

**TENNESSEE BOARD OF REGENTS
EAST TENNESSEE STATE UNIVERSITY**

**FOR THE YEAR ENDED
JUNE 30, 1996**

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January 29, 1997

The Honorable Don Sundquist, Governor
and

Members of the General Assembly
State Capitol
Nashville, Tennessee 37243

and

The Honorable Charles E. Smith, Chancellor
Tennessee Board of Regents
1415 Murfreesboro Road, Suite 350
Nashville, Tennessee 37217

and

Dr. Paul E. Stanton, Jr., President
East Tennessee State University
Campus Box 70734
Johnson City, Tennessee 37614-0002

Ladies and Gentlemen:

Transmitted herewith is the financial and compliance audit of the Tennessee Board of Regents, East Tennessee State University, for the year ended June 30, 1996. You will note from the independent auditor's report that a qualified opinion was given on the fairness of the presentation of the financial statements. The university has elected not to record the liability for accrued compensated absences in its financial statements. In our opinion, accrued compensated absences should be recorded to conform with generally accepted accounting principles.

Consideration of the internal control structure and tests of compliance resulted in no audit findings.

Very truly yours,

W. R. Snodgrass
Comptroller of the Treasury

WRS/cr
96-155

State of Tennessee

Audit Highlights

Comptroller of the Treasury

Division of State Audit

Financial and Compliance Audit
East Tennessee State University
For the Year Ended June 30, 1996

AUDIT OBJECTIVES

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

AUDIT FINDINGS

The audit report contains no findings.

OPINION ON THE FINANCIAL STATEMENTS

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

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

Comptroller of the Treasury, Division of State Audit
1500 James K. Polk Building, Nashville, TN 37243-0264
(615) 741-3697

AUDIT REPORT
TENNESSEE BOARD OF REGENTS
EAST TENNESSEE STATE UNIVERSITY
FOR THE YEAR ENDED JUNE 30, 1996

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TENNESSEE BOARD OF REGENTS
EAST TENNESSEE STATE UNIVERSITY
FOR THE YEAR ENDED JUNE 30, 1996

INTRODUCTION

POST-AUDIT AUTHORITY

This is a report on the financial and compliance audit of the Tennessee Board of Regents, East Tennessee State University. The audit was conducted pursuant to Section 4-3-304, *Tennessee Code Annotated*, which authorizes the Department of Audit to “perform currently a post-audit of all accounts and other financial records of the state government, and of any department, institution, office, or agency thereof in accordance with generally accepted auditing standards and in accordance with such procedures as may be established by the comptroller.”

Section 8-4-109, *Tennessee Code Annotated*, authorizes the Comptroller of the Treasury to audit any books and records of any state governmental entity that handles public funds when the Comptroller considers an audit to be necessary or appropriate.

OBJECTIVES OF THE AUDIT

The objectives of the audit were

1. to consider the university’s internal control structure to determine auditing procedures for the purpose of expressing an opinion on the financial statements;
2. to determine compliance with laws, regulations, contracts, and grants;
3. to determine the fairness of the presentation of the financial statements; and
4. to recommend appropriate actions to correct any deficiencies.

Although this audit was not intended to serve as an organization-wide audit as described in the Single Audit Act of 1984 and Office of Management and Budget (OMB) Circular A-128, “Audits of State and Local Governments,” it included tests of compliance with applicable federal laws and regulations and consideration of the internal control structure 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 of 1984 and OMB Circular A-128.

SCOPE OF THE AUDIT

The audit was limited to the period July 1, 1995, through June 30, 1996, and was conducted in accordance with generally accepted government auditing standards. Financial statements are presented for the year ended June 30, 1996, and for comparative purposes, the year ended June 30, 1995. East 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*.

BACKGROUND AND ORGANIZATION

BACKGROUND

East Tennessee State University was established by an act of the General Assembly in 1909 as East Tennessee State Normal School. In 1924, the name was changed to East Tennessee State Teachers College; in 1930, to State Teachers College, Johnson City; and in 1943, to East Tennessee State College. In 1963, by an act of the General Assembly, East Tennessee State College was granted university status, and its name was changed to East Tennessee State University.

The university has nine colleges and schools: College of Arts and Sciences, College of Business, College of Education, College of Public and Allied Health, School of Graduate Studies, School of Continuing Studies, College of Medicine, College of Applied Science and Technology, and College of Nursing. East Tennessee State University is officially authorized to grant 13 undergraduate and 16 graduate degrees.

ORGANIZATION

The governance of East 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.

PRIOR AUDIT FINDINGS

There were no findings in the prior audit report.

RESULTS OF THE AUDIT

AUDIT CONCLUSIONS

Internal Control Structure

As part of the audit of the university's financial statements for the year ended June 30, 1996, we considered the internal control structure to determine auditing procedures for the purpose of expressing an opinion on the financial statements, as required by generally accepted government auditing standards. The report on the internal control structure is on the following pages. Consideration of the internal control structure disclosed no material weaknesses.

Compliance with Laws and Regulations

The results of our tests disclosed no instances of noncompliance that are required to be reported herein under generally accepted government auditing standards. The compliance report follows the report on the internal control structure.

Fairness of Financial Statement Presentation

The university has elected not to accrue the liability for compensated absences. Since this accounting practice is contrary to generally accepted accounting principles, the Division of State Audit has rendered a qualified opinion on the university's financial statements. The independent auditor's report follows the compliance report.

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

November 1, 1996

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

Dear Mr. Snodgrass:

We have audited the financial statements of East 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, 1996, and have issued our report thereon dated November 1, 1996. Our report was qualified because the university excluded the liability for accrued compensated absences from the balance sheet.

We conducted our audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

The university's management is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected.

Honorable W. R. Snodgrass
November 1, 1996
Page Two

Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

In planning and performing our audit of the university's financial statements for the year ended June 30, 1996, we obtained an understanding of the internal control structure. With respect to the internal control structure, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control structure. Accordingly, we do not express such an opinion.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a condition in which the design or operation of one or more of the internal control structure elements does not reduce to a relatively low level the risk that errors and irregularities in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control structure and its operation that we consider to be material weaknesses as defined above.

However, we noted certain matters involving the internal control structure and its operation that we have reported to the university's management in a separate letter.

This report is intended for the information of the General Assembly of the State of Tennessee and management. However, this report is a matter of public record, and its distribution is not limited.

Sincerely,

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

AAH/cr

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

November 1, 1996

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

Dear Mr. Snodgrass:

We have audited the financial statements of East 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, 1996, and have issued our report thereon dated November 1, 1996. Our report was qualified because the university excluded the liability for accrued compensated absences from the balance sheet.

We conducted our audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

Compliance with laws, regulations, contracts, and grants applicable to the university is the responsibility of the university's management. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the university's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our audit of the financial statements was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance that are required to be reported herein under generally accepted government auditing standards.

The Honorable W. R. Snodgrass
November 1, 1996
Page Two

We did, however, note certain immaterial instances of noncompliance that we have reported to the university's management in a separate letter.

This report is intended for the information of the General Assembly of the State of Tennessee and management. However, this report is a matter of public record, and its distribution is not limited.

Sincerely,

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

AAH/cr

Independent Auditor's Report

November 1, 1996

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

Dear Mr. Snodgrass:

We have audited the accompanying balance sheets of East 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, 1996, and June 30, 1995, and the related statements of changes in fund balances and current funds revenues, expenditures, and other changes for the years then ended. These financial statements are the responsibility of the university's management. Our responsibility is to express an opinion on these financial statements, based on our audits.

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

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

The Honorable W. R. Snodgrass
November 1, 1996
Page Two

In our opinion, except for the effects of not including the liability for accrued compensated absences in the accompanying balance sheets, as discussed in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of the Tennessee Board of Regents, East Tennessee State University, as of June 30, 1996, and June 30, 1995, and the changes in fund balances and the current funds revenues, expenditures, and other changes for the years then ended in conformity with generally accepted accounting principles.

In accordance with generally accepted government auditing standards, we have also issued reports dated November 1, 1996, on our consideration of the university's internal control structure and on its compliance with laws and regulations.

Sincerely,

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

AAH/cr

TENNESSEE STATE BOARD OF REGENTS
EAST TENNESSEE STATE UNIVERSITY
BALANCE SHEETS
JUNE 30, 1996, WITH COMPARATIVE FIGURES FOR JUNE 30, 1995

| | June 30, 1996 | June 30, 1995 | | June 30, 1996 | June 30, 1995 |
|--|------------------|------------------|--|------------------|------------------|
| ASSETS | | | LIABILITIES AND FUND BALANCES | | |
| Current funds: | | | Current funds: | | |
| Unrestricted: | | | Unrestricted: | | |
| General: | | | General: | | |
| Cash and cash equivalents (Notes 3 and 4) \$ | 11,526,450.72 | \$ 11,977,194.37 | Liabilities: | | |
| Accounts receivable (net of allowance of \$1,903,580.78 at June 30, 1996, and \$1,560,865.09 at June 30, 1995) | 3,243,108.65 | 2,511,930.61 | Accounts payable | \$ 1,531,165.67 | \$ 1,658,859.73 |
| Inventories | 986,141.10 | 928,047.94 | Accrued liabilities | 4,305,338.22 | 4,154,915.16 |
| Prepaid expenses and deferred charges | 340,433.86 | 330,651.89 | Unemployment compensation provision | 4,888.49 | 13,471.66 |
| Other assets | 12,776.00 | 14,076.00 | Student deposits | 23,413.34 | 15,994.92 |
| | | | Deferred revenue | 3,320,324.89 | 2,960,877.25 |
| | | | Total liabilities | 9,185,130.61 | 8,804,118.72 |
| | | | Fund balances: | | |
| | | | Nondiscretionary allocations: | | |
| | | | Allocation for working capital | 3,329,584.44 | 2,635,005.81 |
| | | | Allocation for encumbrances | 940,309.17 | 1,287,322.33 |
| | | | Allocation for designated state appropriations | 323,823.00 | 338,587.60 |
| | | | Discretionary allocations: | | |
| | | | Allocation for subsequent budget | 451,000.00 | 214,500.00 |
| | | | Allocation for athletic revenues | 63,566.67 | 59,400.00 |
| | | | Allocation for university school | 76,135.82 | 228,210.29 |
| | | | Allocation for unexpended contracts | 380,130.24 | 278,898.66 |
| | | | Unallocated | 1,359,230.38 | 1,915,857.40 |
| | | | Total fund balances | 6,923,779.72 | 6,957,782.09 |
| Total general | 16,108,910.33 | 15,761,900.81 | Total general | 16,108,910.33 | 15,761,900.81 |
| Auxiliary enterprises: | | | Auxiliary enterprises: | | |
| Cash and cash equivalents (Notes 3 and 4) | 828,773.50 | 729,753.11 | Liabilities: | | |
| Accounts receivable (net of allowance of \$35,307.79 at June 30, 1996, and \$27,894.97 at June 30, 1995) | 273,289.63 | 226,756.78 | Accounts payable | 57,725.12 | 32,788.74 |
| Inventories | 1,387,334.79 | 1,412,585.34 | Accrued liabilities | 23,959.98 | 21,728.55 |
| | | | Student deposits | 132,964.00 | 104,300.50 |
| | | | Deferred revenue | 143,646.65 | 116,458.43 |
| | | | Total liabilities | 358,295.75 | 275,276.22 |
| | | | Fund balances: | | |
| | | | Nondiscretionary allocation: | | |
| | | | Allocation for working capital | 1,688,224.42 | 1,686,792.12 |
| | | | Discretionary allocation: | | |
| | | | Allocation for contingencies | 442,877.75 | 407,026.89 |
| | | | Total fund balances | 2,131,102.17 | 2,093,819.01 |
| Total auxiliary enterprises | 2,489,397.92 | 2,369,095.23 | Total auxiliary enterprises | 2,489,397.92 | 2,369,095.23 |
| Total unrestricted | 18,598,308.25 | 18,130,996.04 | Total unrestricted | 18,598,308.25 | 18,130,996.04 |
| Restricted: | | | Restricted: | | |
| Cash and cash equivalents (Notes 3 and 4) | 1,675,435.71 | 745,731.73 | Liabilities: | | |
| Accounts and grants receivable (net of allowance of \$79,039.24 at June 30, 1996, and \$109,146.94 at June 30, 1995) | 1,719,750.60 | 2,319,194.31 | Accounts payable | 406.73 | 166.00 |
| Due from endowment and similar funds | 71.91 | 384.39 | Accrued liabilities | 7,415.51 | 8,075.01 |
| | | | Total liabilities | 7,822.24 | 8,241.01 |
| | | | Fund balance | 3,387,435.98 | 3,057,069.42 |
| Total restricted | 3,395,258.22 | 3,065,310.43 | Total restricted | 3,395,258.22 | 3,065,310.43 |
| Total current funds | \$ 21,993,566.47 | \$ 21,196,306.47 | Total current funds | \$ 21,993,566.47 | \$ 21,196,306.47 |
| Loan funds: | | | Loan funds: | | |
| Cash and cash equivalents (Notes 3 and 4) \$ | 504,400.75 | \$ 515,658.31 | Fund balances: | | |
| Notes receivable (net of allowance of \$1,145,954.74 at June 30, 1996, and \$985,698.41 at June 30, 1995) | 6,429,298.23 | 5,947,438.25 | U.S. government grants refundable | \$ 5,627,455.54 | \$ 5,273,643.83 |
| Accrued interest receivable | 187,625.33 | 130,650.04 | University funds: | | |
| | | | Restricted - matching | 773,775.84 | 669,033.90 |
| | | | Restricted - other | 720,092.93 | 651,068.87 |
| Total loan funds | \$ 7,121,324.31 | \$ 6,593,746.60 | Total loan funds | \$ 7,121,324.31 | \$ 6,593,746.60 |

TENNESSEE STATE BOARD OF REGENTS
EAST TENNESSEE STATE UNIVERSITY
BALANCE SHEETS
JUNE 30, 1996, WITH COMPARATIVE FIGURES FOR JUNE 30, 1995

| | June 30, 1996 | June 30, 1995 | | June 30, 1996 | June 30, 1995 |
|--|--------------------------|--------------------------|--------------------------------------|--------------------------|--------------------------|
| ASSETS | | | LIABILITIES AND FUND BALANCES | | |
| Endowment and similar funds: | | | Endowment and similar funds: | | |
| Cash and cash equivalents (Notes 3 and 4) \$ | 257,778.42 | \$ 200,678.51 | Liabilities: | | |
| Investments (Notes 4 and 5) | 2,019,843.36 | 2,038,383.77 | Due to restricted current funds | \$ 71.91 | \$ 384.39 |
| Accrued interest receivable | <u>9,523.96</u> | <u>387.96</u> | | | |
| | | | Fund balances: | | |
| | | | Endowment | 41,611.08 | 41,433.67 |
| | | | Quasi-endowment - unrestricted | <u>2,245,462.75</u> | <u>2,197,632.18</u> |
| | | | | | |
| | | | Total fund balances | <u>2,287,073.83</u> | <u>2,239,065.85</u> |
| Total endowment and similar funds | \$ <u>2,287,145.74</u> | \$ <u>2,239,450.24</u> | Total endowment and similar funds | \$ <u>2,287,145.74</u> | \$ <u>2,239,450.24</u> |
| Plant funds: | | | Plant funds: | | |
| Unexpended plant: | | | Unexpended plant: | | |
| Cash and cash equivalents (Notes 3 and 4) \$ | 2,418,803.56 | \$ 3,873,506.57 | Liabilities: | | |
| LGIP deposit - capital projects (Note 5) | 584,765.80 | 224,801.60 | Accounts payable | \$ 97,304.25 | \$ 353,978.25 |
| Accounts receivable | <u>32,424.24</u> | <u>32,424.24</u> | | | |
| | | | Fund balance: | | |
| | | | Unrestricted (Note 6) | <u>2,938,689.35</u> | <u>3,776,754.16</u> |
| Total unexpended plant | <u>3,035,993.60</u> | <u>4,130,732.41</u> | Total unexpended plant | <u>3,035,993.60</u> | <u>4,130,732.41</u> |
| Renewals and replacements: | | | Renewals and replacements: | | |
| Cash and cash equivalents (Notes 3 and 4) | <u>14,072,818.07</u> | <u>14,628,168.56</u> | Liabilities: | | |
| | | | Accounts payable | <u>76,774.75</u> | <u>252,241.26</u> |
| | | | Fund balance: | | |
| | | | Unrestricted (Note 6) | <u>13,996,043.32</u> | <u>14,375,927.30</u> |
| Total renewals and replacements | <u>14,072,818.07</u> | <u>14,628,168.56</u> | Total renewals and replacements | <u>14,072,818.07</u> | <u>14,628,168.56</u> |
| Retirement of indebtedness: | | | Retirement of indebtedness: | | |
| Cash and cash equivalents (Notes 3 and 4) | 1,778,544.90 | 1,531,082.66 | Liabilities: | | |
| Funds on deposit with Tennessee State School Bond Authority (Note 5) | 1,669,633.41 | 1,669,633.41 | Accrued interest payable | <u>202,943.22</u> | <u>210,272.63</u> |
| Accounts receivable | 130,459.86 | 130,459.84 | | | |
| Accrued interest receivable | <u>15,951.53</u> | <u>19,458.52</u> | Fund balances: | | |
| | | | Restricted | 1,669,633.41 | 1,669,633.41 |
| | | | Unrestricted | <u>1,722,013.07</u> | <u>1,470,728.39</u> |
| Total retirement of indebtedness | <u>3,594,589.70</u> | <u>3,350,634.43</u> | Total fund balances | <u>3,391,646.48</u> | <u>3,140,361.80</u> |
| Investment in plant: | | | Total retirement of indebtedness | <u>3,594,589.70</u> | <u>3,350,634.43</u> |
| Land | 4,260,873.82 | 4,260,873.82 | Investment in plant: | | |
| Buildings | 90,091,464.79 | 89,880,878.61 | Liabilities: | | |
| Improvements other than buildings | 9,498,631.54 | 8,275,947.66 | Bonds payable (Note 7) | 10,336,664.66 | 11,328,103.81 |
| Equipment | 40,591,373.95 | 38,189,851.57 | Loans payable (Note 7) | <u>2,793,440.77</u> | <u>2,850,546.42</u> |
| Library holdings | 24,640,351.00 | 24,295,249.00 | | | |
| Construction in progress | <u>906,722.46</u> | <u>650,311.51</u> | Total liabilities | <u>13,130,105.43</u> | <u>14,178,650.23</u> |
| | | | | | |
| | | | Fund balance: | | |
| | | | Net investment in plant | <u>156,859,312.13</u> | <u>151,374,461.94</u> |
| Total investment in plant | <u>169,989,417.56</u> | <u>165,553,112.17</u> | Total investment in plant | <u>169,989,417.56</u> | <u>165,553,112.17</u> |
| Total plant funds | \$ <u>190,692,818.93</u> | \$ <u>187,662,647.57</u> | Total plant funds | \$ <u>190,692,818.93</u> | \$ <u>187,662,647.57</u> |
| Agency funds: | | | Agency funds: | | |
| Cash and cash equivalents (Notes 3 and 4) \$ | 367,951.69 | \$ 71,796.74 | Liabilities: | | |
| Investments (Notes 4 and 5) | <u>8,705.95</u> | <u>10,332.71</u> | Accounts payable | \$ 111.50 | \$ - |
| | | | Deposits held in custody for others | <u>376,546.14</u> | <u>82,129.45</u> |
| Total agency funds | \$ <u>376,657.64</u> | \$ <u>82,129.45</u> | Total agency funds | \$ <u>376,657.64</u> | \$ <u>82,129.45</u> |

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

TENNESSEE STATE BOARD OF REGENTS
EAST TENNESSEE STATE UNIVERSITY
STATEMENT OF CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 1996

| | 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 | \$ 110,179,942.50 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| Auxiliary enterprise revenues | 9,329,203.32 | - | - | - | - | - | - | - |
| Tuition and fees | - | 88,325.00 | - | - | - | - | - | - |
| State appropriations | - | 454,000.00 | - | - | 639,759.33 | - | - | - |
| Federal grants and contracts | - | 9,703,517.13 | 395,186.00 | - | - | - | 126,181.00 | - |
| State grants and contracts | - | 3,861,117.22 | - | - | - | - | - | - |
| Private gifts, grants, and contracts | - | 13,484,455.85 | 35,215.36 | - | - | - | - | 341,595.43 |
| Investment income | - | 3,668.45 | 7,967.64 | - | 100,816.69 | 770,477.50 | 236,772.72 | - |
| Interest on loans receivable | - | - | 191,278.82 | - | - | - | - | - |
| Endowment income | - | 627,849.27 | - | 48,007.98 | - | - | - | - |
| Student debt service fees (Note 7) | - | - | - | - | - | - | 699,903.34 | - |
| Equipment use charges | - | - | - | - | - | 1,305,700.00 | - | - |
| Expended for plant facilities (including \$3,729,161.05 charged to current fund expenditures) | - | - | - | - | - | - | - | 6,395,105.05 |
| Retirement of indebtedness | - | - | - | - | - | - | - | 1,048,542.75 |
| Other (Note 11) | - | - | 79,535.04 | - | - | - | 260,919.74 | 38,502.05 |
| Total revenues and other additions | 119,509,145.82 | 28,222,932.92 | 709,182.86 | 48,007.98 | 740,576.02 | 2,076,177.50 | 1,323,776.80 | 7,823,745.28 |
| EXPENDITURES AND OTHER DEDUCTIONS | | | | | | | | |
| Educational and general expenditures | 110,532,587.81 | 26,779,183.10 | - | - | - | - | - | - |
| Auxiliary enterprise expenditures | 7,936,123.63 | 22,216.30 | - | - | - | - | - | - |
| Indirect costs recovered | - | 880,311.52 | - | - | - | - | - | - |
| Refunded to grantors | - | 43,635.76 | 1,295.23 | - | - | - | - | - |
| Loan cancellations and write-offs | - | - | 62,675.95 | - | - | - | - | - |
| Administrative and collection costs | - | - | 86,531.32 | - | - | - | 8,815.75 | - |
| Provision for doubtful accounts | - | - | 158,201.63 | - | - | - | - | - |
| Expended for plant facilities | - | - | - | - | 1,648,534.14 | 1,017,409.86 | - | - |
| Expended for noncapital items | - | - | - | - | 478,128.45 | 1,139,768.62 | - | - |
| Retirement of indebtedness | - | - | - | - | - | - | 1,048,542.75 | - |
| Interest on indebtedness | - | - | - | - | - | - | 843,125.24 | - |
| Disposal of plant facilities | - | - | - | - | - | - | - | 1,352,397.97 |
| Library holdings revaluation | - | - | - | - | - | - | - | 986,497.12 |
| Other | - | - | 143.91 | - | - | - | - | - |
| Total expenditures and other deductions | 118,468,711.44 | 27,725,346.68 | 308,848.04 | - | 2,126,662.59 | 2,157,178.48 | 1,900,483.74 | 2,338,895.09 |

TENNESSEE STATE BOARD OF REGENTS
EAST TENNESSEE STATE UNIVERSITY
STATEMENT OF CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 1996

| | 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 | (857,991.62) | - | - | - | - | - | 857,991.62 | - |
| Loan fund matching grant | (127,242.89) | - | 127,242.89 | - | - | - | - | - |
| Nonmandatory: | | | | | | | | |
| Unrestricted current funds | 675,885.83 | (167,219.68) | - | - | (80,000.00) | (428,666.15) | - | - |
| Unexpended plant | - | - | - | - | 628,021.76 | (628,021.76) | - | - |
| Renewals and replacements | (727,804.91) | - | - | - | - | 757,804.91 | (30,000.00) | - |
| Total transfers | <u>(1,037,153.59)</u> | <u>(167,219.68)</u> | <u>127,242.89</u> | <u>-</u> | <u>548,021.76</u> | <u>(298,883.00)</u> | <u>827,991.62</u> | <u>-</u> |
| Net increase (decrease) for the year | 3,280.79 | 330,366.56 | 527,577.71 | 48,007.98 | (838,064.81) | (379,883.98) | 251,284.68 | 5,484,850.19 |
| Fund balance at beginning of year | <u>9,051,601.10</u> | <u>3,057,069.42</u> | <u>6,593,746.60</u> | <u>2,239,065.85</u> | <u>3,776,754.16</u> | <u>14,375,927.30</u> | <u>3,140,361.80</u> | <u>151,374,461.94</u> |
| Fund balance at end of year | <u>\$ 9,054,881.89</u> | <u>\$ 3,387,435.98</u> | <u>\$ 7,121,324.31</u> | <u>\$ 2,287,073.83</u> | <u>\$ 2,938,689.35</u> | <u>\$ 13,996,043.32</u> | <u>\$ 3,391,646.48</u> | <u>\$ 156,859,312.13</u> |

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

TENNESSEE STATE BOARD OF REGENTS
EAST TENNESSEE STATE UNIVERSITY
STATEMENT OF CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 1995

| | 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 | \$ 105,178,246.10 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| Auxiliary enterprise revenues | 9,029,162.74 | - | - | - | - | - | - | - |
| Tuition and fees | - | 69,712.75 | - | - | - | - | - | - |
| State appropriations | - | 445,600.00 | - | - | 1,126,836.02 | - | - | - |
| Federal grants and contracts | - | 9,314,414.22 | 421,029.00 | - | - | - | 126,181.00 | - |
| State grants and contracts | - | 3,741,580.46 | - | - | - | - | - | - |
| Private gifts, grants, and contracts (Note 15) | - | 11,775,412.56 | 46,543.06 | - | - | - | - | 455,938.33 |
| Investment income | - | 23,725.09 | 8,580.31 | - | 61,197.87 | 775,362.30 | 184,157.10 | - |
| Interest on loans receivable | - | - | 155,978.98 | - | - | - | - | - |
| Endowment income | - | 590,063.96 | - | 64,184.87 | - | - | - | - |
| Student debt service fees (Note 7) | - | - | - | - | - | - | 713,271.50 | - |
| Equipment use charges | - | - | - | - | - | 1,468,100.00 | - | - |
| Expended for plant facilities (including \$3,423,509.66 charged to current fund expenditures) | - | - | - | - | - | - | - | 6,711,435.87 |
| Retirement of indebtedness | - | - | - | - | - | - | - | 1,015,854.17 |
| Other (Note 11) | - | - | 61,973.67 | - | 32,424.24 | - | 260,919.72 | 12,485.00 |
| Total revenues and other additions | 114,207,408.84 | 25,960,509.04 | 694,105.02 | 64,184.87 | 1,220,458.13 | 2,243,462.30 | 1,284,529.32 | 8,195,713.37 |
| EXPENDITURES AND OTHER DEDUCTIONS | | | | | | | | |
| Educational and general expenditures (Note 15) | 104,567,812.60 | 24,786,305.46 | - | - | - | - | - | - |
| Auxiliary enterprise expenditures | 7,572,455.34 | 25,278.02 | - | - | - | - | - | - |
| Indirect costs recovered | - | 801,775.74 | - | - | - | - | - | - |
| Refunded to grantors | - | 52,867.49 | 854.14 | - | - | - | - | - |
| Loan cancellations and write-offs | - | - | 37,881.81 | - | - | - | - | - |
| Administrative and collection costs | - | - | 124,770.47 | - | - | - | 9,025.72 | - |
| Provision for doubtful accounts | - | - | 144,591.11 | - | - | - | - | - |
| Expended for plant facilities | - | - | - | - | 2,155,352.27 | 1,132,573.94 | - | - |
| Expended for noncapital items | - | - | - | - | 808,995.99 | 1,226,573.82 | - | - |
| Retirement of indebtedness | - | - | - | - | - | - | 1,015,854.17 | - |
| Interest on indebtedness | - | - | - | - | - | - | 869,848.71 | - |
| Disposal of plant facilities | - | - | - | - | - | - | - | 1,281,026.31 |
| Library holdings revaluation | - | - | - | - | - | - | - | 877,341.35 |
| Other | - | - | 94.90 | - | - | - | - | 3,702.00 |
| Total expenditures and other deductions | 112,140,267.94 | 25,666,226.71 | 308,192.43 | - | 2,964,348.26 | 2,359,147.76 | 1,894,728.60 | 2,162,069.66 |

TENNESSEE STATE BOARD OF REGENTS
EAST TENNESSEE STATE UNIVERSITY
STATEMENT OF CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 1995

| | 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 (DEDUCTIONS)</u> | | | | | | | | |
| Mandatory: | | | | | | | | |
| Principal and interest | (887,953.64) | - | - | - | - | - | 887,953.64 | - |
| Loan fund matching grant | (129,714.55) | - | 129,714.55 | - | - | - | - | - |
| Nonmandatory: | | | | | | | | |
| Unrestricted current funds | 147,099.38 | (147,099.38) | - | - | - | - | - | - |
| Loan funds | - | - | 100,000.00 | - | - | (100,000.00) | - | - |
| Unexpended plant | (50,000.00) | - | - | - | 2,365,974.61 | (1,815,974.61) | (500,000.00) | - |
| Renewals and replacements | (1,663,422.35) | - | - | - | - | 1,663,422.35 | - | - |
| Total transfers | (2,583,991.16) | (147,099.38) | 229,714.55 | - | 2,365,974.61 | (252,552.26) | 387,953.64 | - |
| Net increase (decrease) for the year | (516,850.26) | 147,182.95 | 615,627.14 | 64,184.87 | 622,084.48 | (368,237.72) | (222,245.64) | 6,033,643.71 |
| Fund balance at beginning of year | 9,568,451.36 | 2,909,886.47 | 5,978,119.46 | 2,174,880.98 | 3,154,669.68 | 14,744,165.02 | 3,362,607.44 | 145,340,818.23 |
| Fund balance at end of year | \$ 9,051,601.10 | \$ 3,057,069.42 | \$ 6,593,746.60 | \$ 2,239,065.85 | \$ 3,776,754.16 | \$ 14,375,927.30 | \$ 3,140,361.80 | \$ 151,374,461.94 |

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

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

| | Unrestricted | Restricted | Total |
|--|-----------------------|----------------------|-----------------------|
| REVENUES | | | |
| Tuition and fees | \$ 24,408,050.71 | \$ 121,076.36 | \$ 24,529,127.07 |
| State appropriations | 67,549,100.00 | 455,615.10 | 68,004,715.10 |
| Federal grants and contracts | 423,060.91 | 9,298,220.05 | 9,721,280.96 |
| State grants and contracts | 319,045.46 | 3,561,339.74 | 3,880,385.20 |
| Local gifts, grants, and contracts | 1,529,475.58 | - | 1,529,475.58 |
| Private gifts, grants, and contracts | 186,246.00 | 12,725,938.67 | 12,912,184.67 |
| Endowment income | 91,916.48 | 616,993.18 | 708,909.66 |
| Sales and services of educational activities | 14,286,389.48 | - | 14,286,389.48 |
| Sales and services of auxiliary enterprises | 9,329,203.32 | 22,216.30 | 9,351,419.62 |
| Interest income | 970,768.79 | - | 970,768.79 |
| Other sources | 415,889.09 | - | 415,889.09 |
| Total current revenues | <u>119,509,145.82</u> | <u>26,801,399.40</u> | <u>146,310,545.22</u> |
| EXPENDITURES AND TRANSFERS | | | |
| Educational and general expenditures: | | | |
| Instruction | 67,334,576.67 | 10,423,162.39 | 77,757,739.06 |
| Research | 1,539,535.51 | 1,929,753.17 | 3,469,288.68 |
| Public service | 1,128,186.55 | 1,121,258.00 | 2,249,444.55 |
| Academic support | 11,433,707.53 | 5,129,856.25 | 16,563,563.78 |
| Student services | 8,980,651.18 | 1,219,497.70 | 10,200,148.88 |
| Institutional support | 10,567,623.20 | 328,196.28 | 10,895,819.48 |
| Operation and maintenance of plant | 8,685,260.65 | - | 8,685,260.65 |
| Scholarships and fellowships | 863,046.52 | 6,627,459.31 | 7,490,505.83 |
| Total educational and general expenditures | <u>110,532,587.81</u> | <u>26,779,183.10</u> | <u>137,311,770.91</u> |
| Educational and general transfers: | | | |
| Mandatory transfers for: | | | |
| Principal and interest | 230,000.00 | - | 230,000.00 |
| Loan fund matching grant | 127,242.89 | - | 127,242.89 |
| Nonmandatory transfers for: | | | |
| Unexpended plant funds | (80,000.00) | - | (80,000.00) |
| Renewals and replacements | (428,666.15) | - | (428,666.15) |
| Total educational and general expenditures and transfers | <u>110,381,164.55</u> | <u>26,779,183.10</u> | <u>137,160,347.65</u> |
| Auxiliary enterprises: | | | |
| Expenditures | 7,936,123.63 | 22,216.30 | 7,958,339.93 |
| Mandatory transfer for: | | | |
| Principal and interest | 627,991.62 | - | 627,991.62 |
| Nonmandatory transfer for: | | | |
| Renewals and replacements | 727,804.91 | - | 727,804.91 |
| Total auxiliary enterprises | <u>9,291,920.16</u> | <u>22,216.30</u> | <u>9,314,136.46</u> |
| Total expenditures and transfers | <u>119,673,084.71</u> | <u>26,801,399.40</u> | <u>146,474,484.11</u> |

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

| | <u>Unrestricted</u> | <u>Restricted</u> | <u>Total</u> |
|--|---------------------|----------------------|----------------------|
| <u>OTHER TRANSFERS AND ADDITION</u> | | | |
| <u>(DEDUCTIONS)</u> | | | |
| Excess of restricted receipts over transfers to revenues | - | 1,421,533.52 | 1,421,533.52 |
| Indirect costs recovered | - | (880,311.52) | (880,311.52) |
| Refunded to grantors | - | (43,635.76) | (43,635.76) |
| Nonmandatory transfer to unrestricted current funds | - | (167,219.68) | (167,219.68) |
| Nonmandatory transfer from restricted current funds | <u>167,219.68</u> | <u>-</u> | <u>167,219.68</u> |
| Net increase in fund balance | \$ <u>3,280.79</u> | \$ <u>330,366.56</u> | \$ <u>333,647.35</u> |

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

TENNESSEE STATE BOARD OF REGENTS
EAST TENNESSEE STATE UNIVERSITY
STATEMENT OF CURRENT FUNDS REVENUES, EXPENDITURES, AND OTHER CHANGES
FOR THE YEAR ENDED JUNE 30, 1995

| | <u>Unrestricted</u> | <u>Restricted</u> | <u>Total</u> |
|--|-----------------------|----------------------|-----------------------|
| REVENUES | | | |
| Tuition and fees | \$ 23,061,483.35 | \$ 89,820.66 | \$ 23,151,304.01 |
| State appropriations | 65,530,400.00 | 440,475.67 | 65,970,875.67 |
| Federal grants and contracts | 477,942.95 | 8,886,994.81 | 9,364,937.76 |
| State grants and contracts | 286,188.93 | 3,414,902.89 | 3,701,091.82 |
| Local gifts, grants, and contracts | 1,458,126.55 | - | 1,458,126.55 |
| Private gifts, grants, and contracts (Note 15) | 126,829.51 | 11,326,215.39 | 11,453,044.90 |
| Endowment income | 37,091.00 | 627,896.04 | 664,987.04 |
| Sales and services of educational activities | 12,643,928.16 | - | 12,643,928.16 |
| Sales and services of auxiliary enterprises | 9,029,162.74 | 25,278.02 | 9,054,440.76 |
| Interest income | 963,963.13 | - | 963,963.13 |
| Other sources | 592,292.52 | - | 592,292.52 |
| Total current revenues | <u>114,207,408.84</u> | <u>24,811,583.48</u> | <u>139,018,992.32</u> |
| EXPENDITURES AND TRANSFERS | | | |
| Educational and general expenditures (Note 15): | | | |
| Instruction | 64,859,813.78 | 9,438,923.25 | 74,298,737.03 |
| Research | 1,321,676.84 | 1,893,407.43 | 3,215,084.27 |
| Public service | 1,059,779.47 | 1,108,193.65 | 2,167,973.12 |
| Academic support | 10,627,037.51 | 4,343,533.50 | 14,970,571.01 |
| Student services | 8,642,420.18 | 1,420,203.21 | 10,062,623.39 |
| Institutional support | 9,413,071.44 | 160,718.95 | 9,573,790.39 |
| Operation and maintenance of plant | 7,921,556.91 | 107.00 | 7,921,663.91 |
| Scholarships and fellowships | 722,456.47 | 6,421,218.47 | 7,143,674.94 |
| Total educational and general expenditures | <u>104,567,812.60</u> | <u>24,786,305.46</u> | <u>129,354,118.06</u> |
| Educational and general transfers: | | | |
| Mandatory transfers for: | | | |
| Principal and interest | 230,000.00 | - | 230,000.00 |
| Loan fund matching grant | 129,714.55 | - | 129,714.55 |
| Nonmandatory transfers for: | | | |
| Unexpended plant funds | 50,000.00 | - | 50,000.00 |
| Renewals and replacements | 814,500.00 | - | 814,500.00 |
| Total educational and general expenditures and transfers | <u>105,792,027.15</u> | <u>24,786,305.46</u> | <u>130,578,332.61</u> |
| Auxiliary enterprises: | | | |
| Expenditures | 7,572,455.34 | 25,278.02 | 7,597,733.36 |
| Mandatory transfer for: | | | |
| Principal and interest | 657,953.64 | - | 657,953.64 |
| Nonmandatory transfer for: | | | |
| Renewals and replacements | 848,922.35 | - | 848,922.35 |
| Total auxiliary enterprises | <u>9,079,331.33</u> | <u>25,278.02</u> | <u>9,104,609.35</u> |
| Total expenditures and transfers | <u>114,871,358.48</u> | <u>24,811,583.48</u> | <u>139,682,941.96</u> |

TENNESSEE STATE BOARD OF REGENTS
 EAST TENNESSEE STATE UNIVERSITY
 STATEMENT OF CURRENT FUNDS REVENUES, EXPENDITURES, AND OTHER CHANGES
 FOR THE YEAR ENDED JUNE 30, 1995

| | <u>Unrestricted</u> | <u>Restricted</u> | <u>Total</u> |
|--|------------------------|----------------------|------------------------|
| <u>OTHER TRANSFERS AND ADDITION</u> | | | |
| <u>(DEDUCTIONS)</u> | | | |
| Excess of restricted receipts over transfers to revenues | - | 1,148,925.56 | 1,148,925.56 |
| Indirect costs recovered | - | (801,775.74) | (801,775.74) |
| Refunded to grantors | - | (52,867.49) | (52,867.49) |
| Nonmandatory transfer to unrestricted current funds | - | (147,099.38) | (147,099.38) |
| Nonmandatory transfer from restricted current funds | 147,099.38 | - | 147,099.38 |
| Net increase (decrease) in fund balance | \$ <u>(516,850.26)</u> | \$ <u>147,182.95</u> | \$ <u>(369,667.31)</u> |

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

TENNESSEE BOARD OF REGENTS
EAST TENNESSEE STATE UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 1996, AND JUNE 30, 1995

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

REPORTING ENTITY

The university is part of the State University and Community College System of Tennessee (Tennessee Board of Regents). This system is a component unit of the State of Tennessee because the state appoints a majority of its governing body and provides financial support; the system is discretely presented in the *Tennessee Comprehensive Annual Financial Report*.

BASIS OF PRESENTATION

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

BASIS OF ACCOUNTING

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

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

TENNESSEE BOARD OF REGENTS
EAST TENNESSEE STATE UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS (CONT.)
JUNE 30, 1996, AND JUNE 30, 1995

and equipment renewal and replacement, and (3) nonmandatory transfers, for all other cases.

FUND ACCOUNTING

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

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

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

TENNESSEE BOARD OF REGENTS
EAST TENNESSEE STATE UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS (CONT.)
JUNE 30, 1996, AND JUNE 30, 1995

Current Funds

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

Loan Funds

Loan funds consist of resources made available for student loans.

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. Term endowment funds are similar to endowment funds, except that after a stated period of time or a particular event, all or part of the principal may be expended. 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.

TENNESSEE BOARD OF REGENTS
EAST TENNESSEE STATE UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS (CONT.)
JUNE 30, 1996, AND JUNE 30, 1995

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 with-drawn 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.

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.

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PLANT ASSETS

The physical plant and equipment are stated at cost at date of purchase or at fair value at date of donation. Library books are valued at \$20 per volume, and other library holdings are valued at various standardized values. Depreciation on the physical plant and equipment is not recorded.

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

NOTE 2. COMPENSATED ABSENCES

The university's employees accrue annual leave at varying rates, depending on length of service or classification. Some employees also earn compensatory time. Generally accepted accounting principles require that certain accrued compensated absences and related benefits, the effects of which are material to the financial statements, be recorded as earned. The university's policy is to record such benefits as paid. The recognition of this liability for accrued compensated absences and related benefits would have increased the liabilities of the unrestricted current fund by \$5,489,035.94 at June 30, 1996, and \$5,325,268.46 at June 30, 1995, and increased the unrestricted current fund expenditures by \$163,767.48 for the year ended June 30, 1996, and by \$196,265.42 for the year ended June 30, 1995.

NOTE 3. CASH AND CASH EQUIVALENTS

In addition to demand deposits and petty cash on hand, this classification includes instruments which are readily convertible to known amounts of cash and which have original maturities of three months or less. At June 30, 1996, cash and cash equivalents consisted of \$1,589,669.29 in bank accounts, \$60,000.00 of petty cash on hand, \$1,100,000.00 of certificates of deposit, and \$30,681,288.03 in the State of Tennessee Local Government Investment Pool administered by the State Treasurer. At June 30, 1995, cash and cash equivalents consisted of \$1,453,129.49 in bank accounts, \$70,000.00 of petty cash on hand, and \$32,750,441.07 in the State of Tennessee Local Government Investment Pool.

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NOTE 4. 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 bank accounts are in financial institutions which participate in the bank collateral pool administered by the Treasurer of the State of Tennessee. 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.

At June 30, 1996, the carrying amount of the university's deposits was \$4,718,218.60, and the bank balance including accrued interest was \$9,860,763.14. Of the bank balance, \$7,951,311.09 was category 1 and \$1,909,452.05 was category 3. From May 1, 1996, through June 30, 1996, the university had uncollateralized amounts ranging from \$1,900,000.00 to \$1,909,452.05 at Leader Federal Bank.

At June 30, 1995, the carrying amount of the university's deposits was \$3,501,845.97, and the bank balance including accrued interest was \$6,186,234.60. Of the bank balance, \$427,579.17 was category 1, \$3,858,655.43 was category 2, and \$1,900,000.00 was category 3. From July 1, 1994, through June 30, 1995, the university had uncollateralized amounts as high as \$1,900,000.00 at the Heritage Federal Bank. The uncollateralized amounts were related to a court decision by the U.S. Court of Appeals for the Eighth Circuit which raised a question about the enforceability of security interests in collateral pledged to secure deposits held in financial institutions. The court decision was based on Section 1823(e) of the Financial Institutions Reform, Recovery and Enforcement Act of 1989 (FIRREA). Because the university's security agreement did not meet the requirements outlined in Section 1823(e) of the act, it is uncertain whether the university had any priority claim to the collateral pledged to secure deposits in excess of FDIC insurance.

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coverage. The university's security agreement with the Heritage Federal Bank was not revised. The bank balance at First Tennessee Bank was undercollateralized by \$180,837.65 on July 11, 1994, by \$276,381.37 on July 12, 1994, by \$1,537,019.74 on July 28, 1994, and by \$840,286.18 on December 12, 1994.

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

NOTE 5. INVESTMENTS

The 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. Investments are valued at cost, or in the case of gifts, at fair value on the date of receipt.

The university's investments at June 30, 1996, and June 30, 1995, consisted of certificates of deposit with original maturities greater than three months. These have been included with other deposits in Note 4 to determine the adequacy of collateral security pledged.

Funds on deposit with trustee in retirement of indebtedness consisted of securities held in the Tennessee State School Bond Authority debt service reserve pool.

NOTE 6. PLANT FUND ENCUMBRANCES

Plant fund encumbrances outstanding at June 30, 1996, amounted to \$274,944.86 for unexpended plant and \$714,611.09 for renewals and replacements. Plant fund

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encumbrances outstanding at June 30, 1995, amounted to \$382,065.64 for unexpended plant and \$774,272.71 for renewals and replacements.

NOTE 7. BONDS AND LOANS PAYABLE

Bond issues, with interest rates ranging from 4.0% to 6.99% for Tennessee State School Bond Authority bonds, are due serially to 2011 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 university assesses, specifically for debt-retirement purposes, a debt service fee of \$33.00 per semester for full-time students and \$3.00 per credit hour for part-time students.

The Tennessee Board of Regents, on behalf of the university, borrowed funds for construction of the East Tennessee State University Clinical Education Facility. The loan bears a simple interest rate of 7.15%, a face amount of \$3,000,000.00, a minimum annual debt service of \$260,919.67, and a due date of January 1, 2017. The balance owed by the university was \$2,793,440.77 at June 30, 1996, and \$2,850,546.42 at June 30, 1995.

The university's debt service requirements to maturity for all bonds and loans payable at June 30, 1996, are as follows:

| <u>Year Ending</u> <u>June 30</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|--------------------------------------|------------------------|-----------------------|------------------------|
| 1997 | \$ 1,084,004.10 | \$ 823,692.54 | \$ 1,907,696.64 |
| 1998 | 1,122,878.03 | 784,799.21 | 1,907,677.24 |
| 1999 | 1,167,229.19 | 740,323.80 | 1,907,552.99 |
| 2000 | 1,171,912.04 | 650,870.79 | 1,822,782.83 |
| 2001 | 1,101,543.52 | 518,142.32 | 1,619,685.84 |
| 2002-2017 | <u>7,482,538.55</u> | <u>2,831,625.73</u> | <u>10,314,164.28</u> |
| | <u>\$13,130,105.43</u> | <u>\$6,349,454.39</u> | <u>\$19,479,559.82</u> |

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NOTE 8. PENSION PLANS

Defined Benefit Plan

All the university's regular employees may participate in a cost-sharing multiple-employer pension plan administered by the Tennessee Consolidated Retirement System (TCRS). The payroll for employees covered by the TCRS plan was \$28,030,533.80 for the year ended June 30, 1996, and \$28,218,958.29 for the year ended June 30, 1995. The university's total payroll was \$81,802,937.22 for the year ended June 30, 1996, and \$78,153,348.32 for the year ended June 30, 1995.

TCRS members may retire at age 60 with five years of service or at any age with 30 years of service. Early retirement with reduced benefits is available to vested members who are at least age 55 or have 25 years of service. Benefits are based on the number of years of creditable service and highest average salary for five consecutive years. Members are vested after five years of service. The TCRS also provides death and disability benefits. Disability benefits are available to members with five years of service who become disabled and cannot engage in gainful employment. There is no service requirement for disability that is the result of an accident or injury occurring while the member performed duties. Benefits are established by state statute.

The university is required by state statute, effective July 1, 1981, to contribute the amounts necessary to pay benefits when due. Prior to that date, the employee bore a portion of the contribution. Members with contributory service who leave the university are eligible for a refund of their contributions, along with contributions made after July 1, 1981, on the employees' behalf by the university. The actuarially required contribution made for the year ended June 30, 1996, was \$1,772,760.71, and for the year ended June 30, 1995, was \$1,784,687.98, both of which represented 6.32% of the covered payroll.

The pension benefit obligation is a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases and step-rate benefits, estimated to be payable in the future as a result of employee service to date. The measure, which is the actuarial present value of credited projected benefits, is intended to help users assess the TCRS' funding status on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among public employee retirement systems and

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among employers. The TCRS does not make separate measurements of assets and pension benefit obligation for individual state employers. Therefore, the following information is provided for the entire state employee portion of the TCRS. The pension benefit obligation at June 30, 1996, and at June 30, 1995, determined through an actuarial update performed as of June 30, 1996, was \$11,610.6 million and through an actuarial valuation performed as of June 30, 1995, was \$10,697.4 million. The net assets, at cost or amortized cost, available for benefits were \$12,925.0 million at June 30, 1996, and \$11,566.8 million at June 30, 1995, leaving assets in excess of pension benefit obligation of \$1,314.4 million at June 30, 1996, and \$869.4 million at June 30, 1995. The market value of the net assets available for benefits was \$14,100.9 million at June 30, 1996, and \$12,552.1 million at June 30, 1995. The university's 1996 and 1995 contributions represented .61% and .63% of total contributions required of all participating entities.

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

Defined Contribution Plans

The university has three defined contribution plans offered through the Teachers Insurance and Annuity Association-College Retirement Equities Fund (TIAA-CREF), Aetna Life Insurance and Annuity Company, and Variable Annuity Life Insurance Company (VALIC). These plans are available only to eligible faculty and staff exempt from the overtime provision of the Fair Labor Standards Act. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. State statute requires the university to contribute an amount equal to 10% of the employee's base salary below the social security wage base and 11% above the social security wage base. Members are fully vested upon entry into the plans.

The payroll for employees covered by the defined contribution plans was \$39,909,727.66 for the year ended June 30, 1996, and \$37,017,088.26 for the year ended June 30, 1995. The university's total payroll was \$81,802,937.22 for the year ended June 30, 1996, and \$78,153,348.32 for the year ended June 30, 1995. The required contribution made by the university for the year ended June 30, 1996, was

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\$4,037,289.96, which represented 10.12% of the covered payroll, and for the year ended June 30, 1995, was \$3,726,714.85, which represented 10.07% of the covered payroll.

Deferred Compensation

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

Since Section 401(k) plan assets remain the property of the contributing employees, they are not presented in the State of Tennessee financial statements. *Internal Revenue Code*, Section 401(k) establishes participation, contribution, and withdrawal provisions for the plan. Effective for the six-month period January through June 1996, the university provided a \$20 monthly Section 401(k) match from unrestricted current funds for employees making a minimum monthly contribution of \$20 to the plan. During the year ended June 30, 1996, contributions totaling \$224,987.32 were made by employees participating in the plan with a related match of \$97,520.00 made by the university. The current covered payroll for participating employees was \$13,967,970.10, while the total payroll for all eligible university employees during the year was \$39,504,135.84.

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*.

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NOTE 10. CHAIRS OF EXCELLENCE

The university had \$14,598,984.55 on deposit at June 30, 1996, and \$12,677,914.44 on deposit at June 30, 1995, with the State Treasurer for its Chairs of Excellence program. These funds are held in trust by the state and are not included in the financial statements.

NOTE 11. OTHER ADDITION

The following amounts are included as “other additions” on the Statements of Changes in Fund Balances:

| | <u>Year Ended</u> <u>June 30, 1996</u> | <u>Year Ended</u> <u>June 30, 1995</u> |
|---|---|---|
| Other Addition | | |
| <u>Retirement of Indebtedness</u> | | |
| Lease of space from MEAC in the clinical education facility | <u>\$ 260,919.74</u> | <u>\$ 260,919.72</u> |

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. In the past three fiscal years, the state has not had any claims filed with the commercial insurer. A designation for casualty losses in the amount of \$5 million has been established in the state’s general fund to provide for any property losses not covered by the commercial insurance.

At June 30, 1996, the scheduled coverage for the university was \$279,717,800 for buildings and \$81,671,000 for contents. At June 30, 1995, the scheduled coverage was \$264,081,600 for buildings and \$80,499,400 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

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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. 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 \$27,746,030.94 at June 30, 1996, and \$27,037,369.27 at June 30, 1995.

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 \$138,703.44 and for personal property were \$12,084.00 for the year ended June 30, 1996. Comparative amounts

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for the year ended June 30, 1995, were \$24,294.20 and \$12,444.00. All operating leases are cancelable at the lessee's option.

Construction in Progress - At June 30, 1996, outstanding commitments under construction contracts totaled \$658,618.40 for HVAC of McCord Hall, Dossett reroofing, power house compliance, astronomy observatory, new library, and utility system study, of which \$478,973.20 will be funded by future state capital outlay appropriations.

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

Questioned Costs - As of June 30, 1996, the university had not resolved \$2,945.00 of questioned costs resulting from prior audits. Final resolution of these questioned costs will be determined by the grantor.

NOTE 14. AFFILIATED ENTITY NOT INCLUDED

The university is the sole beneficiary of the Medical Education Assistance Corporation (MEAC), the East Tennessee State University Foundation, and the Northeast Tennessee Area Health Education Center (AHEC). These private, nonprofit corporations are controlled by boards independent of the university. The financial records, investments, and other financial transactions are not handled by the university, and these amounts are not included in the university's financial statements. As reported in MEAC's most recently audited financial report, at June 30, 1996, the corporation's assets totaled \$9,104,647, liabilities were \$3,084,574, and the fund balance amounted to \$6,020,073. As reported in the foundation's most recently audited financial report, at June 30, 1996, the foundation's assets totaled \$13,204,270, liabilities were \$877,466, and the fund balance amounted to \$12,326,804. As reported in AHEC's most recently audited financial report, at September 30, 1995, the corporation's assets totaled \$81,659, liabilities were \$28,198, and the fund balance amounted to \$53,461.

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NOTE 15. PRIOR-YEAR RESTATEMENT

Private gifts, grants, and contracts restricted current fund revenues and educational and general restricted current fund expenditures of the East Tennessee State University Foundation, which represent on-behalf-of payments, were included on the statement of changes in fund balances and the statement of current funds revenues, expenditures, and other changes for the year ended June 30, 1996, in accordance with the Tennessee Board of Regents policy. Consequently, the restricted current fund private gifts, grants, and contracts revenues and educational and general expenditures on the statement of changes in fund balances and the statement of current funds revenues, expenditures, and other changes for the year ended June 30, 1995, were understated by \$4,210,834.74. These statements for the year ended June 30, 1995, have been restated to reflect the change in accounting for the restricted current funds revenues and expenditures of the East Tennessee State University Foundation. There was no effect on the 1995 restricted current funds fund balance.

