TENNESSEE BOARD OF REGENTS
TENNESSEE STATE UNIVERSITY

FOR THE YEAR ENDED
JUNE 30, 1996

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May 12, 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. Hefner, President
Tennessee State University
3500 John A. Merritt Boulevard
Nashville, Tennessee 37209

Ladies and Gentlemen:

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

Very truly yours,

W. R. Snodgrass
Comptroller of the Treasury

WRS/cr
97/022

State of Tennessee

Audit Highlights

Comptroller of the Treasury — Division of State Audit

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

INTERNAL CONTROL FINDINGS

Improved Controls Over Deferments Needed*
The university failed to properly follow up financial aid deferments and room and board deferments. In all, 131 students at the end of the 1995 fall term and 85 students at the end of the 1996 spring term had outstanding financial aid deferments. There were also 84 outstanding room and board deferments for the 1995 fall term and 107 for the 1996 spring term (page 8).

Student Accounts Receivable Subsidiary Records Not Reconciled With General Ledger
The university's student accounts receivable subsidiary records had not been reconciled with the general ledger since July 1995 (page 10).

COMPLIANCE FINDINGS

Financial Aid Refunds Not Calculated Correctly and Paid Timely**

The university did not always follow federal guidelines for refunding financial aid awards. No refund was calculated for one of ten students whose files were tested, resulting in questioned costs of $185. Five of the nine calculated refunds were not calculated correctly, resulting in questioned costs of $1,047. For seven of the nine calculated refunds, the amount due was not refunded within the required time frame (page 11).

Improved Reporting for Federal Family Education Loans Needed**

Four students' status change dates on the Student Status Confirmation Report were different from the dates on the withdrawal form or in the students' files. The university often did not notify the guaranty agency of a student's status change within 60 days after the Student Status Confirmation Reports were submitted for the semester (page 13).

* This finding is repeated from the prior audit.
** This finding is repeated from prior audits.

OPINION ON THE FINANCIAL STATEMENTS

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

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

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

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

TABLE OF CONTENTS

TABLE OF CONTENTS (CONT.)

TENNESSEE BOARD OF REGENTS
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, 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. 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

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

ORGANIZATION

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

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 October 10, 1996. A follow-up of all prior audit findings was conducted as part of the current audit.

RESOLVED AUDIT FINDINGS

The current audit disclosed that the university has corrected the previous audit findings concerning failure to follow policies and procedures for foundation notes receivable and filing of expense claims for football and basketball recruits visiting campus. The university is currently working to satisfy federal requirements to resolve the previous audit finding concerning Federal Pell Grant payment vouchers.

REPEATED AUDIT FINDINGS

The prior audit report also contained findings concerning controls over deferments, the process for calculating and allocating financial aid refunds, and reporting for the Federal Family Education Loans program. These findings have not been resolved and are repeated in this 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. Reportable conditions, along with recommendations and management's responses, are detailed in the findings and recommendations, which follow the report on the internal control structure. 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. Immaterial instances of noncompliance, along with recommendations and management's responses, are included in the findings and recommendations. The compliance report follows the findings and recommendations.

Fairness of Financial Statement Presentation

The university has elected not to accrue the liability for compensated absences. Since this accounting practice is contrary to generally accepted accounting principles, the Division of State Audit has rendered a qualified opinion on the university's financial statements. 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 8, 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 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 8, 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.

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.

We noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the university's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

The following reportable conditions were noted:

- Controls over deferments need improvement.
- Student accounts receivable subsidiary records had not been reconciled with the general ledger.
- Financial aid refunds were not calculated correctly and paid timely.

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

A material weakness is a reportable condition in which the design or operation of one or more of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or 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.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we believe none of the reportable conditions described above are material weaknesses.

We also noted other 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

FINDINGS AND RECOMMENDATIONS

CONTROLS OVER DEFERMENTS NEED IMPROVEMENT

1. FINDING:

As noted in the prior audit, the university's controls over financial aid deferments need improvement. In addition, the internal auditors' follow-up on the prior finding noted some problems with room and board deferments. Deferments are authorizations to delay fee payment and are given to facilitate the registration process for students. Financial aid deferments are granted to students who have applied for, but have not yet received, financial aid and whose financial assistance is believed to be forthcoming. Room and board deferments allow students to defer up to 75% of their room and board fees.

Management concurred with the prior finding and stated that electronic data exchange systems and electronic loan processing, along with the required submission of tax returns for verification, would improve the deferment clearance rate. However, some students who received financial aid deferments did not pay all fees before the end of the semester. The internal auditors' follow-up report on the Division of State Audit's fiscal year 1995 report revealed that 131 students at the end of the 1995 fall term and 85 students at the end of the 1996 spring term had outstanding financial aid deferments. The report also noted 84 outstanding room and board deferments for the 1995 fall term and 107 for the 1996 spring term.

The university's policy on financial aid deferments states that deferments are to be cleared by October 15. Tennessee Board of Regents Policy 4:01:03:00 requires that in order for a student to be counted as enrolled, all fees (or the initial minimum payment due under the deferred payment plan) must be paid or there must be a commitment from an approved third party to pay all unpaid fees. Room and board deferments are required to be cleared by the end of the applicable semester.

The Director of Financial Aid stated that the university's policy allows him to extend the deadline for clearance of financial aid deferments, but he did not document the authorization for extension in the students' files.

RECOMMENDATION:

The Vice President for Student Affairs should take steps to ensure adherence to the deadlines for clearing financial aid deferments and room and board deferments. If an extension is granted for a financial aid deferment, it should be documented in the student's file.

MANAGEMENT'S COMMENT:

We concur that there was no written documentation in the student's file for financial aid deferments not cleared by October 15, 1995, for the 1995 fall semester.

However, we believe we are in compliance with TBR policy and TSU policies and procedures, which we consider reasonable and effective. We have implemented previous audit recommendations regarding creating written policies, encouraging early submission of financial aid applicants, establishing specific cut-off dates, etc. While holding students responsible, we counsel them, monitor the problems, and contact them about problem resolution.

TSU's policy states that deferments "should be" cleared by October 15 and that the Director "can extend" the deadline. The deadline was used as a date for review of the problems. Each deferment was reviewed. Each student was sent a letter at that time. The deferments were discussed with the Vice President for Student Affairs who verbally approved their extension.

Deferments are an area that receive a great deal of attention. That scrutiny will be greater now that the Student Financial Aid Office became a part of Business and Finance effective January 1, 1997. We continue to refine and improve our efforts to encourage student compliance with regulations and deadlines, to limit our potential accounts receivable, and to properly monitor exceptions.

In addition, we are required by state law and TBR policy to offer a room and board payment plan. The TBR policy provides specific provisions to encourage compliance with the payment plan. Not only are we in complete compliance with the TBR policy, we have an even more restrictive policy in place. Neither policy has a payment deadline.

The Bursar's Office processes room and board deferments only if students meet strict eligibility criteria, including paying 25% in advance. Students are not permitted to re-enroll if they have an outstanding balance of any kind, nor can they participate in the room and board deferment plan for one year if payments are late during the semester.

The number of outstanding room and board deferments at the end of the term is not due to the university's failure to comply with policies nor lack of due diligence in collections. Students are billed each month and subject to late charges. If accounts from fall semester are still outstanding following spring registration, they are placed with collection agencies, and vice versa.

In conclusion, we strongly believe that we have made significant progress with deferments, the exception rates are not material, and our ongoing efforts will continue to reduce the remaining defaults.

STUDENT ACCOUNTS RECEIVABLE SUBSIDIARY RECORDS HAD NOT BEEN RECONCILED WITH THE GENERAL LEDGER

2. FINDING:

The university's student accounts receivable subsidiary records had not been reconciled with the general ledger since the July 1995 reconciliation was completed. The student accounts receivable subsidiary records are maintained on the Student Information System (SIS Plus), and the general ledger account control for accounts receivable is maintained on the Financial Records System (FRS).

The university's Procedure 5.06.09.1, "FRS/SIS Reconciliation," requires that a reconciliation of the student accounts receivable records with the general ledger be performed by the Financial Analyst II after the monthly closing process is completed. The procedure also states that the "reconciliations must be completed and the related adjustments must be posted to the appropriate systems before the close of the following month." However, these procedures were not followed. The lack of reconciliations appears to be due to employee turnover in the position of Financial Analyst II and the several months' delay in filling the position, during which no one was assigned the reconciliation responsibilities.

RECOMMENDATION:

The Vice President of Business and Finance and the Director of Finance and Accounting should take the necessary steps to ensure the required reconciliations are prepared.

MANAGEMENT'S COMMENT:

We concur with the finding and recommendation. Due to a turnover in staff, the reconciliations had not been completed for several months and the two systems were not reconciled on June 30, 1996. Currently, monitoring is performed daily and formal reconciliations are prepared monthly to ensure that student accounts receivable in SIS are feeding correctly to the FRS general ledger. In addition, the Financial Analyst II in General Accounting will be crossed-trained in the reconciliation process.

FINANCIAL AID REFUNDS WERE NOT CALCULATED CORRECTLY AND PAID TIMELY

3. FINDING:

As noted in the five prior audits, the university did not always follow federal guidelines for refunding financial aid awards. Management concurred with the prior findings and indicated it would review its refund policies and procedures and use the formula outlined by the federal guidelines to determine and allocate Title IV refunds; however, some problems still exist.

Refunds may be calculated using accrediting agency requirements, state refund standards, or the pro rata refund method. The pro rata method is required when this calculation will provide the largest refund to the student, and the method applies to first-time students who received Title IV aid and withdrew on or before completing 60% of the enrollment period, according to *The Federal Student Financial Aid Handbook, 1995-96*. The university also may be required to return a portion of the refund to the Title IV programs based on the formula provided in the *Handbook*.

To follow up the prior audit finding, testwork was performed on the files of ten students who withdrew from the university after receiving financial aid and were due a refund. The following discrepancies were noted:

a. No refund was calculated for one of ten students (10%). Costs of $185 are questioned.

b. Five of the nine calculated refunds (56%) were not calculated correctly. All of the errors resulted in underrefunds from $1 to $1,534. Costs of $1,047 related to the federal share are questioned.

c. For seven of the nine calculated refunds (78%), the amount due was not refunded within 30 days (60 days for loan programs) of the student's withdrawal date.

The Federal Student Financial Aid Handbook, Chapter 3, Section 5, indicates that the refund amount to be returned to SFA (Student Financial Aid) programs is the total paid to institutional costs less the amount retained by the university. The *Handbook* also specifies the order of distribution. The *Code of Federal Regulations,* Title 34, Section 668.22(4)(i), states that a Pell Grant refund must be paid "within 30 days after the student's withdrawal date." Section 682.607(c)(1) states that a loan program refund must be paid "within 60 days of the date that the student officially withdraws, is expelled, or the institution determines that a student has unofficially withdrawn."

RECOMMENDATION:

The Director of Financial Aid should ensure that refunds are properly calculated and paid timely in accordance with the federal regulations. The applicable amounts should be returned to the Title IV programs.

MANAGEMENT'S COMMENT:

We concur with the finding and recommendation.

On March 11, 1997, two members of the Financial Aid Office and one member of the Business Office met with the university's Internal Auditor to resolve the problems associated with inconsistent pro-rata refund calculations. At that meeting, it was determined that pro-rata refund calculations are currently understood; however, a determination was made to include the $30 orientation fee as an institutional charge because all first-time students are charged that fee. Previously, there were inconsistencies with the designation of the orientation fee in the pro-rata formula. A confirmation from the U.S. Department of Education regarding the inclusion of the orientation fee as an institutional charge has been received.

Two financial aid counselors attended a Department of Education Title IV Training Work-shop at Nashville State Technical Institute on March 19-20, 1997, and received training in several areas including federal refunds and repayments. In our financial aid office, one financial aid member will perform pro-rata and another will verify the calculations (at least two financial aid members will be verifying each other's pro-rata calculations before submitting to the Bursar's Office). To prevent untimely refund disbursements, a withdrawal list will be run at least once each month up to the 60% completion point to capture first-time financial aid students who may be considered pro-rata candidates.

With the introduction of the new SIS pro-rata calculation module into our system, we believe the human error rate will be significantly reduced, if not eliminated. This software should be installed and functional no later than fall 1997. Until it is operational, we will practice the aforementioned procedure. In addition, we have recalculated pro-rata refunds for the 1995-96 and the 1996-97 award years and made needed adjustments.

THE UNIVERSITY NEEDS TO IMPROVE ITS REPORTING FOR THE FEDERAL FAMILY EDUCATION LOANS PROGRAM

4. FINDING:

As noted in the two prior audits, there are weaknesses in the university's reporting for the Federal Family Education Loans program. Management concurred with the prior audit finding and stated that an electronic data exchange system program would be implemented to allow electronic updates of the Student Status Confirmation Report (SSCR) files. However, the following discrepancies were noted:

a. For three of ten students whose change-of-status notification was tested for fall 1995 (30%) and four of ten students for spring 1996 (40%), the university did not notify the guaranty agency of the status changes within 60 days for those who graduated, withdrew, or dropped to less than half-time after the Student Status Confirmation Reports were submitted for the semester.

b. For four of ten students (40%), the status change date on the SSCR was different from the date on the withdrawal form or in the student's file.

The *Code of Federal Regulations*, Title 34, Section 682.610(c), states:

> A school shall - (1) Upon receipt of a student status confirmation report form . . . complete and return that report within 30 days of receipt . . . and (2) Unless it expects to submit its next student status confirmation report to the Secretary or the guaranty agency within the next 60 days, notify the guaranty agency or lender within 30 days - (i) If it discovers that a Stafford, SLS, or PLUS loan has been made to or on behalf of a student who enrolled at that school, but who has ceased to be enrolled on at least a half-time basis; . . . (iii) If it discovers that a Stafford, SLS, or PLUS loan has been made to or on behalf of a full-time student who has ceased to be enrolled on a full-time basis.

RECOMMENDATION:

The Director of Financial Aid should monitor the university's reporting process to ensure prompt, accurate reporting of changes in students' enrollment status to guaranty and lending agencies.

MANAGEMENT'S COMMENT:

We concur with the finding and recommendation. The university has implemented the National Student Loan Data System Electronic Clearinghouse effective fall 1996, which updates SSCRs three times per semester.

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

November 8, 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 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 8, 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.

We did, however, note certain immaterial instances of noncompliance that we have included in the Findings and Recommendations section of this report. We also noted certain other, less significant, 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 8, 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 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.

In our opinion, except for the effects of not including the liability for accrued compensated absences in the accompanying balance sheets, as discussed in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of the Tennessee Board of Regents, Tennessee State University, as of June 30, 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 8, 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 BOARD OF REGENTS
TENNESSEE STATE UNIVERSITY
BALANCE SHEETS
JUNE 30, 1996, WITH COMPARATIVE FIGURES AT JUNE 30, 1995

ASSETS	June 30, 1996	June 30, 1995
Current funds:		
Unrestricted:		
General:		
Cash and cash equivalents (Notes 3 and 4)	$ 1,687,031.36	$ 2,704,527.60
Investments (Note 5)	10,013,836.00	10,005,277.73
Accrued interest receivable	6,611.70	12,531.50
Accounts receivable (net of allowance of $692,103.65 at June 30, 1996, and $754,604.72 at June 30, 1995)	968,189.89	441,259.82
Inventories	41,442.25	32,036.64
Prepaid expenses	-	1,125.00
Other assets	378.61	-
Total general	12,717,489.81	13,196,758.29
Auxiliary enterprises:		
Cash and cash equivalents (Notes 3 and 4)	1,375,400.74	1,011,219.92
Accounts receivable (net of allowance of $1,572.42 at June 30, 1996, and June 30, 1995)	189,970.29	170,006.01
Total auxiliary enterprises	1,565,371.03	1,181,225.93
Total unrestricted	14,282,860.84	14,377,984.22
Restricted:		
Cash and cash equivalents (Notes 3 and 4)	2,221,457.64	1,433,608.89
Accrued interest receivable	1,058.81	-
Accounts and grants receivable	2,721,954.54	1,710,234.10
Total restricted	4,944,470.99	3,143,842.99
Total current funds	$ 19,227,331.83	$ 17,521,827.21
Loan funds:		
Cash and cash equivalents (Notes 3 and 4)	$ 55,045.94	$ 275,276.54
Notes receivable (net of allowance of $1,478,640.48 at June 30, 1996, and $1,376,318.81 at June 30, 1995)	2,157,978.12	2,561,012.71
Accrued interest receivable	867,622.96	824,277.02
Total loan funds	$ 3,080,647.02	$ 3,660,566.27
Endowment and similar funds:		
Cash and cash equivalents (Notes 3 and 4)	$ 28,580.83	$ 859.96
Investments (Notes 4 and 5)	231,594.73	247,943.87
Accrued interest receivable	2,614.38	6,667.56
Total endowment and similar funds	$ 262,789.94	$ 255,471.39

LIABILITIES AND FUND BALANCES	June 30, 1996	June 30, 1995
Current funds:		
Unrestricted:		
General:		
Liabilities:		
Accounts payable	$ 975,882.41	$ 406,069.71
Accrued liabilities	3,598,371.98	3,403,996.05
Deferred revenue	2,628,298.94	2,074,276.92
Student deposits	279,374.20	250,314.20
Checks payable	1,506,525.09	1,937,054.59
Other liabilities	312,338.89	503,439.95
Total liabilities	9,300,791.51	8,575,151.42
Fund balances:		
Nondiscretionary allocations:		
Allocation for working capital	636,723.30	117,681.76
Allocation for encumbrances	1,333,352.22	2,114,587.71
Allocation for extension service salary adjustment	87,375.15	69,700.01
Allocation for intracampus transportation	718.19	10,979.82
Allocation for academically talented black students	-	68,772.65
Allocation for Center on Aging	2,647.26	6,593.11
Allocation for McMinnville Experiment Station	149,549.51	17,712.40
Allocation for Upward Bound	17,495.71	6,641.11
Allocation for African culture	2,078.40	16,834.79
Discretionary allocations:		
Allocation for athletic contingencies	-	23,651.00
Allocation for subsequent budget	1,186,518.61	2,007,810.00
Unallocated	239.95	160,642.51
Total fund balances	3,416,698.30	4,621,606.87
Total general	12,717,489.81	13,196,758.29
Auxiliary enterprises:		
Liabilities:		
Accounts payable	119,738.99	9,598.60
Fund balances:		
Nondiscretionary allocations:		
Allocation for working capital	190,484.29	170,520.01
Allocation for encumbrances	116,410.47	129,960.75
Discretionary allocation:		
Allocation for contingencies	360,149.21	303,340.92
Unallocated	778,588.07	567,805.65
Total fund balances	1,445,632.04	1,171,627.33
Total auxiliary enterprises	1,565,371.03	1,181,225.93
Total unrestricted	14,282,860.84	14,377,984.22
Restricted:		
Liabilities:		
Accounts payable	440,665.08	228,065.47
Due to grantors	1,702,647.50	-
Total liabilities	2,143,312.58	228,065.47
Fund balance	2,801,158.41	2,915,777.52
Total restricted	4,944,470.99	3,143,842.99
Total current funds	$ 19,227,331.83	$ 17,521,827.21
Loan funds:		
Fund balances:		
U.S. government grants refundable	$ 2,198,067.71	$ 2,814,095.34
University funds:		
Restricted - matching	769,394.67	769,394.67
Restricted - other	113,184.64	77,076.26
Total loan funds	$ 3,080,647.02	$ 3,660,566.27
Endowment and similar funds:		
Fund balances:		
Endowment	$ 58,599.16	$ 58,217.21
Quasi-endowment - restricted	204,190.78	197,254.18
Total endowment and similar funds	$ 262,789.94	$ 255,471.39

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

ASSETS	June 30, 1996	June 30, 1995
Plant funds:		
Unexpended plant:		
Cash and cash equivalents (Notes 3 and 4)	$ 4,133,190.96	$ 3,595,525.09
Funds on deposit with State Treasurer (Note 5)	-	112,042.89
Accounts receivable	169,177.33	72,472.31
Total unexpended plant	4,302,368.29	3,780,040.29
Renewals and replacements:		
Cash and cash equivalents (Notes 3 and 4)	3,070,952.26	3,691,413.90
Investments (Note 5)	177,788.52	162,484.04
Accrued interest receivable	3,618.30	1,530.60
Total renewals and replacements	3,252,359.08	3,855,428.54
Retirement of indebtedness:		
Cash and cash equivalents (Notes 3 and 4)	549,544.40	855,360.13
Investments (Note 5)	576,347.40	558,478.08
Assets with trustee (Note 5)	1,097,879.75	1,113,744.07
Accrued interest receivable	23,252.60	20,135.37
Total retirement of indebtedness	2,247,024.15	2,547,717.65
Investment in plant:		
Land	8,872,355.24	8,918,268.24
Buildings	73,789,770.37	73,668,719.00
Improvements other than buildings	38,641,483.21	36,164,196.06
Equipment	25,994,630.40	22,413,003.13
Livestock	58,825.30	40,979.25
Library books	9,272,420.00	9,104,339.89
Other library holdings	3,067,807.30	2,925,857.30
Construction in progress	52,594,921.11	42,559,686.90
Total investment in plant	212,292,212.93	195,795,049.77
Total plant funds	$ 222,093,964.45	$ 205,978,236.25
Agency funds:		
Nonfoundation funds:		
Cash and cash equivalents (Notes 3 and 4)	$ 173,031.17	$ 161,557.10
Total nonfoundation funds	173,031.17	161,557.10
Foundation funds:		
Cash and cash equivalents (Notes 3 and 4)	402,242.03	412,172.55
Investments (Note 5)	1,307,425.99	1,229,277.82
Accrued interest receivable	5,743.00	11,442.00
Notes receivable	63,057.10	62,239.50
Land	54,350.00	-
Total foundation funds	1,832,818.12	1,715,131.87
Total agency funds	$ 2,005,849.29	$ 1,876,688.97

LIABILITIES AND FUND BALANCES	June 30, 1996	June 30, 1995
Plant funds:		
Unexpended plant:		
Liabilities:		
Accounts payable	$ 291,313.87	$ 21,409.68
Notes payable (Note 7)	-	112,042.89
Total liabilities	291,313.87	133,452.57
Fund balance:		
Unrestricted (Note 6)	4,011,054.42	3,646,587.72
Total unexpended plant	4,302,368.29	3,780,040.29
Renewals and replacements:		
Liabilities:		
Accounts payable	77,352.00	350.00
Fund balances:		
Restricted	180,000.00	165,287.39
Unrestricted (Note 6)	2,995,007.08	3,689,791.15
Total fund balances	3,175,007.08	3,855,078.54
Total renewals and replacements	3,252,359.08	3,855,428.54
Retirement of indebtedness:		
Liabilities:		
Accrued interest payable	86,258.94	87,398.66
Fund balances:		
Restricted (Note 5)	1,441,359.75	1,457,249.07
Unrestricted	719,405.46	1,003,069.92
Total fund balances	2,160,765.21	2,460,318.99
Total retirement of indebtedness	2,247,024.15	2,547,717.65
Investment in plant:		
Liabilities:		
Notes payable (Note 7)	3,337,509.64	2,845,466.75
Bonds payable (Note 7)	8,655,995.87	9,351,410.79
Total liabilities	11,993,505.51	12,196,877.54
Fund balance:		
Net investment in plant	200,298,707.42	183,598,172.23
Total investment in plant	212,292,212.93	195,795,049.77
Total plant funds	$ 222,093,964.45	$ 205,978,236.25
Agency funds:		
Nonfoundation funds:		
Liabilities:		
Deposits held in custody for others	$ 173,031.17	$ 161,557.10
Total nonfoundation funds	173,031.17	161,557.10
Foundation funds:		
Liabilities:		
Accounts payable	13,631.57	6,452.51
Deposits held in custody for foundation	1,819,186.55	1,708,679.36
Total foundation funds	1,832,818.12	1,715,131.87
Total agency funds	$ 2,005,849.29	$ 1,876,688.97

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

Exhibit B

TENNESSEE BOARD OF REGENTS
TENNESSEE STATE UNIVERSITY
STATEMENT OF CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 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	$ 56,600,482.67	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Auxiliary enterprise revenues	7,202,984.26	-	-	-	-	-	-	-
State appropriations	-	710,900.00	-	-	12,348,194.09	-	39,869.84	-
Federal grants and contracts	-	22,623,084.83	-	-	2,373.33	-	-	-
State grants and contracts	-	1,182,552.44	-	-	-		-	-
Local grants and contracts	-	-	-	-	100,000.00	-	-	-
Private gifts, grants, and contracts	-	1,195,431.53	4,728.00	-	-	-	-	5,902.66
Endowment income	-	2,593.74	-	-	-	-	-	-
Investment income	-	-	-	7,318.55	-	6,603.66	135,990.91	-
Interest on loans receivable	-	-	132,011.85	-	-	-	-	-
Reduction in doubtful accounts	-	-	32,077.82	-	-	-	-	-
Decrease in indebtedness	-	-	-	-	112,042.89	-	-	-
State energy loan (Note 7)	-	-	-	-	380,000.00	-	-	-
Equipment use charges	-	-	-	-	-	100,000.00	-	-
Student debt service fees (Note 7)	-	-	-	-	-	-	670,790.65	-
Expended for plant facilities (including $3,999,862.63 charged to current fund expenditures)	-	-	-	-	-	-	-	17,197,547.36
Retirement of indebtedness	-	-	-	-	-	-	-	695,414.92
Other (Note 11)	-	-	9,577.86	-	-	-	-	21,771.05
Total revenues and other additions	63,803,466.93	25,714,562.54	178,395.53	7,318.55	12,942,610.31	106,603.66	846,651.40	17,920,635.99
EXPENDITURES AND OTHER DEDUCTIONS								
Educational and general expenditures	57,805,391.24	24,570,232.08	-	-	-	-	-	-
Auxiliary enterprise expenditures	5,929,924.73	169,919.75	-	-	-	-	-	-
Indirect costs recovered	-	1,071,038.07	-	-	-	-	-	-
Refunded to grantors	-	17,991.75	-	-	-	-	-	-
Loan cancellations and write-offs	-	-	606,958.44	-	-	-	-	-
Administrative and collection costs	-	-	5,922.17	-	-	-	4,393.95	-
Provision for doubtful accounts	-	-	140,897.62	-	-	-	-	-
Expended for plant facilities	-	-	-	-	12,923,010.44	274,674.29	-	-
Expended for noncapital items	-	-	-	-	602,660.86	283,190.83	-	-
Retirement of indebtedness	-	-	-	-	-	-	695,414.92	-
Interest on indebtedness	-	-	-	-	-	-	654,261.13	-
Disposal of plant facilities	-	-	-	-	-	-	-	610,359.27
Library holdings revaluation	-	-	-	-	-	-	-	117,698.64
Increase in indebtedness	-	-	-	-	-	-	-	492,042.89
Other (Note 11)	-	-	4,536.55	-	72,472.31	-	-	-
Total expenditures and other deductions	63,735,315.97	25,829,181.65	758,314.78	-	13,598,143.61	557,865.12	1,354,070.00	1,220,100.80

TENNESSEE BOARD OF REGENTS
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:								
Renewals and replacements	(18,000.00)	-	-	-	-	18,000.00	-	-
Principal and interest	(707,864.82)	-	-	-	-	-	707,864.82	-
Nonmandatory:								
Unexpended plant	-	-	-	-	1,020,000.00	(520,000.00)	(500,000.00)	-
Renewals and replacements	(273,190.00)	-	-	-	-	273,190.00	-	-
Total transfers	(999,054.82)	-	-	-	1,020,000.00	(228,810.00)	207,864.82	-
Net increases (decreases) for the year	(930,903.86)	(114,619.11)	(579,919.25)	7,318.55	364,466.70	(680,071.46)	(299,553.78)	16,700,535.19
Fund balances at beginning of year	5,793,234.20	2,915,777.52	3,660,566.27	255,471.39	3,646,587.72	3,855,078.54	2,460,318.99	183,598,172.23
Fund balances at end of year	$ 4,862,330.34	$ 2,801,158.41	$ 3,080,647.02	$ 262,789.94	$ 4,011,054.42	$ 3,175,007.08	$ 2,160,765.21	$ 200,298,707.42

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

Exhibit C

TENNESSEE BOARD OF REGENTS
TENNESSEE STATE UNIVERSITY
STATEMENT OF CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 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	$ 51,983,568.07	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Auxiliary enterprise revenues	6,066,818.46	-	-	-	-	-	-	-
State appropriations	-	696,900.00	-	-	11,691,254.62	-	44,765.16	-
Federal grants and contracts	-	20,331,792.48	-	-	947,952.27	-	-	-
State grants and contracts	-	1,165,978.42	-	-	-	-	-	-
Local grants and contracts	-	90,000.00	-	-	-	-	-	-
Private gifts, grants, and contracts	-	941,617.33	500.00	-	-	-	-	107,801.00
Endowment income	-	2,164.05	-	-	-	-	-	-
Investment income	-	-	7,061.83	9,798.24	-	5,342.49	67,031.15	-
Interest on loans receivable	-	-	141,728.28	-	-	-	-	-
Reduction in doubtful accounts	-	-	5,647.33	-	-	-	-	-
Note proceeds	-	-	-	-	792,472.31	-	-	-
Decrease in indebtedness	-	-	-	-	1,347,957.11	-	-	-
Equipment use charges	-	-	-	-	-	95,000.00	-	-
Student debt service fees (Note 7)	-	-	-	-	-	-	502,327.00	-
Expended for plant facilities (including $2,792,581.61 charged to current fund expenditures)	-	-	-	-	-	-	-	17,502,308.81
Retirement of indebtedness	-	-	-	-	-	-	-	689,798.32
Other (Note 11)	-	-	16,301.08	-	-	-	-	20,400.00
Total revenues and other additions	58,050,386.53	23,228,452.28	171,238.52	9,798.24	14,779,636.31	100,342.49	614,123.31	18,320,308.13
EXPENDITURES AND OTHER DEDUCTIONS								
Educational and general expenditures	51,171,680.83	22,401,949.12	-	-	-	-	-	-
Auxiliary enterprise expenditures	4,583,944.30	144,436.58	-	-	-	-	-	-
Indirect costs recovered	-	1,002,454.02	-	-	-	-	-	-
Refunded to grantors	-	26,396.27	-	-	-	-	-	-
Loan cancellations and write-offs	-	-	18,642.04	-	-	-	-	-
Administrative and collection costs	-	-	7,033.73	-	-	-	4,254.15	-
Provision for doubtful accounts	-	-	22,842.12	-	-	-	-	-
Expended for plant facilities	-	-	-	-	14,364,872.99	344,854.21	-	-
Expended for noncapital items	-	-	-	-	660,254.32	31,480.24	-	-
Retirement of indebtedness	-	-	-	-	-	-	689,798.32	-
Interest on indebtedness	-	-	-	-	-	-	626,512.98	-
Disposal of plant facilities	-	-	-	-	-	-	-	2,512,875.92
Library holdings revaluation	-	-	-	-	-	-	-	93,729.00
Increase in indebtedness	-	-	-	-	-	-	-	2,067,957.11
Other (Note 11)	-	-	9,983.58	-	15,370.00	-	-	4,244.75
Total expenditures and other deductions	55,755,625.13	23,575,235.99	58,501.47	-	15,040,497.31	376,334.45	1,320,565.45	4,678,806.78

Exhibit C (Cont.)

TENNESSEE BOARD OF REGENTS
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:								
Renewals and replacements	(18,000.00)	-	-	-	-	18,000.00	-	-
Principal and interest	(776,149.08)	-	-	-	-	-	776,149.08	-
Nonmandatory:								
Unexpended plant	(500,000.00)	-	-	-	1,510,000.00	(305,000.00)	(705,000.00)	-
Renewals and replacements	(220,000.00)	-	-	-	-	220,000.00	-	-
Total transfers	(1,514,149.08)	-	-	-	1,510,000.00	(67,000.00)	71,149.08	-
Net increases (decreases) for the year	780,612.32	(346,783.71)	112,737.05	9,798.24	1,249,139.00	(342,991.96)	(635,293.06)	13,641,501.35
Fund balances at beginning of year	5,012,621.88	3,262,561.23	3,547,829.22	245,673.15	2,397,448.72	4,198,070.50	3,095,612.05	169,956,670.88
Fund balances at end of year	$ 5,793,234.20	$ 2,915,777.52	$ 3,660,566.27	$ 255,471.39	$ 3,646,587.72	$ 3,855,078.54	$ 2,460,318.99	$ 183,598,172.23

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

Exhibit D

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

	Unrestricted	Restricted	Total
REVENUES			
Tuition and fees	$ 19,621,981.42	$ 24,389.88	$ 19,646,371.30
State appropriations	31,477,000.00	615,984.34	32,092,984.34
Federal grants and contracts	1,071,085.94	21,736,350.22	22,807,436.16
State grants and contracts	12,414.16	1,149,202.22	1,161,616.38
Local grants and contracts	-	26,787.12	26,787.12
Private gifts, grants, and contracts	12,087.81	1,017,518.30	1,029,606.11
Sales and services of educational activities	2,931,587.21	-	2,931,587.21
Sales and services of auxiliary enterprises	7,202,984.26	169,919.75	7,372,904.01
Other sources	1,474,326.13	-	1,474,326.13
Total current revenues	63,803,466.93	24,740,151.83	88,543,618.76
EXPENDITURES AND TRANSFERS			
Educational and general:			
Expenditures:			
Instruction	28,374,362.79	4,888,590.20	33,262,952.99
Research	584,774.87	7,305,574.96	7,890,349.83
Public service	642,153.38	3,839,273.16	4,481,426.54
Academic support	4,586,165.10	1,119,549.09	5,705,714.19
Student services	7,347,273.11	881,660.00	8,228,933.11
Institutional support	6,128,954.67	287,258.61	6,416,213.28
Operation and maintenance of plant	6,791,962.47	1,793.06	6,793,755.53
Scholarships and fellowships	3,349,744.85	6,246,533.00	9,596,277.85
Total educational and general	57,805,391.24	24,570,232.08	82,375,623.32
Auxiliary enterprises:			
Expenditures	5,929,924.73	169,919.75	6,099,844.48
Mandatory transfers for:			
Renewals and replacements	18,000.00	-	18,000.00
Principal and interest	707,864.82	-	707,864.82
Nonmandatory transfer for:			
Renewals and replacements	273,190.00	-	273,190.00
Total auxiliary enterprises	6,928,979.55	169,919.75	7,098,899.30
Total expenditures and transfers	64,734,370.79	24,740,151.83	89,474,522.62
OTHER ADDITION (DEDUCTIONS)			
Excess of restricted receipts over transfers to revenues	-	974,410.71	974,410.71
Indirect costs recovered	-	(1,071,038.07)	(1,071,038.07)
Refunded to grantors	-	(17,991.75)	(17,991.75)
Net decreases in fund balances	$ (930,903.86)	$ (114,619.11)	$ (1,045,522.97)

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

Exhibit E

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

	Unrestricted	Restricted	Total
REVENUES			
Tuition and fees	$ 16,704,497.21	$ 23,820.16	$ 16,728,317.37
State appropriations	30,566,900.00	744,493.28	31,311,393.28
Federal grants and contracts	963,283.79	19,504,141.79	20,467,425.58
State grants and contracts	37,425.35	1,202,851.46	1,240,276.81
Local grants and contracts	-	82,407.42	82,407.42
Private gifts, grants, and contracts	1,744.88	834,235.01	835,979.89
Endowment income	-	10,000.00	10,000.00
Sales and services of educational activities	2,611,884.97	-	2,611,884.97
Sales and services of auxiliary enterprises	6,066,818.46	144,436.58	6,211,255.04
Other sources	1,097,831.87	-	1,097,831.87
Total current revenues	58,050,386.53	22,546,385.70	80,596,772.23
EXPENDITURES AND TRANSFERS			
Educational and general:			
Expenditures:			
Instruction	25,748,660.89	4,616,955.62	30,365,616.51
Research	345,547.61	5,927,100.58	6,272,648.19
Public service	555,390.89	3,858,563.94	4,413,954.83
Academic support	4,469,361.65	990,372.91	5,459,734.56
Student services	6,052,859.96	806,726.22	6,859,586.18
Institutional support	5,662,369.17	336,720.84	5,999,090.01
Operation and maintenance of plant	5,941,434.59	1,400.94	5,942,835.53
Scholarships and fellowships	2,396,056.07	5,864,108.07	8,260,164.14
Total educational and general	51,171,680.83	22,401,949.12	73,573,629.95
Auxiliary enterprises:			
Expenditures	4,583,944.30	144,436.58	4,728,380.88
Mandatory transfers for:			
Renewals and replacements	18,000.00	-	18,000.00
Principal and interest	776,149.08	-	776,149.08
Nonmandatory transfers for:			
Unexpended plant	500,000.00	-	500,000.00
Renewals and replacements	220,000.00	-	220,000.00
Total auxiliary enterprises	6,098,093.38	144,436.58	6,242,529.96
Total expenditures and transfers	57,269,774.21	22,546,385.70	79,816,159.91
OTHER ADDITION (DEDUCTIONS)			
Excess of restricted receipts over transfers to revenues	-	682,066.58	682,066.58
Indirect costs recovered	-	(1,002,454.02)	(1,002,454.02)
Refunded to grantors	-	(26,396.27)	(26,396.27)
Net increase (decrease) in fund balances	$ 780,612.32	$ (346,783.71)	$ 433,828.61

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

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 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.

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

Current Funds

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

INVENTORIES

Inventories are valued at the lower of cost or market. All items are maintained on a first-in, first-out basis.

CHECKS PAYABLE

These amounts represent the sum of checks written in excess of the university's checking account balance because of the university's use of a controlled disbursement account. Through the use of a controlled disbursement account, the university maximizes interest income by transferring from an investment account only funds necessary to cover the checks that clear the bank daily.

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 STATE UNIVERSITY FOUNDATION

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

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 $2,580,342.84 at June 30, 1996, and $2,373,960.83 at June 30, 1995, and increased the unrestricted current fund expenditures by $206,382.01 for the year ended June 30, 1996, and $188,772.79 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 $28,367.80 in bank accounts, $3,039.00 of petty cash on hand, $6,394,781.31 in the State of Tennessee Local Government Investment Pool administered by the State Treasurer, $7,214,841.63 in a supersweep account, and $55,447.59 in capital management account money funds. At June 30, 1995, cash and cash equivalents consisted of $139,781.43 in bank accounts, $3,039.00 of petty cash on hand, $12,499,644.19 in the State of Tennessee Local Government Investment Pool, $1,253,175.77 in a supersweep account, and $245,881.29 in capital management account money funds.

The supersweep account is a repurchase account. The bank is authorized to transfer excess funds from the university's operating account to the repurchase account daily to be invested immediately in a repurchase agreement maturing the following banking day. Upon maturity of each daily repurchase agreement, the bank first transfers funds to the operating account as necessary and then invests any surplus in a new daily repurchase agreement.

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.

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 $259,962.53, and the bank balance including accrued interest was $376,990.17. The bank balance was category 1.

At June 30, 1995, the carrying amount of the university's deposits was $387,725.30, and the bank balance including accrued interest was $555,764.92. Of the bank balance, $448,704.81 was category 1, and $107,060.11 was category 3. From July 1, 1994, through December 22, 1994, the university had uncollateralized amounts as high as $684,657.16. 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 coverage. The university's security agreement was revised as of December 22, 1994, to meet these new requirements.

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

June 30, 1996

	Category 1	Category 2	Category 3	Carrying Amount	Market Value
University:					
U.S. government securities	$10,767,971.92	$ -	$ -	$10,767,971.92	$10,799,220.28
Repurchase agreements	7,214,841.63	-	-	7,214,841.63	7,214,841.63
Foundation:					
Corporate bonds	-	674,470.78	-	674,470.78	521,857.00
Corporate stocks	-	422,986.24	-	422,986.24	371,053.00
Government securities	138,311.08	-	-	138,311.08	133,970.00
	$18,121,124.63	$1,097,457.02	$ -		
Foundation investments not susceptible to credit risk categorization:					
Mutual funds				71,657.89	82,795.00
University:					
Certificates of deposit classified as investments				231,594.73	231,594.73
Amount classified as cash equivalents				(7,214,841.63)	(7,214,841.63)
Total investments on the balance sheet				$12,306,992.64	$12,140,490.01

June 30, 1995

	Category 1	Category 2	Category 3	Carrying Amount	Market Value
University:					
U.S. government securities	$10,726,239.85	$ -	$ -	$10,726,239.85	$10,917,711.87
Repurchase agreements	1,253,175.77	-	-	1,253,175.77	1,253,175.77
Foundation:					
Corporate stocks	-	455,645.80	-	455,645.80	438,553.00
Corporate bonds	-	702,539.29	-	702,539.29	667,666.00
Stock warrants	-	27,076.00	-	27,076.00	30,250.00
	$11,979,415.62	$1,185,261.09	$ -		

Foundation investments not susceptible to credit risk categorization:

Mutual funds	44,016.73	48,254.00
University:		
Certificates of deposit classified as investments	247,943.87	247,943.87
Amount classified as cash equivalents	(1,253,175.77)	(1,253,175.77)
Total investments on the balance sheet	$12,203,461.54	$12,350,378.74

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 $399,266.77 for unexpended plant and $25,578.66 for renewals and replacements. Plant fund encumbrances outstanding at June 30, 1995, amounted to $555,538.51 for unexpended plant and $173,984.10 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 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 $2,957,509.64 at June 30, 1996, and June 30, 1995.

The university obtained an interest-free energy loan through the Energy Management Loan Fund within the Tennessee Department of General Services in the amount of $380,000 to provide financing for the Chiller Replacement project. The loan is payable in annual installments of $76,000 over five years. The balance owed by the university was $380,000 at June 30, 1996.

Bond issues, with interest rates of 3.375% for revenue bonds and 4.1% to 7.0% for Tennessee State School Bond Authority bonds, are due serially to 2021 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 $45.00 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:

Year Ending June 30	Principal	Interest	Total
1997	$ 690,317.10	$ 537,005.15	$ 1,227,322.25
1998	701,983.15	525,221.60	1,227,204.75
1999	716,877.04	510,075.21	1,226,952.25
2000	597,782.15	492,782.60	1,090,564.75
2001	489,991.63	476,242.03	966,233.66
2002-2021	5,459,044.80	5,819,092.68	11,278,137.48
	$ 8,655,995.87	$ 8,360,419.27	$ 17,016,415.14

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 $20,533,958.30 for the year ended June 30, 1996, and $19,544,356.95 for the year ended June 30, 1995. The university's total payroll was $43,130,282.12 for the year ended June 30, 1996, and $40,064,316.85 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 $1,299,802.98, and for the year ended June 30, 1995, was $1,237,164.89, which each represented 6.3% 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 .45% and .44% 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.*

Federal Retirement Program:

All regular full-time employees of the Tennessee State University Agricultural Extension Service who hold federal appointments for 51% or more of their time are required to participate in either the Civil Service Retirement System (CSRS), for participants employed prior to January 1, 1984, or the Federal Employees Retirement

System (FERS), for participants employed after December 31, 1983. Both programs are cost-sharing multiple-employer plans. All the university's extension employees participate in CSRS. The payroll for employees covered by the CSRS plan was $456,067.46 for the year ended June 30, 1996, and $383,543.91 for the year ended June 30, 1995. The university's total payroll was $43,130,282.12 for the year ended June 30, 1996, and $40,064,316.85 for the year ended June 30, 1995.

Employees who retire under the CSRS will receive annual benefits for life equal to 1.5% of the high-three average pay for each service year up to five years, 1.75% of the high-three average pay for each service year between five and ten years, and 2% of the high-three average pay for each service year greater than ten. The high-three average pay is the highest pay obtainable by averaging the rates of basic pay in effect during any three consecutive years of service. Benefits vest at different levels, the maximum of which is five years of service. Benefits are established and contribution requirements are determined by federal statutes.

Participating employees and the university are required to contribute 7% of salary to the plan. Contributions for the year ended June 30, 1996, were $63,849.30, which consisted of $31,924.65 from the university and $31,924.65 from the employees. Contributions for the year ended June 30, 1995, were $53,676.75, which consisted of $26,838.38 from the university and $26,838.37 from the employees.

Pension benefit obligation, net assets available for benefits, and ten-year historical trend information are not available to the university.

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 $16,597,022.55 for the year ended June 30, 1996, and $14,853,562.84 for the year ended June 30, 1995. The university's total payroll was $43,130,282.12 for the year ended June 30, 1996, and $40,064,316.85 for the year ended June 30, 1995. The required contribution made by the university for the year ended June 30, 1996, was $1,808,460.31, which represented 10.9% of the covered payroll, and for the year ended June 30, 1995, was $1,628,403.06, which represented 11.0% 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 $84,452.65 were made by employees participating in the plan with a related match of $22,085.00 made by the university. The current covered payroll for participating employees was $4,314,636.68, while the total payroll for all eligible university employees during the year was $20,744,537.12.

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 $600,018.05 on deposit at June 30, 1996, and $497,083.76 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:

	Year Ended June 30, 1996	Year Ended June 30, 1995
Other Additions		
Loan Funds		
Repayment on accounts previously written off	$ 2,089.47	$ -
Reimbursements on cancellations	3,113.00	8,449.00
Late charges, penalties, and collection costs	4,375.39	3,339.14
Board-approved write-offs	-	4,500.37
Cancellations	-	12.57
	$ 9,577.86	$ 16,301.08
Investment in Plant		
Equipment trade-in allowances	$ 3,925.00	$ 20,400.00
Livestock adjustment to market	17,846.05	-
	$ 21,771.05	$ 20,400.00

Other Deductions

Loan Funds		
Federal repayments	$ 4,536.55	$ 9,983.58
Unexpended Plant		
Reversal of June 30, 1995, accounts receivable	$ 72,472.31	
Adjustment for write-off of accounts receivable		$ 15,370.00
Investment in Plant		
Livestock adjustment to market		$ 4,244.75

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 $203,302,300 for buildings and $16,315,793 for contents. At June 30, 1995, the scheduled coverage was $188,280,400 for buildings and $14,868,200 for contents.

The state has set aside assets for claim settlement in an internal service fund, the Claims Award Fund. This fund services all claims for risk of loss to which the state is exposed, including general liability, automobile liability, professional malpractice, and workers' compensation. The university participates in the Claims Award Fund. The fund allocates the cost of providing claims servicing and claims payment by charging a premium to the university based on a percentage of the university's expected loss costs, which include both experience and exposures. This charge considers recent trends in actual claims experience of the state as a whole. An actuarial valuation is performed as of fiscal year-end to determine the fund liability and premium allocation. Since the university participates in the Claims Award Fund, it is subject to the liability limitations under the provisions of the Tennessee Claims Commission Act, *Tennessee Code Annotated*, Section 9-8-101 et seq. Liability for negligence of the university for bodily injury and property damage is limited to $300,000 per person and $1,000,000 per occurrence. The limits of liability under workers' compensation are set forth in *Tennessee Code Annotated*, Section 50-6-101 et seq. Claims are paid through the state's Claims Award Fund.

The state has also set aside assets in the Employee Group Insurance Fund, an internal service fund, to provide a program of health insurance coverage for the employees of the state with the risk retained by the state. The university participates in the Employee Group Insurance Fund. The fund allocates the cost of providing claims servicing and claims payment by charging a premium to the university based on estimates of the ultimate cost of claims that have been reported but not settled and of claims that have been incurred but not reported. Employees and providers have 13 months to file medical claims.

NOTE 13. 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 $19,162,105.16 at June 30, 1996, and $18,026,955.78 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 $292,332.78 and for personal property were $298,892.29 for the year ended June 30, 1996. Comparative amounts for the year ended June 30, 1995, were $52,829.82 and $300,089.50. All operating leases are cancelable at the lessee's option.

Construction in Progress - At June 30, 1996, outstanding commitments under construction contracts totaled $3,132,613.48 for the Site Development Phase II, Incubation Center addition, and Chiller Replacement projects, which will be funded by future state capital outlay appropriations.

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

Questioned Costs - As of June 30, 1996, the university had not resolved $74,251.25 of questioned costs resulting from prior audits. In addition, the following costs were questioned as a result of the current-year audit.

Program	Amount Questioned
Cooperative Extension Service	$ 700.00
Federal Pell Grant Program	285.00
Federal Direct Student Loan Program	6,627.00
Total	$ 7,612.00

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