

**Tennessee Board of Regents  
Middle Tennessee State University**

**For the Year Ended  
June 30, 2001**

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STATE OF TENNESSEE  
**COMPTROLLER OF THE TREASURY**  
State Capitol  
Nashville, Tennessee 37243-0260  
(615) 741-2501

**John G. Morgan**  
Comptroller

January 29, 2002

The Honorable Don Sundquist, Governor  
and  
Members of the General Assembly  
State Capitol  
Nashville, Tennessee 37243

and  
The Honorable Charles W. Manning, Chancellor  
Tennessee Board of Regents  
1415 Murfreesboro Road, Suite 350  
Nashville, Tennessee 37217

and  
Dr. Sidney A. McPhee, President  
Middle Tennessee State University  
110 Cope Administration Building  
Murfreesboro, Tennessee 37132

Ladies and Gentlemen:

Transmitted herewith is the financial and compliance audit of the Tennessee Board of Regents, Middle Tennessee State University, for the year ended June 30, 2001. You will note from the independent auditor's report that an unqualified opinion was given on the fairness of the presentation of the financial statements.

Consideration of internal control over financial reporting and tests of compliance resulted in no audit findings.

Sincerely,

John G. Morgan  
Comptroller of the Treasury

State of Tennessee

# Audit Highlights

Comptroller of the Treasury

Division of State Audit

Financial and Compliance Audit  
**Middle Tennessee State University**  
For the Year Ended June 30, 2001

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## 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.

## AUDIT FINDINGS

The audit report contains no findings.

## OPINION ON THE FINANCIAL STATEMENTS

The opinion on the financial statements is unqualified.

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"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

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**Audit Report**  
**Tennessee Board of Regents**  
**Middle Tennessee State University**  
**For the Year Ended June 30, 2001**

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**Tennessee Board of Regents  
Middle Tennessee State University  
For the Year Ended June 30, 2001**

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**INTRODUCTION**

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**POST-AUDIT AUTHORITY**

This is a report on the financial and compliance audit of the Tennessee Board of Regents, Middle 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 governmental entity that handles public funds when the Comptroller considers an audit to be necessary or appropriate.

**BACKGROUND**

Middle Tennessee State University was first established in 1911 as Middle Tennessee State Normal School in Murfreesboro, Tennessee. In 1925, when the General Assembly provided for three teachers’ colleges—one in each of the grand divisions—Middle Tennessee State Normal School became Middle Tennessee State Teachers’ College and gained the power to grant the Bachelor of Science degree. The college’s name was changed to Middle Tennessee State College by an act of the legislature in 1943 and to Middle Tennessee State University by a special legislative act in 1956. The university is composed of the Graduate School, the Office of Continuing Studies and Public Service, and five undergraduate colleges: Basic and Applied Sciences, Business, Education, Liberal Arts, and Mass Communications.

**ORGANIZATION**

The governance of Middle 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.

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## AUDIT SCOPE

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The audit was limited to the period July 1, 2000, through June 30, 2001, and was conducted in accordance with government auditing standards generally accepted in the United States of America. Financial statements are presented for the year ended June 30, 2001, and for comparative purposes, the year ended June 30, 2000. Middle 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*.

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## OBJECTIVES OF THE AUDIT

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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.**

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## **PRIOR AUDIT FINDINGS**

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There were no findings in the prior audit report.

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## **RESULTS OF THE AUDIT**

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### **AUDIT CONCLUSIONS**

#### Internal Control

As part of the audit of the university's financial statements for the year ended June 30, 2001, 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 government auditing standards generally accepted in the United States of America. 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*.

#### Fairness of Financial Statement Presentation

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



**STATE OF TENNESSEE  
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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***

October 26, 2001

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

Dear Mr. Morgan:

We have audited the financial statements of Middle 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, 2001, and have issued our report thereon dated October 26, 2001. We conducted our audit in accordance with government auditing standards generally accepted in the United States of America. As discussed in Note 11, the university changed the threshold for capitalizing equipment. Also, as discussed in Note 16, the university implemented GASB 33, *Accounting and Financial Reporting for Nonexchange Transactions*.

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*.

The Honorable John G. Morgan

October 26, 2001

Page Two

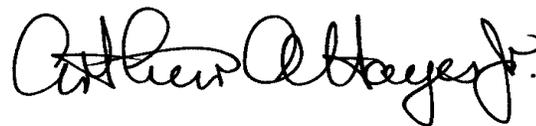
Internal Control Over Financial Reporting

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. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. 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. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

However, we noted certain 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 to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record.

Sincerely,

A handwritten signature in black ink that reads "Arthur A. Hayes, Jr." The signature is written in a cursive style with a large initial "A" and "H".

Arthur A. Hayes, Jr., CPA,  
Director

AAH/mb



**STATE OF TENNESSEE  
COMPTROLLER OF THE TREASURY  
DEPARTMENT OF AUDIT  
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**Independent Auditor's Report**

October 26, 2001

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 Middle 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, 2001, and June 30, 2000, 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 government auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Tennessee Board of Regents, Middle Tennessee State University, as of June 30, 2001, and June 30, 2000, and the changes in fund balances and the current funds revenues, expenditures, and other changes for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The Honorable John G. Morgan  
October 26, 2001  
Page Two

As discussed in Note 11, the university changed the threshold for capitalizing equipment. Also, as discussed in Note 16, the university implemented GASB 33, *Accounting and Financial Reporting for Nonexchange Transactions*.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 26, 2001, 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. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Sincerely,

A handwritten signature in black ink, reading "Arthur A. Hayes, Jr." in a cursive script.

Arthur A. Hayes, Jr., CPA,  
Director

AAH/mb

TENNESSEE BOARD OF REGENTS  
MIDDLE TENNESSEE STATE UNIVERSITY  
BALANCE SHEETS  
JUNE 30, 2001, AND JUNE 30, 2000

	June 30, 2001	June 30, 2000		June 30, 2001	June 30, 2000
<b>ASSETS</b>			<b>LIABILITIES AND FUND BALANCES</b>		
Current funds:			Current funds:		
Unrestricted:			Unrestricted:		
General:			General:		
Cash and cash equivalents (Notes 2 and 3)	\$ 18,621,759.93	\$ 17,806,971.54	Liabilities:		
Accounts receivable (net of allowance of \$1,270,282.99 at June 30, 2001, and \$941,136.94 at June 30, 2000)	2,518,669.81	1,995,250.01	Accounts payable	\$ 1,308,743.54	\$ 1,081,000.47
Inventories	529,810.97	508,608.23	Accrued liabilities	7,655,601.35	6,818,981.35
Prepaid expenses	255,236.96	168,726.66	Student deposits	176,958.54	163,828.48
Due from restricted current funds	<u>1,151,546.83</u>	<u>1,207,744.95</u>	Deferred revenue	5,918,758.30	5,121,884.00
			Compensated absences	3,213,619.19	3,011,906.01
			Other liabilities	<u>4,848.64</u>	<u>10,234.38</u>
			Total liabilities	<u>18,278,529.56</u>	<u>16,207,834.69</u>
			Fund balances:		
			Nondiscretionary allocations:		
			Allocation for working capital	1,879,175.25	1,494,111.56
			Allocation for encumbrances	2,293,099.07	1,559,317.16
			Allocation for designated appropriations	58,700.10	48,726.54
			Allocation for designated fees	69,992.95	455,312.25
			Discretionary allocation:		
			Allocation for subsequent budget	2,796,000.00	2,140,400.00
			Allocation for compensated absences	(3,213,619.19)	(3,011,906.01)
			Unallocated	<u>915,146.76</u>	<u>2,793,505.20</u>
			Total fund balances	<u>4,798,494.94</u>	<u>5,479,466.70</u>
Total general	<u>23,077,024.50</u>	<u>21,687,301.39</u>	Total general	<u>23,077,024.50</u>	<u>21,687,301.39</u>
Auxiliary enterprises:			Auxiliary enterprises:		
Cash and cash equivalents (Notes 2 and 3)	2,180,602.35	2,185,565.62	Liabilities:		
Accounts receivable (net of allowance of \$57,610.45 at June 30, 2001, and \$60,084.40 at June 30, 2000)	812,214.40	591,306.36	Accounts payable	61,133.59	89,780.25
Inventories	<u>1,867,977.89</u>	<u>1,829,132.50</u>	Accrued liabilities	51,897.79	55,173.54
			Student deposits	562,772.45	551,111.87
			Deferred revenue	257,352.75	253,635.00
			Compensated absences	<u>236,112.24</u>	<u>231,778.00</u>
			Total liabilities	<u>1,169,268.82</u>	<u>1,181,478.66</u>
			Fund balances:		
			Nondiscretionary allocations:		
			Allocation for working capital	2,760,142.29	2,510,906.86
			Allocation for encumbrances	81,343.52	135,759.20
			Discretionary allocation:		
			Allocation for contingencies	1,081,600.00	981,940.00
			Allocation for compensated absences	(236,112.24)	(231,778.00)
			Unallocated	<u>4,552.25</u>	<u>27,697.76</u>
			Total fund balances	<u>3,691,525.82</u>	<u>3,424,525.82</u>
Total auxiliary enterprises	<u>4,860,794.64</u>	<u>4,606,004.48</u>	Total auxiliary enterprises	<u>4,860,794.64</u>	<u>4,606,004.48</u>
Total unrestricted	<u>27,937,819.14</u>	<u>26,293,305.87</u>	Total unrestricted	<u>27,937,819.14</u>	<u>26,293,305.87</u>
Restricted:			Restricted:		
Grants receivable	<u>2,649,678.57</u>	<u>2,406,794.51</u>	Liabilities:		
			Accounts payable	293,883.38	148,006.12
			Accrued liabilities	44,128.76	41,431.43
			Due to unrestricted current funds	<u>1,151,546.83</u>	<u>1,207,744.95</u>
			Total liabilities	<u>1,489,558.97</u>	<u>1,397,182.50</u>
			Fund balance	<u>1,160,119.60</u>	<u>1,009,612.01</u>
Total restricted	<u>2,649,678.57</u>	<u>2,406,794.51</u>	Total restricted	<u>2,649,678.57</u>	<u>2,406,794.51</u>
Total current funds	<u>\$ 30,587,497.71</u>	<u>\$ 28,700,100.38</u>	Total current funds	<u>\$ 30,587,497.71</u>	<u>\$ 28,700,100.38</u>
Loan funds:			Loan funds:		
Cash and cash equivalents (Notes 2 and 3)	\$ 784,753.02	\$ 657,595.35	Liabilities:		
Notes receivable (net of allowance of \$1,031,857.32 at June 30, 2001, and \$1,036,331.17 at June 30, 2000)	3,269,135.22	3,356,938.68	Accounts payable	\$ 1,902.74	\$ -
Accrued interest receivable (net of allowance of \$254,538.48 at June 30, 2001, and \$226,251.49 at June 30, 2000)	<u>28,867.68</u>	<u>42,796.73</u>	Fund balances:		
			U.S. government grants refundable	2,455,999.64	2,471,548.29
			University funds:		
			Restricted - matching	675,187.68	662,859.41
			Restricted - other	928,846.73	901,291.93
			Unrestricted	<u>20,819.13</u>	<u>21,631.13</u>
			Total fund balances	<u>4,080,853.18</u>	<u>4,057,330.76</u>
Total loan funds	<u>\$ 4,082,755.92</u>	<u>\$ 4,057,330.76</u>	Total loan funds	<u>\$ 4,082,755.92</u>	<u>\$ 4,057,330.76</u>

TENNESSEE BOARD OF REGENTS  
MIDDLE TENNESSEE STATE UNIVERSITY  
BALANCE SHEETS  
JUNE 30, 2001, AND JUNE 30, 2000

	<u>June 30, 2001</u>	<u>June 30, 2000</u>		<u>June 30, 2001</u>	<u>June 30, 2000</u>
<b>ASSETS</b>			<b>LIABILITIES AND FUND BALANCES</b>		
Endowment and similar funds:			Endowment and similar funds:		
Cash and cash equivalents (Notes 2 and 3)	\$ 227,646.23	\$ 197,438.84	Fund balances:		
Investments (Note 4)	<u>653,194.02</u>	<u>703,573.08</u>	Quasi-endowment:		
			Restricted	\$ 725,740.25	\$ 745,911.92
			Unrestricted	<u>155,100.00</u>	<u>155,100.00</u>
Total endowment and similar funds	<u>\$ 880,840.25</u>	<u>\$ 901,011.92</u>	Total endowment and similar funds	<u>\$ 880,840.25</u>	<u>\$ 901,011.92</u>
Plant funds:			Plant funds:		
Unexpended plant:			Unexpended plant:		
Cash and cash equivalents (Notes 2 and 3)	\$ 3,305,720.13	\$ 6,575,161.34	Liabilities:		
LGP deposit - capital projects	2,317,052.10	4,319,964.61	Accounts payable	\$ 73,766.56	\$ 7,953.95
Funds on deposit with escrow agent (Note 4)	1,908,210.54	-	Tennessee State School Bond Authority indebtedness (Note 8)	<u>1,400,000.00</u>	<u>-</u>
Accounts receivable (Note 5)	307,935.29	57,708.24			
Prepaid expenses	<u>50,000.00</u>	<u>-</u>	Total liabilities	<u>1,473,766.56</u>	<u>7,953.95</u>
			Fund balances:		
			Restricted	304,604.77	-
			Unrestricted (Note 6)	<u>6,110,546.73</u>	<u>10,944,880.24</u>
Total unexpended plant	<u>7,888,918.06</u>	<u>10,952,834.19</u>	Total fund balances	<u>6,415,151.50</u>	<u>10,944,880.24</u>
Renewals and replacements:			Total unexpended plant	<u>7,888,918.06</u>	<u>10,952,834.19</u>
Cash and cash equivalents (Notes 2 and 3)	<u>13,801,129.84</u>	<u>12,823,856.96</u>	Renewals and replacements:		
			Liabilities:		
			Accounts payable	55,342.57	27,039.79
Total renewals and replacements	<u>13,801,129.84</u>	<u>12,823,856.96</u>	Fund balance:		
Retirement of indebtedness:			Unrestricted (Note 6)	<u>13,745,787.27</u>	<u>12,796,817.17</u>
Cash and cash equivalents (Notes 2 and 3)	1,185,817.89	573,280.18	Total renewals and replacements	<u>13,801,129.84</u>	<u>12,823,856.96</u>
Interest rate reserve with Tennessee State School Bond Authority (Note 8)	22,452.14	59,029.47	Retirement of indebtedness:		
Accrued interest receivable	31,530.23	176,582.96	Liabilities:		
Accounts receivable	<u>36,067.00</u>	<u>36,067.00</u>	Accrued interest payable	640,985.50	598,711.55
			Other liabilities	<u>98,973.75</u>	<u>-</u>
Total retirement of indebtedness	<u>1,275,867.26</u>	<u>844,959.61</u>	Total liabilities	<u>739,959.25</u>	<u>598,711.55</u>
Investment in plant:			Fund balances:		
Land	3,787,039.61	1,956,040.11	Restricted	22,452.14	19,605.40
Buildings	193,002,310.88	191,765,851.71	Unrestricted	<u>513,455.87</u>	<u>226,642.66</u>
Improvements other than buildings	27,125,619.23	26,416,754.89	Total fund balances	<u>535,908.01</u>	<u>246,248.06</u>
Equipment	28,844,033.34	28,455,573.03	Total retirement of indebtedness	<u>1,275,867.26</u>	<u>844,959.61</u>
Library books	32,311,776.00	31,344,480.00	Investment in plant:		
Other library holdings	8,085,767.00	7,346,588.00	Liabilities:		
Construction in progress	2,756,272.60	195,565.93	Lease obligation payable (Note 7)	7,751.17	14,813.73
Livestock	<u>270,110.00</u>	<u>265,800.00</u>	Tennessee State School Bond Authority indebtedness (Note 8)	<u>73,181,527.31</u>	<u>70,791,547.44</u>
Total investment in plant	<u>296,182,928.66</u>	<u>287,746,653.67</u>	Total liabilities	<u>73,189,278.48</u>	<u>70,806,361.17</u>
Total plant funds	<u>\$ 319,148,843.82</u>	<u>\$ 312,368,304.43</u>	Fund balance:		
Agency funds:			Net investment in plant	<u>222,993,650.18</u>	<u>216,940,292.50</u>
Nonfoundation funds:			Total investment in plant	<u>296,182,928.66</u>	<u>287,746,653.67</u>
Cash and cash equivalents (Notes 2 and 3)	\$ 591,555.90	\$ 593,111.03	Total plant funds	<u>\$ 319,148,843.82</u>	<u>\$ 312,368,304.43</u>
Accounts receivable	<u>45,589.90</u>	<u>167.25</u>	Agency funds:		
			Nonfoundation funds:		
Total nonfoundation funds	<u>637,145.80</u>	<u>593,278.28</u>	Liabilities:		
Foundation funds:			Accounts payable	\$ 47,918.93	\$ 47,518.32
Cash and cash equivalents (Notes 2 and 3)	12,589,215.49	8,186,362.73	Deposits held in custody for others	502,927.80	508,350.33
Investments (Notes 3 and 4)	18,921,757.32	18,906,224.37	Other liabilities	<u>86,299.07</u>	<u>37,409.63</u>
Accrued interest receivable	175,437.94	149,954.54	Total nonfoundation funds	<u>637,145.80</u>	<u>593,278.28</u>
Accounts receivable	10,028.43	10,115.33	Foundation funds:		
Real estate	3,669,146.20	4,374,025.20	Liabilities:		
Improvements other than buildings	-	1,468.41	Accounts payable	169,529.93	25,428.27
Equipment	194,020.00	194,020.00	Deferred revenue	2,003,531.41	1,946,627.11
Livestock	238,672.00	177,234.00	Deposits held in custody for foundation	<u>35,186,228.59</u>	<u>31,339,475.98</u>
Construction in progress	<u>1,561,012.55</u>	<u>1,312,126.78</u>			
Total foundation funds	<u>37,359,289.93</u>	<u>33,311,531.36</u>	Total foundation funds	<u>37,359,289.93</u>	<u>33,311,531.36</u>
Total agency funds	<u>\$ 37,996,435.73</u>	<u>\$ 33,904,809.64</u>	Total agency funds	<u>\$ 37,996,435.73</u>	<u>\$ 33,904,809.64</u>

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

TENNESSEE BOARD OF REGENTS  
MIDDLE TENNESSEE STATE UNIVERSITY  
STATEMENT OF CHANGES IN FUND BALANCES  
FOR THE YEAR ENDED JUNE 30, 2001

	Current Funds				Plant Funds			
	Unrestricted	Restricted	Loan Funds	Endowment and Similar Funds	Unexpended	Renewals and Replacements	Retirement of Indebtedness	Investment In Plant
<b>REVENUES AND OTHER ADDITIONS</b>								
Unrestricted current fund revenues	\$ 140,558,625.66	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Auxiliary enterprise revenues	21,928,682.18	-	-	-	-	-	-	-
Tuition and fees	-	470,156.25	-	-	-	-	-	-
State appropriations	-	375,800.00	-	-	2,379,299.02	-	-	-
Federal grants and contracts	-	12,022,858.34	71,785.00	-	5,488.50	-	72,134.00	-
State grants and contracts	-	2,440,166.61	-	-	-	-	-	-
Local grants and contracts	-	32,528.53	-	-	-	-	-	-
Private gifts, grants, and contracts	-	1,347,483.22	34,184.25	-	1,268,715.28	-	339.71	7,000.00
Endowment income	-	743,855.76	-	-	-	-	-	-
Investment income	-	-	24,243.00	-	566,192.61	700,921.69	203,354.98	-
Interest on loans receivable	-	-	118,114.65	-	-	-	-	-
Reduction in doubtful accounts	-	-	16,018.88	-	-	-	-	-
Debt proceeds	-	-	-	-	5,677,828.53	-	-	-
Equipment use charges	-	-	-	-	-	1,191,979.28	-	-
Expended for plant facilities (including \$4,103,417.43 charged to current fund expenditures)	-	-	-	-	-	-	-	10,422,368.15
Retirement of indebtedness	-	-	-	-	-	-	-	1,895,020.47
Capital lease acquisition	-	-	-	-	-	-	-	7,062.56
Other	-	12,328.00	1,826.30	-	-	25,750.00	0.02	-
<b>Total revenues and other additions</b>	<b>162,487,307.84</b>	<b>17,445,176.71</b>	<b>266,172.08</b>	<b>-</b>	<b>9,897,523.94</b>	<b>1,918,650.97</b>	<b>275,828.71</b>	<b>12,331,451.18</b>
<b>EXPENDITURES AND OTHER DEDUCTIONS</b>								
Educational and general expenditures	140,080,367.62	16,998,602.40	-	-	-	-	-	-
Auxiliary enterprise expenditures	16,510,969.04	22,163.75	-	-	-	-	-	-
Indirect costs recovered	-	260,064.73	-	-	-	-	-	-
Refunded to grantors	-	7,095.76	-	-	-	-	-	-
Loan cancellations and write-offs	-	-	66,306.81	-	-	-	-	-
Provision for doubtful accounts	-	-	79,490.83	-	-	-	-	-
Administrative and collection costs	-	-	109,180.02	-	-	-	97,740.03	-
Net decrease in the fair value of investments	-	-	-	20,171.67	-	-	-	-
Expended for plant facilities	-	-	-	-	5,815,511.55	503,439.17	-	-
Expended for noncapital items	-	-	-	-	6,354,582.82	1,561,190.44	-	-
Retirement of indebtedness	-	-	-	-	-	-	1,895,020.47	-
Interest on indebtedness	-	-	-	-	-	-	4,053,232.77	-
Increase in indebtedness	-	-	-	-	1,400,000.00	-	-	4,277,828.53
Disposal of plant facilities	-	-	-	-	-	-	-	1,505,632.36
Library holdings revaluation	-	-	-	-	-	-	-	413,338.39
Equipment inventory adjustment	-	-	-	-	-	-	-	69,982.41
Other	-	6,742.48	-	-	-	-	-	11,311.81
<b>Total expenditures and other deductions</b>	<b>156,591,336.66</b>	<b>17,294,669.12</b>	<b>254,977.66</b>	<b>20,171.67</b>	<b>13,570,094.37</b>	<b>2,064,629.61</b>	<b>6,045,993.27</b>	<b>6,278,093.50</b>

TENNESSEE BOARD OF REGENTS  
MIDDLE TENNESSEE STATE UNIVERSITY  
STATEMENT OF CHANGES IN FUND BALANCES  
FOR THE YEAR ENDED JUNE 30, 2001

	Current Funds				Plant Funds			
	Unrestricted	Restricted	Loan Funds	Endowment and Similar Funds	Unexpended	Renewals and Replacements	Retirement of Indebtedness	Investment In Plant
<u>TRANSFERS AMONG FUNDS - ADDITIONS</u>								
<u>DEDUCTIONS</u>								
Mandatory:								
Loan fund matching grant	(12,328.00)	-	12,328.00	-	-	-	-	-
Principal and interest	(5,534,824.51)	-	-	-	-	(145,499.76)	5,680,324.27	-
Nonmandatory:								
Unrestricted current funds	397,600.00	-	-	-	(397,600.00)	-	-	-
Unexpended plant	-	-	-	-	165,583.93	(165,583.93)	-	-
Renewals and replacements	(298,203.30)	-	-	-	(625,142.24)	1,785,532.67	(862,187.13)	-
Retirement of indebtedness	(862,187.13)	-	-	-	-	(379,500.24)	1,241,687.37	-
Total transfers	<u>(6,309,942.94)</u>	<u>-</u>	<u>12,328.00</u>	<u>-</u>	<u>(857,158.31)</u>	<u>1,094,948.74</u>	<u>6,059,824.51</u>	<u>-</u>
Net increases (decreases) for the year	(413,971.76)	150,507.59	23,522.42	(20,171.67)	(4,529,728.74)	948,970.10	289,659.95	6,053,357.68
Fund balances at beginning of year	<u>8,903,992.52</u>	<u>1,009,612.01</u>	<u>4,057,330.76</u>	<u>901,011.92</u>	<u>10,944,880.24</u>	<u>12,796,817.17</u>	<u>246,248.06</u>	<u>216,940,292.50</u>
Fund balances at end of year	\$ <u>8,490,020.76</u>	\$ <u>1,160,119.60</u>	\$ <u>4,080,853.18</u>	\$ <u>880,840.25</u>	\$ <u>6,415,151.50</u>	\$ <u>13,745,787.27</u>	\$ <u>535,908.01</u>	\$ <u>222,993,650.18</u>

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

TENNESSEE BOARD OF REGENTS  
MIDDLE TENNESSEE STATE UNIVERSITY  
STATEMENT OF CHANGES IN FUND BALANCES  
FOR THE YEAR ENDED JUNE 30, 2000

	Current Funds				Plant Funds			
	Unrestricted	Restricted	Loan Funds	Endowment and Similar Funds	Unexpended	Renewals and Replacements	Retirement of Indebtedness	Investment In Plant
<b>REVENUES AND OTHER ADDITIONS</b>								
Unrestricted current fund revenues	\$ 131,369,579.40	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Auxiliary enterprise revenues	20,220,237.02	-	-	-	-	-	-	-
Tuition and fees	-	307,746.50	-	-	-	-	-	-
State appropriations	-	364,700.00	-	-	3,492,368.70	-	-	-
Federal grants and contracts	-	10,508,148.60	75,665.00	-	9,023.35	-	72,134.00	-
State grants and contracts	-	2,181,743.09	-	-	-	-	-	-
Local grants and contracts	-	24,910.69	-	-	-	-	-	-
Private gifts, grants, and contracts	-	1,520,493.77	29,936.85	500.00	1,000,000.00	-	-	-
Endowment income	-	703,827.60	-	-	-	-	-	-
Investment income	-	-	4,166.92	-	746,331.58	482,447.05	207,113.35	-
Interest on loans receivable	-	-	126,946.98	-	-	-	-	-
Reduction in doubtful accounts	-	-	23,329.70	-	-	-	-	-
Net increase in the fair value of investments	-	-	-	9,921.20	-	-	-	-
Debt proceeds	-	-	-	-	3,162,408.51	-	-	-
Decrease in indebtedness	-	-	-	-	4,201,669.44	-	-	-
Equipment use charges	-	-	-	-	-	1,505,892.30	-	-
Expended for plant facilities (including \$4,245,278.20 charged to current fund expenditures)	-	-	-	-	-	-	-	14,211,095.29
Retirement of indebtedness	-	-	-	-	-	-	-	1,717,804.00
Capital lease acquisition	-	-	-	-	-	-	-	6,435.14
Equipment inventory adjustments	-	-	-	-	-	-	-	81,948.98
Other	-	-	5,604.50	-	-	74,748.87	1,049.00	116,591.00
<b>Total revenues and other additions</b>	<b>151,589,816.42</b>	<b>15,611,570.25</b>	<b>265,649.95</b>	<b>10,421.20</b>	<b>12,611,801.58</b>	<b>2,063,088.22</b>	<b>280,296.35</b>	<b>16,133,874.41</b>
<b>EXPENDITURES AND OTHER DEDUCTIONS</b>								
Educational and general expenditures	128,349,853.62	15,167,458.80	-	-	-	-	-	-
Auxiliary enterprise expenditures	15,432,232.41	6,955.22	-	-	-	-	-	-
Indirect costs recovered	-	252,984.30	-	-	-	-	-	-
Refunded to grantors	-	25,555.65	-	-	-	-	-	-
Loan cancellations and write-offs	-	-	50,962.13	-	-	-	-	-
Provision for doubtful accounts	-	-	143,759.25	-	-	-	-	-
Administrative and collection costs	-	-	47,765.28	-	-	-	138,336.69	-
Expended for plant facilities	-	-	-	-	8,612,901.76	1,352,915.33	-	-
Expended for noncapital items	-	-	-	-	7,956,558.36	1,210,738.28	-	-
Retirement of indebtedness	-	-	-	-	-	-	1,717,804.00	-
Interest on indebtedness	-	-	-	-	-	-	4,133,511.69	-
Increase in indebtedness	-	-	-	-	-	-	-	6,983,271.71
Library holdings revaluation	-	-	-	-	-	-	-	1,133,738.64
Disposal of plant facilities	-	-	-	-	-	-	-	3,999,031.06
Other	-	-	-	-	-	-	-	9,085.00
<b>Total expenditures and other deductions</b>	<b>143,782,086.03</b>	<b>15,452,953.97</b>	<b>242,486.66</b>	<b>-</b>	<b>16,569,460.12</b>	<b>2,563,653.61</b>	<b>5,989,652.38</b>	<b>12,125,126.41</b>

TENNESSEE BOARD OF REGENTS  
MIDDLE TENNESSEE STATE UNIVERSITY  
STATEMENT OF CHANGES IN FUND BALANCES  
FOR THE YEAR ENDED JUNE 30, 2000

	Current Funds				Plant Funds			
	Unrestricted	Restricted	Loan Funds	Endowment and Similar Funds	Unexpended	Renewals and Replacements	Retirement of Indebtedness	Investment In Plant
<b>TRANSFERS AMONG FUNDS - ADDITIONS (DEDUCTIONS)</b>								
Mandatory:								
Loan fund matching grant	(12,574.00)	-	12,574.00	-	-	-	-	-
Principal and interest	(4,258,510.02)	-	-	-	(1,194,847.80)	-	5,453,357.82	-
Nonmandatory:								
Unrestricted current funds	3,338,990.00	-	-	-	(3,338,990.00)	-	-	-
Unexpended plant	-	-	-	-	3,076,218.25	(2,116,814.35)	(959,403.90)	-
Renewals and replacements	(3,052,476.93)	-	-	-	-	4,183,107.71	(1,130,630.78)	-
Retirement of indebtedness	(1,821,830.78)	-	-	-	-	-	1,821,830.78	-
Total transfers	<u>(5,806,401.73)</u>	<u>-</u>	<u>12,574.00</u>	<u>-</u>	<u>(1,457,619.55)</u>	<u>2,066,293.36</u>	<u>5,185,153.92</u>	<u>-</u>
Net increases (decreases) for the year	<u>2,001,328.66</u>	<u>158,616.28</u>	<u>35,737.29</u>	<u>10,421.20</u>	<u>(5,415,278.09)</u>	<u>1,565,727.97</u>	<u>(524,202.11)</u>	<u>4,008,748.00</u>
Fund balances at beginning of year	6,902,663.86	850,995.73	4,021,593.47	890,590.72	16,360,158.33	11,231,089.20	770,450.17	232,748,673.96
Cumulative effect of a change in accounting principle (Note 11)	-	-	-	-	-	-	-	(19,817,129.46)
Fund balances at beginning of year, as restated	<u>6,902,663.86</u>	<u>850,995.73</u>	<u>4,021,593.47</u>	<u>890,590.72</u>	<u>16,360,158.33</u>	<u>11,231,089.20</u>	<u>770,450.17</u>	<u>212,931,544.50</u>
Fund balances at end of year	<u>\$ 8,903,992.52</u>	<u>\$ 1,009,612.01</u>	<u>\$ 4,057,330.76</u>	<u>\$ 901,011.92</u>	<u>\$ 10,944,880.24</u>	<u>\$ 12,796,817.17</u>	<u>\$ 246,248.06</u>	<u>\$ 216,940,292.50</u>

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

TENNESSEE BOARD OF REGENTS  
MIDDLE TENNESSEE STATE UNIVERSITY  
STATEMENT OF CURRENT FUNDS REVENUES, EXPENDITURES, AND OTHER CHANGES  
FOR THE YEAR ENDED JUNE 30, 2001

	<u>Unrestricted</u>	<u>Restricted</u>	<u>Total</u>
<b><u>REVENUES</u></b>			
Tuition and fees	\$ 59,081,066.45	\$ 470,156.25	\$ 59,551,222.70
State appropriations	76,159,000.00	375,800.00	76,534,800.00
Federal grants and contracts	241,959.66	11,977,058.07	12,219,017.73
State grants and contracts	143,267.77	2,445,660.83	2,588,928.60
Local grants and contracts	5,306.32	32,528.53	37,834.85
Private gifts, grants, and contracts	-	1,296,451.33	1,296,451.33
Investment income	1,225,803.41	-	1,225,803.41
Endowment income	8,887.79	743,855.76	752,743.55
Sales and services of educational activities	3,486,218.97	-	3,486,218.97
Sales and services of auxiliary enterprises	21,928,682.18	-	21,928,682.18
Other sources	207,115.29	12,328.00	219,443.29
Total current revenues	<u>162,487,307.84</u>	<u>17,353,838.77</u>	<u>179,841,146.61</u>
<b><u>EXPENDITURES AND TRANSFERS</u></b>			
Educational and general:			
Expenditures:			
Instruction	76,336,575.59	1,974,474.32	78,311,049.91
Research	1,772,515.31	995,743.91	2,768,259.22
Public service	2,287,225.51	3,559,942.64	5,847,168.15
Academic support	11,688,647.83	343,825.00	12,032,472.83
Student services	18,039,358.44	1,133,171.27	19,172,529.71
Institutional support	12,120,329.18	73,824.27	12,194,153.45
Operation and maintenance of plant	13,154,573.31	3,504.87	13,158,078.18
Scholarships and fellowships	4,681,142.45	8,914,116.12	13,595,258.57
Total educational and general expenditures	<u>140,080,367.62</u>	<u>16,998,602.40</u>	<u>157,078,970.02</u>
Mandatory transfers for:			
Loan fund matching grant	12,328.00	-	12,328.00
Principal and interest	3,103,685.17	-	3,103,685.17
Nonmandatory transfers for:			
Unexpended plant	(397,600.00)	-	(397,600.00)
Renewals and replacements	(2,421,370.50)	-	(2,421,370.50)
Retirement of indebtedness	862,187.13	-	862,187.13
Total educational and general	<u>141,239,597.42</u>	<u>16,998,602.40</u>	<u>158,238,199.82</u>
Auxiliary enterprises:			
Expenditures	16,510,969.04	22,163.75	16,533,132.79
Mandatory transfer for:			
Principal and interest	2,431,139.34	-	2,431,139.34
Nonmandatory transfer for:			
Renewals and replacements	2,719,573.80	-	2,719,573.80
Total auxiliary enterprises	<u>21,661,682.18</u>	<u>22,163.75</u>	<u>21,683,845.93</u>
Total expenditures and transfers	<u>162,901,279.60</u>	<u>17,020,766.15</u>	<u>179,922,045.75</u>
<b><u>OTHER ADDITION (DEDUCTIONS)</u></b>			
Excess of restricted receipts over transfers to revenues	-	91,337.94	91,337.94
Indirect costs recovered	-	(260,064.73)	(260,064.73)
Refunded to grantors	-	(7,095.76)	(7,095.76)
Other deduction	-	(6,742.48)	(6,742.48)
Net increase (decrease) in fund balances	<u>\$ (413,971.76)</u>	<u>\$ 150,507.59</u>	<u>\$ (263,464.17)</u>

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

TENNESSEE BOARD OF REGENTS  
MIDDLE TENNESSEE STATE UNIVERSITY  
STATEMENT OF CURRENT FUNDS REVENUES, EXPENDITURES, AND OTHER CHANGES  
FOR THE YEAR ENDED JUNE 30, 2000

	<u>Unrestricted</u>	<u>Restricted</u>	<u>Total</u>
<b><u>REVENUES</u></b>			
Tuition and fees	\$ 53,083,729.59	\$ 307,746.50	\$ 53,391,476.09
State appropriations	73,272,900.00	364,700.00	73,637,600.00
Federal grants and contracts	207,852.48	10,483,852.75	10,691,705.23
State grants and contracts	97,332.42	2,181,743.09	2,279,075.51
Local grants and contracts	1,034.94	24,910.69	25,945.63
Private gifts, grants, and contracts	12,285.07	1,485,957.65	1,498,242.72
Investment income	1,276,901.77	-	1,276,901.77
Endowment income	8,775.56	703,827.60	712,603.16
Sales and services of educational activities	3,302,824.21	-	3,302,824.21
Sales and services of auxiliary enterprises	20,220,237.02	-	20,220,237.02
Other sources	105,943.36	-	105,943.36
Total current revenues	<u>151,589,816.42</u>	<u>15,552,738.28</u>	<u>167,142,554.70</u>
<b><u>EXPENDITURES AND TRANSFERS</u></b>			
Educational and general:			
Expenditures:			
Instruction	69,227,910.77	1,648,499.75	70,876,410.52
Research	1,947,456.32	1,134,211.61	3,081,667.93
Public service	2,145,058.99	2,704,545.66	4,849,604.65
Academic support	11,181,398.08	216,784.19	11,398,182.27
Student services	16,376,813.86	999,358.92	17,376,172.78
Institutional support	11,842,593.64	245,071.22	12,087,664.86
Operation and maintenance of plant	11,422,549.75	4,226.72	11,426,776.47
Scholarships and fellowships	4,206,072.21	8,214,760.73	12,420,832.94
Total educational and general expenditures	<u>128,349,853.62</u>	<u>15,167,458.80</u>	<u>143,517,312.42</u>
Mandatory transfers for:			
Loan fund matching grant	12,574.00	-	12,574.00
Principal and interest	2,871,568.33	-	2,871,568.33
Nonmandatory transfers for:			
Unexpended plant	(3,338,990.00)	-	(3,338,990.00)
Renewals and replacements	(200,000.00)	-	(200,000.00)
Retirement of indebtedness	1,821,830.78	-	1,821,830.78
Total educational and general	<u>129,516,836.73</u>	<u>15,167,458.80</u>	<u>144,684,295.53</u>
Auxiliary enterprises:			
Expenditures			
Mandatory transfer for:	15,432,232.41	6,955.22	15,439,187.63
Principal and interest	1,386,941.69	-	1,386,941.69
Nonmandatory transfer for:			
Renewals and replacements	3,252,476.93	-	3,252,476.93
Total auxiliary enterprises	<u>20,071,651.03</u>	<u>6,955.22</u>	<u>20,078,606.25</u>
Total expenditures and transfers	<u>149,588,487.76</u>	<u>15,174,414.02</u>	<u>164,762,901.78</u>
<b><u>OTHER ADDITION (DEDUCTIONS)</u></b>			
Excess of restricted receipts over transfers to revenues	-	58,831.97	58,831.97
Indirect costs recovered	-	(252,984.30)	(252,984.30)
Refunded to grantors	-	(25,555.65)	(25,555.65)
Net increases in fund balances	<u>\$ 2,001,328.66</u>	<u>\$ 158,616.28</u>	<u>\$ 2,159,944.94</u>

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

**Tennessee Board of Regents  
Middle Tennessee State University  
Notes to the Financial Statements  
June 30, 2001, and June 30, 2000**

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**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Reporting Entity**

The university is a 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 have been prepared in conformity with accounting principles generally accepted in the United States of America 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 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 or all eligibility requirements have been met. 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

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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 when expended or all eligibility requirements have been met 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 its authorized institutional purposes. Auxiliary enterprises activities are included in unrestricted current funds and include residence halls and family housing, food services, student stores, vending, the post office, the recreation center, telecommunications, and the parking authority. 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.

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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. Textbooks included in the inventory are recorded on a first-in, first-out basis. All other items are maintained on an average cost or first-in, first-out basis.

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**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. The amount of these liabilities and their related benefits are recorded in the current funds. Since the liability is expected to be funded primarily from future unrestricted revenue sources, a related allocation has been made to the current fund balances so that these fund balances reflect current available funds.

**Allocation for Working Capital**

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

**Plant Assets**

The physical plant and equipment are stated at cost at date of purchase or at fair value at date of donation. Library books are valued at \$48 per volume, and other library holdings are valued at various standardized values, which approximate current costs. 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.

**Interest Costs**

The university has adopted a policy of capitalizing all construction-related interest costs for capital projects funded by Tennessee State School Bond Authority indebtedness. All other interest costs are expensed.

**Middle Tennessee State University Foundation**

The university is the sole beneficiary of the Middle 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

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by the university, and the assets and liabilities of the foundation are included in the agency funds on the university's balance sheet.

**NOTE 2. 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, 2001, cash and cash equivalents consisted of \$5,148,235.48 in bank accounts, \$117,043.00 of petty cash on hand, \$46,673,982.57 in the State of Tennessee Local Government Investment Pool administered by the State Treasurer, and \$1,348,939.73 in money market accounts. At June 30, 2000, cash and cash equivalents consisted of \$4,414,229.82 in bank accounts, \$116,370.00 of petty cash on hand, \$42,463,417.40 in the State of Tennessee Local Government Investment Pool, and \$2,605,326.37 in money market accounts.

**NOTE 3. DEPOSITS**

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

Some of 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.

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At June 30, 2001, the carrying amount of the university's deposits was \$6,497,175.21, and the bank balance including accrued interest was \$8,066,578.18. The bank balance was category 1.

At June 30, 2000, the carrying amount of the university's deposits was \$7,019,556.19, and the bank balance including accrued interest was \$9,119,726.14. Of the bank balance, \$7,622,761.71 was category 1, and \$1,496,964.43 was category 3.

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 115%, 100%, or 90% of the uninsured deposits at financial institutions participating in the collateral pool and 105% of the uninsured deposits at all other financial institutions. The pledge level for financial institutions participating in the collateral pool is based on financial criteria set by the Collateral Pool Board with the financially strongest institutions being eligible for the lowest pledge level.

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 4. 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 Middle 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.

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The foundation's investments are categorized below to indicate the level of risk assumed by the foundation at year-end. 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.

<u>June 30, 2001</u>	<u>Fair Value</u>
Category 2:	
U.S. government securities	\$3,690,730.15
Corporate bonds	5,027,791.50
Corporate stocks	10,157,525.54
Investments not susceptible to credit risk categorization:	
Mutual funds	<u>698,904.15</u>
Total investments on the balance sheet	<u>\$19,574,951.34</u>

<u>June 30, 2000</u>	<u>Fair Value</u>
Category 2:	
U.S. government securities	\$3,776,298.90
Corporate bonds	4,185,395.50
Corporate stocks	10,895,392.64
Investments not susceptible to credit risk categorization:	
Mutual funds	<u>752,710.41</u>
Total investments on the balance sheet	<u>\$ 19,609,797.45</u>

Funds on deposit with escrow agent in unexpended plant consisted of debt proceeds for the purchase of the Belle Aire Baptist Church building. These funds are being held in escrow until the church is vacated.

Investments of endowment and similar funds are composed of the following:

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	Carrying Value	
	<u>FY 2001</u>	<u>FY 2000</u>
Mutual funds	<u>\$653,194.02</u>	<u>\$703,573.08</u>

Assets of endowment funds are pooled on a fair value basis, with each individual fund subscribing to or disposing of units on the basis of the fair value per unit at the beginning of the calendar quarter within which the transaction takes place. The 132,111.94 units at June 30, 2001, each having a fair value of \$4.94, were owned by quasi-endowment funds. The 132,111.94 units at June 30, 2000, each having a fair value of \$5.33, were owned by quasi-endowment funds.

The following tabulations summarize changes in relationships between cost and fair values of the pooled assets:

<u>FY 2001</u>	Pooled Assets		Net Gains	Fair
	<u>Fair</u>	<u>Cost</u>	<u>(Losses)</u>	<u>Value</u>
				<u>Per Unit</u>
End of year	\$653,194.02	\$710,641.16	\$(57,447.14)	\$4.94
Beginning of year	\$703,573.08	\$710,641.16	<u>(7,068.08)</u>	<u>5.33</u>
				<u>\$(.39)</u>
Unrealized net losses			(50,379.06)	
Realized net gains			<u>30,207.39</u>	
Total net losses			<u>\$ (20,171.67)</u>	

The average annual earnings per unit, exclusive of net gains, were \$0.19 for the year.

<u>FY 2000</u>	Pooled Assets		Net Gains	Fair
	<u>Fair</u>	<u>Cost</u>	<u>(Losses)</u>	<u>Value</u>
				<u>Per Unit</u>
End of year	\$703,573.08	\$710,641.16	\$(7,068.08)	\$ 5.33
Beginning of year	\$689,588.67	\$670,641.16	<u>18,947.51</u>	<u>5.45</u>
				<u>\$ (0.12)</u>
Unrealized net losses			(26,015.59)	
Realized net gains			<u>35,936.79</u>	
Total net gains			<u>\$ 9,921.20</u>	

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The average annual earnings per unit, exclusive of net gains, were \$(0.05) for the year.

Investments of endowment and similar funds owned by the foundation are composed of the following:

	Carrying Value	
	<u>FY 2001</u>	<u>FY 2000</u>
Mutual funds	<u>\$45,710.13</u>	<u>\$49,137.33</u>

Assets of endowment funds are pooled on a fair value basis, with each individual fund subscribing to or disposing of units on the basis of the fair value per unit at the beginning of the calendar quarter within which the transaction takes place. The 4,029.743 units at June 30, 2001, each having a fair value of \$11.34, were owned by quasi-endowment funds. The 4,029.743 units at June 30, 2000, each having a fair value of \$12.19, were owned by quasi-endowment funds.

The following tabulations summarize changes in relationships between cost and fair values of the pooled assets:

<u>FY 2001</u>	Pooled Assets		Net Gains	Fair Value
	<u>Fair</u>	<u>Cost</u>	<u>(Losses)</u>	<u>Per Unit</u>
End of year	\$45,710.13	\$48,608.60	\$(2,898.47)	\$11.34
Beginning of year	\$49,137.33	\$48,608.60	<u>528.73</u>	<u>12.19</u>
				<u>\$ (.85)</u>
Unrealized net losses			(3,427.20)	
Realized net gains			-	
Total net losses			<u>\$(3,427.20)</u>	

There were no average annual earnings per unit, exclusive of net gains, for the year.

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<u>FY 2000</u>	Pooled Assets		Net Gains	Fair Value
	<u>Fair</u>	<u>Cost</u>	<u>(Losses)</u>	<u>Per Unit</u>
End of year	\$49,137.33	\$48,608.60	\$528.73	\$12.19
Beginning of year	\$ -	\$ -	-	-
				<u>\$12.19</u>
Unrealized net gains			528.73	
Realized net gains			-	
Total net gains			<u>\$ 528.73</u>	

The average annual earnings per unit, exclusive of net gains, were \$.02 for the year.

**NOTE 5. PLEDGES**

For the year ended June 30, 2001, promises of private donations of \$300,000.00 have been reported as accounts receivable and revenue in unexpended plant. All of the pledge is considered to be collectable.

**NOTE 6. PLANT FUND ENCUMBRANCES**

Plant fund encumbrances outstanding at June 30, 2001, amounted to \$301,436.42 for unexpended plant and \$489,731.89 for renewals and replacements. Plant fund encumbrances outstanding at June 30, 2000, amounted to \$287,600.60 for unexpended plant and \$409,228.89 for renewals and replacements.

**NOTE 7. CAPITAL LEASES**

The university has a capital lease agreement for recording industry equipment. This agreement has a beginning date of March 13, 1998, an ending date of March 23, 2002, and an imputed interest rate of 9.75%. Asset balances were \$35,097.32 at June 30, 2001, and June 30, 2000. The following is a schedule of future minimum lease payments under capital leases together with the present value of the net minimum lease payments at June 30, 2001:

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Year Ending <u>June 30</u>	
2002	\$8,506.90
Less amount representing interest	<u>755.73</u>
Present value of net minimum lease payments	<u>\$7,751.17</u>

**NOTE 8. TSSBA INDEBTEDNESS**

Bond issues, with interest rates ranging from 3.65% to 7.75% for Tennessee State School Bond Authority bonds are due serially to 2030 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 and unexpended debt proceeds. The reserve amount was \$1,120,203.57 at June 30, 2001, and \$1,237,375.37 at June 30, 2000. The unexpended debt proceeds were \$295,255.93 at June 30, 2000.

The university's debt service requirements to maturity for all bonds payable at June 30, 2001, are as follows:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2002	\$ 1,925,603.94	\$ 3,745,048.56	\$ 5,670,652.50
2003	2,035,136.34	3,643,616.15	5,678,752.49
2004	2,135,537.14	3,544,809.73	5,680,346.87
2005	2,014,769.30	3,440,588.72	5,455,358.02
2006	2,024,057.31	3,342,595.88	5,366,653.19
2007-2030	<u>59,412,312.47</u>	<u>41,275,823.96</u>	<u>100,688,136.43</u>
	<u>\$69,547,416.50</u>	<u>\$58,992,483.00</u>	<u>\$128,539,899.50</u>

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

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university was \$5,034,110.81 at June 30, 2001, and \$12,982,402.35 at June 30, 2000.

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 9. PENSION PLAN**

**A. Defined Benefit Plan**

**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 6.19% 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, 2001, 2000, and 1999, were \$2,107,764.38, \$1,845,660.41, and \$1,779,799.78. Contributions met the requirements for each year.

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**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 was \$4,551,987.92 for the year ended June 30, 2001, and \$4,126,411.60 for the year ended June 30, 2000. Contributions met the requirements for each year.

**NOTE 10. 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 11. CUMULATIVE EFFECT OF A CHANGE IN ACCOUNTING PRINCIPLE**

During the year ended June 30, 2000, the threshold for capitalizing equipment increased from \$1,000 to \$5,000. As a result of the change, equipment decreased by \$19,817,129.46.

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**NOTE 12. 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. The final settlement of \$8.96 million for the tornado damage in Clarksville was made during the year ended June 30, 2001. In the years ended June 30, 2000, and June 30, 1998, the state did not have any claims filed with the commercial insurer. A designation for casualty losses in the amount of \$8.731 million at June 30, 2001, and \$7.256 million at June 30, 2000, was established in the state's general fund to provide for any property losses not covered by the commercial insurance.

At June 30, 2001, the scheduled coverage for the university was \$341,787,200 for buildings and \$153,540,100 for contents. At June 30, 2000, the scheduled coverage was \$332,425,900 for buildings and \$152,902,400 for contents.

The state has set aside assets for claim settlement in an internal service fund, the Claims Award Fund. This fund services all claims for risk of loss to which the state is exposed, including general liability, 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

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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 13. FEDERAL STUDENT FINANCIAL ASSISTANCE**

The restricted expenditure function scholarships and fellowships includes \$8,900,927.00 of federal financial assistance for students. These programs include Federal Pell Grants and Federal Supplemental Educational Opportunity Grants.

**NOTE 14. 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 \$32,247,564.75 at June 30, 2001, and \$28,844,043.54 at June 30, 2000.

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 \$190,735.88 and for personal property were \$123,673.03 for the year ended June 30, 2001. Comparative amounts for the year ended June 30, 2000, were \$179,829.78 and \$134,107.79. All operating leases are cancelable at the lessee's option.

Construction in Progress - At June 30, 2001, outstanding commitments under construction contracts totaled \$2,498,429.30 for utility/infrastructure improvements, the Library Building, steam and condensate lines, and the Recreation Center addition, which 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.

Federal Review - The U.S. Department of Education has completed a review on the fiscal years 1993-94 through 1996-97. The review examined federally funded awards granted

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during those years. As a result of the review, the university may be subject to the repayment of certain awards.

**NOTE 15. CHAIRS OF EXCELLENCE**

The university had \$21,835,237.11 on deposit at June 30, 2001, and \$23,100,616.69 on deposit at June 30, 2000, 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 16. PRIOR-YEAR RESTATEMENT**

During the year ended June 30, 2001, there was a change in accounting policy whereby it was decided that unexpended debt proceeds, which had previously been reported as an asset, funds on deposit with State Treasurer, should be netted against the bonds payable liability. As a result, prior-year amounts were restated as noted below:

<u>Fund</u>	<u>Account</u>	<u>Amount</u>
Exhibit A		
Unexpended plant	Funds on deposit with State Treasurer	\$(295,255.93)
Unexpended plant	Tennessee State School Bond Authority indebtedness	\$(295,255.93)

During the year ended June 30, 2001, the university implemented GASB Statement 33, *Accounting and Financial Reporting for Nonexchange Transactions*. As a result, prior-year amounts were restated as noted below:

Exhibit E		
Restricted	Tuition and fees	\$ 181,478.18
Restricted	State appropriations	\$ 12,108.68
Restricted	Federal grants and contracts	\$ 181,125.83
Restricted	State grants and contracts	\$ 148,800.15
Restricted	Local grants and contracts	\$ (37,698.75)
Restricted	Private gifts, grants, and contracts	\$ (89,419.00)
Restricted	Endowment income	\$ (11,115.61)

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Restricted	Sales and services of auxiliary enterprises	\$ (6,955.22)
Restricted	Excess of restricted receipts over transfers to revenues	\$ (378,324.26)

**NOTE 17. NEW ACCOUNTING PRONOUNCEMENTS**

In November 1999, the Governmental Accounting Standards Board (GASB) issued Statement 35, *Basic Financial Statements—and Management’s Discussion and Analysis—for Public Colleges and Universities an amendment of GASB Statement No. 34*. As originally issued, Statement 34, *Basic Financial Statements—and Management’s Discussion and Analysis—for States and Local Governments* was not applicable to public institutions. Rather than issuing separate standards, GASB decided to provide financial reporting guidance for public institutions by amending Statement 34 to extend its applicability to them. Statement 35 supersedes GASB Statement 15, which currently allows public institutions to choose one of two models when preparing their financial statements—the AICPA College Guide model or the governmental model. As component units of a state government, most public institutions will implement GASB Statement 35 at the same time as the state government implements GASB Statement 34.

Under the provisions of the GASB standards, the university is permitted to report as a special purpose government engaged only in business-type activities (BTA). BTA reporting will require the university to present only the basic financial statements and required supplementary information (RSI) for an enterprise fund that includes management’s discussion and analysis; a statement of net assets or a balance sheet; a statement of revenues, expenses, and changes in net assets; a statement of cash flows; notes to the financial statements; and other applicable RSI. The required basic financial statements described above are prepared using the economic resources measurement focus and the accrual basis of accounting. Fund financial statements are not required for BTA reporting.

Statement 34 will also require the university to retroactively and prospectively report all capital assets, net of accumulated depreciation, including infrastructure assets (long-lived capital assets such as roads and bridges) in the statement of net assets and report depreciation expense in the statement of revenues, expenses, and changes in net assets. Retroactive reporting of capital assets will require a prior period adjustment to net assets. Management has not yet determined the effect of the implementation of this statement on the university’s financial statements.