

**TENNESSEE BOARD OF REGENTS
MIDDLE TENNESSEE STATE UNIVERSITY**

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

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March 24, 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. James A. Walker, President
Middle Tennessee State University
110 Cope Administration Building
Murfreesboro, Tennessee 37132

Ladies and Gentlemen:

Transmitted herewith is the financial and compliance audit of the Tennessee Board of Regents, Middle Tennessee State University, for the year ended June 30, 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/tp
97/013

State of Tennessee

A u d i t H i g h l i g h t s

Comptroller of the Treasury

Division of State Audit

Financial and Compliance Audit
Middle 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
MIDDLE TENNESSEE STATE UNIVERSITY
FOR THE YEAR ENDED JUNE 30, 1996

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

Section 8-4-109, *Tennessee Code Annotated*, authorizes the Comptroller of the Treasury to audit any books and records of any 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. Middle Tennessee State University is an institution of the Tennessee Board of Regents, which is an integral part of state government. As such, the Tennessee Board of Regents has been included as a component unit in the *Tennessee Comprehensive Annual Financial Report*.

BACKGROUND AND ORGANIZATION

BACKGROUND

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

ORGANIZATION

The governance of Middle Tennessee State University is vested in the Tennessee Board of Regents. The Governor, the Commissioner of Education, the Commissioner of Agriculture, and the Director of the Tennessee Higher Education Commission serve *ex officio* on this board. The chief administrative officer of the university is the president, who is assisted and advised by members of the faculty and administrative staff.

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 September 30, 1996. 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 housing department personnel's failure to follow purchasing policy and procedures.

OBSERVATIONS AND COMMENTS

In June 1996, the university's Office of Internal Audit released a report on a special review of activities of the MTSU Band. The special review was conducted in conjunction with the Division of State Audit and determined that band staff had improperly established unauthorized cash accounts and had diverted over \$23,000 in university funds into these accounts. These funds were obtained through the retention of funds otherwise intended for student travel for several trips, through fictitious travel requests to the university, and by the diversion of receipts from band performances and the sale of merchandise and other items. Over \$1,000 was used by the former assistant band director to pay her personal debts. An additional \$3,618 could not be accounted for. Although the degree of involvement of band staff in these activities could not be determined, it appeared that these actions were at the direction of the former director.

Numerous university and Tennessee Board of Regents policies and procedures were violated in the band staff's abuse of these funds. These violations involved policies on individual and group travel, petty cash, bank accounts, conflicts of interest, purchasing, and personal telephone calls.

The former director and former associate director of the band resigned at the end of the 1996 spring semester. The former director has not paid the \$2,872 she owes the university for her authorization of questionable expenditures, overpayments for her personal travel, and personal phone charges. The review did not find that any funds were owed to the university from actions of the associate director. The former Chair of the Music Department resigned as chair at the end of the 1996 spring semester and has made a \$171 payment in full to the university for an improper

reimbursement he received. The former Chair remains at the university as a full-time faculty member. The former assistant director received a one-month suspension without pay and subsequently resigned effective January 31, 1997. The former assistant director has paid in full the \$1,055 owed to the university.

These matters were referred to the District Attorney General of the 16th Judicial District (Rutherford County) on July 17, 1996. In addition, the university is taking steps to recover the \$2,872 from the former director, and this matter will be referred to the Attorney General's Office by the university for collection, if needed.

The university has taken steps to correct the deficiencies which contributed to these situations. During future audits, the Division of State Audit will review these steps as appropriate.

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 finding and recommendation.

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 Middle Tennessee State University, an institution of the Tennessee Board of Regents, which is a component unit of the State of Tennessee, as of and for the year ended June 30, 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. 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.

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

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/tp

**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 Middle Tennessee State University, an institution of the Tennessee Board of Regents, which is a component unit of the State of Tennessee, as of and for the year ended June 30, 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 Honorable W. R. Snodgrass
November 1, 1996
Page Two

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

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/tp

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 Middle Tennessee State University, an institution of the Tennessee Board of Regents, which is a component unit of the State of Tennessee, as of June 30, 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, Middle 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/tp

TENNESSEE BOARD OF REGENTS
MIDDLE TENNESSEE STATE UNIVERSITY
BALANCE SHEETS
JUNE 30, 1996, WITH COMPARATIVE AT JUNE 30, 1995

	June 30, 1996	June 30, 1995		June 30, 1996	June 30, 1995
<u>ASSETS</u>			<u>LIABILITIES AND FUND BALANCES</u>		
Current funds:			Current funds:		
Unrestricted:			Unrestricted:		
General:			General:		
Cash and cash equivalents (Notes 3 and 4)	\$ 14,297,052.74	\$ 14,727,967.02	Liabilities:		
Accounts receivable (net of allowance of \$385,144.56 at June 30, 1996, and \$199,872.51 at June 30, 1995)	1,102,328.46	983,696.59	Accounts payable	\$ 1,456,495.22	\$ 1,199,326.75
Inventories	438,902.52	450,348.09	Accrued liabilities	5,561,175.52	5,428,533.12
Prepaid expenses	190,699.85	154,224.42	Student deposits	38,583.33	64,300.56
Due from restricted current funds	1,551,042.79	420,734.23	Deferred revenue	3,850,758.20	3,519,722.00
			Other liabilities	57,022.78	48,005.88
			Total liabilities	10,964,035.05	10,259,888.31
			Fund balances:		
			Nondiscretionary allocations:		
			Allocation for working capital	918,741.99	797,953.19
			Allocation for encumbrances	1,015,824.07	864,018.47
			Allocation for designated appropriations	62,819.26	86,982.34
			Discretionary allocations:		
			Allocation for subsequent budget	1,758,300.00	-
			Allocation for athletic contingency	266,823.54	261,123.12
			Allocation for technology access fee	276,741.73	317,482.08
			Unallocated	2,316,740.72	4,149,522.84
			Total fund balances	6,615,991.31	6,477,082.04
Total general	17,580,026.36	16,736,970.35	Total general	17,580,026.36	16,736,970.35
Auxiliary enterprises:			Auxiliary enterprises:		
Cash and cash equivalents (Notes 3 and 4)	1,752,232.64	1,624,433.92	Liabilities:		
Accounts receivable (net of allowance of \$34,549.03 at June 30, 1996, and \$39,497.37 at June 30, 1995)	458,590.03	486,773.02	Accounts payable	130,377.50	48,637.53
Inventories	1,636,623.34	1,618,821.82	Accrued liabilities	43,059.60	49,642.38
			Student deposits	376,293.51	343,905.20
			Deferred revenue	195,538.75	185,667.00
			Total liabilities	745,269.36	627,852.11
			Fund balances:		
			Nondiscretionary allocations:		
			Allocation for working capital	2,197,888.87	2,190,981.84
			Allocation for encumbrances	36,448.09	191,039.28
			Discretionary allocation:		
			Allocation for contingencies	771,520.00	707,990.00
			Unallocated	96,319.69	12,165.53
			Total fund balances	3,102,176.65	3,102,176.65
Total auxiliary enterprises	3,847,446.01	3,730,028.76	Total auxiliary enterprises	3,847,446.01	3,730,028.76
Total unrestricted	21,427,472.37	20,466,999.11	Total unrestricted	21,427,472.37	20,466,999.11
Restricted:			Restricted:		
Grants receivable	2,539,628.09	1,259,349.66	Liabilities:		
			Accounts payable	215,528.97	64,932.64
			Accrued liabilities	16,761.35	27,256.33
			Due to unrestricted current funds	1,551,042.79	420,734.23
			Total liabilities	1,783,333.11	512,923.20
			Fund balance	756,294.98	746,426.46
Total restricted	2,539,628.09	1,259,349.66	Total restricted	2,539,628.09	1,259,349.66
Total current funds	\$ 23,967,100.46	\$ 21,726,348.77	Total current funds	\$ 23,967,100.46	\$ 21,726,348.77
Loan funds:			Loan funds:		
Cash and cash equivalents (Notes 3 and 4)	\$ 415,051.50	\$ 277,250.47	Fund balances:		
Notes receivable (net of allowance of \$690,107.87 at June 30, 1996, and \$594,534.00 at June 30, 1995)	3,803,550.75	3,923,980.15	U.S. government grants refundable	\$ 2,884,018.97	\$ 2,896,598.86
Accrued interest receivable	168,936.67	140,807.50	University funds:		
			Restricted - matching	603,389.08	583,234.37
			Restricted - other	869,860.19	834,024.53
			Unrestricted	30,270.68	28,180.36
Total loan funds	\$ 4,387,538.92	\$ 4,342,038.12	Total loan funds	\$ 4,387,538.92	\$ 4,342,038.12
Endowment and similar funds:			Endowment and similar funds:		
Cash and cash equivalents (Notes 3 and 4)	\$ 893,000.00	\$ 3,493,000.00	Fund balances:		
			Quasi-endowment:		
			Restricted	\$ 9,900.00	\$ 9,900.00
			Unrestricted	883,100.00	3,483,100.00
Total endowment and similar funds	\$ 893,000.00	\$ 3,493,000.00	Total endowment and similar funds	\$ 893,000.00	\$ 3,493,000.00

TENNESSEE BOARD OF REGENTS
MIDDLE TENNESSEE STATE UNIVERSITY
BALANCE SHEETS
JUNE 30, 1996, WITH COMPARATIVE AT JUNE 30, 1995

	June 30, 1996	June 30, 1995	June 30, 1996	June 30, 1995
<u>ASSETS</u>			<u>LIABILITIES AND FUND BALANCES</u>	
Plant funds:			Plant funds:	
Unexpended plant:			Unexpended plant:	
Cash and cash equivalents (Notes 3 and 4)	\$ 6,279,582.69	\$ 7,729,182.61	Liabilities:	
LGIP deposit - capital projects	8,861,247.85	9,618,390.61	Accounts payable	\$ 112,880.36
Funds on deposit with State Treasurer (Note 5)	2,287,452.82	925,426.69	Notes payable (Note 7)	2,287,452.82
Accounts receivable	135,582.74	-	Total liabilities	2,400,333.18
			Fund balances:	
			Restricted	103,676.42
			Unrestricted (Note 6)	15,059,856.50
			Total fund balances	15,163,532.92
Total unexpended plant	17,563,866.10	18,272,999.91	Total unexpended plant	17,563,866.10
Renewals and replacements:			Renewals and replacements:	
Cash and cash equivalents (Notes 3 and 4)	11,528,282.50	9,655,723.65	Liabilities:	
			Accounts payable	11,003.31
			Fund balance:	
			Unrestricted (Note 6)	11,517,279.19
Total renewals and replacements	11,528,282.50	9,655,723.65	Total renewals and replacements	11,528,282.50
Retirement of indebtedness:			Retirement of indebtedness:	
Cash and cash equivalents (Notes 3 and 4)	6,652,037.82	3,626,707.89	Liabilities:	
Investments (Notes 4 and 5)	300,000.00	300,000.00	Accrued interest payable	63,550.24
Assets with trustee (Note 5)	935,019.43	1,177,197.10	Fund balances:	
Accrued interest receivable	33,954.96	92,221.05	Restricted (Note 5)	935,019.43
			Unrestricted	6,922,442.54
Total retirement of indebtedness	7,921,012.21	5,196,126.04	Total fund balances	7,857,461.97
Investment in plant:			Total retirement of indebtedness	7,921,012.21
Land	1,163,327.97	1,073,247.97	Investment in plant:	
Buildings	95,760,964.72	83,623,376.82	Liabilities:	
Improvements other than buildings	20,820,701.54	20,302,457.18	Notes payable (Note 7)	11,977,547.18
Equipment	39,690,556.41	36,633,975.17	Bonds payable (Note 7)	6,581,277.73
Library books	12,333,420.00	12,080,340.00	Total liabilities	18,558,824.91
Other library holdings	6,278,636.00	6,051,727.00	Fund balance:	
Construction in progress	10,434,994.87	11,212,393.78	Net investment in plant	168,123,771.60
Livestock	199,995.00	188,240.00	Total investment in plant	186,682,596.51
Total investment in plant	186,682,596.51	171,165,757.92	Total plant funds	223,695,757.32
Total plant funds	\$ 223,695,757.32	\$ 204,290,607.52	Total plant funds	\$ 223,695,757.32
Agency funds:			Agency funds:	
Nonfoundation funds:			Nonfoundation funds:	
Cash and cash equivalents (Notes 3 and 4)	\$ 559,906.12	\$ 789,269.03	Liabilities:	
Accounts receivable	28,893.43	1,111.25	Accounts payable	\$ 402,594.36
			Deposits held in custody for others	185,980.19
			Other liabilities	225.00
Total nonfoundation funds	588,799.55	790,380.28	Total nonfoundation funds	588,799.55
Foundation funds:			Foundation funds:	
Cash and cash equivalents (Notes 3 and 4)	1,623,596.23	381,187.10	Liabilities:	
Investments (Notes 4 and 5)	10,781,086.51	9,315,620.02	Accounts payable	7,899.61
Accrued interest receivable	103,404.60	112,974.06	Deposits held in custody for foundation	13,358,118.62
Accounts receivable	130,810.21	-	Total foundation funds	13,366,018.23
Land and buildings	175,442.11	175,442.11	Total foundation funds	10,335,503.26
Equipment	492,828.75	293,255.80	Total agency funds	\$ 13,954,817.78
Livestock	57,074.32	55,248.67	Total agency funds	\$ 11,125,883.54
Other assets	1,775.50	1,775.50		
Total foundation funds	13,366,018.23	10,335,503.26		
Total agency funds	\$ 13,954,817.78	\$ 11,125,883.54		

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

TENNESSEE BOARD OF REGENTS
MIDDLE TENNESSEE STATE UNIVERSITY
STATEMENT OF CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 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	\$ 100,803,057.37	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Auxiliary enterprise revenues	15,430,403.21	-	-	-	-	-	-	-
Tuition and fees	-	110,121.10	-	-	-	-	-	-
State appropriations	-	360,700.00	-	-	8,289,775.25	-	73,643.77	-
Federal grants and contracts	-	7,503,334.83	61,614.75	-	-	-	-	-
State grants and contracts	-	2,071,740.96	-	-	-	-	-	-
Private gifts, grants, and contracts	-	972,690.35	33,957.72	-	-	-	-	186,000.00
Endowment income	-	470,819.81	-	-	-	-	-	-
Investment income	-	-	16,664.12	-	899,445.21	478,821.86	253,727.04	-
Interest on loans receivable	-	-	120,553.77	-	-	-	-	-
Reduction in doubtful accounts	-	-	2,657.49	-	-	-	-	-
Proceeds from notes	-	-	-	-	2,660,000.00	-	-	-
Equipment use charges	-	-	-	-	-	1,089,095.00	-	-
Student debt service fees (Note 7)	-	-	-	-	-	-	1,621,491.20	-
Expended for plant facilities (including \$4,053,241.73 charged to current fund expenditures)	-	-	-	-	-	-	-	17,143,581.77
Retirement of indebtedness	-	-	-	-	-	-	-	777,957.35
Equipment inventory adjustments	-	-	-	-	-	-	-	37,444.95
Other (Note 11)	-	-	9,789.77	-	-	30,288.95	72,134.00	18,047.50
Total revenues and other additions	116,233,460.58	11,489,407.05	245,237.62	-	11,849,220.46	1,598,205.81	2,020,996.01	18,163,031.57
EXPENDITURES AND OTHER DEDUCTIONS								
Educational and general expenditures	100,073,385.35	11,364,561.07	-	-	-	-	-	-
Auxiliary enterprise expenditures	13,199,475.38	5,166.33	-	-	-	-	-	-
Indirect costs recovered	-	104,841.41	-	-	-	-	-	-
Refunded to grantors	-	2,064.16	-	-	-	-	-	-
Loan cancellations and write-offs	-	-	56,313.45	-	-	-	-	-
Provision for doubtful accounts	-	-	98,231.36	-	-	-	-	-
Administrative and collection costs	-	-	65,730.26	-	-	-	9,259.30	-
Expended for plant facilities	-	-	-	-	12,112,307.95	978,032.09	-	-
Expended for noncapital items	-	-	-	-	1,108,782.72	952,500.43	-	-
Retirement of indebtedness	-	-	-	-	-	-	777,957.35	-
Interest on indebtedness	-	-	-	-	-	-	812,685.98	-
Increase in indebtedness	-	-	-	-	1,362,026.13	-	-	1,297,973.87
Disposal of plant facilities	-	-	-	-	-	-	-	959,341.35
Library holdings revaluation	-	-	-	-	-	-	-	901,899.28
Other (Note 11)	-	2,905.56	-	-	140,000.00	-	-	6,995.00
Total expenditures and other deductions	113,272,860.73	11,479,538.53	220,275.07	-	14,723,116.80	1,930,532.52	1,599,902.63	3,166,209.50

TENNESSEE BOARD OF REGENTS
MIDDLE 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:								
Loan fund matching grant	(20,538.25)	-	20,538.25	-	-	-	-	-
Principal and interest	(505,099.43)	-	-	-	-	-	505,099.43	-
Nonmandatory:								
Unrestricted current funds	2,600,000.00	-	-	(2,600,000.00)	-	-	-	-
Unexpended plant	(440,232.00)	-	-	-	708,787.75	(183,555.75)	(85,000.00)	-
Renewals and replacements	(2,564,854.40)	-	-	-	-	2,564,854.40	-	-
Retirement of indebtedness	(1,890,966.50)	-	-	-	-	-	1,890,966.50	-
Total transfers	<u>(2,821,690.58)</u>	<u>-</u>	<u>20,538.25</u>	<u>(2,600,000.00)</u>	<u>708,787.75</u>	<u>2,381,298.65</u>	<u>2,311,065.93</u>	<u>-</u>
Net increases (decreases) for the year	138,909.27	9,868.52	45,500.80	(2,600,000.00)	(2,165,108.59)	2,048,971.94	2,732,159.31	14,996,822.07
Fund balances at beginning of year	<u>9,579,258.69</u>	<u>746,426.46</u>	<u>4,342,038.12</u>	<u>3,493,000.00</u>	<u>17,328,641.51</u>	<u>9,468,307.25</u>	<u>5,125,302.66</u>	<u>153,126,949.53</u>
Fund balances at end of year	\$ <u><u>9,718,167.96</u></u>	\$ <u><u>756,294.98</u></u>	\$ <u><u>4,387,538.92</u></u>	\$ <u><u>893,000.00</u></u>	\$ <u><u>15,163,532.92</u></u>	\$ <u><u>11,517,279.19</u></u>	\$ <u><u>7,857,461.97</u></u>	\$ <u><u>168,123,771.60</u></u>

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

TENNESSEE BOARD OF REGENTS
MIDDLE TENNESSEE STATE UNIVERSITY
STATEMENT OF CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 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	\$ 95,482,394.46	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Auxiliary enterprise revenues	14,159,718.27	-	-	-	-	-	-	-
Tuition and fees	-	82,089.00	-	-	-	-	-	-
State appropriations	-	354,400.00	-	-	6,773,833.82	-	79,645.44	-
Federal grants and contracts	-	7,291,259.32	61,319.25	-	-	-	-	-
State grants and contracts	-	1,712,981.73	-	-	-	-	-	-
Private gifts, grants, and contracts	-	873,570.91	33,373.19	-	429,383.00	-	-	-
Endowment income	-	551,695.06	-	-	-	-	-	-
Investment income	-	-	8,855.92	-	746,585.31	470,385.39	257,948.82	-
Interest on loans receivable	-	-	122,405.89	-	-	-	-	-
Reduction in doubtful accounts	-	-	58,943.00	-	-	-	-	-
Proceeds from notes	-	-	-	-	5,250,000.00	-	-	-
Decrease in indebtedness	-	-	-	-	2,088,110.64	-	-	-
Equipment use charges	-	-	-	-	-	438,711.00	-	-
Student debt service fees (Note 7)	-	-	-	-	-	-	1,598,573.35	-
Expended for plant facilities (including \$3,968,312.62 charged to current fund expenditures)	-	-	-	-	-	-	-	21,837,750.26
Retirement of indebtedness	-	-	-	-	-	-	-	739,438.07
Other (Note 11)	-	-	6,521.48	-	24,750.00	10,804.07	72,134.00	34,159.00
Total revenues and other additions	109,642,112.73	10,865,996.02	291,418.73	-	15,312,662.77	919,900.46	2,008,301.61	22,611,347.33
EXPENDITURES AND OTHER DEDUCTIONS								
Educational and general expenditures	94,912,883.69	10,688,754.66	-	-	-	-	-	-
Auxiliary enterprise expenditures	11,618,147.07	8,714.53	-	-	-	-	-	-
Indirect costs recovered	-	109,679.38	-	-	-	-	-	-
Refunded to grantors	-	33,918.20	-	-	-	-	-	-
Loan cancellations and write-offs	-	-	282,350.15	-	-	-	-	-
Provision for doubtful accounts	-	-	18,486.57	-	-	-	-	-
Administrative and collection costs	-	-	59,696.20	-	-	-	10,452.03	-
Expended for plant facilities	-	-	-	-	16,625,376.64	1,244,061.00	-	-
Expended for noncapital items	-	-	-	-	1,483,723.40	2,122,318.31	-	-
Retirement of indebtedness	-	-	-	-	-	-	739,438.07	-
Interest on indebtedness	-	-	-	-	-	-	765,723.21	-
Increase in indebtedness	-	-	-	-	-	-	-	7,338,110.64
Disposal of plant facilities	-	-	-	-	-	-	-	2,340,637.31
Library holdings revaluation	-	-	-	-	-	-	-	1,319,491.52
Equipment inventory adjustments	-	-	-	-	-	-	-	9,004.11
Other (Note 11)	-	7,679.55	-	-	-	-	-	12,400.00
Total expenditures and other deductions	106,531,030.76	10,848,746.32	360,532.92	-	18,109,100.04	3,366,379.31	1,515,613.31	11,019,643.58

TENNESSEE BOARD OF REGENTS
MIDDLE 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
TRANSFERS AMONG FUNDS - ADDITIONS (DEDUCTIONS)								
Mandatory:								
Loan fund matching grant	(20,439.75)	-	20,439.75	-	-	-	-	-
Principal and interest	(604,676.33)	-	-	-	-	-	604,676.33	-
Nonmandatory:								
Unexpended plant	(657,700.00)	-	-	(6,750,000.00)	7,707,700.00	(300,000.00)	-	-
Renewals and replacements	(1,631,667.94)	-	-	-	-	1,631,667.94	-	-
Total transfers	(2,914,484.02)	-	20,439.75	(6,750,000.00)	7,707,700.00	1,331,667.94	604,676.33	-
Net increases (decreases) for the year	196,597.95	17,249.70	(48,674.44)	(6,750,000.00)	4,911,262.73	(1,114,810.91)	1,097,364.63	11,591,703.75
Fund balances at beginning of year	9,382,660.74	729,176.76	4,390,712.56	10,243,000.00	12,417,378.78	10,583,118.16	4,027,938.03	141,535,245.78
Fund balances at end of year	\$ <u>9,579,258.69</u>	\$ <u>746,426.46</u>	\$ <u>4,342,038.12</u>	\$ <u>3,493,000.00</u>	\$ <u>17,328,641.51</u>	\$ <u>9,468,307.25</u>	\$ <u>5,125,302.66</u>	\$ <u>153,126,949.53</u>

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

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

	<u>Unrestricted</u>	<u>Restricted</u>	<u>Total</u>
REVENUES			
Tuition and fees	\$ 33,440,909.54	\$ 110,029.84	\$ 33,550,939.38
State appropriations	61,919,800.00	373,089.30	62,292,889.30
Federal grants and contracts	97,776.65	7,481,069.12	7,578,845.77
State grants and contracts	86,259.89	1,973,790.74	2,060,050.63
Local grants and contracts	1,785.80	-	1,785.80
Private gifts, grants, and contracts	-	959,508.44	959,508.44
Endowment income	143,867.75	467,073.63	610,941.38
Sales and services of educational activities	4,233,436.29	-	4,233,436.29
Sales and services of auxiliary enterprises	15,430,403.21	5,166.33	15,435,569.54
Other sources	879,221.45	-	879,221.45
Total current revenues	<u>116,233,460.58</u>	<u>11,369,727.40</u>	<u>127,603,187.98</u>
EXPENDITURES AND TRANSFERS			
Educational and general:			
Expenditures:			
Instruction	53,868,823.01	1,352,877.91	55,221,700.92
Research	1,165,766.14	586,487.02	1,752,253.16
Public service	1,933,987.21	2,166,197.93	4,100,185.14
Academic support	8,845,419.61	69,352.88	8,914,772.49
Student services	11,350,962.44	481,242.11	11,832,204.55
Institutional support	10,661,112.65	24,217.62	10,685,330.27
Operation and maintenance of plant	8,889,274.62	-	8,889,274.62
Scholarships and fellowships	3,358,039.67	6,684,185.60	10,042,225.27
Total educational and general expenditures	<u>100,073,385.35</u>	<u>11,364,561.07</u>	<u>111,437,946.42</u>
Mandatory transfer for:			
Loan fund matching grant	20,538.25	-	20,538.25
Nonmandatory transfers for:			
Endowment and similiar funds	(2,600,000.00)	-	(2,600,000.00)
Unexpended plant	440,232.00	-	440,232.00
Renewals and replacements	839,026.00	-	839,026.00
Retirement of indebtedness	1,890,966.50	-	1,890,966.50
Total educational and general expenditures and transfers	<u>100,664,148.10</u>	<u>11,364,561.07</u>	<u>112,028,709.17</u>
Auxiliary enterprises:			
Expenditures	13,199,475.38	5,166.33	13,204,641.71
Mandatory transfer for:			
Principal and interest	505,099.43	-	505,099.43
Nonmandatory transfer for:			
Renewals and replacements	1,725,828.40	-	1,725,828.40
Total auxiliary enterprises	<u>15,430,403.21</u>	<u>5,166.33</u>	<u>15,435,569.54</u>
Total expenditures and transfers	<u>116,094,551.31</u>	<u>11,369,727.40</u>	<u>127,464,278.71</u>
OTHER ADDITION (DEDUCTIONS)			
Excess of restricted receipts over transfers to revenues	-	119,679.65	119,679.65
Indirect costs recovered	-	(104,841.41)	(104,841.41)
Refunded to grantors	-	(2,064.16)	(2,064.16)
Expired grants	-	(2,905.56)	(2,905.56)
Net increases in fund balances	<u>\$ 138,909.27</u>	<u>\$ 9,868.52</u>	<u>\$ 148,777.79</u>

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

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

	<u>Unrestricted</u>	<u>Restricted</u>	<u>Total</u>
REVENUES			
Tuition and fees	\$ 29,913,209.64	\$ 81,511.92	\$ 29,994,721.56
State appropriations	60,370,600.00	342,188.39	60,712,788.39
Federal grants and contracts	95,308.40	7,262,855.97	7,358,164.37
State grants and contracts	87,148.28	1,617,248.39	1,704,396.67
Local grants and contracts	1,150.88	-	1,150.88
Private gifts, grants, and contracts	5,400.00	826,119.41	831,519.41
Endowment income	322,382.49	558,830.58	881,213.07
Sales and services of educational activities	3,923,918.16	-	3,923,918.16
Sales and services of auxiliary enterprises	14,159,718.27	8,714.53	14,168,432.80
Other sources	<u>763,276.61</u>	<u>-</u>	<u>763,276.61</u>
Total current revenues	<u>109,642,112.73</u>	<u>10,697,469.19</u>	<u>120,339,581.92</u>
EXPENDITURES AND TRANSFERS			
Educational and general:			
Expenditures:			
Instruction	52,142,139.93	1,094,159.29	53,236,299.22
Research	1,120,466.36	586,618.66	1,707,085.02
Public service	1,760,926.82	1,902,690.45	3,663,617.27
Academic support	8,287,626.03	45,180.58	8,332,806.61
Student services	10,164,892.83	289,136.15	10,454,028.98
Institutional support	10,216,982.57	13,852.57	10,230,835.14
Operation and maintenance of plant	8,385,845.38	-	8,385,845.38
Scholarships and fellowships	<u>2,834,003.77</u>	<u>6,757,116.96</u>	<u>9,591,120.73</u>
Total educational and general expenditures	94,912,883.69	10,688,754.66	105,601,638.35
Mandatory transfer for:			
Loan fund matching grant	20,439.75	-	20,439.75
Nonmandatory transfer for:			
Unexpended plant	<u>657,700.00</u>	<u>-</u>	<u>657,700.00</u>
Total educational and general expenditures and transfers	<u>95,591,023.44</u>	<u>10,688,754.66</u>	<u>106,279,778.10</u>
Auxiliary enterprises:			
Expenditures			
Mandatory transfer for:			
Principal and interest	604,676.33	-	604,676.33
Nonmandatory transfer for:			
Renewals and replacements	<u>1,631,667.94</u>	<u>-</u>	<u>1,631,667.94</u>
Total auxiliary enterprises	<u>13,854,491.34</u>	<u>8,714.53</u>	<u>13,863,205.87</u>
Total expenditures and transfers	<u>109,445,514.78</u>	<u>10,697,469.19</u>	<u>120,142,983.97</u>
OTHER ADDITION (DEDUCTIONS)			
Excess of restricted receipts over transfers to revenues	-	168,526.83	168,526.83
Indirect costs recovered	-	(109,679.38)	(109,679.38)
Refunded to grantors	-	(33,918.20)	(33,918.20)
Expired grants	<u>-</u>	<u>(7,679.55)</u>	<u>(7,679.55)</u>
Net increases in fund balances	<u>\$ 196,597.95</u>	<u>\$ 17,249.70</u>	<u>\$ 213,847.65</u>

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

TENNESSEE BOARD OF REGENTS
MIDDLE TENNESSEE STATE UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 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, and (3) nonmandatory transfers, for all other cases.

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

FUND ACCOUNTING

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

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

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

Current Funds

Unrestricted current funds consist of those funds over which the university retains full control for use in achieving any of its authorized institutional purposes. Auxiliary enterprises activities are included in unrestricted current funds and include residence halls and family housing, food services, student stores, vending, the post office, telecommunications, the student recreation facility, and the parking authority.

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

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

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

Pool (LGIP) account. As expenditures are incurred, funds are withdrawn from the LGIP account by the Tennessee Board of Regents and transferred to the Department of Finance and Administration. The funds in the account are not available to the university for any other purpose until the project is completed and any remaining funds are released by the Tennessee Board of Regents.

INVENTORIES

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

ALLOCATION FOR WORKING CAPITAL

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

PLANT ASSETS

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

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

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

MIDDLE TENNESSEE STATE UNIVERSITY FOUNDATION

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

NOTE 2. 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 \$2,826,484 at June 30, 1996, and \$2,635,079 at June 30, 1995, and increased the unrestricted current fund expenditures by \$191,405 for the year ended June 30, 1996, and \$190,709 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 \$12,009,026.98 in bank accounts, \$128,385.00 of petty cash on hand, \$661,500.51 in a money market account, and \$31,201,829.75 in the State of Tennessee Local Government Investment Pool administered by the State Treasurer. At June 30, 1995, cash and cash equivalents consisted of \$9,773,662.45 in bank accounts, \$104,565.00 of petty cash on hand, \$201,576.20 in a cash investment account, and \$32,224,918.04 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 \$13,323,644.75, and the bank balance including accrued interest was \$15,144,103.23. Of the bank balance, \$14,582,602.72 was category 1, and \$561,500.51 was category 3.

At June 30, 1995, the carrying amount of the university's deposits was \$10,275,238.65, and the bank balance including accrued interest was \$12,203,032.40. Of the bank balance, \$12,101,456.20 was category 1, and \$101,576.20 was category 3. During August 1994 the university had uncollateralized amounts as high as \$765,669.83.

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.

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NOTE 5. INVESTMENTS

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

The foundation's investments are categorized below to indicate the level of risk assumed by the foundation at year-end. Category 1 consists of insured or registered investments or investments for which the securities are held by the foundation or its agent in the foundation's name. Category 2 consists of uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the foundation's name. Category 3 consists of uninsured and unregistered investments for which the securities are held by the counterparty or by its trust department or agent but not in the foundation's name.

June 30, 1996

	Category			Carrying Amount	Market Value
	1	2	3		
U.S. government securities	\$ -	\$ 5,499,963.41	\$ -	\$ 5,499,963.41	\$ 5,490,632.68
Corporate stocks	-	4,928,005.84	-	4,928,005.84	5,458,431.99
	\$ -	\$10,427,969.25	\$ -		
Certificates of deposit classified as investments				653,117.26	653,117.26
Total investments on the balance sheet				\$11,081,086.51	\$11,602,181.93

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June 30, 1995

	Category			Carrying	Market
	<u>1</u>	<u>2</u>	<u>3</u>	Amount	Value
U.S. government securities	\$ -	\$ 4,038,126.97	\$ -	\$4,038,126.97	\$4,102,012.00
Corporate bonds and notes	-	1,886,049.42	-	1,886,049.42	1,886,045.42
Corporate stocks	-	<u>3,391,443.63</u>	-	<u>3,391,443.63</u>	<u>3,656,341.00</u>
	<u>\$ -</u>	<u>\$9,315,620.02</u>	<u>\$ -</u>		
Certificate of deposit classified as an investment				<u>300,000.00</u>	<u>300,000.00</u>
Total investments on the balance sheet				<u>\$9,615,620.02</u>	<u>\$9,944,398.42</u>

Funds on deposit with the State Treasurer in unexpended plant consisted of loan proceeds that had not been expended. Assets 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 \$578,457.89 for unexpended plant and \$616,403.42 for renewals and replacements. Plant fund encumbrances outstanding at June 30, 1995, amounted to \$704,547.53 for unexpended plant and \$341,858.20 for renewals and replacements.

NOTE 7. NOTES AND BONDS PAYABLE

Interim and short-term financing for various projects has been secured through the Tennessee State School Bond Authority from the Bond Anticipation Notes (BANs) Program established February 24, 1993, with Prudential Securities, Incorporated, as the underwriter and remarketing agent, to fund projects under construction. Under the BANs Program, the notes will mature on March 1, 1998, and may bear interest at a variable rate (daily, weekly, monthly, quarterly, semiannually, or annually) or a fixed rate (long-term) determined by the remarketing agent for periods selected by the authority. Currently, interest is determined on a weekly basis and payable

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monthly. The notes are subject to purchase by the remarketing agent on the demand of the holder on any business day pursuant to the conditions established in the Note Resolution, as described in the Official Statement relating to the notes. The remarketing agent is to use its best efforts to sell the notes to another holder. If the agent is unable to resell any notes that are "put," the standby note purchaser is required, subject to certain conditions, to purchase the notes. Swiss Bank Corporation, New York Branch, served as the standby note purchaser through June 25, 1996. On June 26, 1996, the authority contracted with Union Bank of Switzerland to serve as standby note purchaser through June 25, 1997. It is expected that a portion of the notes will be redeemed with the proceeds of the sale of bonds at the end of the construction period for the projects being financed. The standby note purchase agreement with Swiss Bank Corporation provided payment of .15% per \$1,000 prior to February 24, 1996, and .13% per \$1,000 thereafter of the principal and interest commitment of \$75,961,644; the fee was payable quarterly in arrears. The agreement with Union Bank of Switzerland provides for payment of .06 of 1% per annum on the available commitment and .05 of 1% per annum on the excess, if any, of \$106,173,699 over the available commitment provided that each of the foregoing rates shall each be increased by .10 of 1% per annum effective prospectively to the termination of this agreement. The balance owed by the university was \$13,965,000 at June 30, 1996, and \$11,305,000 at June 30, 1995.

The Tennessee Board of Regents, on behalf of the university, signed a ten-year promissory note in December 1993 to purchase real property for \$300,000 with a 5% interest rate. The note requires quarterly interest-only payments beginning April 1, 1994. The note has a five-year call provision that if exercised will require payment of principal and accrued interest in December 1998. If the call provision is not exercised, the note will be due and payable in December 2003. The balance owed by the university was \$300,000 at June 30, 1996, and June 30, 1995.

Bond issues, with interest rates ranging from 4.1% to 9.463% 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 \$50.00 per semester for full-time students and \$4.00 per credit hour for part-time students.

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

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<u>Year Ending</u> <u>June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
1997	\$ 578,880.46	\$ 356,071.40	\$ 934,951.86
1998	607,825.67	327,114.93	934,940.60
1999	639,993.27	294,875.24	934,868.51
2000	675,103.94	259,897.93	935,001.87
2001	630,366.53	222,517.12	852,883.65
2002-2011	<u>3,449,107.86</u>	<u>826,659.88</u>	<u>4,275,767.74</u>
	<u>\$ 6,581,277.73</u>	<u>\$2,287,136.50</u>	<u>\$ 8,868,414.23</u>

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 \$32,218,046 for the year ended June 30, 1996, and \$31,935,563 for the year ended June 30, 1995. The university's total payroll was \$67,873,667 for the year ended June 30, 1996, and \$65,064,710 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

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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 \$2,039,363, and for the year ended June 30, 1995, was \$2,022,557, each of which represented 6.33% of the covered payroll.

The pension benefit obligation is a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases and step-rate benefits, estimated to be payable in the future as a result of employee service to date. The measure, which is the actuarial present value of credited projected benefits, is intended to help users assess the TCRS' funding status on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among public employee retirement systems and among employers. The TCRS does not make separate measurements of assets and pension benefit obligation for individual state employers. Therefore, the following information is provided for the entire state employee portion of the TCRS. The pension benefit obligation at June 30, 1996, and at June 30, 1995, determined through an actuarial update performed as of June 30, 1996, was \$11,610.6 million and through an actuarial valuation performed as of June 30, 1995, was \$10,697.4 million. The net assets, at cost or amortized cost, available for benefits were \$12,925.0 million at June 30, 1996, and \$11,566.8 million at June 30, 1995, leaving assets in excess of pension benefit obligation of \$1,314.4 million at June 30, 1996, and \$869.4 million at June 30, 1995. The market value of the net assets available for benefits was \$14,100.9 million at June 30, 1996, and \$12,552.1 million at June 30, 1995. The university's 1996 and 1995 contributions represented .70% and .72% 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

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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 \$28,147,353 for the year ended June 30, 1996, and \$25,938,596 for the year ended June 30, 1995. The university's total payroll was \$67,873,667 for the year ended June 30, 1996, and \$65,064,710 for the year ended June 30, 1995. The required contribution made by the university for the year ended June 30, 1996, was \$2,826,648, which represented 10.04% of the covered payroll, and for the year ended June 30, 1995, was \$2,625,426, which represented 10.12% 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 \$304,880.92 were made by employees participating in the plan with a related match of \$93,540.00 made by the university. The current covered payroll for participating employees was \$14,362,209, while the total payroll for all eligible university employees during the year was \$28,878,657.

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NOTE 9. OTHER POST-EMPLOYMENT BENEFITS

The State of Tennessee administers a group health insurance program which provides post-employment health insurance benefits to eligible university retirees. This benefit is provided and administered by the State of Tennessee. The university assumes no liability for retiree health care programs. Information related to this plan is available at the statewide level in the *Tennessee Comprehensive Annual Financial Report*.

NOTE 10. CHAIRS OF EXCELLENCE

The university had \$13,841,624.88 on deposit at June 30, 1996, and \$11,834,503.35 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 ADDITIONS AND DEDUCTIONS

The following amounts are included as “other additions” and “other deductions” 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 Additions		
<u>Loan Funds</u>		
Reimbursement on cancellations	\$ 9,120.00	\$ 1,111.00
Collection cost adjustment	18.82	368.13
Litigation settlement	-	125.00
Recovery of bad debt	<u>650.95</u>	<u>4,917.35</u>
	<u>\$ 9,789.77</u>	<u>\$ 6,521.48</u>
 <u>Unexpended Plant</u>		
Insurance settlement		<u>\$24,750.00</u>

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<u>Renewals and Replacements</u>		
Damage claim	\$ 5,538.95	\$10,804.07
Insurance settlement	<u>24,750.00</u>	<u>-</u>
	<u>\$ 30,288.95</u>	<u>\$10,804.07</u>
 <u>Retirement of Indebtedness</u>		
HUD interest subsidy	<u>\$ 72,134.00</u>	<u>\$72,134.00</u>
 <u>Investment in Plant</u>		
Trade-in-allowances	<u>\$ 18,047.50</u>	<u>\$34,159.00</u>
 Other Deductions		
<u>Restricted Current Funds</u>		
Expired grants	<u>\$ 2,905.56</u>	<u>\$ 7,679.55</u>
<u>Unexpended Plant</u>		
Correction of transfer from the foundation	<u>\$140,000.00</u>	
<u>Investment in Plant</u>		
Livestock inventory adjustment	<u>\$ 6,995.00</u>	<u>\$12,400.00</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 \$255,496,800 for buildings and \$42,759,200 for contents. At June 30, 1995, the scheduled coverage was \$226,557,900 for buildings and \$42,334,200 for contents.

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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. 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 \$24,201,479.20 at June 30, 1996, and \$27,157,007 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 \$89,898.90 and for personal

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property were \$57,813.22 for the year ended June 30, 1996. Comparative amounts for the year ended June 30, 1995, were \$17,164.40 and \$55,131.96. All operating leases are cancelable at the lessee's option.

Construction in Progress - At June 30, 1996, outstanding commitments under construction contracts totaled \$11,285,438.28 for the Telecommunications Building, utility/infrastructure improvements, Library Building planning, and the Business/Aerospace Building, of which \$10,581,253.18 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 \$3,458.00 of questioned costs resulting from prior audits. Final resolution of these questioned costs will be determined by the grantor.