failure to update the equipment records resulted in a $228,236.40 net overstatement of equipment, and the transfer of 49 equipment items between departments was not reflected (page 9).

COMPLIANCE FINDING

Students Awarded Financial Aid in Excess of Their Eligibility
Eighteen students were awarded financial aid packages that were greater than the total aid for which they were eligible. The overawards ranged from $27 to $2,820 per student and totaled $14,244 (page 11).

SPECIAL INVESTIGATIONS FINDINGS

Internal Control Weaknesses Permitted a $19,474 Misappropriation From Debitek Vending Machines and Prevented Prompt Detection of the shortage
A review of cash shortages related to the Debitek Cash to Card vending machines identified the following internal control weaknesses: failure to secure the machine keys; failure to rekey the machines; failure to follow the university's written policy; failure to follow the Bursar's established procedures; inadequate procedures; and failure to react promptly (page 12).

Internal Control Weaknesses in the Bursar's Office Prevented Prompt Detection of a $2,000 Misappropriation From University Bank Deposits
A review of cash shortages in the Bursar's office identified the following internal control weaknesses: bank deposits not reconciled in a timely manner; cashier supervisor not properly supervised by the Bursar; bank deposits not reconciled, independently of the cashier supervisor, on a daily basis; failure of management

to properly monitor, restrict, and document issuance of vault combination and keys; and an inadequate security alarm system (page 14).

Inadequate Controls Over Outside Security Guards Resulted in Overpayments
A review of security services provided by Metropolitan Police officers during the period August 1997 through August 1998 revealed that the supervising officer was on duty with the police department during 16.4 hours he reported he was working at the university. The overpayment was $329.68. The review also revealed that the in-court hours reported for three other metro police officers overlapped with the hours reported to the university, resulting in overpayments totaling $82.54 (page 16).

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
Tennessee State University
For the Year Ended June 30, 1999

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INTRODUCTION

POST-AUDIT AUTHORITY

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

Tennessee State University was first established as the Agricultural and Industrial State Normal School on June 19, 1912, through an act of the Tennessee General Assembly. In 1922, the institution was raised to the status of a four-year teachers' college and was empowered to grant the bachelor's degree. In August 1951, the State Board of Education granted the institution university status. The university was elevated to a land-grant university by the State Board of Education in August 1958. The land-grant university program established a School of Agriculture and Home Economics, School of Engineering, School of Arts and Sciences, School of Education, Graduate School, Division of Business, Division of Extension and Continuing Education, and Department of Aerospace Studies. The university is supported by state and federal funds, the latter in accordance with the Morrill Act and other federal acts that provide for land-grant institutions.

ORGANIZATION

The governance of Tennessee State University 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 university 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, 1998, through June 30, 1999, and was conducted in accordance with generally accepted government auditing standards. Financial statements are presented for the year ended June 30, 1999, and for comparative purposes, the year ended June 30, 1998. Tennessee State University 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 university's internal control over financial reporting to determine auditing procedures for the purpose of expressing an opinion on the financial statements;

2. to determine compliance with certain provisions of laws, regulations, contracts, and grants;

3. to determine the fairness of the presentation of the financial statements; and

4. to recommend appropriate actions to correct any deficiencies.

Although this audit was not intended to serve as an organization-wide audit as described in the Single Audit Act, as amended by the Single Audit Act Amendments of 1996, and Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations,* it included tests of compliance with applicable federal laws and regulations and consideration of internal control used in administering federal financial assistance programs. This audit is a segment of the organization-wide audit of the State of Tennessee, which is conducted in accordance with the Single Audit Act.

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 university filed its report with the Department of Audit on August 31, 1999. A follow-up of the prior audit finding was conducted as part of the current audit.

RESOLVED AUDIT FINDING

The current audit disclosed that the university has corrected the previous audit finding concerning the calculation of refunds due student financial assistance programs.

OBSERVATIONS AND COMMENTS

INCORRECT BUDGET REQUESTS

Each year the Tennessee Higher Education Commission submits a budget request to the legislature for the institutions of higher education governed by the Board of Regents and University of Tennessee systems. The commission's budget request apportions the requested appropriation among state institutions in accordance with a formula that is based in part on detailed information submitted by each of the institutions. Erroneous amounts in the formula would cause improper apportionment of the budget request.

Tennessee State University incorrectly interpreted the funding formula instructions and did not include the cost of scholarships, grants, and other fee waivers provided to out-of-state students when reporting the amount of out-of-state tuition revenues to the Tennessee Higher Education Commission. On the budget request forms, the revenue expected from out-of-state tuition was understated by $874,020 for fiscal year 1998-99 and $1,580,224 for fiscal year 1999-2000. Because the commission made budget recommendations based on the erroneous information, Tennessee State University received excess state appropriations of $575,800 and $1,082,500 for the respective years. Since there is a finite amount of money to be apportioned among all the institutions, the others received smaller appropriations than they should have. The commission discovered the errors when the revenues used in the projections on the budget request forms were compared with the actual revenues reported in the financial statements. At that point, it was too late to make budgetary changes.

The Tennessee Higher Education Commission has instructed the university to use the correct method of calculating anticipated revenue from out-of-state tuition to ensure the calculation will be consistent with that used by the other institutions. The Department of Finance and Administration anticipates amending the university's budget in the coming year to adjust for the errors.

TITLE IX OF THE EDUCATION AMENDMENTS OF 1972

Tennessee Code Annotated, Section 4-4-123, requires each state governmental entity subject to the requirements of Title IX of the Education Amendments of 1972 to submit an annual Title IX compliance report and implementation plan to the Department of Audit by June 30, 1999, and each June 30 thereafter. The university did not file its compliance report and implementation plan by June 30, 1999, in violation of this statutory requirement.

Title IX of the Education Amendments of 1972 is a federal law. The act requires all state agencies receiving federal money to develop and implement plans to ensure that no one receiving benefits under a federally funded education program and activity is discriminated against on the basis of gender. The untimely filing of the compliance report and implementation plan required by state law does not necessarily mean that the university is not in compliance with the federal law.

RESULTS OF THE AUDIT

AUDIT CONCLUSIONS

Internal Control

As part of the audit of the university's financial statements for the year ended June 30, 1999, we considered internal control over financial reporting to determine auditing procedures for the purpose of expressing an opinion on the financial statements, as required by generally accepted government auditing standards. Reportable conditions, along with recommendations and management's responses, are detailed in the findings and recommendations. Consideration of internal control over financial reporting disclosed no material weaknesses.

Compliance

The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. Immaterial instances of noncompliance, along with the recommendation and management's response, are included in the findings and recommendations.

Fairness of Financial Statement Presentation

The university 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 university's financial statements.

STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
DEPARTMENT OF AUDIT
DIVISION OF STATE AUDIT
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Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

November 24, 1999

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

Dear Mr. Morgan:

We have audited the financial statements of Tennessee State University, an institution of the Tennessee Board of Regents, which is a component unit of the State of Tennessee, as of and for the year ended June 30, 1999, and have issued our report thereon dated November 24, 1999. Our report was qualified because the university omitted the liability for accrued compensated absences from the balance sheet. We conducted our audit in accordance with generally accepted government auditing standards.

Compliance

As part of obtaining reasonable assurance about whether the university's financial statements are free of material misstatement, we performed tests of the university's compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards.*

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

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the university's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the university's ability to record, process, summarize, and report financial data consistent with management's assertions in the financial statements.

The following reportable conditions were noted:

- University personnel did not properly update equipment inventory records
- Internal control weaknesses permitted a $19,474 misappropriation from Debitek vending machines and prevented prompt detection of the shortage
- Internal control weaknesses in the Bursar's office prevented prompt detection of a $2,000 misappropriation from university bank deposits
- Inadequate controls over outside security guards resulted in overpayments

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

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe none of the reportable conditions described above is a material weakness.

We also noted other matters involving the internal control over financial reporting, which we have reported to the university's management in a separate letter.

This report is intended solely for the information and use of the General Assembly of the State of Tennessee and management and is not intended and should not be used by anyone other than these specified parties. However, this report is a matter of public record.

Sincerely,

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

AAH/ks

FINDINGS AND RECOMMENDATIONS

FINANCIAL AND COMPLIANCE

1. University personnel did not properly update equipment inventory records

Finding

The university's moveable property section, which is responsible for keeping up with all of the university's equipment, did not have an adequate system of follow-up to ensure that equipment changes indicated by individual departments were properly reflected in the fiscal year-end equipment balances. In addition, the location of federal equipment items was not always reflected properly in the university's moveable property records. In order to conduct the annual physical inventory of equipment, the moveable property section distributes a moveable property inventory printout to each department. This printout contains a complete list of those equipment items that the moveable property section believes the department is responsible for, based on the previous year's inventory and the known purchase and disposition activities of that department. Each department is required to verify whether the equipment information is correct, and if it is not, to indicate the necessary changes on the printout, which is returned to the moveable property section so the property records can be updated, if necessary. Additionally, any time a department moves or transfers a piece of equipment, it is supposed to submit paperwork to the moveable property section so that the property records can be updated.

During the review of equipment for 25 departmental accounts, the auditors noted the following problems:

a. A computerized cardiac support system was given to the university in December 1997, and adequate documentation supporting its addition to the moveable property records appeared to be present at that time; however, the item was not added to the inventory records until November 1999. As a result, the year-end inventory was understated by $48,785.

b. Seven departments (28%) requested the transfer of a total of 49 equipment items prior to June 30, 1999, but these changes were not included in the year-end inventory. Although the failure to reflect the transfers did not affect the total equipment inventory on the balance sheet, the incorrect locations of the items did not properly assign responsibility for them.

c. Five departments (20%) requested the deletion of a total of 58 items from the equipment inventory prior to June 30, 1999, but these items were not deleted from the year-end inventory. The policy of the moveable property section is not to remove any equipment item from the inventory until sufficient completed documentation is submitted to substantiate the deletion. Supporting documentation was submitted after year end; however, the inventory records were not adjusted for fiscal year 1999. As a result, the year-end inventory was overstated by $165,660.47. The total included two items reported by the departments as stolen ($4,146) and 47 items that had been destroyed ($161,514.47). The other nine items, totaling $15,658.50, were supposed to be classified as surplus.

d. Nine departments (36%) requested the deletion of a total of 66 items from the equipment inventory prior to June 30, 1999, but these requests were not accompanied by sufficient completed documentation to support the deletions. As a result, the moveable property section was unable to remove the items from the year-end inventory. However, based on notations on the moveable property inventory printouts and discussions with departmental personnel, a number of the deletion requests can never be substantiated by adequate paperwork, and the resolution of a number of these circumstances has been in dispute for several years. Of these 66 equipment items, 39 items represented a potential overstatement on the balance sheet of $111,360.93, including five items reported as stolen ($6,959), two items that were reportedly never received ($3,758), one item that was reported to have been dismantled ($4,645), and 31 items reported as missing ($95,998.93). The other 27 items, totaling $450,488.92, were supposed to be classified as surplus, according to the departments.

In addition, 12 of 25 federal equipment additions tested (48%) were found in locations different from those reported on the Moveable Property Inventory Control Sheets and the Property Listing.

Recommendation

The Vice President for Business and Finance should monitor the activities of the moveable property section to ensure the equipment inventory records have been properly updated prior to year-end financial reporting. Additionally, efforts should be made to resolve outstanding equipment deletion issues with the applicable departments.

Management's Comment

We concur with the finding and recommendation. The university historically conducted its inventory once a year during the months of April and May. The number of records that must be received and changes made indicates that insufficient time was available to complete all aspects of the inventory by the fiscal year-end closing date. The period for conducting the inventory is being moved back two months, to March, to allow sufficient time to complete all inventory requirements prior to year-end.

In addition, a mini inventory workshop is currently being conducted for key administrators and staff to further acquaint them with the fundamentals and requirements of the inventory process.

2. <u>Students were awarded financial aid in excess of their eligibility</u>

Finding

In 18 cases in the 1998-99 academic year, the university awarded the student a financial aid package that was greater than the total aid for which the student was eligible. A student's eligibility for financial aid is limited by the cost of attendance (COA) at the institution less the expected family contribution (EFC). The COA is determined by the institution and is based on factors such as number of credit hours, whether the student lives on or off campus, and the course of study. The *Federal Student Financial Aid Handbook* states that, "The school establishes the COA in compliance with federal guidelines." The Department of Education determines the EFC based on information in the student's financial aid application. The student's financial need is equal to the COA minus the expected family contribution, and is automatically calculated by the computer system based on the COA entered by the financial aid counselors. If the financial aid then awarded is greater than the calculated financial need, the computer flashes the word "overaward" on the screen.

In the 18 cases noted, staff disregarded the "overaward" warning. The overaward amount ranged from $27 to $2,820 per student and totaled $14,244. In seven cases, increasing the student's COA could have eliminated the overaward, but the increase was not entered in the student's file. In the other cases, when additional aid was awarded late in the semester, the original awards should have been reduced to accommodate the new aid by refunding appropriate amounts to the original federal programs.

Recommendation

The Financial Aid counselors should monitor award amounts to ensure they are within the maximum amounts allowed, particularly in cases of late aid awarded. The computer program should be changed to preclude awarding excess aid when the computer indicates "overaward." Management should determine the circumstances under which the "overaward" warning was ignored and take appropriate action.

Management's Comment

We concur with the finding and recommendation. We identified 14 overawards totaling $13,304 from a population of 11,824 awards totaling $47,377,572 for an incident error rate of .12% and a dollar error rate of .03% The problem of coordination of aid is significantly improved as we transferred responsibility for scholarship processing from the Office of Admissions and Records to the Financial Aid Office effective July 1, 1999. We will investigate the possibility of system modification of the on-line overaward notice. A Focus computer program has also been developed to identify overawards which may occur during processing. The program will be run each semester to better monitor awards.

SPECIAL INVESTIGATIONS

3. <u>Internal control weaknesses permitted a $19,474 misappropriation from Debitek vending machines and prevented prompt detection of the shortage</u>

Finding

On May 12, 1999, Tennessee Board of Regents staff notified the Division of State Audit of the potential theft of $13,775 from the seven Debitek Cash to Card vending machines located on Tennessee State University's main and Williams campuses. The Division of State Audit and the university's internal audit staff initiated a review of the Debitek discrepancies and determined that an unidentified person or persons improperly removed $19,474 of university revenues from the machines.

The review identified the following internal control weaknesses:

- <u>Failure to secure the Cash to Card machine keys</u> - After receiving the seven Cash to Card machines, university personnel in central receiving, purchasing, plant maintenance, and finance and accounting did not inventory or secure the keys that unlocked the machines and provided access to the cash in the machines. Also, access to the keys was not restricted prior to the installation of the machines.

- <u>Failure to rekey the Cash to Card machines</u> - University management did not require the rekeying of the standard Cash to Card machine locks provided with the machines. These standard locks could be opened with the same key provided with each Cash to Card machine. Thus, anyone with access to the keys provided with a Cash to Card machine sold anywhere could have opened the machines and removed the collected cash.

- <u>Failure to follow the university's written Cash to Card policy</u> - The cashiers did not always download the sales data from each machine's on-board computer into the Data Collector at the time of the collection. The head cashier did not perform all of the cashier supervisor's reconciliation duties in her absence. The cashier supervisor did not always reconcile the collection amounts to the sales amounts shown on the computer-generated sales reports.

- <u>Failure to follow the Bursar's established procedures for collection and reconciliation of the Cash to Card revenues</u> - The cashiers did not always record, at the time the cash was collected, the sales amount shown by the machine's mechanical counter. The cashiers did not always completely fill out or sign the collection reports. The cashier supervisor did not compare the mechanical counter amounts to the amounts of cash actually collected.

- Inadequate procedures - The review detected several weaknesses in the university's written policy and the Bursar's established procedures for collecting and reconciling the Cash to Card revenues. The cashiers did not record the names of the cashiers and the security officers involved in the cash collections. The Bursar's office did not have a reconciliation process, independent from the cashier supervisor, that matched the sales amount shown by the sales reports to the amount of cash actually collected from the machines.

- Failure to react promptly - Although the Bursar and the Director of Finance and Accounting were notified of the discrepancies in mid-February 1999, they allowed the Cash to Card machines to remain in operation until April 30, 1999. Subsequently, the initial losses increased approximately $6,754. Additionally, the Bursar and the Director of Finance and Accounting did not notify the university's internal audit staff of the discrepancies until April 29, 1999, and the Division of State Audit was not notified of the losses until May 12. Subsequently, the auditors determined that the first Cash to Card loss ($534) occurred on December 9, 1998.

Referral to the District Attorney General's Office, Twentieth Judicial District (Davidson County), is pending. A Special Report on the results of this review will be released at a later date.

Recommendation

Management should restrict access to university vending machine keys to authorized personnel only, and this access should be documented.

Management should rekey the locks on all university vending machines currently in service or purchased in the future if the machines are fitted with standard locks by the vendor.

Management should require the Bursar's office staff to adhere to the university's Debitek collection and reconciliation policies and procedures.

Management should revise the university's written Debitek collection and reconciliation policy to include (1) recording the time, date, and names of personnel involved in each Debitek collection; (2) recording the Debitek machines' mechanical sales reading at the time of each collection and, on that same day, matching this reading to the amount of cash collected; (3) requiring the cashiers to completely fill out and sign the collection reports; and (4) reconciling the collections, independently from the cashier supervisor, by matching the sales amount shown by the sales reports and the mechanical counters to the amount of cash actually collected from the machines.

University staff should immediately contact upper management, internal audit staff, and the Division of State Audit when discrepancies regarding university funds are discovered.

Management's Comment

We concur with the finding and recommendation. Management has restricted access to university Debitek vending machine keys to authorized personnel only. All keys have been accounted for and locked in the Bursar's locked bank bag in the vault, with the exception of one key in the cashier's locked bag in the vault, which is used by the cashiers to open the machines. This restricted access has been documented. Locks on all machines were rekeyed in June 1999. A new machine installed in the Library was rekeyed in October 1999, prior to its activation. All policies and procedures regarding prompt downloading of information and reconciliation of reports will be adhered to by the Bursar's Office staff. The Debitek policies and procedures have been revised to include: (1) recording the time, date, and names of personnel involved in each Debitek collection; (2) recording the machines' mechanical sales readings at the time of each collection and, on the same day, matching the readings to the cash collected; (3) requiring the cashiers to completely fill out and sign the collection reports; and (4) reconciling collections independently of the Cashier Supervisor by matching the sales amounts shown on the downloaded reports and the mechanical counters to the amounts of cash actually collected from the machines. The Bursar, through the Director of Finance and Accounting, will immediately contact the Vice President for Business and Finance and Internal Audit when discrepancies regarding university funds are suspected or discovered.

4. Internal control weaknesses in the Bursar's office prevented prompt detection of a $2,000 misappropriation from university bank deposits

Finding

On May 5, 1999, Tennessee Board of Regents staff notified the Division of State Audit of the potential theft of $1,000 from bank deposits from the Tennessee State University Bursar's office. On May 17, 1999, board staff notified the Division of State Audit of the potential theft of an additional $1,000 from bank deposits. The Division of State Audit and the university's internal audit staff initiated a review of the shortages and determined that a total of $2,000 had been misappropriated from the February 1 and March 8, 1999, bank deposits.

The review identified the following internal control weaknesses:

- Bank deposits were not reconciled in a timely manner. The cashier supervisor did not always reconcile the bank deposit receipts to the Cashier's Daily Balancing Reports and the Cash Receipts System reports on a daily basis as required by the cashier balancing policy. Also, the cashier supervisor did not reconcile the deposit discrepancies identified by the financial analyst in a timely manner.

- The Bursar did not properly supervise the cashier supervisor. The Bursar did not ensure that the cashier supervisor was reconciling the bank deposits and the deposit discrepancies in a timely manner.

- Bank deposits were not reconciled, independently of the cashier supervisor, on a daily basis. The university's deposit reconciliation policy did not require the bank deposits to be reconciled on a daily basis and independently of the cashier supervisor's reconciliation.

- University management did not properly monitor, restrict, and document the issuance of the Bursar's office vault combination and the keys to the Bursar's office and the cashier's office.

- The security alarm system did not properly protect the Bursar's office vault. The interior was not protected by the alarm system as an area separate from the rest of the building. As a result, when the exterior entry door alarm was disarmed, the vault interior was disarmed as well. Also, the alarm system had the capability to record and save the times, dates, and access codes used for each arming and disarming of the alarm system, yet the alarm system was not programmed to do so.

In a May 14, 1999, interview, the cashier supervisor admitted that at the close of the business day on January 29, she incorrectly filled out a deposit slip and understated the deposit by $1,000. Similarly, the cashier supervisor admitted that at the close of the business day on March 5, she incorrectly filled out a deposit slip and understated the deposit by $1,000. In both instances, the lesser amounts were deposited. The cashier supervisor denied taking the $2,000 and suggested that either a Bursar's office employee or the depositing teller at the bank noticed her errors on the deposit slips and took the money. The auditors interviewed all of the Bursar's office employees with access to the vault interior and contacted the bank's security department, but were unable to prove or disprove the cashier supervisor's theory. None of the individuals interviewed admitted taking the money.

In addition, the cashier supervisor acknowledged that she did not perform the required next-day deposit reconciliation procedure for either deposit in question. Rather than perform this comparison on the day of the deposit, the cashier supervisor stated that she usually waited several days. According to the cashier supervisor, for some deposits she never compared the deposit amounts to the collection amounts. The cashier supervisor claimed that she did not perform this comparison on the two deposits that were $1,000 short.

With the required 30 days' notice, the president terminated the cashier supervisor's employment on July 1, 1999.

Referral to the District Attorney General's Office, Twentieth Judicial District (Davidson County), is pending. A Special Report on the results of this review will be released at a later date.

Recommendation

Management should require the cashier supervisor to properly reconcile the university's bank deposits on the day of the deposit and to reconcile any discrepancies identified by the financial analyst in a timely manner.

Management should require the Bursar to properly supervise the cashier supervisor to ensure that the required reconciliations are performed in a timely manner.

Management should ensure that the university's bank deposits are properly reconciled, independently of the cashier supervisor, on a daily basis by the financial analyst. This reconciliation should include daily matching of computerized university receipt reports and bank deposit receipts.

Management should monitor the issuance of keys, the vault combination, and alarm access codes that provide access to the Bursar's office, the cashier's office, and the Bursar's office vault and ensure that they are only issued to authorized personnel. Management should also ensure that the vault combination and the alarm access codes are kept confidential.

Management should ensure that the security alarm system protects the vault interior as an area separate from the rest of the building that can only be armed or disarmed by individual access codes. The alarm system should also be programmed to record the date, time, and individual code used for each arming and disarming of the vault interior alarm, thereby providing a record of each entry to the vault. This record should be reviewed periodically to identify any improper or unauthorized entries into the vault. Management personnel who do not have an alarm access code, the vault combination, or keys to the Bursar's office and the cashier's office should perform this review.

Management's Comment

We concur with the finding and recommendation. The Bursar's Office has employed a temporary Account Clerk III to ensure that the university's bank deposits are properly reconciled on a daily basis until the Financial Analyst II position is filled. The reconciliation requires the daily matching of computerized university receipts, reports, and bank deposit slips. Bank deposit slips are now prepared by the Lead Cashier, not the Cashier Supervisor. The Bursar is properly supervising the Account Clerk III to ensure that reconciliations are prepared in a timely manner. The issuance of office keys in the Bursar's Office has always been monitored and documented so that only authorized personnel can gain access. Keys are also retrieved from all employees who leave the university, and this retrieval is documented. The vault combination has always been restricted to the Lead Cashier, Cashier Supervisor, and Bursar. The combination is changed whenever employees in these positions leave the university. No one on the Bursar's Office staff has access to alarm codes at this time. The Vice President for Business and Finance will research obtaining a security alarm system that protects the vault interior as an area separate from the rest of the building by March 31, 2000. The alarm system should provide the date, time, and codes used for each arming and disarming of the vault interior, and this data will be periodically reviewed by Internal Audit.

5. <u>Inadequate controls over outside security guards resulted in overpayments</u>

Finding

In October 1998, the Division of State Audit received information that Nashville Metropolitan Police (metro police) officers had billed Tennessee State University (TSU) for private security services that they had not actually rendered during the period August 1997 through August 1998. The subsequent review included interviews with TSU staff, TSU Police Department staff, and the metro police officers involved. The auditors also compared invoices and related listings of metro police officers' activities at TSU with metro police department work logs and other time and attendance records for the metro police officers involved.

According to the TSU Police Department Director, TSU arranges with metro police officers to provide security for basketball and football games, special events, campus parties, registration, and off-campus housing complexes. He stated that a supervising metro police officer was his contact at the metro police department and that all his arrangements for acquiring the services of metro police officers were made through this supervising officer.

This review disclosed several serious internal control weaknesses. First, TSU did not place the supervising metro police officer or the other metro police officers under contract. Second, the TSU requisition-for-services documentation did not specify the names of the metro police officers, the dates of service, or the hours of work required. Third, the invoices did not record the date, time in, time out, and total hours for each day of work for each metro police officer. Instead, the invoices reported total hours for a time period for each metro police officer. Fourth, TSU did not require the metro police officers to sign in on a log when they arrived at work or to sign out when they left work. Fifth, no TSU employee was assigned responsibility for ensuring that the metro police officers were actually at work or for monitoring their performance. Because of the lack of information as to the exact times when the metro police officers were present and working for TSU and the lack of effective monitoring, it was impossible to ascertain whether all the hours reported as worked were in fact worked.

As a result of the internal control weaknesses described above, based on presently available information, the supervising metro police officer was actually on duty with the metro police department during 16.4 hours he reported that he was working at TSU. All the questioned hours were during the daytime, when the supervising officer was paid to provide security to TSU during registration periods. The overlaps in time occurred on 12 different instances and resulted in an overpayment by TSU to him of $329.68. Although the supervising officer's regular work schedule as a metro police officer was a night shift, he was required to make court appearances on occasion during the day. During these court appearances, the supervising officer's in and out times were recorded by means of a time clock. The overlap was determined by comparing these in and out times with the hours the supervising officer reported he had worked at TSU.

The supervising officer acknowledged that he was absent from TSU for court appearances but stated that he traded time that he would normally be off during lunch hours. He said that he was allowed one hour for lunch while working for TSU and that on occasion he would forego taking his one-hour lunch, trading it for time off at a later date. However, the supervising officer acknowledged that he did not keep a record of the days on which he did not take a lunch break and also that he had not mentioned his trading of his lunch hours to the TSU Police Department Director. The TSU Police Department Director stated that he had not authorized the supervising officer to trade his lunch hours for absences, and also that he did not have any knowledge that the supervising officer had done so.

The review further revealed that the in-court times of three other metro police officers overlapped with the hours they had reported they worked at TSU registrations. The resulting overpayment for these three officers totaled about four hours, with a total cost of $82.54. The three officers stated that the supervising officer had told them he would take care of properly recording their time. In addition, the three officers stated that they were unaware that their TSU checks included payment for their in-court time because they did not receive their TSU checks until several months after they performed their TSU security work and they did not correlate their hours to their pay.

Metro police department records showed that the supervising officer was on duty with the metro police department during 31.5 hours he reported that he was working at TSU off-campus housing complexes. The supervising officer stated that he was actually at TSU and not working his regular shift with the metro police department on the eight occasions in question. The supervising officer stated that to compensate for unpaid training hours, which metro police officers had completed while off duty, the officers were allowed to take hours off during their normally scheduled shift. He explained that use of such "compensatory" hours would not be reflected on the officers' time cards and thus the metro payroll department would not be aware of their use. This officer's supervisor confirmed this arrangement. Because of the absence of effective internal controls, discussed above, we could not determine whether the supervising officer had in fact worked at TSU during the 31.5 hours he claimed.

On October 6, 1999, the Office of the District Attorney General, Twentieth Judicial District (Davidson County), was notified of the findings pursuant to the activities of the four metro police officers and that office determined not to pursue the matter further. A Special Report on the results of this review will be released at a later date.

Recommendation

The development of formal contracts for security services at the university would appear prudent and would alleviate any misunderstandings between outside security officers and university officials. University officials should require outside security personnel to document their presence at work through the use of sign in/out logs. The presence and performance of outside security personnel should be monitored. University officials should require both requisitions requesting outside security officers and invoices requesting payment to be detailed with regard to dates, times, and personnel. A designated TSU employee, independent of requisitioning outside security services, monitoring performance, or approving payments, should reconcile recorded times per the logs to recorded times per the invoices. The university should develop, document, and disseminate policies and procedures regarding the employment, monitoring, documentation of work, and payment of outside security officers.

University officials should consider whether disciplinary action would be appropriate and should coordinate efforts with the metro police department to obtain repayment from the four metro police officers involved.

Management's Comment

We concur with the finding and recommendation. The TSU Police Department will require individual contracts with outside police officers who work for the university. The officers will be contacted in advance to gain a commitment to work designated dates and times. A purchase requisition will then be completed in advance inclusive of the officers' names and other appropriate detailed information. Outside police officers working at the university will be required to sign in and out. The officers work will be monitored by the Director of Security and/or his designee. At the end of the assignment, a detailed invoice(s) will be completed and signed by the officer. The assistant chief and/or secretary will reconcile the contract, purchase requisition, sign in and out log, and the invoice.

A written policy addressing many of these issues was prepared by the TSU Police Department and became effective July 26, 1999. This policy will be updated by March 1, 2000, to include the recommended changes.

The university has received payments of $329.68 and $10.54 from two of the outside police officers. The university will again request payments from the other two officers.

STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
DEPARTMENT OF AUDIT
DIVISION OF STATE AUDIT
SUITE 1500
JAMES K. POLK STATE OFFICE BUILDING
NASHVILLE, TENNESSEE 37243-0264
PHONE (615) 741-3697
FAX (615) 532-2765

Independent Auditor's Report

November 24, 1999

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

Dear Mr. Morgan:

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

We conducted our audits in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As described in Note 2 to the financial statements, the university has omitted the liability for accrued compensated absences from the accompanying balance sheets which 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, Tennessee State University, as of June 30, 1999, and June 30, 1998, and the changes in fund balances and the current funds revenues, expenditures, and other changes for the years then ended in conformity with generally accepted accounting principles.

As discussed in Note 13, during the year ended June 30, 1998, the university implemented GASB 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools,* and changed the threshold for capitalizing equipment.

The Year 2000 Disclosures on page 44 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and do not express an opinion on it. In addition, we do not provide assurance that the university is or will become year 2000 compliant, that the university's year 2000 remediation efforts will be successful in whole or in part, or that parties with which the university does business are or will become year 2000 compliant.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 24, 1999, on our consideration of the university's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants.

Sincerely,

Arthur A. Hayes, Jr.

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

AAH/ks

Exhibit A

TENNESSEE BOARD OF REGENTS
TENNESSEE STATE UNIVERSITY
BALANCE SHEETS
JUNE 30, 1999, AND JUNE 30, 1998

ASSETS	June 30, 1999	June 30, 1998
Current funds:		
Unrestricted:		
General:		
Cash and cash equivalents (Notes 3 and 4)	$ 718,231.09	$ 791,954.53
Investments (Note 5)	11,987,958.00	11,317,683.89
Accrued interest receivable	1,193,257.39	1,055,452.24
Accounts receivable (net of allowance of $412,310.70 at June 30, 1999, and $504,746.26 at June 30, 1998)	1,628,428.25	951,291.02
Inventories	38,491.57	39,547.06
Due from endowment and similar funds	3,885.06	571.03
Total general	15,570,251.36	14,156,499.77
Auxiliary enterprises:		
Cash and cash equivalents (Notes 3 and 4)	2,527,943.64	2,559,090.77
Accounts receivable (net of allowance of $1,572.42 at June 30, 1999, and June 30, 1998)	302,842.44	129,353.84
Total auxiliary enterprises	2,830,786.08	2,688,444.61
Total unrestricted	18,401,037.44	16,844,944.38
Restricted:		
Cash and cash equivalents (Notes 3 and 4)	524,586.84	613,526.45
Accrued interest receivable	2,056.85	2,186.30
Accounts and grants receivable	4,073,859.54	3,628,058.50
Total restricted	4,600,503.23	4,243,771.25
Total current funds	$ 23,001,540.67	$ 21,088,715.63
Loan funds:		
Cash and cash equivalents (Notes 3 and 4)	$ 346,529.28	$ 297,066.91
Notes receivable (net of allowance of $1,124,653.18 at June 30, 1999, and $1,082,883.81 at June 30, 1998)	2,259,521.76	2,293,752.93
Accrued interest receivable (net of allowance of $236,670.02 at June 30, 1999, and $219,889.34 at June 30, 1998)	798,631.55	735,202.22
Total loan funds	$ 3,404,682.59	$ 3,326,022.06
Endowment and similar funds:		
Investments (Notes 4 and 5)	$ 292,957.63	$ 280,132.37
Accrued interest receivable	3,637.70	4,382.11
Total endowment and similar funds	$ 296,595.33	$ 284,514.48

LIABILITIES AND FUND BALANCES	June 30, 1999	June 30, 1998
Current funds:		
Unrestricted:		
General:		
Liabilities:		
Accounts payable	$ 682,357.43	$ 410,989.02
Accrued liabilities	4,318,905.22	4,205,413.32
Deferred revenue	3,610,825.05	3,351,901.87
Student deposits	429,095.20	376,975.20
Other liabilities	1,088,387.25	403,955.09
Total liabilities	10,129,570.15	8,749,234.50
Fund balances:		
Nondiscretionary allocations:		
Allocation for working capital	1,166,532.94	503,520.82
Allocation for encumbrances	1,887,533.26	1,874,759.73
Allocation for designated appropriations	165,255.10	132,366.15
Discretionary allocations:		
Allocation for subsequent budget	1,796,502.95	2,599,830.00
Allocation for athletic contingency	71,920.51	30,411.62
Unallocated	352,936.45	266,376.95
Total fund balances	5,440,681.21	5,407,265.27
Total general	15,570,251.36	14,156,499.77
Auxiliary enterprises:		
Liabilities:		
Accounts payable	80,379.47	110,134.20
Fund balances:		
Nondiscretionary allocations:		
Allocation for working capital	303,342.44	129,853.84
Allocation for encumbrances	40,401.21	664,260.49
Discretionary allocation:		
Allocation for contingencies	508,680.41	448,568.72
Unallocated	1,897,982.55	1,335,627.36
Total fund balances	2,750,406.61	2,578,310.41
Total auxiliary enterprises	2,830,786.08	2,688,444.61
Total unrestricted	18,401,037.44	16,844,944.38
Restricted:		
Liabilities:		
Accounts payable	429,474.75	681,842.05
Due to grantors	276,347.00	328,136.00
Total liabilities	705,821.75	1,009,978.05
Fund balance	3,894,681.48	3,233,793.20
Total restricted	4,600,503.23	4,243,771.25
Total current funds	$ 23,001,540.67	$ 21,088,715.63
Loan funds:		
Fund balances:		
U.S. government grants refundable	$ 2,561,743.49	$ 2,441,874.74
University funds:		
Restricted - matching	769,394.67	769,394.67
Restricted - other	73,544.43	114,752.65
Total loan funds	$ 3,404,682.59	$ 3,326,022.06
Endowment and similar funds:		
Liabilities:		
Due to unrestricted current funds	$ 3,885.06	$ 571.03
Fund balances:		
Endowment	59,928.10	$ 59,463.43
Quasi-endowment - restricted	232,782.17	224,480.02
Total fund balances	292,710.27	283,943.45
Total endowment and similar funds	$ 296,595.33	$ 284,514.48

Exhibit A (Cont.)

TENNESSEE BOARD OF REGENTS
TENNESSEE STATE UNIVERSITY
BALANCE SHEETS
JUNE 30, 1999, AND JUNE 30, 1998

ASSETS	June 30, 1999	June 30, 1998
Plant funds:		
Unexpended plant:		
Cash and cash equivalents (Notes 3 and 4)	$ 904,475.07	$ 757,831.87
LGIP deposit - capital projects	407,273.10	770,487.54
Accounts receivable	194,454.68	39,786.54
Total unexpended plant	1,506,202.85	1,568,105.95
Renewals and replacements:		
Cash and cash equivalents (Notes 3 and 4)	3,244,274.53	2,408,495.65
Investments (Note 5)	-	207,363.52
Accrued interest receivable	-	4,287.68
Total renewals and replacements	3,244,274.53	2,620,146.85
Retirement of indebtedness:		
Cash and cash equivalents (Notes 3 and 4)	284,532.08	291,127.21
Investments (Note 5)	-	280,140.14
Interest rate reserve with Tennessee State School Bond Authority (Note 7)	12,033.78	38,885.36
Accrued interest receivable	42,161.90	52,255.33
Total retirement of indebtedness	338,727.76	662,408.04
Investment in plant:		
Land	8,872,355.24	8,872,355.24
Buildings	87,035,344.21	87,035,344.21
Improvements other than buildings	39,575,164.16	39,126,782.66
Equipment	32,799,485.13	29,580,926.61
Livestock	33,510.27	31,855.45
Library books	23,489,232.00	23,112,672.00
Other library holdings	3,763,375.00	3,626,063.00
Construction in progress	66,996,996.37	60,540,963.67
Total investment in plant	262,565,462.38	251,926,962.84
Total plant funds	$ 267,654,667.52	$ 256,777,623.68
Agency funds:		
Nonfoundation funds:		
Cash and cash equivalents (Notes 3 and 4)	$ 160,653.02	$ 164,543.43
Accounts receivable	-	16,100.00
Total nonfoundation funds	160,653.02	180,643.43
Foundation funds:		
Cash and cash equivalents (Notes 3 and 4)	1,254,511.45	1,098,070.84
Investments (Note 5)	1,517,533.00	1,520,541.00
Accrued interest receivable	3,349.00	3,953.00
Total foundation funds	2,775,393.45	2,622,564.84
Total agency funds	$ 2,936,046.47	$ 2,803,208.27

LIABILITIES AND FUND BALANCES	June 30, 1999	June 30, 1998
Plant funds:		
Unexpended plant:		
Liabilities:		
Accounts payable	$ 257,805.25	$ 223,609.66
Fund balance:		
Unrestricted (Note 6)	1,248,397.60	1,344,496.29
Total unexpended plant	1,506,202.85	1,568,105.95
Renewals and replacements:		
Liabilities:		
Accounts payable	-	1,585.00
Fund balances:		
Restricted	-	180,000.00
Unrestricted (Note 6)	3,244,274.53	2,438,561.85
Total fund balances	3,244,274.53	2,618,561.85
Total renewals and replacements	3,244,274.53	2,620,146.85
Retirement of indebtedness:		
Liabilities:		
Accrued interest payable	164,530.69	121,476.21
Fund balances:		
Restricted	-	380,999.11
Unrestricted	174,197.07	159,932.72
Total fund balances	174,197.07	540,931.83
Total retirement of indebtedness	338,727.76	662,408.04
Investment in plant:		
Liabilities:		
Notes payable (Note 7)	197,810.83	263,747.78
Bonds payable (Note 7)	-	132,000.00
Tennessee State School Bond Authority indebtedness (Note 7)	22,313,498.47	19,296,632.84
Total liabilities	22,511,309.30	19,692,380.62
Fund balance:		
Net investment in plant	240,054,153.08	232,234,582.22
Total investment in plant	262,565,462.38	251,926,962.84
Total plant funds	$ 267,654,667.52	$ 256,777,623.68
Agency funds:		
Nonfoundation funds:		
Liabilities:		
Accounts payable	$ 1,136.40	$ -
Deposits held in custody for others	159,516.62	180,643.43
Total nonfoundation funds	160,653.02	180,643.43
Foundation funds:		
Liabilities:		
Accounts payable	10,518.47	9,071.01
Deposits held in custody for foundation	2,764,874.98	2,613,493.83
Total foundation funds	2,775,393.45	2,622,564.84
Total agency funds	$ 2,936,046.47	$ 2,803,208.27

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

Exhibit B

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

	Current Funds				Plant Funds			
	Unrestricted	Restricted	Loan Funds	Endowment and Similar Funds	Unexpended	Renewals and Replacements	Retirement of Indebtedness	Investment In Plant
REVENUES AND OTHER ADDITIONS								
Unrestricted current fund revenues	$ 71,846,004.57	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Auxiliary enterprise revenues	10,173,608.15	-	-	-	-	-	-	-
State appropriations	-	711,800.00	-	-	4,248,612.35	-	39,837.75	-
Federal grants and contracts	-	29,670,980.35	-	-	93,122.60	-	-	-
State grants and contracts	-	1,180,659.44	-	-	-		-	-
Local grants and contracts	-	1,470,670.07	-	-	-	-	-	-
Private gifts, grants, and contracts	-	792,150.15	3,426.00	-	-	-	-	4,718.00
Endowment income	-	5,959.55	-	-	-	-	-	-
Investment income	-	-	8,946.54	8,766.82	-	7,873.05	128,375.78	-
Interest on loans receivable	-	-	141,079.09	-	-	-	-	-
Reduction in doubtful accounts	-	-	2,900.75	-	-	-	-	-
Debt proceeds	-	-	-	-	3,281,913.94	-	-	-
Equipment use charges	-	-	-	-	-	238,750.00	-	-
Expended for plant facilities (including $4,188,783.49 charged to current fund expenditures)	-	-	-	-	-	-	-	10,824,745.95
Retirement of indebtedness	-	-	-	-	-	-	-	1,196,917.13
Debt decrease from bond refunding	-	-	-	-	-	-	-	347,954.67
Other	-	-	11,453.40	-	-	-	200,000.00	59,018.37
Total revenues and other additions	82,019,612.72	33,832,219.56	167,805.78	8,766.82	7,623,648.89	246,623.05	368,213.53	12,433,354.12
EXPENDITURES AND OTHER DEDUCTIONS								
Educational and general expenditures	70,889,683.51	31,365,590.90	-	-	-	-	-	-
Auxiliary enterprise expenditures	8,376,610.02	248,580.83	-	-	-	-	-	-
Indirect costs recovered	-	1,526,866.64	-	-	-	-	-	-
Refunded to grantors	-	30,292.91	-	-	-	-	-	-
Loan cancellations and write-offs	-	-	23,560.47	-	-	-	-	-
Administrative and collection costs	-	-	3,471.86	-	-	-	24,169.57	-
Provision for doubtful accounts	-	-	58,550.05	-	-	-	-	-
Expended for plant facilities	-	-	-	-	6,580,592.32	55,370.14	-	-
Expended for noncapital items	-	-	-	-	1,404,407.03	103,264.05	-	-
Net decrease in the fair value of investments	-	-	-	-	-	4,287.66	5,792.46	-
Retirement of indebtedness	-	-	-	-	-	-	1,196,917.13	-
Interest on indebtedness	-	-	-	-	-	-	1,166,014.70	-
Disposal of plant facilities	-	-	-	-	-	-	-	214,300.18
Increase in indebtedness	-	-	-	-	-	-	-	3,986,392.24
Library holdings revaluation	-	-	-	-	-	-	-	35,682.60
Decrease in debt service reserve	-	-	-	-	-	-	-	377,408.24
Other	-	-	3,562.87	-	82,598.23	-	-	-
Total expenditures and other deductions	79,266,293.53	33,171,331.28	89,145.25	-	8,067,597.58	162,921.85	2,392,893.86	4,613,783.26

Exhibit B (Cont.)

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

	Current Funds				Plant Funds			
	Unrestricted	Restricted	Loan Funds	Endowment and Similar Funds	Unexpended	Renewals and Replacements	Retirement of Indebtedness	Investment In Plant
TRANSFERS AMONG FUNDS - ADDITIONS (DEDUCTIONS)								
Mandatory:								
Principal and interest	(1,580,653.23)	-	-	-	-	-	1,580,653.23	-
Nonmandatory:								
Unexpended plant	(172,850.00)	-	-	-	347,850.00	-	(175,000.00)	-
Renewals and replacements	(384,810.00)	-	-	-	-	542,011.48	(157,201.48)	-
Retirement of indebtedness	(409,493.82)	-	-	-	-	-	409,493.82	-
Total transfers	(2,547,807.05)	-	-	-	347,850.00	542,011.48	1,657,945.57	-
Net increases (decreases) for the year	205,512.14	660,888.28	78,660.53	8,766.82	(96,098.69)	625,712.68	(366,734.76)	7,819,570.86
Fund balances at beginning of year	7,985,575.68	3,233,793.20	3,326,022.06	283,943.45	1,344,496.29	2,618,561.85	540,931.83	232,234,582.22
Fund balances at end of year	$ 8,191,087.82	$ 3,894,681.48	$ 3,404,682.59	$ 292,710.27	$ 1,248,397.60	$ 3,244,274.53	$ 174,197.07	$ 240,054,153.08

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

Exhibit C

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

	Current Funds				Plant Funds			
	Unrestricted	Restricted	Loan Funds	Endowment and Similar Funds	Unexpended	Renewals and Replacements	Retirement of Indebtedness	Investment In Plant
REVENUES AND OTHER ADDITIONS								
Unrestricted current fund revenues	$ 63,462,631.36	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Auxiliary enterprise revenues	8,971,374.31	-	-	-	-	-	-	-
State appropriations	-	692,100.00	-	-	6,754,553.69	-	41,857.98	-
Federal grants and contracts	-	26,164,511.47	-	-	217,843.22	-	-	-
State grants and contracts	-	967,424.38	-	-	-		-	-
Local grants and contracts	-	828,099.49	-	-	-	-	-	-
Private gifts, grants, and contracts	-	1,038,080.24	5,381.14	-	-	-	-	15,311.66
Endowment income	-	3,757.69	-	-	-	-	-	-
Investment income	-	-	5,697.68	10,488.06	-	14,102.08	217,263.87	-
Net increase (decrease) in the fair value of investments	-	-	-	-	-	125.38	(1,391.17)	-
Interest on loans receivable	-	-	131,084.04	-	-	-	-	-
Reduction in doubtful accounts	-	-	72,553.39	-	-	-	-	-
Debt proceeds	-	-	-	-	9,634,111.07	-	-	-
Equipment use charges	-	-	-	-	-	120,000.00	-	-
Student debt service fees	-	-	-	-	-	-	873,207.88	-
Expended for plant facilities (including $3,973,846.91 charged to current fund expenditures)	-	-	-	-	-	-	-	21,039,354.30
Retirement of indebtedness	-	-	-	-	-	-	-	1,193,837.70
Library holdings revaluation	-	-	-	-	-	-	-	47,433.07
Other	-	-	7,382.54	-	-	-	-	21,445.00
Total revenues and other additions	72,434,005.67	29,693,973.27	222,098.79	10,488.06	16,606,507.98	134,227.46	1,130,938.56	22,317,381.73
EXPENDITURES AND OTHER DEDUCTIONS								
Educational and general expenditures	62,590,409.36	28,377,209.15	-	-	-	-	-	-
Auxiliary enterprise expenditures	7,452,854.31	128,132.77	-	-	-	-	-	-
Indirect costs recovered	-	1,226,504.12	-	-	-	-	-	-
Refunded to grantors	-	60,933.63	2,379.67	-	-	-	-	-
Loan cancellations and write-offs	-	-	38,273.75	-	-	-	-	-
Administrative and collection costs	-	-	15,579.15	-	-	-	8,720.92	-
Provision for doubtful accounts	-	-	3.45	-	-	-	-	-
Expended for plant facilities	-	-	-	-	16,849,313.92	216,193.47	-	-
Expended for noncapital items	-	-	-	-	422,681.50	650,534.17	-	-
Retirement of indebtedness	-	-	-	-	-	-	1,193,837.70	-
Interest on indebtedness	-	-	-	-	-	-	780,205.29	-
Disposal of plant facilities	-	-	-	-	-	-	-	529,458.43
Increase in indebtedness	-	-	-	-	-	-	-	9,776,759.04
Other	-	40,093.46	-	-	219,289.64	-	-	80,835.86
Total expenditures and other deductions	70,043,263.67	29,832,873.13	56,236.02	-	17,491,285.06	866,727.64	1,982,763.91	10,387,053.33

Exhibit C (Cont.)

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

	Current Funds				Plant Funds			
	Unrestricted	Restricted	Loan Funds	Endowment and Similar Funds	Unexpended	Renewals and Replacements	Retirement of Indebtedness	Investment In Plant
TRANSFERS AMONG FUNDS - ADDITIONS (DEDUCTIONS)								
Mandatory:								
Principal and interest	(801,802.65)	-	-	-	-	-	801,802.65	-
Nonmandatory:								
Unrestricted current funds	1,267,670.00	-	-	-	(1,267,670.00)	-	-	-
Unexpended plant	(340,110.00)	-	-	-	340,110.00	-	-	-
Renewals and replacements	(329,300.00)	-	-	-	-	329,300.00	-	-
Total transfers	(203,542.65)	-	-	-	(927,560.00)	329,300.00	801,802.65	-
Net increases (decreases) for the year	2,187,199.35	(138,899.86)	165,862.77	10,488.06	(1,812,337.08)	(403,200.18)	(50,022.70)	11,930,328.40
Fund balances at beginning of year	5,130,319.59	3,372,693.06	3,160,159.29	273,455.39	3,156,833.37	3,017,599.75	583,770.90	223,032,754.93
Cumulative effect of change in accounting principle (Note 13)	668,056.74	-	-	-	-	4,162.28	7,183.63	(2,728,501.11)
Fund balances at beginning of year, as restated	5,798,376.33	3,372,693.06	3,160,159.29	273,455.39	3,156,833.37	3,021,762.03	590,954.53	220,304,253.82
Fund balances at end of year	$ 7,985,575.68	$ 3,233,793.20	$ 3,326,022.06	$ 283,943.45	$ 1,344,496.29	$ 2,618,561.85	$ 540,931.83	$ 232,234,582.22

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

Exhibit D

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

	Unrestricted	Restricted	Total
REVENUES			
Tuition and fees	$ 32,019,825.65	$ 20,116.14	$ 32,039,941.79
State appropriations	35,596,500.00	456,776.14	36,053,276.14
Federal grants and contracts	1,498,608.90	27,899,687.87	29,398,296.77
State grants and contracts	12,597.61	1,164,373.02	1,176,970.63
Local grants and contracts	5,128.00	899,055.53	904,183.53
Private gifts, grants, and contracts	11,489.13	925,582.20	937,071.33
Investment income	1,443,153.51	-	1,443,153.51
Sales and services of educational activities	1,179,800.18	-	1,179,800.18
Sales and services of auxiliary enterprises	10,173,608.15	248,580.83	10,422,188.98
Other sources	78,901.59	-	78,901.59
Total current revenues	82,019,612.72	31,614,171.73	113,633,784.45
EXPENDITURES AND TRANSFERS			
Educational and general:			
Expenditures:			
Instruction	34,658,443.76	9,121,633.29	43,780,077.05
Research	1,664,120.05	8,398,690.00	10,062,810.05
Public service	589,030.61	3,687,537.46	4,276,568.07
Academic support	5,292,041.60	618,768.77	5,910,810.37
Student services	8,569,971.08	919,794.45	9,489,765.53
Institutional support	7,943,583.61	506,672.97	8,450,256.58
Operation and maintenance of plant	7,472,651.23	1,752.99	7,474,404.22
Scholarships and fellowships	4,699,841.57	8,110,740.97	12,810,582.54
Total educational and general expenditures	70,889,683.51	31,365,590.90	102,255,274.41
Mandatory transfer for:			
Principal and interest	513,411.30	-	513,411.30
Nonmandatory transfer for:			
Retirement of indebtedness	409,493.82	-	409,493.82
Total educational and general	71,812,588.63	31,365,590.90	103,178,179.53
Auxiliary enterprises:			
Expenditures	8,376,610.02	248,580.83	8,625,190.85
Mandatory transfer for:			
Principal and interest	1,067,241.93	-	1,067,241.93
Nonmandatory transfers for:			
Unexpended plant	172,850.00	-	172,850.00
Renewals and replacements	384,810.00	-	384,810.00
Total auxiliary enterprises	10,001,511.95	248,580.83	10,250,092.78
Total expenditures and transfers	81,814,100.58	31,614,171.73	113,428,272.31
OTHER ADDITION (DEDUCTIONS)			
Excess of restricted receipts over transfers to revenues	-	2,218,047.83	2,218,047.83
Indirect costs recovered	-	(1,526,866.64)	(1,526,866.64)
Refunded to grantors	-	(30,292.91)	(30,292.91)
Net increases in fund balances	$ 205,512.14	$ 660,888.28	$ 866,400.42

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

Exhibit E

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

	Unrestricted	Restricted	Total
REVENUES			
Tuition and fees	$ 24,835,419.06	$ 20,407.67	$ 24,855,826.73
State appropriations	32,051,700.00	716,475.15	32,768,175.15
Federal grants and contracts	1,201,918.01	25,057,492.05	26,259,410.06
State grants and contracts	13,292.92	956,211.57	969,504.49
Local grants and contracts	-	709,042.15	709,042.15
Private gifts, grants, and contracts	25,778.19	917,580.56	943,358.75
Investment income	1,516,822.28	-	1,516,822.28
Sales and services of educational activities	3,449,728.56	-	3,449,728.56
Sales and services of auxiliary enterprises	8,971,374.31	128,132.77	9,099,507.08
Other sources	367,972.34	-	367,972.34
Total current revenues	72,434,005.67	28,505,341.92	100,939,347.59
EXPENDITURES AND TRANSFERS			
Educational and general:			
Expenditures:			
Instruction	30,900,326.42	7,559,777.11	38,460,103.53
Research	929,934.51	7,302,241.61	8,232,176.12
Public service	590,127.25	3,514,392.73	4,104,519.98
Academic support	4,829,799.83	1,074,962.64	5,904,762.47
Student services	7,626,361.18	1,092,483.77	8,718,844.95
Institutional support	7,313,047.40	454,150.16	7,767,197.56
Operation and maintenance of plant	6,609,302.13	1,302.75	6,610,604.88
Scholarships and fellowships	3,791,510.64	7,377,898.38	11,169,409.02
Total educational and general expenditures	62,590,409.36	28,377,209.15	90,967,618.51
Nonmandatory transfer for:			
Unexpended plant	(1,267,670.00)	-	(1,267,670.00)
Total educational and general	61,322,739.36	28,377,209.15	89,699,948.51
Auxiliary enterprises:			
Expenditures	7,452,854.31	128,132.77	7,580,987.08
Mandatory transfer for:			
Principal and interest	801,802.65	-	801,802.65
Nonmandatory transfers for:			
Unexpended plant	340,110.00	-	340,110.00
Renewals and replacements	329,300.00	-	329,300.00
Total auxiliary enterprises	8,924,066.96	128,132.77	9,052,199.73
Total expenditures and transfers	70,246,806.32	28,505,341.92	98,752,148.24
OTHER TRANSFER AND ADDITION (DEDUCTIONS)			
Excess of restricted receipts over transfers to revenues	-	1,188,631.35	1,188,631.35
Indirect costs recovered	-	(1,226,504.12)	(1,226,504.12)
Refunded to grantors	-	(60,933.63)	(60,933.63)
Transfer to agency funds	-	(40,093.46)	(40,093.46)
Net increase (decrease) in fund balances	$ 2,187,199.35	$ (138,899.86)	$ 2,048,299.49

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

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

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

Basis of Accounting

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

To the extent that current funds are used to finance plant assets, the funds are accounted for as (1) expenditures, for normal replacement of movable equipment and library holdings; (2) mandatory transfers, for required debt amortization and interest and equipment renewal and replacement; and (3) nonmandatory transfers, for all other cases.

Fund Accounting

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

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

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

Current Funds

Unrestricted current funds consist of those funds over which the university retains full control for use in achieving any of its authorized institutional purposes. Auxiliary enterprises activities are included in unrestricted current funds and include residence halls, the bookstore, food services, the post office, vending, parking, copying services, and telecommunications/student information. Restricted current funds are externally restricted and may be used only in accordance with the purposes established by their source.

Loan Funds

Loan funds consist of resources made available for student loans.

Endowment and Similar Funds

Endowment funds are subject to the restrictions of gift instruments requiring in perpetuity that the principal be invested and only the income be used. Although quasi-endowment funds have been established by the governing board for the same purposes as endowment funds, any portion of quasi-endowment funds may be expended.

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

LGIP Deposit – Capital Projects

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

Inventories

Inventories are valued at the lower of cost or market on a 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. The university has adopted a policy of capitalizing all interest costs funded by Tennessee State School Bond Authority indebtedness. All other interest costs are expensed. Library books are valued at $48 per volume, and other library holdings are valued at various standardized values which approximate current costs. Livestock is valued at estimated market value. Depreciation on the physical plant and equipment is not recorded.

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

Tennessee State University Foundation

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

Federal Direct Loan Program

The university participates in the Federal Direct Loan Program. Activity of this program is not included in the financial statements of the university. The university acts as an agent for the U.S. government in disbursing funds to students.

NOTE 2. COMPENSATED ABSENCES

The university'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 university'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 $3,319,885.77 at June 30, 1999, and $3,006,446.18 at June 30, 1998, and increased the unrestricted current fund expenditures by $313,439.59 for the year ended June 30, 1999, and $232,117.92 for the year ended June 30, 1998.

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, 1999, cash and cash equivalents consisted of $7,553,377.97 in bank accounts, $2,550.00 of petty cash on hand, $2,173,970.96 in the State of Tennessee Local Government Investment Pool administered by the State Treasurer, and $235,838.07 in capital management account money funds. At June 30, 1998, cash and cash equivalents consisted of $4,066,024.39 in bank accounts, $3,550.00 of petty cash on hand, $4,893,908.78 in the State of Tennessee Local Government Investment Pool, and $18,224.49 in capital management account money funds.

NOTE 4. DEPOSITS

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

The laws of the State of Tennessee require that collateral be pledged to secure all uninsured deposits. Tennessee Board of Regents policies require that the market value of collateral pledged equal 105% of the uninsured deposits.

The university also has deposits in the Local Government Investment Pool (LGIP) administered by the State Treasurer. The LGIP is part of the Pooled Investment Fund. The fund's investment policy and custodial credit risk are presented in the *Tennessee Comprehensive Annual Financial Report.*

NOTE 5. INVESTMENTS

The university is authorized by statute to invest funds in accordance with Tennessee Board of Regents policies. Under the current policy, funds other than endowments may be invested only in obligations of the United States or its agencies backed by the full faith and credit of the United States; repurchase agreements for United States securities; certificates of deposit in banks and savings and loan associations; bankers' acceptances; commercial paper; money market mutual funds; and the State of Tennessee Local Government Investment Pool. The policy requires that investments of endowments in equity securities be limited to funds from private gifts or other sources external to the university and that endowment investments be prudently diversified. The Tennessee State University Foundation is authorized to invest funds in accordance with its board of directors' policies. All investments permitted to be reported at fair value under GASB Statement 31 are reported at fair value, including those with a maturity date of one year or less at the time of purchase. Certificates of deposit have been included with other deposits in Note 4 to determine the adequacy of collateral security pledged.

The university's/foundation's investments are categorized below to indicate the level of risk assumed by the university/foundation at year-end. Category 1 consists of insured or registered investments or investments for which the securities are held by the university/foundation or its agent in the university's/foundation's name. Category 2 consists of uninsured and unregistered investments for which the securities are held by the counterparties' trust department or agent in the foundation's name.

June 30, 1999	Fair Value
Category 1:	
University:	
U.S. government securities	$11,987,958.00
Foundation:	
U.S. government securities	240,033.00
Category 2:	
Foundation:	
Corporate bonds	595,613.00
Corporate stocks	554,676.00

Foundation investments not susceptible to credit risk categorization:	
Mutual funds	107,811.00
University certificates of deposit classified as investments	292,957.63
Foundation deposit notes classified as investments	19,400.00
Total investments on the balance sheet	$13,798,448.63

June 30, 1998	Fair Value
Category 1:	
University:	
U.S. government securities	$11,804,804.54
Foundation:	
U.S. government securities	331,694.00
Category 2:	
Foundation:	
Corporate bonds	532,930.00
Corporate stocks	442,868.00
Foundation investments not susceptible to credit risk categorization:	
Mutual funds	192,587.00
Foundation deposit notes classified as investments	20,462.00
University certificates of deposit classified as investments	280,515.38
Total investments on the balance sheet	$13,605,860.92

NOTE 6. PLANT FUND ENCUMBRANCES

Plant fund encumbrances outstanding at June 30, 1999, amounted to $149,874.59 for unexpended plant and $63,774.48 for renewals and replacements. Plant fund encumbrances outstanding at June 30, 1998, amounted to $1,096,977.13 for unexpended plant and $96,480.77 for renewals and replacements.

NOTE 7. NOTES PAYABLE, BONDS PAYABLE, AND TSSBA INDEBTEDNESS

The university obtained an interest-free energy loan through the Energy Management Loan Fund within the Tennessee Department of General Services. The loan in the amount of $329,684.73 to provide financing for the Chiller Replacement Project is payable in annual installments of $65,936.95 with a final due date of October 2001. The balance owed by the university was $197,810.83 at June 30, 1999, and $263,747.78 at June 30, 1998.

Bond issues, with interest rates ranging from 3.65% to 7.0% for Tennessee State School Bond Authority bonds ($19,615,337.44), are due serially to 2028 and are secured by pledges of the facilities' revenues to which they relate and certain other revenues and fees of the university, including state appropriations. The bonded indebtedness with the Tennessee State School Bond Authority reported on the balance sheet is shown net of assets held by the authority in the debt service reserve. The reserve amount was $1,169,671.51 at June 30, 1999, and $1,547,079.75 at June 30, 1998.

The university's debt service requirements to maturity for all bonds and notes payable at June 30, 1999, are as follows:

Year Ending June 30	Principal	Interest	Total
2000	$ 1,151,159.73	$ 770,629.56	$ 1,921,789.29
2001	1,170,711.16	750,567.38	1,921,278.54
2002	913,239.12	722,416.88	1,635,656.00
2003	874,874.11	695,888.98	1,570,763.09
2004	893,637.96	674,515.41	1,568,153.37
2005-2028	14,809,526.19	9,795,969.21	24,605,495.40
	$19,813,148.27	$13,409,987.42	$33,223,135.69

The Tennessee State School Bond Authority also authorized the issuance of commercial paper to finance the costs of various capital projects. The amount issued for projects at the university was $2,698,161.03 at June 30, 1999, and $9,966,846.34 at June 30, 1998.

For the commercial paper program, the Tennessee State School Bond Authority maintains an interest rate reserve fund. The university contributes amounts to the reserve fund based on the amounts drawn. The principal of the reserve will be contributed to pay off notes or credited back to the university when the notes are converted to bonds. The interest earned on the reserve is used to pay interest due during the month.

NOTE 8. PENSION PLANS

A. Defined Benefit Plans

1. Tennessee Consolidated Retirement System

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

The TCRS issues a publicly available financial report that includes financial statements and required supplementary information for SETHEEPP. That report may be obtained by writing to the Tennessee Department of the Treasury, Consolidated Retirement System, 10th Floor Andrew Jackson Building, Nashville, Tennessee 37243-0230, or by calling (615) 741-8202.

Funding Policy - Plan members are noncontributory. The university is required to contribute an actuarially determined rate. The current rate is 5.43% of annual covered payroll. Contribution requirements for the university are established and may be amended by the TCRS' Board of Trustees. The university's contributions to TCRS for the years ended June 30, 1999, 1998, and 1997, were $1,336,744.34, $879,281.64, and $1,706,353.75. Contributions met the requirements for each year.

2. Federal Retirement Program

Plan Description - The university contributes to the Federal Retirement Program, a cost-sharing, multiple-employer, defined benefit pension plan administered by the Civil Service Retirement System (CSRS) for participants employed prior to January 1, 1984, and the Federal Employees Retirement System (FERS) for participants employed after December 31, 1983. Both systems provide retirement, death, and disability benefits as well as annual cost-of-living adjustments to plan members and their beneficiaries. All regular full-time employees of the Tennessee State University Agricultural Extension Service who hold federal appointments for 51% or more of their time are required to participate in either one of the two Federal Retirement Programs. For both systems, benefit provisions are established in federal statutes. Federal statutes are amended by the U.S. Congress. All the university's extension employees currently participate in CSRS.

The CSRS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the Office of Personnel Management, Retirement Information Office, P. O. Box 45, Boyers, Pennsylvania 16017-0045, or by calling (202) 606-0500.

Funding Policy - Participating employees and the university are required by federal statute to contribute 8.51% of covered payroll to the CSRS plan. Contribution requirements are established and may be amended by federal statutes. From July 1, 1998, through December 31, 1998, participating employees were required to contribute 7% of the covered payroll to the CSRS plan. Effective January 1, 1999, federal statute increased the employee's rate to 7.25% of the covered payroll. Contributions to CSRS for the year ended June 30, 1999, were $64,644.64, which consisted of $35,176.21 from the university and $29,468.43 from the employees; contributions for the year ended June 30, 1998, were $51,219.57, which consisted of $27,532.29 from the university and $23,687.28 from the employees; contributions for the year ended June 30, 1997, were $58,299.72, which consisted of $29,114.86 from the university and $29,114.86 from the employees. Contributions met the requirements for each year.

B. Defined Contribution Plans

Optional Retirement Plans (ORP)

Plan Description - The university contributes to three defined contribution plans: Teachers Insurance and Annuity Association–College Retirement

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

Funding Policy - Plan members are noncontributory. The university contributes an amount equal to 10% of the employee's base salary up to the social security wage base and 11% above the social security wage base. Contribution requirements are established and amended by state statute. The contribution made by the university to the plans for the year ended June 30, 1999, was $2,193,838.53 and for the year ended June 30, 1998, was $2,005,900.88. Contributions met the requirements for each year.

NOTE 9. OTHER POST-EMPLOYMENT BENEFITS

The State of Tennessee administers a group health insurance program which provides post-employment health insurance benefits to eligible university retirees. This benefit is provided and administered by the State of Tennessee. The university 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 10. CHAIRS OF EXCELLENCE

The university had $2,789,451.21 on deposit at June 30, 1999, and $2,056,228.08 on deposit at June 30, 1998, with the State Treasurer for the university's Chairs of Excellence program. These funds are held in trust by the state and are not included in the financial statements.

NOTE 11. INSURANCE-RELATED ACTIVITIES

The state purchases commercial insurance for real property losses above $5 million per year and surety bond coverage on the state's officials and employees. During the year ended June 30, 1999, the state incurred losses in Clarksville and Jackson due to damage from tornadoes. Final settlement has not been made but is expected to be approximately $6 million. In the prior two fiscal years, the state had not had any claims filed with the commercial insurer. A designation for casualty losses in the amount of $8.219 million has been established in the state's general fund to provide for any property losses not covered by the commercial insurance.

At June 30, 1999, the scheduled coverage for the university was $229,364,200 for buildings and $31,553,100 for contents. At June 30, 1998, the scheduled coverage was $211,576,200 for buildings and $17,035,900 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, automobile liability, professional malpractice, and workers' compensation. The university participates in the Claims Award Fund. The fund allocates the cost of providing claims servicing and claims payment by charging a premium to the university based on a percentage of the university'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 university 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 university 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 university 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 university 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 12. COMMITMENTS AND CONTINGENCIES

Sick Leave - The university 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 $22,692,147.52 at June 30, 1999, and $21,700,951.28 at June 30, 1998.

Operating Leases - The university 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 $217,147.17 and for personal property were $143,130.24 for the year ended June 30, 1999. Comparative amounts for the year ended June 30, 1998, were $398,816.12 and $288,288.93. All operating leases are cancelable at the lessee’s option.

Construction in Progress - At June 30, 1999, outstanding commitments under construction contracts totaled $1,128,627.60 for the following master plan projects : McCord/Library renovation, McMinnville Nursery Research Station, downtown campus renovation, conversion of old Administration Building, upgrade of various buildings, Boyd Hall renovation, Industrial Arts Building renovation, new Performing Arts Building, infrastructure upgrade, north campus improvement, asbestos/hazardous material, and project management facilities, of which $1,082,395.75 will be funded by future state capital outlay appropriations.

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

Questioned Costs - The following costs were questioned as a result of the current-year audit.

Program	Amount Questioned
Federal Direct Student Loan	$ 9,063
Federal Family Education Loans	4,170
Federal Pell Grant Program	1,011
Total	$14,244

Final resolution of these questioned costs will be determined by the grantor.

NOTE 13. CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE

During the year ended June 30, 1998, the university implemented GASB Statement 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools,* which requires reporting at fair value certain investments with a remaining maturity of more than one year at the time of purchase. The cumulative effect of this change in accounting principle is reported in the accompanying financial statements as a restatement of the beginning fund balance. It was not practical to restate prior periods since all information necessary to conform to this accounting change was not available and the amounts were immaterial.

During the year ended June 30, 1998, the threshold for capitalizing equipment increased from $500 to $1,000. As a result of the change, equipment decreased by $2,728,501.11.

NOTE 14. SUBSEQUENT EVENT

A lawsuit under appeal at year-end was finalized in July 1999, in favor of the plaintiff. A liability was recorded at June 30, 1999, for the $750,000 estimated total award amount.

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Required Supplementary Information
Year 2000 Disclosures

The Year 2000 Issue (Y2K) arises because most computer software programs allocate two digits to the data field for year on the assumption that the first two digits will be 19. Such programs will thus interpret the year 2000 as the year 1900, the year 2001 as 1901, etc., absent reprogramming. Y2K affects both computer hardware (i.e., the embedded logic of computer chips) and computer software, and could impact the ability to enter data into computer programs and the ability of such programs to correctly process data.

The university has established a Y2K Coordinator to facilitate Y2K remediation efforts. The university has assessed the impact of Y2K on its computer systems and other electronic equipment as of June 30, 1999. Computer systems are defined as both (1) programmed application systems that provide fiscal and administrative services and (2) supporting hardware and software computer systems infrastructure upon which the application systems reside and are processed. Other electronic equipment includes systems and devices other than traditional computer information systems that may utilize embedded chips in their operations.

The university has determined that certain computer systems are critical and certain are supportive. Critical computer systems are those for which there are manual alternatives, but the university would unlikely be able to fully or efficiently perform the functions manually because of the volume of manual activity that would be required. Supportive computer systems are those for which there are manual alternatives and the university expects to be able to perform such functions manually, if necessary.

The university has identified three critical computer application systems: the Financial Records System (FRS), the Human Resource System (HRS), and the Student Information System (SIS). All three have completed the validation/testing stage. This stage is defined as validating and testing the changes that were made during the remediation stage.

The university's mid-level computer system provides the supporting computer systems infrastructure upon which the application systems reside and are processed. The mid-level system represents multiple hardware and software components to include a central processor, workstations, and a network operating system. The university determined that these components have completed the validation/testing stage.

The university identified other electronic equipment items as critical to conducting operations. The university determined that these systems have completed the validation/testing stage.

The completion of all stages identified as necessary to address the Y2K issue is not a guarantee that systems and equipment will be year 2000 compliant.

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The university's Y2K initiatives did not result in the commitment of significant financial resources as of the end of the university's reporting period. The university is not aware of any circumstances or costs to achieve Y2K compliance that will have a negative impact on the operations or financial status of the university.