Tennessee Board of Regents
Tennessee State University

For the Year Ended
June 30, 2001

Comptroller of the Treasury, Division of State Audit
1500 James K. Polk Building, Nashville, TN 37243-0264
(615) 401-7897

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

John G. Morgan
Comptroller

March 7, 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. 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, 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 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 finding; the response is included following the finding. The Division of State Audit will follow up the audit to examine the application of the procedures instituted because of the audit finding.

Sincerely,

John G. Morgan
Comptroller of the Treasury

JGM/mb
01/128

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, 2001

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.

SPECIAL INVESTIGATIONS FINDING

Ticket Office Staff Did Not Exercise Appropriate Control Over Cash Payments to Spot Light Entertainment, Inc., and the Ticket Office Did Not Have Adequate Controls Over Ticket Sales
University staff associated with the ticket office made several significant errors related to the payment of cash to Spot Light for the Isley Brothers concert. The lapses in controls contributed to questions about the amount of cash in the safe, the extent of cash sales on Sunday, and the amount of cash disbursed. In addition, several weaknesses were noted in the controls over ticket office sales. In the absence of timely, complete, accurate, and documented reconciliations, the university cannot be assured that its financial assets are being appropriately protected, properly classified, correctly recorded, and promptly deposited (page 9).

OPINION ON THE FINANCIAL STATEMENTS

The opinion on the financial statements is unqualified.

"Audit Highlights" is a summary of the audit report. To obtain the complete audit report, which contains all findings, recommendations, and management comments, please contact

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

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

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 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, 2000, through June 30, 2001, except for the special investigation, 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. 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 July 19, 2001. 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 reporting of Pell Payment Data to the Department of Education within the required time frame.

OBSERVATIONS AND COMMENTS

A special investigation of the university's Athletics Department is currently ongoing, and a separate report will be issued.

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, 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. A reportable condition, along with the recommendation and management's response, is detailed in the finding and recommendation. 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.

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DEPARTMENT OF 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*

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 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*.

<u>Compliance</u>

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 less significant instances of noncompliance, which we have reported to the university's management in a separate letter.

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. However, we noted one matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. 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 condition was noted:

- Ticket office staff did not exercise appropriate control over cash payments to Spot Light Entertainment, Inc., and the ticket office did not have adequate controls over ticket sales

This condition is described in the Finding and Recommendation 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 do not believe the reportable condition 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 to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record.

Sincerely,

Arthur A. Hayes, Jr.

Arthur A. Hayes, Jr., CPA,
Director

AAH/mb

SPECIAL INVESTIGATION

TICKET OFFICE

On September 17, 2001, the Division of State Audit received information that all of the cash from the university's ticket office had been used to pay the performers for a university-sponsored concert on Sunday, September 2, 2001, at the university's Gentry Center. According to the information received, such an action posed procedural, reconciliation, and auditing problems.

Division of State Audit staff, in collaboration with the university's internal audit staff, immediately initiated a review of the cash payments related to the Isley Brothers concert, one of the activities associated with the university's John Merritt Classic III football game.

The objectives of our review of the cash payments from the ticket office were to

- determine the circumstances related to the cash payments, including why such payments were necessary and who authorized the payments;

- determine whether the controls over the cash payments were adequate; and

- determine whether the internal controls in the ticket office in general were adequate.

Our review included interviews with university staff and non-university individuals involved and examination of available documentation related to the cash transactions on September 2. We also examined other ticket office documentation, including summary of deposits forms, check lists, credit card sales reports, credit card receipts, official cash receipt forms, and Ticket Master reports.

With respect to the circumstances related to the cash payment, our review determined that in July 2001, the university entered into a contract with Spot Light Entertainment, Inc. (Spot Light), located in Lawrenceville, Georgia. As specified in the contract, Spot Light was to provide a "Live R&B Concert" at the university's Gentry Center on Sunday, September 2, for $88,000. Spot Light, a talent promotion company, represented the Isley Brothers and the performer known as "CASE" (the opening act). On August 1, 2001, the university paid Spot Light half the contract amount ($44,000) by wire transfer. Pursuant to the contract, the balance of the contracted price ($44,000) was to be paid by the university to Spot Light on the engagement date, payable in cash, cashier's check, or other certified check.

The university's Gentry Center director arranged with Spot Light to have a $44,000 check ready on Saturday, September 1, in Nashville, and to accompany a Spot Light partner to a local bank to cash the check. The center director obtained a $44,000 check from the university's Business Office on Friday, August 31. However, because of bad weather and heavy traffic, the Spot Light partner did not arrive in Nashville before the bank closed. Thus, Spot Light did not obtain the cash it needed to pay the performers.

On Sunday morning, September 2, the Spot Light partner informed the center director that the performers would not leave their hotel, and thus would not perform, until they were paid in cash. The Spot Light partner also informed the center director that Spot Light did not have the cash to pay the performers. This action by Spot Light placed the university in the difficult position of either securing the cash itself or having the concert canceled because the performers refused to perform.

Ticket office staff determined that in the ticket office safe, there was about $36,000 in cash, which was made up of two components. The first component was cash sales from Thursday, August 30, which should have been deposited on Friday, August 31. However, the deposit had not been made because the Associate Athletic Director for Finance, who was responsible for making the deposits, was sick on Friday. The second component was cash sales from Friday, August 31, which were being held in the safe for deposit on Tuesday, September 4. (The deposit could not be made on Monday, September 3, because Monday was Labor Day and a state holiday.) It should be noted that the cash in the safe represented sales for football games and game parking decals, as well as the Isley Brothers concert.

Besides the cash in the safe, university staff expected additional cash to be collected from ticket sales the night of the concert. These ticket sales were for cash only. Thus, university staff reasonably anticipated that the $44,000 cash amount needed might be provided through a combination of the existing cash in the ticket office safe and Sunday's cash ticket sales.

Having been informed that a substantial portion of the needed cash amount was in the ticket office safe, and not wanting to cancel the concert, the university's president authorized the payment of all the cash in the ticket office to Spot Light. During the evening of September 2, the ticket office's head cashier disbursed $43,672 to Spot Light in three separate transactions. A written receipt documented each transaction. The transactions were for $32,000, $4,000, and $7,672, respectively. The $43,672 amount included all of the cash sales for August 30, August 31, and September 2 (the ticket office was closed on September 1), as well as all available petty cash, except for loose coins. Because the total amount due was $44,000, Spot Light later submitted an invoice to the university for the remaining $328. The university paid Spot Light the $328 on October 29, 2001.

FINDING AND RECOMMENDATION

<u>Ticket office staff did not exercise appropriate control over cash payments to Spot Light Entertainment, Inc., and the ticket office did not have adequate controls over ticket sales</u>

Finding

Ticket office staff did not exercise appropriate control over the counting, disbursement, and recording of the cash payments to Spot Light Entertainment, Inc., for the Isley Brothers concert. The review disclosed that university staff associated with the ticket office made several significant errors related to the cash payments. The cash count that occurred on September 2 (Sunday morning) was not documented; when the cash was disbursed, the amounts noted on the receipts provided by the representative of Spot Light were not checked for correctness; and only one of the three receipts was retained. (The two remaining receipts were obtained subsequently from the promoter.) In addition, the daily sales for the three days in question could not be reconciled with the Ticket Master reports, and two of the three daily sales reports were not prepared correctly. These two reports overstated ticket sales.

The lapses in controls described above contributed to questions about the amount of cash in the safe, the extent of cash sales on Sunday, and the amount of cash disbursed. However, based on presently available information, all the cash was accounted for.

With regard to general controls over ticket office sales, interviews with current and former ticket office staff and examination of ticket office documentation disclosed the following weaknesses in the recording of sales:

- improper recording of cash, check, and credit card sales (i.e., a check or credit card sale would be recorded as a cash sale charge);
- improper recording of transfer voucher and charge sales (i.e., a voucher sale would be recorded as a charge sale);
- improper recording of sales by event (i.e., on the “Summary of Deposits” form, ticket sales for game A would be included in ticket sales for game B);
- failure to submit checks to the bursar’s office on the immediate business day following the date of ticket issuance;
- failure to submit a credit card sales report and credit card receipts to the bursar’s office on the immediate business day following the date of ticket issuance;
- improper issuance of tickets to another university office before receiving the authorizing transfer voucher;

- failure to obtain authorizing transfer vouchers for tickets issued to another university office;

- improper issuance of complimentary tickets as priced tickets;

- failure to record how many complimentary tickets were issued and to whom;

- delays in voiding unused or returned tickets;

- failure to account for preprinted tickets and the associated sales on a daily basis;

- failure to reconcile daily sales with Ticket Master reports;

- failure to accurately allocate cash among the specified events (each of which has an account number); and

- failure to account for parking decals for home games.

As a result of these weaknesses, attempts to perform reconciliations matching university and Ticket Master information on the basis of an event, a day, or a transaction type are problematic, time-consuming, and resource-intensive. The university's internal auditors have been reconciling the 1999-2000 ticket sales, comparing university records with Ticket Master reports, since November 1999. The results of their work are pending. No reconciliation has been performed for the 2000-2001 ticket sales. A reconciliation of 2001-2002 ticket sales by the university's business office is in process.

In the absence of timely, complete, accurate, and documented reconciliations, the university cannot be assured that its financial assets are being appropriately protected, properly classified, correctly recorded, and promptly deposited. Moreover, review of ticket office transactions by internal auditors, business office staff, and external auditors becomes inordinately time-consuming and resource-intensive. Such reconciliation activities are properly the responsibility of the ticket office and the athletic department, not internal audit or business office staff. An additional consequence of lack of control over an area that processes a high volume of cash, checks, and credit cards is the increased risk of errors and irregularities.

The review also determined that the Gentry Center director allowed several women's basketball team coaches to sell parking passes to individuals attending the Isley Brothers concert. The weaknesses associated with this informal parking arrangement were that the passes were not controlled and no reconciliation was performed to ensure that passes had not been given away or that some of the cash collected had not been taken. There were no records maintained to support how much money was collected. University records show that $1,260 was deposited for parking. Half the money ($630) was not deposited for 1-1/2 months, and the $630 was deposited into a foundation account, not an athletic department account.

Recommendation

The university's president should require appropriate, timely reconciliations and should assign specific responsibility for the prompt, complete, and accurate reporting of ticket sales and the reconciliation of university information with Ticket Master reports and other relevant information on a daily basis. Both the count and the reconciliation should be documented, with signatures and dates, and the documentation should be retained. Exceptions should be explained and documented. "Summary of Deposits" forms should be prepared contemporaneously with the count.

Disbursements of cash should be documented; the amount noted on the receipt should be checked for correctness; and receipts should be retained. When unusual circumstances occur, the participants should prepare written accounts that provide a detailed chronology and explanation, including who was present, the nature of the transactions, and the process followed. The written accounts should include as attachments all the relevant documentation, such as "Summary of Deposits" forms, Ticket Master reports, "Official Cash Receipt" forms from the Bursar's Office, and receipts from third parties.

To avoid a cash crisis with promoters and performers in the future, the university's president should reconsider future contract terms and the method and timing of payments. In addition, the university's president should consider the propriety of allowing university athletic team staff to collect parking fees, which are associated with university events and based on the use of university resources, as well as the propriety of depositing those funds into foundation accounts.

University staff should complete the ticket office reconciliations in process for 1999-2000 and 2001-2002, and should undertake a reconciliation for 2000-2001.

With regard to the parking decals for home games, the university's president should ensure that the ticket office staff properly account for the decals. Prior to the sale of parking decals, ticket office staff should determine the number of decals available for sale. Once the sale of decals has begun, ticket office staff should on a daily basis record the decals sold and reconcile the decals sold with decal sales revenue. Ticket office staff also should account for all decals distributed on a complimentary basis. Ticket office staff should periodically conduct a complete review of decal sales to determine whether any decals, or decal revenues, are missing. Since decals have a monetary value, they should be properly secured in the ticket office to prevent loss.

In light of the nature and extent of the weaknesses in ticket office operations, the university's president should strive to ensure that the athletic director, the associate athletic director for financial affairs, the ticket office manager, and the cashiers possess sufficient pertinent business experience and expertise related to ticket office management and internal controls. In addition, the university's president should establish a routine monitoring presence to promptly identify deficiencies and to strengthen accountability.

Management's Comment

We concur with the finding and recommendation.

The situation on September 2, 2001, as described in the finding, was an isolated and unusual incident. University personnel responsible for the concert arrangements took appropriate steps to arrange a professional concert; however, circumstances beyond the university's control resulted in this difficult situation. In the future, similar contracts will be written and reviewed to ensure that, to the extent of the university's control, such incidents are not likely to recur. The university does not normally disburse cash; however, if similar circumstances should occur in the future, the Vice President for Business and Finance and any other appropriate vice president will be notified. Receipts will be maintained, and participants will be asked to provide detailed explanations and relevant documentation.

The university had revised the Ticket Office policies and procedures prior to September 2 to address weaknesses in internal control over ticket sales, which were due in part to a lack of supervision. These procedures required the daily deposit of receipts, the reconciliation of deposits to daily Ticketmaster reports, and the maintenance of supporting documentation by the Ticket Office. At that time the Ticket Office was managed by a temporary employee, and the required procedures were not followed. A permanent Ticket Office Supervisor was hired on September 10, 2001, and the procedures are being followed. The lack of supervision will be addressed with the hiring of a new Athletic Director and Associate Athletic Director for Finance. In addition, the Internal Audit Department currently reviews random Ticket Office deposits and reconciliations for at least three days of ticket sales each month.

Parking fees are not significant and will not be collected for on-campus events until adequate procedures are developed. In the future, these fees will be deposited into an appropriate university account. The Ticket Office will account for parking decals for future home football games and will reconcile the decals issued to parking revenue.

The reconciliations of ticket sales for 2000-2001 and 2001-2002 are ongoing. The 1999-2000 reconciliation has been completed.

The university hired a new Ticket Office Supervisor on September 10, 2001. The new supervisor has experience with the Ticketmaster system and appropriate internal controls. The university is in the process of hiring a permanent Athletic Director and Associate Athletic Director for Finance.

In addition to the audit recommendations, the university has implemented other controls for ticket sales and is evaluating the potential benefits of other changes in Ticket Office operations. After each game, the FRS game receipts account is reconciled to the Ticketmaster Audit Report. The Ticket Office will no longer pre-print game tickets, except as required to accommodate visiting teams. Tickets will not be issued prior to the receipt of an approved transfer voucher or a fully executed sponsorship agreement. The Ticket Office will no longer permit refund or exchanges of tickets, and voided tickets will be processed immediately and will be documented. The Athletic Department will develop a policy concerning the acceptance of checks for ticket sales. In addition, the university will explore the feasibility of outsourcing ticket operations.

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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 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, 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,

Arthur A. Hayes, Jr.

Arthur A. Hayes, Jr., CPA,
Director

AAH/mb

Exhibit A

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

ASSETS	June 30, 2001	June 30, 2000
Current funds:		
Unrestricted:		
General:		
Cash and cash equivalents (Notes 2 and 3)	$ 13,120,302.84	$ 6,934,032.80
Investments (Note 4)	3,189,815.71	10,999,826.12
Accrued interest receivable	159,302.39	850,366.89
Accounts receivable (net of allowance of $1,148,915.42 at June 30, 2001, and $601,664.92 at June 30, 2000)	2,154,917.86	1,645,938.24
Inventories	40,243.93	47,084.62
Due from endowment and similar funds	11,251.06	6,327.06
Total general	18,675,833.79	20,483,575.73
Auxiliary enterprises:		
Cash and cash equivalents (Notes 2 and 3)	3,031,647.04	3,032,682.99
Accounts receivable (net of allowance of $1,572.42 at June 30, 2001, and June 30, 2000)	383,848.82	318,482.02
Total auxiliary enterprises	3,415,495.86	3,351,165.01
Total unrestricted	22,091,329.65	23,834,740.74
Restricted:		
Cash and cash equivalents (Notes 2 and 3)	3,898,895.57	1,264,392.94
Accrued interest receivable	2,362.56	2,057.20
Accounts and grants receivable	5,005,803.18	4,056,324.49
Total restricted	8,907,061.31	5,322,774.63
Total current funds	$ 30,998,390.96	$ 29,157,515.37
Loan funds:		
Cash and cash equivalents (Notes 2 and 3)	$ 296,330.89	$ 397,774.94
Notes receivable (net of allowance of $1,006,028.19 at June 30, 2001, and $1,074,014.86 at June 30, 2000)	1,934,983.12	1,680,264.19
Accrued interest receivable (net of allowance of $228,050.34 at June 30, 2001, and $241,840.05 at June 30, 2000)	889,465.71	857,489.18
Total loan funds	$ 3,120,779.72	$ 2,935,528.31
Endowment and similar funds:		
Investments (Notes 3 and 4)	$ 322,550.58	$ 305,354.35
Accrued interest receivable	3,860.24	4,978.01
Total endowment and similar funds	$ 326,410.82	$ 310,332.36

LIABILITIES AND FUND BALANCES	June 30, 2001	June 30, 2000
Current funds:		
Unrestricted:		
General:		
Liabilities:		
Accounts payable	$ 883,602.69	$ 478,055.14
Accrued liabilities	4,879,689.29	5,325,534.05
Deferred revenue	3,928,102.76	3,704,533.08
Student deposits	637,714.20	524,240.20
Compensated absences	3,512,441.39	3,200,687.71
Other liabilities	424,862.09	391,973.44
Total liabilities	14,266,412.42	13,625,023.62
Fund balances:		
Nondiscretionary allocations:		
Allocation for working capital	1,773,108.19	1,282,490.72
Allocation for encumbrances	2,922,213.34	1,805,649.73
Allocation for designated appropriations	45,646.09	163,836.72
Allocation for designated fees	945,157.30	856,980.00
Discretionary allocations:		
Allocation for subsequent budget	2,100,000.00	3,901,000.00
Allocation for state appropriations reversion	-	1,658,300.00
Allocation for compensated absences	(3,512,441.39)	(3,200,687.71)
Unallocated	135,737.84	390,982.65
Total fund balances	4,409,421.37	6,858,552.11
Total general	18,675,833.79	20,483,575.73
Auxiliary enterprises:		
Liabilities:		
Accounts payable	179,992.66	129,401.42
Compensated absences	125,344.30	111,584.61
Total liabilities	305,336.96	240,986.03
Fund balances:		
Nondiscretionary allocations:		
Allocation for working capital	384,348.82	318,982.02
Allocation for encumbrances	77,174.56	252,861.89
Discretionary allocation:		
Allocation for contingencies	568,780.00	576,220.00
Allocation for compensated absences	(125,344.30)	(111,584.61)
Unallocated	2,205,199.82	2,073,699.68
Total fund balances	3,110,158.90	3,110,178.98
Total auxiliary enterprises	3,415,495.86	3,351,165.01
Total unrestricted	22,091,329.65	23,834,740.74
Restricted:		
Liabilities:		
Accounts payable	1,549,967.18	447,928.51
Due to grantors	1,077,462.97	1,361.00
Total liabilities	2,627,430.15	449,289.51
Fund balance	6,279,631.16	4,873,485.12
Total restricted	8,907,061.31	5,322,774.63
Total current funds	$ 30,998,390.96	$ 29,157,515.37
Loan funds:		
Fund balances:		
U.S. government grants refundable	$ 2,271,847.76	$ 2,090,355.40
University funds:		
Restricted - matching	769,394.67	769,394.67
Restricted - other	79,537.29	75,778.24
Total loan funds	$ 3,120,779.72	$ 2,935,528.31
Endowment and similar funds:		
Liabilities:		
Due to unrestricted current funds	$ 11,251.06	$ 6,327.06
Fund balances:		
Endowment	61,024.44	$ 60,427.49
Quasi-endowment - restricted	254,135.32	243,577.81
Total fund balances	315,159.76	304,005.30
Total endowment and similar funds	$ 326,410.82	$ 310,332.36

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

ASSETS	June 30, 2001	June 30, 2000
Plant funds:		
Unexpended plant:		
Cash and cash equivalents (Notes 2 and 3)	$ 3,012,364.20	$ 1,141,661.42
LGIP deposit - capital projects	68,777.82	90,013.80
Accounts receivable	15,531.13	48,435.60
Total unexpended plant	3,096,673.15	1,280,110.82
Renewals and replacements:		
Cash and cash equivalents (Notes 2 and 3)	7,955,632.78	4,423,485.53
Total renewals and replacements	7,955,632.78	4,423,485.53
Retirement of indebtedness:		
Cash and cash equivalents (Notes 2 and 3)	1,325,258.92	585,656.10
Interest rate reserve with Tennessee State School Bond Authority (Note 7)	8,279.50	13,364.96
Accrued interest receivable	55.45	11,105.78
Total retirement of indebtedness	1,333,593.87	610,126.84
Investment in plant:		
Land	9,525,009.24	9,525,009.24
Buildings	133,237,557.51	126,352,854.02
Improvements other than buildings	47,803,341.91	43,684,591.55
Equipment	18,957,890.16	18,498,540.68
Livestock	96,950.00	77,717.91
Library books	24,698,968.00	24,058,272.00
Other library holdings	4,155,619.00	3,961,803.00
Construction in progress	16,875,658.04	25,428,304.10
Total investment in plant	255,350,993.86	251,587,092.50
Total plant funds	$ 267,736,893.66	$ 257,900,815.69
Agency funds:		
Nonfoundation funds:		
Cash and cash equivalents (Notes 2 and 3)	$ 189,965.88	$ 195,618.42
Total nonfoundation funds	189,965.88	195,618.42
Foundation funds:		
Cash and cash equivalents (Notes 2 and 3)	953,950.96	958,647.96
Investments (Note 4)	1,461,635.68	1,480,802.00
Accrued interest receivable	5,997.64	3,576.00
Accounts receivable (Note 5)	104,250.00	-
Total foundation funds	2,525,834.28	2,443,025.96
Total agency funds	$ 2,715,800.16	$ 2,638,644.38

LIABILITIES AND FUND BALANCES	June 30, 2001	June 30, 2000
Plant funds:		
Unexpended plant:		
Liabilities:		
Accounts payable	$ 8,166.32	$ 799.68
Fund balance:		
Unrestricted (Note 6)	3,088,506.83	1,279,311.14
Total unexpended plant	3,096,673.15	1,280,110.82
Renewals and replacements:		
Liabilities:		
Accounts payable	-	1,800.00
Fund balance:		
Unrestricted (Note 6)	7,955,632.78	4,421,685.53
Total renewals and replacements	7,955,632.78	4,423,485.53
Retirement of indebtedness:		
Liabilities:		
Accrued liabilities	21,100.60	9,292.03
Accrued interest payable	243,081.09	170,908.04
Other liabilities	327.88	-
Total liabilities	264,509.57	180,200.07
Fund balance:		
Unrestricted	1,069,084.30	429,926.77
Total retirement of indebtedness	1,333,593.87	610,126.84
Investment in plant:		
Liabilities:		
Note payable (Note 7)	65,936.93	131,873.88
Tennessee State School Bond Authority indebtedness (Note 7)	20,977,894.01	21,622,182.50
Total liabilities	21,043,830.94	21,754,056.38
Fund balance:		
Net investment in plant	234,307,162.92	229,833,036.12
Total investment in plant	255,350,993.86	251,587,092.50
Total plant funds	$ 267,736,893.66	$ 257,900,815.69
Agency funds:		
Nonfoundation funds:		
Liabilities:		
Accounts payable	$ -	$ 2,702.70
Deposits held in custody for others	189,965.88	192,915.72
Total nonfoundation funds	189,965.88	195,618.42
Foundation funds:		
Liabilities:		
Accounts payable	16,914.00	2,473.61
Deposits held in custody for foundation	2,508,920.28	2,440,552.35
Total foundation funds	2,525,834.28	2,443,025.96
Total agency funds	$ 2,715,800.16	$ 2,638,644.38

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, 2001

	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	$ 78,445,846.70	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Auxiliary enterprise revenues	11,375,671.63	-	-	-	-	-	-	-
State appropriations	-	734,200.00	-	-	2,036,500.60	-	39,918.35	-
Federal grants and contracts	-	35,292,200.98	-	-	297,702.99	-	-	-
State grants and contracts	-	1,319,877.72	-	-	-	-	-	-
Local grants and contracts	-	1,461,137.82	-	-	-	-	-	-
Private gifts, grants, and contracts	-	1,708,857.05	1,361.00	-	-	-	-	-
Endowment income	-	7,979.74	-	-	-	-	-	-
Investment income	-	-	11,008.74	11,154.46	-	-	164,833.21	-
Interest on loans receivable	-	-	124,089.42	-	-	-	-	-
Reduction in doubtful accounts	-	-	72,917.05	-	-	-	-	-
Debt proceeds	-	-	-	-	381,724.79	-	-	-
Equipment use charges	-	-	-	-	-	120,000.00	-	-
Expended for plant facilities (including $2,036,067.20 charged to current fund expenditures)	-	-	-	-	-	-	-	4,531,744.99
Retirement of indebtedness	-	-	-	-	-	-	-	1,263,337.57
Other (Note 10)	-	-	13,177.30	-	-	-	414,763.82	31,437.09
Total revenues and other additions	89,821,518.33	40,524,253.31	222,553.51	11,154.46	2,715,928.38	120,000.00	619,515.38	5,826,519.65
EXPENDITURES AND OTHER DEDUCTIONS								
Educational and general expenditures	75,314,461.19	37,004,930.41	-	-	-	-	-	-
Auxiliary enterprise expenditures	9,013,729.76	154,985.72	-	-	-	-	-	-
Indirect costs recovered	-	1,929,613.26	-	-	-	-	-	-
Refunded to grantors	-	28,577.88	-	-	-	-	-	-
Loan cancellations and write-offs	-	-	35,099.78	-	-	-	-	-
Administrative and collection costs	-	-	-	-	-	-	11,808.57	-
Provision for doubtful accounts	-	-	11.11	-	-	-	-	-
Expended for plant facilities	-	-	-	-	2,470,047.79	25,630.00	-	-
Expended for noncapital items	-	-	-	-	220,564.32	206,952.75	-	-
Retirement of indebtedness	-	-	-	-	-	-	1,263,337.57	-
Interest on indebtedness	-	-	-	-	-	-	1,172,926.86	-
Disposal of plant facilities	-	-	-	-	-	-	-	584,787.07
Increase in indebtedness	-	-	-	-	-	-	-	389,461.57
Library holdings revaluation	-	-	-	-	-	-	-	214,493.65
Other	-	-	2,191.21	-	44,353.63	-	-	163,650.56
Total expenditures and other deductions	84,328,190.95	39,118,107.27	37,302.10	-	2,734,965.74	232,582.75	2,448,073.00	1,352,392.85

Exhibit B (Cont.)

TENNESSEE BOARD OF REGENTS
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
TRANSFERS AMONG FUNDS - ADDITIONS (DEDUCTIONS)								
Mandatory:								
Principal and interest	(1,553,818.69)	-	-	-	-	-	1,553,818.69	-
Nonmandatory:								
Unexpended plant	(1,894,170.00)	-	-	-	1,894,170.00	-	-	-
Renewals and replacements	(3,646,530.00)	-	-	-	-	3,646,530.00	-	-
Retirement of indebtedness	(847,959.51)	-	-	-	(65,936.95)	-	913,896.46	-
Total transfers	(7,942,478.20)	-	-	-	1,828,233.05	3,646,530.00	2,467,715.15	-
Net increases (decrease) for the year	(2,449,150.82)	1,406,146.04	185,251.41	11,154.46	1,809,195.69	3,533,947.25	639,157.53	4,474,126.80
Fund balances at beginning of year	9,968,731.09	4,873,485.12	2,935,528.31	304,005.30	1,279,311.14	4,421,685.53	429,926.77	229,833,036.12
Fund balances at end of year	$ 7,519,580.27	$ 6,279,631.16	$ 3,120,779.72	$ 315,159.76	$ 3,088,506.83	$ 7,955,632.78	$ 1,069,084.30	$ 234,307,162.92

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, 2000

	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	$ 76,969,981.94	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Auxiliary enterprise revenues	11,522,522.83	-	-	-	-	-	-	-
State appropriations	-	713,800.00	-	-	1,459,184.58	-	40,246.24	-
Federal grants and contracts	-	30,314,606.20	13,076.00	-	705,108.14	-	-	-
State grants and contracts	-	1,175,334.87	-	-	-	-	-	-
Local grants and contracts	-	1,284,984.58	-	-	-	-	-	-
Private gifts, grants, and contracts	-	1,088,661.92	7,410.70	-	-	-	-	48,785.00
Endowment income	-	5,067.35	-	-	-	-	-	-
Investment income	-	-	11,762.19	11,295.03	-	-	43,273.66	-
Interest on loans receivable	-	-	137,231.39	-	-	-	-	-
Reduction in doubtful accounts	-	-	34,799.34	-	-	-	-	-
Debt proceeds	-	-	-	-	561,979.74	-	-	-
Equipment use charges	-	-	-	-	-	480,000.00	-	-
Expended for plant facilities (including $2,820,846.14 charged to current fund expenditures)	-	-	-	-	-	-	-	5,171,477.07
Retirement of indebtedness	-	-	-	-	-	-	-	1,151,157.31
Other (Note 10)	-	-	12,311.85	-	-	-	423,587.09	104,826.62
Total revenues and other additions	88,492,504.77	34,582,454.92	216,591.47	11,295.03	2,726,272.46	480,000.00	507,106.99	6,476,246.00
EXPENDITURES AND OTHER DEDUCTIONS								
Educational and general expenditures	72,036,671.69	31,815,649.29	-	-	-	-	-	-
Auxiliary enterprise expenditures	8,729,967.40	158,125.99	-	-	-	-	-	-
Indirect costs recovered	-	1,589,499.02	-	-	-	-	-	-
Refunded to grantors	-	40,376.98	-	-	-	-	-	-
Loan cancellations and write-offs	-	-	28,371.07	-	-	-	-	-
Administrative and collection costs	-	-	12,900.79	-	-	-	36,831.59	-
Provision for doubtful accounts	-	-	642,547.04	-	-	-	-	-
Expended for plant facilities	-	-	-	-	2,350,630.93	-	-	-
Expended for noncapital items	-	-	-	-	208,662.14	43,659.00	-	-
Retirement of indebtedness	-	-	-	-	-	-	1,151,157.31	-
Interest on indebtedness	-	-	-	-	-	-	1,082,675.00	-
Disposal of plant facilities	-	-	-	-	-	-	-	1,693,916.18
Increase in indebtedness	-	-	-	-	-	-	-	278,184.98
Library holdings revaluation	-	-	-	-	-	-	-	90,518.79
Other	-	-	1,926.85	-	4,045.88	-	-	115,719.41
Total expenditures and other deductions	80,766,639.09	33,603,651.28	685,745.75	-	2,563,338.95	43,659.00	2,270,663.90	2,178,339.36

Exhibit C (Cont.)

TENNESSEE BOARD OF REGENTS
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
TRANSFERS AMONG FUNDS - ADDITIONS (DEDUCTIONS)								
Mandatory:								
Principal and interest	(1,349,193.33)	-	-	-	-	-	1,349,193.33	-
Nonmandatory:								
Unrestricted current funds	780,000.00	-	-	-	(780,000.00)	-	-	-
Unexpended plant	(411,490.00)	-	-	-	647,980.03	-	(236,490.03)	-
Renewals and replacements	(741,070.00)	-	-	-	-	741,070.00	-	-
Retirement of indebtedness	(906,583.31)	-	-	-	-	-	906,583.31	-
Total transfers	(2,628,336.64)	-	-	-	(132,019.97)	741,070.00	2,019,286.61	-
Net increases (decrease) for the year	5,097,529.04	978,803.64	(469,154.28)	11,295.03	30,913.54	1,177,411.00	255,729.70	4,297,906.64
Fund balances at beginning of year	4,871,202.05	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
Cumulative effect of change in accounting principle (Note 11)	-	-	-	-	-	-	-	(14,519,023.60)
Fund balances at beginning of year, as restated	4,871,202.05	3,894,681.48	3,404,682.59	292,710.27	1,248,397.60	3,244,274.53	174,197.07	225,535,129.48
Fund balances at end of year	$ 9,968,731.09	$ 4,873,485.12	$ 2,935,528.31	$ 304,005.30	$ 1,279,311.14	$ 4,421,685.53	$ 429,926.77	$ 229,833,036.12

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, 2001

	Unrestricted	Restricted	Total
REVENUES			
Tuition and fees	$ 37,733,750.72	$ -	$ 37,733,750.72
State appropriations	34,842,600.00	734,200.00	35,576,800.00
Federal grants and contracts	1,901,014.23	34,753,175.20	36,654,189.43
State grants and contracts	19,409.18	1,309,952.19	1,329,361.37
Local grants and contracts	-	1,461,137.82	1,461,137.82
Private gifts, grants, and contracts	9,039.85	1,487,651.02	1,496,690.87
Investment income	1,565,323.56	-	1,565,323.56
Endowment income	-	7,979.74	7,979.74
Sales and services of educational activities	1,946,406.32	-	1,946,406.32
Sales and services of auxiliary enterprises	11,375,671.63	-	11,375,671.63
Other sources	428,302.84	-	428,302.84
Total current revenues	89,821,518.33	39,754,095.97	129,575,614.30
EXPENDITURES AND TRANSFERS			
Educational and general:			
Expenditures:			
Instruction	34,495,120.05	11,038,761.45	45,533,881.50
Research	1,863,629.16	10,039,869.24	11,903,498.40
Public service	1,115,998.66	4,498,186.63	5,614,185.29
Academic support	6,157,597.39	1,140,849.22	7,298,446.61
Student services	9,955,555.53	708,696.22	10,664,251.75
Institutional support	9,126,845.35	597,315.71	9,724,161.06
Operation and maintenance of plant	7,966,740.74	3,158.88	7,969,899.62
Scholarships and fellowships	4,632,974.31	8,978,093.06	13,611,067.37
Total educational and general expenditures	75,314,461.19	37,004,930.41	112,319,391.60
Mandatory transfer for:			
Principal and interest	221,556.74	-	221,556.74
Nonmandatory transfers for:			
Unexpended plant	1,503,670.00	-	1,503,670.00
Renewals and replacements	3,007,330.00	-	3,007,330.00
Retirement of indebtedness	847,959.51	-	847,959.51
Total educational and general	80,894,977.44	37,004,930.41	117,899,907.85
Auxiliary enterprises:			
Expenditures	9,013,729.76	154,985.72	9,168,715.48
Mandatory transfer for:			
Principal and interest	1,332,261.95	-	1,332,261.95
Nonmandatory transfers for:			
Unexpended plant	390,500.00	-	390,500.00
Renewals and replacements	639,200.00	-	639,200.00
Total auxiliary enterprises	11,375,691.71	154,985.72	11,530,677.43
Total expenditures and transfers	92,270,669.15	37,159,916.13	129,430,585.28
OTHER ADDITION (DEDUCTIONS)			
Excess of restricted receipts over transfers to revenues	-	770,157.34	770,157.34
Indirect costs recovered	-	(1,929,613.26)	(1,929,613.26)
Refunded to grantors	-	(28,577.88)	(28,577.88)
Net increase (decrease) in fund balances	$ (2,449,150.82)	$ 1,406,146.04	$ (1,043,004.78)

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, 2000

	Unrestricted	Restricted	Total
REVENUES			
Tuition and fees	$ 35,403,500.99	$ -	$ 35,403,500.99
State appropriations	36,336,700.00	713,800.00	37,050,500.00
Federal grants and contracts	1,568,511.32	30,209,896.97	31,778,408.29
State grants and contracts	11,800.62	1,167,993.21	1,179,793.83
Local grants and contracts	1,000.00	1,284,984.58	1,285,984.58
Private gifts, grants, and contracts	9,669.64	764,150.80	773,820.44
Investment income	1,241,870.78	-	1,241,870.78
Endowment income	-	5,067.35	5,067.35
Sales and services of educational activities	2,141,608.72	-	2,141,608.72
Sales and services of auxiliary enterprises	11,522,522.83	-	11,522,522.83
Other sources	255,319.87	-	255,319.87
Total current revenues	88,492,504.77	34,145,892.91	122,638,397.68
EXPENDITURES AND TRANSFERS			
Educational and general:			
Expenditures:			
Instruction	33,430,633.33	8,819,908.15	42,250,541.48
Research	1,598,026.16	8,891,056.69	10,489,082.85
Public service	927,805.09	3,771,099.61	4,698,904.70
Academic support	5,578,138.40	738,897.61	6,317,036.01
Student services	9,509,118.28	672,277.60	10,181,395.88
Institutional support	8,314,755.16	449,760.66	8,764,515.82
Operation and maintenance of plant	7,006,967.84	1,496.47	7,008,464.31
Scholarships and fellowships	5,671,227.43	8,471,152.50	14,142,379.93
Total educational and general expenditures	72,036,671.69	31,815,649.29	103,852,320.98
Mandatory transfer for:			
Principal and interest	179,470.14	-	179,470.14
Nonmandatory transfers for:			
Unexpended plant	(780,000.00)	-	(780,000.00)
Retirement of indebtedness	906,583.31	-	906,583.31
Total educational and general	72,342,725.14	31,815,649.29	104,158,374.43
Auxiliary enterprises:			
Expenditures	8,729,967.40	158,125.99	8,888,093.39
Mandatory transfer for:			
Principal and interest	1,169,723.19	-	1,169,723.19
Nonmandatory transfers for:			
Unexpended plant	411,490.00	-	411,490.00
Renewals and replacements	741,070.00	-	741,070.00
Total auxiliary enterprises	11,052,250.59	158,125.99	11,210,376.58
Total expenditures and transfers	83,394,975.73	31,973,775.28	115,368,751.01
OTHER ADDITION (DEDUCTIONS)			
Excess of restricted receipts over transfers to revenues	-	436,562.01	436,562.01
Indirect costs recovered	-	(1,589,499.02)	(1,589,499.02)
Refunded to grantors	-	(40,376.98)	(40,376.98)
Net increases in fund balances	$ 5,097,529.04	$ 978,803.64	$ 6,076,332.68

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, 2001, and June 30, 2000

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 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 when expended or all eligibility requirements have been met and expenditures when expended for current operating purposes.

<u>Current Funds</u>

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, 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.

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.

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. 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 $7,084,285.38 in bank accounts, $3,050.00 of petty cash on hand, $26,500,799.17 in the State of Tennessee Local Government Investment Pool administered by the State Treasurer, and $196,214.53 in capital management account money funds. At June 30, 2000, cash and cash equivalents consisted of $7,812,711.68 in bank accounts, $4,050.00 of petty cash on hand, $10,852,843.62 in the State of Tennessee Local Government Investment Pool, and $264,347.80 in capital management account money funds.

NOTE 3. 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 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 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 3 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 university's/foundation's name.

June 30, 2001	Fair Value
Category 1:	
University:	
U.S. government securities	$3,189,815.71
Foundation:	
U.S. government securities	325,710.20
Category 2:	
Foundation:	
Corporate bonds	485,165.50
Corporate stocks	15,538.00
Foundation investments not susceptible to credit risk categorization:	
Mutual funds	635,221.98
Foundation deposit notes classified as investments	322,550.58
Total investments on the balance sheet	$4,974,001.97

June 30, 2000	Fair Value
Category 1:	
University:	
U.S. government securities	$10,999,826.12
Foundation:	
U.S. government securities	332,094.00
Category 2:	
Foundation:	
Corporate bonds	454,133.00
Corporate stocks	554,944.00
Foundation investments not susceptible to credit risk categorization:	
Mutual funds	121,423.00
University certificates of deposit classified as investments	305,354.35
Foundation deposit notes classifieds as investments	18,208.00
Total investments on the balance sheet	$12,785,982.47

NOTE 5. PLEDGES

For the year ended June 30, 2001, promises of private donations of $104,250.00 have been reported as accounts receivable and revenue in the foundation agency funds, all of which are considered collectible.

NOTE 6. PLANT FUND ENCUMBRANCES

Plant fund encumbrances outstanding at June 30, 2001, amounted to $6,515,055.13 for unexpended plant and $73,130.00 for renewals and replacements. Plant fund encumbrances outstanding at June 30, 2000, amounted to $36,903.48 for unexpended plant and $35,455.00 for renewals and replacements.

NOTE 7. NOTES 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 $65,936.93 at June 30, 2001, and $131,873.88 at June 30, 2000.

Bond issues, with interest rates ranging from 3.65% to 7.00% for Tennessee State School Bond Authority bonds, 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 and unexpended debt proceeds. The reserve amount was $1,169,671.51 at June 30, 2001, and June 30, 2000. The unexpended debt proceeds were $20,284.79 at June 30, 2000.

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

Year Ending June 30	Principal	Interest	Total
2002	$ 1,028,172.07	$ 1,040,654.06	$ 2,068,826.13
2003	1,061,389.58	1,011,086.39	2,072,475.97
2004	1,086,875.35	983,916.65	2,070,792.00
2005	1,052,297.56	953,441.05	2,005,738.61
2006	589,151.33	923,288.84	1,512,440.17
2007-2028	15,781,652.53	9,648,165.83	25,429,818.36
	$20,599,538.42	$14,560,552.82	$35,160,091.24

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 $378,355.59 at June 30, 2001, and $2,996,630.80 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 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 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 $1,503,727.42, $1,284,482.71, and $1,336,744.34. 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 to contribute to the CSRS plan. Contribution requirements are established and may be amended by federal statutes. The university is required to contribute

8.51% of covered payroll to the CSRS plan. From July 1, 1999, through December 31, 1999, participating employees were required to contribute 7.25% of covered payroll to the CSRS plan. Federal statute increased the employee's rate to 7.40% effective January 1, 2000, and decreased the employee's rate to 7% effective January 1, 2001. Contributions to CSRS for the year ended June 30, 2001, were $73,143.65, which consisted of $39,657.62 from the university and $33,486.03 from the employees. Contributions for the year ended June 30, 2000, were $63,996.69, which consisted of $34,393.43 from the university and $29,603.26 from the employees. Contributions 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 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 was $2,580,282.25 for the year ended June 30, 2001, and $2,318,869.29 for the year ended June 30, 2000. 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. OTHER ADDITIONS

On the Statement of Changes in Fund Balances for the year ended June 30, 2001, the addition of $414,763.82 in the retirement of indebtedness fund was for telecommunications departmental charges.

On the Statement of Changes in Fund Balances for the year ended June 30, 2000, there was an addition of $423,587.09 in the retirement of indebtedness fund which included $422,255.91 for telecommunications departmental charges and $1,331.18 for the change in the interest rate reserve.

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 $14,519,023.60.

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 $235,374,500 for buildings and $45,322,100 for contents. At June 30, 2000, the scheduled coverage was $227,044,600 for buildings and $28,253,100 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 13. FEDERAL STUDENT FINANCIAL ASSISTANCE

The restricted expenditure function scholarships and fellowships includes $8,920,362.16 of federal financial assistance for students. These programs include, but are not limited to, 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 $24,076,258.93 at June 30, 2001, and $22,456,195.14 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 $470,480.31 and for personal property were $198,235.01 for the year ended June 30, 2001. Comparative amounts for the year ended June 30, 2000, were $475,957.96 and $175,067.03. All operating leases are cancelable at the lessee's option.

Construction in Progress - At June 30, 2001, outstanding commitments under construction contracts totaled $125,846.50 for the following projects: McMinnville Nursery Research Station, upgrade of various buildings, Boyd Hall renovation, new Performing Arts Building, asbestos/hazardous material, and ADA improvements, which will be funded by future Building 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.

NOTE 15. CHAIRS OF EXCELLENCE

The university had $2,816,116.93 on deposit at June 30, 2001, and $2,980,899.67 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:

Fund	Account	Amount
Exhibit A		
Unexpended plant	Funds on deposit with State Treasurer	$(20,284.79)
Unexpended plant	Fund balance	$(20,284.79)
Investment in plant	Bonds payable	$(20,284.79)
Investment in plant	Net investment in plant	$ 20,284.79
Exhibit C		
Unexpended plant	Debt proceeds	$(20,284.79)
Investment in plant	Increase in indebtedness	$(20,284.79)

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	$ (16,079.74)
Restricted	State appropriations	$ (29,751.01)
Restricted	Federal grants and contracts	$ 1,838,375.06
Restricted	State grants and contracts	$ 35,398.88
Restricted	Local grants and contracts	$ 528,295.59
Restricted	Private gifts, grants, and contracts	$ (31,062.51)
Restricted	Endowment income	$ 5,067.35
Restricted	Sales and services of auxiliary enterprises	$ (158,125.99)
Restricted	Excess of restricted receipts over transfers to revenues	$(2,172,117.63)

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.