Tennessee Board of Regents
East Tennessee State University

For the Year Ended
June 30, 1997

Arthur A. Hayes, Jr., CPA
Director

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Dianne Mitchell McKay, CPA
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Leslie Bethea
Editor

January 27, 1998

The Honorable Don Sundquist, Governor
and
Members of the General Assembly
State Capitol
Nashville, Tennessee 37243
and
The Honorable Charles E. Smith, Chancellor
Tennessee Board of Regents
1415 Murfreesboro Road, Suite 350
Nashville, Tennessee 37217
and
Dr. Paul E. Stanton, Jr., President
East Tennessee State University
Campus Box 70734
Johnson City, Tennessee 37614

Ladies and Gentlemen:

Transmitted herewith is the financial and compliance audit of the Tennessee Board of Regents, East Tennessee State University, for the year ended June 30, 1997. 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 internal control over financial reporting and tests of compliance resulted in no audit findings.

Very truly yours,

W. R. Snodgrass
Comptroller of the Treasury

WRS/th
97/102

State of Tennessee

Audit Highlights

Comptroller of the Treasury — Division of State Audit

Financial and Compliance Audit
East Tennessee State University
For the Year Ended June 30, 1997

AUDIT OBJECTIVES

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

AUDIT FINDINGS

The audit report contains no findings.

OPINION ON THE FINANCIAL STATEMENTS

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

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

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

Audit Report
Tennessee Board of Regents
East Tennessee State University
For the Year Ended June 30, 1997

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Tennessee Board of Regents
East Tennessee State University
For the Year Ended June 30, 1997

INTRODUCTION

POST-AUDIT AUTHORITY

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

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

BACKGROUND

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

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

ORGANIZATION

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

AUDIT SCOPE

The audit was limited to the period July 1, 1996, through June 30, 1997, and was conducted in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. Financial statements are presented for the year ended June 30, 1997, and for comparative purposes, the year ended June 30, 1996. East Tennessee State University is an institution of the Tennessee Board of Regents, which is an integral part of state government. As such, the Tennessee Board of Regents has been included as a component unit in the *Tennessee Comprehensive Annual Financial Report.*

OBJECTIVES OF THE AUDIT

The objectives of the audit were

1. to consider the university's internal control over financial reporting to determine auditing procedures for the purpose of expressing an opinion on the financial statements;

2. to determine compliance with certain provisions of laws, regulations, contracts, and grants;

3. to determine the fairness of the presentation of the financial statements; and

4. to recommend appropriate actions to correct any deficiencies.

Although this audit was not intended to serve as an organization-wide audit as described in the Single Audit Act, as amended by the Single Audit Act Amendments of 1996, and Office of Management and Budget (OMB) Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations," it included tests of compliance with applicable federal laws and regulations and consideration of internal control used in administering federal financial assistance programs. This audit is a segment of the organization-wide audit of the State of Tennessee, which is conducted in accordance with the Single Audit Act, as amended by the Single Audit Act Amendments of 1996, and OMB Circular A-133.

PRIOR AUDIT FINDINGS

There were no findings in the prior audit report.

RESULTS OF THE AUDIT

AUDIT CONCLUSIONS

Internal Control

As part of the audit of the university's financial statements for the year ended June 30, 1997, we considered internal control over financial reporting to determine auditing procedures for the purpose of expressing an opinion on the financial statements, as required by generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Consideration of internal control over financial reporting disclosed no material weaknesses.

Compliance

The results of our tests disclosed no instances of noncompliance that are required to be reported herein under *Government Auditing Standards*.

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.

Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

November 14, 1997

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

Dear Mr. Snodgrass:

We have audited the financial statements of East Tennessee State University, an institution of the Tennessee Board of Regents, which is a component unit of the State of Tennessee, as of and for the year ended June 30, 1997, and have issued our report thereon dated November 14, 1997. Our report was qualified because the university omitted the liability for accrued compensated absences from the balance sheet. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the university's financial statements are free of material misstatement, we performed tests of the university's compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported herein under *Government Auditing Standards*.

However, we noted certain insignificant instances of noncompliance that we have reported to the university's management in a separate letter.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the university's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting that we consider to be material weaknesses.

However, we noted certain matters involving the internal control over financial reporting 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/th

Independent Auditor's Report

November 14, 1997

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

Dear Mr. Snodgrass:

We have audited the accompanying balance sheets of East Tennessee State University, an institution of the Tennessee Board of Regents, which is a component unit of the State of Tennessee, as of June 30, 1997, and June 30, 1996, 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 auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 omitted the liability for accrued compensated absences from the accompanying balance sheets which 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, East Tennessee State University, as of June 30, 1997, and June 30, 1996, 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 *Government Auditing Standards*, we have also issued our report dated November 14, 1997, on our consideration of the university's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants.

Sincerely,

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

AAH/th

Exhibit A

TENNESSEE STATE BOARD OF REGENTS
EAST TENNESSEE STATE UNIVERSITY
BALANCE SHEETS
JUNE 30, 1997, WITH COMPARATIVE TOTALS FOR JUNE 30, 1996

ASSETS	June 30, 1997	June 30, 1996
Current funds:		
Unrestricted:		
General:		
Cash and cash equivalents (Notes 3 and 4)	$ 12,232,458.33	$ 11,526,450.72
Accounts receivable (net of allowance of $1,991,428.02 at June 30, 1997, and $1,903,580.78 at June 30, 1996)	3,460,774.56	3,193,740.65
Inventories	775,753.34	986,141.10
Prepaid expenses and deferred charges	442,013.16	340,433.86
Other assets	11,776.00	12,776.00
Total general	16,922,775.39	16,059,542.33
Auxiliary enterprises:		
Cash and cash equivalents (Notes 3 and 4)	852,036.76	828,773.50
Accounts receivable (net of allowance of $43,368.00 at June 30, 1997, and $35,307.79 at June 30, 1996)	127,258.78	273,289.63
Inventories	1,340,818.02	1,387,334.79
Total auxiliary enterprises	2,320,113.56	2,489,397.92
Total unrestricted	19,242,888.95	18,548,940.25
Restricted:		
Cash and cash equivalents (Notes 3 and 4)	778,764.17	1,675,435.71
Accounts and grants receivable (net of allowance of $0.00 at June 30, 1997, and $79,039.24 at June 30, 1996)	2,185,017.54	1,719,750.60
Due from endowment and similar funds	115.76	71.91
Total restricted	2,963,897.47	3,395,258.22
Total current funds	$ 22,206,786.42	$ 21,944,198.47
Loan funds:		
Cash and cash equivalents (Notes 3 and 4)	$ 605,097.85	$ 504,400.75
Notes receivable (net of allowance of $1,339,123.29 at June 30, 1997, and 1,145,954.74 at June 30, 1996)	6,459,746.87	6,429,298.23
Accrued interest receivable	225,532.99	187,625.33
Total loan funds	$ 7,290,377.71	$ 7,121,324.31

LIABILITIES AND FUND BALANCES	June 30, 1997	June 30, 1996
Current funds:		
Unrestricted:		
General:		
Liabilities:		
Accounts payable	$ 2,019,717.08	$ 1,531,165.67
Accrued liabilities	2,699,238.84	4,305,338.22
Unemployment compensation provision	4,335.22	4,888.49
Student deposits	23,834.14	23,413.34
Deferred revenue	4,101,610.50	3,320,324.89
Total liabilities	8,848,735.78	9,185,130.61
Fund balances:		
Nondiscretionary allocations:		
Allocation for working capital	3,497,892.30	3,329,584.44
Allocation for encumbrances	1,068,929.88	940,309.17
Allocation for designated state appropriations	271,990.34	323,823.00
Discretionary allocations:		
Allocation for subsequent budget	2,406,394.33	451,000.00
Allocation for athletics	62,628.34	63,566.67
Allocation for university school	106,607.68	76,135.82
Allocation for unexpended contracts	442,428.48	380,130.24
Allocation for utility saving	215,771.56	-
Unallocated	1,396.70	1,309,862.38
Total fund balances	8,074,039.61	6,874,411.72
Total general	16,922,775.39	16,059,542.33
Auxiliary enterprises:		
Liabilities:		
Accounts payable	18,697.43	57,725.12
Accrued liabilities	25,193.87	23,959.98
Student deposits	200,677.89	132,964.00
Deferred revenue	128,858.20	143,646.65
Total liabilities	373,427.39	358,295.75
Fund balances:		
Nondiscretionary allocation:		
Allocation for working capital	1,495,496.80	1,688,224.42
Discretionary allocation:		
Allocation for contingency	451,189.37	442,877.75
Total fund balances	1,946,686.17	2,131,102.17
Total auxiliary enterprises	2,320,113.56	2,489,397.92
Total unrestricted	19,242,888.95	18,548,940.25
Restricted:		
Liabilities:		
Accounts payable	1,713.73	406.73
Accrued liabilities	71.25	7,415.51
Total liabilities	1,784.98	7,822.24
Fund balance	2,962,112.49	3,387,435.98
Total restricted	2,963,897.47	3,395,258.22
Total current funds	$ 22,206,786.42	$ 21,944,198.47
Loan funds:		
Fund balance:		
U.S. government grants refundable	$ 5,726,862.71	$ 5,627,455.54
University funds:		
Restricted - matching	820,619.74	773,775.84
Restricted - other	742,895.26	720,092.93
Total loan funds	$ 7,290,377.71	$ 7,121,324.31

Exhibit A (Cpnt.)

TENNESSEE STATE BOARD OF REGENTS
EAST TENNESSEE STATE UNIVERSITY
BALANCE SHEETS
JUNE 30, 1997, WITH COMPARATIVE TOTALS FOR JUNE 30, 1996

ASSETS	June 30, 1997	June 30, 1996
Endowment and similar funds:		
Cash and cash equivalents (Notes 3 and 4)	$ 253,226.33	$ 257,778.42
Investments (Notes 4 and 5)	2,019,843.36	2,019,843.36
Accrued interest receivable	10,723.98	9,523.96
Total endowment and similar funds	$ 2,283,793.67	$ 2,287,145.74
Plant funds:		
Unexpended plant:		
Cash and cash equivalents (Notes 3 and 4)	$ 3,118,331.56	$ 2,418,803.56
LGIP deposit - capital projects (Note 5)	131,213.18	584,765.80
Accounts receivable	140,499.24	32,424.24
Total unexpended plant	3,390,043.98	3,035,993.60
Renewals and replacements:		
Cash and cash equivalents (Notes 3 and 4)	14,082,908.13	14,072,818.07
Total renewals and replacements	14,082,908.13	14,072,818.07
Retirement of indebtedness:		
Cash and cash equivalents (Notes 3 and 4)	1,364,609.62	1,778,544.90
Funds on deposit with trustee (Note 5)	1,669,633.41	1,669,633.41
Accounts receivable	130,459.86	130,459.86
Accrued interest receivable	15,452.89	15,951.53
Total retirement of indebtedness	3,180,155.78	3,594,589.70
Investment in plant:		
Land	4,462,848.58	4,260,873.82
Buildings	89,401,625.59	90,091,464.79
Improvements other than buildings	9,868,583.18	9,498,631.54
Equipment	43,301,890.73	40,591,373.95
Library holdings	45,408,994.17	24,640,351.00
Construction in progress	7,368,185.67	906,722.46
Total investment in plant	199,812,127.92	169,989,417.56
Total plant funds	$ 220,465,235.81	$ 190,692,818.93
Agency funds:		
Cash and cash equivalents (Notes 3 and 4)	$ 581,636.18	$ 367,951.69
Investments (Notes 4 and 5)	8,705.95	8,705.95
Total agency funds	$ 590,342.13	$ 376,657.64

LIABILITIES AND FUND BALANCES	June 30, 1997	June 30, 1996
Endowment and similar funds:		
Liabilities:		
Due to restricted current funds	$ 115.76	$ 71.91
Fund balances:		
Endowment	42,134.77	41,611.08
Quasi-endowment - unrestricted	2,241,543.14	2,245,462.75
Total fund balances	2,283,677.91	2,287,073.83
Total endowment and similar funds	$ 2,283,793.67	$ 2,287,145.74
Plant funds:		
Unexpended plant:		
Liabilities:		
Accounts payable	$ 80,417.96	$ 97,304.25
Fund balance:		
Unrestricted (Note 6)	3,309,626.02	2,938,689.35
Total unexpended plant	3,390,043.98	3,035,993.60
Renewals and replacements:		
Liabilities:		
Accounts payable	107,271.65	76,774.75
Fund balance:		
Unrestricted (Note 6)	13,975,636.48	13,996,043.32
Total renewals and replacements	14,082,908.13	14,072,818.07
Retirement of indebtedness:		
Liabilities:		
Accrued interest payable	191,682.58	202,943.22
Fund balance:		
Restricted	1,669,633.41	1,669,633.41
Unrestricted	1,318,839.79	1,722,013.07
Total fund balances	2,988,473.20	3,391,646.48
Total retirement of indebtedness	3,180,155.78	3,594,589.70
Investment in plant:		
Liabilities:		
Notes payable (Note 7)	71,795.14	-
Bonds payable (Note 7)	9,152,548.61	10,336,664.66
Loans payable (Note 7)	2,732,252.07	2,793,440.77
Total liabilities	11,956,595.82	13,130,105.43
Fund balance:		
Net investment in plant	187,855,532.10	156,859,312.13
Total investment in plant	199,812,127.92	169,989,417.56
Total plant funds	$ 220,465,235.81	$ 190,692,818.93
Agency funds:		
Accounts payable	$ -	$ 111.50
Deposits held in custody for others	590,342.13	376,546.14
Total agency funds	$ 590,342.13	$ 376,657.64

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

Exhibit B

TENNESSEE STATE BOARD OF REGENTS
EAST TENNESSEE STATE UNIVERSITY
STATEMENT OF CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 1997

	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	$ 114,580,068.85	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Auxiliary enterprise revenues	9,458,114.64	-	-	-	-	-	-	-
Tuition and fees	-	89,488.00	-	-	-	-	-	-
State appropriations	-	455,434.00	-	-	6,692,357.72	-	-	-
Federal grants and contracts	-	10,632,425.30	223,569.00	-	-	-	126,181.00	-
State grants and contracts	-	5,867,414.41	-	-	-	-	-	-
Private gifts, grants, and contracts	-	13,953,357.60	28,000.78	350.00	200,000.00	-	-	1,054,673.62
Investment income	-	2,592.20	20,280.47	-	39,679.27	714,783.20	186,971.20	-
Interest on loans receivable	-	-	166,792.97	-	-	-	-	-
Endowment income	-	777,360.30	-	-	-	-	-	-
Tennessee State School Bond Authority	-	-	-	-	50,757.60	-	-	-
Student debt service fees (Note 7)	-	-	-	-	-	-	710,005.16	-
Library holding revaluation	-	-	-	-	-	-	-	19,390,030.74
Expended for plant facilities (including $3,818,854.64 charged to current fund expenditures)	-	-	-	-	-	-	-	12,400,419.00
Retirement of indebtedness	-	-	-	-	-	-	-	1,165,999.68
Other (Note 11)	-	-	71,324.76	-	108,075.00	-	260,919.72	79,305.07
Total revenues and other additions	124,038,183.49	31,778,071.81	509,967.98	350.00	7,090,869.59	714,783.20	1,284,077.08	34,090,428.11
EXPENDITURES AND OTHER DEDUCTIONS								
Educational and general expenditures	112,695,023.87	31,086,171.94	-	-	-	-	-	-
Auxiliary enterprise expenditures	8,029,121.82	25,032.49	-	-	-	-	-	-
Indirect costs recovered	-	652,870.97	-	-	-	-	-	-
Refunded to grantors	-	159,898.40	2,989.85	-	-	-	-	-
Loan cancellations and write-offs	-	-	98,870.30	-	-	-	-	-
Administrative and collection costs	-	-	125,191.74	-	-	-	8,874.99	-
Provision for doubtful accounts	-	-	203,053.49	-	-	-	-	-
Expended for plant facilities	-	-	-	-	7,472,488.36	1,109,076.00	-	-
Expended for noncapital items	-	-	-	-	433,510.18	641,027.86	-	-
Retirement of indebtedness	-	-	-	-	-	-	1,165,999.68	-
Interest on indebtedness	-	-	-	-	-	-	800,120.66	-
Disposal of plant facilities	-	-	-	-	-	-	-	3,022,413.00
Increase in indebtedness	-	-	-	-	-	-	-	71,795.14
Other	-	-	332.20	3,745.92	-	-	49,104.59	-
Total expenditures and other deductions	120,724,145.69	31,923,973.80	430,437.58	3,745.92	7,905,998.54	1,750,103.86	2,024,099.92	3,094,208.14

Exhibit B (Cont.)

TENNESSEE STATE BOARD OF REGENTS
EAST TENNESSEE STATE UNIVERSITY
STATEMENT OF CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 1997

	Current Funds				Plant Funds			
	Unrestricted	Restricted	Loan Funds	Endowment and Similar Funds	Unexpended	Renewals and Replacements	Retirement of Indebtedness	Investment In Plant
TRANSFERS AMONG FUNDS-ADDITIONS (DEDUCTIONS)								
Mandatory:								
Principal and interest	(957,744.97)	-	-	-	-	-	957,744.97	-
Loan fund matching grant	(74,523.00)	-	74,523.00	-	-	-	-	-
Nonmandatory:								
Unrestricted current funds	246,105.91	(246,105.91)	-	-	-	-	-	-
Loan funds	-	(15,000.00)	15,000.00	-	-	-	-	-
Unexpended plant	(50,000.00)	(18,315.59)	-	-	1,518,562.59	(1,305,247.00)	(145,000.00)	-
Renewals and replacements	(1,462,663.85)	-	-	-	(332,496.97)	2,320,160.82	(525,000.00)	-
Total transfers	(2,298,825.91)	(279,421.50)	89,523.00	-	1,186,065.62	1,014,913.82	287,744.97	-
Net increase (decrease) for the year	1,015,211.89	(425,323.49)	169,053.40	(3,395.92)	370,936.67	(20,406.84)	(452,277.87)	30,996,219.97
Fund balance at beginning of year	9,005,513.89	3,387,435.98	7,121,324.31	2,287,073.83	2,938,689.35	13,996,043.32	3,391,646.48	156,859,312.13
Fund balance at end of year	$ 10,020,725.78	$ 2,962,112.49	$ 7,290,377.71	$ 2,283,677.91	$ 3,309,626.02	$ 13,975,636.48	$ 2,939,368.61	$ 187,855,532.10

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

Exhibit C

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

	Current Funds				Plant Funds			
	Unrestricted	Restricted	Loan Funds	Endowment and Similar Funds	Unexpended	Renewals and Replacements	Retirement of Indebtedness	Investment In Plant
REVENUES AND OTHER ADDITIONS								
Unrestricted current fund revenues	$ 110,130,574.50	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Auxiliary enterprise revenues	9,329,203.32	-	-	-	-	-	-	-
Tuition and fees	-	88,325.00	-	-	-	-	-	-
State appropriations	-	454,000.00	-	-	639,759.33	-	-	-
Federal grants and contracts	-	9,703,517.13	395,186.00	-	-	-	126,181.00	-
State grants and contracts	-	3,861,117.22	-	-	-	-	-	-
Private gifts, grants, and contracts	-	13,484,455.85	35,215.36	-	-	-	-	341,595.43
Investment income	-	3,668.45	7,967.64	-	100,816.69	770,477.50	236,772.72	-
Interest on loans receivable	-	-	191,278.82	-	-	-	-	-
Endowment income	-	627,849.27	-	48,007.98	-	-	-	-
Student debt service fees (Note 7)	-	-	-	-	-	-	699,903.34	-
Equipment use charges	-	-	-	-	-	1,305,700.00	-	-
Expended for plant facilities (including $3,729,161.05 charged to current fund expenditures)	-	-	-	-	-	-	-	6,395,105.05
Retirement of indebtedness	-	-	-	-	-	-	-	1,048,542.75
Other (Note 11)	-	-	79,535.04	-	-	-	260,919.74	38,502.05
Total revenues and other additions	119,459,777.82	28,222,932.92	709,182.86	48,007.98	740,576.02	2,076,177.50	1,323,776.80	7,823,745.28
EXPENDITURES AND OTHER DEDUCTIONS								
Educational and general expenditures	110,532,587.81	26,779,183.10	-	-	-	-	-	-
Auxiliary enterprise expenditures	7,936,123.63	22,216.30	-	-	-	-	-	-
Indirect costs recovered	-	880,311.52	-	-	-	-	-	-
Refunded to grantors	-	43,635.76	1,295.23	-	-	-	-	-
Loan cancellations and write-offs	-	-	62,675.95	-	-	-	-	-
Administrative and collection costs	-	-	86,531.32	-	-	-	8,815.75	-
Provision for doubtful accounts	-	-	158,201.63	-	-	-	-	-
Expended for plant facilities	-	-	-	-	1,648,534.14	1,017,409.86	-	-
Expended for noncapital items	-	-	-	-	478,128.45	1,139,768.62	-	-
Retirement of indebtedness	-	-	-	-	-	-	1,048,542.75	-
Interest on indebtedness	-	-	-	-	-	-	843,125.24	-
Disposal of plant facilities	-	-	-	-	-	-	-	1,352,397.97
Library holdings revaluation (Note 15)	-	-	-	-	-	-	-	986,497.12
Other	-	-	143.91	-	-	-	-	-
Total expenditures and other deductions	118,468,711.44	27,725,346.68	308,848.04	-	2,126,662.59	2,157,178.48	1,900,483.74	2,338,895.09
TRANSFERS AMONG FUNDS-ADDITIONS (DEDUCTIONS)								
Mandatory:								
Principal and interest	(857,991.62)	-	-	-	-	-	857,991.62	-
Loan fund matching grant	(127,242.89)	-	127,242.89	-	-	-	-	-

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

	Current Funds				Plant Funds			
	Unrestricted	Restricted	Loan Funds	Endowment and Similar Funds	Unexpended	Renewals and Replacements	Retirement of Indebtedness	Investment In Plant
Nonmandatory:								
Unrestricted current funds	675,885.83	(167,219.68)	-	-	(80,000.00)	(428,666.15)	-	-
Unexpended plant	-	-	-	-	628,021.76	(628,021.76)	-	-
Renewals and replacements	(727,804.91)	-	-	-	-	757,804.91	(30,000.00)	-
Total transfers	(1,037,153.59)	(167,219.68)	127,242.89	-	548,021.76	(298,883.00)	827,991.62	-
Net increase (decrease) for the year	(46,087.21)	330,366.56	527,577.71	48,007.98	(838,064.81)	(379,883.98)	251,284.68	5,484,850.19
Fund balance at beginning of year	9,051,601.10	3,057,069.42	6,593,746.60	2,239,065.85	3,776,754.16	14,375,927.30	3,140,361.80	151,374,461.94
Fund balance at end of year	$ 9,005,513.89	$ 3,387,435.98	$ 7,121,324.31	$ 2,287,073.83	$ 2,938,689.35	$ 13,996,043.32	$ 3,391,646.48	$ 156,859,312.13

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

Exhibit D

TENNESSEE STATE BOARD OF REGENTS
EAST TENNESSEE STATE UNIVERSITY
STATEMENT OF CURRENT FUNDS REVENUES, EXPENDITURES, AND OTHER CHANGES
FOR THE YEAR ENDED JUNE 30, 1997

	Unrestricted	Restricted	Total
REVENUES			
Tuition and fees	$ 25,622,483.22	$ 71,116.62	$ 25,693,599.84
State appropriations	68,468,800.00	469,040.42	68,937,840.42
Federal grants and contracts	447,092.64	10,240,732.61	10,687,825.25
State grants and contracts	139,555.66	5,505,492.42	5,645,048.08
Local gifts, grants, and contracts	1,601,169.60	-	1,601,169.60
Private gifts, grants, and contracts	149,515.67	13,995,899.53	14,145,415.20
Endowment income	134,299.88	803,890.34	938,190.22
Sales and services of educational activities	16,141,112.54	-	16,141,112.54
Sales and services of auxiliary enterprises	9,458,114.64	25,032.49	9,483,147.13
Interest income	934,277.92	-	934,277.92
Other sources	941,761.72	-	941,761.72
Total current revenues	124,038,183.49	31,111,204.43	155,149,387.92
EXPENDITURES AND TRANSFERS			
Educational and general expenditures:			
Instruction	70,012,923.45	12,256,603.19	82,269,526.64
Research	1,784,377.26	1,952,376.30	3,736,753.56
Public service	1,085,145.92	2,152,583.19	3,237,729.11
Academic support	11,409,953.21	3,431,987.50	14,841,940.71
Student services	9,272,267.54	1,320,726.90	10,592,994.44
Institutional support	9,654,315.83	2,528,231.00	12,182,546.83
Operation and maintenance of plant	8,437,200.72	-	8,437,200.72
Scholarships and fellowships	1,038,839.94	7,443,663.86	8,482,503.80
Total educational and general expenditures	112,695,023.87	31,086,171.94	143,781,195.81
Educational and general transfers:			
Mandatory transfers for:			
Loan fund matching grant	74,523.00	-	74,523.00
Principal and interest	230,000.00	-	230,000.00
Nonmandatory transfers for:			
Unexpended plant funds	50,000.00	-	50,000.00
Renewals and replacements	577,000.00	-	577,000.00
Total educational and general expenditures and transfers	113,626,546.87	31,086,171.94	144,712,718.81
Auxiliary enterprises:			
Expenditures	8,029,121.82	25,032.49	8,054,154.31
Mandatory transfer for:			
Principal and interest	727,744.97	-	727,744.97
Nonmandatory transfer for:			
Renewals and replacements	885,663.85	-	885,663.85
Total auxiliary enterprises	9,642,530.64	25,032.49	9,667,563.13
Total expenditures and transfers	123,269,077.51	31,111,204.43	154,380,281.94

Exhibit D (Cont.)

TENNESSEE STATE BOARD OF REGENTS
EAST TENNESSEE STATE UNIVERSITY
STATEMENT OF CURRENT FUNDS REVENUES, EXPENDITURES, AND OTHER CHANGES
FOR THE YEAR ENDED JUNE 30, 1997

	Unrestricted	Restricted	Total
OTHER TRANSFERS AND ADDITIONS (DEDUCTIONS)			
Excess of restricted receipts over transfers to revenues	-	666,867.38	666,867.38
Refunded to grantors	-	(159,898.40)	(159,898.40)
Indirect costs recovered	-	(652,870.97)	(652,870.97)
Nonmandatory transfer to unrestricted current funds	-	(246,105.91)	(246,105.91)
Nonmandatory transfer to loan funds	-	(15,000.00)	(15,000.00)
Nonmandatory transfer to unexpended plant funds	-	(18,315.59)	(18,315.59)
Nonmandatory transfer from restricted current funds	246,105.91	-	246,105.91
Net increase (decrease) in fund balance	$ 1,015,211.89	$ (425,323.49)	$ 589,888.40

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

Exhibit E

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

	Unrestricted	Restricted	Total
REVENUES			
Tuition and fees	$ 24,358,682.71	$ 121,076.36	$ 24,479,759.07
State appropriations	67,549,100.00	455,615.10	68,004,715.10
Federal grants and contracts	423,060.91	9,298,220.05	9,721,280.96
State grants and contracts	319,045.46	3,561,339.74	3,880,385.20
Local gifts, grants, and contracts	1,529,475.58	-	1,529,475.58
Private gifts, grants, and contracts	186,246.00	12,725,938.67	12,912,184.67
Endowment income	91,916.48	616,993.18	708,909.66
Sales and services of educational activities	14,286,389.48	-	14,286,389.48
Sales and services of auxiliary enterprises	9,329,203.32	22,216.30	9,351,419.62
Interest income	970,768.79	-	970,768.79
Other sources	415,889.09	-	415,889.09
Total current revenues	119,459,777.82	26,801,399.40	146,261,177.22
EXPENDITURES AND TRANSFERS			
Educational and general expenditures:			
Instruction	67,334,576.67	10,423,162.39	77,757,739.06
Research	1,539,535.51	1,929,753.17	3,469,288.68
Public service	1,128,186.55	1,121,258.00	2,249,444.55
Academic support	11,433,707.53	5,129,856.25	16,563,563.78
Student services	8,980,651.18	1,219,497.70	10,200,148.88
Institutional support	10,567,623.20	328,196.28	10,895,819.48
Operation and maintenance of plant	8,685,260.65	-	8,685,260.65
Scholarships and fellowships	863,046.52	6,627,459.31	7,490,505.83
Total educational and general expenditures	110,532,587.81	26,779,183.10	137,311,770.91
Educational and general transfers:			
Mandatory transfers for:			
Principal and interest	230,000.00	-	230,000.00
Loan fund matching grant	127,242.89	-	127,242.89
Nonmandatory transfers for:			
Unexpended plant funds	(80,000.00)	-	(80,000.00)
Renewals and replacements	(428,666.15)	-	(428,666.15)
Total educational and general expenditures and transfers	110,381,164.55	26,779,183.10	137,160,347.65
Auxiliary enterprises:			
Expenditures	7,936,123.63	22,216.30	7,958,339.93
Mandatory transfer for:			
Principal and interest	627,991.62	-	627,991.62
Nonmandatory transfer for:			
Renewals and replacements	727,804.91	-	727,804.91
Total auxiliary enterprises	9,291,920.16	22,216.30	9,314,136.46
Total expenditures and transfers	119,673,084.71	26,801,399.40	146,474,484.11

Exhibit E (Cont.)

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

	Unrestricted	Restricted	Total
OTHER TRANSFERS AND ADDITIONS (DEDUCTIONS)			
Excess of restricted receipts over transfers to revenues	-	1,421,533.52	1,421,533.52
Indirect costs recovered	-	(880,311.52)	(880,311.52)
Refunded to grantors	-	(43,635.76)	(43,635.76)
Nonmandatory transfer to unrestricted current funds	-	(167,219.68)	(167,219.68)
Nonmandatory transfer from restricted current funds	167,219.68	-	167,219.68
Net increase (decrease) in fund balance	$ (46,087.21)	$ 330,366.56	$ 284,279.35

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

Tennessee Board of Regents
East Tennessee State University
Notes to the Financial Statements
June 30, 1997, and June 30, 1996

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 the system's governing body and provides financial support; the system is discretely presented in the *Tennessee Comprehensive Annual Financial Report*.

BASIS OF PRESENTATION

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

BASIS OF ACCOUNTING

The financial statements 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.

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 student housing, the university bookstore, food services, the post office, and certain contracted activities. Restricted current funds are externally restricted and may be used only in accordance with the purposes established by their source.

Loan Funds

Loan funds consist of resources made available for student loans.

Endowment and Similar Funds

Endowment funds are subject to the restrictions of gift instruments requiring in perpetuity that the principal be invested and only the income be used. Term endowment funds are similar to endowment funds, except that after a stated period of time or a particular event, all or part of the principal may be expended. Although quasi-endowment funds have been established by the governing board for the same purposes as endowment funds, any portion of quasi-endowment funds may be expended.

Plant Funds

The plant funds group consists of (1) funds set aside for the acquisition of physical properties for institutional purposes, (2) funds set aside for the renewal and replacement of institutional properties, (3) funds set aside for debt service charges and for the retirement of the indebtedness on institutional properties, and (4) funds expended for, and thus invested in, institutional properties.

Agency Funds

In handling these funds, the university acts solely as an agent; consequently, transactions of these funds do not affect the university’s operating statements.

LGIP DEPOSIT–CAPITAL PROJECTS

Payments related to the university’s capital projects are made by the State of Tennessee’s Department of Finance and Administration. The university’s estimated local share of the cost of each project is held in a separate Local Government Investment Pool (LGIP) account. As expenditures are incurred, funds are withdrawn from the LGIP account by the Tennessee Board of Regents and transferred to the Department of Finance and Administration. The funds in the account are not available to the university for any other purpose until the project is completed and any remaining funds are released by the Tennessee Board of Regents.

INVENTORIES

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

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 and other library holdings are valued at various standardized values which approximate current costs. Library books are valued at $48 per volume at June 30, 1997, and $20 per volume at June 30, 1996. Depreciation on the physical plant and equipment is not recorded.

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

NOTE 2. COMPENSATED ABSENCES

The university's employees accrue annual leave at varying rates, depending on length of service or classification. Some employees also earn compensatory time. Generally accepted accounting principles require that certain accrued compensated absences and related benefits, the effects of which are material to the financial statements, be recorded as earned. The university's policy is to record such benefits as paid. The recognition of this liability for accrued compensated absences and related benefits would have increased the liabilities of the unrestricted current fund by $5,586,657.32 at June 30, 1997, and $5,489,035.94 at June 30, 1996, increased the unrestricted current fund expenditures by $97,621.38 for the year ended June 30, 1997, and increased the unrestricted current fund expenditures by $163,767.48 for the year ended June 30, 1996.

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, 1997, cash and cash equivalents consisted of $4,058,798.61 in bank accounts, $60,000.00 of petty cash on hand, $1,100,000.00 of certificates of deposit, and $28,650,270.32 in the State of Tennessee Local Government Investment Pool administered by the State Treasurer. At June 30, 1996, cash and cash equivalents consisted of $1,589,669.29 in bank accounts, $60,000.00 of petty cash on hand, $1,100,000.00 of certificates of deposit, and $30,681,288.03 in the State of Tennessee Local Government Investment Pool.

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.

At June 30, 1997, the carrying amount of the university's deposits was $7,185,347.92, and the bank balance including accrued interest was $10,033,740.42. All of the bank balance was category 1.

At June 30, 1996, the carrying amount of the university's deposits was $4,718,218.60, and the bank balance including accrued interest was $9,860,763.14. Of the bank balance, $7,951,311.09 was category 1 and $1,909,452.05 was category 3. From May 1, 1996, through June 30, 1996, the university had uncollateralized amounts ranging from $1,900,000 to $1,909,452.05 at Leader Federal Bank.

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

NOTE 5. INVESTMENTS

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

The university's investments at June 30, 1997, and June 30, 1996, consisted of certificates of deposit with original maturities greater than three months. These have been included with other deposits in Note 4 to determine the adequacy of collateral security pledged.

Funds on deposit with 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, 1997, amounted to $358,561.83 for unexpended plant and $958,575.32 for renewals and replacements. Plant fund encumbrances outstanding at June 30, 1996, amounted to $274,944.86 for unexpended plant and $714,611.09 for renewals and replacements.

NOTE 7. NOTES, BONDS, AND LOANS PAYABLE

The Tennessee Board of Regents, on behalf of the university, borrowed funds for the construction of the East Tennessee State University Clinical Education Facility. The loan bears a simple interest rate of 7.15%, a face amount of $3,000,000.00, a minimum annual debt service of $260,919.67, and a due date of January 1, 2017. The balance owed by the university was $2,732,252.07 at June 30, 1997, and $2,793,440.77 at June 30, 1996.

The university, through the Tennessee State School Bond Authority, issued $906,124.04 of current refunding bonds to provide resources, along with an equity contribution, for the purpose of generating resources to pay principal, current interest, and the call premium on $985,429.10 of the Series 1987A Refunding Bonds.

Bond issues, with interest rates ranging from 4.0% to 6.7% 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's debt service requirements to maturity for all bonds and loans payable at June 30, 1997, excluding bond anticipation notes, are as follows:

Year Ending June 30	Principal	Interest	Total
1998	$ 1,092,961.44	$ 765,704.75	$ 1,858,666.19
1999	1,134,179.55	724,529.00	1,858,708.55
2000	1,134,722.03	638,925.94	1,773,647.97
2001	1,072,794.40	510,696.80	1,583,491.20

2002	1,130,243.05	453,269.33	1,583,512.38
2003-2017	6,319,900.21	2,374,557.01	8,694,457.22
	$11,884,800.68	$5,467,682.83	$17,352,483.51

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 have been "put," the standby note purchaser is required, subject to certain conditions, to purchase the notes. A standby note purchase agreement was entered into with Union Bank of Switzerland (UBS) on June 26, 1996, providing liquidity for up to $105,000,000.00 principal amount of the notes with interest coverage for 34 days at the maximum rate of 12%, for a total commitment of $106,173,699.00. The authority contracted to pay UBS 6 basis points per annum for the utilized portion and 5 basis points per annum for the unutilized portion of the commitment. The agreement was extended effective June 26, 1997, through March 1, 1998, based on a reduced maximum available commitment of $64,523,273.42. It is expected that a portion of these notes will be redeemed with the proceeds from a sale of bonds at the end of the construction period for the projects being financed. The balance owed by the university was $71,795.14 at June 30, 1997.

NOTE 8. PENSION PLANS

A. Defined Benefit Plans

During the June 30, 1997, fiscal year, the university implemented GASB Statement 27, "Accounting for Pensions by State and Local Government Employers." In accordance with that statement, at transition it was determined that a pension liability or asset does not exist for these plans.

Tennessee Consolidated Retirement System

Plan Description - The university contributes to the State Employees, Teachers, and Higher Education Employees Pension Plan (SETHEEPP), a cost-sharing multiple-employer defined benefit pension plan administered by the Tennessee Consolidated Retirement System (TCRS). TCRS provides retirement, death, and disability benefits as well as annual cost-of-living adjustments to plan members and their beneficiaries. Title 8, Chapters 34-37, *Tennessee Code Annotated*, establishes benefit provisions. State statutes are amended by the Tennessee General Assembly.

The TCRS issues a publicly available financial report that includes financial statements and required supplementary information for SETHEEPP. That report may be obtained by writing to the Tennessee Department of the Treasury, Consolidated Retirement System, 10th Floor Andrew Jackson Building, Nashville, Tennessee, 37243-0230, or by calling (615) 741-8202, extension 139.

Funding Policy - Plan members are noncontributory. The university is required to contribute an actuarially determined rate. The current rate is 7.36% of annual covered payroll. Contribution requirements for the university are established and may be amended by the TCRS' Board of Trustees. The university's contributions to TCRS for the years ended June 30, 1997, 1996, and 1995, were $2,050,002.04, $1,772,760.71, and $1,784,687.98. Contributions met the requirements for each year.

B. Defined Contribution Plans

Optional Retirement Plans (ORP)

Plan Description - The university contributes to three defined contribution plans: Teachers Insurance and Annuity Association–College Retirement Equities Fund (TIAA-CREF), Aetna Life Insurance and Annuity Company, and Variable Annuity Life Insurance Company (VALIC). These plans are administered by the

Tennessee Department of the Treasury. Each plan provides retirement benefits to faculty and staff who are exempt from the overtime provisions of the Fair Labor Standards Act and who waive membership in the TCRS. Benefits depend solely on amounts contributed to the plan plus investment earnings. Plan provisions are established by state statute in Title 8, Chapter 35, Part 4, *Tennessee Code Annotated.* State statutes are amended by the Tennessee General Assembly.

Funding Policy - Plan members are noncontributory. The university contributes an amount equal to 10% of the employee's base salary up to the social security wage base and 11% above the social security wage base. Contribution requirements are established and amended by state statute. The contribution made by the university to the plans for the year ended June 30, 1997, was $4,274,671.68, which represented 19.45% of the covered payroll, and for the year ended June 30, 1996, was $4,037,289.96, which represented 10.12% of the covered payroll. Contributions met the requirements for each year.

NOTE 9. OTHER POST-EMPLOYMENT BENEFITS

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

NOTE 10. CHAIRS OF EXCELLENCE

The university had $17,160,888.54 on deposit at June 30, 1997, and $14,598,984.55 on deposit at June 30, 1996, with the State Treasurer for its Chairs of Excellence program. These funds are held in trust by the state and are not included in the financial statements.

NOTE 11. OTHER ADDITION

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

	Year Ended June 30, 1997	Year Ended June 30, 1996
Other Additions		
Retirement of Indebtedness		
Rent proceeds from the Medical Education Assistance Corporation	$260,919.72	$260,919.74

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, 1997, the scheduled coverage for the university was $288,426,800 for buildings and $82,856,500 for contents. At June 30, 1996, the scheduled coverage was $279,717,800 for buildings and $81,671,000 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 $28,413,992.48 at June 30, 1997, and $27,746,030.94 at June 30, 1996.

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 $148,224.14 and for personal property were $10,542.00 for the year ended June 30, 1997. Comparative amounts for the year ended June 30, 1996, were $138,703.44 and $12,084.00. All operating leases are cancelable at the lessee's option.

Construction in Progress - At June 30, 1997, outstanding commitments under construction contracts totaled $15,372,219.16 for the astronomy observatory, the new library, infrastructure upgrade, and Memorial Center roof repair, of which $15,107,345.56 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, 1997, the university had not resolved $2,945 of questioned costs resulting from prior audits. Final resolution of these questioned costs will be determined by the grantor.

Claims Award Fund - During the fiscal year ended June 30, 1997, the university had three incidents in which damages were incurred that have been or will be filed with the Claims Award Fund as discussed in Note 12. At June 30, 1997, the amount to be received under such claims was estimated to be $92,915.50. Due to the uncertainty of the final amount to be received, this amount has not been included on the accompanying financial statements.

NOTE 14. AFFILIATED ENTITIES NOT INCLUDED

The university is the sole beneficiary of the Medical Education Assistance Corporation (MEAC), the East Tennessee State University Foundation, and the Northeast Tennessee Area Health Education Center (AHEC). These private, nonprofit corporations are controlled by boards independent of the university. The financial records, investments, and other financial transactions are not handled by the university, and these amounts are not included in the university's financial statements. As reported in MEAC's most recently audited financial report, at June 30, 1997, the corporation's assets totaled $9,408,710, liabilities were $3,441,908, and the fund balance amounted to $5,966,802. As reported in the foundation's most recently audited financial report, at June 30, 1997, the foundation's assets totaled $15,209,394, liabilities were $395,534, and the fund balance amounted to $14,813,860. As reported in AHEC's most recently audited financial report, at September 30, 1996, the corporation's assets totaled $118,571, liabilities were $34,575, and the fund balance amounted to $83,996.

NOTE 15. CHANGE IN ESTIMATE OF LIBRARY HOLDINGS STANDARDIZED VALUES

At June 30, 1996, library books were valued at $20 per volume, and other library holdings were valued at various standardized values. The valuations were reassessed at June 30, 1997, and the value for library books was increased to $48 per volume, and the standardized values for other library holdings were also increased by various amounts. As a result of the revaluation, library books and other library holdings increased by $16,960,030.57 and $2,430,000.17, and net investment in plant, under the investment in plant fund subgroup, increased by $19,390,030.74 at June 30, 1997.

NOTE 16. PRIOR-YEAR RESTATEMENT

The financial statements were restated to reflect a prior-year adjustment in unrestricted current funds. The adjustment reflects a receivable that was recorded at June 30, 1996, from the Republic of Kuwait for credit classes taught in that country. Payment for these classes had been received prior to June 30, 1996, but the receivable was not reduced. Also, the revenue for this transaction was recorded twice (i.e., in maintenance and in credit fees revenues). For the restatement, unrestricted current fund accounts receivable, unallocated fund balance, revenues and other additions—unrestricted current fund revenues, and revenues—tuition and fees were decreased by $49,368.00.

EAST TENNESSEE STATE UNIVERSITY
ITEMS DISCUSSED AT THE FIELD EXIT CONFERENCE
NOT ADDRESSED IN THE AUDIT REPORT
FOR THE YEAR ENDED JUNE 30, 1997

PLANT FUNDS

1. The reconciliation of current fund equipment expenditures reported on the Schedule of Changes in Investment in Plant (Schedule 10) with the Statement of Expenditures and Transfers by Object (Appendix VII) contained an unexplained difference of $5,045.05.

2. The reconciliation of current fund library holdings expenditures reported on the Schedule of Changes in Investment in Plant (Schedule 10) with the Statement of Expenditures and Transfers by Object (Appendix VII) contained an unexplained difference of $511.68.

ACCOUNTS PAYABLE

1. A review of the open invoice file revealed several invoices totaling $10,949.86 that should have been established as accounts payable at June 30, 1997. However, these invoices were received in various departments and not forwarded to the accounts payable office before the end of the fiscal year. A memo detailing year-end procedures, dated June 9, 1997, was sent by the comptroller's office to the vice president's, deans, directors, and department heads. This memo stated that on "June 27 - All approved invoices for goods and services which have been received or rendered are due in the Comptroller's Office. For contract and grant accounts that end on June 30, all invoices for DPO's [departmental purchase orders] or travel claims for DTA's [departmental travel authorizations] must be received." Thus, the department heads should have been aware of the year-end closing procedures and should have ensured that invoices received were forwarded to the accounts payable office. Because the approved invoices were not submitted timely to the comptroller's office, not only was an account payable not established, but several were not paid within 45 days as required by the Prompt Payment Act.

2. Two accounts payable were set up for the same item. The accounts payable office set up a payable for $41,171 based on the invoice received, and the purchasing department set up a payable for $53,371 based on the purchase order amount. Payables should be set up for the invoice amount of goods received rather than the purchase order amount. Thus, accounts payable were overstated by $53,371.

SCHEDULE OF FEDERAL ASSISTANCE

1. Of the 81 grants reported on the Schedule of Federal Assistance, two Catalog of Federal Domestic Assistance (CFDA) numbers (2.47%) were reported incorrectly and nine CFDA program names (11.11%) were reported incorrectly.

ACCOUNTS RECEIVABLE

1. University personnel did not submit the accounts receivable tape to the Tennessee Board of Regents (TBR) in a timely manner. The tapes were due to TBR by July 31, 1997, but were not submitted until September 15, 1997. Therefore, State Audit EDP was not able to pull a sample until September 22, 1997. This did not allow enough time for confirmations to be sent and received before the audit deadline of October 31, 1997. Thus, alternative testwork was performed on the sample.

NOTES RECEIVABLE

1. University personnel did not submit the notes receivable tape to TBR in a timely manner. The tapes were due to TBR by July 31, 1997, but were not submitted until September 15, 1997. Therefore, State Audit EDP was not able to pull a sample until September 22, 1997. This did not allow enough time for confirmations to be sent and received before the audit deadline of October 31, 1997. Thus, alternative testwork was performed on the sample.